

In the opinion of Tillinghast Licht Perkins Smith & Cohen, LLP, special counsel, under existing law, and assuming compliance with certain provisions of the Internal Revenue Code of 1986, as amended, and except as otherwise described herein, the portion of each Lease Payment distributable to holders of the Certificates as interest to the extent such Lease Payments are appropriated by the State and received by the holders of the Certificates is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations; however, the portion of each payment distributable to holders of the Certificates as interest is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations. The portion of each Lease Payment distributable to holders of the Certificates as interest is excludable from gross income for Rhode Island personal income tax purposes to the extent that such interest is excludable from gross income for federal income tax purposes. For federal income tax purposes, interest includes original issue discount properly allocable to the Certificates. See "TAX STATUS" and "APPENDIX B -- Proposed Form of Legal Opinion" herein.

**\$58,910,000**

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Lease Participation Certificates (Kent County Courthouse Project - 2004 Series A)**

**Dated:** Date of Delivery

**Due:** October 1, as shown below

The Certificates represent undivided interests in certain lease payments ("Lease Payments") to be made by the State of Rhode Island and Providence Plantations (the "Lessee") under the Sublease as more fully described herein. The State is obligated under the Sublease to make Lease Payments equal to the principal of and interest on the Certificates. The State's obligation to make Lease Payments and any other obligations of the State under the Sublease are subject to and dependent upon annual appropriations made by the State for such purposes. (See "SECURITY FOR THE CERTIFICATES" and "CERTIFICATE OWNERS' RISKS" herein.)

Payment of the principal portions of, premium, if any, and interest portions on the Certificates will be made solely from amounts derived under the terms of the Sublease, including Lease Payments, and amounts from time to time on deposit under the terms of the Declaration of Trust executed in connection with the Certificates, as more fully described herein. The failure of the State to appropriate funds for Lease Payments will result in termination of the Sublease. Should the Sublease terminate, there can be no assurance that the Certificates will be repaid. Special counsel will express no opinion as to tax exemption upon termination of the Sublease and, following termination of the Sublease, transfer of the Certificates may be subject to compliance with the registration provisions of state and federal securities laws. (See "TAX STATUS" AND "CERTIFICATE OWNERS' RISKS" herein.)

Payment of the principal and interest portions of the Certificates when due will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Certificates. (See "THE BOND INSURANCE POLICY" herein.)



**Maturities, Amounts, Interest Rates and Prices or Yields**

<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>	<u>Price or Yield</u>	<u>CUSIPS</u>	<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>	<u>Price or Yield</u>	<u>CUSIPS</u>
2005	\$2,225,000	3.00%	1.53%	762224 BQ5	2016	\$1,470,000	4.00%	100.161	762224 CF8
2006	2,280,000	2.00	1.80	762224 BR3	2016	1,735,000	5.00	108.411	762224 CG6
2007	2,330,000	2.20	2.20	762224 BS1	2017	450,000	4.05	4.06%	762224 CH4
2008	2,385,000	2.50	2.58	762224 BT9	2017	2,910,000	5.00	107.721	762224 CJ0
2009	2,450,000	2.85	2.88	762224 BU6	2018	50,000	4.10	4.14	762224 CK7
2010	2,525,000	3.10	3.12	762224 BV4	2018	3,480,000	5.00	107.036	762224 CL5
2011	2,605,000	3.25	3.35	762224 BW2	2019	100,000	4.20	4.22	762224 CM3
2012	1,670,000	3.50	3.51	762224 BX0	2019	3,610,000	5.00	106.356	762224 CN1
2012	1,030,000	4.00	3.51	762224 BY8	2020	125,000	4.25	4.30	762224 CP6
2013	655,000	3.65	3.66	762224 BZ5	2020	3,775,000	5.00	105.681	762224 CQ4
2013	2,145,000	3.75	3.66	762224 CA9	2021	4,100,000	5.00	104.846	762224 CR2
2014	1,320,000	3.75	3.77	762224 CB7	2022	400,000	4.50	100.157	762224 CS0
2014	1,600,000	5.25	3.77	762224 CC5	2022	3,910,000	5.00	104.183	762224 CT8
2015	535,000	3.85	3.89	762224 CD3	2023	4,515,000	4.50	4.62	762224 CU5
2015	2,525,000	5.00	109.194	762224 CE1					

**The obligation of the State under the Sublease, as hereinafter described, to make Lease Payments does not constitute a debt or liability of the State within the meaning of any constitutional or statutory limitation and neither the faith and credit nor the taxing power of the State is pledged to make such payments.**

The principal portions of the Certificates are payable on October 1 of each year as set forth above and the interest portions of the Certificates are payable on April 1 and October 1 of each year, commencing April 1, 2005, by J.P. Morgan Trust Company, National Association, as paying agent and certificate registrar.

The Certificates will be issued as fully registered certificates registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository. Purchases will be made in book-entry-only form without delivery of physical certificates. The Certificates will be issued in denominations of \$5,000 or integral multiples thereof. The principal and interest portions of the Certificates will be paid directly to DTC by the Trustee. (See "DESCRIPTION OF THE CERTIFICATES" herein. The Certificates are subject to acceleration and redemption prior to maturity as described herein.)

The Certificates are offered when, as and if delivered to the Underwriters subject to receipt of the approving legal opinion of Tillinghast Licht Perkins Smith & Cohen, LLP, Providence, Rhode Island, as special counsel. Certain other legal matters will be passed upon for the State by the Attorney General of the State and for the Underwriters by their counsel, Taft & McSally LLP, Cranston, Rhode Island. Certain matters will be passed upon for the State by Partridge Snow & Hahn LLP, Providence, Rhode Island, as disclosure counsel. It is expected that delivery of the Certificates in definitive form will be made in New York, New York on or about August 25, 2004.

**UBS Financial Services Inc.**  
**Citigroup**  
**Banc of America Securities LLC**

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

**Merrill Lynch & Co.**  
**Goldman Sachs & Co.**  
**Roosevelt & Cross, Inc.**

The CUSIP numbers on the cover have been assigned by an independent company not affiliated with the State and are included solely for the convenience of the holders of the Certificates. 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 Certificates or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Certificates 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 Certificates.

No dealer, broker, salesperson or other person has been authorized by the State or the Underwriters of the Certificates 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 Certificates 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 Certificates 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 information in this Official Statement concerning The Depository Trust Company ("DTC") and DTC's book-entry system has been obtained from sources the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

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

**THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THE OFFICIAL STATEMENT. THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPONSIBILITIES 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.**

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**OFFICIAL STATEMENT**  
**of the**  
**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Relating to**  
**\$58,910,000 Lease Participation Certificates**  
**(Kent County Courthouse Project - 2004 Series A)**

**INTRODUCTION**

This Official Statement, including the cover page and the appendices hereto (the "Official Statement"), is provided to furnish information with respect to the sale and delivery of \$58,910,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Kent County Courthouse Project - 2004 Series A) (the "Certificates").

**The Certificates**

The Certificates represent the proportionate interest of the registered owners thereof in lease payments ("Lease Payments") to be made by the State of Rhode Island and Providence Plantations acting by and through its Department of Administration (the "State" or the "Lessee") for the rental of certain real property and buildings, structures and improvements now or hereafter erected or situated on a site located on the grounds of the Kent County Courthouse, also known as the Leighton Judicial Complex, in Warwick, Rhode Island (the "Project"). The Project will be leased to the State pursuant to a Sublease dated as of August 1, 2004 as the same may be amended from time to time (the "Sublease") by and between the State and J.P. Morgan Trust Company, National Association, in its capacity as Trustee for the benefit of the Certificate Owners (as herein defined) pursuant to the Declaration of Trust (as herein defined), as lessor (the "Lessor"). Under the Declaration of Trust dated as of August 1, 2004 as the same may be amended from time to time (the "Declaration of Trust"), all right to Lease Payments under the Sublease is set aside, granted and assigned to a grantor trust (the "Trust"). J.P. Morgan Trust Company, National Association will act as trustee (the "Trustee") under the Declaration of Trust, Lessor under the Sublease and lessee under the Lease (as herein defined) (hereinafter, the "Trustee").

The Project is located on certain real estate (the "Project Site") on the grounds of the Kent County Courthouse in Warwick, Rhode Island which is being leased to the Lessor by the State pursuant to a lease (the "Lease") dated as of August 1, 2004. The Lease expires on July 1, 2014, with the right to renew for an additional period ending on July 1, 2024. Pursuant to the Lease, such right to renew shall be deemed to have been automatically exercised unless the Sublease has been defeased. (See "DESCRIPTION OF THE SUBLEASE -- Rent Prepayment Option" herein.) The Trustee's leasehold interest under the Lease is subleased to the State under the Sublease, and all right to Lease Payments under the Sublease is set aside, granted and assigned to the Trust.

The Certificates will be issued pursuant to the Declaration of Trust. The proceeds of the sale of the Certificates will be deposited in the Trust. The proceeds of the Certificates in the Trust will be distributed into a Project Account and a Lease Payment Account established by the Declaration of Trust. (See "ESTIMATED SOURCES AND USES OF FUNDS" and "DESCRIPTION OF THE DECLARATION OF TRUST" herein.) Amounts held in the Project Account will be disbursed by the Trustee to the State from the Project Account to finance the Project and to pay related costs of issuance. (See "THE PROJECT" herein.)

**The Sublease provides that the State's obligation to make Lease Payments is absolute and unconditional, subject to and dependent upon annual appropriations being made by the State for such purpose. (See "SECURITY FOR THE CERTIFICATES" herein.)**

## SECURITY FOR THE CERTIFICATES

### General

The Certificates are payable from (i) Lease Payments received by the Trustee from the State with respect to the Certificates; (ii) certain amounts on deposit from time to time in the Trust established with respect thereto, including any remaining proceeds of the sale of Certificates and investment earnings on amounts on deposit in the Trust; and (iii) proceeds from the disposition of the Project upon the occurrence of an Event of Default under the Sublease or upon termination of the Sublease pursuant to non-appropriation of funds by the State. The Sublease provides for Lease Payments payable at times and in amounts equal to the principal of and interest on the Certificates. The Lease Payments will be made directly to the Trustee.

**The Sublease provides that the State's obligation to make Lease Payments is absolute and unconditional, subject to and dependent upon annual appropriations being made by the State therefor, and will not be subject to any set-off, defense, counterclaim or recoupment for any reason whatsoever.**

The State covenants in the Sublease to do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which Lease Payments may be made, including making provisions for such payments in the budget submitted for the purpose of obtaining such funding, using its bona fide best efforts to have such portion of the budget approved and exhausting all available administrative reviews and appeals, if any, in the event such portion of the budget is not approved. NEVERTHELESS, THE STATE IS UNDER NO OBLIGATION TO APPROPRIATE SUCH FUNDS.

THE STATE'S OBLIGATION TO MAKE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO MAKE SUCH PAYMENTS. THE TRUSTEE HAS NO SECURITY INTEREST IN THE PROJECT.

The Sublease provides an initial Sublease term commencing as of August 1, 2004 and terminating June 30, 2005, with annual renewals on July 1 of each year, commencing July 1, 2005, with a final Sublease term commencing July 1, 2023 and terminating October 1, 2023 (the "Renewal Periods"). The State shall be deemed to have exercised its right of renewal for each succeeding Renewal Period, if at or prior to the expiration of the then current lease term, there are lawfully appropriated by the State sufficient funds enabling the payment of all Lease Payments due during the next succeeding Renewal Period.

If during the initial Sublease term or any Sublease term thereafter, there are lawfully appropriated funds enabling payment of all Lease Payments due within the next six-month period, the Sublease shall be deemed renewed with respect to the Project for such six-month period and can be successively renewed for six-month periods. The State shall be deemed to have exercised its right to renew for such a six-month period if at or prior to the termination of the then current lease term, there are lawfully appropriated funds enabling the payment of Lease Payments for such six-month period.

If a Sublease term terminates without a renewal of the Sublease for a succeeding Sublease term and if within thirty days after such date of termination there are lawfully appropriated funds which would have caused the Sublease to be renewed if the appropriation had occurred prior to the termination of the Sublease then the Sublease shall be reinstated and deemed renewed as of the day following the date of termination of the preceding lease term. If there is a Lease Payment Date (April 1 and October 1) between the date of termination and the date of reinstatement of the Sublease, the Lease Payment which would have been due on such date if the Sublease had not been terminated shall become immediately due and payable on the date the Sublease is reinstated.

In the event the Sublease is terminated or not renewed due to non-appropriation by the State, the State is under no obligation to make any further payment with respect to the Project. Under such circumstances, the State shall deliver the Project to the Trustee and the Trustee has the right to lease the Project and apply the net proceeds thereof to payment of the principal and interest portions of the Certificates. UPON ANY SUCH OTHER SUBLEASE OF THE PROJECT THERE MAY BE INSUFFICIENT MONIES HELD BY THE TRUSTEE UNDER THE DECLARATION OF TRUST TO MAKE PAYMENT IN FULL OF THE PRINCIPAL AND INTEREST PORTIONS OF THE CERTIFICATES. THE PROJECT IS OF LIMITED VALUE FOR USE BY ANYONE OTHER THAN A DEPARTMENT OF STATE GOVERNMENT.

## **Additional Certificates**

The Sublease and the Declaration of Trust provide for the issuance of additional certificates to (i) provide monies needed to construct extensions, improvements or additions on the site of the Project, and (ii) pay costs of issuance related to such additional certificates. Such additional certificates will be issued on a parity with and will be equally and ratably secured with the Lessee's then outstanding certificates under the Declaration of Trust (See "DESCRIPTION OF THE DECLARATION OF TRUST - Amendments and Supplemental Amendments" herein). Any additional certificates will be issued pursuant to supplemental amendments to the Sublease and the Declaration of Trust, and such amendments shall grant to the Trustee additional Lease Payments to be made by the Lessee, provided however, that no additional certificates may be issued without the consent of the Insurer (as hereinafter defined). Such an amendment to the Sublease shall provide for additional Base Rent (as defined in the Sublease) sufficient to pay the principal and interest portions of such additional certificates.

## **THE PROJECT**

### **General**

The proceeds from the certificates of participation, together with investment income thereon, will be used to finance the design, construction, and equipping of the Kent County Courthouse and related improvements located in Warwick, Rhode Island, as described below.

Rhode Island utilizes a unified court system containing the following six (6) state-funded courts: Supreme; Superior; Family; Workers' Compensation; District; and Traffic Tribunal. The Supreme and Workers' Compensation Courts are located in Providence. The Superior, Family, and District Courts operate in the following counties: Providence/Bristol; Kent; Newport; and Washington. The Traffic Tribunal Court is located in Providence with two branches operating at the Stedman Government Center in Wakefield and the old registry building in Woonsocket.

The office building which now houses the Kent County Courthouse, also known as the Leighton Judicial Complex (the "Courthouse"), was transformed into a courthouse in 1974. Over the last 20 years, the Courthouse has undergone considerable additional remodeling and rehabilitation to accommodate the changing needs of the Judiciary and the public. Notwithstanding these improvements, the Courthouse is inadequate for the current and projected needs of the people it serves.

### **Current Building**

The existing Kent County Courthouse is located at 222 Quaker Lane in West Warwick on approximately six acres of land. The two parking lots for the building accommodate approximately 177 vehicles. The building services three (3) Superior Court courtrooms, three (3) Family Court courtrooms, two (2) District Court courtrooms, and one (1) Grand Jury courtroom.

The space in the current facility totals 48,925 gross square feet distributed over four floors. The square footage used in the existing building is allocated as follows: 27.26% to the Superior Court; 18.15% to the Family Court; 12.92% to the District Court; 12.08% to the Attorney General; and the remaining 29.59% to other agencies supporting the judicial process.

In 2003, the total number of felony, misdemeanor, and civil cases filed in the Kent County Superior Court was 1,895. The Superior Court disposed of 704 criminal cases and 299 civil trial calendar cases in the same year. In 2003, the total number of juvenile, abuse, and divorce cases filed in the Kent County Family Court was 2,420. In 2003, the total number of felony, misdemeanor, civil, and small claims cases filed in the Kent County District Court was 10,432. The District Court disposed of 11,053 misdemeanor, civil, and small claims cases in the same year.

Although normal projections for Kent County over the next twenty (20) years would indicate a need for twelve (12) courtrooms, past experience, specifically the design and building of McGrath Judicial Complex in Washington County, indicates a need for long-term comprehensive and contingency planning. The planned three (3) additional courtrooms in Superior, District, and Family Court can serve to handle the overcrowding and overflow caseloads at the other courthouses, handle the

mild population growth and case filings projected over the next twenty (20) years in Kent County, and serve as a response measure to any fluctuations in the economic climate.

Construction of a new courthouse is necessary to address health and safety issues, including, but not limited to, air quality problems, handicapped accessibility, separation of judges, public, staff and prisoners to address security and confidentiality concerns, and to address overall inadequacies and inefficiencies of the existing structure.

### **New Parking Garage**

The parking garage is a 163,000 square foot building which opened on May 21, 2004. The cost to construct the parking garage was approximately \$7,000,000. The parking garage is a four and a half story precast concrete structure that has 531 spaces. The parking garage is accented by brick veneer as well as stainless steel panels. The parking garage utilizes two elevators.

Due to security concerns, a separate entrance has been constructed for judges. Additionally, a separate walkway to the new courthouse will be constructed for the judges.

### **New Courthouse**

The new structure, to be constructed on the southern end of the parcel, will total approximately 192,267 square feet of floor space with four floors above grade, a partial floor below grade, a secure bridge from the parking garage for protected access, and a covered walkway between the garage and main building for public and employee access. The new courthouse will have approximately 13,082 square feet (6.8%) of the interior space, including five (5) courtrooms and ancillary administrative space, "shelled out" for future growth at the facility.

The proposed facility will have sixteen (16) courtrooms and office support space as follows: six (6) Superior Court courtrooms; five (5) Family Court courtrooms; and five (5) District Court courtrooms. Each court will have a dedicated floor. The ground level will house the Office of the Attorney General, the Office of the Public Defender, Adult and Juvenile Probation Offices, and the Capitol Police. The new courthouse will be designed to meet security and accessibility needs of the public as well as provide the flexibility required for changing spatial and technological needs.

The primary concerns in the building's construction and organization are to provide a user-friendly, secure, and technologically advanced courthouse. The courthouse will feature functional space and floor areas for the building occupants, attorneys, and the public. The clarity of the architecture will be enhanced by state of the art design and technology to streamline the judicial process for its users.

The State has entered into a guaranteed maximum price contract with J.L. Marshall & Sons, Inc. of \$41,435,997 for construction of the new courthouse and demolition of the existing courthouse. The construction of the new courthouse will take 20.2 months. A phased opening of business operations will begin approximately on February 7, 2006. Another six months will be needed to complete demolition of the existing building and complete the final construction phase.

Distinctly modernist in its overall design, the architecture of the courthouse will seek to embrace the New England site through the use of reinterpreted traditional red brick and limestone masonry details, which will be juxtaposed with large glass wall surfaces.



## ESTIMATED SOURCES AND USES OF FUNDS

### Sources:

Principal Amount of Certificates	\$ 58,910,000.00
Original Issue Premium (Net)	1,842,751.70
Total	\$60,752,751.70

### Uses:

Project Account Deposit <sup>(1)</sup>	\$60,063,821.00
Cost of Issuance <sup>(2)</sup>	370,580.70
Underwriters' Discount	318,350.00
Total	\$60,752,751.70

<sup>(1)</sup> Exclusive of costs of issuance.

<sup>(2)</sup> Includes legal fees, bond insurance premium, printing costs, etc.

## DESCRIPTION OF THE STATE

See "APPENDIX A -- Information Statement of the State of Rhode Island and Providence Plantations", dated July 30, 2004 for a description of the State, its budgetary process and financial profile.

## DESCRIPTION OF THE CERTIFICATES

### General

The Certificates represent an undivided interest in the Lease Payments to be made by the State to the Trustee under the Sublease. The Certificates will be dated the date of delivery and will be issued in fully registered form without coupons in the denomination of \$5,000 each or any integral multiple thereof. So long as The Depository Trust Company ("DTC"), or its nominee Cede & Co., is the registered owner of the Certificates, all payments with respect thereto will be made directly to such registered holder. Disbursement of such payments to Beneficial Owners of the Certificates (as hereinafter defined) will be the responsibility of the DTC Participants and Indirect Participants, as more fully described herein. (See "DESCRIPTION OF THE CERTIFICATES --Book-Entry-Only System," herein.)

The principal portions of the Certificates are payable on October 1 of each year as set forth on the cover page hereof. The interest portions of the Certificates will be payable semi-annually on April 1 and October 1 of each year commencing April 1, 2005 (the "Interest Payment Dates") to and including the date of maturity or redemption of the Certificates, whichever is earlier.

### Record Date

Payment of the interest portion with respect to any Certificate shall be made on the payment date to the person appearing on the Certificate register as the Owner thereof as of the close of business on the fifteenth day of the month next preceding such payment date, such interest to be paid by check or draft mailed to such Owner at such Owner's address as it appears on the Certificate register or at such other address as such Owner may have filed with the Trustee for that purpose; provided, however, that the Trustee may establish a special record date in connection with the payment of interest in default.

## Redemption

*Optional Redemption.* The Certificates maturing on and before October 1, 2014 are not subject to redemption prior to their stated dates of maturity. The Certificates maturing on or after October 1, 2015 are subject to optional redemption prior to their stated dates of maturity on and after October 1, 2014, as a whole or in part at any time, and may be redeemed by the exercise of the option to make payment of all or part of the Rent Prepayment Price as provided in Section 16 of the Sublease in such order of maturity and in such amounts as directed by the Lessee, on the following dates and at the following redemption price expressed as a percentage of the principal portion to be redeemed, plus accrued interest to the redemption date:

<u>Redemption Period</u>	<u>Redemption Price</u>
October 1, 2014 and thereafter	100%

*Special Mandatory Redemption.* The Certificates are subject to special mandatory redemption in whole or in part at any time at a redemption price equal to the principal amount of the Certificates to be redeemed, plus interest accrued thereon to the redemption date, from moneys received or recovered by the Trustee from: (i) the reletting of the Project in connection with the enforcement of the Trustee's rights under the Sublease; (ii) the proceeds of the hazard insurance payable with respect to the damage, destruction, theft or other loss of the Project which are not applied to repair, reconstruction, replacement or restoration of the Project in accordance with the Sublease; (iii) any awards payable with respect to the condemnation or taking of the whole or any part of the Project for any public or quasi-public use which are not applied to the repair, reconstruction, replacement or restoration of the Project; and (iv) any amounts transferred from the Project Account to the Redemption Account under the Declaration of Trust upon completion of the Project.

*Selection for Redemption.* If less than all of the outstanding Certificates of any maturity of the Certificates shall be called for redemption, and for so long as the book-entry only system remains in effect, the Certificates (or portions thereof) to be redeemed shall be selected by lot by DTC in accordance with DTC's operational arrangements as in effect from time to time. If the book-entry only system for the Certificates is no longer in effect, the Certificates (or portions thereof) to be so redeemed shall be by the Trustee by lot or any customary manner of selection.

*Notice of Redemption.* When redemption of the Certificates is required pursuant to the Declaration of Trust, the Trustee shall give to the registered owners of such Certificates notice of the redemption of the Certificates. Such notice shall specify: (a) the Certificates that are to be redeemed; (b) the date for redemption (the "Redemption Date"); and (c) the place or places where the redemption will be made. Such notice shall further state that on the specified Redemption Date there shall become due and payable upon each Certificate to be redeemed, the principal portion thereof and premium, if any, together with the interest portion accrued to said Redemption Date, and that from and after such Redemption Date, interest thereon shall cease to accrue. Notice shall be given of such redemption not less than thirty (30) days nor more than sixty (60) days prior to the Redemption Date for redemption by mailing first-class, postage prepaid copies thereof to the registered owners of the Certificates to be redeemed. Failure of any such owner to receive such notice (or any defect therein) shall not affect the validity of such redemption.

## Book-Entry-Only System

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

DTC will act as securities depository for the Certificates. The Certificates 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 Certificate will be issued for each maturity of the Certificates in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

To facilitate subsequent transfers, all Certificates 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 Certificates 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 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Certificates 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 Paying Agent, on payable date in accordance with their

respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the State or the Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent; disbursement of such payments to Direct Participants shall be the responsibility of DTC; and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

THE ABOVE INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE STATE BELIEVES TO BE RELIABLE, BUT THE STATE TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

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

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

Neither the State nor the Paying Agent shall have any responsibility or obligation with respect to: (i) the accuracy of the records of DTC or any Participant with respect to any beneficial ownership interest of the Certificates; (ii) the delivery to any Participant, Beneficial Owner of the Certificates or other person, other than DTC, of any notice with respect to the Certificates; (iii) the payment to any Participant, Beneficial Owner of the Certificates or other person, other than DTC of any amount with respect to the principal of, premium, if any, or interest on, the Certificates; (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 Certificates are redeemed in part.

## SCHEDULED LEASE PAYMENTS

The following is a schedule of Lease Payments of Base Rent (as hereinafter defined) due under the Sublease in each fiscal year, and attributed to the Certificates, assuming that the Sublease is continually renewed:

<u>Fiscal Year Ending June 30</u>	<u>Principal Portion of Lease Payment</u>	<u>Interest Portion of Lease Payment</u>	<u>Total Base Rent Lease Payment</u>
2005	-	\$ 1,455,661.50	\$ 1,455,661.50
2006	\$ 2,225,000	2,392,727.50	4,617,727.50
2007	2,280,000	2,336,552.50	4,616,552.50
2008	2,330,000	2,288,122.50	4,618,122.50
2009	2,385,000	2,232,680.00	4,617,680.00
2010	2,450,000	2,167,955.00	4,617,955.00
2011	2,525,000	2,093,905.00	4,618,905.00
2012	2,605,000	2,012,436.25	4,617,436.25
2013	2,700,000	1,920,280.00	4,620,280.00
2014	2,800,000	1,818,282.50	4,618,282.50
2015	2,920,000	1,699,360.00	4,619,360.00
2016	3,060,000	1,559,186.25	4,619,186.25
2017	3,205,000	1,412,987.50	4,617,987.50
2018	3,360,000	1,258,350.00	4,618,350.00
2019	3,530,000	1,088,462.50	4,618,462.50
2020	3,710,000	908,087.50	4,618,087.50
2021	3,900,000	718,706.25	4,618,706.25
2022	4,100,000	519,175.00	4,619,175.00
2023	4,310,000	309,925.00	4,619,925.00
2024	4,515,000	101,587.50	4,616,587.50
	\$58,910,000	\$30,294,430.25	\$89,204,430.25

## CERTIFICATE OWNERS' RISKS

### General

The Certificates do not constitute a debt or liability of the State within the meaning of any constitutional or statutory limitation and neither the faith and credit nor the taxing power of the State is pledged to make payments under the Sublease. The State is not required to appropriate funds to make payments required under the Sublease, including without limitation, Base Rent and Additional Rent (as hereinafter defined). If the State fails to appropriate such monies it is unlikely that the Trustee would have sufficient funds, by leasing of the Project or otherwise, to make payment in full of the principal and interest portions of the Certificates.

### Redemption or Acceleration Prior to Maturity

The Certificates are subject to redemption or acceleration prior to maturity. (See "DESCRIPTION OF THE CERTIFICATES - Redemption," above and "DESCRIPTION OF THE DECLARATION OF TRUST" herein.) Certificate Owners may not realize their anticipated yield on investment to maturity because the Certificates may be redeemed or accelerated prior to maturity at par or at a premium which results in the realization of less than the anticipated yield to maturity.

## **Value of Project**

The Trustee's leasehold interests in the Project, which constitute part of the security for the Certificates, are leasehold interests in a courthouse which are of limited value to anyone other than a state governmental department. The Project is not comprised of a general purpose building generally suitable for industrial or commercial uses.

## **Risk of Non-Renewal of Sublease/Non-Appropriation**

The Sublease is for a period ending June 30, 2005, and may be renewed for successive annual periods corresponding to the State's fiscal year (or periods less than such fiscal year). The Lessee shall be deemed to have exercised its right of renewal for each succeeding Renewal Period if at or prior to the expiration of the then current Sublease term, there are lawfully appropriated by the Lessee sufficient funds enabling the payment of all Lease Payments due during the next Fiscal Year. The State is not obligated to renew the Sublease for any Renewal Period unless funds are lawfully appropriated therefor. There can be no assurance that the funds will be lawfully appropriated. (See "DESCRIPTION OF THE SUBLEASE - Term and Renewals" herein.)

Upon termination of the Sublease, there is no assurance that payments made by MBIA (the "Insurer") representing interest on the Certificates will be excludable from gross income for federal or State income tax purposes. (See "TAX STATUS" herein.)

## **Certain Matters Relating to Enforceability of the Lease and the Sublease**

The obligations of the State under the Lease and the Sublease may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws or by equitable principles affecting the enforcement of creditors' rights generally.

## **Tax-Exempt Status; Continuing Legal Requirements**

As described hereinafter under the caption "TAX STATUS," the failure of the State or the Trustee to comply with certain legal requirements may cause the interest portion of the Certificates to become subject to federal income taxation retroactive to the date of issuance. The Declaration of Trust does not provide for the payment of any additional interest in the event the interest on the Certificates becomes includable in gross income for federal income tax purposes.

## **Tax and Securities Laws Effects on the Certificates in the Event of Termination of the Sublease**

Special Counsel will express no opinion as to the effect that termination of the Sublease may have upon the treatment for federal or State income tax purposes of amounts received by Certificate Owners. There is no assurance that any amounts representing interest received by Certificate Owners after termination of the Sublease will be excludable from gross income under federal or State laws. In view of private letter rulings by the United States Department of the Treasury, Certificate Owners should not assume that payments allocable to the interest portion of the Certificates received from the Insurer would be excluded from gross income for federal or State income tax purposes.

Special Counsel also expresses no opinion as to the transferability of the Certificates under federal and state securities laws after termination of the Sublease, and, after such termination, there is no assurance that Certificate Owners would be able to transfer their interests without compliance with federal and state securities laws.

## **DESCRIPTION OF THE SUBLEASE**

### **Terms and Renewals**

The Sublease is effective as of August 1, 2004 and will terminate on June 30, 2005. The Sublease may be renewed, upon the terms and conditions set forth therein, for the Renewal Periods of one year beginning July 1, 2005 through and

including July 1, 2022, with a final term commencing July 1, 2023 and terminating on October 1, 2023. The Sublease may be renewed beyond its termination date for such periods as other amendments to the Sublease may provide.

If any right to renew the Sublease is exercised, the renewed Sublease shall be a new sublease and each such new sublease shall terminate on the termination date of the applicable Renewal Period, unless it terminates at an earlier date, as provided therein.

If during the initial term of the Sublease or any term of the Sublease thereafter, there are lawfully appropriated funds enabling the payment of all Lease Payments due within the next six-month period, the Sublease shall be deemed renewed for such shorter period and can be successively renewed for six-month periods. The State shall be deemed to have exercised its right to renew for such a six-month period if at or prior to the termination of the then current term of the Sublease, there are lawfully appropriated funds enabling the payment of all payments thereunder due within the next such six-month period.

If a term of the Sublease terminates without a renewal for a succeeding Sublease term, and if within sixty (60) days after such date of termination there are lawfully appropriated funds which would have caused the Sublease to be renewed if the appropriation had occurred prior to the termination of the then current term thereof, then, at the option of the Trustee, the Sublease shall be reinstated and deemed renewed as of the day following the date of termination of the preceding term of the Sublease. If there is a Lease Payment date between the date of termination and date of reinstatement of the Sublease, the Lease Payment which would have been due on such date if the Sublease had not been terminated shall become immediately due and payable on the date the Sublease is reinstated. As to a partial appropriation or non-appropriation of funds, see "SECURITY FOR THE CERTIFICATES" and "DESCRIPTION OF THE SUBLEASE -- Non-appropriation of Funds" herein.

## **Rent**

The State agrees to pay the payments specified in the Sublease equal to the principal and interest portions, and premium, if any, on the Certificates ("Base Rent"). Each payment shall be applied first to payment of the interest portion of the Lease Payment. Interest or income on any moneys in the Base Rent Subaccount of the Lease Payment Account shall be applied as a credit against the balance of the Base Rent. (See "DESCRIPTION OF THE DECLARATION OF TRUST -- Establishment and Application of Lease Payment Account", herein.) The State's obligation to pay all or any portion of the Base Rent is subject to the availability of lawful appropriations therefor.

The State agrees to pay the following amounts as additional rent to the Trustee: (i) any and all charges, taxes or payments in lieu thereof (local, state and federal) imposed on the ownership, leasing, rental, sale, purchase, possession or use of the Project, (ii) the Rebate Amount, as defined in the Tax Certificate and (iii) amounts required to pay Project costs in excess of the amount payable from the proceeds of sale of the Certificates (collectively, "Additional Rent").

The State's obligation to pay all or any portion of the Additional Rent is subject to the availability of lawful appropriations therefor. If funds are not available for payment of all or any part of the Additional Rent during the first fiscal year in which such Additional Rent becomes due and payable, the Trustee shall have the right, but shall not be obligated, to pay such Additional Rent. If the Trustee pays any portion of the Additional Rent which the State is responsible or liable for under the Sublease, the State shall, to the extent funds are lawfully appropriated, pay the Trustee on the first Lease Payment Date in the next succeeding fiscal year an amount equal to the sum of the Additional Rent paid and the costs incurred by the Trustee in making such payment. If the Trustee pays such Additional Rent and is reimbursed for such payment as provided for in the Sublease, the Sublease shall not be deemed terminated. For all fiscal years subsequent to that in which it is determined the State is liable for such Additional Rent, the State shall submit a budget for, and will seek appropriation of, funds for payment of the taxes, charges and payments in lieu thereof. The Trustee shall cooperate with and assist the State in preparing such budget.

The State reasonably believes that funds will be available to make all Lease Payments with respect to the Sublease during each term of the Sublease and hereby covenants that it will do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which the payments under the Sublease may be made including making provisions for such payments in budgets submitted for the purpose of obtaining funding, using its bona fide best efforts to have such portion of the budget approved and exhausting all available administrative reviews and appeals, if any, in the event such portion of the budget is not approved. It is the State's intent to make payments under the Sublease for all terms of the Sublease if funds

are legally available therefor and the State represents that the uses of the Project are essential to its proper, efficient and economic operation.

### **Non-appropriation of Funds**

In the event that the Rhode Island General Assembly has adjourned for the year with the expectation that it will not meet again until the following year and no funds or insufficient funds are lawfully appropriated in any fiscal year enabling the payment of all the payments under the Sublease due for the next succeeding Sublease term (an "Event of Non-appropriation") then the State will immediately notify the Trustee of such occurrence. On the July 1 following the last date on which such funds can be lawfully appropriated in such fiscal year, the Sublease shall terminate without penalty or expense to the State of any kind whatsoever, except as to the portions of Lease Payments herein agreed upon for fiscal years in which sufficient funds have been lawfully appropriated. In the event of an Event of Non-appropriation, the State agrees immediately to peaceably surrender possession of the Project to the Trustee on the date of such Event of Non-appropriation.

Upon an Event of Non-appropriation of the Sublease, the Declaration of Trust provides that the Trustee, upon written notification of such non-appropriation from the State with respect to the Sublease, shall within sixty-five (65) days transfer to the Redemption Account (as hereinafter defined) all amounts in the Project Account and the Lease Payment Account (as such accounts are hereinafter defined), unless such Event of Non-appropriation is cured or waived during the first sixty (60) days of the aforesaid sixty-five (65) day period or unless the Insurer otherwise directs.

### **Title**

The State will continue to possess title to the Project, subject to the terms of the Lease. Title to the Project will be freed of such leasehold interests (i) upon the State's exercise of the lease prepayment option with respect to the Project, described under "DESCRIPTION OF THE SUBLEASE--Rent Prepayment Option" herein, (ii) on defeasance of the Sublease with respect to the Project, or (iii) upon the complete payment and performance by the State of all of its obligations during the initial Sublease term and all applicable Renewal Periods with respect to the Project, through October 1, 2023.

### **Insurance**

The State must maintain or require any subsequent lessee to maintain property insurance and comprehensive general liability coverage for any loss or damage incurred in connection with the Project. During the construction period, the property insurance shall be in an amount not less than 100% of the replacement value of the Project prior to commencement of construction. When the Project reaches substantial completion, the property insurance shall be in an amount not less than 100% of the replacement value of the Project upon completion and in all events not less than the principal amount of the Certificates then outstanding with respect to the Project. During the construction period, the State shall provide or cause to be provided builder's risk insurance in at least the amount of the contract. The proceeds of any insurance recovered on portions of the Project lost, stolen, destroyed, or damaged shall be applied to the repair or replacement of the Project, or to the Prepayment of Rent in the event of the total loss of the Project on the State's election not to repair the Project. All policies evidencing insurance shall be carried in the names of the State and the Trustee as their respective interests may appear and shall contain standard clauses which provide for the net proceeds of insurance resulting from claims per casualty thereunder to be made payable directly to the Trustee to be applied pursuant to the provisions of the Sublease. All policies shall provide for at least 30 days' notice of cancellation to the State and the Trustee. All insurance policies must be provided by a commercial insurer rated A by A.M. Best or in the two highest rating categories by S&P and Moody's.

### **Rent Prepayment Option**

On and after October 1, 2014, upon sixty (60) days prior written notice from the State to the Trustee, and provided that there is not then existing an Event of Default, or a default which with notice or lapse of time, or both, could become an Event of Default, the State will have the right to prepay payments under the Sublease, in whole or in part at any time by paying to the Trustee, on such date, the payments then due under the Sublease, together with the Rent Prepayment Price being paid on such date along with instructions to the Trustee as to how such Rent Prepayment Price shall be applied by the Trustee in its capacity as Trustee for the holders of Certificates. Upon satisfaction by the State of payment of the entire Rent Prepayment



Price, the Trustee will transfer any and all of its right, title and interest in the site of the Project and the Project, as is, to the State, without warranty, express or implied, except that the Trustee will warrant to the State that the Project is free and clear of any liens created by the Trustee.

### **Events of Default**

The term "Event of Default", as used in the Sublease and herein, means the occurrence of any one or more of the following events:

- (a) The State fails to make any Lease Payment as it becomes due in accordance with the terms of the Sublease; or
- (b) The State fails to perform or observe any other covenant, condition, or agreement to be performed or observed by it under the Sublease and such failure is not cured within thirty (30) days after written notice thereof by the Trustee.

### **Remedies**

Upon the occurrence of an Event of Default under the Sublease, and as long as such Event of Default is continuing, the Trustee may, at its option, having no obligation to do so under the Sublease or the Declaration of Trust, exercise any one or more of the following remedies:

- (a) By written notice to the State, request the State to (and the State agrees that it will), completely relinquish the site of the Project and all buildings, structures and improvements erected or situated thereon whereupon the Trustee will enter the State's premises and take possession of the site of the Project and all buildings, structures and improvements erected or situated thereon for the period remaining under the Lease and any renewal option periods thereunder;
- (b) By written notice to the State, declare an amount equal to all amounts then due under the Sublease and all remaining payments due under the Sublease during the remaining term of the Sublease to be immediately due and payable whereupon the same shall become immediately due and payable;
- (c) Lease the site of the Project and all improvements or additions thereto for the account of the State who shall remain liable for all Lease Payments due during the Sublease term and other payments due to the effective date of such leasing and for the difference between the rental and other amounts paid by the State pursuant to such lease and the amounts payable by the State hereunder; and
- (d) Exercise any other right, remedy or privilege which may be available to it under applicable laws of the State or any other applicable law or proceed by appropriate court action to enforce the terms of the Sublease or to recover damages for the breach of the Sublease or to rescind the Sublease as to the Project.

Before taking any action under the Sublease or under Declaration of Trust which would result in the Trustee taking possession of any portion or all of the Project, the Trustee may require such environmental inspections and tests of the Project and other environmental reviews as the Trustee deems necessary and, if the Trustee determines that the taking of possession of all or any portion of the Project will expose the Trustee to claims or damages resulting from environmental or ecological conditions in any way relating to the Project or any activities at the Project, the Trustee may decline to take possession of the Project.

The Trustee shall be under no obligation to pursue any remedies in the Sublease if in the opinion of the Trustee such action would result in a risk of financial liability for the Trustee and the Trustee has not received indemnity from Certificate Owners that is satisfactory to the Trustee in Trustee's sole judgment.

In addition, the State will remain liable for all covenants and obligations under the Sublease and for all legal fees and other costs and expenses, including court costs, when and if deemed appropriate and awarded by a court of competent jurisdiction, incurred by the Trustee with respect to the enforcement of any of the remedies listed above or any other remedy available to the Trustee under the Sublease, when it is finally adjudicated by a court of competent jurisdiction that the State is in default of the Sublease or any amendment thereto.

Any personal property remaining on the site ten (10) days after relinquishment of the site as provided in (1) above shall be deemed to be abandoned by the State and may be used by the Trustee in whatever manner it deems advisable.

**The State's obligations to make payments pursuant to the above remedies are subject to funds being lawfully appropriated to meet such obligations.**

#### **The Insurer**

For so long as the Insurer's policy shall be in full force and effect and provided that the Insurer shall not have defaulted on its obligations under such policy, the written consent of the Insurer shall be necessary to exercise or waive any remedies under the Sublease, including acceleration, and the Insurer shall have the right to direct all remedies upon the occurrence of an Event of Default.

#### **DESCRIPTION OF THE LEASE**

The Project is located at the Kent County Courthouse in Warwick, Rhode Island. The State is leasing the Project Site (together with all buildings and improvements now or hereafter located thereon) to the Trustee under the Lease which is dated as of August 1, 2004. The initial term of the Lease expires on July 1, 2014 with an option for the Trustee to renew for a period ending on July 1, 2024. The rent under the Lease is \$1.00 for the initial period and \$1.00 for the renewal period. Under the Lease, the option to renew shall be deemed to have been automatically renewed unless the Lessee has exercised the Lease Prepayment Option under the Sublease. (See "DESCRIPTION OF THE SUBLEASE -- Lease Prepayment Option" above.) Upon the occurrence of an Event of Default under or the termination of the Sublease, the Trustee is permitted under the Lease to use the Project Site and all buildings and improvements thereon and access thereto in any manner.

#### **DESCRIPTION OF THE DECLARATION OF TRUST**

##### **General**

The Declaration of Trust establishes a Trust for the benefit of the holders of the Certificates issued thereunder, to secure the payment of the principal portions of and premium, if any, and interest portions on the Certificates issued pursuant thereto and secure the performance and observance of all covenants and conditions under the Declaration of Trust and the Certificates and establishes the terms and conditions subject to which Certificates are to be issued, executed, held, secured and enforced.

The Lessor, concurrently with the execution and delivery of the Declaration of Trust grants and assigns to the Trustee all of the Lessor's right, title and interest in, to and under the Sublease.

##### **Certificates**

Simultaneously with the receipt of the Sublease relating to the issuance of the Certificates and the receipt of the proceeds thereof, the Trustee shall execute and deliver the Certificates in the aggregate authorized principal amounts evidencing proportionate interests in the Lease Payments to be paid by the State under the Sublease. The Trustee may, upon written direction from the State, from time to time while the Certificates are outstanding, execute and deliver additional series of Certificates payable from payments under the Sublease. Upon issuance of any additional Certificates, the Trust shall grant a lien or charge upon the payments under the Sublease in pari passu with the lien and charge upon the Lease Payments relating to the outstanding Certificates issued under the Sublease and the Declaration of Trust.

## **Transfer of Certificates**

Each Certificate shall be transferable only upon the Certificate register, which shall be kept for that purpose at the principal office of the Trustee, upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the Owner or his or her duly authorized attorney. Upon registration of the transfer and the surrender of any such Certificate, the Trustee shall provide, in the name of the transferee, a new Certificate or Certificates of the same series and of the same aggregate principal amount as the surrendered Certificates.

The Trustee shall deem and treat the person in whose name any outstanding Certificate shall be registered upon the Certificate register as the absolute owner of such Certificate, whether such Certificate shall be overdue or not, for the purpose of receiving payments of, or on account of, the payment of the principal portion of, premium, if any, and interest portion with respect to such Certificate and for all other purposes, and all such payments so made to any such owner or upon his or her order shall be valid and effectual to satisfy and discharge the liability upon such Certificate to the extent of the sum or sums so paid, and the Trustee shall not be affected by any notice to the contrary.

## **Redemption**

The Certificates are subject to redemption prior to maturity as a whole or in part in the amounts, on the dates and at the prices as more fully described above under "DESCRIPTION OF THE CERTIFICATES -- Redemption".

## **Trust Fund**

There is established with the Trustee a special trust fund pursuant to the Declaration of Trust (the "Trust Fund"). The Trustee shall keep the Trust Fund separate and apart from all other funds and moneys held by it. Within the Trust Fund, there are or will be established the Project Account, the Lease Payment Account, the Rebate Account, and the Redemption Account.

## **Establishment and Application of Project Account**

Within the Trust Fund, there will be established a special account for the Project, which shall be referred to as the "Project Account".

All disbursements from the Project Account shall be made by the Trustee upon receipt of a written requisition requesting disbursement, and approved by an Authorized Officer of the State.

Any moneys remaining in the Project Account after the completion of the Project shall be transferred at the direction of the State, to the Lease Payment Account or the Redemption Account.

## **Establishment and Application of Lease Payment Account**

Within the Trust Fund, there is established a separate account for the deposit of Lease Payments, which shall be referred to as the "Lease Payment Account". Within the Lease Payment Account there will be established subaccounts designated and referred to as the "Base Rent Subaccount" and the "Additional Rent Subaccount". Such account and subaccounts shall be maintained by the Trustee until the Lease Payments are paid in full pursuant to the terms of the Sublease.

Payments under the Sublease constituting Base Rent, interest or income earned on other accounts are transferred to the Base Rent Subaccount. Proceeds of insurance or condemnation and all other moneys derived from the lease, sublease or other use of the Project and such other amounts as may be paid to the Trustee shall be immediately deposited by the Trustee in the Base Rent Subaccount. Lease Payments constituting Additional Rent shall be immediately deposited by the Trustee in the Additional Rent Subaccount.

The Trustee shall withdraw first from the Base Rent Subaccount and second from the Additional Rent Subaccount, on each Payment Date an amount equal to the amount of any interest or principal portion of the Certificates then due with

respect to the Certificates on such interest, sinking fund installment or principal payment date, and shall cause the same to be applied to the payment of the principal and interest portions due with respect to the Certificates.

The Trustee shall withdraw from the Additional Rent Subaccount, as necessary, an amount equal to the amount required to pay when due the charges, taxes, fees, Project costs and other payments for which Additional Rents are paid, or to reimburse the Trustee for the same, as applicable, upon receipt of a written requisition requesting disbursement approved by an authorized officer of the Lessee, including evidence of the incurrence of such charges, taxes, fees and other payments and instructing as to where such amounts shall be sent.

If the principal and interest portions of all of the Certificates issued pursuant to the Declaration of Trust shall have been paid and all expenses of the Trustee have been paid, any balance remaining in the Lease Payment Account shall be paid to the State.

#### **Establishment and Application of Rebate Account**

Within the Trust Fund, there will be established a separate account for the payment of rebate to the federal government in connection with the requirements of the Internal Revenue Code of 1986, as amended, which shall be referred to as the "Rebate Account".

There shall be paid into the Rebate Account for the Certificates such amounts at such times as are required to be paid by the State pursuant to a tax certificate executed and delivered by the State in connection with the issuance of the Certificates (the "Tax Certificate") to maintain the exclusion of interest thereon from federal income taxation on gross income. The Trustee shall pay to the United States out of amounts on deposit in the Rebate Account the amounts required to be rebated to the United States in accordance with the Tax Certificate.

#### **Establishment and Application of Redemption Account**

Within the Trust Fund, there will be established a separate account for the redemption of the Certificates which shall be referred to as the "Redemption Account".

Moneys shall be deposited in the Redemption Account for the payment of prepaid Lease Payments to be made, as more fully described herein under "DESCRIPTION OF THE SUBLEASE - Lease Prepayment Option" or on the termination of the Sublease.

Moneys in the Redemption Account shall be used solely to redeem the Certificates or to pay the principal of and premium, if any, and interest portions on the Certificates declared due and payable by the Trustee after an Event of Default under the Declaration of Trust, and any balance remaining in the Redemption Account shall be paid to the State and such Redemption Account shall be closed.

#### **Deposit and Investment of Moneys in Funds**

All moneys held by the Trustee in any of the funds or accounts established pursuant to the Declaration of Trust shall be invested in Permitted Investments at the Lessee's direction, having due regard for the protection of the interests of the Owners of the Certificates in such moneys and for the dates upon which such moneys will be required by the Trustee for the uses and purposes specified in the Declaration of the Trust. The term "Permitted Investments" includes the following:

(a) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself).

1. Farmers Home Administration (FmHA)  
Certificates of beneficial ownership
2. Federal Housing Administration Debentures (FHA)
3. General Services Administration  
Participation certificates
4. Government National Mortgage Association (GNMA or "Ginnie Mae")  
GNMA - guaranteed mortgage-backed bonds  
GNMA - guaranteed pass-through obligations (participation certificates)
5. U.S. Maritime Administration  
Guaranteed Title XI financing
6. U.S. Department of Housing and Urban Development (HUD)  
Project Notes  
Local Authority Bonds

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself).

1. Federal Home Loan Bank System  
Senior debt obligations (Consolidated deb obligations)
2. Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")  
Participation Certificates (Mortgage-backed securities)  
Senior debt obligations
3. Federal National Mortgage Association (FNMA or "Fannie Mae")  
Mortgage-backed securities and senior debt obligations
4. Student Loan Marketing Association (SLMA or "Sallie Mae")  
Senior debt obligations
5. Resolution Funding Corp. (REFCORP) obligations
6. Farm Credit System  
Consolidated systemwide bonds and notes

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAA-m; or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2, including, without limitation, the JPMorgan Money Market Mutual Funds or any other mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from such funds for services rendered, (ii) the Trustee charges and collects fees for services rendered pursuant to this Trust Agreement, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to this Indenture may at times duplicate those provided to such funds by the Trustee or its affiliates.

(e) Certificates of deposit secured at all times by collateral described in (a) and/or (b) above. CD's must have a one year or less maturity. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short term obligations are rated "A-1+" or better by S&P and "Prime-1" by Moody's. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF).

(g) Investment Agreements, including guaranteed investment contracts (GICs), acceptable to the Insurer.

(h) Commercial paper rated "Prime - 1" by Moody's and "A-1+" or better by S&P.

(i) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.

(j) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime 1" or "A3" or better by Moody's and "A-1+" by S&P.

(k) Repurchase Agreements ("Repos") that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date; and

(l) Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If, however, the issue is only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

## **Events of Default**

An Event of Default under the Declaration of Trust or any supplemental amendment is deemed to be the occurrence of any one or more of the following:

(a) The State fails to make the Lease Payment as it becomes due in accordance with the terms of the Sublease and any such failure continues for five (5) days after the due date thereof; or

(b) The State fails to perform or observe any other covenant, condition or agreement to be performed or observed by it under the Sublease and such failure is not cured within thirty (30) days after written notice thereof from the Trustee; or

(c) The Sublease terminates under its terms pursuant to non-appropriation by the State and is not reinstated within sixty (60) days of termination as provided in the Sublease.

In the case of an Event of Default the Trustee shall, within five (5) days after such event or notice, give written notice thereof by first class, postage prepaid mail to the Insurer and the Owners of all Certificates then outstanding at the address shown on the Certificate register maintained by the Trustee.

### **Acceleration**

Upon the occurrence of any Event of Default involving non-appropriation or the State's failure to otherwise make a scheduled payment under the Sublease, the Trustee shall, and upon the occurrence of any Event of Default involving the State's failure to observe or perform any other covenant, condition or agreement under the Sublease, the Trustee may, and upon the written request of the Owners of not less than a majority in aggregate principal amount of the Certificates then Outstanding shall by notice in writing delivered to the State, declare the principal portions of all Certificates then Outstanding and the accrued interest portions thereof immediately due and payable and such principal and interest portions shall thereupon become and be immediately due and payable and shall declare an amount equal to all amounts then due under such Sublease and all remaining Lease Payments due during the Sublease term to be immediately due and payable. Any acceleration shall require the written consent of the Insurer.

The foregoing paragraph is subject, however, to the condition that if, at any time after the principal portions of, and accrued interest portions of the Certificates shall have been so declared due and payable and before a Project has been subleased, all sums payable in connection therewith, except the principal portions of the Certificates which have not reached their maturity dates, shall have been duly paid and all existing defaults shall have been made good, then and in every such case such payment shall constitute a waiver of such default and its consequences and an automatic rescission and annulment of such declaration but no such waiver shall extend to or affect any subsequent default or impair any right consequent thereon.

### **Remedies**

Upon the occurrence of an Event of Default, the Trustee may exercise, as an alternative or in addition to any other remedy under the Declaration of Trust, any remedy available to the Trustee under the Sublease.

If all or a portion of the Project has been leased or subleased pursuant to the Sublease and if payments with respect to such lease or sublease will be received by the Trustee after the date on which the Certificates are due and payable pursuant to the Declaration of Trust (i) such payments shall be deposited in the Lease Payment Account and (ii) the Owners of a majority of the aggregate principal amount of the Certificates then Outstanding shall determine whether the Trustee's interest in the lease or sublease will be liquidated prior to the date on which the Certificates are due and payable or whether the Trustee shall retain its interest in the lease or sublease and distribute the payments received pursuant thereto on the Payment Dates in the proportion the unamortized principal of each Outstanding Certificate bears to the unamortized principal of all Outstanding Certificates.

If an Event of Default shall have occurred, and if requested so to do by the Owners of a majority of the aggregate principal amount of Certificates then Outstanding by an instrument or instruments in writing and executed and delivered to the Trustee, and indemnified by such Owners to the satisfaction of the Trustee, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Declaration of Trust as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Owners of Certificates.

No remedy conferred on the Trustee is intended to be exclusive of any other remedy but each and every remedy given to the Trustee shall be in addition to any other remedy given to the Trustee.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

### **Rights of Certificate Owners to Direct Proceedings**

The Owners of a majority in aggregate principal amount of the Certificates then outstanding under the Declaration of Trust shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct

the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Declaration of Trust and any supplemental amendment, or for the appointment of a receiver or any other proceedings hereunder; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Declaration of Trust.

### **Rights of Insurer to Direct Proceedings**

Notwithstanding anything in the Declaration of Trust to the contrary, for so long as the Insurer's guarantee policy issued in connection with the Certificates issued thereunder shall be in full force and effect and the Insurer shall not have defaulted on its obligations under such policy, the written consent of the Insurer shall be necessary to exercise or waive any remedies thereunder, including acceleration, and the Insurer shall have the right to direct all remedies upon the occurrence of an Event of Default.

### **Appointment of Receivers**

Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Owners of Certificates under the Declaration of Trust and any supplemental amendment thereto, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Project and of the rentals, revenues and other income, charges and moneys therefrom, pending such proceedings, with such power as the court making such appointment shall confer.

### **Rights and Remedies of Certificate Owners**

No Owner of any Certificate shall have any right to institute any suit, action or proceeding for the enforcement of the Declaration of Trust, for the execution of any trust thereof or any other remedy thereunder, unless (i) an Event of Default has occurred; (ii) the Owners of a majority of the aggregate principal amount of the Certificates then Outstanding thereunder shall have made written request to the Trustee and shall have offered the Trustee reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (iii) such Owners have offered the Trustee indemnification in a manner satisfactory to it for any liability and expense it might incur in carrying out the aforementioned request; and (iv) the Trustee shall thereafter fail or refuse to exercise the powers hereinbefore granted, or to institute such action, suit or proceeding in its, his or their own name or names. Such request and offer of indemnity are hereby declared in every case at the option of the Trustee to be conditions precedent to the execution of the powers and trusts of the Declaration of Trust, and to the initiation of any action or cause of action for the enforcement of the Declaration of Trust; provided, that the Trustee may not, as a condition precedent to the execution of the powers and trusts thereunder, request indemnification for liability arising out of the Trustee's grossly negligent action or willful misconduct or negligent failure to act. It being understood and intended that no one or more of the Owners of the Certificates shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Declaration of Trust by its, his, her or their action or to enforce any right thereunder except in the manner therein provided and that proceedings shall be instituted, had and maintained in the manner herein provided and for the ratable benefit of the Owners of all Certificates then Outstanding thereunder. Nothing in the Declaration of Trust shall, however, affect or impair the right of any Certificate Owner to enforce the payment of the principal and interest portions of any Certificate at and after the maturity thereof, or the obligation of the Trustee to pay the principal portions of, premium, if any, and interest portions of the Certificates to the respective Owners thereof at the time, place, from the source and in the manner provided in said Certificates.

### **Rights of the Insurer**

For so long as the Insurer's policy shall be in full force and effect and provided that the Insurer shall not have defaulted on its obligations under such policy, the Insurer shall be deemed to be the sole Owner of the Certificates, notwithstanding anything in the Declaration of Trust to the contrary, the written consent of the Insurer shall be necessary to exercise or waive any remedies thereunder, and the Insurer shall have the right to direct all remedies upon the occurrence of an Event of Default. In addition, so long as the Insurer's guarantee policy issued in connection with the Certificates shall be in full force and effect and the Insurer shall not have defaulted on its obligations under such policy, the Insurer shall be deemed to be the sole owner



of the Certificates for all purposes of amending the Declaration of Trust other than for purposes which require the consent of individual Owners of Certificates affected thereby.

### **Waivers of Events of Default**

The Trustee may in its discretion waive any Event of Default under the Declaration of Trust and its consequences and rescind any declaration of maturity of principal and shall do so upon the written request of the Owners of one-half in aggregate principal amount of all the Certificates then outstanding thereunder; provided, however, that there shall not be waived (a) any Event of Default in the payment of the principal portions of any outstanding Certificates thereunder at the date of maturity specified therein or (b) any default in the payment when due of the interest portions of any such Certificates unless prior to such waiver or rescission, all arrears of interest portions, or all arrears of payments of principal portions and sinking fund installments when due, as the case may be, and all expenses of the Trustee, in connection with such default, shall have been paid or provided for, and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every such case the State, the Trustee and the Certificate Owners shall be restored to their former positions and rights thereunder and under the Sublease, respectively, but no such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

Notwithstanding the foregoing, for so long as the Insurer's policy shall be in full force and effect and provided that the Insurer shall not have defaulted on its obligations under such policy, only the consent of the Insurer shall be required for any such waiver or rescission.

### **Amendments and Supplemental Amendments**

The Trustee may, with the prior written consent of the Insurer, but without the consent of, or notice to, any Certificate Owner, amend the Declaration of Trust or other instruments evidencing the existence of a lien provided such amendment is not inconsistent with the terms and provisions thereof for any one of the following purposes:

- (a) To cure any ambiguity, inconsistency or formal defect or omission in the Declaration of Trust;
- (b) To grant to or confer upon the Trustee for the benefit of the Certificate Owners any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Certificate Owners or the Trustee or either of them;
- (c) To subject to the lien and pledge of the Declaration of Trust, additional revenues;
- (d) To add to the covenants and agreements of the Trustee contained in the Declaration of Trust other covenants and agreements thereafter to be observed for the protection of the Certificate Owners, or to surrender or limit any right, power or authority herein reserved to or conferred upon the Trustee;
- (e) To evidence any succession within the Trustee and the assumption by such successors of the requirements, covenants and agreements of the Trustee and in the Lease, the Sublease and the Certificates issued under the Declaration of Trust;
- (f) To issue additional certificates pursuant to the Declaration of Trust.

Exclusive of the aforementioned types of amendments and subject to the terms and provisions contained in the Declaration of Trust, and not otherwise, the Owners of not less than a majority in aggregate principal amount of the Certificates then Outstanding shall have the right, from time to time, anything contained in the Declaration of Trust to the contrary notwithstanding, to consent to and approve the execution by the Trustee of such other amendments, as shall be deemed necessary and desirable by the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in a Declaration of Trust or in any amendment thereto, provided, however, that nothing therein shall permit, or be construed as permitting: (i) an extension of the maturity of the principal or interest portion on any Certificate issued thereunder, or a reduction in the principal amount of any Certificate or the rate of interest or

redemption premium thereon, without the consent of each Certificate Owner so affected or (ii) a privilege or priority of any one Certificate over any other Certificate, or a reduction in the aggregate principal amount of the Certificates required for consent to such amendment, without the consent of the Owners of all of the Certificates then Outstanding.

The Trustee without the consent of the Owners of the Certificates may consent to any amendment to the Sublease which in its judgment is not to the prejudice of the Trustee or the Owners of the Certificates. Except as permitted pursuant to the Declaration of Trust in connection with the issuance of additional certificates, the Trustee shall not consent to any amendment, change or modification of the Sublease which would change the amount of the Lease Payments required to be paid under the Sublease, or the Lease Payment Dates under the Sublease unless the Owners of not less than a majority in aggregate principal amount of the Certificates then outstanding shall approve the Trustee's consent to such amendment; provided, however that no amendment to the Sublease shall be consented to if the amendment would result: (i) in an extension of the maturity of the principal portion of or the interest portion on any Certificate issued in connection therewith, or a reduction in the principal amount of any Certificate or the rate of interest or redemption premium thereon, unless each Certificate Owner so affected consents; or (ii) in a privilege or priority of any Certificate over any other Certificate, or a reduction in the aggregate principal amount of the Certificates required for consent to such amendment, unless the Owners of all of the Certificates then Outstanding under the Declaration of Trust so consent.

If, at any time, the Trustee shall propose an amendment requiring the approval of the Certificate Owners, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, notify the Owners of all Outstanding Certificates of the proposed amendment in the manner provided in the Declaration of Trust. Such notice shall briefly set forth the nature of the proposed amendment and shall state that copies thereof are on file at the Principal Office of the Trustee for inspection by all Certificate Owners. If, within sixty (60) days after mailing of the notice or such longer period not to exceed one hundred twenty (120) days as the Trustee may prescribe, the requisite number of Owners of the Outstanding Certificates at the time notice of such amendment is given, shall have consented to and approved the execution thereof as therein provided, no Owner of any Certificate shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such amendment, the Declaration of Trust and/or the Sublease, as the case may be, shall be and is deemed to be modified and amended in accordance with such amendment.

Any amendment to the Declaration of Trust requiring consent of Certificate Owners may not be made without first obtaining the consent of the Insurer.

## **Defeasance**

If and when any Certificates issued under the Declaration of Trust shall become due and payable in accordance with their terms, and the whole amount of principal portions, premium, if any, and interest portions so due and payable upon all of such Certificates shall be paid, or provision shall have been made for the payment of the same to provide for payment of the principal portions of, premium, if any, and interest portions of, and all administrative and other expenses associated with such Certificates shall have been paid or provided for, then and in that case, the right, title and interest of the Trustee under a Declaration of Trust and the applicable supplemental amendment relating to such Certificates shall thereupon cease, terminate and become void, and the Trustee shall assign and transfer to the State all property (in excess of the amounts required for the foregoing) then held by the Trustee as to such series of Certificates and shall execute such documents as may be reasonably required by the State in this regard.

## **LITIGATION**

In the opinion of the State's Attorney General, there is no litigation pending or, to the knowledge of such officer, threatened, affecting the validity of the Sublease, the Lease, the Declaration of Trust, or the Certificates.

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.

## LEGAL MATTERS

The Attorney General of the State has reviewed and approved all the documentation related to the Sublease and the Lease and will render an opinion to the effect that the State possesses the authority necessary to enter into the Sublease and the Lease and that the Sublease and the Lease constitute legal, valid, binding and enforceable obligations of the State subject to the limitations set forth therein. Certain legal matters will be passed upon for the State by Tillinghast Licht Perkins Smith & Cohen, LLP, Providence, Rhode Island, special counsel to the State, and by Partridge Snow & Hahn LLP, Providence, Rhode Island, disclosure counsel to the State. Certain legal matters will be passed upon for the Underwriters by their counsel, Taft & McSally LLP, Cranston, Rhode Island.

## TAX STATUS

Tillinghast Licht Perkins Smith & Cohen, LLP, is of the opinion that, under existing law and based upon certain representations of the State and its examination of such matters of existing law as deemed relevant, the portion of Lease Payments designated as interest and distributable to the Certificate Owners to the extent such payments are appropriated by the State and received by the Certificate Owners (the "Interest") is excludable from gross income of such Owners for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Such portion of the Lease Payments distributable as Interest is excludable from State of Rhode Island personal income taxation to the extent such interest is excludable from gross income for federal income tax purposes. (See "APPENDIX B - Proposed Form of Legal Opinion").

The Code establishes certain requirements regarding the use, expenditure and investment of proceeds of the Certificates and the payment of rebates to the United States, which must be continuously satisfied subsequent to the issuance of the Certificates in order for the portion of the Lease Payments designated as Interest on the Certificates to remain excludable from gross income for federal income tax purposes. Failure to comply with these requirements may cause that portion of the Lease Payments designated as Interest on the Certificates to become includable in the gross income of the Owners thereof for federal income tax purposes retroactive to the date of issuance of the Certificates. The State will covenant to take all lawful action necessary under the Code to ensure that the portion of the Lease Payments designated as Interest on the Certificates will remain excludable from gross income for federal income tax purposes and to refrain from taking any action that would cause such portion to become includable in such gross income. The opinion of Tillinghast Licht Perkins Smith & Cohen, 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 Certificates in order that the portion of the Lease Payments designated as Interest on the Certificates be or continue to be excluded from gross income for federal income tax purposes. For purposes of the firm's opinion, Interest includes original issue discount, if any, properly allocable to the Certificates. Tillinghast Licht Perkins Smith & Cohen, LLP, expresses no opinion regarding other federal tax consequences arising with respect to the Certificates.

Tillinghast Licht Perkins Smith & Cohen, LLP, is also of the opinion that the portion of the Lease Payments designated as Interest on the Certificates will not be treated as an item of tax preference in calculating the alternative minimum tax imposed on individuals and corporations under the Code. However, the portion of the Lease Payments designated as Interest on the Certificates will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes).

### Original Issue Discount

Certain of the Certificates (the "Discount Certificates") 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 Certificates. The issue price of a Discount Certificate is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Certificates of the same maturity are sold pursuant to that offering. For federal income tax purposes, OID accrues to the holder of a Discount Certificate 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 Certificate at its issue price, the portion of OID that accrues during the period the purchaser owns the Discount Certificate (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 Certificates, 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 Certificate. Holders of Discount Certificates should consult their own tax advisors as to the determination for federal income tax purposes of the amount of OID properly accruable each year with respect to the Discount Certificate, and as to other federal tax consequences and any state or local tax aspects of owning Discount Certificates.

### Premium

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

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

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, 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 Certificates into account in determining what portion, if any, of the federally-subsidized amount is subject to recapture. Prospective purchasers of the Certificates should consult their tax advisors as to the applicability of any such collateral consequences.

IN ADDITION, TILLINGHAST LICHT PERKINS SMITH & COHEN, LLP, EXPRESSES NO OPINION AS TO THE EXCLUSION FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES OF THE PORTION OF THE LEASE PAYMENTS DISTRIBUTABLE TO THE CERTIFICATE OWNERS AS INTEREST IN THE EVENT OF NON-APPROPRIATION BY THE STATE OF THE LEASE PAYMENTS.

SPECIAL COUNSEL HAS SPECIFICALLY DISCLAIMED ANY OPINION AS TO THE EFFECT THAT TERMINATION OF THE SUBLEASE MAY HAVE UPON THE TREATMENT FOR FEDERAL OR STATE INCOME TAX PURPOSES OF AMOUNTS RECEIVED BY CERTIFICATE OWNERS. THERE IS NO ASSURANCE THAT ANY AMOUNTS REPRESENTING INTEREST RECEIVED BY CERTIFICATE OWNERS AFTER TERMINATION OF THE SUBLEASE WILL BE EXCLUDABLE FROM GROSS INCOME UNDER FEDERAL OR STATE LAWS.

SPECIAL COUNSEL ALSO HAS DISCLAIMED ANY OPINION AS TO THE TRANSFERABILITY OF CERTIFICATES UNDER FEDERAL AND STATE SECURITIES LAW AFTER TERMINATION OF THE SUBLEASE, AND, AFTER SUCH TERMINATION, THERE IS NO ASSURANCE THAT CERTIFICATE OWNERS WOULD BE ABLE TO TRANSFER THEIR INTERESTS WITHOUT COMPLIANCE WITH REGISTRATION PROVISIONS OF FEDERAL AND STATE SECURITIES LAW.

The foregoing is a general discussion of the anticipated material federal and state income tax consequences relating to the ownership of the Certificates. 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 Certificates.

## **UNDERWRITING**

The Certificates are being purchased by UBS Financial Services Inc., as representative of the underwriters listed on the cover page hereof (the "Underwriters"). The aggregate offering price of the Certificates to the public is \$60,752,751.70 and the Underwriters have agreed, subject to certain conditions, to purchase the Certificates at a purchase price of \$60,434,401.70 and to reoffer the Certificates at no greater than the initial public offering price or prices set forth on the cover page hereof. The Underwriters may offer and sell the Certificates to certain dealers (including dealers depositing Certificates into investment trusts and others) at prices lower than the public offering prices stated on the cover page hereof. The purchase contract provides that the Underwriters will purchase all the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the purchase contract.

## **FINANCIAL ADVISOR**

First Southwest Company is employed as Financial Advisor to the State in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates, and receipt by the State of payment therefor.

The Financial Advisor to the State 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 BOND INSURANCE POLICY**

Investors should be aware that the following text of this section was furnished by MBIA Insurance Corporation. These provisions should be read in conjunction with this Official Statement as a whole. The Lessee does not and cannot make any representation regarding these matters.

The following information has been furnished by MBIA Insurance Corporation (the "Insurer") for use in this Official Statement. Reference is made to Appendix C for a specimen of the Insurer's policy.

The Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Certificates as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Certificates pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Certificate. The Insurer's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Certificates upon tender by an owner thereof; or (iv) any Preference relating to

(i) through (iii) above. The Insurer's policy, also does not insure against nonpayment of principal of or interest on the Certificates resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Certificates.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of a Certificate the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Certificates or presentment of such other proof of ownership of the Certificates, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Certificates as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Certificates in any legal proceeding related to payment of insured amounts on the Certificates, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Certificates, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

The Insurer does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policies and the Insurer set forth under the heading "The Bond Insurance Policy". Additionally, the Insurer makes no representation regarding the Certificates or the advisability of investing in the Certificates.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

- (a) The Company's Annual Report on Form 10-K for the year ended December 31, 2003; and
- (b) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Certificates offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2003, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of the Insurer is (914) 273-4545.

As of December 31, 2003, the Insurer had admitted assets of \$9.9 billion (unaudited), total liabilities of \$6.2 billion (unaudited), and total capital and surplus of \$3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2004, the Insurer had admitted assets of \$10.3 billion (unaudited), total liabilities of \$6.5 billion (unaudited), and total capital and surplus of \$3.8 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Moody's Investors Service, Inc. rates the financial strength of the Insurer "Aaa".

Standard & Poor's, a division of The McGraw-Hill Companies, Inc., rates the financial strength of the Insurer "AAA".

Fitch Ratings rates the financial strength of the Insurer "AAA".

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Certificates, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Certificates. The Insurer does not guaranty the market price of the Certificates nor does it guaranty that the ratings on the Certificates will not be revised or withdrawn.

## **RATINGS**

Standard & Poor's Ratings Service, a Division of the McGraw-Hill Companies, Inc. ("S&P") will give the Certificates the rating of "AAA", Moody's Investors Service, Inc. ("Moody's") will give the Certificates the rating of "Aaa" and Fitch Ratings ("Fitch") will give the Certificates a rating of "AAA", with the understanding that upon delivery of the Certificates, the financial guaranty insurance policy insuring, pursuant to its terms, the payment of principal interest on the Certificates will be issued by MBIA Insurance Corporation. MBIA Insurance Corporation has issued a commitment for issuance of the policy. Such ratings express only the views of each respective rating agency.

An explanation of the significance of the ratings given by S&P may be obtained from S&P Corporation, 55 Water Street, New York, New York 10041, from Moody's Investors Service, 99 Church Street, New York, New York 10007 and from Fitch Ratings, One State Street Plaza, New York, New York 10004. There is no assurance that the ratings will continue for any given period of time or that the ratings will not be revised downward or withdrawn entirely by S&P, Moody's and/or Fitch if, in the judgement of S&P, Moody's and/or Fitch, circumstances so warrant. Any downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Certificates. The ratings are not a recommendation to buy, sell or hold the Certificates.

## **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 Certificates, 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 delivery of the Certificates 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 Certificates:

1. The State will provide to each nationally recognized municipal securities information repository ("NRMSIR") and the appropriate state information depository for the State ("SID"), if any: (a) on or before the end of each calendar year, commencing December 31, 2004, 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 Certificates 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) within sixty (60) days following their public release, the audited financial statements of the State for the most recently ended fiscal year, to the extent such statements have been commissioned, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by Rhode Island law. The State reserves the right to modify from time to time the specific types of information provided under clause (a) above or the format of the presentation of such information, provided that any such modification will be done in a manner consistent with the Rule.

2. The State will provide in a timely manner to each NRMSIR or the Municipal Securities Rulemaking Board and the SID, if any, notice of the occurrence of any of the following events with respect to the Certificates, if material: (a) principal and interest portion 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 Certificates; (g) modifications to rights of beneficial owners of the Certificates; (h) Certificate calls; (i) defeasances; (j) release, substitution or sale of property securing repayment of the Certificates; or (k) rating changes to the Certificates by any nationally recognized credit agency which has rated the Certificates 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 judgement of the State, such other event is material with respect to the Certificates, but the State does not undertake to commit to provide any such notice of the occurrence of any material event except those listed above.

3. The State will provide, in a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board and to the SID, if any, notice of a failure to satisfy the requirements of paragraph (1) above.

The provisions of the Continuing Disclosure Certificate may be amended by the State without the consent of, or notice to, any owners of the Certificates, (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 Certificates, (d) to modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of state legislation establishing a SID or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (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 Certificates, 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 Certificates, as determined either by a party unaffiliated with the State (such as special counsel), or by a vote or consent of owners of a majority in outstanding principal amount of the Certificates 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 Certificates, 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 Certificates 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 Certificates, any registered owner or beneficial owner of the Certificates, any municipal securities broker or dealer, any potential purchaser of the Certificates, 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 Certificates.

The State has never failed to comply, in all material respects, with any previous undertakings to provide annual reports or notices of material events in accordance with the Rule.

The State Budget Officer, or such official's designee from time to time, shall be the contact person on behalf of the State from whom the foregoing information, data and notices may be obtained. The name, address and telephone number of the initial contact person is Rosemary Booth Gallogly, State Budget Officer, State Administration Building, One Capitol Hill, Providence, Rhode Island 02903, Telephone (401) 222-6300.

#### MISCELLANEOUS INFORMATION

The descriptions herein of the Sublease, the Lease, and the Declaration of Trust are qualified in their entirety by reference to such documents, and the descriptions herein of the Certificates are qualified in their entirety by reference to the form thereof and the information with respect thereto included in the Declaration of Trust. The descriptions herein of such documents are outlines only and do not purport to be complete. Copies of such documents may be obtained from the office of the Trustee.

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 July 30, 2004 and the General Purpose Financial Statements of the State, as of and for the year ended June 30, 2002. Also included as part of the State's Information Statement is a compilation of certain of the State's leading economic indicators. All of the information contained in the State's Information Statement has been prepared and furnished by the State.

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 and the purchasers of the Certificates.

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. This Official Statement is not to be construed as a contract or agreement between the State or the Trustee and the Certificate Owners.

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

STATE OF RHODE ISLAND AND PROVIDENCE  
PLANTATIONS

By /s/ Paul J. Tavares  
General Treasurer

By /s/ Beverly E. Najarian  
Director of Administration

August 11, 2004

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

**DATED: July 30, 2004**

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## STATE GOVERNMENT ORGANIZATION AND FINANCES

### General Information

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

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

The chief executive power of the State is vested in the Governor and, by succession, the Lieutenant Governor. Each are 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 both houses of the General Assembly. The Governor does not have any power of line-item veto.

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

### Municipalities

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

Since 1985, cities and towns have been prohibited by Section 44-5-2 of the General Laws of the state from imposing a tax levy or tax rate, which increases by more than 5 ½ percent over the previous year. The statute does authorize tax levy or rate increases of greater than 5 ½ percent in the event that debt service costs on present and future general obligation debt increases at a rate greater than 5 ½ percent. The statute also provides for the certification by a State agency of the appropriate property tax base to be used in computations in any year when revaluation is being implemented. Provisions of section 44-5-2 also include authorization to exceed this limitation in the event of loss of non-property tax revenue, or when an emergency situation arises and is certified by the State Auditor General. In such an emergency situation, such levy in excess of a 5 ½ percent increase must be approved by a majority of the city or town governing body or electors voting at the financial town meeting. The statute was amended to clarify that nothing in the tax levy cap provisions was intended to constrain the payment of obligations of cities and towns. The power of the cities and

towns to pay their general obligations bonds and notes is unlimited and each city or town is required to levy *ad valorem* taxes upon all the taxable property for the payment of such bonds and notes and the interest thereon, without limitation as to rate or amount.

### ***Local Tax Relief***

In 1998, the General Assembly enacted measures designed to phase out, over a number of years, two separate components of the local property tax levy. One is the local levy on inventories. The phase out period will span ten years and will progressively eliminate ten percent of the tax levy each year. Local communities will be reimbursed for lost revenues through the State's General Revenue Sharing program, which will be increased from 1.0 percent of tax revenues in FY 1998 to 4.7 percent of tax revenues in FY 2010. Reductions in the levy on inventories have continued on this schedule.

The other local property tax levy to be reduced or eliminated is the local levy on motor vehicles and trailers. This tax may be phased out subject to annual review and appropriation by the General Assembly by providing increasing exemptions against the assessed value of all motor vehicles. Local communities are reimbursed on the value of the exempted amounts and assumed cumulative growth in the tax rate equal to the Consumer Price Index (CPI). Currently, the first \$4,500 in value of a vehicle is exempted from taxation and municipalities are prohibited from applying an excise tax rate higher than the rate applied in 1998. Municipalities are being reimbursed for the lost revenue resulting from the exemption. Beginning in FY 2004, however, there is no longer a CPI adjustment for an assumed growth in municipal tax rates.

### ***State Aid to Local Communities***

The largest category of State aid to cities and towns is assistance programs for school operations and school construction. The general school aid program disburses funding to communities on the basis of a number of factors including wealth of the community and the number of children eligible for free or reduced price meals. A number of legislative, executive, or collaborative efforts have been made to refine the commitment and strategy for financing local education into the future. Thus far, there has been no strategy confirmed by a statutory scheme specifying a precise method of determining entitlements in future years.

Over the last several years, however, the State has typically provided a guaranteed increase for all communities and a larger increase for "poorer" school districts. The final Fiscal Year 2004 budget provided aid that will ensure that each school district receive a minimum increase of one and three quarter percent over its FY 2003 allocation.

In addition to reimbursement of school operations costs, State school construction aid is provided at levels ranging from 30 percent to 88 percent of the construction cost of new facilities. The level is based upon the relationship between student enrollment and community wealth, and takes into consideration the relative weight of school debt in the particular city or town to its total debt. Beginning in FY 1997, the definition of reimbursable expenditures was expanded to include capital expenditures made through a capital lease or lease revenue bonds or from a municipality's capital reserve account. In FY 1997, disbursements to local school districts totaled \$18.1 million. The FY 2004 Enacted Budget provides \$40.7 million for this category of aid, an increase of 125 percent since FY 1997. A related program will provide approximately \$2.5 million in FY 2004 to cities and towns to provide aid in the construction of libraries.

Other local aid programs include the general revenue sharing and payment-in-lieu of taxes programs. Beginning in 1987 a variety of general state aid programs were consolidated into one general revenue sharing program which incorporated a distribution formula based upon relative population, tax effort and personal income of each city and town. The general revenue sharing program now also incorporates additional funding to compensate municipalities for the phased loss of the inventory tax. The FY 2004 Enacted Budget includes \$51.4 million for this program, and maintains the share dedicated at 2.7% of state tax revenues. This percentage will increase annually until it reaches 4.7% in FY 2010.

The payment-in-lieu of taxes program authorizes the General Assembly to appropriate and distribute to communities amounts not to exceed twenty-seven percent of the property taxes that would have been collected on tax exempt properties. Properties included in this program are non-profit educational institutions, non-profit or state-owned hospitals, veterans' residential facility, and correctional facilities. The FY 2004 Enacted Budget includes \$21.7 million for

this program. Also, the State makes payments to communities identified as distressed based upon four different criteria. Appropriations of \$7.5 million were made for FY 2004 to fund entitlements for four communities. Of these four communities, Central Falls was determined to be especially distressed in 1991 and in Fiscal Year 1993 the state assumed full responsibility for funding education in Central Falls. Finally, Rhode Island distributes the proceeds of a statewide tax imposed on the tangible personal property of telephone, telegraph, cable, express and telecommunications companies. This aid is estimated at \$18.0 million for FY 2004.

## **Principal Governmental Services**

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

### ***General Government***

*General Government* includes those agencies that provide general administrative services to all other State agencies and those that carry out State licensure and regulatory functions. This function includes most elected officials; administrative agencies including the Department of Administration, the Department of Labor and Training, and the Board of Elections; and regulatory agencies including the Department of Business Regulation and the Public Utilities Commission.

The two major departments in the General Government function are the Department of Administration and the Department of Labor and Training.

*Department of Administration.* The Department of Administration is generally responsible for all central staff and auxiliary services for the State including planning, budgeting, taxation, motor vehicle registration, child support enforcement, personnel management, purchasing, information processing, accounting, auditing, building maintenance, property management, labor relations and public safety. The Department directs the accounting and fiscal control procedures and is responsible for the preparation of the State's annual fiscal plan and capital development program, supervising the assessment and collection of all State taxes and administering the statewide planning program for the comprehensive development of the social, economic and physical resources of the State. The Department also includes the State Bureau of Audits which examines the books of account of all State departments and agencies, required by law to be completed at least once every two years. The Department is also responsible for programs relating to State aid, tax equalization, and planning for municipalities, as well as building code administration.

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

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

## ***Human Services***

*Human Services* includes those agencies that provide services to individuals. Services provided include the nutrition programs of the Department of Elderly Affairs; care of the disabled by the Department of Mental Health, Retardation and Hospitals; child protective and social services provided by the Department of Children, Youth and Families; health programs at the Department of Health and the Department of Human Services; and financial assistance, health care and social services provided by the Department of Human Services.

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

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

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

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

## ***Education***

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

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



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

### ***Public Safety***

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

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

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

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

### ***Natural Resources***

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

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

### ***Transportation***

*Transportation* is comprised of the road construction, road maintenance, mass transit, and planning activities of the Department of Transportation. Beginning in FY 1994, the State established the Intermodal Surface Transportation Fund, in partial fulfillment of a plan to join the remaining states in funding transportation expenditures from dedicated

user-related revenue sources. This highway fund concept has the advantage of relating the funding of transportation projects to those who utilize the services provided by those projects, by means of financing mechanisms paid directly by those end-users. The concept is also intended to provide a fairly stable revenue stream to enable transportation projects to be eventually financed on a pay-as-you-go basis.

The Intermodal Surface Transportation Fund is supported by the State's 30 cents per gallon motor fuel tax. These receipts fund operating and debt service expenditures of the Department of Transportation, as well as specific portions of transportation-related expenditures of the Rhode Island Public Transit Authority (RIPTA) and the Department of Elderly Affairs. The 30 cents per gallon motor fuel tax is allocated as follows: 18.75 cents to the Department of Transportation; 2.0 cents to an indenture trustee to support debt service on motor fuel tax bonds; 6.85 cents to RIPTA; 1.0 cent to the Department of Elderly Affairs; and 1.4 cents to the General Fund.

*Department of Transportation.* The Department of Transportation is responsible for the integration of all modes of transportation into a single transportation system. The Department is organized to carry out its responsibilities for the construction and maintenance of all State roads, bridges, transportation facilities (other than those operated and maintained by the Rhode Island Turnpike and Bridge Authority), and the administration of State and Federal highway construction assistance programs. The Department's activities have substantially increased primarily due to the continued road funding resulting from passage of the 1998 Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21). Major ongoing construction and rehabilitation projects include the Route 195 Relocation, reconstruction of the Washington Bridge, replacement of the Sakonnet River Bridge, the extension of Route 403 and the Freight Rail Improvement program. During the 2003 session of the General Assembly, the Rhode Island Department of Economic Development at the request of the Governor and Department of Transportation, received authority to issue bonds secured by future distributions of Federal Highway Trust funds and a dedicated portion of motor fuel tax revenues to speed completion of these projects. It is the State's expectation that such "GARVEE" financing will be completed in three series over a period of six years. The first series, in the amount of \$216,805,000, was issued on November 25, 2003.

### **State Fund Structure – Accounting Basis**

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

The State's financial statements were prepared, for the first time for the fiscal year ending June 30, 2002, in compliance with Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial States – and Management's Discussion and Analysis – for State and Local Governments*. The basic financial statements consist of the government-wide financial statements and the fund financial statements. The government-wide financial statements provide a broad view of the State's finances. The statements provide both short-term and long-term information about the State's financial position for governmental type activities, proprietary type activities and discretely presented component units, which assists in assessing the State's financial condition at the end of the year. They are prepared using the accrual basis of accounting, which recognizes all revenues and grants when earned and expenses at the time the related liabilities are incurred. The fund financial statements focus on the State's major governmental and enterprise funds, including its blended component units, is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on the individual parts of the State government, and report the State's operations in more detail than the government-wide financial statements. The State's funds are divided into three categories: governmental, proprietary and fiduciary.

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

## **Budget Procedures**

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

According to Article IX Section 16 of the Rhode Island Constitution and Rhode Island General Laws section 35-3-7, the Governor must present spending recommendations to the Legislature on or before the third Wednesday in February, unless extended by statute. The budget contains a complete plan of estimated revenues and proposed expenditures with a personnel supplement detailing number and titles of positions of each agency and estimates of personnel costs for the next fiscal year.

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

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

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

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

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

A budget reserve and cash stabilization account was created by statute in 1990. In 1992, the Rhode Island Constitution was amended specifying that the reserves created could only be called upon in an emergency involving the health, safety, or welfare of the State or in the event of an unanticipated deficit caused by a shortfall in general revenue receipts. Such reserve account is capped at 3 percent of general fund revenues. The reserve account is funded by limiting

annual appropriations to 98 percent of estimated revenues. The FY 2003 budget reserve account balance was \$83.7 million.

### **Financial Controls**

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

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

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

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

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

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

### **GENERAL FUNDS 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.

## Major Sources of State Revenue

**Tax Revenues:** Approximately 69.1 percent of all taxes and departmental receipts in FY 2003 were derived from the Rhode Island personal income tax and the sales and use tax. They constituted 57.7 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 impose a tax on Rhode Island taxable income in such a manner so as to compute the tax that would otherwise have been due under the "piggyback tax" if the federal government had not passed the rate and bracket changes in the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"). A resident's Rhode Island taxable income is now equal to his or her federal taxable income, subject to specified modifications. The most significant modification provides for eliminating capital gains tax on assets held more than five years. Current law allows the Tax Administrator to modify income tax rates as necessary when the Assembly is not in session to adjust for federal tax law changes to ensure maintenance of the revenue base upon which appropriations are made.

A non-resident's Rhode Island income is equal to such non resident's income less deductions (including such taxpayer's share of the income and deductions of any partnership, trust, estate, electing small business corporations, or domestic international sales corporation), subject to specified modifications which are included in computing his or her federal adjusted gross income and 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.

For tax year 1998, the personal income tax rate was reduced from 27.5 percent of federal liability to 27.0 percent effective January 1, 1998; from 27.0 percent to 26.5 percent effective January 1, 1999; from 26.5 percent to 26.0 percent of federal liability effective January 1, 2000; from 26.0 percent to 25.5 percent effective January 1, 2001; and from 25.5 percent of federal tax liability to 25.0 percent of Rhode Island taxable income effective January 1, 2002. Also, the Investment Tax Credit was increased from 4.0 percent to 10.0 percent, and the Research and Development Tax Credit was increased from 5.0 percent to 22.5 percent effective January 1, 1998.

Under the new tax structure, Rhode Island income taxes range from 3.75 percent to 9.9 percent of Rhode Island taxable income (depending on income bracket) effective January 1, 2002.

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 JCWA for federal tax purposes shall not be allowed for Rhode Island tax purposes. In addition, state legislative action eliminated the current two year carry back provision for net operating losses and allowed the use of net operating losses only "on a carry forward basis for the number of succeeding taxable years allowed under section 172 of Internal Revenue Code [26 U.S.C.]". These changes to the State's tax code primarily impact subchapter S Corporation filers.

In 2003, Article 7 of the 2004 Appropriations Act was enacted 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. The Rhode Island personal income tax accounted for approximately \$813.3 million, or 29.5 percent, of the State's FY 2003 general revenues.

**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. Included as major exemptions from the tax are: (a) food (excluding food sold by restaurants, drive-ins or other eating places) for human consumption off the premises of the retailer; (b) clothing; (c) medicines sold on prescription; (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 sales and use tax rate is 7.0 percent and is imposed upon retailers' gross receipts from taxable sales. In the 2003 Session, the General Assembly passed a 1.0 percent local meals and beverage sales tax. These revenues accrue to the local governments and are not part of sales and use tax revenues reported here.

From the beginning of Fiscal Year 1992 until August of 2000, the State had dedicated six tenths of one cent of the sales tax to pay the debt service of the Rhode Island Depositors Economic Protection Corporation. Effective August 1, 2000, the Rhode Island Depositors Economic Protection Corporation (DEPCO) defeased its outstanding debt. As a result, since August 1, 2000, the State's general fund receives all 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. This financing is to be supported by two-thirds of the sales tax revenues generated at the mall, subject 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 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. The sales and use tax accounted for approximately \$777.7 million, or 28.2 percent, of the State's FY 2003 general revenues.

*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. In 1997 the tax was modified 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 2002 legislation was enacted disallowing for Rhode Island tax purposes the bonus depreciation provided by the Job Creation and Worker Assistance Act of 2002 ("JCWAA"). In essence, the General Assembly de-coupled Rhode Island's asset depreciation schedule as provided for in Chapters 11, 13 and 30 of Title 44 from the federal asset depreciation schedule for purposes of applying the bonus depreciation mentioned above. The impact of this change primarily affects C Corporation and subchapter S Corporation tax filers. In 2003, legislation was again enacted as part of the annual appropriations act to disallow for Rhode Island tax purposes the change in the depreciation of assets provided by JGTRRA.

Corporations dealing in securities on their own behalf, whose gross receipts from such activities amount to at least 90.0 percent of their total gross receipts, have been exempt from the net worth computation but are required to pay the 9.0 percent income tax. Regulated investment companies and real estate investment trusts and personal holding companies pay a tax at the rate of 10 cents per \$100 of gross income or \$100, whichever is greater. Such corporate security dealers, investment companies, investment trusts and personal holding companies are allowed to deduct from net income 50.0 percent of the excess of capital gains over capital losses realized during the taxable year when computing the tax. The business corporation tax accounted for approximately \$62.8 million, or 2.3 percent, of the State's FY 2003 general revenues.

*Health Care Provider Assessment.* The State levies a health care provider assessment on residential facilities for the mentally retarded. The levy has been set at 6.0 percent of gross revenues since 1994.

The State also levies tax on the gross revenues of nursing homes. In 2003, the gross revenue tax on nursing homes was increased from 4.75 percent to 6.0 percent. In addition, a 1.50 percent tax on gross revenues from

freestanding Medicaid facilities not associated with hospitals is levied. The health care provider assessment accounted for approximately \$28.1 million, or 1.0 percent, of the State's FY 2003 general revenues.

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

In 2002 legislation was passed that provides for the apportionment of gross earnings from mobile telecommunication services to the State where the customer's primary place of use occurs, as determined in accordance with the federal Mobile Telecommunications Sourcing Act. The public service corporation tax accounted for approximately \$76.1 million, or 2.8 percent, of the State's FY 2003 general revenues.

*Tax on Insurance Companies.* Each insurance company transacting business in Rhode Island must file a return each year on or before March 1 and pay a tax of 2.0 percent of its gross premiums. These are premiums on insurance contracts written during the preceding calendar year on Rhode Island businesses. The same tax applies to an out-of-state insurance company, but the tax cannot be less than that which would be levied by the State or foreign country on a similar Rhode Island insurance company or its agent doing business to the same extent there. Premiums from marine insurance issued in Rhode Island are exempt from the tax on gross premiums.

Insurance and surety companies are exempt from the business corporation tax and annual franchise tax, but they are subject to provisions concerning any estimated taxes that may be due. In 2002 legislation was passed making the insured liable for the 3.0 percent gross premiums tax on surplus lines of insurance if the insured purchases or renews surplus lines insurance coverage with an insurer not licensed in the State. The insurance companies' tax accounted for approximately \$51.3 million, or 1.9 percent, of the State's FY 2003 general revenues.

*Banking 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 measured by: (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. The tax payable is the higher of the two. 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 tax, effective January 1, 1998. Refer also to discussion above under "Business Corporation Tax" for requirements relating to advance payments. The banking institutions tax accounted for approximately \$9.8 million, or 0.4 percent, of the State's FY 2003 general revenues.

*Banking Institutions Interest Bearing Deposits Tax.* The bank deposit tax was eliminated for banks beginning January 1, 1998 and thereafter. A tax rate on deposits held by credit unions continues to apply with a rate of .0348 cents for each \$100 for institutions with over \$150 million in deposits and a rate of .0313 cents for each \$100 applying to credit unions with less than \$150 million in deposits. The bank deposits tax accounted for approximately \$1.7 million, or 0.1 percent, of the State's FY 2003 general revenues.

*Estate Tax.* For decedents whose deaths occurred before January 1, 2002, the estate tax will equal the applicable credit allowable under federal estate tax law. For decedents whose deaths occur on or after January 1, 2002, the estate tax will equal the maximum credit allowed under federal estate tax law as it was in effect as of January 1, 2002. Also, the State acted to ensure that any increase in the unified credit provided by 26 U.S.C., subsection 2010 in effect on or after January 1, 2002 shall not apply for Rhode Island estate tax purposes. The time period for filing a return is nine months from date of death. The estate tax accounted for approximately \$24.4 million, or 0.9 percent, of the State's FY 2003 general revenues.

*Cigarette Tax.* The cigarette tax has increased periodically over the last several years as follows: from a rate of 71 cents a pack applying from July 1, 1997 to July 1, 2001, the rate was increased to \$1.00 a pack on July 1, 2001, then to \$1.32 a pack effective May 1, 2002. Finally, effective July 1, 2003, the rate increased to \$1.71 a pack. The cigarette tax accounted for approximately \$94.4 million, or 3.4 percent, of the State's FY 2003 general revenues.

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

The State has pursued a long-term plan to dedicate all of the motor fuel tax receipts to transportation-related projects and operations. Prior to the convening of the 2002 General Assembly, all motor fuel tax proceeds were to be allocated for transportation purposes in FY 2003. The 2002 General Assembly, in Article 29 of the FY 2003 Appropriations Act, however, delayed the transfer of the final 0.25 cents from the General Fund to the Department of Transportation until FY 2004. In addition, the General Assembly increased the State's motor fuel tax from \$0.28 a gallon to \$0.30 a gallon effective July 1, 2002. This 2.0 cents a gallon increase in the gas tax was to remain with the General Fund for all future tax years. The allocation of motor fuel revenues was changed again by action of the 2003 General Assembly (see Transportation) such that for FY 2004 1.4 cents of motor fuel revenues will be available for the General Fund.

The transfer of the motor fuel tax to the General Fund accounted for approximately \$25.5 million, or less than 0.9 percent, of the State's FY 2003 general revenues. Of this \$25.5 million, \$14.3 million represented the Department of Transportation's repayment of the debt service savings it reaped from the defeasance of some of its outstanding debt via the securitization of the State's future tobacco Master Settlement Agreement payments.

*Other Taxes.* In addition to the above described taxes, the State imposes various fees, taxes and excises for the sale of liquor and other alcoholic beverages, the registration of motor vehicles and the operation of pari-mutuel betting. Other taxes accounted for approximately \$72.9 million, or 2.6 percent, of the State's FY 2003 general revenues.

*Departmental Receipts.* The largest category of departmental receipts is the group defined as licenses and fees. This category's prominence in departmental receipts is due largely to the assessment of the hospital licensing fee beginning in FY 1995.

The hospital licensing fee was first enacted in 1994 and yielded \$77.3 million in FY 1995. The FY 1998, FY 1999, and FY 2000 Appropriations Acts each extended the fee for one year and changed the base year upon which the fee would be applied. In each fiscal year, the hospital licensing fee was assessed at the rate of 2.0 percent of gross patient service receipts in the hospitals' 1995 base year. These changes yielded revenues of \$37.4 million annually for FY 1998, FY 1999 and FY 2000. The FY 2001 Appropriations Act extended the fee for FY 2001 at the rate of 4.0 percent of net patient service receipts in the hospital's 1999 base year and retroactively increased the fee to 2.65 percent for FY 2000. The retroactive increase for FY 2000 was assessed as a one-time 0.65 percent surcharge on gross patient service receipts in the hospital's 1995 base year. The total impact of these changes was a revenue yield of \$65.7 million in FY 2001. The FY 2002 Appropriations Act extended the fee for FY 2002 at the rate of 4.25 percent of net patient service revenues in the hospital's 1999 base year, yielding \$56.2 million. The FY 2003 Appropriations Act extended the fee for FY 2003 at the rate of 4.35 percent of net patient service receipts in the hospital's 2000 base year. Finally, for FY 2004 the rate was set at 4.0 percent of net patient service revenues applicable to the 2001 base year. Other significant license and fees revenues are derived from the registration of securities, motor vehicle title fees and various professional licenses.

The second largest category of departmental receipts is sales and services, which includes disproportionate share revenues collected on behalf of the State hospitals as well as revenues derived from the sale of vanity license plates. A third category of departmental receipts are recorded as fines and penalties such as interest and penalties on overdue taxes. Lastly, the miscellaneous receipts category includes revenues from investment earnings on General Fund balances as well



as Child Support payments. Departmental Receipts accounted for approximately \$289.6million, or 10.5 percent, of the State's general revenue in FY 2003.

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

The FY 2001 Appropriations Act increased the allowable payout percentages for certain lottery and keno games, and also redistributed net terminal income (NTI) from video lottery games, resulting in a greater portion of net terminal income being retained by the State. The FY 2003 Appropriations Act further redistributed net terminal income from video lottery games. During the 2003 session, the General Assembly enacted legislation that increased the State's share of video lottery net terminal income 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. The Lottery Commission was also authorized to enter into incentive agreements with VLT providers based upon machine performance. Lottery transfers to the general fund totaled \$236.5 million in FY 2003, which accounted for 8.6 percent of the State's general revenues in FY 2003.

The next largest component of Other Sources is the Other Miscellaneous category. This category includes the State's tobacco Master Settlement Agreement (MSA) payments as well as operating transfers to the general fund from the proceeds of the State's securitization of its future tobacco MSA payments. The former totaled \$52.7 million and the later \$113.5 million for a total of \$166.2 million in tobacco settlement monies utilized in FY 2003. The total amount of Other Miscellaneous monies received in FY 2003 was approximately \$185.7 million, which accounted for 6.7% of the State's general revenues.

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 \$25.5 million in FY 2003, including \$14.3 million transferred from the Department of Transportation to the general fund.

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. Unclaimed property transfers totaled \$8.5 million in FY 2003 and accounted for 0.3 percent of the State's general revenues for this period.

*Restricted Receipts.* In FY 2003, the State expended \$114.2 million that was received in restricted receipts, excluding transfers into the General Fund. These reflect various specialized fees and charges, interest on certain funds and accounts maintained by the State and private contributions and grants to certain State programs. Such receipts are restricted under law to offset State expenditures for the program under which such receipts are derived.

*Federal Receipts:* In FY 2003, the State expended \$1.587 billion of revenues from the federal government, representing grants-in-aid and reimbursements to the State for expenditures for various health, welfare and educational programs and distribution of various restricted or categorical grants-in-aid.

Federal grants-in-aid reimbursements are normally conditioned to some degree, depending on the particular program being funded, on matching resources by the State ranging from a 50 percent matching expenditure to in-kind contributions. The largest categories of federal grants and reimbursements are made for medical assistance payments for the indigent (Title XIX), Temporary Assistance to Needy Families (TANF), and State Children's Health Insurance Programs - SCHIP (Title XXI). The federal participatory rates for Titles XIX and XXI are recalculated annually, and the

major determinant in the rate calculation is the relative wealth of the State. The federal match rate was 55.4 percent effective October 1, 2002 and was increased to 58.35 percent in April 2003 due to the passage of the Jobs and Growth Tax Relief Program. Effective October 1, 2003 to June 30, 2003, the rate is 58.98 percent.

### ECONOMIC FORECAST

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

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

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

Due to the Rhode Island Division of Taxation's procurement of an updated personal income tax simulation model in 2001, additional economic variables needed to be forecast at the November 2001 Conference and all Revenue Estimating Conferences thereafter. Thus, at the May 2004 Revenue Estimating Conference, fiscal year forecasts for the following economic variables were agreed upon (all measures are for Rhode Island unless otherwise noted): total employment, total personal income, wage and salary income, farm income, non-farm business income, dividends, interest and rent, total transfer payments, the unemployment rate, the U.S. consumer price index, the interest rate for ten year U.S. Treasury notes, and the interest rate for three month U.S. Treasury bills. Furthermore, the forecast of these economic variables was expanded to include the relevant calendar years and extended to cover the period from 2001 through 2012.

During the May 2004 Conference, as compared to the testimony provided at the November 2003 Revenue Estimating Conference, *Economy.com* increased its estimate of Rhode Island non-farm employment growth for FY 2004 by 0.1 percent and sharply increased its estimate of the same for FY 2005 by 0.5 percent.. Interestingly, *Global Insight*, did almost the opposite, revising its FY 2004 estimate for Rhode island non-farm employment growth up sharply by 0.6 percent and reducing its FY 2005 estimate for the same by 0.1 percent. In addition, *Economy.com* maintained its long-run steady state estimate for Rhode Island non-farm employment growth at 0.9 percent. *Economy.com* attributed this structural change in the Rhode Island labor market to the gains in population that Rhode Island has experienced since 1990. Both forecasters projected stronger Rhode Island employment growth in the FY 2006 through FY 2008 period as the national economic recovery picks up and brings the Rhode Island economy along with it.

As determined by the May 2004 Revenue Estimating Conference (REC), Rhode Island's recovery from recession has been strong, with total non-farm employment growing from 477.9 thousand jobs in FY 2002 to 481.1 thousand jobs in FY 2003, a gain of 3.1 thousand jobs. In addition, the May 2004 REC forecasted job growth in FY 2004 of 5.8 thousand jobs, or 1.2 percent, and forecasted job growth of 7.8 thousand jobs, or 1.6 percent, in non-farm employment in FY 2005. Rhode Island's long-run steady state non-farm employment growth rate is estimated at 0.8 percent. This employment refers to the number of Rhode Island residents working, as opposed to the number of jobs in Rhode Island establishments.

The May 2004 Conference forecasted that personal income will grow steadily over the FY 2004 - FY 2007 period, with average growth of approximately 4.2 percent over these fiscal years. The May 2004 Conference forecasts consumer price inflation to remain at or below 2.5 percent for the entire forecast horizon. In addition, Rhode Island's unemployment rate is forecasted to decline slightly from 5.4 percent in FY 2003 to 5.3 percent in FY 2004. The State's unemployment rate is expected to stabilize at this level in FY 2005 before declining to 5.1 percent in FY 2006, and 5.0 percent in FY 2007 - 2008. The State's unemployment rate will attain its steady state equilibrium of 4.9 percent in FY 2009 - FY 2012.

The consensus economic forecast for the fiscal years 2002 to 2005 agreed upon by the conferees at the May 2004 Revenue Estimating Conference is shown in the following table. This consensus economic forecast reflects the belief that

the economic recovery in Rhode Island will be more robust with strong growth in employment and modest growth in personal income than was predicted at the November 2003 Revenue Estimating Conference.

<b>The May 2004 Consensus Economic Forecast</b>				
<b>Rates of Growth</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>
Total Employment	-0.3%	0.7%	1.2%	1.6%
Personal Income	3.5%	4.2%	4.0%	3.9%
Wage and Salary Income	2.9%	4.1%	3.7%	4.1%
Farm Income	0.0%	0.0%	0.0%	0.0%
Non-Farm Business Income	4.3%	6.0%	8.4%	7.6%
Dividends, Interest and Rent	0.5%	0.4%	0.6%	1.9%
Total Transfer Payments	12.1%	8.5%	5.6%	3.1%
<b>Nominal Levels</b>				
U.S. CPI-U	1.8%	2.2%	2.1%	1.6%
Unemployment Rate	4.8%	5.4%	5.3%	5.3%
Ten Year Treasury Notes	5.0%	4.0%	4.2%	4.7%
Three Month Treasury Bills	2.2%	1.3%	1.1%	1.9%

### REVENUE ESTIMATES

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

The May 2004 Revenue Estimating Conference estimated general revenues of \$2.840 billion in FY 2004. This revised FY 2004 estimate is an increase of \$34.1 million, or 1.2 percent, from the General Assembly's estimated general revenues of \$2.805 billion that were included in the FY 2004 Enacted Budget. The annual estimated revenue growth for FY 2004 is 2.9 percent more than the preliminary determination of the general revenues collected in FY 2003.

#### FY 2004 Revised Revenue Estimate

The May 2004 Conference revised the enacted FY 2004 revenue estimate up by \$34.1 million. The increase in FY 2004 general revenues is comprised of a large increase in personal income tax collections, business corporations tax receipts, and sales and use tax collections. These revenue increases were offset in part by downward revisions in the lottery transfer to the general fund, insurance companies gross premiums tax collections and financial institutions excise tax receipts.

The revised FY 2004 revenue estimate is a 1.2 percent increase from the enacted estimate passed by the General Assembly in July 2003. Revised revenues for FY 2004 are predicated upon a \$155.5 million increase in tax collections over FY 2003, or growth of 7.7 percent. The increase in Departmental Receipts is estimated to be on the order of \$4.3 million over FY 2003 collections, an increase of 1.5 percent. Other Sources, on the other hand, are estimated to decline in FY 2004 by \$78.7 million, or -17.2 percent, from FY 2003 collections. Much of the decrease in revised FY 2004 Other Sources is due to the \$111.9 million decrease in the use of tobacco securitization proceeds between FY 2003 and FY 2004. This decrease in the use of tobacco securitization proceeds in the FY 2004 revised revenue estimate is partially offset by the \$50.0 million in federal fiscal relief the State received as part of the Jobs and Growth Tax Relief Reconciliation Act of 2003. The State Lottery Fund's transfer to the general fund is anticipated to be \$47.4 million more in FY 2004 than in FY

2003. This is an increase of 20.0 percent. The increase in the lottery transfer is due in large part to the General Assembly's enactment of a change in the video lottery revenue sharing formula that is more favorable to the State. The general fund is scheduled to receive \$6.6 million in gas tax revenues, a decrease of 74.1 percent from FY 2003 collections.

The largest source of FY 2004 revised general revenues is personal income tax payments, which are estimated to increase to \$885.0 million, or 8.8 percent over FY 2003 collections. Rhode Island's personal income tax rate remains unchanged from FY 2003 at 25.0 percent of Rhode Island taxable income. The increased Investment Tax Credit and Research and Development Tax Credits also continue to impact tax collections in FY 2004, as individuals and businesses continue to reap the benefits of an improved tax structure in Rhode Island. Personal income taxes are expected to comprise 31.2 percent of revised general revenues collected in FY 2004.

The Sales Tax is expected to show gains in revised FY 2004 collections of \$44.1 million over FY 2003 collections. Sales taxes represent 28.9 percent of revised general revenues in FY 2004. Rhode Island sales tax collections are expected to increase in FY 2004 due to the automobile industry's continued use of zero percent financing sales incentives, the buoyancy of the Rhode Island housing market, and continued strength in consumer spending. Revised collections for FY 2004 are \$821.8 million, reflecting a growth rate of 5.7 percent over FY 2003 collections and an increase of \$9.6 million from the enacted FY 2004 estimate passed by the General Assembly in July 2003.

Within the excise tax category, motor vehicle tax collections are revised to \$45.8 million in FY 2004, a decrease of 2.6 percent over preliminary FY 2003 collections. The Motor Fuel tax estimate was revised up to \$1.08 million from the \$620,000 enacted estimate. This revised value is slightly higher than preliminary FY 2003 receipts. The revised FY 2004 Cigarette tax estimate of \$117.0 million is a decrease of \$2.2 million from the enacted FY 2004 estimate but a sharp upward increase of \$22.6 million from preliminary FY 2003 collections. Both of these figures reflect the 2003 General Assembly's enactment of an increase in the cigarette tax from \$1.32 per pack to \$1.71 per pack effective July 1, 2003. The revised FY 2004 Cigarette tax estimate is a decrease of 1.9 percent from the enacted FY 2004 estimate and 24.0 percent greater than preliminary FY 2003 collections.

The FY 2004 revised estimate of general business taxes projects positive growth over preliminary FY 2003 collections in nearly all categories, the exceptions being financial institutions and insurance companies taxes. The FY 2004 revised estimate for Business Corporations taxes is \$17.2 million, or 27.4 percent above preliminary FY 2003 collections. The Financial Institutions taxes estimate has been revised downward to -\$3.0 million in FY 2004, \$4.5 million below the enacted FY 2004 estimate of \$1.5 million. The primary reason for the downward revision in the Financial Institutions tax was the fact that a large financial institution in the State took a tax year 2002 refund of \$10.8 million in November 2003. At this time, an additional \$10.7 million of tax year 2003 refundable tax payments are still owed this financial institution. The Public Utilities Gross Earnings Tax was increased by \$7.2 from the enacted FY 2004 estimate. The revised FY 2004 estimate for this tax is \$85.0 million. The revised FY 2004 estimate reflects strong growth of 11.6 percent preliminary FY 2003 collections. The Health Care Provider Tax is estimated to yield \$39.9 million in FY 2004, an increase of \$11.8 million, or 41.8 percent, from the \$28.1 million collected in FY 2003. The source of this increase is an expansion in the group homes provider tax base and an increase in the tax on nursing home gross patient revenues from 3.75 percent to 6.0 percent enacted by the General Assembly in July 2003.

Inheritance and Gift Taxes were revised downward in FY 2004 to \$24.6 million, \$6.1 million, or 19.9 percent, less than the enacted FY 2004 estimate and \$248,552, or 1.0 percent, greater than preliminary FY 2003 collections. This downward revision is due to the fact that preliminary actual FY 2003 collections were significantly below expectations in spite of the fact that collections were well above expectations for the first ten months of the fiscal year. Racing and Athletics Taxes were revised downward for FY 2004 by \$215,000 from the enacted FY 2004 estimate. This downward revision was due primarily to Newport Grand's dropping of Jai Alai as a pari-mutuel activity and continued declines in pari-mutuel betting. Realty Transfer Taxes were revised up by \$3.4 million in FY 2004 to \$12.3 million from an enacted FY 2004 estimate of \$8.9 million. This upward revision is attributable to the robust Rhode Island housing market, which was one of the strongest markets in the country during the first three quarters of FY 2004. The revised FY 2004 estimate is 29.7 percent greater than preliminary FY 2003 collections.

The revised FY 2004 estimate for Departmental Receipts is \$293.9 million, an increase of \$4.3 million, or 1.5 percent, from preliminary FY 2003 collections. The revised FY 2004 Departmental Receipts estimate is \$6.9 million greater than the enacted FY 2004 estimate.

Other Miscellaneous Revenues were reduced by \$941,552 from the FY 2004 Enacted Budget. Other Miscellaneous Revenues are expected to decrease by \$115.3 million from preliminary FY 2003 collections. The key difference between preliminary FY 2003 collections and the revised FY 2004 estimate is the decrease in the transfer of tobacco securitization proceeds into the general fund. In FY 2003, these transfers totaled \$113.5 million, while in FY 2004 they are estimated to be \$1.6 million, a decrease of 98.7%. In addition, the State will no longer receive its tobacco Master Settlement Agreement payments beginning on January 1, 2004. This is a decrease in revenue from preliminary FY 2003 collections of \$52.7 million. This decrease is offset in large part by the State's receipt of \$50.0 million in federal fiscal relief for FY 2004.

Other Sources receipts were revised to \$377.6 million in FY 2004 from an enacted estimate of \$392.6 million. The major components in this category include other miscellaneous revenues, as well as transfers from the State Lottery Fund, unclaimed property and gas tax transfers from the Intermodal Surface Transportation Fund (ISTF).

The remaining components of Other Sources are expected to increase in FY 2004 relative to preliminary FY 2003 collections. Transfers from the State Lottery Fund have been revised to increase by \$47.3 million in FY 2004 over preliminary FY 2003 transfers. The increase in State Lottery Fund transfers relative to preliminary FY 2003 collections is attributable to growth in all lottery components and a favorable change in the allocation of net terminal income to the State passed by the General Assembly in July 2003. With respect to the enacted FY 2004 lottery transfer estimate, the revised FY 2004 lottery transfer estimate is \$17.9 million less. The downward revision in the lottery transfer in FY 2004 from the enacted FY 2004 estimate is a result of current fiscal year collections growing at a significantly lower rate than anticipated in July 2003. Transfers from the ISTF are expected to be \$6.6 million in FY 2004. This total is \$18.9 million less than in 2003 due to a one-time transfer of \$14.3 million from the Department of Transportation's motor fuel tax receipts for debt defeasance. In addition, \$0.006 of the \$0.30 per gallon motor fuel tax was shifted to public transportation purposes from the general fund for FY 2004. Transfers from the Unclaimed Property fund were revised to increase by \$8.2 million in FY 2004 over preliminary FY 2003 collections. This increase is due to a one-time, sizeable jump in revenue that the State's unclaimed property program expects to receive from non-Rhode Island sources and de-mutualization proceeds from insurance companies in FY 2004.

In the revised FY 2004 budget, the General Assembly enacted one change to the adopted revenue estimates. This change was the transfer of six-tenths of one cent (\$0.006) of the State's \$0.30 per gallon motor fuel tax from the Rhode Island Public Transit Authority (RIPTA) to the state general fund effective March 1, 2004. This enactment increased the ISTF transfer to the general fund by \$1.4 million. In total, then, the General Assembly's revised FY 2004 budget estimates revenue of \$2.841 billion. This is an increase of \$82.6 million, or 3.0 percent, over preliminary FY 2003 revenue collections and an increase of \$35.5 million, or 1.3 percent, from the enacted FY 2004 budget passed by the General Assembly in July of 2003.

### **FY 2005 Revenue Estimate**

The May 2004 Revenue Estimating Conference estimated general revenues of \$2.814 billion for FY 2005. This FY 2005 estimate is a decrease of \$25.2 million, or 0.9 percent, from the FY 2004 revised revenue estimate of \$2.840 billion. This decrease is largely due to the non-inclusion of \$62.4 million for the Hospital Licensing Fee in FY 2005 and \$50.0 million of federal fiscal relief provided to the State on a one-time basis in FY 2004. The General Assembly's enacted FY 2005 budget contains revenue enhancements of \$140.4 million, including \$58.6 million for the Hospital Licensing Fee, for total recommended revenues of \$2.954 billion. The General Assembly's enacted FY 2005 revenues represent growth of 4.0 percent over the revised FY 2004 budget.

The estimate for personal income taxes adopted at the May 2004 Revenue Estimating Conference was \$913.8 million. The General Assembly's enacted FY 2005 budget estimates the personal income tax to be \$926.3 million, an increase of \$41.3 million, or 4.7 percent, over the estimate in the General Assembly's revised FY 2004 budget. The General Assembly's FY 2005 personal income tax estimate contains \$12.5 million in revenue enhancements. These revenue enhancements are due to the modification or repeal of inefficient tax credits, the augmenting of the Division of

Taxation's auditing capabilities, and the requirement of a tax clearance before the issuance of a professional or driver's license or a motor vehicle registration.

The estimate for sales and use taxes adopted at the May 2004 Revenue Estimating Conference was \$856.4 million. The General Assembly's enacted FY 2005 budget estimates the sales and use tax to be \$857.7 million, an increase of \$35.9 million, or 4.4 percent, over the estimate in the revised FY 2004 budget. The enacted FY 2005 sales and use tax estimate contains \$1.3 million in net revenue enhancements. Additional sales tax revenues are estimated from the General Assembly's enacted increase in the state cigarette tax and the expansion of liquor store operations to Sundays. A loss in sales taxes of \$200,000 is estimated for the granting of a sales tax exemption on the purchase of aircraft and aircraft parts.

The estimate for cigarette taxes adopted at the May 2004 Revenue Estimating Conference was \$108.6 million. The General Assembly's enacted FY 2005 budget estimates the cigarette tax to be \$143.8 million, an increase of \$26.8 million, or 22.9 percent, over the estimate in the General Assembly's revised FY 2004 budget. The enacted FY 2005 cigarette tax estimate contains \$35.2 million in revenue enhancements associated with a \$0.75 per pack increase in the state's cigarette tax to \$2.46 per pack of 20 cigarettes.

The estimate for the lottery transfer adopted at the May 2004 Revenue Estimating Conference was \$318.0 million. The General Assembly's enacted FY 2005 budget estimates the lottery transfer to the general fund to be \$322.4 million, an increase of \$38.5 million, or 13.6 percent, over the estimate in the revised FY 2004 budget. The enacted FY 2005 lottery transfer estimate contains \$4.4 million in revenue enhancements associated with the reallocation of 1.3 percent of net terminal income generated at Lincoln Park from the dog kennel owners to the general fund. The remaining 2.1 percent of Lincoln Park net terminal income that was allocated to the dog kennel owners has been divided between Lincoln Park and the Town of Lincoln with the former receiving 1.85 percent and the latter getting 0.25 percent.

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

The following tables set forth comparative summaries for all State General Revenues for fiscal years 2002 through 2004 and expenditures for the fiscal years 2002 through 2004. General Fund data for FY 2002 is derived from the State's Comprehensive Annual Financial Report prepared by the State Controller, and post audited by the Auditor General. Expenditure data for fiscal year 2003 reflects preliminary estimates of actual expenditures derived the preliminary closing report of the State Controller, and modified by certain adjustments by the State Controller. Expenditures for fiscal year 2004 reflect enacted appropriations and final supplemental spending authorizations adopted by the General Assembly in July 2004. Expenditures for FY 2005 reflect those in the Appropriation Act adopted by the General Assembly in July 2004. In addition, expenditures include other sources of funds outside the General Fund that are appropriated for budgetary purposes. These include all expenditures shown from other fund sources, as well as certain expenditures from Federal and Restricted Sources. The expenditure tables restate amounts classified by the Controller as "operating transfers," or amounts received by or transferred to other funds, as expenditures.

General Fund revenues for FY 2002 reflect the audited actual revenues as reported by the State Controller. General Fund revenues for FY 2003 reflect preliminary estimates of actual revenues derived from preliminary closing statements of the State Controller, modified by certain adjustments by the State Controller. FY 2004 and FY 2005 revenues are predicated upon consensus estimates of the Revenue Estimating Conferences in May 2004, as adjusted by the statutory changes to revenues adopted by the Revenue Estimating Conference which were enacted by the General Assembly. These estimates are explained under the section above entitled *Revenue Estimates* and the subheading below entitled *Free Surplus*.

## General Revenues as Recommended

	FY 2002 Actual	FY 2003 Unaudited	FY 2004 Revised	FY 2005 Enacted
<b>Personal Income Tax</b>	\$808,076,953	\$813,342,788	\$885,000,000	\$926,275,286
<b>General Business Taxes</b>				
Business Corporations*	24,222,910	62,818,292	80,000,000	91,330,674
Franchise	8,545,064			
Public Utilities Gross Earnings	80,813,972	76,134,288	85,000,000	86,500,000
Financial Institutions	3,385,254	9,804,211	(3,000,000)	(3,000,000)
Insurance Companies	32,351,132	51,287,425	42,600,000	41,000,000
Bank Deposits	1,138,120	1,697,630	1,000,000	1,010,000
Health Care Provider Assessment	27,843,707	28,140,784	39,900,000	43,800,000
<b>Sales and Use Taxes</b>				
Sales and Use	745,908,753	777,664,132	821,800,000	857,665,421
Motor Vehicle	46,108,282	47,043,143	45,800,000	47,100,000
Motor Fuel	812,579	1,022,168	1,075,000	1,092,000
Cigarettes	85,478,817	94,379,289	117,000,000	143,800,000
Alcohol	10,039,097	10,059,399	10,200,000	11,434,579
Controlled Substances	-	-	-	-
<b>Other Taxes</b>				
Inheritance and Gift	22,244,911	24,351,448	24,600,000	25,000,000
Racing and Athletics	5,470,031	5,309,872	4,785,000	4,610,000
Realty Transfer	2,691,142	9,481,801	12,300,000	11,000,000
<b>Total Taxes</b>	<b>1,905,130,724</b>	<b>2,012,536,670</b>	<b>2,168,060,000</b>	<b>2,288,617,960</b>
<b>Departmental Receipts</b>	243,364,829	289,581,149	293,900,000	303,475,075
<b>Taxes and Departmentals</b>	<b>2,148,495,553</b>	<b>2,302,117,819</b>	<b>2,461,960,000</b>	<b>2,592,093,035</b>
<b>Other Sources</b>				
Gas Tax Transfer	553,531	25,506,330	8,024,000	9,560,000
Other Miscellaneous	232,339,319	185,738,126	70,400,000	19,173,000
Lottery	214,141,576	236,540,055	283,900,000	322,397,366
Unclaimed Property	7,419,763	8,458,048	16,650,000	11,150,000
<b>Other Sources</b>	<b>454,454,189</b>	<b>456,242,559</b>	<b>378,974,000</b>	<b>362,280,366</b>
<b>Total General Revenues</b>	<b>\$2,602,949,742</b>	<b>\$2,758,360,378</b>	<b>\$2,840,934,000</b>	<b>\$2,954,373,401</b>

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

## Expenditures from All Funds

	FY 2002 Actual	FY 2003 Unaudited	FY 2004 Enacted	FY 2004 Revised	FY2005 Enacted
<b>General Government</b>					
Administration	515,415,898	472,327,028	518,917,505	516,913,139	531,394,787
Business Regulation	8,850,190	9,522,833	10,281,968	10,376,912	10,683,006
Labor and Training	443,918,521	481,683,937	425,351,549	477,291,492	449,107,307
Legislature	26,929,068	27,929,128	29,710,850	30,022,521	30,175,912
Lieutenant Governor	756,501	790,404	860,138	839,352	865,343
Secretary of State	4,997,096	6,384,689	13,440,070	7,577,124	8,200,250
General Treasurer	27,119,112	27,902,074	30,879,154	33,472,725	39,492,281
Boards for Design Professionals	347,865	437,247	391,338	405,063	413,929
Board of Elections	2,453,874	3,106,424	2,306,467	2,561,808	2,610,178
Rhode Island Ethics Commission	873,597	875,624	942,594	940,320	1,170,328
Governor's Office	4,525,550	6,178,510	4,277,878	4,425,278	4,345,275
Public Utilities Commission	4,315,014	4,526,002	5,887,186	5,876,571	6,231,542
Rhode Island Commission on Women	137,753	128,402	143,393	67,787	83,639
<b>Subtotal - General Government</b>	<b>\$ 1,040,640,039</b>	<b>\$ 1,041,792,302</b>	<b>\$ 1,043,390,090</b>	<b>\$ 1,090,770,092</b>	<b>\$ 1,084,773,777</b>
<b>Human Services</b>					
Children, Youth, and Families	227,311,304	235,627,463	234,579,613	245,122,930	240,511,474
Elderly Affairs	38,697,258	42,593,632	42,299,625	48,834,119	47,190,336
Health	90,289,770	102,092,534	109,017,762	121,041,733	106,503,177
Human Services	1,336,974,968	1,417,877,411	1,514,996,848	1,542,225,745	1,637,159,679
Mental Health, Retardation, & Hospitals	419,953,703	437,880,307	450,058,633	453,818,154	463,672,053
Office of the Child Advocate	835,387	880,250	462,844	555,980	555,340
Commission on Deaf & Hard of Hearing	165,141	215,334	285,014	267,634	272,198
RI Developmental Disabilities Council	406,272	497,722	548,888	556,445	570,511
Governor's Commission on Disabilities	328,536	524,158	1,232,288	770,291	949,239
Commission for Human Rights	1,225,200	1,151,072	1,166,128	1,263,245	1,223,744
Office of the Mental Health Advocate	290,718	307,243	317,656	314,906	331,668
<b>Subtotal - Human Services</b>	<b>\$ 2,116,478,257</b>	<b>\$ 2,239,647,126</b>	<b>\$ 2,354,965,299</b>	<b>\$ 2,414,771,182</b>	<b>\$ 2,498,939,419</b>
<b>Education</b>					
Elementary and Secondary	816,337,013	871,468,183	946,771,054	973,341,398	948,019,607
Higher Education - Board of Governors	543,522,588	578,426,870	586,323,956	599,421,973	628,507,865
RI Council on the Arts	2,198,247	2,212,388	3,210,229	3,098,038	3,362,564
RI Atomic Energy Commission	789,477	804,847	1,124,638	1,174,805	1,264,213
Higher Education Assistance Authority	12,879,955	14,380,467	22,445,052	23,647,826	23,417,692
Historical Preservation and Heritage Commission	1,770,824	1,606,150	1,860,694	1,874,931	1,992,543
Public Telecommunications Authority	1,679,001	1,631,257	4,743,380	2,990,298	4,787,910
<b>Subtotal - Education</b>	<b>\$ 1,379,177,105</b>	<b>\$ 1,470,530,162</b>	<b>\$ 1,566,479,003</b>	<b>\$ 1,605,549,269</b>	<b>\$ 1,611,352,394</b>



## Expenditures from All Funds

	FY 2002 Actual	FY 2003 Unaudited	FY 2004 Enacted	FY 2004 Revised	FY2005 Enacted
<b>Public Safety</b>					
Attorney General	16,385,077	17,696,225	18,636,473	19,380,944	20,070,135
Corrections	142,342,187	142,760,255	155,847,674	158,171,254	161,163,442
Judicial	72,732,817	73,273,311	78,878,767	79,990,394	84,018,493
Military Staff	10,971,209	12,988,141	38,756,725	34,123,237	37,964,316
E-911 Emergency Telephone System	3,893,219	3,935,390	4,365,704	4,205,401	5,471,423
Fire Safety Code Board of Appeal & Review	210,518	240,105	235,469	223,491	241,338
State Fire Marshal	1,606,579	1,497,690	2,024,653	2,039,642	2,406,224
Commission on Judicial Tenure & Discipline	101,764	111,692	113,455	127,525	102,842
Rhode Island Justice Commission	4,488,302	4,831,555	5,954,376	6,151,427	6,026,087
Municipal Police Training Academy	418,870	360,158	391,387	425,049	504,327
State Police	41,917,527	42,186,609	44,304,327	44,086,837	47,087,763
Office Of Public Defender	5,946,722	6,261,826	7,009,344	6,902,745	7,271,605
<b>Subtotal - Public Safety</b>	<b>\$ 301,014,791</b>	<b>\$ 306,142,957</b>	<b>\$ 356,518,354</b>	<b>\$ 355,827,946</b>	<b>\$ 372,327,995</b>
<b>Natural Resources</b>					
Environmental Management	59,152,776	57,367,577	72,090,130	71,191,988	73,839,088
Coastal Resources Management Council	2,322,182	6,595,624	8,355,288	9,205,815	3,855,351
Water Resources Board	1,595,399	1,947,523	2,004,992	2,930,322	2,716,098
<b>Subtotal - Natural Resources</b>	<b>\$ 63,070,357</b>	<b>\$ 65,910,724</b>	<b>\$ 82,450,410</b>	<b>\$ 83,328,125</b>	<b>\$ 80,410,537</b>
<b>Transportation</b>					
Transportation	289,476,131	274,804,504	336,755,793	325,785,989	311,686,836
<b>Subtotal - Transportation</b>	<b>\$ 289,476,131</b>	<b>\$ 274,804,504</b>	<b>\$ 336,755,793</b>	<b>\$ 325,785,989</b>	<b>\$ 311,686,836</b>
<b>Total</b>	<b>\$ 5,189,856,680</b>	<b>\$ 5,398,827,775</b>	<b>\$ 5,740,558,949</b>	<b>\$ 5,876,032,603</b>	<b>\$ 5,959,490,958</b>
General Revenue Adjustments to Preliminary Closing		9,096,320			
		<b>\$ 5,407,924,095</b>			

## Expenditures from General Revenues

	FY 2002 Actual	FY 2003 Unaudited	FY 2004 Enacted	FY2004 Revised	FY2005 Enacted
<b>General Government</b>					
Administration	383,413,506	365,404,946	408,994,763	\$392,430,524	\$415,624,076
Business Regulation	8,609,251	9,120,775	9,680,905	9,675,192	10,053,349
Labor and Training	7,291,073	6,801,323	7,915,813	7,240,126	6,921,202
Legislature	26,037,482	26,672,594	27,326,547	28,738,218	27,576,547
Lieutenant Governor	756,501	790,404	860,138	839,352	865,343
Secretary of State	4,718,796	5,941,549	4,625,689	4,584,593	5,041,567
General Treasurer	5,079,346	3,451,764	2,845,289	3,617,035	5,037,957
Boards for Design Professionals	347,865	437,247	391,338	405,063	413,929
Board of Elections	2,453,874	3,106,424	1,365,467	1,402,058	1,608,350
Rhode Island Ethics Commission	873,597	875,624	942,594	940,320	1,170,328
Governor's Office	4,525,550	6,178,510	4,277,878	4,425,278	4,345,275
Public Utilities Commission	702,507	657,016	693,237	683,846	820,154
Rhode Island Commission on Women	137,753	128,402	143,393	67,787	83,639
<b>Subtotal - General Government</b>	<b>\$ 444,947,101</b>	<b>\$ 429,566,578</b>	<b>\$ 470,063,051</b>	<b>455,049,392</b>	<b>479,561,716</b>
<b>Human Services</b>					
Children, Youth, and Families	137,678,216	141,104,522	136,309,781	140,460,849	143,688,465
Elderly Affairs	25,363,463	27,296,583	27,694,995	29,011,958	30,014,372
Health	34,028,273	34,446,598	34,092,350	34,267,208	30,011,800
Human Services	603,152,771	602,799,235	623,274,918	631,120,087	707,486,242
Mental Health, Retardation, & Hospitals	221,123,456	219,909,933	209,567,910	214,775,802	226,303,781
Office of the Child Advocate	491,878	514,005	414,844	474,980	501,168
Commission on Deaf & Hard of Hearing	165,141	215,334	285,014	267,634	272,198
RI Developmental Disabilities Council	-	-	-	-	-
Governor's Commission on Disabilities	303,540	513,501	534,430	538,602	533,865
Commission for Human Rights	733,075	806,591	895,306	1,031,225	984,444
Office of the Mental Health Advocate	290,718	307,243	317,656	314,906	331,668
<b>Subtotal - Human Services</b>	<b>\$ 1,023,330,531</b>	<b>\$ 1,027,913,545</b>	<b>\$ 1,033,387,204</b>	<b>1,052,263,251</b>	<b>1,140,128,003</b>
<b>Education</b>					
Elementary and Secondary	707,302,342	742,377,641	776,579,071	777,360,960	797,635,750
Higher Education - Board of Governors	174,472,786	169,439,718	172,088,777	171,041,442	174,255,556
RI Council on the Arts	1,638,620	1,679,661	2,314,223	2,287,371	2,442,064
RI Atomic Energy Commission	631,147	664,107	646,012	699,342	727,045
Higher Education Assistance Authority	6,934,216	6,024,022	11,059,662	11,052,009	9,955,589
Historical Preservation and Heritage Commission	777,395	1,018,675	1,074,360	1,078,212	1,192,997
Public Telecommunications Authority	1,158,308	1,113,655	1,196,530	1,237,768	1,238,482
<b>Subtotal - Education</b>	<b>\$ 892,914,814</b>	<b>\$ 922,317,479</b>	<b>\$ 964,958,635</b>	<b>964,757,104</b>	<b>987,447,483</b>

## Expenditures from General Revenues

	FY 2002 Actual	FY 2003 Unaudited	FY 2004 Enacted	FY2004 Revised	FY2005 Enacted
<b>Public Safety</b>					
Attorney General	14,673,107	15,471,318	16,567,098	16,593,076	17,294,162
Corrections	128,169,352	136,041,022	140,077,413	145,300,352	147,450,150
Judicial	60,688,095	63,812,515	67,767,761	67,235,940	71,666,839
Military Staff	2,460,657	2,190,828	2,796,720	2,101,915	2,175,898
E-911 Emergency Telephone System	3,893,219	3,935,390	4,365,704	4,205,401	3,821,407
Fire Safety Code Board of Appeal & Review	210,518	240,105	235,469	223,491	241,338
State Fire Marshal	1,471,137	1,346,179	1,739,123	1,677,745	1,977,834
Commission on Judicial Tenure and Discipline	101,764	111,692	113,455	127,525	102,842
Rhode Island Justice Commission	177,298	165,173	163,492	162,221	248,367
Municipal Police Training Academy	359,824	341,623	356,387	352,177	361,327
State Police	37,999,881	38,198,641	40,575,638	39,380,736	43,012,525
Office Of Public Defender	5,544,192	5,888,550	6,567,522	6,376,881	6,852,438
<b>Subtotal - Public Safety</b>	<b>\$ 255,749,044</b>	<b>\$ 267,743,036</b>	<b>\$ 281,325,782</b>	<b>283,737,460</b>	<b>295,205,127</b>
<b>Natural Resources</b>					
Environmental Management	32,484,833	32,005,256	31,679,774	31,495,500	32,745,029
Coastal Resources Management Council	1,156,179	1,450,970	1,421,021	1,461,920	1,460,351
Water Resources Board	1,072,146	1,031,855	940,992	904,897	1,229,023
<b>Subtotal - Natural Resources</b>	<b>\$ 34,713,158</b>	<b>\$ 34,488,081</b>	<b>\$ 34,041,787</b>	<b>\$ 33,862,317</b>	<b>\$ 35,434,403</b>
<b>Transportation</b>					
Transportation	-	-	-	-	-
<b>Subtotal - Transportation</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total</b>	<b>\$ 2,651,654,648</b>	<b>\$ 2,682,028,719</b>	<b>\$ 2,783,776,459</b>	<b>\$ 2,789,669,524</b>	<b>\$ 2,937,776,732</b>
Adjustments to Preliminary Closing		9,096,320			
		<b>2,691,125,039</b>			

## Expenditures from Federal Funds

	FY 2002 Actual	FY 2003 Unaudited	FY 2004 Enacted	FY2004 Revised	FY2005 Enacted
<b>General Government</b>					
Administration	29,252,557	32,429,416	38,463,699	\$37,684,657	\$38,602,116
Business Regulation	-	-	-	-	-
Labor and Training	33,591,666	35,584,044	31,814,489	36,190,730	28,735,191
Legislature	-	-	-	-	-
Lieutenant Governor	-	-	-	-	-
Secretary of State	17,236	28,638	8,260,870	2,505,520	2,635,250
General Treasurer	1,997,878	342,005	1,525,730	4,542,000	4,371,766
Boards for Design Professionals	-	-	-	-	-
Board of Elections	-	-	941,000	1,159,750	1,001,828
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	-	-	-	-
Public Utilities Commission	36,638	64,116	70,277	69,337	73,038
Rhode Island Commission on Women	-	-	-	-	-
<b>Subtotal - General Government</b>	<b>\$ 64,895,975</b>	<b>\$ 68,448,219</b>	<b>\$ 81,076,065</b>	<b>\$ 82,151,994</b>	<b>\$ 75,419,189</b>
<b>Human Services</b>					
Children, Youth, and Families	88,177,105	91,894,382	96,233,612	102,349,457	95,254,068
Elderly Affairs	8,839,258	10,341,332	9,884,630	15,092,161	12,395,964
Health	49,253,249	59,027,502	64,221,207	75,160,709	64,874,315
Human Services	729,611,752	811,463,633	885,248,399	906,915,539	925,296,476
Mental Health, Retardation, & Hospitals	197,281,194	216,675,898	237,865,723	237,806,392	232,928,272
Office of the Child Advocate	343,509	366,245	48,000	63,000	54,172
Commission on Deaf & Hard of Hearing	-	-	-	-	-
RI Developmental Disabilities Council	406,272	497,722	548,888	556,445	570,511
Governor's Commission on Disabilities	10,180	1,405	147,040	88,286	180,208
Commission for Human Rights	492,125	344,481	270,822	232,020	239,300
Office of the Mental Health Advocate	-	-	-	-	-
<b>Subtotal - Human Services</b>	<b>\$ 1,074,414,644</b>	<b>\$ 1,190,612,600</b>	<b>\$ 1,294,468,321</b>	<b>\$ 1,338,264,009</b>	<b>\$ 1,331,793,286</b>
<b>Education</b>					
Elementary and Secondary	107,749,220	127,804,162	168,241,422	191,403,968	147,283,110
Higher Education - Board of Governors	2,550,660	2,829,215	3,021,462	3,021,042	3,351,931
RI Council on the Arts	519,827	575,300	696,006	610,667	720,500
RI Atomic Energy Commission	8,881	(2,558)	325,000	325,000	325,000
Higher Education Assistance Authority	4,782,837	4,988,960	7,322,593	7,259,826	8,048,830
Historical Preservation and Heritage Commission	559,257	536,718	534,534	522,827	592,746
Public Telecommunications Authority	-	-	555,601	555,601	-
<b>Subtotal - Education</b>	<b>\$ 116,170,682</b>	<b>\$ 136,731,797</b>	<b>\$ 180,696,618</b>	<b>\$ 203,698,931</b>	<b>\$ 160,322,117</b>

## Expenditures from Federal Funds

	FY 2002 Actual	FY 2003 Unaudited	FY 2004 Enacted	FY2004 Revised	FY2005 Enacted
<b>Public Safety</b>					
Attorney General	1,174,112	1,649,252	1,438,636	1,998,742	1,575,948
Corrections	4,850,061	3,126,899	9,461,369	8,330,876	9,711,742
Judicial	2,550,317	2,869,173	3,749,716	4,712,791	4,153,433
Military Staff	8,001,637	10,626,043	34,794,348	30,957,990	35,044,011
E-911 Emergency Telephone System	-	-	-	-	-
Fire Safety Code Board of Appeal & Review	-	-	-	-	-
State Fire Marshal	135,442	151,511	285,530	341,897	408,390
Commission on Judicial Tenure & Discipline	-	-	-	-	-
Rhode Island Justice Commission	4,262,082	4,654,786	5,700,884	5,899,206	5,687,720
Municipal Police Training Academy	59,046	18,535	35,000	72,872	143,000
State Police	1,040,654	1,768,724	1,299,900	2,204,340	1,715,334
Office Of Public Defender	402,530	373,276	441,822	525,864	419,167
<b>Subtotal - Public Safety</b>	<b>\$ 22,475,881</b>	<b>\$ 25,238,199</b>	<b>\$ 57,207,205</b>	<b>\$ 55,044,578</b>	<b>\$ 58,858,745</b>
<b>Natural Resources</b>					
Environmental Management	15,365,640	14,710,059	25,353,214	26,249,389	25,393,017
Coastal Resources Management Council	1,166,003	1,646,691	1,466,000	2,361,591	2,145,000
Water Resources Board	-	172,500	-	<b>\$827,500</b>	500,000
<b>Subtotal - Natural Resources</b>	<b>\$ 16,531,643</b>	<b>\$ 16,529,250</b>	<b>\$ 26,819,214</b>	<b>\$ 29,438,480</b>	<b>\$ 28,038,017</b>
<b>Transportation</b>					
Transportation	170,939,525	149,907,602	197,231,420	197,341,124	207,421,454
<b>Subtotal - Transportation</b>	<b>\$ 170,939,525</b>	<b>\$ 149,907,602</b>	<b>\$ 197,231,420</b>	<b>\$ 197,341,124</b>	<b>\$ 207,421,454</b>
<b>Total</b>	<b>\$ 1,465,428,350</b>	<b>\$ 1,587,467,667</b>	<b>\$ 1,837,498,843</b>	<b>\$ 1,905,939,116</b>	<b>\$ 1,861,852,808</b>

## Expenditures From Restricted Receipts

	FY 2002 Actual	FY 2003 Unaudited	FY 2004 Enacted	FY2004 Revised	FY2005 Enacted
<b>General Government</b>					
Administration	6,295,231	9,624,326	9,136,693	\$10,614,984	\$10,817,803
Business Regulation	240,939	402,058	601,063	701,720	629,657
Labor and Training	22,076,440	20,315,829	25,103,688	23,661,935	26,017,487
Legislature	891,586	1,256,534	884,303	1,284,303	1,099,365
Lieutenant Governor	-	-	-	-	-
Secretary of State	261,064	414,502	553,511	487,011	523,433
General Treasurer	9,886,168	16,474,921	20,729,710	19,201,517	22,371,639
Boards for Design Professionals	-	-	-	-	-
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	-	-	-	-
Public Utilities Commission	3,575,869	3,804,870	5,123,672	5,123,388	5,338,350
Rhode Island Commission on Women	-	-	-	-	-
<b>Subtotal - General Government</b>	<b>\$ 43,227,297</b>	<b>\$ 52,293,040</b>	<b>\$ 62,132,640</b>	<b>\$ 61,074,858</b>	<b>\$ 66,797,734</b>
<b>Human Services</b>					
Children, Youth, and Families	1,253,356	2,494,922	2,011,220	2,267,033	1,518,941
Elderly Affairs	-	-	-	-	-
Health	6,802,105	8,577,588	10,630,779	11,507,730	11,518,083
Human Services	4,209,593	3,474,543	5,357,808	4,190,119	4,189,961
Mental Health, Retardation, & Hospitals	61,913	43,760	75,000	75,000	75,000
Office of the Child Advocate	-	-	-	18,000	-
Commission on Deaf & Hard of Hearing	-	-	-	-	-
RI Developmental Disabilities Council	-	-	-	-	-
Governor's Commission on Disabilities	14,816	9,252	50,818	43,403	35,166
Commission for Human Rights	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
<b>Subtotal - Human Services</b>	<b>\$ 12,341,783</b>	<b>\$ 14,600,065</b>	<b>\$ 18,125,625</b>	<b>\$ 18,101,285</b>	<b>\$ 17,337,151</b>
<b>Education</b>					
Elementary and Secondary	874,511	1,214,292	1,131,501	2,559,343	2,990,339
Higher Education - Board of Governors	-	-	-	-	44,685
RI Council on the Arts	39,800	(42,573)	200,000	200,000	200,000
RI Atomic Energy Commission	-	-	-	-	-
Higher Education Assistance Authority	-	-	-	-	-
Historical Preservation and Heritage Commission	434,172	50,757	251,800	273,892	206,800
Public Telecommunications Authority	-	-	-	-	-
<b>Subtotal - Education</b>	<b>\$ 1,348,483</b>	<b>\$ 1,222,476</b>	<b>\$ 1,583,301</b>	<b>\$ 3,033,235</b>	<b>\$ 3,441,824</b>

## Expenditures From Restricted Receipts

	FY 2002 Actual	FY 2003 Unaudited	FY 2004 Enacted	FY2004 Revised	FY2005 Enacted
<b>Public Safety</b>					
Attorney General	537,858	575,655	630,739	789,126	802,525
Corrections	5,367,901	2,456,374	2,737,500	2,108,140	136,875
Judicial	5,851,785	6,517,408	7,045,790	7,640,544	7,173,221
Military Staff	112,257	114,010	128,157	176,768	188,157
E-911 Emergency Telephone System	-	-	-	-	1,650,016
Fire Safety Code Board of Appeal & Review	-	-	-	-	-
State Fire Marshal	-	-	-	-	-
Commission on Judicial Tenure & Discipline	-	-	-	-	-
Rhode Island Justice Commission	48,922	11,596	90,000	90,000	90,000
Municipal Police Training Academy	-	-	-	-	-
State Police	239,326	193,184	223,468	590,023	298,089
Office Of Public Defender	-	-	-	-	-
Sheriffs of Several Counties	-	-	-	-	-
<b>Subtotal - Public Safety</b>	<b>\$ 12,158,049</b>	<b>\$ 9,868,227</b>	<b>\$ 10,855,654</b>	<b>\$ 11,394,601</b>	<b>\$ 10,338,883</b>
<b>Natural Resources</b>					
Environmental Management	7,768,695	9,206,936	10,047,823	9,595,106	11,028,878
Coastal Resources Management Council	-	3,352,963	4,500,000	5,210,304	250,000
Water Resources Board	94,004	596,555	984,000	984,000	495,000
<b>Subtotal - Natural Resources</b>	<b>\$ 7,862,699</b>	<b>\$ 13,156,454</b>	<b>\$ 15,531,823</b>	<b>\$ 15,789,410</b>	<b>\$ 11,773,878</b>
<b>Transportation</b>					
Transportation	15,800,030	23,114,599	36,407,911	26,000,000	4,450,023
<b>Subtotal - Transportation</b>	<b>\$ 15,800,030</b>	<b>\$ 23,114,599</b>	<b>\$ 36,407,911</b>	<b>\$ 26,000,000</b>	<b>\$ 4,450,023</b>
<b>Total</b>	<b>\$ 92,738,341</b>	<b>\$ 114,254,861</b>	<b>\$ 144,636,954</b>	<b>\$ 135,393,389</b>	<b>\$ 114,139,493</b>

## Expenditures From Other Funds

	FY 2002 Actual	FY 2003 Unaudited	FY 2004 Enacted	FY2004 Revised	FY2005 Enacted
<b>General Government</b>					
Administration	96,454,604	64,868,340	62,322,350	76,182,974	\$66,350,792
Business Regulation	-	-	-	-	-
Labor and Training	380,959,342	418,982,741	360,517,559	410,198,701	387,433,427
Legislature	-	-	1,500,000	-	1,500,000
Lieutenant Governor	-	-	-	-	-
Secretary of State	-	-	-	-	-
General Treasurer	10,155,720	7,633,384	5,778,425	6,112,173	7,710,919
Boards for Design Professionals	-	-	-	-	-
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	-	-	-	-
Public Utilities Commission	-	-	-	-	-
Rhode Island Commission on Women	-	-	-	-	-
<b>Subtotal - General Government</b>	<b>\$ 487,569,666</b>	<b>\$ 491,484,465</b>	<b>\$ 430,118,334</b>	<b>\$ 492,493,848</b>	<b>\$ 462,995,138</b>
<b>Human Services</b>					
Children, Youth, and Families	202,627	133,637	25,000	45,591	50,000
Elderly Affairs	4,494,537	4,955,717	4,720,000	4,730,000	4,780,000
Health	206,143	40,846	73,426	106,086	98,979
Human Services	852	140,000	1,115,723	-	187,000
Mental Health, Retardation, & Hospitals	1,487,140	1,250,716	2,550,000	1,160,960	4,365,000
Office of the Child Advocate	-	-	-	-	-
Commission on Deaf & Hard of Hearing	-	-	-	-	-
RI Developmental Disabilities Council	-	-	-	-	-
Governor's Commission on Disabilities	-	-	500,000	100,000	200,000
Commission for Human Rights	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
<b>Subtotal - Human Services</b>	<b>\$ 6,391,299</b>	<b>\$ 6,520,916</b>	<b>\$ 8,984,149</b>	<b>\$ 6,142,637</b>	<b>\$ 9,680,979</b>
<b>Education</b>					
Elementary and Secondary	410,940	72,088	819,060	2,017,127	110,408
Higher Education - Board of Governors	366,499,142	406,157,937	411,213,717	425,359,489	450,855,693
RI Council on the Arts	-	-	-	-	-
RI Atomic Energy Commission	149,449	143,298	153,626	150,463	212,168
Higher Education Assistance Authority	1,162,902	3,367,485	4,062,797	5,335,991	5,413,273
Historical Preservation and Heritage Commiss	-	-	-	-	-
Public Telecommunications Authority	520,693	517,602	2,991,249	1,196,929	3,549,428
<b>Subtotal - Education</b>	<b>\$ 368,743,126</b>	<b>\$ 410,258,410</b>	<b>\$ 419,240,449</b>	<b>\$ 434,059,999</b>	<b>\$ 460,140,970</b>



## Expenditures From Other Funds

	FY 2002 Actual	FY 2003 Unaudited	FY 2004 Enacted	FY2004 Revised	FY2005 Enacted
<b>Public Safety</b>					
Attorney General	-	-	-	-	397,500
Corrections	3,954,873	1,135,960	3,571,392	2,431,886	3,864,675
Judicial	3,642,620	74,215	315,500	401,119	1,025,000
Military Staff	396,658	57,260	1,037,500	886,564	556,250
E-911 Emergency Telephone System	-	-	-	-	-
Fire Safety Code Board of Appeal & Review	-	-	-	-	-
State Fire Marshal	-	-	-	20,000	20,000
Commission on Judicial Tenure & Discipline	-	-	-	-	-
Rhode Island Justice Commission	-	-	-	-	-
Municipal Police Training Academy	-	-	-	-	-
State Police	2,637,666	2,026,060	2,205,321	1,911,738	2,061,815
Office Of Public Defender	-	-	-	-	-
<b>Subtotal - Public Safety</b>	<b>\$ 10,631,817</b>	<b>\$ 3,293,495</b>	<b>\$ 7,129,713</b>	<b>\$ 5,651,307</b>	<b>\$ 7,925,240</b>
<b>Natural Resources</b>					
Environmental Management	3,533,608	1,445,326	5,009,319	3,851,993	4,672,164
Coastal Resources Management Council	-	145,000	968,267	172,000	-
Water Resources Board	429,249	146,613	80,000	<b>\$213,925</b>	492,075
<b>Subtotal - Natural Resources</b>	<b>\$ 3,962,857</b>	<b>\$ 1,736,939</b>	<b>\$ 6,057,586</b>	<b>\$ 4,237,918</b>	<b>\$ 5,164,239</b>
<b>Transportation</b>					
Transportation	102,736,576	101,782,303	103,116,462	102,444,865	99,815,359
<b>Subtotal - Transportation</b>	<b>\$ 102,736,576</b>	<b>\$ 101,782,303</b>	<b>\$ 103,116,462</b>	<b>\$ 102,444,865</b>	<b>\$ 99,815,359</b>
<b>Total</b>	<b>\$ 980,035,341</b>	<b>\$ 1,015,076,528</b>	<b>\$ 974,646,693</b>	<b>\$ 1,045,030,574</b>	<b>\$ 1,045,721,925</b>

## Free Surplus

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

As shown in the free surplus table, the preliminary opening surplus for FY 2004 is \$43.0 million, with \$7.3 million of general revenues reappropriated to FY 2004. The State Budget Office projects that the \$34.1 million upward revision in revenues and projected the departmental spending which is forecasted to exceed appropriated levels by \$5.8 million, including the expenditure of \$7.3 million of reappropriations, would result in a \$43.9 million surplus. The State is required by the constitution to maintain a balanced budget and will take such action as necessary to do so.

	<b>FY 2003 Enacted<sup>(1)</sup> (In Millions)</b>	<b>FY 2003 Revised<sup>(2)</sup> (In Millions)</b>	<b>FY 2003 Prelim. Actual<sup>(3)</sup> (In Millions)</b>	<b>FY 2004 Enacted<sup>(4)</sup> (In Millions)</b>	<b>FY 2004 Revised<sup>(5)</sup> (In Millions)</b>
<b>Free Surplus</b>	\$35.7	\$33.0	\$31.0	\$35.7	\$43.0
<b>Reappropriated Surplus</b>	0.0	7.8	7.8	0.0	7.3
Subtotal	\$35.7	\$40.7	\$38.9	\$35.7	\$50.3
<b>Revenues and Transfers</b>					
Revenues	2,291.0	2,292.7	2,302.1	2,412.8	2,461.9
Other Sources	415.9	457.0	456.2	392.6	379.0
Subtotal	2,707.0	2,749.7	2,758.4	2,805.4	2,840.9
<b>Budget Reserve Fund Transfer</b>	(54.4)	(55.7)	(55.8)	(56.8)	(57.7)
<b>Total Available</b>	<b>\$2,664.8</b>	<b>\$2,734.7</b>	<b>\$2,741.4</b>	<b>\$2,784.3</b>	<b>\$2,833.5</b>
<b>Enacted/Actual Expenditures FY 2004 Supplemental, as Amended</b>	<b>2,664.5</b>	<b>2,699.0</b>	<b>2,691.1</b>	<b>2,783.8</b>	<b>2,783.8</b> <b>5.8</b>
<b>Total Expenditures</b>	<b>2,664.5</b>	<b>2,699.0</b>	<b>2,691.1</b>	<b>2,783.8</b>	<b>2,789.7</b>
<b>Free Surplus</b>	<b>\$0.4</b>	<b>\$35.7</b>	<b>\$43.0</b>	<b>\$0.6</b>	<b>\$43.8</b>
<b>Reappropriations</b>	<b>0.0</b>	<b>0.0</b>	<b>7.3</b>	<b>0.0</b>	<b>0.0</b>
<b>Total Ending Balances</b>	<b>\$0.4</b>	<b>\$35.7</b>	<b>\$50.3</b>	<b>\$0.6</b>	<b>\$43.8</b>
<b>Budget Reserve and Cash Stabilization Fund</b>	<b>\$81.6</b>	<b>\$83.5</b>	<b>\$83.7</b>	<b>\$85.2</b>	<b>\$86.5</b>

<sup>(1)</sup>Reflects originally enacted budget adopted by the General Assembly during the 2002 session of the General Assembly.

<sup>(2)</sup>Reflects revisions to revenue estimates and appropriations adopted during the 2003 session of the General Assembly.

<sup>(3)</sup>Reflects preliminary actual results for FY 2003 derived from the State Controller, and adjusted by certain pending audit adjustments.

<sup>(4)</sup>Reflects the FY 2004 budget adopted by the General Assembly.

<sup>(5)</sup>Reflects the FY 2004 budget revised by changes to revenues adopted by the Revenue Estimating Conferences, changes to adopted revenue estimates enacted by the General Assembly and changes in appropriations enacted in the Supplemental Appropriation Act, as amended.

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

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

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

The following table sets forth a comparative statement of General Fund free surplus for fiscal years 2002 through 2005. FY 2002 data is derived from the State's Comprehensive Annual Financial Report prepared by the Office of the State Controller and post audited by the Auditor General. The unaudited results for FY 2003, derived from preliminary closing report of the State Controller and modified by certain pending adjustments, reveal an increase in available resources of \$76.6 million compared to enacted estimates, and general revenue expenditures which were \$26.6 million more than enacted. The unaudited free surplus for FY 2003 is \$43.0 million, and there are \$7.3 million of reappropriations carried forward. The budget enacted by the General Assembly in July 2003 for FY 2004 was predicated upon available resources of \$2,784.3 billion net of reserve fund contributions, and expenditures of \$2,783.8 billion resulting in an estimated closing surplus of \$0.6 million. The current projections reflect an estimated surplus of \$43.8 million. These projections are based upon the preliminary closing FY 2003 surplus adjusted by certain pending adjustments and revenues estimated by the May 2004 Revenue Estimating Conference, and \$1.4 million of changes to adopted estimates resulting from statutory changes enacted by the General Assembly. Expenditures for FY 2004 reflect the enacted FY 2004 appropriations, and enacted supplemental appropriations of \$5.8 million. Also included within the revenue and expenditure change are \$7.3 million of reappropriations from FY 2003.

Revenues for FY 2005 reflect the adopted May Revenue Estimates as amended by \$140.0 million of changes to adopted estimates enacted by the General Assembly in July 2004. Expenditures for FY 2005 reflect the May 2004 Caseload Estimating Conference results, and other amendments enacted by the General Assembly in July 2004.

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

# General Revenue Budget Surplus Statement

	FY2002 Actual	FY2003 Unaudited	FY 2004		FY2005 Enacted
			Enacted	Revised	
<b>Surplus</b>					
Opening Surplus	\$ 131,182,473	\$ 31,038,882	\$ 35,708,894	\$ 42,951,335	\$ 43,884,617
Certain anticipated audit adjustments		42,024			
Reappropriated Surplus	11,056,417	7,770,428		7,991,948	
Reappropriation adjustment				(645,435)	
Subtotal	<b>142,238,890</b>	<b>38,851,334</b>	<b>35,708,894</b>	<b>50,297,848</b>	<b>43,884,617</b>
<b>General Taxes</b>	1,905,130,724	2,013,020,329	2,125,785,533	2,125,785,533	2,221,180,000
Revenue estimators' revision	-	-	-	42,274,467	8,232,000
Changes to adopted revenue estimates					59,205,960
Certain anticipated audit adjustments		(483,658)			
Subtotal	<b>1,905,130,724</b>	<b>2,012,536,671</b>	<b>2,125,785,533</b>	<b>2,168,060,000</b>	<b>2,288,617,960</b>
<b>Departmental Revenues</b>	243,364,829	283,308,490	287,037,601	287,037,601	227,800,000
Revenue estimators' revision	-	-	-	6,862,399	12,900,000
Changes to adopted revenue estimates					62,775,075
Certain anticipated audit adjustments		6,272,658			
Subtotal	<b>243,364,829</b>	<b>289,581,148</b>	<b>287,037,601</b>	<b>293,900,000</b>	<b>303,475,075</b>
<b>Other Sources</b>					
Gas Tax Transfers	553,531	25,506,330	6,608,000	6,608,000	6,720,000
Rev Estimators' revision-Gas Tax	-	-			(28,000)
Changes to adopted revenue estimates				1,416,000	2,868,000
Other Miscellaneous	232,339,319	184,014,133	71,341,582	71,341,582	10,116,632
Rev Estimators' revision-Miscellaneous	-	-	-	(941,582)	133,368
Changes to adopted revenue estimates					8,923,000
Certain anticipated audit adjustments		1,723,993			
Lottery	214,141,576	236,636,756	301,770,293	301,770,293	315,000,000
Revenue Estimators' revision-Lottery	-	-	-	(17,870,293)	3,000,000
Certain anticipated audit adjustments		(96,701)			
Changes to adopted revenue estimates					4,397,366
Unclaimed Property	7,419,763	8,458,048	12,900,000	12,900,000	8,570,000
Revenue Estimators' revision-Unclaimed	-	-	-	3,750,000	720,000
Changes to adopted revenue estimates					1,860,000
Subtotal	<b>454,454,189</b>	<b>456,242,559</b>	<b>392,619,875</b>	<b>378,974,000</b>	<b>362,280,366</b>
<b>Total Revenues</b>	<b>\$ 2,602,949,742</b>	<b>\$ 2,758,360,378</b>	<b>\$ 2,805,443,009</b>	<b>\$ 2,840,934,000</b>	<b>\$ 2,954,373,401</b>
<b>Budget Stabilization</b>	<b>(54,682,648)</b>	<b>(55,788,826)</b>	<b>(56,823,039)</b>	<b>(57,677,707)</b>	<b>(59,965,160)</b>
<b>Total Available</b>	<b>\$ 2,690,505,984</b>	<b>\$ 2,741,422,887</b>	<b>\$ 2,784,328,865</b>	<b>\$ 2,833,554,141</b>	<b>\$ 2,938,292,858</b>
Actual/Enacted Expenditures	<b>\$ 2,651,654,648</b>	<b>\$ 2,682,753,719</b>	<b>\$ 2,783,776,459</b>	<b>\$ 2,783,776,459</b>	<b>\$ 2,937,776,732</b>
Reappropriations	-	-	-	7,346,513	
Certain anticipated audit adjustments		8,371,320			
Recommended changes to appropriations	-	-	-	(1,453,448)	
<b>Total Expenditures</b>	<b>\$ 2,651,654,648</b>	<b>\$ 2,691,125,039</b>	<b>\$ 2,783,776,459</b>	<b>\$ 2,789,669,524</b>	<b>\$ 2,937,776,732</b>
<b>Free Surplus</b>	<b>\$ 31,038,882</b>	<b>\$ 42,951,335</b>	<b>\$ 552,406</b>	<b>\$ 43,884,617</b>	<b>\$ 516,126</b>
<b>Reappropriations</b>	<b>7,812,454</b>	<b>7,346,513</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Ending Balances</b>	<b>\$ 38,851,336</b>	<b>\$ 50,297,848</b>	<b>\$ 552,406</b>	<b>\$ 43,884,617</b>	<b>\$ 516,126</b>
<b>Budget Reserve and Cash Stabilization Account</b>	<b>\$ 82,023,966</b>	<b>\$ 83,683,239</b>	<b>\$ 85,234,557</b>	<b>\$ 86,516,560</b>	<b>\$ 89,947,741</b>

## **Timing of Audited Financial Reports**

The State's audited annual financial report has typically been completed approximately six to nine months after the close of a fiscal year. The report for the year ending June 30, 2002 was completed sixteen months after the close of that year. There are two primary reasons for this delay. First, the 2002 report was the first report required to comply with GASB Statement 34. Completing the inventory of fixed assets which is required in order to provide a complete report of the State entity in accordance with GASB 34 took longer than anticipated. Second, at the beginning of the year ending June 30, 2002, the State introduced a new accounting system. There have been a number of training and system problems with the new software package which have required adjustments to correct initial recording of expenditures or interfund transfers. The 2003 report has not yet been completed due to the late start on the FY 2003 audit and some continuing issues with the reconciliation and fixed assets reporting.

## **STATE INDEBTEDNESS**

### **Authorization and Debt Limits**

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

### **Public Finance Management Board**

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

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

### **Sinking Fund Commission**

During the 1998 session of the General Assembly, legislation was enacted that reconstituted the Sinking Fund Commission, which shall have control and management of all sinking funds established for the redemption of any bonds or certificates of indebtedness issued by the State. To address the State's relatively high debt levels, the General Assembly appropriated general revenues of \$4.0 million in FY 1999, and \$865,245 in FY 2000 to be utilized by the Commission to defease or refund State debt. The Sinking Fund will also receive funds in an amount equal to the annual interest earnings on bond funds. During FY 2000, the Sinking Fund allocated a net \$5.5 million to defease debt associated with the Alpha Beta Corporation project financed by the Rhode Island Economic Development Corporation. The Commission executed a defeasance transaction on June 15, 2000 which reduced the State's general obligation debt by an estimated \$4.415 million.

## Tax Anticipation Notes

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

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

Since FY 1990, the State has utilized or is expected to utilize the powers described above in the following manner:

<u>Fiscal Year</u>	<u>Maximum Principal Amount Outstanding</u>	<u>Percent of Prior Year's Tax Receipts</u>
1990	70,000,000	6.0
1991	200,000,000	17.0
1992	240,000,000	20.0
1993	225,000,000	18.0
1994	150,000,000	11.0
1995	125,000,000	9.0
1996	100,000,000	8.0
1997	108,000,000	8.0
1998	0	0.0
1999	0	0.0
2000	0	0.0
2001	0	0.0
2002	90,000,000	4.4
2003	150,000,000	7.9
2004*	200,000,000	7.4

\*\$200,000,000 repaid on June 30, 2004.

## Net Tax Supported State Debt

The State has multiple categories of State debt, direct debt, guaranteed debt, and other obligations subject to annual appropriation. The following table shows these obligations.

The gross debt totals are adjusted for those obligations covered by revenue streams of the quasi-independent agencies. The intent of this presentation is to be consistent with rating agencies' practices.

As of June 1, 2004, authorized but unissued direct and guaranteed debt totaled \$158,727,376.

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

	<u>Debt Outstanding June 30, 1999</u>	<u>Debt Outstanding June 30, 2000</u>	<u>Debt Outstanding June 30, 2001</u>	<u>Debt Outstanding June 30, 2002<sup>(1)</sup></u>	<u>Debt Outstanding June 30, 2003<sup>(1)</sup></u>
<b>Direct Debt:</b>					
Various Purpose Bonds Outstanding	\$753,544	\$816,268	\$822,485	\$654,879	\$ 694,933
Variable Rate General Obligations	36,500	64,790	31,365	28,165	27,965
<b>Subtotal</b>	<b>\$790,044</b>	<b>\$881,058</b>	<b>\$853,850</b>	<b>\$683,044</b>	<b>\$722,898</b>
<b>Guaranteed Debt:</b>					
Narragansett Bay District Commission Bonds	21,388	19,869	18,459	15,019	13,119
<b>Subtotal</b>	<b>21,388</b>	<b>19,869</b>	<b>18,459</b>	<b>15,019</b>	<b>13,119</b>
<b>Other Debt Subject to Annual Appropriation:</b>					
RI Depositors Economic Protection Corp.	107,990	41,725	-	-	-
RI Refunding Bond Authority Lease Rental Bonds	171,640	159,210	146,055	132,440	100,705
RI Refunding Bond Authority – Direct	2,615	1,955	1,300	650	-
RI Refunding Bond Auth. – Gurntd Narr. Bay	60	45	30	15	-
Convention Center Authority Outstanding	329,665	322,930	315,805	319,435	310,005
Certificates of Participation – Master Equipment Lease <sup>(2)</sup>	-	9,843	11,015	7,995	8,865
Certificates of Participation – Intake Center	25,160	23,355	21,470	19,500	17,440
Certificates of Participation – Attorney General	4,065	3,905	3,740	2,795	2,795
Certificates of Participation – DLT Howard Complex	24,000	23,150	22,265	21,335	20,365
Certificates of Participation – Pastore Steam Plant	-	-	28,180	23,440	23,440
Certificates of Participation – Shepards Building	32,535	31,400	30,215	28,820	27,655
Certificates of Participation – Kent County Courthouse	-	-	-	-	-
Rhode Island Housing/Traveler’s Aid/NOP Program	-	-	-	12,550	12,550
Economic Development – Dow Chemical Corporation	-	25,000	25,000	25,000	25,000
Economic Development – URI Power Plant	16,395	16,395	15,859	15,304	14,729
Economic Development – Alpha Beta Corporation	28,675	-	-	-	-
Economic Development – McCoy Stadium	11,105	10,360	9,585	8,780	7,945
<b>Subtotal</b>	<b>753,905</b>	<b>669,273</b>	<b>630,519</b>	<b>618,059</b>	<b>574,849</b>
<b>Performance Based Agreements <sup>(3)</sup></b>					
Economic Development – Fidelity Building I	25,000	24,579	24,116	23,615	23,071
Economic Development – Fidelity Building II	-	-	-	10,000	10,000
Economic Development – Fleet Bank Lease	10,890	10,770	10,640	10,500	10,350
<b>Subtotal</b>	<b>35,890</b>	<b>35,349</b>	<b>34,756</b>	<b>44,115</b>	<b>43,421</b>
Gross Debt	1,601,227	1,605,549	1,537,584	1,360,237	1,354,288
Less: Adjustments for Agency Payments:	(45,368)	(68,751)	(66,700)	(72,593)	(70,000)
<b>Net Tax Supported Debt</b>	<b>\$1,555,859</b>	<b>\$1,536,798</b>	<b>\$1,470,884</b>	<b>\$1,287,644</b>	<b>\$1,280,933</b>
<b>Debt Ratios</b>					
<b>Personal Income</b>	<b>\$28,210,824</b>	<b>\$29,738,317</b>	<b>\$31,361,609</b>	<b>\$32,393,144</b>	<b>\$33,935,932</b>
<b>Debt as a Percent of Personal Income</b>	<b>5.52%</b>	<b>5.17%</b>	<b>4.7%</b>	<b>4.0%</b>	<b>3.77%</b>

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

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

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

*Direct debt* is authorized by the voters as general obligation bonds and notes. Current interest bonds require the State to make annual payments of principal and semi-annual payments of interest on bonds outstanding, and the capital appreciation bonds of the State require the payment of principal and interest at maturity. As of June 30, 2003, the State had approximately \$722.9 million of bonds outstanding. Authorized but unissued direct debt totaled \$158.7 million as of June 1, 2004.

The following table sets forth the debt service requirements on general obligation bonds of the State issued as of June 1, 2004 which are supported by State revenues for FY 2004 through FY 2023.

**Debt Service Schedule for General Obligation**  
**Debt Issued as of June 1, 2004 \***

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2004	\$36,846,831	\$34,924,402	\$71,771,233
2005	48,766,243	35,633,306	84,399,549
2006	44,179,243	39,626,119	83,805,362
2007	40,397,653	36,318,941	76,716,594
2008	35,025,786	33,295,969	68,321,755
2009	40,563,740	28,491,229	69,054,969
2010	44,434,000	26,101,612	70,535,612
2011	42,975,000	23,965,156	66,940,156
2012	54,615,000	21,641,994	76,256,994
2013	61,680,000	18,556,203	80,236,203
2014	54,345,000	15,540,651	69,885,651
2015	49,525,000	12,844,709	62,369,709
2016	44,240,000	10,481,187	54,721,187
2017	42,820,000	8,213,418	51,033,418
2018	34,000,000	6,107,028	40,107,028
2019	32,235,000	4,407,743	36,642,743
2020	24,735,000	2,847,431	27,582,431
2021	21,205,000	1,714,181	22,919,181
2022	10,780,000	936,169	11,716,169
2023	11,250,000	407,719	11,657,719
Subtotal-Fixed Rate Debt	<u>\$774,618,496</u>	<u>\$362,055,167</u>	<u>\$1,136,673,663</u>
Subtotal-Variable Rate Debt**	27,965,000		
Total*	\$802,583,496		

\* Reflects full fiscal year general obligation tax supported debt service for bonds issued as of June 1, 2004. Excludes guaranteed and contingent debt. Debt outstanding as of June 30, 2003 totaled \$722.9 million; additional new bonds were issued in February of 2004 totaling \$79,770,000. At that time, refunding bonds were also issued totaling \$65,830,000 which refunded \$65,935,000 of outstanding bonds. Of these bonds, \$265,000 were issued to refund \$285,000 of debt funded by user fees of the Narragansett Bay Commission.

\*\* Reflects multi-modal general obligation bonds which bear interest at variable rates. Reflects total principal outstanding as of June 30, 2003 in the amount of \$27,965,000.



In addition, the following table sets forth the amounts, purposes and statutory authorizations of authorized but unissued general obligation direct debt of the State as of June 1, 2004 which has been approved by referenda of the electors.

<u>Purpose</u>	<u>Statutory Authorization</u>	<u>Balance of Authority as of June 1, 2004</u>
<b>Direct Debt:</b>		
Clean Water Act Environmental Trust Fund	Ch. 289-P.L. of 1986	2,644,627
Open Space	Ch. 425-P.L. of 1987	168,254
Environmental Management	Ch. 552-P.L. of 1989	201,010
Mental Health, Retardation and Hospitals	Ch. 552-P.L. of 1989	700,000
Mental Health, Retardation and Hospitals	Ch. 434-P.L. of 1990	4,360,000
RI Water Pollution Revolving Loan Fund	Ch. 434-P.L. of 1990	10,800,000
Pawtuxet River District Commission	Ch. 434-P.L. of 1990	995,000
Elementary & Secondary Education	Ch. 70-P.L. of 1994	965,000
Higher Education Facilities	Ch. 100-P.L. of 1996	3,485
Quonset Point/Davisville	Ch. 100-P.L. of 1996	7,650,000
Transportation	Ch. 31-P.L. of 1998	1,350,000
Environmental Management	Ch. 31-P.L. of 1998	4,280,000
Higher Education Facilities	Ch. 31-P.L. of 1998	7,540,000
Higher Education	Ch. 55-P.L. of 2000	2,980,000
Environmental Management	Ch. 55-P.L. of 2000	17,690,000
State Police Headquarters Facility and State Municipal Fire Academy	Ch. 65-P.L. of 2002	53,800,000
Preservation, Recreation & Heritage	Ch. 65-P.L. of 2002	10,000,000
Transportation	Ch. 65-P.L. of 2002	32,600,000
<b>Total Direct and Guaranteed Debt</b>		<b>\$158,727,376</b>

Source: State Budget Office

**Guaranteed debt** of the State includes bonds and notes issued by, or on behalf of, certain agencies, commissions and authorities created by the General Assembly and charged with enterprise undertakings, for the payment of which debt the full faith and credit of the State are pledged in the event that the revenues of such entities may at any time be insufficient. These include the Blackstone Valley District Commission, and the Narragansett Bay Commission. As of June 30, 2003, these entities had bonds constituting guaranteed debt outstanding of \$13,119,000 and no authorized but unissued debt.

#### Extinguishments of Debt Authorization

Chapter 438 of the Public Laws of 1988, which took effect on December 31, 1991, provides that any special act of the State which authorizes the issuance of general obligation bonds or notes of the State, which has a balance that remains unissued, and is seven (7) years old or older is invalid as to that portion which remains unissued. Notwithstanding, the General Assembly may, by special act, extend any authorization for a period of one (1) to five (5) years upon a petition of the Department of Administration. Such extension may be granted more than one (1) time. Upon a certification of the General Treasurer to the Governor as to debt authorizations described above the authorization shall not be deemed or counted toward the authorized but unissued debt of the State. Since then, the State has extinguished a total of \$21,092,389.99, which was previously reflected in the above table.

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

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

In December 1995, the State entered into a lease agreement with a financial institution which issued \$4,500,000 in certificates of participation to finance acquisition and renovation of an office building to house the Office of the Attorney General. As of June 30, 2003, \$2,795,000 of these certificates were outstanding. This reflects the defeasance of \$775,000 of certificates of participation in June 2002 from the proceeds of the securitization of revenues from the State’s tobacco master settlement.

The State has also entered into a lease agreement with a financial institution that issued \$33,000,000 in certificates of participation to finance construction of an Intake Center for the Department of Corrections. These certificates were refunded in January 1997. As of June 30, 2003, \$17,440,000 was outstanding.

The State has also entered into a lease agreement with a financial institution which issued \$24.0 million in the certificates of participation in January 1997 to finance the renovation of a group of buildings at the State-owned John O. Pastore Center, formerly known as Howard Center in Cranston, Rhode Island for use as an office facility for the Department of Labor and Training. As of June 30, 2003, \$20,365,000 of such certificates were outstanding.

In November 1994 the State entered into a lease agreement with the Economic Development Corporation which issued \$34.07 million in long-term bonds for the renovation of the Shepard Building. During August 1997, the State of Rhode Island issued \$34,805,000 Certificates of Participation that were used to defease the Economic Development Corporation bonds. As of June 30, 2003, \$27,655,000 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, 2003, \$7,945,000 was outstanding.

On June 29, 2000, the State entered into a lease agreement with a financial institution which issued \$9,525,000 of certificates of participation for the purchase and installation of telecommunications equipment, furnishings and vehicles and rolling stock. The State also privately placed \$318,000 of taxable certificates at that time. In June 2001, the State financed an additional \$3,150,000 of vehicles and rolling stock in this manner. In December 2002, the State financed an additional \$3,890,000 of vehicles and rolling stock. As of June 30, 2003, \$8,865,000 of certificates were outstanding.

In December 2000, Rhode Island entered into a lease agreement with a financial institution that issued \$28.18 million in certificates of participation to rehabilitate and upgrade the Central Power Plant at the Pastore Center Complex. As of June 30, 2003, there was \$23,440,000 of certificates outstanding. This reflects defeasance of \$3,875,000 in June 2002 from the proceeds of the securitization of revenues from the State’s tobacco master settlement.

In April 2002, the State entered into a loan agreement with the Rhode Island Housing and Mortgage Finance Corporation relating to the issuance of \$12,550,000 of debt to provide funds for the relocation of the Traveler’s Aid facility and for the Neighborhood Opportunities Program which provides affordable housing. As of June 30, 2003, there was \$12,550,000 outstanding.

In November 2003, the State entered into a payment agreement with the Rhode Island Economic Development Corporation relating to the issuance of \$53,030,000 of Motor Fuel Tax Revenue Bonds to provide funds for the State match for certain major Transportation projects funded by GARVEE bonds also issued by the Corporation. The Motor Fuel Tax Revenue Bonds are secured by two cents of the motor fuel tax dedicated to the Department of Transportation, subject to annual appropriation.

**Performance-based obligations of the Rhode Island Economic Development Corporation.** In May 1996 the Economic Development Corporation issued \$25,000,000 of bonds to finance infrastructure for Fidelity Investments. These bonds carry a moral obligation of the State. If at any time, the amount in the capital reserve fund pledged for this bond issue falls below the capital reserve fund requirement as defined in the documents executed in connection with the transaction, a request will be made to the General Assembly to appropriate the amount of the deficiency. In addition, pursuant to the lease agreement the Economic Development Corporation and FMR Rhode Island, Inc. to secure the bonds, job rent credits are provided for lease payments if certain targeted new job goals are met for the financed project. Currently, it is projected that these job goals will be met. If the job goals are met, the Economic Development Corporation will credit FMR Rhode Island, Inc.'s lease payments and make annual requests to the General Assembly for appropriation which will be used to pay the debt service on this bond issue. In May 2002, an additional \$10 million of bonds with similar provisions were issued. As of June 30, 2003, \$33.017 million of Fidelity bonds were outstanding. Job rent credits are expected to result in a State obligation of \$1.1 million in 2004, and \$2.5 million when maximized.

In November 1997, the Economic Development Corporation entered into a similar agreement with Fleet Bank; bonds issued for that transaction totaled \$11.0 million. As of June 30, 2003, \$10.4 million of Fleet bonds were outstanding. Under the lease agreement with Fleet, debt service on only \$3.4 million of the total debt would be reimbursed through the applications of job rent credits. Job rent credits, if earned, are estimated to result in a State obligation of approximately \$.3 million per year.

#### **State Agencies and Authorities**

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

***Rhode Island Turnpike and Bridge Authority.*** Originally created by an act of the General Assembly, Chapter 12, title 24, in 1954, the Rhode Island Turnpike and Bridge Authority has rights and obligations under agreements which secure its outstanding bonds. On August 21, 1997 the Authority issued \$42,985,000 Refunding Revenue Bonds Series 1997 providing escrowed funds to defease bond issues outstanding totaling \$41,355,000, (the original issues in 1965 and 1967 totaled \$61,000,000). The Authority voted to remove the tolls from the Mt. Hope Bridge on May 1, 1998. The Mt. Hope Bridge will continue to be maintained by the Authority. Tolls on the Claiborne Pell Bridge are the primary source of revenues and together with interest earned on investments are anticipated to be adequate to service debt and maintain the Authority's facilities. The outstanding balance of the 1997 issue of refunding bonds is \$35,650,000 at June 30, 2003.

Effective October 1, 1999, token purchases for \$10 (11 tokens) and \$50 (60 tokens) were authorized to provide savings to commuters as compared to the \$1.00 per axle cash fare.

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

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

with user charges. As of June 30, 2002, the State had issued \$92,425,000 of outstanding general obligation bonds on behalf of the Commission. Of this amount, the Commission is responsible for paying debt service on \$13,485,000 from its user fee revenues. The total outstanding payable from user fees is \$5,249,332 as reflected in the financial statements as of June 30, 2003.

The State also has issued \$42,585,000 general obligation bonds on behalf of the Blackstone Valley District Commission. Bonds issued on behalf of the Blackstone Valley District Commission are supported by the rates and charges levied by the Commission for services provided to municipalities and other users of its facilities. On January 1, 1992, the Blackstone Valley District Commission was merged into the Commission. Outstanding bonds attributable to the Blackstone Valley District Commission as of June 30, 2003, totaled \$8,909,661 including the issuance of capital appreciation bonds in 1993.

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

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

As of June 30, 2003, the Authority had outstanding mortgage agreements and other commitments for \$17,192,301 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, 2003, the Fund had a balance of \$2,420,298. The State has agreed to appropriate or borrow and pay to the Authority any amounts required to service insured loans that are in default should the Fund be insufficient. The State has never been called upon to replenish the Industrial-Recreational Building Mortgage Insurance Fund.

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

Article 2 of the Fiscal Year 1998 Appropriations Act, effective July 1, 1997, transferred the functions, powers, rights, duties and liabilities of the Rhode Island Public Buildings Authority to the Rhode Island Refunding Bond Authority. Until this consolidation, the Rhode Island Public Buildings Authority, created by Chapter 14 of title 37 of the General Laws of Rhode Island, was a body corporate and politic which was generally authorized to acquire, construct, improve, equip, furnish, install, maintain and operate public facilities and public equipment through the use of public financing, for lease to federal, State, regional and municipal government branches, departments and agencies, in order to provide for the conduct of

the executive, legislative and judicial functions of government. The various types of projects financed by the Public Buildings Authority included judicial, administrative, educational, residential, rehabilitative, medical, correctional, recreational, transportation, sanitation, public water supply system and other projects.

The Public Buildings Authority had six series of bonds outstanding as of June 30, 1997, in the amount of \$202,750,000, which are payable solely from revenues derived from lease rentals pursuant to lease agreements between the Authority and the State. The State's payment of such lease rentals is subject to and dependent upon annual appropriations being made by the General Assembly. In June 1998, the Refunding Bond Authority refunded portions of four of these series of bonds with the issuance of the 1998 Series A Bond in the amount of \$39,875,000. The 1988 Series A Revenue Bonds were redeemed during the fiscal year ended June 30, 2003. In May 2003 the Authority issued \$67,625,000 State Public Projects Revenue Bonds, Series 2003 A dated April 1, 2003 to refund the outstanding principal of State Public Projects Revenue Bonds, 1993 Series A originally issued by the Rhode Island Public Buildings Authority. Total debt outstanding as of June 30, 2003 totals \$100,705,000.

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

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

***Rhode Island Convention Center Authority.*** The Authority was created in 1987, under Chapter 99, title 42 of the General Laws of Rhode Island as a public corporation having a distinct legal existence from the State and not constituting a department of State government. The Authority was created for the purpose of acquiring, constructing, managing and operating a convention center and related facilities. Obligations issued by the Authority do not constitute a debt or liability or obligation of the State, but are secured solely from the pledged revenues or assets of the Authority. The Authority has issued \$182,395,000 of 1993 Series B Refunding Revenue Bonds (however during June 2003 all bonds maturing after 2015 in the amount of \$61,640,000 were in-substance defeased), \$56,755,000 of 1993 Series C Refunding Revenue Bonds, \$101,315,000 of 2001 Series A Refunding Revenue Bonds, \$58,285,000 of 2003 Series A Refunding Revenue Bonds. As of June 30, 2003, \$310,005,000 remains outstanding. After adjusting for unamortized bond premium, bond discount, and deferred loss on advanced refunding which is attributable to the issuance of refunding bonds, the outstanding principal totals \$290,129,100.

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

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

During January 2002, the Corporation issued Resource Recovery System Revenue Bonds, 2002 Series A (the Bonds), in the aggregate principal amount of \$19,945,000. The Bond proceeds were used to finance the construction and equipping of a tipping facility to receive and handle all commercial and municipal solid waste delivered to the facility. These bonds bear interest at rates that range from 3.5% to 5% and mature in varying installments beginning March 1, 2003 through March 1, 2022. The outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required on bonds over various years beginning in 2018 through 2022 at the principal amount of the bonds. The outstanding balance at June 30, 2003 totals \$18,970,291.

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. In addition, outstanding indebtedness is insured under a financial guaranty insurance policy.

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

<b>Fiscal Year</b>	<b>Amount</b>
1995	\$ 6,000,000
1996	15,000,000
1997	0
1998	2,000,000
1999	4,000,000
2000	0
2001	3,115,000
2002	3,000,000
2003	<u>6,000,000</u>
	\$39,115,000

There is no provision in the State's FY 2004 budget that requires the Corporation to transfer funds to the State's General Fund.

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 \$27,500,000 into the trust fund and has disbursed approximately \$5,100,000 for remediation expenses through June 30, 2003.

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

The Corporation has also established trust funds, in accordance with EPA requirements for a municipal solid waste landfill, for the closure and postclosure care costs related to Phases II, III and IV. At June 30, 2003, the Corporation had transferred approximately \$11,116,000 and \$5,706,000 into the trust funds to meet the financial requirements of closure and postclosure care costs related to Phases II & III and Phase IV, respectively. Future trust fund contributions will be made each year to enable the Corporation to satisfy these closure and postclosure care cost.

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

The Agency is empowered to issue revenue bonds and notes, which are not guaranteed by the State. As of June 30, 2003, the Agency has issued bonds in the aggregate amount of \$337,300,000 to fund \$362,517,555 in low-interest loans for various local wastewater pollution abatement projects, safe drinking water projects and the Cranston Privatization Issue. The outstanding bonded indebtedness of the Agency, as of June 30, 2003 is \$249,630,000 in the Clean Water State Revolving Fund (CWSRF wastewater projects), \$28,490,000 for the Cranston Privatization Issue and \$8,825,000 as a conduit financing for safe drinking water projects. Also, in years 1997 through 2003, the Agency made a total of \$36,580,000 in direct loans (loans issued without bond financing) out of the CWSRF. The Agency made a total of \$25,375,250 in Direct Loans (loans made without bond financing) cut out of the Drinking Water State Revolving Fund and \$58,095,000 out of the Rhode Island Water Pollution Control Revolving Fund.

***Rhode Island Public Transit Authority.*** The Public Transit Authority was created under Chapter 18, title 39 of the General Laws of Rhode Island, by the General Assembly in 1964 as a body politic and corporate in response to the continuing financial difficulties being experienced by private bus transportation companies in the State resulting in the disruption of service. The Authority, with assistance from the State and with the proceeds of a federal loan, acquired the assets of the former United Transit Company and is authorized to acquire any other bus passenger systems or routes in the State which have filed with the Chairman of the State Public Utilities Commission a petition to discontinue service, and which the Authority deems necessary in the public interest. The Authority has expanded its operations statewide and operates a fleet of approximately 254 buses carrying approximately 18.7 million passengers annually.

The Authority is authorized to issue bonds and notes secured solely by its revenues. The Authority has no bonds or notes outstanding. Also, in order to increase the financial stability of the Authority, (1) the General Assembly authorized dedication of a portion of the State's gasoline tax receipts in support of appropriations to the Authority, and (2) the Authority increased its base fare from 70¢ to 75¢ to 85¢ to \$1.00 and then to \$1.25 in October 1998. The Authority, in an effort to build ridership, has maintained rates at a level that has necessitated State appropriations assistance to support its operations. In the fiscal year ended June 30, 2003, audited results of operations reveal that State-operating assistance to the Authority totaled \$29,054,641, operating revenues totaled \$17,878,368, and other revenues totaled \$19,443,868.

***Rhode Island Economic Development Corporation.*** The Rhode Island Economic Development Corporation is a public corporation of the State for the purpose of stimulating the economic and industrial development of the State through assistance in financing of port, industrial, pollution control, recreational, solid waste and water supply facilities, and through

the management of surplus properties acquired by the State from the federal government. The Corporation is generally authorized to acquire, contract and assist in the financing of its projects through the issuance of industrial development revenue bonds which do not constitute a debt or liability of the State.

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

As of June 30, 2003, the Corporation had revenue bonds outstanding of \$396,026,242 including conduit debt of \$75,140,000 for the former Rhode Island Port Authority and Economic Development Corporation. Certain of the bonds of the Corporation can be secured, in addition to a pledge of revenues, by a capital reserve fund established by the Corporation for the applicable bond issue. In accordance with its enabling legislation, if at any time the balance in such capital reserve fund falls below its requirement, the Corporation is authorized to request the General Assembly to appropriate the amount of the deficiency. The General Assembly may, but is not obligated to, appropriate such amounts.

In February 1993, the Corporation issued \$30,000,000 in taxable revenue bonds on behalf of Alpha Beta Technology, Inc. for acquisition, construction and equipping of a new plant facility for the clinical and commercial manufacture of biopharmaceutical products. In January 1999, this issue was placed in default. These bonds were secured by a letter of credit that was secured in part by the Corporation's capital reserve fund. The bondholders were paid in full from a draw on the letter of credit. The Economic Development Corporation repaid the debt to the letter of credit bank and receivership costs by utilizing funds on hand in FY 2000, the proceeds from the sale of the facility, and state appropriations authorized during the 1999 General Assembly. The state appropriations, disbursed in the amount of \$5.8 million, were partially reimbursed as a result of additional receivership proceedings, resulting in net state support of \$5.4 million. As of June 30, 1999, the balance outstanding was \$28,675,000. As of January 1, 2000, there were no bonds outstanding for the original Alpha Beta debt. A new series of bonds in the amount of \$25.0 million were issued to finance the purchase of the building for Collaborative Smithfield Corporation. These bonds are also secured by the Corporation's capital reserve fund. On November 17, 2000, Dow Chemical Corp. assumed the bonds from Collaborative Smithfield Corp. At June 30, 2003, the outstanding balance was \$25,000,000.

In May 1996, Rhode Island Economic Development Corporation issued \$25,000,000 in revenue bonds on behalf of Fidelity Management Resources for development of infrastructure improvements at a site in Smithfield, Rhode Island to be utilized for Fidelity of Rhode Island, Inc. These bonds are also secured, in part, by the Corporation's capital reserve fund. In addition, pursuant to the lease, the Economic Development Corporation entered into an agreement with FMR Rhode Island, Inc., for the Fidelity Management Resources project described above, to secure those bonds, credits are provided for lease payments if certain targeted new job goals are met for the financed project. If the job goals are met, the Economic Development Corporation will credit FMR Rhode Island, Inc.'s lease payments and make annual requests to the General Assembly for appropriations which will be used to pay the debt service on this issue. In FY 2000, the State's expenditure for this purpose was \$222,176, reflecting approximately 9% of the total debt service. It is expected that within two years the full credits will be achieved. At June 30, 2003, the outstanding balance was \$23,071,242.

In May 2002, the Rhode Island Economic Development Corporation and Fidelity Management Resources entered into a Second Amendment to Ground Lease, to expand the premises to include additional lots at Fidelity Management Resources site in Smithfield, Rhode Island. In connection therewith, the Rhode Island Economic Development Corporation issued \$10,000,000 in revenue bonds on behalf of Fidelity Management Resources. These bonds are secured, in part by the Corporation's capital reserve fund. At June 30, 2003, the outstanding balance was \$10,000,000.

In November 1997, the Rhode Island Economic Development Corporation issued \$11,000,000 in revenue bonds on behalf of Fleet National Bank for development of infrastructure improvements at a site in Lincoln, Rhode Island to be utilized for Fleet National Bank. These bonds are also secured, in part, by the Corporation's capital reserve fund. In addition, the



State has provided for credits if certain targeted new job goals are met. No expenditures have been made to date. At June 30, 2003, the outstanding balance was \$10,350,000.

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

In January 1998, the Economic Development Corporation issued revenue bonds in the amount of \$11,825,000 to finance improvements to McCoy Stadium in Pawtucket. These bonds are supported by State lease payments subject to annual appropriations.

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

On December 9, 1992, a subsidiary corporation of the Port Authority was established, known as the Rhode Island Airport Corporation. The Port Authority has since reorganized into the Economic Development Corporation (EDC). The Airport Corporation was established to oversee operations at Rhode Island's six airports and manage the process of designing and constructing a new passenger terminal facility, commonly known as the Airport Terminal Improvement Project, to replace the old terminal at T.F. Green Airport. The Airport Corporation's financial position and results of operations are presented in the financial statements by discrete presentation. This presentation involves reporting the Airport Corporation's financial position and results of operations in one column separate from the financial position of the Economic Development Corporation and its results of operations.

On July 1, 1993, properties of the State of Rhode Island Department of Transportation's (the State's) six airports (which include Theodore Francis Green, North Central, Newport, Block Island, Quonset and Westerly Airport) were transferred to the Airport Corporation under a lease and operating agreement dated June 25, 1993, by and between the State of Rhode Island, the Rhode Island Department of Transportation and the Airport Corporation. The Corporation is obligated under the lease agreement to reimburse the State for debt service on general obligation bonds issued to finance a portion of the improvement at the airports.

The Economic Development Corporation issued Airport Revenue Bonds of \$78,100,000 in 1993 and \$30,000,000 in 1994 to finance construction of a new terminal facility at T.F. Green Airport as well as other related capital improvement projects. On September 23, 1996 a new two level terminal facility was opened. The new terminal facility contains approximately 302,000 square feet and includes 17 hold rooms, 15 of which have access or can be accessed to aircraft by jet loading bridges. There are also four additional commuter aircraft parking positions.

In May 1998, four new gates were constructed at the terminal and were supported, in part, through the Economic Development Corporation (EDC) issuance of \$61,175,000 of Airport Revenue Bonds sold in June 1998. The terminal expansion of May 1998 resulted in five additional hold room facilities, one of which is for commuter use and the remaining four have access to aircraft jet loading bridges. The 1998 expansion gave T.F. Green terminal a capacity of 19 jet gates and two commuter gates for a total of 21 gates.

RIAC has entered into Airport Use & Lease Agreements (Airline Agreements) with the following signatory airlines: American Airlines, Continental Airlines, Delta Airlines, Northwest Airlines, Southwest Airlines, United Airlines, and US Airways.

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

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

Since the inception of RIAC in 1992, there have been four (4) General Airport Revenue Bonds (GARBS) issued by the Rhode Island Economic Development Corporation (EDC), the parent of RIAC, to finance construction and other related costs for certain capital improvements at T.F. Green Airport. The bonds include the 1993 Series A Bonds (\$78,100,000), 1994 Series A Revenue Bonds (\$30,000,000), 1998 Series A&B Revenue Bonds (\$61,175,000), and the 2000 Series A&B Revenue Bonds (\$50,545,000). In October, 2003, RIAC refinanced \$31,725,000 of the outstanding 1993 Airport Revenue Bonds.

In November of 2003, the Corporation, acting pursuant to specific statutory authorization, issued \$216,805,000 in Grant Anticipation Bonds (GARVEE Bonds) on behalf of the Rhode Island Department of Transportation to finance four major transportation projects in the State. The bonds are secured by future Federal Highway Transportation appropriations. Simultaneously, the Corporation issued \$53,030,000 in Motor Fuel Tax Revenue Bonds to provide funds for the State match for these transportation projects. The Motor Fuel Tax Revenue Bonds are secured by two cents of the State's 30 cents motor fuel tax.

***Rhode Island Industrial Facilities Corporation.*** The Rhode Island Industrial Facilities Corporation is a public body corporate and agency of the State established under Chapter 37.1, title 45 of the General Laws of Rhode Island. The Corporation is authorized to acquire, construct, finance and lease the following projects: (a) any land, building or other improvement, and all real and personal properties, including, but not limited to, machinery and equipment or any interest therein, whether or not in existence or under construction, which shall be suitable for manufacturing, warehousing, or other industrial or commercial purposes or suitable for pollution abatement or control, for the reconstruction, modernization or modification of existing industrial plants for the abatement or control of industrial pollution or suitable for solid waste disposal, or for any combination of such purposes including working capital, but shall not include raw materials, work in process or stock in trade; (b) any railroad rolling stock and vehicles for the transportation of freight; (c) the construction and/or acquisition costs of marine craft and necessary machinery, equipment and gear to be used primarily and continuously in the fishing industry; (d) the construction and/or acquisition costs and necessary machinery and equipment of any marine craft for research or other uses considered to be an integral part of any land-based industrial concern which would qualify for a loan guarantee through the Rhode Island Industrial-Recreational Building Authority; (e) acquisition costs of any existing building, machinery and equipment for any project which would otherwise qualify for a loan guarantee through the Rhode Island Industrial-Recreational Building Authority; and (f) any "recreational project" as described in Chapter 34 of title 42, relating to the loan guarantee program of the Rhode Island Industrial-Recreational Building Authority.

The Corporation is authorized to issue its revenue bonds and notes from time to time for any of its corporate purposes. All bonds and notes issued by the Corporation shall be payable solely out of the revenues and receipts derived from the leasing or sale by the Corporation of its projects, or from any other financing arrangement which may be designated in the proceedings of the Corporation under which the bonds or notes shall be authorized to be issued. As of June 30, 2003, the Corporation had an outstanding principal balance of conduit debt of \$67,424,744. 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 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 \$17,233,551 as of June 30, 2003.

***Rhode Island Housing and Mortgage Finance Corporation.*** The Rhode Island Housing and Mortgage Finance Corporation is a public corporation and instrumentality of the State created in 1973 to assist in the construction and financing

of low and moderate income housing and health care facilities in the State. In addition to its general powers, the Corporation is authorized to issue revenue bonds and to originate and make mortgage loans to low and moderate income persons and families, to purchase mortgage loans from and to make loans to private mortgage lenders in the State in order to increase the amount of mortgage money generally available, and to make mortgage loans to contractors and developers of low and moderate single-family and multi-family housing developments and to acquire and operate, both solely and in conjunction with others, housing projects. The total outstanding indebtedness, including unamortized bond premium/discount, of the Corporation at June 30, 2003 was \$1,563,633,965 consisting of \$1,185,298,965 of long-term bonds and \$378,335,000 of short-term or convertible-option bonds. Included in the \$1,185,298,965 is \$209,862,722 in bonds, which are secured in part by capital reserve funds, which have aggregated to \$33,154,703 on June 30, 2003. Under provisions similar to those governing the Rhode Island Economic Development Corporation, the General Assembly may, but is not obligated to, provide appropriations for any deficiency in such reserve funds. The Corporation has never been required to request any such appropriations. Such reserve funds relate solely to multi-family issues of the Corporation. As of June 30, 2003, the Corporation had a combined total reserved and designated fund balance of approximately \$249,559,029.

***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, 2003, the Authority held \$689,178,585 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, 2003, \$21,285,730.75 in Rhode Island Family Education Loans and \$98,240,340.65 in College Bound Loans. As of September 30, 2003, the Authority had \$883,585,000 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, 2003 was \$6,345,000.

On March 1, 1994, the Board issued revenue bonds for public drinking water protection in the amount of \$11,835,000. On November 15, 2002, the Board issued \$11,385,000 of revenue bonds. A portion of the proceeds refunded the 1994 series, which had \$7,705,000 outstanding as of June 30, 2003. The remaining proceeds will be used to fund Phase III of public drinking water protection projects. The amount of the Series 2002 refunding bonds outstanding as of June 30, 2003 was \$11,215,000.

***Rhode Island Health and Educational Building Corporation.*** The Corporation was organized in 1966 as a Rhode Island non-business corporation with the name of Rhode Island Educational Building Corporation. In 1967, the Corporation was constituted as a public body corporate and an agency of the State by the Rhode Island General Assembly under Chapter

38.1, title 45 of the General Laws. The Corporation has broad powers to assist in providing educational facilities for colleges and universities operating in the State, to assist hospitals in the State in the financing of health care facilities, to assist students and families of students attending institutions for higher education in the State to finance the cost or a portion of the cost of higher education, to assist in financing a broad range of non-profit health care providers, and to assist in financing non-profit secondary schools; child day care centers; adult day care centers; and free standing assisted living facilities; and to assist it in carrying out its powers, the Corporation may issue bonds and notes which are special obligations of the Corporation payable from revenues derived from the project financed or other monies of the participating educational institution or health care institution available for such purpose. The State is not liable for the payment of the principal, premium, if any, or interest on any bonds or notes of the Corporation, or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever which may be undertaken by the Corporation, and none of the bonds or notes of the Corporation nor any of its agreements or obligations shall be construed to constitute an indebtedness of the State. As of June 30, 2003, the Corporation had \$1,304,676,331 of bonds and notes outstanding (excluding series secured by trust funds for future redemption).

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

The Corporation issued \$685,390,000 of its Tobacco Settlement Asset-Backed Bonds, Series 2002A ("TSAC Bonds") in June 2002 to finance the costs of acquisition of the right, title and interest to one-hundred percent (100%) of the "state's tobacco receipts", as defined in the Act, after December 2003. As of June 30, 2003, \$685,390,000 of bonds were outstanding.

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

## **EMPLOYEE RELATIONS**

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

Below the level of State government, municipal employees, including uniformed and non-uniformed employees and teachers have rights similar to State employees to organize, engage in collective bargaining and submit unresolved issues to arbitration. State law or judicial interpretation forbids all such employees to engage in any work stoppage, slowdown or strike. Police and Firefighters have binding arbitration on all matters including wages. The decision of the

arbitrators on contract term disputes is binding on the parties with respect to all matters, including those involving the expenditure of money. With respect to teachers and non-uniformed employees, the arbitrators' decision is binding on all unresolved issues other than those involving the expenditure of money, which matters remain subject to the subsequent mutual agreement of the parties.

As of May 19, 2004 the State had 15,658 individuals on the payroll. Of this amount, 12,163 employees organized in numerous unions represented by various collective bargaining units, the largest of which is the American Federation of State, County and Municipal Employees, Council 94. This union represents approximately 4,660 employees, or 38.0 percent of total organized State employees. Several other major bargaining groups are represented by the Rhode Island Alliance of Social Service Employees, Local 580 (1,001 employees); the Rhode Island Brotherhood of Correctional Officers (1,065 employees); the American Association of University Professors (667 employees); and the National Education Association (1,162 employees). In addition, there are 3,495 non-union employees. Contracts with six of the collective bargaining units have previously expired and nine others expire on June 30, 2004. The contracts provide that the terms of the previous contract prevail until a new contract is negotiated.

## **STATE RETIREMENT SYSTEMS**

### **Employees' Retirement System**

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

The System provides retirement, disability and death benefit coverage, as well as health insurance benefits for members retiring on or after July 1, 1989. Pension, disability and death benefits are funded (a) for State employees by contributions from the State and the employees and (b) for public school teachers by contributions from the teachers with employer contributions shared by the local education agencies (LEAs) and the State, except that, benefits under the Teachers' Survivors' Plan are financed by the LEAs and the teachers. The System's Actuary is currently Gabriel, Roeder, Smith & Company.

### **Financial Objectives and Funding Policy**

The actuarial cost method and the amortization periods are set by statute. As of the June 30, 1999 valuation, Rhode Island General Laws 36-10-2 and 36-10-2.1 provide for a funding method of Entry Age Normal (EAN) and amortization of the Unfunded Actuarial Accrued Liability (UAAL) over a period not to exceed thirty (30) years as of June 30, 1999. Under this method, the actuarial gains (losses) are reflected as they occur in a decrease (increase) in the UAAL. The contribution rates are intended to be sufficient to pay normal cost and to amortize UAAL in level payments over a fixed period of 27 years (30 years from June 30, 1999). The actuary considers the funding period reasonable.

### **Progress Toward Realization of Financing Objectives**

The funded ratio (the ratio of the actuarial value of assets to the unfunded actuarial accrued liability) is a standard measure of a plan's funded status. In the absence of benefit improvements, it should increase over time, until it reaches 100%. For the State employees, the funded ratio decreased from 77.9% to 71.7% during the period July 1, 2001 to June 30, 2002, while for teachers the ratio decreased from 77.4% to 73.2% over the same period. These are based on the Entry Age Normal funding method effective June 30, 1999.

The fiscal year 2005 employer contribution rate will increase for state employees from 9.60% to 11.51% and for teachers, from 13.72% to 14.84%. The State contribution for teachers will be 6.12% with an additional 8.72% paid by LEAs. The fiscal year 2004 state contributions for teachers is 5.73% with an additional 7.99% paid by LEAs. Pursuant to Rhode Island General Laws, State employees contribute 8.75% and teachers contribute 9.50%.

## GASB 25 and Funding Progress

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

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

The table below shows the calculated contribution rates. This is the ARC for State Employees and Teachers, respectively. The payroll growth rate used in the amortization calculations is set equal to the assumed inflation rate, and does not include any allowance for membership growth.

### Development of Contribution Rates June 30, 2002

	State Employees	Teachers
1. Compensation		
(a) Supplied by ERSRI	\$ 563,002,274	\$ 735,288,788
(b) Adjusted for one-year's pay increase	586,888,745	792,015,577
2. Actuarial accrued liability	3,284,126,961	4,857,003,061
3. Actuarial value of assets	2,353,855,871	3,553,823,995
4. Unfunded accrued actuarial liability (UAAL) ( 2 - 3 )	930,271,090	1,303,179,066
5. Normal cost	51,134,407	97,766,488
6. Amortization of UAAL	69,681,839	96,506,223
7. Payroll projected for two-year delay	622,630,270	840,249,326
8. 2004-2005 normal cost	56,486,243	107,998,936
9. Total cost ( 6 + 8 )	126,168,082	204,505,159
10. Employee contribution rate as percent of payroll	8.75%	9.50%
11. Employer contribution rate as percent of payroll		
(a) Normal cost ( 8 / 7 - 10 )	0.32%	3.35%
(b) Amortization payments ( 6 / 7 )	11.19%	11.49%
(c) Total ( 11(a) + 11(b) )	11.51%	14.84%

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

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability <sup>2</sup>	Unfunded Actuarial Accrued Liability <sup>3</sup> (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(3)-(2) (4)	(2)/(3) (5)	(6)	(7)
<b>State Employees</b>						
June 30, 1997	\$1,810,447,649	\$2,312,563,765	\$502,116,116	78.3%	\$443,709,290	113.2%
June 30, 1998	2,075,619,320	2,576,282,134	500,662,814	80.6%	477,319,627	104.9%
June 30, 1999 <sup>1</sup>	2,201,890,748	2,607,397,329	405,506,581	84.4%	494,815,513	82.0%
June 30, 2000	2,345,319,663	2,874,905,547	529,585,884	81.6%	517,632,152	102.3%
June 30, 2001	2,406,278,029	3,089,247,738	682,969,709	77.9%	539,015,218	126.7%
June 30, 2002	2,353,855,871	3,284,126,961	930,271,090	71.7%	586,888,745	158.5%
<b>Teachers</b>						
June 30, 1997	2,626,621,502	3,579,652,537	953,031,035	73.4%	604,076,573	157.8%
June 30, 1998	3,045,858,851	3,999,722,806	953,863,955	76.2%	636,246,593	149.9%
June 30, 1999 <sup>1</sup>	3,259,015,814	3,967,529,172	708,513,358	82.1%	673,484,467	105.2%
June 30, 2000	3,514,399,312	4,359,881,262	845,481,950	80.6%	703,201,056	105.2%
June 30, 2001	3,619,863,426	4,679,288,010	1,059,424,584	77.4%	748,460,527	120.2%
June 30, 2002	3,553,823,995	4,857,003,061	1,303,179,066	73.2%	792,015,577	164.5%

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

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

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

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

ERS Fiscal Year Ended June 30	<u>State Employees</u>		<u>Teachers (State)</u>		<u>Teachers (Local)</u>	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2002	\$31,801,645	100%	\$30,763,337	100%	\$ 44,391,050	100%
2001	44,540,998	100%	35,365,234	100%	48,153,386	100%
2000	44,353,675	100%	40,719,407	100%	57,667,528	100%
1999	48,526,064	100%	30,202,943	100%	42,373,952	100%
1998	51,310,092	100%	35,005,382	100%	52,040,574	100%
1997	45,403,827	100%	34,871,679	100%	48,945,845	100%

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

Item (1)	State Employees (2)	Teachers (3)
Valuation date	June 30, 2002	June 30, 2002
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percentage, closed	Level percentage, closed
Remaining amortization period	27 years	27 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 *	4.25% to 14.25%	4.25% to 16.75%
* Includes inflation at:	3.00%	3.00%
Cost of living adjustment	3.00%	3.00%



## **OTHER BENEFITS**

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

## **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 Certificates or in any way contesting or affecting the validity of the Certificates.

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

## **FINANCIAL STATEMENTS**

Attached are the combined financial statements and notes of the State for fiscal year ended June 30, 2002, and the report thereon by the Auditor General, a certified public account appointed by the Joint Committee on Legislative Services.

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EXHIBIT A

Audited Financial Statements of the State  
for the Fiscal Year Ending June 30, 2002

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ERNEST A. ALMONTE, CPA, CFE  
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, 2002, 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 the Convention Center Authority enterprise fund; certain component units which represent 99% of the assets and revenues of the discretely presented component units; and 1% of the assets and revenues of the aggregate remaining fund information. 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 Convention Center Authority, these component units, and the aggregate remaining fund information, are based solely on the reports of the other auditors.

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

We were unable to obtain sufficient evidence regarding the completeness of the furniture and equipment, and building improvement categories of capital assets included in the State's basic financial statements at June 30, 2002. The State accumulated information regarding its investment in capital assets for inclusion in the government-wide financial statements at June 30, 2002, however, due to an insufficient number of physical inventories and weaknesses in accounting controls over the accumulation of such data, we were unable to satisfy ourselves as to the completeness of the carrying value of these categories of capital assets and the related depreciation expense by other auditing procedures. The furniture and equipment, and building improvement capital asset categories represent \$159 million or 17% of total governmental activities capital assets of \$927 million at June 30, 2002.

Exhibit A-1

The liability for compensated absences included in the governmental activities section of the government-wide statement of net assets is understated by an undetermined amount because approximately 1,600 employees' accrued hours (representing 13% of total governmental activities employees) are not included within the State's payroll system which is used to determine this liability.

Certain fines and penalties receivable, as assessed by the Judicial branch, are not reported to the State Controller and consequently are not included as revenue and accounts receivable in the accompanying statements for the general fund and the governmental activities section of the government-wide statement of net assets and statement of activities. The effect of this omission on the general fund financial statements and the governmental activities section of the statement of net assets and statement of activities is not reasonably determinable.

Management has not presented encumbrances outstanding at June 30, 2002 as a reserved component of fund balance within the State's major governmental funds and aggregate remaining governmental funds or disclosed such amounts in the notes to the basic financial statements as required by generally accepted accounting principles. The amount by which this departure would affect the reserved and unreserved components of fund balance of the governmental funds is not reasonably determinable.


In our opinion, except for the effects of (1) such adjustments, if any, on the governmental activities included in the government-wide statement of net assets and the related statement of activities as might have been determined to be necessary had we been provided sufficient evidence regarding the completeness of the furniture and equipment, and building improvement components of capital assets, (2) the incomplete recording of the liability for compensated absences within governmental activities, (3) the omission of certain fines and penalties revenue and receivable from the governmental activities section of the statements of net assets and activities and the general fund financial statements, and (4) the omission of encumbrances outstanding at June 30, 2002 as a component of reserved fund balance of the governmental funds, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 1(R), the State has implemented a new financial reporting model as of June 30, 2002, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis–for State and Local Governments*. Additionally, the State has implemented GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*. As required by these new standards, the State presents both government-wide

financial statements and fund-level financial statements. Additionally, as provided by Statement No. 34, the State has included only current year outlays for infrastructure as capital assets on the government-wide statement of net assets. Infrastructure outlays from prior years will be included in future financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2003 on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The Schedules of Funding Progress, the major fund budgetary comparison schedules, and the Management's Discussion and Analysis as listed in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Ernest A. Almonte, CPA, CFE  
Auditor General

October 17, 2003

## 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, 2002. 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.

Fiscal year 2002 represents the first year in which the State is required to implement the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*. Therefore, this discussion and analysis provides few comparisons with the previous fiscal year. Future reports are required to include extensive comparisons.

### FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

#### Government-wide Highlights

- **Net Assets** The total assets of the State exceeded total liabilities at fiscal year ended June 30, 2002 by \$701.3 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, (\$122.8) million was reported as unrestricted net assets, \$537.4 million was restricted net assets, and \$286.7 million was invested in capital assets net of related debt.
- **Changes in Net Assets** The State's total net assets increased by \$346.0 million, or 97.4%, in fiscal year 2002. Net assets of governmental activities increased by \$367.8 million, 482.4%, while net assets of the business-type activities showed a decrease of \$21.8 million.

#### Fund Highlights

- **Governmental Funds - Fund Balances** As of the close of fiscal year 2002, the State's governmental funds reported a combined ending fund balance of \$514.0 million, a decrease of \$40.8 million in comparison with the previous fiscal year. Included in the combined governmental fund balance is the activity of the State's General Fund. The General Fund ended the fiscal year with an unreserved, undesignated balance of \$31.0 million and the Budget Reserve Account ended the fiscal year with a balance of \$82.0 million.
- **Sale of rights to future tobacco settlement revenues** The State sold its rights to future tobacco settlement revenues to the Tobacco Settlement Financing Corporation for \$544 million. Of this amount \$295 million was used to defease long term debt and \$135 million was used to support general fund operations during fiscal 2002.



# Management's Discussion and Analysis

## Long-term Debt Highlights

- The State's long-term debt obligations (bonds and certificates of participation) decreased by \$233.5 million during the current fiscal year which represents the net difference between new issuances, payments and refundings of outstanding debt. The key factor contributing to this decrease was the defeasance during the fiscal year of \$277 million of bonds and certificates of participation. This defeasance was accomplished with the proceeds of the sale of the rights to future tobacco settlement revenues as described above.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

### 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. 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 **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 most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods; for example, uncollected taxes and earned but unused vacation leave. This statement also presents a comparison between direct expenses and program revenues for each function of the government.

## Management's Discussion and Analysis

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

- **Governmental Activities:** The activities in this section represent most of the State's basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the State include general government, human services, education, public safety, natural resources, and transportation.
- **Business-type Activities:** These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include the operations of the Lottery Commission, RI Convention Center Authority and the Employment Security Trust Fund.
- **Discretely Presented Component Units:** Component units are entities that are legally separate from the State, but for which the State is financially accountable. The State has 21 discretely presented component units. Financial information for these entities is presented separately from the financial information presented for the primary government.

### Fund Financial Statements

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

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

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

## Management's Discussion and Analysis

Governmental funds include the General Fund and special revenue, capital projects, debt service and permanent funds. The State has several governmental funds, of which four are considered major individual funds. Those are the General Fund, the Intermodal Surface Transportation Fund, the Tobacco Settlement Trust Fund, and the Bond Capital Fund. Each of these major funds are presented in a separate column in the governmental fund statement of net assets and in the governmental statement of revenues, expenditures and changes in fund net assets. The remaining governmental funds are combined in a single aggregated column on the basic fund statements. Individual fund data for each of these nonmajor governmental funds can be found in the supplementary information section of this report.

- **Proprietary funds:** Services for which the State charges customers a fee are generally reported in proprietary funds. The State maintains two different types of proprietary funds, enterprise funds and internal service funds. Enterprise funds report activities that provide supplies and services to the general public. Internal service funds report activities that provide supplies and services for the State's other programs and activities. Like the government-wide statements, proprietary funds use the accrual basis of accounting. The State has three enterprise funds, the Lottery Fund, Convention Center Authority Fund and the Employment Security Trust Fund. These funds are each presented in separate columns on the basic proprietary fund financial statements. The State's internal service funds are reported as governmental activities on the government-wide statements, because the services they provide predominantly benefit governmental activities. The State's fourteen (14) internal service funds are reported on the basic proprietary fund financial statements in a single combined column. Individual fund data for these funds is provided in the form of combining statements and can be found in the supplementary information section of this report.
- **Fiduciary funds:** These funds are used to account resources held for the benefit of parties outside the State government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the State's programs. These funds, which include the pension trust, private-purpose trust and agency funds, are reported using accrual accounting. Individual fund data for fiduciary funds can be found in the supplementary information section of this report.

### Notes to the Financial Statements

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

### Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information, including information concerning the State's progress in funding its

## **Management's Discussion and Analysis**

obligation to provide pension benefits to its employees. This section also includes a budgetary comparison schedule for each of the State's major funds that have a legally-mandated budget.

### **Other Supplementary Information**

Other supplementary information includes combining financial statements for nonmajor governmental internal service and fiduciary funds. These funds are added together, by fund type, and presented in single columns in the basic financial statements.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

### **Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (governmental and business-type activities) totaled \$701.3 million at the end of fiscal year 2002, compared to \$355.3 million at the end of the prior fiscal year.

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.

## Management's Discussion and Analysis

State of Rhode Island's Net Assets as of June 30, 2002 (Expressed in Thousands)			
	Governmental Activities	Business- Type Activities	Total Primary Government
Current and other assets	\$ 982,314	\$ 365,997	\$ 1,348,311
Capital assets	927,313	209,022	1,136,335
<b>Total assets</b>	<b>1,909,627</b>	<b>575,019</b>	<b>2,484,646</b>
Long-term liabilities outstanding	925,892	286,930	1,212,822
Other liabilities	539,639	30,836	570,475
<b>Total liabilities</b>	<b>1,465,531</b>	<b>317,766</b>	<b>1,783,297</b>
Net assets:			
Invested in capital assets, net of related debt	371,614	(84,909)	286,705
Restricted	196,913	340,512	537,425
Unrestricted	(124,431)	1,650	(122,781)
<b>Total net assets</b>	<b>\$ 444,096</b>	<b>\$ 257,253</b>	<b>\$ 701,349</b>

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

### Changes in Net Assets

The State's net assets increased by \$346.0 million, or 97.3%, during the current fiscal year. Total revenues of \$6.1 billion (including special items) were more than expenses (\$5.7) billion. Approximately 35.6% of the State's total revenue came from taxes, while 25.3% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 27.1% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services (36.8%) and intergovernmental (15.6%) In 2002, governmental activity expenses exceeded program revenues, which resulted in the use of \$2.71 billion in general revenues (mostly taxes). On the other hand, net program revenues from business-type activities in 2002 exceeded expenses by \$148.4 million.

## Management's Discussion and Analysis

State of Rhode Island's Changes in Net Assets			
For the Fiscal Year Ended June 30, 2002			
(Expressed in Thousands)			
	Governmental Activities	Business- Type Activities	Total Primary Government
<b>Revenues:</b>			
<b>Program revenues:</b>			
Charges for services	\$ 306,007	\$ 1,345,922	\$ 1,651,929
Operating grants and contributions	1,315,974	50,656	1,366,630
Capital grants and contributions	176,071		176,071
<b>General revenues:</b>			
Taxes	2,187,342		2,187,342
Interest	10,005	21,134	31,139
Other	153,947	7,615	161,562
Total revenues	4,149,346	1,425,327	5,574,673
<b>Expenses:</b>			
General government	455,489		455,489
Human services	2,115,220		2,115,220
Education	339,455		339,455
Public safety	288,291		288,291
Natural resources	138,287		138,287
Transportation	192,824		192,824
Intergovernmental	896,512		896,512
Grants	287		287
Interest	79,381		79,381
Lottery		958,626	958,626
Convention Center		57,900	57,900
Employment insurance		231,665	231,665
	4,505,746	1,248,191	5,753,937
Increase in net assets before transfers and special items	(356,400)	177,136	(179,264)
Transfers	198,969	(198,969)	0
Special items	525,276		525,276
Increase in net assets	367,845	(21,833)	346,012
Net assets - July 1, 2001	76,251	279,086	355,337
Net assets - June 30, 2002	\$ 444,096	\$ 257,253	\$ 701,349

### 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.

## Management's Discussion and Analysis

As of the end of the current fiscal year, the State's governmental funds reported a combined ending fund balance of \$514.1 million, a decrease of \$40.9 million. Reserved fund balances are not available for new spending because they have already been committed as follows: (1) \$82.0 million for a "rainy day" account, (2) \$50.7 million for continuing appropriations and (3) \$20.9 million principally to liquidate debt. Approximately 70.1% (\$360.4 million) of the ending fund balance is designated by the State's management consistent with the limitations of each fund.

The major governmental funds of the primary government are:

**General Fund.** The General Fund is the chief operating fund of the State. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$31.1 million, while total fund balance was \$163.8 million. As a measurement of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represent less than 1% of total General Fund expenditures, while total fund balance represent 4% of the same amount.

The General Fund's total fund balance decreased by \$104.3 million during the current fiscal year. This decrease can be attributed to a draw down of opening fund balance and significant decrease in tax revenues, due in large part to the effects of a sluggish economy.

**Intermodal Surface Transportation Fund.** The Intermodal Surface Transportation Fund (ISTEA) 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. At the end of the current fiscal year, unreserved fund balance of the ISTEA fund was \$32.0 million, while the total fund balance was \$33.3 million. Total fund balance of the ISTEA fund decreased by a nominal \$.7 million during the current fiscal year.

**Tobacco Settlement Trust Fund.** The Tobacco Settlement Trust Fund (TSTF) accounts for the proceeds from the sale of the rights to future tobacco settlement revenues by the State to the Tobacco Settlement Finance Corporation. At the end of the current fiscal year, unreserved fund balance of the TSTF was \$113.9 million. This was the first year of operation for the TSTF.

**Bond Capital Fund.** The Bond Capital Fund (BCF) accounts for the proceeds of the bonds issued and the related capital expenditures not required to be accounted for in another capital projects fund. At the end of the current fiscal year, unreserved fund balance of the BCF fund was \$58.3 million. Fund balance of the BCF decreased by \$37.7 million during the current fiscal year.

### GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2002, the original budget was amended by supplemental appropriations and was modified to accommodate declining tax revenues. Differences between the original budget and the final enacted budget can be briefly summarized as follows:

- Decrease in taxes of \$165 million, with significant changes in personal income tax (decreased by \$141 million) and business corporations tax (decreased by \$50 million);
- Transfer of \$135 million from the Tobacco Settlement Trust Fund for general use;
- Increase of amount transferred from the Lottery Fund by \$23.8 million; and

## Management's Discussion and Analysis

- Net general revenue appropriations increased by \$9.6 million, including a \$16.8 million supplemental appropriation for the Department of Human Services.

### 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, 2002, amounts to \$1.1 billion, net of accumulated depreciation of \$395 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 16.4% in terms of net book value. In accordance with GASB 34, the State has not recorded its investment in infrastructure prior to July 1, 2001. Such amounts will be included in future financial statements.

Actual expenditures to purchase or construct capital assets were \$208.2 million for the year. Of this amount, \$118.2 million was used to construct or reconstruct roads. Depreciation charges for the year totaled \$45 million.

State of Rhode Island's Capital Assets as of June 30, 2002 (Expressed in Thousands)			
	Governmental Activities	Business- Type Activities	Total Primary Government
Capital assets not being depreciated			
Land	\$ 373,185	\$ 38,032	\$ 411,217
Construction in progress	31,653	1,336	32,989
Total capital assets not being depreciated	404,838	39,368	444,206
Capital assets being depreciated			
Land improvements	3,209		3,209
Buildings	369,453	227,336	596,789
Buildings improvements	206,929		206,929
Equipment	143,716	18,466	162,182
Infrastructure	118,277		118,277
	841,584	245,802	1,087,386
Less: Accumulated depreciation	(319,109)	(76,148)	(395,257)
Total capital assets being depreciated	522,475	169,654	692,129
Total capital assets (net)	\$ 927,313	\$ 209,022	\$ 1,136,335

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



## **Management's Discussion and Analysis**

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 \$820.6 million. The State's total bonded debt decreased by \$388.7 million (20%) during the current fiscal year. The key factor in this decrease was a cash defeasance of \$242.9 million that was funded by the proceeds from the sale of the rights to future tobacco settlement revenues. 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 \$135.4 million of general obligation bonds and \$39.8 of general obligation refunding bonds. These bonds have been assigned ratings by Fitch, Inc. (Fitch), Moody's Investors Service (Moody's) and Standard and Poor's Rating Services (Standard and Poor's). For the portion of the bonds that are insured, the ratings assigned by Fitch, Moody's, and Standard and Poor's are AAA, Aaa, and AAA, respectively. The ratings assigned by Fitch, Moody's, and Standard and Poor's to the bonds that are not insured are AA, Aa3, and AA-, respectively.

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 \$183.1 million. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

### **ECONOMIC FACTORS**

The State's economy was one of only two economies in the northeastern United States that did not experience a downturn in employment growth from 2000 - 2002. This record of economic performance gives the State an unprecedented opportunity to further its economic development without having to first repair the damage from the national economic recession.

As of September 2003, year-over-year growth in the State's total employment, not seasonally adjusted, was 0.2% compared to a negative growth rate of -0.4% for the nation as a whole. With respect to year-over-year growth in personal income, in the second quarter of 2003, the State's personal income growth was 3.1%, compared to the United States as a whole's rate of 2.8%. Finally, the State's unemployment rate for September 2003 was 4.5% compared to 6.1% for the nation as a whole.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of Rhode Island's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional information should be sent to [finreport@mail.state.ri.us](mailto:finreport@mail.state.ri.us).

**State of Rhode Island and Providence Plantations**  
**Statement of Net Assets**  
**June 30, 2002**  
**(Expressed in Thousands)**

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental activities</b>	<b>Business - Type Activities</b>	<b>Totals</b>	
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 500,192	\$ 22,261	\$ 522,453	\$ 525,279
Funds on deposit with fiscal agent	24,431	277,188	301,619	
Investments	17,008	691	17,699	950,247
Receivables (net)	251,320	43,338	294,658	1,343,153
Due from primary government				4,476
Due from component units	5,215		5,215	
Internal balances	3,862	(3,862)		
Due from other governments and agencies	150,242	1,818	152,060	14,060
Inventories	2,303	886	3,189	6,635
Other assets	3,349	1,336	4,685	606,190
<b>Total current assets</b>	<b>957,922</b>	<b>343,656</b>	<b>1,301,578</b>	<b>3,450,040</b>
<b>Noncurrent assets:</b>				
Investments		17,494	17,494	91,208
Receivables (net)	1,022		1,022	909,636
Due from component units	23,361		23,361	
Capital assets - nondepreciable	404,838	39,368	444,206	282,397
Capital assets - depreciable (net)	522,475	169,654	692,129	858,842
Lease receivable				6,345
Other assets	9	4,847	4,856	164,709
<b>Total noncurrent assets</b>	<b>951,705</b>	<b>231,363</b>	<b>1,183,068</b>	<b>2,313,137</b>
<b>Total assets</b>	<b>1,909,627</b>	<b>575,019</b>	<b>2,484,646</b>	<b>5,763,177</b>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Cash overdraft	4,525	212	4,737	373
Accounts payable	322,838	11,154	333,992	81,412
Due to primary government				2,793
Due to component units	4,476		4,476	
Due to other governments and agencies	2,430	1,563	3,993	2,112
Accrued expenses	58,433	3,737	62,170	64,479
Deferred revenue	11,854	854	12,708	16,204
Other current liabilities	32,668	425	33,093	7,765
Current portion of long-term debt	102,415	7,228	109,643	148,019
Obligation for unpaid prize awards		5,663	5,663	
<b>Total current liabilities</b>	<b>539,639</b>	<b>30,836</b>	<b>570,475</b>	<b>323,157</b>
<b>Noncurrent Liabilities:</b>				
Due to primary government				647
Due to other governments and agencies				4,486
Accrued liabilities				32,976
Deferred revenue				1,080
Notes payable				6,468
Loans payable				73,085
Obligations under capital lease	109,769		109,769	47,582
Compensated absences	19,430		19,430	22,519
Bonds payable	778,691	286,610	1,065,301	3,547,652
Other liabilities	18,002	320	18,322	307,025
<b>Total noncurrent liabilities</b>	<b>925,892</b>	<b>286,930</b>	<b>1,212,822</b>	<b>4,043,520</b>
<b>Total liabilities</b>	<b>1,465,531</b>	<b>317,766</b>	<b>1,783,297</b>	<b>4,366,677</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	371,614	(84,909)	286,705	682,295
<b>Restricted for:</b>				
Budget Reserve	82,024		82,024	
State infrastructure bank	1,343		1,343	
Debt	19,544	28,194	47,738	568,763
Employment Insurance Programs	94,002	312,318	406,320	
Unrestricted	(124,431)	1,650	(122,781)	145,442
<b>Total net assets</b>	<b>\$ 444,096</b>	<b>\$ 257,253</b>	<b>\$ 701,349</b>	<b>\$ 1,396,500</b>

State of Rhode Island and Providence Plantations  
Statement of Activities  
For the Year Ended June 30, 2002  
(Expressed in Thousands)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating grants and contributions	Capital grants and contributions	Primary Government		Totals	
					Governmental Activities	Business-type activities		
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 455,489	\$ 140,869	\$ 64,412	\$ 484	\$ (249,724)	\$	\$ (249,724)	\$
Human services	2,115,220	98,789	1,074,576		(941,855)		(941,855)	
Education	339,455	2,744	111,618		(225,093)		(225,093)	
Public safety	288,291	30,230	22,476		(235,585)		(235,585)	
Natural resources	138,287	30,573	12,590	3,941	(91,183)		(91,183)	
Transportation	192,824	2,802	30,302	171,646	11,926		11,926	
Intergovernmental	896,512				(896,512)		(896,512)	
Grants	287				(287)		(287)	
Interest and other charges	79,381				(79,381)		(79,381)	
<b>Total governmental activities</b>	<b>4,505,746</b>	<b>306,007</b>	<b>1,315,974</b>	<b>176,071</b>	<b>(2,707,694)</b>		<b>(2,707,694)</b>	
Business-type activities:								
State lottery	958,626	1,170,860				212,234	212,234	
Convention Center	57,900	39,291				(18,609)	(18,609)	
Employment security	231,665	135,771	50,656			(45,238)	(45,238)	
<b>Total business-type activities</b>	<b>1,248,191</b>	<b>1,345,922</b>	<b>50,656</b>			<b>148,387</b>	<b>148,387</b>	
<b>Total primary government</b>	<b>\$ 5,753,937</b>	<b>\$ 1,651,929</b>	<b>\$ 1,366,630</b>	<b>\$ 176,071</b>	<b>(2,707,694)</b>	<b>148,387</b>	<b>(2,559,307)</b>	
<b>Component units</b>	<b>\$ 925,070</b>	<b>\$ 629,259</b>	<b>\$ 343,134</b>	<b>\$ 86,064</b>				<b>133,387</b>
<b>General Revenues:</b>								
Taxes					2,187,342		2,187,342	
Interest and investment earnings					10,005	21,134	31,139	47,805
Miscellaneous					153,947	7,615	161,562	(218)
Special items					525,276		525,276	(2,790)
Transfers					198,969	(198,969)		
<b>Total general revenues, special items, and transfers</b>					<b>3,075,539</b>	<b>(170,220)</b>	<b>2,905,319</b>	<b>44,797</b>
Change in net assets					367,845	(21,833)	346,012	178,184
Net assets - beginning					76,251	279,086	355,337	1,218,316
Net assets - ending					<b>\$ 444,096</b>	<b>\$ 257,253</b>	<b>\$ 701,349</b>	<b>\$ 1,396,500</b>

Exhibit A-15

**State of Rhode Island and Providence Plantations**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2002**  
**(Expressed in Thousands)**

	General	Intermodal Surface Transportation	Bond Capital	Tobacco Settlement Trust	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 193,870	\$ 9,503	\$ 100,590	\$ 113,938	\$ 73,314	\$ 491,215
Funds on deposit with fiscal agent					24,431	24,431
Investments					17,008	17,008
Receivables (net)	196,134	11,365			39,620	247,119
Due from other funds	26,810	15,499	4		733	43,046
Due from component units	1,646	1,147				2,793
Due from other governments and agencies	117,788	28,358	4,095			150,241
Loans to other funds	5,791					5,791
Other assets	77	68			2,727	2,872
<b>Total assets</b>	<b>542,116</b>	<b>65,940</b>	<b>104,689</b>	<b>113,938</b>	<b>157,833</b>	<b>984,516</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	285,817	20,677	9,158		1,234	316,886
Due to other funds	2,958		35,564		7,032	45,554
Due to component units	1,818	2,628	29			4,475
Due to other governments and agencies		2,431				2,431
Loans from other funds			1,458		1,523	2,981
Accrued expenses	43,172					43,172
Deferred revenue	17,176	5,043	66			22,285
Other liabilities	27,375	1,796	59		3,438	32,668
<b>Total liabilities</b>	<b>378,316</b>	<b>32,575</b>	<b>46,334</b>		<b>13,227</b>	<b>470,452</b>
<b>Fund Balances</b>						
<b>Reserved for:</b>						
Budget reserve	82,024					82,024
Appropriations carried forward	50,737					50,737
Debt					19,544	19,544
State infrastructure bank		1,343				1,343
<b>Unreserved, reported in:</b>						
General fund	31,039					31,039
Special revenue funds		32,022		113,938	95,501	241,461
Capital projects funds			58,355		28,775	87,130
Permanent fund					786	786
<b>Total fund balances</b>	<b>163,800</b>	<b>33,365</b>	<b>58,355</b>	<b>113,938</b>	<b>144,606</b>	<b>514,064</b>
<b>Total liabilities and fund balances</b>	<b>\$ 542,116</b>	<b>\$ 65,940</b>	<b>\$ 104,689</b>	<b>\$ 113,938</b>	<b>\$ 157,833</b>	<b>\$ 984,516</b>

State of Rhode Island and Providence Plantations  
 Reconciliation of the Balance Sheet of the Governmental Funds  
 to Statement of Net Assets for Governmental Activities  
 June 30, 2002  
 (Expressed in Thousands)

Fund Balance of Governmental Funds	\$	514,064
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.		923,392
Bond, notes, certificates of participation, and accrued interest are not due and payable in the current period and therefore are not recorded in the governmental funds.		(1,040,255)
Long-term receivables from component units that are not available to pay for current-period expenditures and therefore are not recorded in the fund financial statements.		25,783
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.		10,439
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net assets of the internal service funds is reported with governmental activities.		10,673
Net Assets - Governmental Activities	\$	444,096

**State of Rhode Island and Providence Plantations**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2002**  
**(Expressed in Thousands)**

	General	Intermodal Surface Transportation	Bond Capital	Tobacco Settlement Trust	Other Governmental Funds	Total Governmental Funds
<b>Operating revenues:</b>						
Taxes	\$ 1,905,131	\$ 130,000	\$	\$	\$ 146,825	\$ 2,181,956
Licenses, fines, sales, and services	186,927				11,810	198,737
Departmental restricted revenue	77,038	2,802				79,840
Federal grants	1,289,575	190,294	7,257			1,487,126
Income from investments	1,092	339	3,525		4,676	9,632
Net increase in the fair value of investments					182	182
Other revenues	55,346	970	3,698		674	60,688
Total operating revenues	3,515,109	324,405	14,480		164,167	4,018,161
<b>Operating expenditures:</b>						
Current:						
General government	273,966				154,918	428,884
Human services	2,103,198					2,103,198
Education	92,035					92,035
Public safety	288,363					288,363
Natural resources	56,220		3,698		4,650	64,568
Transportation		122,208				122,208
Capital outlays	37,153	133,548	24,929		8,099	203,729
Intergovernmental	892,172	832	3,453		56	896,513
Grants			287			287
Debt service:						
Principal	91,576					91,576
Interest and other charges	65,557				8,527	74,084
Total operating expenditures	3,900,240	256,588	32,367		176,250	4,365,445
Operating income (loss)	(385,131)	67,817	(17,887)		(12,083)	(347,284)
<b>Nonoperating revenues (expenses)</b>						
Bonds and notes issued			174,000		1,205	175,205
Premium and accrued interest			6,069		46	6,115
Operating transfers in	469,143	44,861	52,348		3,250	569,602
Operating transfers in from component units	26,721					26,721
Other	83,142					83,142
Payment to refunded bonds escrow agent			(40,239)	(295,300)		(335,539)
Operating transfers out	(72,567)	(50,872)	(100,502)	(135,000)	(1,602)	(360,543)
Operating transfers out to component units	(225,653)	(62,543)	(111,463)		(2,850)	(402,509)
Total nonoperating revenues (expenses)	280,786	(68,554)	(19,787)	(430,300)	49	(237,806)
Special item				544,238		544,238
Change in fund balances	(104,345)	(737)	(37,674)	113,938	(12,034)	(40,852)
Fund balances - beginning	268,145	34,102	96,029		156,640	554,916
Fund balances - ending	\$ 163,800	\$ 33,365	\$ 58,355	\$ 113,938	\$ 144,606	\$ 514,064

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, 2002  
 (Expressed in Thousands)

Change in Fund Balance - Governmental Funds	\$ (40,852)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in 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.	166,266
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.	229,249
Revenues in the Statement of Activities do not provide current financial resources and are therefore recorded as deferred revenue in the Governmental Funds Balance Sheet	10,439
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.	2,743
Change in Net Assets - Governmental Activities	<u><u>\$ 367,845</u></u>

State of Rhode Island and Providence Plantations  
Statement of Net Assets  
Proprietary Funds  
June 30, 2002  
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds			Governmental Activities	
	R.I. State Lottery	R.I. Convention Cener	Employment Security	Totals	Internal Service Funds
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 6,600	\$ 14,246	\$ 1,415	\$ 22,261	\$ 8,977
Funds on deposit with fiscal agent			277,188	277,188	
Investments	691			691	
Receivables (net)	7,594	2,223	33,521	43,338	4,201
Due from other funds					9,794
Due from other governments and agencies			1,818	1,818	
Inventories	886			886	2,304
Other assets	459	877		1,336	476
<b>Total current assets</b>	<b>16,230</b>	<b>17,346</b>	<b>313,942</b>	<b>347,518</b>	<b>25,752</b>
Noncurrent assets:					
Investments	320	17,174		17,494	
Capital assets - nondepreciable	751	38,617		39,368	
Capital assets - depreciable (net)	530	169,124		169,654	3,921
Other assets		4,847		4,847	1,022
<b>Total noncurrent assets</b>	<b>1,601</b>	<b>229,762</b>		<b>231,363</b>	<b>4,943</b>
<b>Total assets</b>	<b>17,831</b>	<b>247,108</b>	<b>313,942</b>	<b>578,881</b>	<b>30,695</b>
<b>Liabilities</b>					
Current Liabilities					
Cash overdraft	212			212	4,525
Accounts payable	8,877	2,277		11,154	5,953
Due to primary government					
Due to other funds	2,142	1,659	61	3,862	3,424
Due to component units					
Due to other governments and agencies			1,563	1,563	
Loans from other funds					2,810
Accrued expenses		3,737		3,737	
Deferred revenue	157	697		854	
Other current liabilities	425			425	2,044
Notes payable		1,153		1,153	
Bonds payable		6,075		6,075	
Obligations under capital lease					112
Obligation for unpaid prize awards	5,663			5,663	
<b>Total current liabilities</b>	<b>17,476</b>	<b>15,598</b>	<b>1,624</b>	<b>34,698</b>	<b>18,868</b>
Noncurrent Liabilities					
Obligations under capital lease					1,156
Bonds payable		286,610		286,610	
Notes payable					
Compensated absences					
Obligation for unpaid prize awards	320			320	
<b>Total noncurrent liabilities</b>	<b>320</b>	<b>286,610</b>		<b>286,930</b>	<b>1,156</b>
<b>Total liabilities</b>	<b>17,796</b>	<b>302,208</b>	<b>1,624</b>	<b>321,628</b>	<b>20,024</b>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	35	(84,944)		(84,909)	2,423
Restricted for:					
Capital Projects					348
Debt		28,194		28,194	
Employment Insurance Programs			312,318	312,318	
Unrestricted		1,650		1,650	7,900
<b>Total net assets</b>	<b>\$ 35</b>	<b>\$ (55,100)</b>	<b>\$ 312,318</b>	<b>\$ 257,253</b>	<b>\$ 10,671</b>



**State of Rhode Island and Providence Plantations**  
**Statement of Revenues, Expenditures and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2002**  
**(Expressed in Thousands)**

	<b>Business-type Activities-- Enterprise Funds</b>			<b>Governmental Activities</b>	
	<b>R.I. State Lottery</b>	<b>R.I. Convention Center</b>	<b>Employment Security</b>	<b>Totals</b>	<b>Internal Service Funds</b>
Operating revenues:					
Charges for services	\$ 1,170,860	\$ 38,686	\$ 134,468	\$ 1,344,014	\$ 98,901
Grants			50,656	50,656	
Miscellaneous		605	1,303	1,908	
Total operating revenues	<u>1,170,860</u>	<u>39,291</u>	<u>186,427</u>	<u>1,396,578</u>	<u>98,901</u>
Operating expenses:					
Personal services	3,194	14,727		17,921	13,196
Supplies, materials, and services	161,667	16,056		177,723	82,008
Prize awards	793,540			793,540	
Depreciation	225	9,584		9,809	756
Benefits Paid			225,641	225,641	
Total operating expenses	<u>958,626</u>	<u>40,367</u>	<u>225,641</u>	<u>1,224,634</u>	<u>95,960</u>
Operating income (loss)	212,234	(1,076)	(39,214)	171,944	2,941
Nonoperating revenues (expenses):					
Interest revenue	1,973	1,327	17,834	21,134	22
Other nonoperating revenue			7,615	7,615	
Interest expense		(17,533)		(17,533)	(76)
Other nonoperating expenses			(6,024)	(6,024)	
Total nonoperating revenue (expenses)	<u>1,973</u>	<u>(16,206)</u>	<u>19,425</u>	<u>5,192</u>	<u>(54)</u>
Net income (loss) before transfers	214,207	(17,282)	(19,789)	177,136	2,887
Transfers in		16,969		16,969	
Transfers out	(214,279)	(1,659)		(215,938)	(143)
Change in net assets	(72)	(1,972)	(19,789)	(21,833)	2,744
Total net assets - beginning	107	(53,128)	332,107	279,086	7,927
Total net assets - ending	<u>\$ 35</u>	<u>\$ (55,100)</u>	<u>\$ 312,318</u>	<u>\$ 257,253</u>	<u>\$ 10,671</u>

State of Rhode Island and Providence Plantations  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2002  
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I.		Totals	Internal Service Funds
		Convention Center	Employment Security		
<b>Cash flows from operating activities:</b>					
Cash received from customers	\$ 1,177,258	\$ 38,899	\$ 138,285	\$ 1,354,442	\$ 50,807
Cash received from grants			22,917	22,917	
Cash payments to suppliers for goods and services	(3,368)	(15,208)		(18,576)	(78,492)
Cash payments to employees for services	(3,401)	(14,312)		(17,713)	(18,749)
Cash payments to prize winners	(799,985)			(799,985)	
Cash payments for commissions	(155,333)			(155,333)	
Cash payments for benefits			(225,608)	(225,608)	
Other operating revenue (expense)			479	479	(173)
Net cash provided by (used for) operating activities	<u>215,171</u>	<u>9,379</u>	<u>(63,927)</u>	<u>160,623</u>	<u>(46,607)</u>
<b>Cash flows from noncapital financing activities:</b>					
Loans from other funds					72,755
Loans to other funds					18,420
Repayment of loans to other funds					(42,794)
Operating transfers in		16,393	202,004	218,397	
Operating transfers out	(213,444)	(1,659)	(138,991)	(354,094)	
Negative cash balance implicitly financed	(221)			(221)	4,525
Other			1,006	1,006	
Net cash provided by (used for) noncapital financing activities	<u>(213,665)</u>	<u>14,734</u>	<u>64,019</u>	<u>(134,912)</u>	<u>52,906</u>
<b>Cash flows from capital and related financing activities:</b>					
Principal paid on capital obligations		(7,640)		(7,640)	(348)
Interest paid on capital obligations		(15,278)		(15,278)	(76)
Acquisition of capital assets	(1,064)	(3,356)		(4,420)	(215)
Proceeds from the disposition of capital assets					154
Proceeds from bonds		2,596		2,596	
Net cash provided by (used for) capital and related financing activities	<u>(1,064)</u>	<u>(23,678)</u>		<u>(24,742)</u>	<u>(485)</u>
<b>Cash flows from investing activities:</b>					
Proceeds from sale and maturity of investments	902	4,244		5,146	
Interest on investments	457	1,365		1,822	22
Net cash provided by (used for) investing activities	<u>1,359</u>	<u>5,609</u>		<u>6,968</u>	<u>22</u>
Net increase (decrease) in cash and cash equivalents	1,801	6,044	92	7,937	5,836
Cash and cash equivalents, July 1, 2001	4,799	8,202	1,323	14,324	3,141
Cash and cash equivalents, June 30, 2002	<u>\$ 6,600</u>	<u>\$ 14,246</u>	<u>\$ 1,415</u>	<u>\$ 22,261</u>	<u>\$ 8,977</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>					
Operating income (loss)	212,234	(1,076)	(39,214)	171,944	2,941
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b>					
Depreciation	225	9,584		9,809	756
Other revenue (expense)					
<b>Net changes in assets and liabilities:</b>					
Receivables, net	(1,588)	(360)	2,933	985	(153,422)
Operating revenue deposited directly with the fiscal agent			(27,717)	(27,717)	
Inventory	(150)			(150)	(4)
Prepaid items	16	(50)		(34)	24
Other assets	516		(42)	474	
Other income / expenses					
Due to / due from transactions			113	113	
Accounts and other payables	3,125	763		3,888	102,855
Accrued expenses	(51)	543		492	243
Deferred revenue	16			16	
Prize awards payable	828			828	
Other liabilities		(25)		(25)	
Total adjustments	<u>2,937</u>	<u>10,455</u>	<u>(24,713)</u>	<u>(11,321)</u>	<u>(49,548)</u>
Net cash provided by (used for) operating activities	<u>\$ 215,171</u>	<u>\$ 9,379</u>	<u>\$ (63,927)</u>	<u>\$ 160,623</u>	<u>\$ (46,607)</u>

**State of Rhode Island and Providence Plantations**  
**Statement of Net Assets**  
**Fiduciary Funds**  
**June 30, 2002**  
**(Expressed in Thousands)**

	<b>Pension Trust</b>	<b>Private Purpose</b>	
		<b>Touro Jewish Synagogue</b>	<b>Agency</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 4,794	\$ 107	\$ 15,177
Receivables			
Contributions	25,957		
Due from state for teachers	15,486		
Miscellaneous	2,514	3	
Total receivables	43,957	3	
Investments, at fair value			
Equity in Short-Term Investment Fund	193		
Equity in Pooled Trust	5,394,370		
Plan specific investments	23,072		
Other investments		1,852	69,127
Total investments before lending activities	5,417,635	1,852	69,127
Invested securities lending collateral	527,155		
Property and equipment, at cost, net of accumulated depreciation			
Line of Business System in Development	12,256		
Computer Equipment	458		
Total Property and Equipment	12,714		
Total assets	6,006,255	1,962	84,304
<b>Liabilities</b>			
Securities lending liability	527,156		
Accounts payable	4,841		
Deposits held for others			84,304
Total liabilities	531,997		84,304
Net assets held in trust for pension and other benefits	\$ 5,474,258	\$ 1,962	\$

**State of Rhode Island and Providence Plantations**  
**Statement of Changes in Fund Net Assets**  
**Fiduciary Funds**  
**June 30, 2002**  
**(Expressed in Thousands)**

	<u>Pension Trust</u>	<u>Private Purpose Touro Jewish Synagogue</u>
<b>Additions</b>		
Contributions		
Member contributions	\$ 141,715	\$
Employer contributions	88,750	
State contributions for teachers	30,763	
Interest on service credits purchased	546	
Total contributions	<u>261,774</u>	
Investment income		
Net depreciation in fair value of investments	(669,135)	(337)
Interest	117,549	62
Dividends	38,387	
Other investment income	19,738	
	<u>(493,461)</u>	<u>(275)</u>
Less investment expense	17,962	21
Net income from investing activities	<u>(511,423)</u>	<u>(296)</u>
Securities Lending		
Securities lending income	13,627	
Less securities lending expense	11,022	
Net securities lending income	<u>2,605</u>	
Total net investment income	<u>(508,818)</u>	<u>(296)</u>
Total additions	<u>(247,044)</u>	<u>(296)</u>
<b>Deductions</b>		
Benefits		
Retirement benefits	332,134	
Cost of living adjustment	75,596	
SRA Plus (option)	22,610	
Supplemental benefits	991	
Death benefits	3,250	
Total benefits	<u>434,581</u>	
Refund of contributions	5,674	
Administrative expense	3,965	
Distribution		52
Total deductions	<u>444,220</u>	<u>52</u>
Net increase (decrease)	(691,264)	(348)
Net assets held in trust for pension benefits		
Beginning of year	6,165,522	2,310
End of year	<u>\$ 5,474,258</u>	<u>\$ 1,962</u>

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State of Rhode Island and Providence Plantations  
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**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 defines component units as legally separate entities for which a primary government (the State) is financially accountable or, if not financially accountable, their exclusion would cause the State's financial statements to be misleading. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an entity's governing body and (1) the ability of the State to impose its will on that entity or (2) the potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the State. The State has considered all agencies, boards, commissions, public benefit authorities and corporations, the State university and colleges and the Central Falls School District as potential component units. Audited financial statements of the individual component units can be obtained from their respective administrative offices.

**Blended Component Units**

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

**State Lottery Fund (Lottery)** - This fund is used to account for the revenues generated by the State Lottery Commission in conducting various lottery games. According to statute, earnings after allocation for prize awards and payment of expenses shall be transferred to the State's general fund. For more detailed information, a copy of the financial statements can be obtained by writing to the State Lottery Commission, 1425 Pontiac Avenue, Cranston, RI 02920.

**Rhode Island Convention Center Authority (RICCA)** - This Authority was created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One West Exchange Street, Providence, RI 02903.

**Rhode Island Refunding Bond Authority (RIRBA)** - This authority was created by law for the purpose of loaning money to the State to provide funds to pay, redeem, or retire certain 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 R.I. Refunding Bond Authority, State House, Providence, RI 02903.

**Rhode Island Economic Policy Council (RIEPC)** - This council is a non-profit organization created by executive order in March 1995 and incorporated in January 1996. The purpose of the council is to work closely with State officials to identify issues facing the State's economy, to develop and recommend creative strategies and policies to address them, to advise the State legislature in policy matters relating to economic development, and to administer a program designed to foster private technology commercialization and plant and process modernization through research centers, higher education partnerships and cluster collaboratives. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Economic Policy Council, 15 Westminster Street Suite 615, Providence, RI 02903-2417.

**Discretely Presented Component Units**

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

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

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statements can be obtained by writing to the 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 R.I. Turnpike and Bridge Authority, P.O. Box 437, Jamestown, RI 02835-0437.

**Rhode Island Economic Development Corporation (RIEDC)** - This Corporation was created in 1995 and its purpose is to promote and encourage the preservation, expansion, and sound development of new and existing industry, business, commerce, agriculture, tourism, and recreational facilities in the State, which will promote economic development. It has the power to issue tax-exempt industrial development bonds to accomplish its corporate purpose.

The RIEDC has a subsidiary corporation, the R. I. Airport Corporation, that manages the State's six airports. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Economic Development Corporation, One West Exchange Street, Providence, RI 02903.

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

**Rhode Island Health and Educational Building Corporation (RIHEBC)** - This Corporation has the following purposes: (1) to assist in providing financing for education facilities for colleges and universities operating in the State; (2) to assist hospitals in the State in the financing of health care facilities; (3) to assist stand-alone, non-profit assisted-living and adult daycare facilities; (4) to assist in financing a broad range of non-profit health care providers; and (5) to assist in financing non-profit secondary schools and child care centers. RIHEBC issues bonds, notes and leases which are special obligations of RIHEBC payable from revenues derived from the projects financed or other moneys of the participating education institution or health care institution. The bonds, notes and leases do not constitute a debt or pledge of the faith and credit of RIHEBC or the State and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Health and Educational Building Corporation, 170 Westminster Street, Suite 1200, Providence, RI 02903.

**Rhode Island Resource Recovery Corporation (RIRRC)** - This Corporation was established in 1974 in order to provide and/or coordinate solid waste management services to municipalities and persons within the State. RIRRC has the power to issue negotiable bonds and notes to

achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Resource Recovery Corporation, 65 Shun Pike, Johnston, RI 02919.

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

**Rhode Island Higher Education Assistance Authority (RIHEAA)** - This Authority was created by law in 1977 for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post secondary student assistance. For more detailed information, a copy of the financial statements can be obtained by writing to the 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 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 R.I. Industrial Facilities Corporation, One West Exchange Street, Providence, RI 02903.

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

**Rhode Island Industrial-Recreational Building Authority (RIIRBA)** - This Authority is authorized to insure first mortgages and first security agreements granted by financial institutions and

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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 R.I. Industrial-Recreational Building Authority, One West Exchange Street, Providence, RI 02903.

**Rhode Island Water Resources Board Corporate (RIWRBC)** - This Board was created by law to foster and guide the development of water resources including the establishment of water supply facilities and lease these facilities to cities, towns, districts, and other municipal, quasi-municipal or private corporations engaged in the water supply business in the State. RIWRBC is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Water Resources Board Corporate, 100 North Main Street, Providence, RI 02903.

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

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

**Tobacco Settlement Financing Corporation (TSFC)** - This corporation was organized on June 13, 2002 as a public corporation by the State. TSFC is legally independent and separate from the State and there is no financial interdependency between the two entities. 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 02903.

#### 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:

**Investment in capital assets, net of related debt.** This category reflects the portion of net assets associated with capital assets, net of accumulated depreciation and reduced by outstanding bonds and other debt that are attributable to the acquisition, construction or improvement of those assets.

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the 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.

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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.

**Tobacco Settlement Trust Fund.** The Tobacco Settlement Trust Fund accounts for the proceeds from the sale of the rights to tobacco settlement revenues by the State to the Tobacco Settlement Finance Corporation.

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

The State reports the following major proprietary funds:

**State Lottery Fund.** The State Lottery Fund operates games of chance for the purpose of generating resources for the State's General Fund.

**Rhode Island Convention Center Authority (RICCA)** - This Authority was created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence on behalf of the State.

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

Additionally, the State reports the following fund types:

**Governmental Fund Types:**

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

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

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

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

**Proprietary Fund Types:**

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

**Fiduciary Fund Types:**

**Pension Trust Funds.** These funds account for the activities of the Employees' Retirement System, Municipal Employees' Retirement System, State Police Benefit Trust, and Judicial 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.

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

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

**E. Cash and Cash Equivalents**

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



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

Funds on deposit with fiscal agent in the capital projects funds and enterprise fund are the unexpended portion of certificates of participation and funds held by the United States Treasury Department for the payment of unemployment benefits, respectively.

**G. Investments**

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

The pension trust funds may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on the asset and liability positions of foreign investments. The gains or losses on these contracts are included in income in the period in which the exchange rates change. Gains and losses on contracts which hedge specific foreign currency denominated commitments are deferred and recognized in the period in which the transaction is completed. By policy, no more than 50% of actively managed foreign equity securities (at fair value) may be hedged into the base currency (U.S. dollars).

**H. Receivables**

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

**I. Due From Other Governments and Agencies**

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

**J. Interfund Activity**

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

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

**K. Inventories**

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

**L. Capital Assets**

Capital assets, which include land, buildings, equipment and infrastructure assets (e.g., roads, bridges, and similar assets) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the State as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The estimates of historical costs of land, buildings, and improvements were derived by factoring price levels from the current period to the time of acquisition. In cases where the acquisition date was not determinable, the date of acquisition was estimated. Infrastructure constructed prior to July 1, 2001 has not been reported. This information will be included in future reports. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction of capital facilities is not capitalized. However, certain component units, R.I. Economic Development Corporation, R.I. Resources Recovery Corporation, and Narragansett Bay Commission, have capitalized interest.

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

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

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

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**M. Bonds Payable**

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

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

**N. Obligations under Capital Leases**

The construction and acquisition of certain State office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds and notes issued by the R.I. Refunding Bond Authority, the R.I. Economic Development Corporation, or by a trustee pursuant to a lease/purchase agreement with the State (See Note 7(D)).

**O. Accrued Liabilities**

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

**P. Compensated Absences**

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

**Q. Fund Balances**

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

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

**R. New Accounting Pronouncements**

The State implemented the following new accounting standards issued by the Governmental Accounting Standards Board (GASB) for the fiscal year ended June 30, 2002:

- Statement No. 34, Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments,
- Statement No. 35, Basic Financial Statements--and Management's Discussion and Analysis--for Public Colleges and Universities,
- Statement No. 37, Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments: Omnibus, and
- Statement No. 38, Certain Financial Statement Note Disclosures.

Statement No. 34, as amended by Statement No. 37, represents a significant change to the financial reporting model used by the State. Significant changes include the addition of entity-wide financial statements, which summarize information for governmental activities, business-type activities and discretely presented component units. These statements are prepared under the full accrual basis of accounting, as opposed to the modified accrual basis of accounting used in the governmental fund financial statements. Infrastructure assets are now required to be reported as capital assets on the entity-wide statement of net assets. Under the provisions of Statement No. 34, the State opted to report only the current year acquisitions. These assets were not previously required to be included in the financial statements. Assets previously reported in the general fixed asset account group are now reported as a reconciling item between the governmental fund financial statements and the entity-wide financial statements. Liabilities previously reported in the general long-term debt account group are similar reconciling items.

Under Statement No. 34, the focus in the fund financial statements is on major and nonmajor funds rather than on fund type. Statement No. 34 defines the general fund as a major fund and management determined that the intermodal surface transportation fund should be reported as a major fund. Other governmental funds and enterprise funds are evaluated on these criteria:

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

Statement No. 34 also reclassified certain funds or redefined some fund types. The following are the funds of the State that were affected:

<u>Fund Name</u>	<u>Fiscal Year 2001</u>	<u>Fiscal Year 2002</u>
Employment Security	Expendable Trust	Enterprise
Permanent School	Nonexpendable Trust	Permanent
Touro Jewish Synagogue	Nonexpendable Trust	Private Purpose Trust

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Statement No. 38; which was required to be implemented in conjunction with Statement No. 34; modifies, establishes or rescinds certain financial disclosure requirements.

**S. Change in Presentation**

The R.I. Convention Center Authority was reclassified from a discretely presented component unit to a proprietary type blended component unit. Certain beginning net assets on the Statements of Changes in Net Assets have been restated to conform to either GASB 34 or the State's change in presentation.

**Note 2. Budgeting and Budgetary Control**

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund and certain special revenue funds. Preparation and submission of the budget is governed by both the State Constitution and the Rhode Island General Laws. The budget, as enacted by the General Assembly and signed by the Governor, contains a complete plan of estimated revenues (general, federal and restricted), transfers in (general and restricted) and proposed expenditures.

The legal level of budgetary control, i.e. the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch. Federal grant appropriations may also be limited by the availability of matching funds and may also require special approval from a federal agency before reallocating resources among programs.

Internal administrative and accounting budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations and the supervisory powers and functions exercised by management. Management cannot reduce the budget without special approval.

Unexpended general revenue appropriations lapse at the end of the fiscal year, unless the department/agency directors identify unspent appropriations related to specific projects/purchases and request a reappropriation. If the requests are approved by the Governor, such amounts are reappropriated for the ensuing fiscal year and made immediately available for the same purposes as the former appropriations. Unexpended appropriations of the General Assembly and its legislative commissions and agencies may be reappropriated by the Joint Committee on Legislative Services. If the sum total of all departments and agencies general revenue expenditures exceeds the total general revenue appropriations, it is the policy of management to lapse all unexpended appropriations, except those of the legislative branch and the Justice Link program.

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

**Cash**

Primary Government

At June 30, 2002, the carrying amount of the State's cash deposits was \$163,180,000 and the bank balance was \$158,416,000. Of the bank balance, \$1,014,000 was covered by federal depository insurance. The remaining amount, \$157,402,000 was uninsured and uncollateralized. The carrying amount and bank balance include \$14,713,000 of certificates of deposit.

On February 13, 2002, the General Fund borrowed \$20,000,000 from the R.I. Temporary Disability Fund to cover a cash shortfall as permitted under RIGL 35-3-23. This loan was repaid in full as of June 30, 2002 with interest at the rate of 1.72%, which was based on the U.S. Treasury Bill rate.

During fiscal year 2002, the State issued \$90 million of tax anticipation notes at an interest rate of 2.250%. The notes were redeemed as of June 30, 2002.

Fiduciary Trust Funds

At June 30, 2002, the carrying amount of the fiduciary trust funds' cash deposits was \$4,000,000 and the bank balance was \$4,168,341. The bank balance was covered by federal depository insurance. The carrying amount and the bank balance include \$4,000,000 of certificates of deposit.

Component Units

At June 30, 2002, the carrying amount of the component units' cash deposits was \$272,305,000 and the bank balance was \$283,865,000. Of the bank balance, \$2,443,000 was covered by federal depository insurance and \$207,431,000 was collateralized with investments held by a bank in a component unit's name. The remaining amount, \$73,991,000 was uninsured and uncollateralized. The carrying amount and the bank balance include \$4,401,000 of certificates of deposit.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government was required to be collateralized at June 30, 2002.

**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,

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"invest in securities as would be acquired by prudent persons of discretion and intelligence in these matters who are seeking a reasonable income and the preservation of their capital."

Short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of the pension trust funds are made by investment managers in accordance with the Commission's stated investment objectives and policies.

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

The State's investments (expressed in thousands) are categorized in the following table to give an indication of the level of risk assumed by the entity at June 30, 2002.

- Category 1: Insured or registered, or securities held by the State or its agent in the State's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's name.

Primary Government	Category			Fair Value
	1	2	3	
U.S. Government and agency securities	\$ 128,593	\$	\$	\$ 128,593
Commercial Paper	16,788			16,788
Repurchase Agreements	34,553		19,434	53,987
	<u>\$ 177,934</u>	<u>\$</u>	<u>\$ 19,434</u>	<u>197,368</u>
Money Market Mutual Funds				182,025
Other				15,073
				<u>394,466</u>
Less amounts classified as cash equivalents				359,273
Investments				<u>\$ 35,193</u>

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Fiduciary Funds	Category			Fair Value
	1	2	3	
U.S. Government and agency securities				
Not on security loan	\$ 469,253	\$	\$	\$ 469,253
On loan for securities collateral	24,906			24,906
Repurchase Agreements	821			821
Corporate Bonds	708,159	106		708,265
Equity Securities				
Not on security loan	830,351	1,173		831,524
On loan for securities collateral	123,685			123,685
Foreign Securities				
Not on security loan	818,622			818,622
On loan for securities collateral	64,499			64,499
Unit Investment Trust	1,406,148			1,406,148
Other		29		29
	<u>\$ 4,444,444</u>	<u>\$ 1,308</u>	<u>\$</u>	<u>4,445,752</u>
Money Market Mutual Funds				155,927
Real Estate and Venture Capital Limited Partnerships				288,874
Investments held by broker-dealers under securities loans with cash collateral				515,308
Securities lending short-term collateral investment pool				527,158
Investments of Statutory Deposits Held in Trust				84,304
Other				4,526
				<u>6,031,847</u>
Less amounts classified as cash equivalents				16,078
Investments				<u>\$ 6,015,769</u>

Component Units	Category			Fair Value
	1	2	3	
U.S. Government and agency securities	\$ 128,052	\$ 180,267	\$ 8,034	\$ 316,353
Money Market			21,107	21,107
Commercial Paper	186,565			186,565
Repurchase Agreements	90,519	2,860	35,080	128,459
Corporate Bonds			957	957
Corporate Notes	348			348
Equity Securities		1,378	4,863	6,241
Investment Agreements	5,812			5,812
Other	200	650	150	1,000
	<u>\$ 411,498</u>	<u>\$ 185,155</u>	<u>\$ 70,191</u>	<u>666,842</u>
Money Market Mutual Funds				40,926
Investment Agreements				588,514
Other				147
				<u>1,294,429</u>
Less amounts classified as cash equivalents				252,974
Investments				<u>\$ 1,041,455</u>

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**Derivatives and Other Similar Investments**

Primary Government

Some of the State of Rhode Island Employees' Retirement System's (System) investment managers are allowed to invest in certain derivative type transactions, including forward foreign currency transactions, futures contracts and mortgage-backed securities. Through the Unit Investment Trusts (UIT), the System also indirectly holds derivative type instruments. Information on the extent of the use, and holdings of derivative securities by the UITs is not readily available.

**Forward Foreign Currency Contracts** – The System may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. These contracts involve risk in excess of the amount reflected in the System's Statements of Plan Net Assets. The face or contract amount in U.S. dollars reflects the total exposure the System has in that particular currency contract. By policy, no more than 50% of actively managed Foreign Equity securities (at fair value) may be hedged into the base currency (US Dollars). The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

**Futures contracts** – The System may use futures to manage its exposure to the stock, money market, and bond markets and the fluctuations in interest rates and currency values. Buying futures tends to increase the System's exposure to the underlying instrument. Selling futures tends to decrease the System's exposure to the underlying instrument, or hedge other System investments. Losses may arise from changes in the value of the underlying instruments, if there is an illiquid secondary market for the contracts, or if the counterparties do not perform under the contract terms.

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

**Short Sales** – The Unit Investment Trusts (UIT) 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 UIT when the price of a security underlying the short sale increases and the UIT 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 use of investments to enter into securities lending transactions. The System has contracted with State Street Bank & Trust Company (SSB) as third party securities lending agent to lend the System's debt and equity securities for cash, securities and sovereign debt of foreign countries as collateral at 102% of the market value of the domestic securities on loan and 105% of the market value of the international securities on loan. There are no restrictions on the amount of loans that can be made. There have been no violations of the provisions of the contract. Securities on loan at year-end for cash collateral are presented as not categorized in the preceding table. Securities on loan for noncash collateral are classified according to the category for the collateral. The contract with the lending agent requires them to indemnify the System if the borrowers fail to return the securities. Either the System or the borrower can terminate all securities loans on demand. The cash collateral received on security loans was invested in the lending agent's short-term investment pool for an average duration of 69 days and a weighted average maturity of 144 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The System is not permitted to pledge or sell collateral securities received unless the borrower defaults. There were no losses during the fiscal year resulting from default of the borrower or lending agent.

At June 30, 2002, System's management believes the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers do not exceed the amounts the borrowers owe the System. The securities on loan at year-end were \$540,400,489 (fair value), and the collateral received for those securities on loan was \$552,779,734 (fair value).

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**Note 4. Receivables**

Receivables at June 30, 2002 (expressed in thousands) consist of the following:

	Taxes	Accounts	Accrued Interest	Notes and Loans	Allowance for Uncollectibles	Total Receivables
<b>Governmental Activities:</b>						
General	\$ 232,246	\$ 11,033	\$	\$ 2,700	\$ (49,844)	\$ 196,134
Intermodal Surface Transportation	11,392	106			(133)	11,385
Bond Capital						
Other Governmental	27,193	15,545	4		(3,122)	39,620
Internal Service		4,201		1,022		5,223
<b>Total - governmental activities</b>	<b>\$ 270,831</b>	<b>\$ 30,885</b>	<b>\$ 4</b>	<b>\$ 3,722</b>	<b>\$ (53,100)</b>	<b>\$ 252,342</b>
<b>Amounts not expected to be collected in the subsequent year and recorded as deferred revenue</b>						
General	\$ 5,387					
Intermodal Surface Transportation		\$ 4,396				
<b>Business-type activities:</b>						
State Lottery		7,937			(343)	7,594
Convention Center		2,185	143		(105)	2,223
Employment Security	32,096	11,418			(9,993)	33,521
<b>Total - business-type activities</b>	<b>\$ 32,096</b>	<b>\$ 21,540</b>	<b>\$ 143</b>	<b>\$</b>	<b>\$ (10,441)</b>	<b>\$ 43,338</b>
<b>Component Units</b>	<b>\$</b>	<b>\$ 110,730</b>	<b>\$ 34,068</b>	<b>\$ 2,153,878</b>	<b>\$ (45,875)</b>	<b>\$ 2,252,789</b>

**Component Units**

Loans receivable of the R.I. Housing and Mortgage Finance Corporation are secured by a first lien on real and personal property and, in some instances, are federally insured. Loans receivable of the R.I. Student Loan Authority are insured by the R.I. Higher Education Assistance Authority, which in turn has a reinsurance agreement with the federal government. The R.I. Clean Water Finance Agency provides loans to municipalities, sewer commissions, or wastewater management districts in the State for constructing or upgrading water pollution abatement projects.

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

Intra-entity receivables and payables, as of June 30, 2002, are the result of operations and expected to be reimbursed within the fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable
<b>Governmental Funds</b>		
<b>Major Funds</b>		
General Fund	\$ 26,810	\$ 2,958
Intermodal Surface Transportation Fund	15,499	0
Bond Capital	4	35,564
<b>Other</b>		
RI Underground Storage Tank Financial Responsibility	117	546
RI Temporary Disability Insurance		2,729
Providence River Relocation Project	204	205
Debt Service Fund	173	3,550
RI Clean Water Environmental Trust Fund	239	2
<b>Total Other</b>	<b>733</b>	<b>7,032</b>
<b>Total Governmental</b>	<b>43,046</b>	<b>45,554</b>
<b>Proprietary Funds</b>		
<b>Enterprise</b>		
RI Lottery		2,142
RI Convention Center Authority		1,659
Employment Security Trust Fund		61
<b>Total Enterprise</b>	<b>0</b>	<b>3,862</b>
<b>Internal Service</b>		
Assessed Fringe Benefits		2,932
Central Utilities	1,238	
Energy Revolving		39
Information Processing	3,548	294
Central Mail	455	1
Centrex		158
Howard Communications	63	
Central Pharmacy	1,472	
Central Laundry	105	
Automotive Maintenance	533	
Central Distribution Center	255	
Correctional Industries	2,028	
Records Center	97	
<b>Total Internal Service</b>	<b>9,794</b>	<b>3,424</b>
<b>Totals</b>	<b>\$ 52,840</b>	<b>\$ 52,840</b>

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Note 6. Capital Assets

The capital asset activity of the reporting entity consists of the following (expressed in thousands):

Primary Government Governmental	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 345,120	\$ 28,065	\$	\$ 373,185
Construction in progress	10,680	20,973		31,653
Total capital assets not being depreciated	355,800	49,038		404,838
Capital assets being depreciated:				
Land improvements	3,209			3,209
Buildings	368,762	891		369,453
Building improvements	188,868	18,061		206,929
Furniture and equipment	129,759	17,659	(3,702)	143,716
Infrastructure		118,277		118,277
Total capital assets being depreciated	690,598	154,888	(3,702)	841,584
Less accumulated depreciation for:				
Buildings	116,629	7,179		123,808
Building Improvements	80,196	9,884		90,080
Land improvements	1,648	160		1,808
Furniture and equipment	89,680	15,464	(3,702)	101,442
Infrastructure		1,971		1,971
Total accumulated depreciation	288,153	34,658	(3,702)	319,109
Total capital assets being depreciated, net	402,445	120,030		522,475
Governmental activities capital assets, net	\$ 758,245	\$ 169,068	\$	\$ 927,313

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

General government	\$ 7,727
Human services	10,187
Education	1,300
Public safety	9,283
Natural resources	1,661
Transportation	4,520
Total depreciation expense - governmental activities	\$ 34,658

Business-type activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 38,032	\$	\$	\$ 38,032
Construction in progress		1,336		1,336
Total capital assets not being depreciated	38,032	1,336		39,368
Capital assets being depreciated:				
Buildings	227,127	216	(7)	227,336
Machinery and equipment	15,571	2,895		18,466
Total capital assets being depreciated	242,698	3,111	(7)	245,802
Less accumulated depreciation for:				
Buildings	55,814	7,690	(3)	63,501
Machinery and equipment	10,836	1,811		12,647
Total accumulated depreciation	66,650	9,501	(3)	76,148
Total capital assets being depreciated, net	176,048	(6,390)	(4)	169,654
Business-type activities capital assets, net	\$ 214,080	\$ (5,054)	\$ (4)	\$ 209,022

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 68,133	\$ 7,954	\$ (2,063)	\$ 74,024
Construction in progress	139,813	136,678	(68,118)	208,373
Total capital assets not being depreciated	207,946	144,632	(70,181)	282,397
Capital assets being depreciated:				
Land improvements	70,951	4,702		75,653
Buildings	728,173	101,020	(612)	828,581
Machinery and equipment	190,675	30,361	(9,559)	211,477
Infrastructure	255,836	130		255,966
Total capital assets being depreciated	1,245,635	136,213	(10,171)	1,371,677
Less accumulated depreciation for:				
Buildings	255,475	26,160	(492)	281,143
Land Improvements	35,075	7,075		42,150
Machinery and equipment	102,931	18,851	(9,442)	112,340
Infrastructure	71,850	5,352		77,202
Total accumulated depreciation	465,331	57,438	(9,934)	512,835
Total capital assets being depreciated, net	780,304	78,775	(237)	858,842
Total capital assets, net	\$ 988,250	\$ 223,407	\$ (70,418)	\$ 1,141,239

Note 7. Long-Term Obligations

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

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**A. Bonds Payable**

At June 30, 2002, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government				Component Units	
	Governmental Activities		Proprietary Type		Principal	Interest
	Principal	Interest	Principal	Interest		
2003	\$ 48,595	\$ 40,728	\$ 6,075	\$ 14,981	\$ 132,311	\$ 168,852
2004	52,292	37,778	7,886	14,690	203,809	188,416
2005	57,946	34,948	9,380	14,327	150,418	157,481
2006	54,414	37,899	9,825	13,887	85,776	151,613
2007	51,433	33,852	10,290	13,426	76,272	147,735
2008 - 2012	236,569	111,107	59,300	59,386	396,721	674,192
2013 - 2017	213,415	45,538	75,315	43,666	491,271	563,075
2018 - 2022	101,495	7,153	95,310	23,869	479,611	442,432
2023 - 2027			46,255	4,445	480,248	305,333
2028 - 2032					500,153	195,469
2033 - 2037					465,470	115,428
2038 - 2042					217,605	42,725
	<u>\$ 816,149</u>	<u>\$ 349,003</u>	<u>\$ 319,435</u>	<u>\$ 202,597</u>	<u>\$ 3,679,965</u>	<u>\$ 3,190,551</u>

**Primary Government**

Current interest bonds of the State are serial bonds with interest payable semi-annually and multi-modal variable rate demand bonds. Capital appreciation bonds are designated as College and University Savings Bonds. The accreted interest is recognized as a current year expense in the governmental activities on the statement of activities. These bonds mature from 2006 to 2009 with all interest payable at maturity.

Included in the current interest bonds is \$28,165,000 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 reseat any purchased bonds by adjusting the interest rate offered. The State has entered into a standby bond purchase agreement (liquidity facility) with the tender agent and a commercial bank (the bank). The remarketing agent is required to offer for sale all bonds properly tendered for purchase. In the event the remarketing agent is unable to remarket tendered bonds, the standby bond purchase agreement provides that the bank agrees to purchase any bonds from time to time in an amount not to exceed the principal amount plus accrued interest up to 37 days at an interest rate not to exceed 12% per annum, subject to the terms and provisions of the liquidity facility. This agreement has been extended through July 2003. The State is required to pay the bank at an interest rate based on its prime lending rate or the federal funds rate plus 1/2 of 1 percent, whichever is higher. The standby bond purchase agreement remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank.

Revenue bonds of the R.I. Refunding Bond Authority (RIRBA) are secured by lease rentals payable by the State pursuant to lease agreements relating to projects financed by the authority and leased to the State. Proceeds from the RIRBA bonds have been used (1) to loan funds to the State to effect the advance refunding of general obligation bonds issued by the State in 1984; (2) to finance construction and renovation of certain buildings, and (3) to finance acquisition of equipment used by various State agencies.

Revenue bonds of the R.I. Convention Center Authority (RICCA) were issued to (a) refund bonds and notes, (b) pay construction costs, (c) pay operating expenses, (d) pay interest on revenue bonds prior to completion of construction, (e) fund a debt service reserve and (f) pay costs of issuance. The revenue bonds are secured by all rents receivable, if any, under a lease and agreement between the RICCA and the State covering all property purchased by the RICCA. It also covers a mortgage on facilities and land financed by the proceeds of the revenue bonds and amounts held in various accounts into which bond proceeds were deposited.

**Component Units**

Revenue bonds of the University of Rhode Island (URI), Rhode Island College (RIC), and Community College of Rhode Island (CCRI) were issued under trust indentures and are collateralized by a pledge of revenues from the facilities financed. The facilities include housing, student union (including bookstores) and dining operations. Under terms of the trust indentures, certain net revenues from these operations must be transferred to the trustees for payment of interest, retirement of bonds, and maintenance of facilities. The bonds are payable in annual or semi-annual installments to various maturity dates. Revenue bonds also include amounts borrowed under a loan and trust agreement between the R.I. Health and Educational Building Corporation (RIHEBC) (a proprietary component unit) and the Board of Governors for Higher Education acting for URI, RIC, and CCRI. The agreement provides for RIHEBC's issuance of the bonds with a loan of the proceeds to the university and colleges and the payment by the university and colleges to RIHEBC of loan payments that are at least equal to debt service on the bonds. The bonds are secured by a pledge of revenues of the respective institutions.

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



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improvements at Island Woods Industrial Park in Smithfield, R.I. and to acquire land, make improvements and renovations of a building and parking lot (The Fleet National Bank Project).

The proceeds of the revenue bonds of the R.I. Clean Water Finance Agency provide funds to make low interest loans to municipalities in the State and quasi-state agencies to finance or refinance the costs of construction or rehabilitation of water pollution abatement projects.

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

Bonds of the R.I. Water Resources Board Corporate were issued to provide financing to various cities, towns, private corporations and companies engaged in the sale of potable water and the water supply business.

The Tobacco Settlement Financing Corporation (TSFC) issued \$685,390,000 of Tobacco Asset-Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues (TSR's) under the Master Settlement Agreement and the Consent Decree and Final Judgment (the "MSA").

A summary of general obligation bonds authorized by the voters and unissued (expressed in thousands) at June 30, 2002 is shown below.

	Authorized and Unissued July 1	Authorized	Issued	Extinguished	Authorized and Unissued June 30
<b>General Obligation Bonds Supported by Taxes:</b>					
Capital Development Plan - 1986	\$ 160	\$	\$ 155	\$	\$ 5
Capital Development Plan - 1988	970		505		465
Capital Development Plan - 1989	3,506				3,506
Capital Development Plan - 1990	18,390		5,070		13,320
Capital Development Plan - 1994	8,115				8,115
Capital Development Plan - 1995	27,053		2,960		24,083
Capital Development Plan - 1998	27,655		9,380		18,475
Capital Development Plan - 2000	193,460		100,475		92,985
R.I. Economic Development Fund	450		445		5
<b>Underground Storage Tank Replacement</b>					
Revolving Loan Fund					
<b>Narragansett Bay Water Quality Management</b>					
District Commission Fund	12,935		12,145		790
Clean Water Act Environmental Trust Fund	3,840				3,840
Open Space and Recreational Area Fund	4,438		4,235		203
Drinking Water Protection Fund	3,415				3,415
<b>Clean Water Finance Agency -</b>					
Water Pollution Revolving Loan Fund	13,960				13,960
General Obligation Bonds Supported by Taxes	<u>318,547</u>	<u>-</u>	<u>135,400</u>	<u>-</u>	<u>163,147</u>
<b>R. I. Industrial-Recreational Building Authority</b>					
	80,000				80,000
<b>Total</b>	<u>\$ 398,547</u>	<u>\$ -</u>	<u>\$ 135,400</u>	<u>\$ -</u>	<u>\$ 263,147</u>

In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved unless extended by the General Assembly.

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The amount of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority is limited by mortgage balances that it has insured, \$20,861,114 at June 30, 2002 (See Note 21). The insured mortgages are guaranteed by the State.

See Note 12 for information concerning contingent liabilities relating to "Moral Obligation" bonds.

**B. Notes Payable**

Notes payable (expressed in thousands) at June 30, 2002 are as follows:

<b>Component Units</b>		
Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024.	\$	2,221
R.I. Housing and Mortgage Finance Corporation bank notes, 4.375% to 6.71% interest, payable through 2008.		5,013
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 6.75% interest, payable through 2005		301
		<u>7,535</u>
Less: current payable		<u>(1,067)</u>
		<u>\$ 6,468</u>

**C. Loans Payable**

**Component Units**

Loans payable represent liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) (\$75,748,995) and to the R.I. Refunding Bond Authority (\$15,000). The loans payable to the RICWFA are for projects financed by that agency. The University of Rhode Island (URI) has an outstanding \$544,604 loan from the Board of Governors for Higher Education to purchase certain high technology equipment and one from the Rhode Island State Energy Office for \$251,340 to finance the installation of energy conservation measurers in various buildings. It also includes Community College of Rhode Island's (CCRI) loan in the amount of \$400,000 from the Energy Revolving Loan Fund (an internal service fund).

**D. Obligations Under Capital Leases**

**Primary Government**

The State has entered into capital lease agreements with financial institutions. These financing arrangements have been used by the State to acquire, construct or renovate facilities and acquire other fixed assets.

The State's obligation under capital leases at June 30, 2002 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds.

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Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.

The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2002.

Fiscal Year Ending June 30	COPS	Other	Total
2003	\$ 13,360	\$ 1,211	\$ 14,571
2004	13,271	1,211	14,482
2005	12,134	1,212	13,346
2006	10,134	1,211	11,345
2007	11,455		11,455
2008 - 2012	50,900		50,900
2013 - 2017	37,817		37,817
2018 - 2022	9,022		9,022
2023 - 2027	0		0
<b>Total future minimum lease payments</b>	<b>158,093</b>	<b>4,845</b>	<b>162,938</b>
Amount representing interest	(45,429)	(580)	(46,009)
<b>Present value of future minimum lease payments</b>	<b>\$ 112,664</b>	<b>\$ 4,265</b>	<b>\$ 116,929</b>

**Component Units**

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

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

The following is a summary of the material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2002.

Fiscal Year Ending June 30	URI	RIC	CCRI	CFSD	RIEDC	RIPTCA	NBC
2003	\$ 1,586	\$ 64	\$ 156	\$ 9	\$ 5,353	\$ 827	\$ 134
2004	1,251	64	156	9	4,309	820	100
2005	1,463	64	156	9	3,334	805	73
2006	1,300	64	158	9	3,558	806	27
2007	1,279	64	156	9	3,404	807	
2008 - 2012	6,363	105	781	9	11,954	3,285	
2013 - 2017	6,327		782	9	5,350		
2018 - 2020	3,775		782	9	159		
2023 - 2027	0		313	9	0		
<b>Total future minimum lease payments</b>	<b>23,644</b>	<b>425</b>	<b>3,438</b>	<b>9</b>	<b>38,061</b>	<b>7,361</b>	<b>334</b>
Amount representing interest	(7,631)	(118)	(1,633)	0	(9,389)	(1,681)	(37)
<b>Present value of future minimum lease payments</b>	<b>\$ 15,013</b>	<b>\$ 309</b>	<b>\$ 1,805</b>	<b>\$ 9</b>	<b>\$ 28,672</b>	<b>\$ 5,780</b>	<b>\$ 287</b>

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**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. Payment is calculated at their then-current rate of pay. For the fiscal year ended June 30, 2002, the State calculated the liability for accrued sick leave for only those employees that are eligible for retirement (vested). Therefore, the July 1 balance was reduced by approximately \$15 million to reflect this change.

**F. Other Long-Term Liabilities**

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

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

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

During the fiscal year ended June 30, 2002, the following changes (expressed in thousands) occurred in long-term debt:

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Primary Government

	Balance July 1	Additions	Reductions	Balance June 30	Amounts Due Within One Year	Amounts Due Thereafter
<b>Governmental activities</b>						
General obligation bonds payable:						
Current interest bonds	\$ 829,034	\$ 168,990	\$ (315,590)	\$ 682,434	\$ 33,481	\$ 648,953
Capital appreciation bonds	24,816		(24,209)	610		610
Accrued interest on capital appreciation bonds	34,164	4,904	(94,837)	4,411		4,411
Revenue bonds - RIRBA	147,385		(14,280)	133,105	14,685	118,220
Deferred costs		6,497		6,497		6,497
Bonds payable	1,035,399	180,391	(388,733)	827,057	48,366	778,691
Certificates of Participation (COP)	126,470		(13,805)	112,665	9,050	104,615
Other capital leases	8,122	314	(1,631)	6,805	1,651	5,154
Obligations under capital leases	134,592	314	(15,438)	119,470	9,701	109,769
Compensated absences	63,074	48,464	(40,881)	70,657	35,217	19,433
Other long-term liabilities	36,177	1,385	(10,409)	27,153	9,131	18,022
	<u>\$ 1,266,242</u>	<u>\$ 227,534</u>	<u>\$ (455,458)</u>	<u>\$ 1,028,307</u>	<u>\$ 102,416</u>	<u>\$ 926,892</u>
<b>Business type activities</b>						
Revenue bonds	\$ 315,805	\$ 101,315	\$ (97,685)	\$ 319,435	\$ 6,075	\$ 313,360
Less: deferred amounts						
Issuance discounts	(6,896)		505	(6,191)		(6,191)
On refunding	(14,097)	(6,462)		(20,559)		(20,559)
Bonds payable	295,012	94,853	(97,180)	292,685	6,075	286,610
Other long-term liabilities	2,053		(900)	1,153		
	<u>\$ 297,065</u>	<u>\$ 94,853</u>	<u>\$ (98,080)</u>	<u>\$ 293,838</u>	<u>\$ 7,228</u>	<u>\$ 286,610</u>

H. Defeased Debt

In prior years, the State and its component units defeased certain general obligation bonds, revenue bonds and certificates of participation (COP) by placing the proceeds of the new bonds or COP, or other sources, in irrevocable trusts to provide for all future debt service payments on the old bonds or COP. Accordingly, the trust account assets and the liabilities for the defeased bonds or COP are not included in the basic financial statements. On June 30, 2002, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	
(includes \$1,370,000 of NBC)	\$ 364,250
Component Units:	
R.I. Clean Water Finance Agency	14,935
R.I. Depositors Economic Protection Corporation	550,305
R.I. Economic Development Corporation	28,820
R.I. Turnpike And Bridge Authority	40,800

In March 2002, the State issued \$39,805,000 Consolidated Capital Development Loan of 2002, Refunding Series A, with interest rates ranging from 2.45% to 3.85%, maturing from 2003 through 2007. The proceeds were used to advance refund \$38,410,000 of 1992 General Obligation Refunding Bonds, Series A. 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 long-term obligations. The refunding

decreased total debt service payments over the next 7 years by \$2,082,685 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,552,630.

The above amounts include \$6,215,000 of refunding bonds issued on behalf of Narragansett Bay Commission (NBC), a component unit, to advance refund \$5,974,000 of outstanding bonds. This advance refunding decreased NBC's total debt service payments over the next 7 years by \$432,704 and resulted in an economic gain of \$328,269.

On June 27, 2002 the State used Tobacco Settlement Asset-Backed Bonds to defease \$295,505,000 in debt maturities which included \$4,650,000 of Certificates of Participation. Over the next 19 years, the State will reduce its interest payments by \$47,945,895.

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, 2002 was \$120,000,000, \$1,178,526,861 and \$360,225,000, respectively.

Note 8. Net Assets

Governmental-Wide Unrestricted Net Assets

	Governmental Activities (in thousands)	
Deficit	\$ (449,831)	
General Revenue	31,039	Unrestricted balance
Appropriations carried forward:		
General Revenues	7,812	General revenues carried forward for original purpose
Restricted Revenues	36,280	Restricted revenues carried forward for original purpose
Other	6,645	Principally capital accounts carried forward for original purpose
Special Revenue	147,459	ISTEA, Tobacco Settlement Fund, Underground Storage Fund, RI Economic Policy Council
Capital Projects Fund	87,132	Committed for capital projects
Permanent Fund	786	Permanent School
Internal Service Funds	8,247	Unrestricted balance of all Internal Service Funds
Unrestricted Net Assets	<u>\$ (124,431)</u>	

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**Changes in General Fund Reserved Fund Balances**

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

The State maintains a budget reserve in the general fund. Annually, 2% of general revenues and opening surplus are set aside in this reserve account. Amounts in excess of 3% of the total general revenues and opening surplus are transferred to the bond capital fund to be used for capital projects, debt reduction or debt service. The reserve account, or any portion thereof, may be appropriated in the event of an emergency involving the health, safety or welfare of the citizens of the State or in the event of an unanticipated deficit in any given fiscal year. Such appropriations must be approved by a majority of each chamber of the General Assembly.

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

The following table summarizes the activity (expressed in thousands) of these reserve accounts for the fiscal year ended June 30, 2002:

	Reserved Fund Balance July 1, as restated	Additions	Reductions	Reserved Fund Balance June 30
State Budget Reserve Account	\$ 79,889	\$ 54,883	\$ (52,348)	\$ 82,024
Appropriations carried forward				
General revenue	11,056	7,812	(11,056)	7,812
Departmental restricted revenue	34,621	38,280	(34,521)	36,280
Operating transfers in	11,697	6,646	(11,697)	6,646
Total	<u>\$ 136,963</u>	<u>\$ 105,420</u>	<u>\$ (109,622)</u>	<u>\$ 132,761</u>

**Note 9. Taxes**

Tax revenue reported on the Statement of Activities is reported net of the allowance for uncollectible amounts. Tax revenue on the Statement of Revenues, Expenditures and Fund Balances – Governmental Funds is reported net of the uncollectible amount and the amount that will not be collected within one year (unavailable). The unavailable amount is reported as deferred revenue. The detail of the general revenue taxes as stated on the Statement of Activities is presented below (expressed in thousands):

	Taxes
General Fund	
Personal Income Tax	\$ 811,075
General Business Taxes:	
Business Corporation Tax	24,441
Non-resident Contractor Tax	88
Franchise Tax	8,545
Gross Earnings Tax-Public Utilities	80,859
Income Tax-Financial Institutions	3,385
Tax on Insurance Companies	32,534
Tax on Deposits-Banking Institutions	1,138
Health Care Provider Assessment	8,010
Nursing Facilities Provider Assessments	20,336
Sub-total - General Business Taxes	<u>179,336</u>
Sales and Use Taxes:	
Sales and Use Tax	736,543
Providence Place Sales Tax	10,637
Motor Vehicle Tax	43,432
Rental Vehicle Surcharge	2,682
Fuel Use Tax on Motor Carriers	831
Cigarette Tax	79,445
Cigarette Floor Stock Tax	4,304
Smokeless Tobacco Tax	1,765
Alcoholic Beverage Import Fees	10,004
Tax on Mfg. of Beers, Liquors, etc.	35
Sub-total - Sales and Use Taxes	<u>889,678</u>
Other Taxes:	
Inheritance Tax	22,265
Simulcast Wagering	3,183
Jai Alai - Pari-mutuel Betting	72
Jai Alai - Tax on Breakage	2
Dog Racing - Pari-mutuel Betting	2,200
Dog Racing - Tax on Breakage	34
Realty Transfer Tax	2,679
Mobile Home Conveyance Tax	13
Sub-total - Other Taxes	<u>30,428</u>
Total - General Fund	<u>1,910,517</u>
R.I. Temporary Disability Fund	148,825
Intermodal Surface Transportation Fund	
Gasoline	130,000
Total Taxes	<u>\$ 2,187,342</u>

**Note 10. Operating Transfers**

Operating transfers for the fiscal year ended June 30, 2002 are presented below (expressed in thousands):

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Fund Financial Statements

	Transfers	Description
Governmental activities		
General Fund		
Major Funds		
Intermodal Surface Transportation	\$ 50,872	Debt service
Bond Capital	55,641	Debt service
Tobacco Settlement Trust	135,006	Debt service
Lottery	214,279	Net Income
Convention Center	1,659	Excess debt service
Other governmental funds		
Temporary Disability	828	Net Income
Debt Service	775	Debt service
Internal Service		
Energy Revolving	143	Net Income
Fiduciary Funds		
Employees' Retirement System	8,658	Fund administrative expenses
State Police Benefit Trust	15	Fund administrative expenses
Municipal Employees' Retirement system	1,263	Fund administrative expenses
Judicial Benefit Trust	10	Fund administrative expenses
ISTEA Fund		
Nonmajor Funds		
Capital Projects	44,881	Infrastructure
Bond Capital		
General Fund	52,348	Debt service
Economic Policy Council		
General Fund	3,250	Operating assistance
Total Governmental Activities	<u>589,602</u>	
Business-Type Activities		
Convention Center	16,969	Debt service
Total operating transfers	<u>\$ 586,571</u>	

Fiscal Year Ending June 30	
2003	\$ 12,540
2004	11,964
2005	11,373
2006	8,628
2007	5,092
2008 - 2012	16,711
2013 - 2017	8,738
2018 - 2022	3,941
Total	<u>\$ 78,987</u>

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

**Note 12. Commitments**

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

The R.I. Economic Development Corporation (RIEDC) entered into several agreements with Providence Place Group Limited Partnership (PPG). The agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements developed by PPG. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer, during the first 20 years only, of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) \$3,600,000 in the first five years and \$3,560,000 in years 6 through 20.

The Employees' Retirement System of Rhode Island has contracted with a systems integration firm to design and build a new pension administration system. The total cost to the System is estimated at \$17.8 million, of which \$12.7 million has been expended through June 30, 2002. The remaining cost is estimated at \$5.1 million. Full implementation is expected by the second quarter of fiscal 2004. This will be financed in the same manner as other administrative expenses of the System.

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

**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 \$10,438,000 which is expected to be funded from current available resources and future operations.

**Note 11. Operating Lease Commitments**

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$12,938,404 for the fiscal year ended June 30, 2002.

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, 2002:

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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 \$256,180,000 at June 30, 2002.

The R.I. Resource Recovery Corporation's (RIRRC) currently licensed landfill consists of areas known as Phases II, III, and IV. The capacity of Phase I was reached in May 1993. Phases II and III encompass 34 acres adjoining Phase I. Phase II consists of two areas, referred to as Area I and Area II. Waste disposal commenced on Area II in April 1993 and on Area I in March 1995. Phase III commenced in June 1997. Approximately \$10,621,000 in costs relating to Phase II and \$5,303,000 relating to Phase III have been incurred as of June 30, 2002, and are included in land and improvements in the financial statements. Phase IV consists of four eleven acre cells of which two cells began accepting refuse in September 2000. To date, \$25,672,059 has been expended on legal fees, permitting and engineering costs related to Phase IV, and other costs associated with readying the area for use, including relocation of a brook.

The Environmental Protection Agency (EPA) established closure and postclosure care requirements for municipal solid waste landfills as a condition for the right to operate a landfill in the current period. Based on RIRRC's engineers and independent engineering studies, it is estimated that these costs of closure and postclosure activities for Phase I, II and III will be approximately \$39,854,000. The liability at June 30, 2002 is approximately \$31,166,000, with \$8,201,000 remaining to be recognized. RIRRC recognizes an expense and a liability for these costs based on landfill capacity used to date. Based on the estimates of RIRRC's engineers, approximately 98% of landfill capacity for Phase II and III, which has approximately six months of estimated life remaining, has been used to date and approximately 43% of capacity of Phase IV has been used to date which has approximately two years of estimated life remaining. Amounts provided for closure and postclosure are based on current costs. These costs may be adjusted each year due to changes in the closure and postclosure care plan, inflation or deflation, technology, or applicable laws and regulations. RIRRC has designated investments in the amount of \$13,200,567 to meet the financial requirements of closure and postclosure costs, and plans to increase these designated investments each year to enable it to pay the costs as they are incurred.

In prior years, the EPA issued administrative orders requiring the RIRRC to conduct environmental studies of the landfill and undertake various plans of action. Additionally, in 1986, the landfill was named to the EPA's Superfund National Priorities List. The majority of the studies were completed and were submitted to the EPA for review. During 1996, the RIRRC entered into a consent decree with the EPA concerning remedial actions taken by the RIRRC for groundwater contamination. The consent decree, which was approved by the U.S. District Court on October 2, 1996, requires the establishment of a trust fund in the amount of \$27,000,000 for remedial purposes. The trust is included in restricted assets held in trust on RIRRC's balance sheet. As of June 30, 2002, the market value of the trust was \$25,356,139. The present value of the estimated remaining total expenditures relating to groundwater contamination that will be required as a result of the consent decree is estimated to be approximately \$17,930,000 and is recorded in the financial statements, net of the amount included in the trust fund.

RIRRC is required by the R.I. Department of Environmental Management to restore certain wetlands which are located at the Central Landfill. Total costs for this project are estimated to be approximately \$6,100,000. As of June 30, 2002, the corporation has incurred approximately \$436,000 of engineering and subcontracting costs and estimates that it will incur \$5,570,000 for the project during the fiscal year ending June 30, 2003.

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

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

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

The R.I. Housing and Mortgage Finance Corporation had loan commitments of \$19,649,000 under various loan programs at June 30, 2002.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2002 remaining commitments on these contracts approximated \$1,200,000.

The R.I. Public Transit Authority is committed under construction contracts in the amount of \$2,645,962 at June 30, 2002.

The R.I. Higher Education Assistance Authority is required to return to the federal government \$4,310,909 in student loan reserve funds over a period of five years, such that the total is returned by September 1, 2002. The entire amount was returned on August 30, 2002.

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

#### Note 13. Contingencies

##### Primary Government

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

##### 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.

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

**Moral Obligation Bonds**

Some component units issue bonds with bond indentures requiring capital reserve funds. Moneys in the capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bond holder(s). These bonds are considered "moral obligations" of the State when the General Laws require the executive director to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget. At June 30, 2002 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had \$195,409,054 and \$59,115,000 respectively, in "moral obligation" bonds outstanding. Certain of the RIEDC bonds are economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State anticipates paying approximately \$1,680,000 of the debt on the related economic development revenue bonds in fiscal year 2003.

**Component Units**

**Tobacco Settlement Financing Corporation**

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

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

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

Litigation has been filed against tobacco manufacturers as well as certain states and public entities. The lawsuits allege, among other claims, that the Master Settlement Agreement (MSA) violates provisions of the U.S. Constitution, state constitutions, federal antitrust and civil rights laws, state consumer protection laws; these actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek to prevent the states from collecting any monies under the MSA, and/or a determination that prevents the tobacco manufacturers from collecting MSA payments through price increases

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to cigarette consumers. In addition, class action lawsuits have been filed in jurisdictions alleging violations of state Medicaid agreements. To date, no such lawsuits have been successful. The enforcement of the terms of the MSA may continue to be challenged in the future. In the event of an adverse court ruling, the corporation may not have adequate financial resources to service its debt obligations.

**R.I. Student Loan Authority**

The R.I. Student Loan Authority (RISLA) maintains letters of credit in the original stated amount of \$31,940,000 on its January 1995 weekly adjustable interest rate bonds and the originally stated amount of \$69,203,000 on its April 1996 Series I, II and III variable rate bonds. The letters of credit obligate the letter of credit provider to pay to the trustee an amount equal to principal and interest on the bonds when the same becomes due and payable (whether by reason of redemption, acceleration, maturity or otherwise) and to pay the purchase price of the bonds tendered or deemed tendered for purchase but not remarketed. The RISLA also maintains a standby letter of credit in the original stated amount of \$30,000,000 on its March 2000 issue. The letters of credit will expire on the earliest to occur: a) July 28, 2004, for the January 1995 and April 1996 issue, and March 15, 2003 for the March 2000 issue; b) the date the letter of credit is surrendered to the letter of credit provider; c) when an alternative facility is substituted for the letter of credit; d) when the bonds commence bearing interest at a fixed rate; e) when an event of default has occurred or f) when no amount becomes available to the trustee under the letter of credit.

The RISLA also has an available \$20,000,000 line of credit. Interest is based upon one month London Inter-Bank Offer Rate (LIBOR) plus thirty basis points adjusted weekly. The line of credit is secured by eligible loans of RISLA. Minimum drawdowns on the line of credit are \$100,000 and all proceeds are to be used to purchase or originate eligible student loans. As of June 30, 2002, there was no outstanding balance.

**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, 2002.

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

The R.I. Children's Crusade for Higher Education has a \$500,000 line of credit agreement that matures on December 31, 2003. Interest is payable monthly at the prime rate. There was no outstanding balance at June 30, 2002.

**Note 14. Employer Pension Plans**

**Plan Descriptions**

The State, through the Employees' Retirement System (System), administers four defined benefit pension plans. Three of these plans; the Employees' Retirement System (ERS), a

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cost-sharing multiple-employer defined benefit pension plan and the Judicial Retirement Benefits Trust (JRBT) and the State Police Retirement Benefits Trust (SPRBT), single-employer defined benefit pension plans; cover most State employees. The State does not contribute to the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to State employees, which is subject to amendment by the general assembly, is established by the General Laws as listed below. In addition to the State, there are 40 local public school entities that are members of the ERS. The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903.

**Summary of Significant Accounting Policies**

**Basis of Accounting**

The financial statements of the System are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Dividend income is recorded on the ex-dividend date. The gains or losses on foreign currency exchange contracts are included in income in the period in which the exchange rates change. Gains and losses on contracts which hedge specific foreign currency denominated commitments are deferred and recognized in the period in which the transaction is completed. Investment transactions are recorded on a trade date basis.

**Method Used to Value Investments**

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale. The fair value of fixed income and domestic and international stocks are generally based on published market prices and quotations from national security exchanges and securities pricing services. Real estate is primarily valued on appraisals by independent appraisers or as adjusted by the general partner. Other securities and investments, which are not traded on a national security exchange, are valued by the respective fund manager. Short-term investments are stated at cost, which approximates fair value. Unit Investment Trusts (UIT) consist primarily of domestic and international institutional funds. The fair value of the UITs are based on the reported share value of the respective fund. Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded.

**Funding Policy and Annual Pension Cost**

The State's annual pension cost (expressed in thousands) for the current year and related information for each plan is listed below. The most recent actuarial information may be found in the separately issued audit report referred to above.

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust	
<b>Contribution rates</b>				
State	5.58%	27.10%	30.66%	
Plan members - state employees	8.75%	8.75%	8.75%	
State contribution for teachers	3.67% and 4.22%			
<b>Annual pension cost</b>	\$62,565	\$2,405	\$1,458	
Contributions made - state employees	\$31,802	\$2,405	\$1,458	
Contributions made - teachers	\$30,763			
Actuarial valuation date	June 30, 1999	June 30, 1999	June 30, 1999	
Actuarial cost method	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age	
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	
Equivalent Single Remaining Amortization Period	16 years	23 years	28 years	
Asset valuation method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market	
<b>Actuarial Assumptions:</b>				
Investment rate of return	8.25%	8.25%	8.25%	
Projected salary increases	4.75% to 8.75%	5% to 15.00%	5.50%	
Inflation	3.50%	3.50%	3.50%	
Cost-of-living adjustments	3% compounded annually	\$1,500 per annum	3% of original retirement, compounding varies	
Level of benefits established by:				
General Law(s)	35-8 to 10	42-28-22.1	8-3-16, 8-8-10, 1, 8-8-2-7 and 28-30-18.1	
<b>Three-Year Trend Information</b>				
	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Continued	Net Pension Obligation
Employees' Retirement System	6/30/00	\$ 65,073	100%	\$ 0
	6/30/01	79,906	100%	0
	6/30/02	62,565	100%	
State Police Retirement Benefits Trust	6/30/00	1,508	100%	0
	6/30/01	1,820	100%	0
	6/30/02	2,405	100%	
Judicial Retirement Benefits Trust	6/30/00	1,008	100%	0
	6/30/01	1,164	100%	0
	6/30/02	1,458	100%	

**Other**

Certain employees of the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts with the Teachers' Insurance and Annuity Association. Total expenditures by the institutions for such annuity contracts amounted to \$11,421,826 during the year ended June 30, 2002.

The R.I. Public Transit Authority has two pension plans that cover employees meeting certain eligibility requirements. Employer contribution paid in fiscal year 2002 was \$2,567,799. At January 1, 2002, the most recent valuation date, the total pension benefit obligation was \$40,368,420 and net assets available for benefits were \$19,114,761.



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Certain other component units have defined contribution pension and savings plans. For information regarding these pension and savings plans, please refer to the component units' separately issued financial reports.

**Note 15. Postemployment Benefits**

In accordance with the General Laws, postretirement health care benefits are provided to State employees who retire on or after July 1, 1989. The benefits in general cover medical and hospitalization costs for pre-Medicare retirees and a Medicare supplement for Medicare-eligible retirees. The State's share varies with years of service and ranges from 50% for retirees with 10-15 years of service to 100% for retirees with 35 years of service. During fiscal year 2002, the State contributed 0.95% of covered payroll for postretirement healthcare benefits. The contribution rates are not actuarially determined. Postretirement health care expenses for the fiscal year ended June 30, 2002 were \$5,004,743 net of retirees' contributions for the 3756 retirees receiving benefits.

In addition to the pension benefits described above, expenditures of \$908,098 were recognized for postretirement benefits provided under early retirement incentive programs (an average of \$937 for each of the 969 retirees covered by the plans).

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

**Note 16. Deferred Compensation**

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The Department of Administration pursuant to Chapter 36-13 of the General Laws administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Benefit payments are not available to employees earlier than the calendar year in which the participant attains age 70½ termination, retirement, death or "unforeseeable emergency".

Current Internal Revenue Service regulations require that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors. The plan assets also may be held in annuity contracts or custodial accounts, which are treated as trusts.

The State does not serve in a trustee capacity. Accordingly, the plan assets are not included in the financial statements.

**Note 17. Fund Deficits**

The R.I. Convention Center Authority, a blended component unit and major enterprise fund, has a deficit of \$55,100,000. This consists primarily of the negative \$84,944,000 investment in capital assets net of related debt. The deficit will be reduced by a combination of debt reduction and future increases in net assets.

**Note 18. Condensed Financial Statement Information**

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

	RHIFC	RISLA	RITBA	RREDC	RBC
Other assets	\$ 2,038,783	\$ 860,854	\$ 40,285	\$ 192,887	\$ 38,220
Capital assets - nondepreciable			8,799	77,291	80,371
Capital assets - depreciable (net)		702	46,424	259,633	193,542
Due from primary government				685	17
Long term debt	1,570,039	782,405	37,240	282,053	91,080
Other liabilities	228,085	24,490	4,343	20,259	14,573
Due to primary government					
Net assets:					
Invested in capital assets, net of related debt	16,878	702	14,203	140,188	172,550
Restricted	205,741	51,898	5,515	64,122	45
Unrestricted	18,041	2,061	32,207	23,784	21,892
Operating expenses	108,894	38,369	3,714	41,855	23,952
Depreciation, depletion, and amortization	2,818	514	962	14,951	5,949
Program revenue	90,873	41,799	11,874	50,998	36,710
Net program (expense) revenue	(20,739)	2,816	7,188	(6,718)	6,909
Interest revenue	29,287	3,684	2,492	4,899	245
Gain (loss) on sale of assets			7	(204)	
Net increase in fair value of investments	1,237	(4)			
Miscellaneous					
Transfers from primary government				13,058	
Transfers (to) primary government					
Special and extraordinary items	(2,790)				
Change in net assets	6,975	8,496	7,885	8,867	13,340
Beginning net assets	233,683	48,165	44,240	219,197	180,957
Ending net assets	240,658	54,661	51,925	228,054	194,297

	RHRCB	RPRC	DEPCO	RHEAA	RPTA	RIFC
Other assets	\$ 10,488	\$ 86,283	\$ 9,108	\$ 14,325	\$ 14,955	\$ 1,179
Capital assets - nondepreciable		17,550		194	20,143	
Capital assets - depreciable (net)	8	93,474		1,228	73,583	
Due from primary government					2,461	
Long term debt		10,845				
Other liabilities	112	58,811	468	1,277	17,284	662
Due to primary government					1,147	
Net assets:						
Invested in capital assets, net of related debt	8	51,485		1,422	93,728	
Restricted		(8,294)	8,640	8,234		
Unrestricted	10,378	37,540		4,814	(995)	617
Operating expenses	970	39,359	980	12,323	58,992	33
Depreciation, depletion, and amortization	3	11,369		203	6,854	
Program revenue	1,281	52,842	7,422	8,171	31,146	177
Net program (expense) revenue	316	2,817	6,442	(8,355)	(34,700)	144
Interest revenue	187	585	271	441	158	8
Gain (loss) on sale of assets		109			(100)	
Net increase in fair value of investments						
Miscellaneous						
Transfers from primary government		(3,000)	(17,509)	6,951	29,053	
Transfers (to) primary government					(783)	
Special and extraordinary items						
Change in net assets	505	23	(10,798)	4,031	17,582	152
Beginning net assets	9,879	80,708	19,436	10,439	75,168	425
Ending net assets	10,384	80,731	8,640	14,470	92,731	617

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	RICWFA	RIRDA	RIRWRC	RIPTCA	RICCHE
Other assets	\$ 428,373	\$ 3,412	\$ 16,346	\$ 2,243	\$ 59,748
Capital assets - nondepreciable		181		821	
Capital assets - depreciable (net)	31	439		3,636	90
Due from primary government			76		
Long term debt	203,146		16,346	6,031	
Other liabilities	10,206	1,765	1,459	258	65,144
Due to primary government			1,144	5	
Net assets:					
Invested in capital assets, net of related debt	31	620		(1,324)	90
Restricted	210,774		(2,121)		
Unrestricted	4,248	1,647	655	1,732	(5,396)
Operating expenses	11,627	149	17	3,245	7,398
Depreciation, depletion, and amortization	101	14	113	717	61
Program revenue	35,806	243	1,489	2,951	(2,729)
Net program (expense) revenue	23,978	81	1,359	(1,011)	(10,178)
Interest revenue		73	330		295
Gain (loss) on sale of assets					
Net increase in fair value of investments			32	(213)	
Miscellaneous					
Transfers from primary government	62,610			1,158	1,752
Transfers (to) primary government					
Special and extraordinary items					
Change in net assets	86,588	164	866	(347)	(9,131)
Beginning net assets	128,465	2,113	(2,394)	755	2,825
Ending net assets	215,053	2,287	(1,528)	408	(5,306)

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Significant transactions between primary government and component units

	Revenue (Expenses)	Description
Governmental activities		
General Fund		
R.I. Depositors Economic Protection Corporation	\$ 17,500	Surplus
R.I. Higher Education Assistance Authority	(6,934)	Operating assistance
R.I. Economic Development Corporation	(13,068)	
University of Rhode Island	(85,148)	Educational assistance
Rhode Island College	(43,583)	Educational assistance
Community College of Rhode Island	(40,743)	Educational assistance
Central Falls School District	(33,286)	Educational assistance
ISTEA Fund		
R.I. Public Transit Corporation	(62,543)	Operating assistance
Capital Projects		
R.I. Economic Development Corporation	(5,521)	Construction, improvement or purchase of assets
Narragansett Bay Commission	(9,143)	Construction or purchase of assets and premium on bonds
R.I. Clean Water Finance Agency	(56,760)	Bond proceeds
University of Rhode Island	(25,444)	Construction, improvement or purchase of assets
Rhode Island College	(5,566)	Construction, improvement or purchase of assets
Total Governmental Activities	\$ (373,219)	

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	TSR	URI	RIC	CCRI	CPSD	Total
Other assets	\$ 666,702	\$ 76,789	\$ 23,766	\$ 9,336	\$ 6,666	\$ 4,617,465
Capital assets - nondepreciable		74,521	2,441	1,895		232,397
Capital assets - depreciable (net)		152,898	48,089	33,969	1,295	858,842
Due from primary government					1,330	4,475
Long term debt	885,300	118,805	20,861	11,553	1,433	3,846,326
Other liabilities		48,761	14,590	4,087	3,951	517,912
Due to primary government				1,144		3,440
Net assets:						
Invested in capital assets, net of related debt		124,198	33,869	32,255	1,288	682,285
Restricted	1,312	(2,543)	8,202	821	1,331	686,783
Unrestricted		(1,222)	(3,326)	(4,670)	1,617	145,442
Operating expenses		267,812	84,806	74,269	39,917	815,878
Depreciation, depletion, and amortization		9,943	4,593	2,275	93	61,933
Program revenue		196,688	46,276	34,563	7,553	656,945
Net program (expense) revenue		(90,687)	(43,322)	(41,891)	(31,557)	(221,066)
Interest revenue	1,312				131	44,167
Gain (loss) on sale of assets						(216)
Net increase in fair value of investments		2,656				3,618
Miscellaneous						
Transfers from primary government		84,207	43,563	40,743	33,274	318,449
Transfers (to) primary government		(2,842)	(818)	(27)		(24,776)
Special and extraordinary items						(2,790)
Change in net assets	1,312	32,617	6,763	1,782	1,848	178,184
Beginning net assets		102,662	32,112	28,724	2,366	1,218,318
Ending net assets	1,312	136,908	38,875	28,606	4,234	1,396,602

Note 19. Risk Management

The State is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; employee injury; and natural disasters.

The State has entered into agreements with commercial insurance companies for comprehensive insurance coverage on State property to protect the State against loss from fire and other risks. Furthermore, the State is required by the General Laws to provide insurance coverage on all motor vehicles owned by the State and operated by State employees in the sum of \$100,000 per person and \$300,000 per accident for personal injury and \$20,000 for property damage. The State also contracts with various insurance carriers and health maintenance organizations to provide health care benefits to employees.

The State is self-insured for risks of loss related to torts. Tort claims are defended by the State's Attorney General and, when necessary, appropriations are provided to pay claims.

The State is self-insured for various risks of loss related to work related injuries of State employees. The State maintains the Assessed Fringe Benefits Fund, an internal service fund that services, among other things, workers' compensation claims. Funding is provided through a fringe benefit rate applied to State payrolls on a pay-as-you-go basis.

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

Note 20. Extraordinary and Special Items

In June 2002, the State sold to the Tobacco Settlement Financing Corporation (a discretely presented component unit) its future rights in the Tobacco Settlement Revenues (TSR's) under the master Settlement Agreement and the Consent Decree and Final Judgement (the

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MSA). The amount received by the State (\$544,238,410) is included as a special item on the government-wide statement of activities and fund financial statements.

During fiscal 2002 the State used \$295 million of cash to defease \$ 277 million (carrying amount) of bonds and certificates of participation. As a result of this transaction, the State incurred a loss of \$18 million which is included in special items. The cash used to defease the bonds and certificates of participation was provided by the State's sales of its rights to future tobacco settlement revenues as described above.

The R.I. Housing and Mortgage Finance Corporation periodically retires bonds prior to the redemption date. Deferred bond issuance costs, along with any premium paid on the call, in the amount of \$2,789,666 were reported as an extraordinary loss in fiscal year 2002.

**Note 21. Related Party Transactions**

The State sold its future rights in the Tobacco Settlement Revenues (TSR's) under the Master Settlement Agreement and the consent Decree and Final Judgment to the Tobacco Settlement Financing Corporation for \$544,238,410. The Tobacco Settlement Financing Corporation issued \$685,390,000 of its Tobacco Settlement Asset Backed Bonds in June 2002 to finance the costs of acquisition of the rights to the "state's tobacco receipts". The Corporation's bonds are payable both as to principal and interest solely out of the assets of the corporation pledged for such purpose; and neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to payment of the principal on the bonds. The bonds of the corporation do not constitute an indebtedness of or a general, legal or "moral" obligation of the State or any political subdivision of the State. The Corporation is included as a discretely presented component unit.

Funds held by the University of Rhode Island Foundation for the future use of the university and its faculty and students are not reflected in the accompanying financial statements. Funds held at June 30, 2002 amounted to \$68,728,573. Distributions of \$13,601,375 during the fiscal year ended June 30, 2002 are included in private and capital gift revenue of the university.

Funds held by the Rhode Island College Foundation for the future use of the college and its faculty and students are not reflected in the accompanying financial statements. Funds held at June 30, 2002 amounted to approximately \$7,748,605. Distributions of \$595,841 during the fiscal year ended June 30, 2002 are included in private and capital gift revenue of the university.

The R.I. Industrial-Recreational Building Authority is authorized to insure mortgages and first security agreements for companies conducting business in the State, granted by financial institutions and the R.I. Industrial Facilities Corporation.

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC) a subsidiary of the R.I. Economic Development Corporation providing for the lease and/or transfer from the State to the RIAC all real, personal, and tangible property; intangible property, including accounts receivable, contract rights, choices in action, licenses, permits, grants, and entitlements; and all other assets of the State used or used primarily in

connection with the administration, maintenance, management, regulation, operation, improvement, development or use of the State's six airports and other air facilities. RIAC agrees to reimburse the State for principal and interest payments for certain airport related General Obligation Bonds. The term of the agreement is 35 years beginning July 1, 1993, with annual rent of \$1.00.

**Note 22. Subsequent Events**

**Primary Government – Governmental Activities**

In November 2002, the State issued \$77,140,000 of general obligation bonds. The interest rate on these bonds ranged from 4.00 to 5.25% with maturities from 2003 to 2022.

In November 2002, the voters authorized the State to issue an additional \$132,500,000 of general obligation bonds.

In December 2002, the State issued \$62,765,000 of general obligation bonds. The interest rate on these bonds ranged from 3.00 to 5.25% with maturities from 2003 to 2013.

In December 2002, the State issued \$150,000,000 of general obligation tax anticipation notes. The interest rate on these notes is 2.5% and are due on June 30, 2003.

In December 2002, the State issued \$3,890,000 of certificates of participation to finance the purchase of state vehicles.

**Primary Government - Business-Type Activities**

In June 2003, the R.I. Convention Center Authority issued refunding revenue bonds in the amount of \$58,285,000. As a result of this in-substance defeasance, total debt service requirements were reduced by approximately \$6,000,000.

**Component Units**

In September and December 2002, the R.I. Housing and Mortgage Finance Corporation (RIHMFC) issued bonds in the amount of \$78,250,000 and \$75,335,000, respectively. In February and March 2003, the Corporation issued bonds in the amount of \$37,765,000 and \$72,165,000 respectively. In October 2002, RIHMFC also called \$71,315,000 of bonds outstanding at June 30, 2002. In June 2003, RIHMFC issued \$45,000,000 Homeownership Opportunity Bonds and Notes. In August 2003, RIHMFC issued \$33,460,000 Housing Bonds.

In October 2002 and May 2003, the R.I. Clean Water Finance Agency issued refunding revenue bonds in the amount of \$76,035,000 and \$14,870,000, respectively.

In November 2002, the R.I. Water Resources Board Corporation issued refunding revenue bonds in the amount of \$11,835,000 to refund \$7,705,000 of Series 1994 revenue bonds.

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In February 2003, the R.I. Student Loan Authority issued revenue bonds in the amount of \$140,000,000. In addition, in April 2003, \$30,000,000 of refunding revenue bonds were issued to refund \$30,000,000 of the March 2000 bonds outstanding.

In May 2003, the R.I. Refunding Bond Authority issued refunding revenue bonds in the amount of \$67,625,000, which together with amounts available in debt service reserve funds were used to refund \$84,910,000 of outstanding bonds.

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

Since June 30, 2002, the R.I. Health and Educational Building Corporation has issued various conduit debt obligations which are not obligations of RIHEBC or the State and are therefore not reported in the financial statements.

Component units

In early 2003, the Tobacco Settlement Financing Corporation's debt obligations, along with all other tobacco securitization debts of other jurisdictions, were placed on rating watch by the three major credit rating agencies. In addition, the ratings assigned to the corporation's debt obligations were uniformly downgraded by each of the three rating agencies. These actions by the agencies reflect the potential result of heightened litigation risks facing cigarette manufacturers, increasing competition from discounted brands, and the expectation of continuing declines in domestic cigarette consumption, as well as other factors.

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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, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>				
Taxes	\$ 2,056,900	\$ 1,892,050	\$ 1,905,131	\$ 13,081
Licenses, fines, sales, and services	182,256	186,200	186,927	727
Departmental restricted revenue	108,992	79,649	77,038	(2,611)
Federal grants	1,531,711	1,600,500	1,289,575	(310,925)
Other revenues	55,094	54,500	56,438	1,938
<b>Total revenues</b>	<b>3,934,953</b>	<b>3,812,899</b>	<b>3,515,109</b>	<b>(297,790)</b>
<b>Other financing sources:</b>				
Operating transfers in	189,475	348,600	469,143	120,543
Operating transfers from component units		20,500	26,721	6,221
Other	90,232	82,833	83,142	309
<b>Total revenues and other financing sources</b>	<b>4,214,660</b>	<b>4,264,832</b>	<b>4,094,115</b>	<b>(170,717)</b>
<b>Expenditures:</b>				
<b>DEPARTMENT OF ADMINISTRATION</b>				
<i>Central Management</i>				
General Revenue Total	1,835	1,904	1,984	(80)
Federal Funds Total	205	207	93	114
<b>Total - Central Management</b>	<b>2,040</b>	<b>2,110</b>	<b>2,077</b>	<b>34</b>
<i>Accounts &amp; Control</i>				
General Revenue	4,747	5,811	5,717	94
RI e-Government Fund- RI - SAIL	2,000	2,065	2,012	53
<b>Total - Accounts &amp; Control</b>	<b>6,747</b>	<b>7,876</b>	<b>7,730</b>	<b>147</b>
<i>Budgeting</i>				
General Revenue Total	2,107	2,101	2,049	52
<b>Total - Budgeting</b>	<b>2,107</b>	<b>2,101</b>	<b>2,049</b>	<b>52</b>
<i>Municipal Affairs</i>				
General Revenue Total	1,236	1,136	1,175	(39)
Federal Funds Total	7,500	8,618	4,918	3,700
<b>Total - Municipal Affairs</b>	<b>8,737</b>	<b>9,754</b>	<b>6,092</b>	<b>3,661</b>
<i>Purchasing</i>				
General Revenue Total	2,101	2,165	1,978	187
<b>Total - Purchasing</b>	<b>2,101</b>	<b>2,165</b>	<b>1,978</b>	<b>187</b>
<i>Auditing</i>				
General Revenue Total	1,510	1,542	1,513	29
<b>Total - Auditing</b>	<b>1,510</b>	<b>1,542</b>	<b>1,513</b>	<b>29</b>

State of Rhode Island and Providence Plantations  
 Schedule of Revenues, Expenditures, and Changes  
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General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Human Resources</b>				
General Revenue Total	6,481	6,791	6,836	(45)
Federal Funds Total		14	14	
<b>Total - Human Resources</b>	<b>6,481</b>	<b>6,805</b>	<b>6,850</b>	<b>(45)</b>
<b>Personnel Appeal Board</b>				
General Revenue Total	131	112	106	6
<b>Total - Personnel Appeal Board</b>	<b>131</b>	<b>112</b>	<b>106</b>	<b>6</b>
<b>Taxation</b>				
Motor Fuel Tax Evasion Program	90	91	57	34
Temporary Disability Insurance	642	584	404	180
General Revenue	14,814	15,948	16,615	(667)
Federal Funds Total	1,306	1,189	328	861
Restricted Receipts Total	335	490	1,995	(1,505)
<b>Total - Taxation</b>	<b>17,188</b>	<b>18,301</b>	<b>19,399</b>	<b>(1,097)</b>
<b>Registry of Motor Vehicles</b>				
Auto Emission CMAQ	11		55	(55)
Registration Denial Program		110		110
General Revenue	13,794	14,152	14,199	(47)
RI e-Government Fund - OLIS Support - RMV Syst	350	200	200	
RI e-Government Fund - Digital License System	150	300		300
Federal Funds Total		394	146	248
Restricted Receipts Total	16	16	14	2
<b>Total - Registry of Motor Vehicles</b>	<b>14,321</b>	<b>15,172</b>	<b>14,615</b>	<b>558</b>
<b>Child Support</b>				
General Revenue Total	3,193	3,173	2,348	825
Federal Funds Total	7,268	7,093	6,897	196
<b>Total - Child Support</b>	<b>10,461</b>	<b>10,266</b>	<b>9,244</b>	<b>1,021</b>
<b>Central Services</b>				
Lighting Conservation	661	661	143	518
General Revenue	11,912	11,708	12,192	(484)
Energy Office Grants	381	1,284	766	518
Federal Funds Total	18,544	18,250	13,925	4,325
Restricted Receipts Total	1,050	1,317	443	874
<b>Total - Central Services</b>	<b>32,548</b>	<b>33,221</b>	<b>27,469</b>	<b>5,751</b>
<b>Office of Library &amp; Information Services</b>				
Federal Highway - PL Systems Planning	851	921	577	344
Federal Highway - T2 Systems Planning	118	128	147	(19)
Air Quality Modeling	20	20	6	14
General Revenue Total	2,606	2,566	2,429	137

State of Rhode Island and Providence Plantations  
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General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

State of Rhode Island and Providence Plantations  
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 in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Federal Funds Total	1,357	1,219	1,031	188
Restricted Receipts Total	11	10	5	5
<b>Total - Office of Library &amp; Information Services</b>	<b>4,964</b>	<b>4,864</b>	<b>4,195</b>	<b>669</b>
<b>General</b>				
RICAP - State House Renovations (Phase 1)		100	45	55
RICAP - A-Building Stabilization - Pastore Center	100			
RICAP - State House Skylights and Roof Repairs	1,733	3,246	2,662	584
RICAP - State House Terrace/South Stairs	2,903	2,163	1,860	303
RICAP - Chapin Health Laboratory	300	116	147	(31)
RICAP - Cranston Street Armory	1,000	795	942	(147)
RICAP - Cannon Building	150	288	214	74
RICAP House & Senate Chambers Renovations			9	(9)
RICAP - Second State House Elevator		12		12
RICAP - Ladd Center - Infrastructure		974	600	374
RICAP - Old State House	35	50		50
RICAP - State Office Building	200	110	13	97
RICAP - Veterans Office Building		73	24	49
RICAP - State Information Operations Center	200			
RICAP - Old Colony House	200	200	83	117
RICAP - Court Buildings - HVAC	362			
RICAP - Asset Inventory	50	300	133	167
RICAP - Washington County Government Center	395	77	78	(1)
RICAP - State House Renovations - Phase II	593	76	30	46
RICAP - Board of Elections Building	50	25	2	23
RICAP - Environmental Compliance	900	750	315	435
RICAP - Fox Point Hurricane Barrier	50	50	50	
General Revenue	11,419	10,259	10,147	112
Contingency Fund		1,771	350	1,421
Economic Development Corporation	7,827	7,827	7,822	5
Centers of Excellence	3,000	3,000	3,000	
Housing Resources Commission	8,652	3,651	3,586	65
Race and Police Community Relations Commission	300	300	295	5
Motor Vehicle Excise Tax Payment	97,203	99,565	99,467	98
Property Valuation	1,073	1,120	1,015	105
General Revenue Sharing Program	43,621	43,621	43,621	
Payment in Lieu of Tax Exempt Properties	18,152	18,152	18,134	18
Distressed Communities Relief Program	7,400	7,500	7,638	(138)
Resource Sharing and State Library Aid	6,319	6,319	6,287	32
Library Construction Aid	2,281	2,046	2,047	(1)
Federal Funds	700	700	484	216

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Restricted Receipts Total	566	1,266	932	334
<b>Total - General</b>	<b>217,733</b>	<b>216,502</b>	<b>212,033</b>	<b>4,470</b>
<b>Debt Service Payments</b>				
DEM - Narragansett Bay Commission	5,067	5,045	4,917	128
DEM - Clean Water Finance Agency	3,834	1,759	1,759	
DEM - Wastewater Treatment	6,099	9,830	9,789	41
DEM Debt Service - Recreation		5,339	5,763	(424)
RIPTA Debt Service	772	783	783	
MHRH Com Services		6,777	6,597	180
MHRH Comm. Mental Health		2,749	2,676	73
Transportation Debt Service	42,085	42,075	41,088	987
RIRBA - DLT Temporary Disability Insurance	60	60	38	22
COPS - DLT Building - Other	360	384	340	44
COPS - Center General - Furniture - TDI	2	2	21	(19)
COPS - Pastore Center Telecomm - TDI	20	20	19	1
Debt - URI Education and General	963	1,088	1,089	(1)
Debt - URI Housing Loan Funds	1,846	1,889	1,752	137
Debt - URI Dining Services	265	267	267	
Debt - URI Health Services	125	126	126	
Debt - W. Alton Jones Services	111	112	113	(1)
Debt - URI Memorial Union	98	98	98	
Debt - URI Sponsored Research (Indirect Cost)	101	101	101	
Debt - RIC Education and General	297	296	296	
Debt - RIC Housing	568	561	561	
Debt - RIC Student Center and Dining	178	178	178	
Debt - RIC Student Union	255	197	197	
Debt - CCRI Bookstore	177	177	177	
Debt Service Special Accounts			9,112	(9,112)
Debt Service Payments	115,959	93,330	96,041	(2,711)
Federal Funds	1,632	1,561	1,418	143
Restricted Receipts Total	5,962	5,892	2,906	2,986
<b>Total - Debt Service Payments</b>	<b>186,837</b>	<b>180,699</b>	<b>188,222</b>	<b>(7,526)</b>
<b>Sheriffs</b>				
General Revenue Total	12,246	12,094	11,844	250
<b>Total - Sheriffs</b>	<b>12,246</b>	<b>12,094</b>	<b>11,844</b>	<b>250</b>
<b>Total - DEPARTMENT OF ADMINISTRATION</b>	<b>526,150</b>	<b>523,584</b>	<b>515,416</b>	<b>8,167</b>
<b>DEPARTMENT OF BUSINESS REGULATION</b>				
<b>Central Management</b>				
General Revenue Total	1,434	1,505	1,518	(13)

State of Rhode Island and Providence Plantations  
 Schedule of Revenues, Expenditures, and Changes  
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 General Fund  
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State of Rhode Island and Providence Plantations  
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	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Total - Central Management</b>	1,434	1,505	1,518	(13)
<b>Banking Regulation</b>				
General Revenue Total	1,470	1,355	1,339	16
<b>Total - Banking Regulation</b>	1,470	1,355	1,339	16
<b>Securities Regulation</b>				
General Revenue Total	665	645	643	2
<b>Total - Securities Regulation</b>	665	645	643	2
<b>Commercial Licensing and Regulation</b>				
General Revenue Total	916	1,015	1,002	13
Restricted Receipts Total	100	100	10	90
<b>Total - Commercial Licensing and Regulation</b>	1,016	1,115	1,012	103
<b>Racing and Athletics</b>				
General Revenue Total	685	668	665	3
<b>Total - Racing and Athletics</b>	685	668	665	3
<b>Insurance Regulation</b>				
General Revenue	3,503	3,429	3,302	127
Gramm, Leach, Bliley Act		489		489
Restricted Receipts Total	357	480	231	249
<b>Total - Insurance Regulation</b>	3,861	4,398	3,533	865
<b>Board of Accountancy</b>				
General Revenue Total	189	167	139	28
<b>Total - Board of Accountancy</b>	189	167	139	28
<b>Total - DEPARTMENT OF BUSINESS REGULATION</b>	9,319	9,854	8,850	1,004
<b>DEPARTMENT OF LABOR AND TRAINING</b>				
<b>Central Management</b>				
General Revenue Total	280	386	320	66
Director of Workers' Compensation	471	775	680	95
<b>Total - Central Management</b>	751	1,161	999	161
<b>Workforce Development Services</b>				
Federal Funds Total	20,406	24,444	18,128	6,316
ES - Reemployment Program	1,127	1,018	633	385
Human Resource Investment Council	9,113	9,183	9,411	(228)
Reed Act-Rapid Job Entry		289		289
Job Development Fund DLT Admin	267	40	77	(37)
HRIC - Supportive Work/Rapid Job Entry		1,711	1,873	(162)
<b>Total - Workforce Development Services</b>	30,913	36,685	30,122	6,563
<b>Workforce Regulation and Safety</b>				

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
General Revenue Total	3,688	3,801	3,737	64
<b>Total - Workforce Regulation and Safety</b>	3,688	3,801	3,737	64
<b>Income Support</b>				
General Revenue Total	2,654	2,701	2,880	(179)
Federal Funds Total	18,227	18,535	15,464	3,071
Restricted Receipt Total	1,990	705	484	221
<b>Total - Income Support</b>	22,871	21,941	18,828	3,113
<b>Injured Workers Services</b>				
Restricted Receipts Total	9,307	8,962	8,918	44
<b>Total - Injured Workers Services</b>	9,307	8,962	8,918	44
<b>Labor Relations Board</b>				
General Revenue Total	339	357	354	3
<b>Total - Labor Relations Board</b>	339	357	354	3
<b>Total - DEPARTMENT OF LABOR AND TRAINING</b>	67,869	72,907	62,959	9,948
<b>GENERAL ASSEMBLY</b>				
<b>General Assembly</b>				
General Revenue Total	24,887	28,389	26,037	2,352
Restricted Receipts Total	757	759	892	(133)
<b>Total - General Assembly</b>	25,644	29,148	26,929	2,219
<b>Total - GENERAL ASSEMBLY</b>	25,644	29,148	26,929	2,219
<b>OFFICE OF THE LIEUTENANT GOVERNOR</b>				
<b>Lt. Governor's Office - General</b>				
General Revenue Total	765	760	757	3
<b>Total - Lt. Governor's Office - General</b>	765	760	757	3
<b>Total - OFFICE OF THE LIEUTENANT GOVERNOR</b>	765	760	757	3
<b>DEPARTMENT OF STATE</b>				
<b>Administration</b>				
General Revenue Total	1,166	1,252	1,139	113
<b>Total - Administration</b>	1,166	1,252	1,139	113
<b>Corporations</b>				
General Revenue	1,427	1,434	1,475	(41)
RI e-Gov Fund - UCC Automated System	250	250	111	139
<b>Total - Corporations</b>	1,677	1,684	1,586	98
<b>State Archives</b>				
General Revenue Total	281	280	307	(27)
Federal Funds Total	19	24	17	7

State of Rhode Island and Providence Plantations  
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 in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Restricted Receipts Total	193	190	261	(71)
<b>Total - State Archives</b>	<b>493</b>	<b>493</b>	<b>585</b>	<b>(91)</b>
<b>Elections</b>				
General Revenue Total	468	466	465	1
<b>Total - Elections</b>	<b>468</b>	<b>466</b>	<b>465</b>	<b>1</b>
<b>State Library</b>				
General Revenue Total	704	705	701	4
<b>Total - State Library</b>	<b>704</b>	<b>705</b>	<b>701</b>	<b>4</b>
<b>Office of Public Information</b>				
General Revenue Total	481	481	520	(39)
<b>Total - Office of Public Information</b>	<b>481</b>	<b>481</b>	<b>520</b>	<b>(39)</b>
<b>Total - DEPARTMENT OF STATE</b>	<b>4,988</b>	<b>5,083</b>	<b>4,997</b>	<b>86</b>
<b>TREASURY DEPARTMENT</b>				
<b>Treasury</b>				
General Revenue Total	2,584	2,643	2,627	16
Federal Funds Total	265	214	185	29
Restricted Receipts Total	16	11	11	
<b>Total - Treasury</b>	<b>2,865</b>	<b>2,868</b>	<b>2,823</b>	<b>45</b>
<b>State Retirement System</b>				
Administrative Expenses - State Retirement System	11,148	11,220	9,427	1,793
Retirement-Treasury Investment Operations	542	567	516	51
<b>Total - State Retirement System</b>	<b>11,690</b>	<b>11,788</b>	<b>9,943</b>	<b>1,844</b>
<b>Unclaimed Property</b>				
Restricted Receipts Total	9,383	9,080	8,256	824
<b>Total - Unclaimed Property</b>	<b>9,383</b>	<b>9,080</b>	<b>8,256</b>	<b>824</b>
<b>RI Refunding Bond Authority</b>				
General Revenue Total	68	82	55	27
<b>Total - RI Refunding Bond Authority</b>	<b>68</b>	<b>82</b>	<b>55</b>	<b>27</b>
<b>Crime Victim Compensation Program</b>				
General Revenue Total	2,420	2,399	2,398	1
Federal Funds Total	1,497	1,500	1,813	(313)
Restricted Receipts Total	1,728	1,740	1,619	121
<b>Total - Crime Victim Compensation Program</b>	<b>5,645</b>	<b>5,639</b>	<b>5,830</b>	<b>(191)</b>
<b>Total - TREASURY DEPARTMENT</b>	<b>29,651</b>	<b>29,456</b>	<b>26,907</b>	<b>2,549</b>
<b>BOARD FOR DESIGN PROFESSIONALS</b>				
<b>Boards For Professional Design</b>				
General Revenue Total	350	363	348	15
<b>Total - Boards For Professional Design</b>	<b>350</b>	<b>363</b>	<b>348</b>	<b>15</b>

State of Rhode Island and Providence Plantations  
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(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Total - BOARD FOR DESIGN PROFESSIONALS</b>	<b>350</b>	<b>363</b>	<b>348</b>	<b>15</b>
<b>BOARD OF ELECTIONS</b>				
<b>Board Of Elections</b>				
General Revenues	2,120	2,151	2,190	(39)
RI e-Gov Fund - Electronic Campaign Finance Syst	330	330	264	66
<b>Total - Board Of Elections</b>	<b>2,450</b>	<b>2,481</b>	<b>2,454</b>	<b>27</b>
<b>Total - BOARD OF ELECTIONS</b>	<b>2,450</b>	<b>2,481</b>	<b>2,454</b>	<b>27</b>
<b>RHODE ISLAND ETHICS COMMISSION</b>				
<b>RI Ethics Commission</b>				
General Revenue Total	847	905	874	31
<b>Total - RI Ethics Commission</b>	<b>847</b>	<b>905</b>	<b>874</b>	<b>31</b>
<b>Total - RHODE ISLAND ETHICS COMMISSION</b>	<b>847</b>	<b>905</b>	<b>874</b>	<b>31</b>
<b>EXECUTIVE DEPARTMENT</b>				
<b>Office Of Governor</b>				
General Revenue Total	5,682	5,611	4,526	1,085
<b>Total - Office Of Governor</b>	<b>5,682</b>	<b>5,611</b>	<b>4,526</b>	<b>1,085</b>
<b>Total - EXECUTIVE DEPARTMENT</b>	<b>5,682</b>	<b>5,611</b>	<b>4,526</b>	<b>1,085</b>
<b>PUBLIC UTILITIES COMMISSION</b>				
<b>Public Utilities Commission</b>				
General Revenue Total	731	711	703	8
Federal Funds Total	62	62	37	25
Restricted Receipts Total	4,663	4,684	3,576	1,108
<b>Total - Public Utilities Commission</b>	<b>5,456</b>	<b>5,456</b>	<b>4,315</b>	<b>1,141</b>
<b>Total - PUBLIC UTILITIES COMMISSION</b>	<b>5,456</b>	<b>5,456</b>	<b>4,315</b>	<b>1,141</b>
<b>RHODE ISLAND COMMISSION ON WOMEN</b>				
<b>Rhode Island Commission on Women</b>				
General Revenue Total	139	140	138	2
<b>Total - Rhode Island Commission on Women</b>	<b>139</b>	<b>140</b>	<b>138</b>	<b>2</b>
<b>Total - RHODE ISLAND COMMISSION ON WOMEN</b>	<b>139</b>	<b>140</b>	<b>138</b>	<b>2</b>
<b>DEPARTMENT OF CHILDREN, YOUTH, AND FAMIL</b>				
<b>Central Management</b>				
General Revenue Total	7,829	7,814	7,849	(35)
Federal Funds Total	5,117	4,807	4,048	759
<b>Total - Central Management</b>	<b>12,946</b>	<b>12,621</b>	<b>11,897</b>	<b>724</b>



State of Rhode Island and Providence Plantations  
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(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<i>Children's Behavioral Health Services</i>				
RICAP - Grodin Center	80		3	(3)
RICAP - Spurwink/RI	199	183	69	114
General Revenue Total	21,620	22,130	20,863	1,267
Federal Funds Total	19,732	20,545	19,691	854
<b>Total - Children's Behavioral Health Services</b>	<b>41,631</b>	<b>42,858</b>	<b>40,626</b>	<b>2,232</b>
<i>Juvenile Correctional Services</i>				
RICAP - RI Training School Bathroom Renovation	100	100	131	(31)
General Revenue Total	24,424	24,660	24,779	(119)
Federal Funds Total	2,856	3,651	3,290	361
Restricted Receipts Total	8	508	508	
<b>Total - Juvenile Correctional Services</b>	<b>27,387</b>	<b>28,920</b>	<b>28,200</b>	<b>719</b>
<i>Child Welfare</i>				
Children's Trust Fund	56	56	27	29
General Revenues	78,957	84,685	83,965	720
Federal Funds Total	55,628	60,185	61,149	(964)
Restricted Receipts Total	1,387	1,022	1,253	(231)
<b>Total - Child Welfare</b>	<b>136,027</b>	<b>145,947</b>	<b>146,393</b>	<b>(446)</b>
<i>Higher Education Incentive Grants</i>				
General Revenue Total	150	204	195	9
<b>Total - Higher Education Incentive Grants</b>	<b>150</b>	<b>204</b>	<b>195</b>	<b>9</b>
<b>Total - DEPARTMENT OF CHILDREN, YOUTH, AND FAMILIES</b>	<b>218,142</b>	<b>230,549</b>	<b>227,311</b>	<b>3,238</b>
<b>DEPARTMENT OF ELDERLY AFFAIRS</b>				
<i>Elderly Affairs</i>				
Intermodal Surface Transportation Fund	4,700	4,495	4,495	
General Revenues	13,478	13,495	13,227	268
Safety and Care of the Elderly	1	1	1	
RIPAE	10,281	11,913	12,135	(222)
Federal Funds Total	8,660	9,527	8,839	688
<b>Total - Elderly Affairs</b>	<b>37,119</b>	<b>39,430</b>	<b>38,697</b>	<b>734</b>
<b>Total - DEPARTMENT OF ELDERLY AFFAIRS</b>	<b>37,119</b>	<b>39,430</b>	<b>38,697</b>	<b>734</b>
<b>DEPARTMENT OF HEALTH</b>				
<i>Central Management</i>				
Trauma Registry	228	170	164	6
General Revenues	2,609	2,572	2,682	(110)
RI e-Gov Fund - Automated Vital Records System	300	300	304	(4)
Federal Funds Total	3,062	2,296	2,025	271

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(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Restricted Receipts Total	1,729	1,753	2,122	(369)
<b>Total - Central Management</b>	<b>7,928</b>	<b>7,091</b>	<b>7,297</b>	<b>(206)</b>
<i>State Medical Examiner</i>				
General Revenue Total	1,679	1,657	1,518	139
<b>Total - State Medical Examiner</b>	<b>1,679</b>	<b>1,657</b>	<b>1,518</b>	<b>139</b>
<i>Family Health</i>				
General Revenues	8,465	8,997	9,089	(92)
Poison Control Center	250	250	256	(6)
Federal Funds Total	27,386	29,749	29,372	377
Restricted Receipts Total	3,460	3,868	3,083	785
<b>Total - Family Health</b>	<b>39,561</b>	<b>42,863</b>	<b>41,801</b>	<b>1,064</b>
<i>Health Services Regulation</i>				
General Revenues	4,376	4,416	4,475	(59)
Hospital Care Consultant Report	292	291	192	99
Federal Funds Total	1,963	2,153	2,353	(200)
Restricted Receipts Total	465	494	454	40
<b>Total - Health Services Regulation</b>	<b>7,096</b>	<b>7,355</b>	<b>7,473</b>	<b>(120)</b>
<i>Environmental Health</i>				
General Revenue Total	4,157	4,038	4,155	(117)
Federal Funds Total	2,217	2,661	3,042	(381)
Restricted Receipts Total	670	1,068	1,101	(33)
<b>Total - Environmental Health</b>	<b>7,045</b>	<b>7,768</b>	<b>8,299</b>	<b>(531)</b>
<i>Health Laboratories</i>				
General Revenue Total	5,638	5,991	5,854	137
Federal Funds Total	795	704	897	(193)
<b>Total - Health Laboratories</b>	<b>6,433</b>	<b>6,695</b>	<b>6,750</b>	<b>(56)</b>
<i>Disease Prevention and Control</i>				
General Revenue	5,220	5,300	5,106	194
Smoking Cessation	1,000	300	397	(97)
Federal Funds Total	11,657	11,822	11,565	257
Restricted Receipts Total	80	876	41	835
Child Safety Program		20	42	(22)
Walkable Communities Initiative		80		80
<b>Total - Disease Prevention and Control</b>	<b>17,957</b>	<b>18,398</b>	<b>17,151</b>	<b>1,247</b>
<b>Total - DEPARTMENT OF HEALTH</b>	<b>87,698</b>	<b>91,828</b>	<b>90,290</b>	<b>1,537</b>
<b>DEPARTMENT OF HUMAN SERVICES</b>				
<i>Central Management</i>				
General Revenue Total	7,089	6,914	5,998	916
Federal Funds Total	3,673	3,883	3,731	152

State of Rhode Island and Providence Plantations  
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State of Rhode Island and Providence Plantations  
 Schedule of Revenues, Expenditures, and Changes  
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Exhibit A-54

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Restricted Receipts Total	1,787	1,975	2,217	(242)
<b>Total - Central Management</b>	<b>12,550</b>	<b>12,772</b>	<b>11,946</b>	<b>826</b>
<b>Individual and Family Support</b>				
RICAP Veterans' Home Roof	60			
RICAP Forand Building Exterior Doors and Windo	135			
RICAP Forand Building Soffits Replacement	85			
RICAP Forand Building Exterior Window Panels	349	5	1	4
General Revenue Total	20,700	20,309	20,051	258
Federal Funds Total	50,995	51,389	45,978	5,411
Restricted Receipts Total	74	74	46	28
<b>Total - Individual and Family Support</b>	<b>72,398</b>	<b>71,776</b>	<b>66,076</b>	<b>5,701</b>
<b>Veterans' Affairs</b>				
General Revenue Total	13,406	14,148	14,173	(25)
Federal Funds Total	5,605	6,672	6,365	307
Restricted Receipts Total	1,086	2,087	1,655	432
<b>Total - Veterans' Affairs</b>	<b>20,097</b>	<b>22,906</b>	<b>22,192</b>	<b>714</b>
<b>Health Care Quality, Financing &amp; Purchase</b>				
General Revenue Total	22,250	22,459	21,905	554
Federal Funds Total	30,378	31,901	31,279	622
Restricted Receipts Total	330	495	285	210
<b>Total - Health Care Quality, Financing &amp; Purchase</b>	<b>52,958</b>	<b>54,855</b>	<b>53,469</b>	<b>1,386</b>
<b>Medical Benefits</b>				
General Revenues - Managed Care	114,429	118,200	117,800	400
General Revenues - Hospitals	87,084	95,884	96,497	(613)
General Revenues - Other	86,732	86,473	87,958	(1,485)
General Revenues - Special Education	9,494	13,943	14,807	(864)
General Revenues - Nursing Facilities	121,332	123,200	120,888	2,312
Federal Funds - Managed Care	132,790	137,300	139,540	(2,240)
Federal Funds - Hospitals	95,167	104,116	104,149	(33)
Federal Funds - Nursing Facilities	135,743	137,800	134,257	3,543
Federal Funds - Other	98,136	96,727	95,470	1,257
Federal Funds - Special Education	11,006	15,557	16,479	(922)
Restricted Receipts Total	15	15	7	8
<b>Total - Medical Benefits</b>	<b>891,928</b>	<b>929,215</b>	<b>927,852</b>	<b>1,363</b>
<b>Supplemental Security Income Program</b>				
General Revenue Total	28,267	28,175	27,950	225
<b>Total - Supplemental Security Income Program</b>	<b>28,267</b>	<b>28,175</b>	<b>27,950</b>	<b>225</b>
<b>Family Independence Program</b>				

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
TANF/Families Independence Program	18,000	16,167	16,167	
Child Care	53,609	52,656	52,656	
Federal Funds Total	82,403	87,907	88,737	(830)
<b>Total - Family Independence Program</b>	<b>154,012</b>	<b>156,730</b>	<b>157,560</b>	<b>(830)</b>
<b>State Funded Programs</b>				
General Public Assistance	2,074	2,562	2,745	(183)
Food Stamp Replacement for Legal Immigrants	1,619	1,795	1,787	8
Weatherization One-Time Payment	1,579	1,640	1,671	(31)
Citizen Participation Program	100	100	100	
Federal Funds Total	59,026	64,356	63,628	728
<b>Total - State Funded Programs</b>	<b>64,399</b>	<b>70,454</b>	<b>69,930</b>	<b>522</b>
<b>Total - DEPARTMENT OF HUMAN SERVICE</b>	<b>1,296,609</b>	<b>1,346,883</b>	<b>1,336,975</b>	<b>9,907</b>
<b>DEPARTMENT OF MENTAL HEALTH, RETARDATIO</b>				
<b>Central Management</b>				
General Revenue Total	1,703	1,973	1,686	287
<b>Total - Central Management</b>	<b>1,703</b>	<b>1,973</b>	<b>1,686</b>	<b>287</b>
<b>Hospital &amp; Community System Support</b>				
RICAP - Utilities Upgrade	400	510	440	70
RICAP - Medical Center Rehabilitation	665	250	159	91
RICAP - Utility Systems Water Tanks and Pipes	350	111	221	(110)
RICAP - Central Power Plant Rehabilitation		360	551	(191)
RICAP - Environmental Mandates	550			
General Revenue Total	19,946	22,640	23,723	(1,083)
<b>Total - Hospital &amp; Community System Support</b>	<b>21,911</b>	<b>23,871</b>	<b>25,094</b>	<b>(1,223)</b>
<b>Service for the Developmentally Disabled</b>				
General Revenue	98,549	96,852	97,066	(214)
Pirovano Trust		261	113	148
Federal Funds Total	111,725	110,317	102,593	7,724
<b>Total - Service for the Developmentally Disabled</b>	<b>210,274</b>	<b>207,430</b>	<b>199,772</b>	<b>7,658</b>
<b>Integrated Mental Health Services</b>				
General Revenue Total	30,348	30,709	32,113	(1,404)
Federal Funds Total	28,172	28,574	29,541	(967)
<b>Total - Integrated Mental Health Services</b>	<b>58,520</b>	<b>59,283</b>	<b>61,653</b>	<b>(2,371)</b>
<b>Hospital &amp; Community Rehabilitation Svcs</b>				
RICAP - Zambarano Buildings and Utilities	405	100	3	97
General Revenue Total	50,524	51,682	51,634	48
Federal Funds Total	52,382	53,334	55,626	(2,292)

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(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<i>Total - Hospital &amp; Community Rehabilitation Svcs</i>	103,311	105,116	107,263	(2,147)
<i>Substance Abuse</i>				
RICAP - Asset Protection	100	113	113	
General Revenues	14,830	15,294	14,789	505
Providence Community Action	213			
Federal Funds Total	9,943	10,515	9,521	994
Restricted Receipts Total	55	65	62	3
<i>Total - Substance Abuse</i>	25,141	25,987	24,486	1,502
<b>Total - DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS</b>	420,859	423,661	419,954	3,706
<b>OFFICE OF THE CHILD ADVOCATE</b>				
<i>Office of the Child Advocate</i>				
General Revenue Total	523	522	492	30
Federal Funds Total	343	359	344	15
<i>Total - Office of the Child Advocate</i>	866	882	835	45
<b>Total - OFFICE OF THE CHILD ADVOCATE</b>	866	882	835	45
<b>RHODE ISLAND COMMISSION ON THE DEAF &amp; HARD OF HEARING</b>				
<i>Commission On Deaf and Hard Of Hearing</i>				
General Revenue Total	258	196	165	31
<i>Total - Commission On Deaf and Hard Of Hearing</i>	258	196	165	31
<b>Total - RHODE ISLAND COMMISSION ON THE DEAF &amp; HARD OF HEARING</b>	258	196	165	31
<b>STATE COUNCIL ON DEVELOPMENTAL DISABILITIES</b>				
<i>RI Developmental Disabilities Council</i>				
Federal Funds Total	409	420	406	14
<i>Total - RI Developmental Disabilities Council</i>	409	420	406	14
<b>Total - STATE COUNCIL ON DEVELOPMENTAL DISABILITIES</b>	409	420	406	14
<b>GOVERNOR'S COMMISSION ON DISABILITIES</b>				
<i>Governor's Commission on Disabilities</i>				
General Revenue Total	305	304	304	
Federal Funds Total	28	25	10	15
Restricted Receipts Total	1	38	15	23
<i>Total - Governor's Commission on Disabilities</i>	335	367	329	38

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	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Total - GOVERNOR'S COMMISSION ON DISABILITIES</b>	335	367	329	38
<b>RHODE ISLAND COMMISSION FOR HUMAN RIGHTS</b>				
<i>Commission For Human Rights</i>				
General Revenue Total	783	735	733	2
Federal Funds Total	426	416	492	(76)
<i>Total - Commission For Human Rights</i>	1,209	1,151	1,225	(74)
<b>Total - RHODE ISLAND COMMISSION FOR HUMAN RIGHTS</b>	1,209	1,151	1,225	(74)
<b>OFFICE OF THE MENTAL HEALTH ADVOCATE</b>				
<i>Office of the Mental Health Advocate</i>				
General Revenue Total	295	283	291	(8)
<i>Total - Office of the Mental Health Advocate</i>	295	283	291	(8)
<b>Total - OFFICE OF THE MENTAL HEALTH ADVOCATE</b>	295	283	291	(8)
<b>DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION</b>				
<i>State Aid</i>				
State Support Local School Operations	575,846	576,381	576,235	146
Federal Funds		2,536	647	1,889
<i>Total - State Aid</i>	575,846	578,917	576,882	2,035
<i>School Housing Aid</i>				
General Revenue Total	30,776	33,222	33,222	
<i>Total - School Housing Aid</i>	30,776	33,222	33,222	
<i>Teacher's Retirement</i>				
General Revenue Total	37,244	31,224	31,264	(40)
<i>Total - Teacher's Retirement</i>	37,244	31,224	31,264	(40)
<b>RI School for the Deaf</b>				
RICAP - School for the Deaf - Physical Education F	268	33	11	22
General Revenue Total	5,681	5,382	5,801	(419)
Federal Funds Total	947	1,246	1,083	163
Restricted Receipts Total		1	1	
<i>Total - RI School for the Deaf</i>	6,897	6,662	6,895	(233)
<b>Central Falls School District</b>				
General Revenue Total	33,266	33,266	33,266	
<i>Total - Central Falls School District</i>	33,266	33,266	33,266	
<b>Davies Career and Technical School</b>				
General Revenue Total	10,612	10,328	9,842	486

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(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
RICAP - Davies Roof Repair	450			
Federal Funds Total	797	1,030	1,067	(37)
Restricted Receipts Total	25	195	21	174
<b>Total - Davies Career and Technical School</b>	<b>11,884</b>	<b>11,553</b>	<b>10,931</b>	<b>623</b>
<b>Metropolitan Career &amp; Technical School</b>				
General Revenue Total	2,155	2,155	2,155	
<b>Total - Metropolitan Career &amp; Technical School</b>	<b>2,155</b>	<b>2,155</b>	<b>2,155</b>	
<b>Program Operations</b>				
RICAP - Woonsocket Vocational HVAC		10	3	7
RICAP - East Providence Vocational HVAC	141	10	5	5
RICAP - Hanley - HVAC	125	217	152	65
RICAP - State-Owned Schools - Fire Alarm System	100	78	34	44
RICAP - Hazardous Materials Storage/Dust	218	206	206	
General Revenue Total	15,388	15,163	15,518	(355)
Federal Funds Total	111,817	128,942	104,951	23,991
Restricted Receipts Total	664	1,046	853	193
<b>Total - Program Operations</b>	<b>128,454</b>	<b>145,671</b>	<b>121,722</b>	<b>23,950</b>
<b>ELEMENTARY AND SECONDARY EDUCATION</b>				
	826,521	842,670	816,337	26,335
<b>BOARD OF GOVERNORS FOR HIGHER EDUCATION</b>				
<b>Board of Governors</b>				
General Revenue Total	174,894	174,474	174,473	1
Federal Fund Total	2,040	2,321	2,420	(99)
<b>Total - Board of Governors</b>	<b>176,934</b>	<b>176,794</b>	<b>176,893</b>	<b>(98)</b>
<b>Total - BOARD OF GOVERNORS FOR HIGHER EDUCATION</b>	<b>176,934</b>	<b>176,794</b>	<b>176,893</b>	<b>(98)</b>
<b>RHODE ISLAND STATE COUNCIL ON THE ARTS</b>				
<b>RI State Council On The Arts</b>				
Operating Support	359	364	368	(4)
Grants	1,925	1,918	1,270	648
Federal Funds Total	554	597	520	77
Restricted Receipts Total	250	255	40	215
<b>Total - RI State Council On The Arts</b>	<b>3,087</b>	<b>3,134</b>	<b>2,198</b>	<b>936</b>
<b>Total - RHODE ISLAND STATE COUNCIL ON THE ARTS</b>	<b>3,087</b>	<b>3,134</b>	<b>2,198</b>	<b>936</b>
<b>RHODE ISLAND ATOMIC ENERGY COMMISSION</b>				
<b>Atomic Energy Commission</b>				
URI Sponsored Research	130	130	131	(1)

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, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
RICAP - Paint Interior Reactor Building Walls	50			
RICAP - Roof Replacement - North Bunker	21	21	19	2
General Revenue Total	649	645	631	14
Federal Funds Total	753	703	9	694
<b>Total - Atomic Energy Commission</b>	<b>1,604</b>	<b>1,499</b>	<b>789</b>	<b>709</b>
<b>Total - RHODE ISLAND ATOMIC ENERGY COMMISSION</b>				
	1,604	1,499	789	709
<b>RHODE ISLAND HIGHER EDUCATION ASSISTANCE</b>				
<b>Higher Education Assistance Authority</b>				
Needs Based Grants and Work Opportunities	6,397	5,897	5,949	(52)
Authority Operations and Other Grants	1,039	1,037	986	51
<b>Total - Higher Education Assistance Authority</b>	<b>7,436</b>	<b>6,934</b>	<b>6,934</b>	<b>(1)</b>
<b>EDUCATION ASSISTANCE AUTHORITY</b>				
	7,436	6,934	6,934	(1)
<b>HISTORICAL PRESERVATION AND HERITAGE COM</b>				
<b>Historical Preservation Commission</b>				
General Revenue Total	751	784	777	7
Federal Funds Total	541	535	559	(24)
Restricted Receipts Total	332	328	434	(106)
<b>Total - Historical Preservation Commission</b>	<b>1,624</b>	<b>1,646</b>	<b>1,771</b>	<b>(123)</b>
<b>Total - HISTORICAL PRESERVATION AND HERITAGE COMMISSION</b>	<b>1,624</b>	<b>1,646</b>	<b>1,771</b>	<b>(123)</b>
<b>RHODE ISLAND PUBLIC TELECOMMUNICATIONS</b>				
<b>R.I Public Telecommunications Authority</b>				
General Revenue Total	1,358	1,267	1,158	109
<b>Total - R.I Public Telecommunications Authority</b>	<b>1,358</b>	<b>1,267</b>	<b>1,158</b>	<b>109</b>
<b>Total - RHODE ISLAND PUBLIC TELECOMMUNICATIONS AUTHORITY</b>	<b>1,358</b>	<b>1,267</b>	<b>1,158</b>	<b>109</b>
<b>DEPARTMENT OF ATTORNEY GENERAL</b>				
<b>Criminal</b>				
General Revenue Total	9,255	9,503	9,277	226
Federal Funds Total	1,191	1,267	1,093	174
Restricted Receipts Total	179	163	156	7
<b>Total - Criminal</b>	<b>10,625</b>	<b>10,932</b>	<b>10,526</b>	<b>407</b>
<b>Civil</b>				
General Revenue Total	3,484	3,358	3,289	69

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, 2002  
 (Expressed in thousands)

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, 2002  
 (Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Federal Funds Total	75	68		68
Restricted Receipts Total	409	417	381	36
<b>Total - Civil</b>	<b>3,968</b>	<b>3,843</b>	<b>3,671</b>	<b>173</b>
<b>Bureau of Criminal Identification</b>				
General Revenue Total	606	623	601	22
Federal Funds Total		225	81	144
<b>Total - Bureau of Criminal Identification</b>	<b>606</b>	<b>848</b>	<b>682</b>	<b>166</b>
<b>General</b>				
General Revenue Total	1,470	1,523	1,506	17
<b>Total - General</b>	<b>1,470</b>	<b>1,523</b>	<b>1,506</b>	<b>17</b>
<b>Total - DEPARTMENT OF ATTORNEY GENERAL</b>	<b>16,669</b>	<b>17,146</b>	<b>16,385</b>	<b>763</b>
<b>DEPARTMENT OF CORRECTIONS</b>				
<b>Central Management</b>				
General Revenue Total	9,510	9,236	8,645	591
Federal Funds Total		188	188	
<b>Total - Central Management</b>	<b>9,510</b>	<b>9,424</b>	<b>8,833</b>	<b>591</b>
<b>Parole Board</b>				
General Revenue Total	853	890	861	29
Federal Funds Total	8			
<b>Total - Parole Board</b>	<b>861</b>	<b>890</b>	<b>861</b>	<b>29</b>
<b>Institutional Corrections</b>				
RICAP - Fire Code Safety Improvements	1,000	1,374	1,025	349
RICAP - Security Camera Installation	417	773	860	(87)
RICAP - HVAC Renovations - Maximum		19	19	
RICAP - Window Replacement - Women's	350	666	574	92
RICAP - Dix Expansion - Phase II		35	16	19
RICAP - Reintegration Center State Match		171	18	153
RICAP - Dix Expansion - State Match		43	1	42
RICAP - General Renovations - Maximum	450	327	74	253
RICAP - Roof/Masonry Renovations - Women's	105	130	102	28
RICAP - High Security Fire Alarm HVAC	172	79	48	31
RICAP - Aquidneck & Prudence Cellblock Roofs	220	741	680	61
RICAP - Perimeter/Security Upgrades	1,765	687	555	132
General Revenue Total	110,827	109,521	109,015	506
Federal Funds Total	6,337	7,349	4,390	2,959
Restricted Receipts Total	3,877	5,367	5,368	(1)
<b>Total - Institutional Corrections</b>	<b>125,521</b>	<b>127,284</b>	<b>122,728</b>	<b>4,556</b>
<b>Community Corrections</b>				
General Revenue Total	10,298	10,265	9,648	617

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Federal Funds Total	339	302	272	30
<b>Total - Community Corrections</b>	<b>10,637</b>	<b>10,567</b>	<b>9,920</b>	<b>647</b>
<b>Total - DEPARTMENT OF CORRECTIONS</b>	<b>146,528</b>	<b>148,164</b>	<b>142,342</b>	<b>5,823</b>
<b>JUDICIAL DEPARTMENT</b>				
<b>Supreme Court</b>				
RICAP - Garrahy Judicial Complex Renovation	1,976	3,160	3,156	4
RICAP - Garrahy Complex Roof Repair		323	322	1
RICAP - Licht Exterior/Interior Refurbishment		130	129	1
RICAP - Fogarty Judicial Annex	95	35	35	
General Revenue	17,666	18,957	19,258	(301)
Defense of Indigents	1,550	1,550	1,745	(195)
Federal Funds Total	150	180	164	16
Restricted Receipts Total	763	891	769	122
<b>Total - Supreme Court</b>	<b>22,199</b>	<b>25,225</b>	<b>25,578</b>	<b>(352)</b>
<b>Superior Court</b>				
Federal Funds Total		120	1	119
General Revenue Total	14,673	15,080	14,786	294
<b>Total - Superior Court</b>	<b>14,673</b>	<b>15,200</b>	<b>14,787</b>	<b>413</b>
<b>Family Court</b>				
General Revenue Total	10,818	10,883	10,773	110
Federal Funds Total	1,679	2,400	2,274	126
Restricted Receipts Total	234	248	132	116
<b>Total - Family Court</b>	<b>12,730</b>	<b>13,531</b>	<b>13,179</b>	<b>352</b>
<b>District Court</b>				
General Revenue Total	6,866	6,796	6,761	35
Federal Funds Total	250	172	111	61
Restricted Receipts Total	70	139	75	64
<b>Total - District Court</b>	<b>7,186</b>	<b>7,107</b>	<b>6,947</b>	<b>160</b>
<b>Traffic Tribunal</b>				
General Revenue Total	5,495	5,476	5,453	23
<b>Total - Traffic Tribunal</b>	<b>5,495</b>	<b>5,476</b>	<b>5,453</b>	<b>23</b>
<b>Worker's Compensation Court</b>				
Restricted Receipts Total	4,793	5,148	4,876	272
<b>Total - Worker's Compensation Court</b>	<b>4,793</b>	<b>5,148</b>	<b>4,876</b>	<b>272</b>
<b>Justice Link</b>				
General Revenue Total	1,582	2,478	1,912	566
<b>Total - Justice Link</b>	<b>1,582</b>	<b>2,478</b>	<b>1,912</b>	<b>566</b>
<b>Total - JUDICIAL DEPARTMENT</b>	<b>68,659</b>	<b>74,165</b>	<b>72,733</b>	<b>1,434</b>

Exhibit A-57

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, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>MILITIA OF THE STATE</b>				
<i>National Guard</i>				
Rails to Trails	292		1	(1)
RICAP - Bristol Armory Rehabilitation	200	190	190	
RICAP - Benefit St. Arsenal Rehabilitation	71	22	22	
RICAP - Schofield Armory Rehabilitation	110	20		20
RICAP - US Property and Finance Office - HVAC	50	5	5	
RICAP - Warren Armory	100	154	130	24
RICAP - Vehicle Exhaust Vent System	50	50	49	1
General Revenue	1,734	2,054	2,000	54
RI e-Government Fund - Distributed Tech. Training	100	50	16	34
Federal Funds Total	6,299	7,054	5,548	1,506
<b>Total - National Guard</b>	<b>9,005</b>	<b>9,599</b>	<b>7,962</b>	<b>1,638</b>
<i>Emergency Management</i>				
General Revenue Total	399	475	444	31
Federal Funds Total	2,945	2,896	2,453	443
Restricted Receipts Total	111	111	112	(1)
<b>Total - Emergency Management</b>	<b>3,455</b>	<b>3,481</b>	<b>3,010</b>	<b>473</b>
<b>Total - MILITIA OF THE STATE</b>	<b>12,461</b>	<b>13,081</b>	<b>10,971</b>	<b>2,111</b>
<b>E-911 UNIFORM EMERGENCY TELEPHONE SYSTEM</b>				
<i>E-911</i>				
General Revenue	3,136	3,318	3,393	(75)
RI e-Government Fund - GIS Database Development	500	500	500	
<b>Total - E-911</b>	<b>3,636</b>	<b>3,818</b>	<b>3,893</b>	<b>(75)</b>
<b>Total - E-911 UNIFORM EMERGENCY TELEPHONE SYSTEM DIVISION</b>	<b>3,636</b>	<b>3,818</b>	<b>3,893</b>	<b>(75)</b>
<b>FIRE SAFETY CODE BOARD OF APPEAL &amp; REVIEW</b>				
<i>Fire Code Commission</i>				
General Revenue Total	210	207	211	(4)
<b>Total - Fire Code Commission</b>	<b>210</b>	<b>207</b>	<b>211</b>	<b>(4)</b>
<b>Total - FIRE SAFETY CODE BOARD OF APPEAL &amp; REVIEW</b>	<b>210</b>	<b>207</b>	<b>211</b>	<b>(4)</b>
<b>DIVISION OF FIRE SAFETY</b>				
<i>Fire Safety &amp; Training Academy</i>				
General Revenue Total	1,309	1,330	1,471	(141)
Federal Funds Total	55	261	135	126
<b>Total - Fire Safety &amp; Training Academy</b>	<b>1,364</b>	<b>1,591</b>	<b>1,607</b>	<b>(15)</b>
<b>Total - DIVISION OF FIRE SAFETY</b>	<b>1,364</b>	<b>1,591</b>	<b>1,607</b>	<b>(15)</b>

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, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>COMMISSION ON JUDICIAL TENURE &amp; DISCIPLINE</b>				
<i>Commission on Judicial Tenure and Discipline</i>				
General Revenue Total	100	109	102	7
<b>Total - Commission on Judicial Tenure and Discipline</b>	<b>100</b>	<b>109</b>	<b>102</b>	<b>7</b>
<b>Total - COMMISSION ON JUDICIAL TENURE &amp; DISCIPLINE</b>	<b>100</b>	<b>109</b>	<b>102</b>	<b>7</b>
<b>RHODE ISLAND JUSTICE COMMISSION</b>				
<i>Rhode Island Justice Commission</i>				
General Revenue Total	178	177	177	
Federal Funds Total	4,790	5,264	4,262	1,002
Restricted Receipts Total		90	49	41
<b>Total - Rhode Island Justice Commission</b>	<b>4,968</b>	<b>5,532</b>	<b>4,488</b>	<b>1,043</b>
<b>Total - RHODE ISLAND JUSTICE COMMISSION</b>	<b>4,968</b>	<b>5,532</b>	<b>4,488</b>	<b>1,043</b>
<b>MUNICIPAL POLICE TRAINING SCHOOL</b>				
<i>Municipal Police Academy</i>				
General Revenue Total	322	371	360	11
Federal Funds Total	50	66	59	7
<b>Total - Municipal Police Academy</b>	<b>372</b>	<b>437</b>	<b>419</b>	<b>18</b>
<b>Total - MUNICIPAL POLICE TRAINING SCHOOL</b>	<b>372</b>	<b>437</b>	<b>419</b>	<b>18</b>
<b>RHODE ISLAND STATE POLICE</b>				
<i>State Police</i>				
RICAP - Barracks and Training Headquarters	100			
RICAP - Headquarters Repair/Renovation	325	435	435	
RICAP - Parking Area Improvements	71			
Traffic Enforcement - Municipal Training	121	226	55	171
Lottery Commission Assistance	105	106	113	(7)
Road Construction Reimbursement	2,320	2,290	2,035	255
General Revenue Total	37,111	37,958	38,000	(42)
Federal Funds Total	700	3,102	1,041	2,061
Restricted Receipts Total	218	282	239	43
<b>Total - State Police</b>	<b>41,071</b>	<b>44,400</b>	<b>41,918</b>	<b>2,481</b>
<b>Total - RHODE ISLAND STATE POLICE</b>	<b>41,071</b>	<b>44,400</b>	<b>41,918</b>	<b>2,481</b>
<b>OFFICE OF PUBLIC DEFENDER</b>				
<i>Public Defenders Office</i>				
General Revenue Total	5,585	5,568	5,544	24

Exhibit A-58

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, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Federal Funds Total	313	503	403	100
<b>Total - Public Defenders Office</b>	<b>5,899</b>	<b>6,070</b>	<b>5,947</b>	<b>124</b>
<b>Total - OFFICE OF PUBLIC DEFENDER</b>	<b>5,899</b>	<b>6,070</b>	<b>5,947</b>	<b>124</b>
<b>DEPARTMENT OF ENVIRONMENTAL MANAGEMENT</b>				
<i>Policy and Administration</i>				
DOT Recreational Projects	26	26	21	5
Blackstone Bikepath Design	1,298	1,298	471	827
RICAP - Dam Repair	700	839	753	86
General Revenue Total	7,540	8,231	8,335	(104)
Federal Funds Total	1,998	2,472	1,835	637
Restricted Receipts Total	6,708	6,310	2,702	3,608
<b>Total - Policy and Administration</b>	<b>18,269</b>	<b>19,176</b>	<b>14,117</b>	<b>5,059</b>
<i>Natural Resources</i>				
RICAP - Westerly Boat Ramp	87	87	86	1
RICAP - Fort Adams Rehabilitation	350	350	350	
RICAP - Recreational Facilities Improvement	516	75	12	63
RICAP - Fish and Wildlife Office/Laboratory	731	829	829	
RICAP - Wickford Marine Facility	50			
RICAP - Galilee Piers	909	328	98	230
RICAP - Newport Piers	1,800	1,407	913	494
RICAP - Boyd's Marsh Habitat Restoration	70	70		70
General Revenue Total	14,495	14,452	15,326	(874)
Federal Funds Total	12,829	13,151	7,797	5,354
Restricted Receipts Total	3,011	2,979	2,601	378
<b>Total - Natural Resources</b>	<b>34,848</b>	<b>33,728</b>	<b>28,012</b>	<b>5,716</b>
<i>Environmental Protection</i>				
Aquafund	55	57		57
General Revenue Total	9,150	8,917	8,824	93
Federal Funds Total	7,307	7,482	5,734	1,748
Restricted Receipts Total	2,026	2,295	2,466	(171)
<b>Total - Environmental Protection</b>	<b>18,537</b>	<b>18,751</b>	<b>17,025</b>	<b>1,727</b>
<b>Total - DEPARTMENT OF ENVIRONMENTAL MANAGEMENT</b>	<b>71,654</b>	<b>71,655</b>	<b>59,153</b>	<b>12,502</b>
<b>COASTAL RESOURCES MANAGEMENT COUNCIL</b>				
<i>Coastal Resources Management Council</i>				
General Revenue Total	1,438	1,392	1,156	236
RICAP - South Coast Restoration Project	145			
RICAP - Habitat Restoration - Allin's Cove	172			
Federal Funds Total	1,056	1,600	1,166	434

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, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Total - Coastal Resources Management Council</b>	<b>2,810</b>	<b>2,992</b>	<b>2,322</b>	<b>670</b>
<b>Total - COASTAL RESOURCES MANAGEMENT COUNCIL</b>	<b>2,810</b>	<b>2,992</b>	<b>2,322</b>	<b>670</b>
<b>WATER RESOURCES BOARD</b>				
<i>State Water Resources Board</i>				
RICAP - Big River Management Area	80	76	82	(6)
RICAP - Groundwater Protection/Acquisition	44	10	14	(4)
RICAP - Water Allocation Plan	400	270	278	(8)
RICAP - Supplemental Water Supplies Development	300	94	54	40
General Revenue Total	1,022	1,093	1,072	21
Restricted Receipts Total		133	94	39
<b>Total - State Water Resources Board</b>	<b>1,845</b>	<b>1,676</b>	<b>1,595</b>	<b>82</b>
<b>Total - WATER RESOURCES BOARD</b>	<b>1,845</b>	<b>1,676</b>	<b>1,595</b>	<b>82</b>
<b>Total Expenditures</b>	<b>4,139,919</b>	<b>4,246,385</b>	<b>4,146,114</b>	<b>100,271</b>
<b>Other financing uses:</b>				
<b>Transfers to other funds</b>	<b>52,478</b>	<b>52,530</b>	<b>52,348</b>	<b>182</b>
<b>Total expenditures and other financing uses</b>	<b>4,192,397</b>	<b>4,298,915</b>	<b>4,198,462</b>	<b>100,453</b>
<b>Net change in fund balance</b>	<b>22,263</b>	<b>(34,083)</b>	<b>(104,347)</b>	<b>(70,264)</b>
<b>Fund balance, July 1, 2001</b>	<b>256,830</b>	<b>268,145</b>	<b>268,145</b>	
<b>Fund balance, June 30, 2002</b>	<b>\$ 279,093</b>	<b>\$ 234,062</b>	<b>\$ 163,798</b>	<b>\$ (70,264)</b>
<b>General revenue funds total</b>				
General revenue funds total	\$ 2,650,768	\$ 2,660,381	\$ 2,651,655	\$ 8,726
Federal grants funds total	1,292,229	1,368,012	1,289,575	78,437
Restricted Funds total	82,228	89,164	76,939	12,225
Other funds total	114,694	128,828	127,945	883
<b>Statewide Grand Total</b>	<b>\$ 4,139,919</b>	<b>\$ 4,246,385</b>	<b>\$ 4,146,114</b>	<b>\$ 100,271</b>

Exhibit A-59

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, 2002  
 (Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>				
Taxes	\$ 131,600	\$ 125,800	\$ 130,000	\$ 4,200
Departmental restricted revenue	62,285	26,006	2,802	(23,204)
Federal grants	232,283	225,174	190,294	(34,880)
Other revenues	8,000	8,000	1,309	(6,691)
Total revenues	434,168	384,980	324,405	(60,575)
<b>Other financing sources:</b>				
Operating transfers in			44,861	44,861
Total revenues and other financing sources	434,168	384,980	369,266	(15,714)
<b>Expenditures:</b>				
Central Management				
Gasoline Tax	3,103	2,919	2,938	(19)
Federal Funds Total	4,310	4,304	1,305	2,999
Total - Central Management	7,413	7,223	4,243	2,980
Management and Budget				
Gasoline Tax	1,955	1,804	1,405	399
Total - Management and Budget	1,955	1,804	1,405	399
Infrastructure - Engineering				
Gasoline Tax	41,654	40,182	43,985	(3,803)
RICAP - RIPTA Land and Buildings	360	360		360
State Infrastructure Bank	1,000	1,000		1,000
State Match - Bond Funds			25,393	(25,393)
Land Sale Revenue	8,000	8,000	2,527	5,473
Federal Funds Total	227,973	220,871	188,989	31,882
Restricted Receipts Total	61,285	25,006	18,513	6,493
Total - Infrastructure - Engineering	340,272	295,419	279,407	16,012
Infrastructure - Maintenance				
Gasoline Tax	36,156	35,287	35,160	127
Total - Infrastructure - Maintenance	36,156	35,287	35,160	127
Total Expenditures	385,796	339,733	320,215	19,518
<b>Other financing uses:</b>				
Transfers to other funds			49,787	(49,787)
Total expenditures and other financing uses	385,796	339,733	370,002	(30,269)
Net change in fund balance	48,372	45,247	(736)	(45,983)
Fund balance, beginning			34,102	34,102
Fund balance, ending	\$ 48,372	\$ 45,247	\$ 33,366	\$ (11,881)

State of Rhode Island and Providence Plantations  
 Required Supplementary Information  
 Schedules of Funding Progress  
 June 30, 2002  
 (Expressed in thousands)

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded Frozen Actuarial Liability (UFAL) (b)	Frozen Initial Liability (c) = (a + b)	Funded Ratio (a / c)	Covered Payroll (d)	Excess as a Percentage of Covered Payroll (b / d)
6/30/1999	5,460,907	1,114,020	6,574,927	83.1%	1,168,300	95.4%
6/30/2000	5,859,719	1,375,068	7,234,787	81.0%	1,220,833	112.6%
6/30/2001	6,026,141	1,742,393	7,768,534	77.6%	1,287,476	135.3%

State Police Retirement Benefits Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded Frozen Actuarial Liability (UFAL) (b)	Frozen Initial Liability (c) = (a + b)	Funded Ratio (a / c)	Covered Payroll (d)	Excess as a Percentage of Covered Payroll (b / d)
6/30/1999	8,481	2,361	10,842	78.2%	7,502	31.5%
6/30/2000	11,337	2,581	13,918	81.5%	8,917	28.8%
6/30/2001	14,386	2,264	16,650	86.4%	9,139	24.8%

Judicial Retirement Benefits Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded Frozen Actuarial Liability (UFAL) (b)	Frozen Initial Liability (c) = (a + b)	Funded Ratio (a / c)	Covered Payroll (d)	Excess as a Percentage of Covered Payroll (b / d)
6/30/1999	5,522	1,894	7,416	74.5%	3,169	59.8%
6/30/2000	7,375	2,345	9,720	75.9%	3,533	66.4%
6/30/2001	9,190	2,836	12,026	76.4%	4,092	69.3%

Exhibit A-60



**State of Rhode Island and Providence Plantations**  
**Notes to Required Supplementary Information**  
**June 30, 2002**

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund and certain special revenue funds. Preparation and submission of the budget is governed by both the State Constitution and the Rhode Island General Laws. The budget, as enacted by the General Assembly and signed by the Governor, contains a complete plan of estimated revenues (general, federal and restricted), transfers in (general and restricted) and proposed expenditures.

The legal level of budgetary control, i.e. the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch. Federal grant appropriations may also be limited by the availability of matching funds and may also require special approval from a federal agency before reallocating resources among programs.

Internal administrative and accounting budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations and the supervisory powers and functions exercised by management. Management cannot reduce the budget without special approval.

Unexpended general revenue appropriations lapse at the end of the fiscal year, unless the department/agency directors identify unspent appropriations related to specific projects/purchases and request a reappropriation. If the requests are approved by the Governor, such amounts are reappropriated for the ensuing fiscal year and made immediately available for the same purposes as the former appropriations. Unexpended appropriations of the General Assembly and its legislative commissions and agencies may be reappropriated by the Joint Committee on Legislative Services. If the sum total of all departments and agencies general revenue expenditures exceeds the total general revenue appropriations, it is the policy of management to lapse all unexpended appropriations, except those of the legislative branch and the Justice Link program.

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## EXHIBIT B

### State Economic Information

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## **Economic Information**

The information contained herein was developed from reports provided by Federal and State agencies, which is believed to be reliable and may be relevant in evaluating the economic and financial condition and prospects of the State of Rhode Island. The demographic information and statistical data, which have been obtained from the sources indicated, do not necessarily present all factors that may have a bearing on the State's fiscal and economic affairs. All information is presented on a calendar-year basis unless otherwise indicated. Sources of information are indicated in the text or immediately following the charts and tables. Although the State considers the sources to be reliable, the State has made no independent verification of the information presented herein and does not warrant its accuracy.

### **Overview**

***Population Characteristics.*** Rhode Island experienced modest population increases between 1986 and 2003. The 2000 United States census count for Rhode Island was 1,048,319 or 4.5 percent more than the 1,005,995 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 grown to 1,076,164 as of April 1, 2004.

***Personal Income and Poverty.*** Per capita personal income levels in Rhode Island have been consistent with those in the United States since 1986. In 2003, Rhode Island per capita income was \$31,916 vs. U.S. per capita income of \$31,632. In addition, Rhode Island has maintained a poverty rate below the national average. Over the 2000 – 2002 period, Rhode Island's poverty rate was 10.3 percent vs. a U.S. poverty rate of 11.7 percent.

***Employment.*** According to the U.S. Bureau of Labor Statistics, total Rhode Island non-farm employment grew at a rate of 0.4 percent in 2001, 0.2 percent in 2002 and 0.9 percent in 2003. For the U.S. as a whole, total non-farm employment growth was 0.0 percent in 2001, –1.1 percent in 2002, and –0.3 percent in 2003. This three-year period was the first time in the past ten years in which Rhode Island employment growth exceeded that of the U.S.

***Economic Base and Performance.*** Rhode Island has a diversified economic base that includes traditional manufacturing, high technology, and service industries. A substantial portion of products produced by these and other sectors is exported. Like most other historically industrial states, Rhode Island has seen a shift in employment from labor-intensive manufacturing industries to technology and service-based industries, particularly Education and Health Services.

***Human Resources.*** Skilled human capital is the foundation of economic strength in Rhode Island. It provides the basis for a technologically dynamic and industrially diverse regional economy. The Rhode Island population is well educated with 21.3 percent of its residents over the age of 25 having received a Bachelor's degree or a Graduate or Professional degree according to the Current Population Report of April 2001 from the Bureau of the Census. In addition, per pupil spending on public elementary and secondary education in Rhode Island has been significantly higher than the national average since the 1989-90 academic year. For 2000-01 Rhode Island spent 28.1 percent more per pupil than the national average.

## Population Characteristics

Rhode Island is the second most densely populated state in the country, exceeded only by New Jersey. The population density of Rhode Island increased from 960.3 persons per square mile in 1990 to 1,003.2 persons in 2000. The density factor for the United States also increased during the last decade, from 70.3 persons per square mile in 1990 to 79.6 persons in 2000. Rhode Island's major metropolitan communities are located within Providence County. Recording an increase in population over the past ten years, residents of Providence County also represent a larger percentage of the state's total population, from 58.0 percent in 1990 to 59.3 percent in 2000. The Capital City of Providence experienced an 8.0 percent increase in population over the last decade of the twentieth century, significantly higher than the 4.5 percent increase recorded statewide.

Between 1993 and 2003 Rhode Island's population increased by 6.0 percent, compared to a 6.5 percent increase for the New England region, and a 11.9 percent increase for the United States. As the following chart indicates, the percentage change in Rhode Island's population from 1993 to 1998 has lagged that of the New England region. The growth rate of Rhode Island's population was 1.6 percent for that period compared to New England's growth rate of 3.0 percent. From 1999 through 2003, however, Rhode Island's population growth rate was higher than that of the New England region, at 3.5 percent compared to 2.7 percent for New England as a whole. With respect to the United States, Rhode Island's population growth has been both lower and more erratic than that of the United States. Over the 1993 to 2003 period, the United States' average annual population growth rate was 1.2 percent, or twice that of Rhode Island.

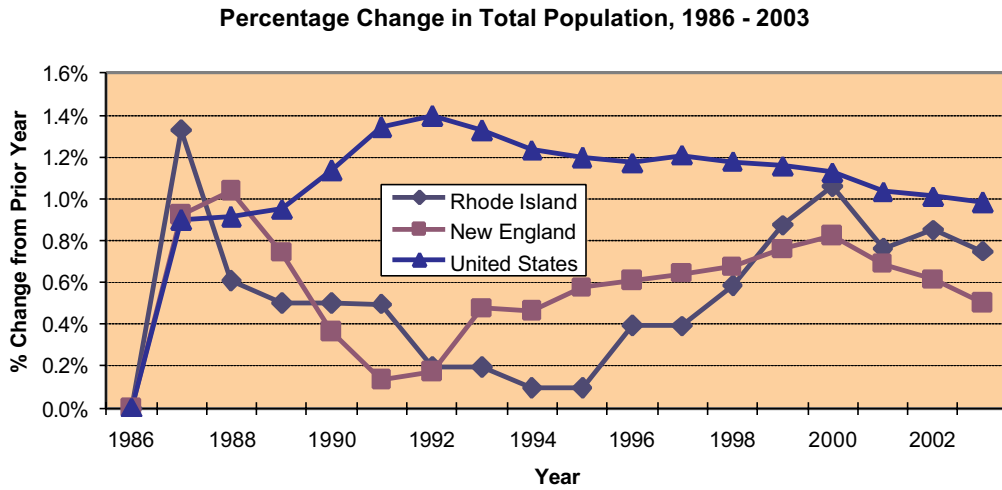
### Population, 1986 - 2003 (In thousands)

Year	Rhode Island		New England		United States	
	Total	% Change	Total	% Change	Total	% Change
1986	977	-	12,833	-	240,133	-
1987	990	1.3%	12,951	0.9%	242,289	0.9%
1988	996	0.6%	13,085	1.0%	244,499	0.9%
1989	1,001	0.5%	13,182	0.7%	246,819	0.9%
1990	1,006	0.5%	13,230	0.4%	249,623	1.1%
1991	1,011	0.5%	13,248	0.1%	252,981	1.3%
1992	1,013	0.2%	13,271	0.2%	256,514	1.4%
1993	1,015	0.2%	13,334	0.5%	259,919	1.3%
1994	1,016	0.1%	13,396	0.5%	263,126	1.2%
1995	1,017	0.1%	13,473	0.6%	266,278	1.2%
1996	1,021	0.4%	13,555	0.6%	269,394	1.2%
1997	1,025	0.4%	13,642	0.6%	272,647	1.2%
1998	1,031	0.6%	13,734	0.7%	275,854	1.2%
1999	1,040	0.9%	13,838	0.8%	279,040	1.2%
2000	1,051	1.1%	13,952	0.8%	282,178	1.1%
2001	1,059	0.8%	14,048	0.7%	285,094	1.0%
2002	1,068	0.8%	14,134	0.6%	287,974	1.0%
2003(p)	1,076	0.7%	14,205	0.5%	290,810	1.0%

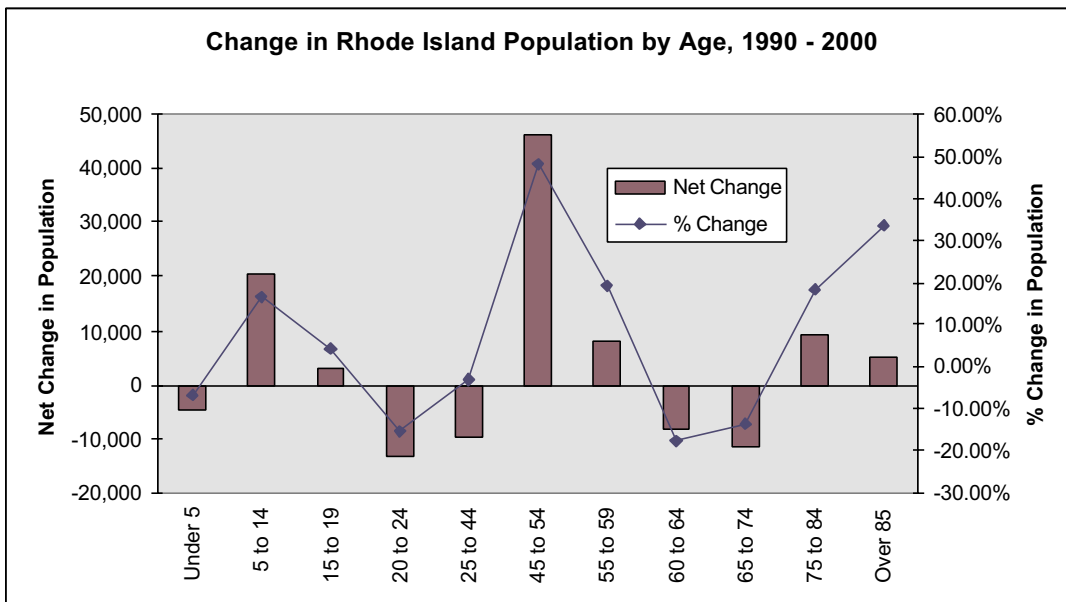
U.S. Department of Commerce. Bureau of Economic Analysis

(p) = preliminary

The chart below displays the growth rate changes shown in the table above. Note the volatility in the population growth rate for Rhode Island as compared to the New England region and the United States.

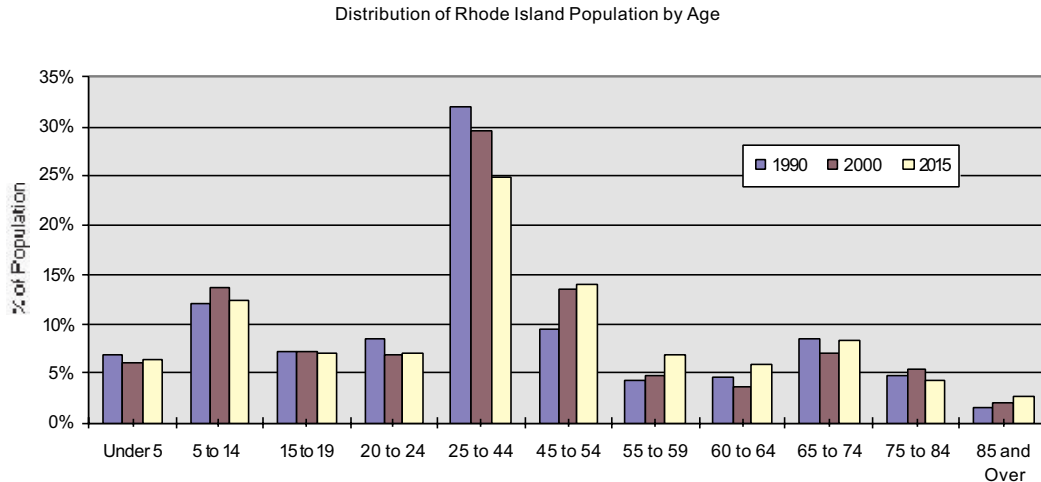


The following chart shows the net change in Rhode Island’s population between 1990 and 2000 by age group. Note that, like the rest of the country, Rhode Island has seen a sharp change in the age distribution of its population in accordance with the chronological advancement of the “baby boom” generation. The upswing in Rhode Islanders in the “5 to 14” age group is a reflection of the “baby boom echo” generation.



The U.S. Census Bureau projects that the next fifteen years will bring about a considerable change in the age distribution of the Rhode Island population. As the “baby boom” generation continues to age, the state should see a sizeable increase in its middle aged to older population (i.e., 45 to 64). In addition, the state should experience a decline in its young adult population (i.e., 20 to 44) and stability in its youth population (i.e., under 5 to 19).

The chart below shows the projected graying of the Rhode Island population in 2015. In 2015, Rhode Island's population is projected to be distributed more heavily in the "45 – 54" age group. At the same time, the percentage of people in the "15 – 44" age group declined. In addition, the percentage of the population 85 and over is expected to rise. The median age for Rhode Islanders in 1990 was 33.8 years and rose to 36.7 years in 2000. By 2015, the median age for Rhode Islanders should rise further.



### Personal Income, Consumer Prices, and Poverty

**Personal Income.** The table below shows nominal and real per capita personal income for Rhode Island, New England, and the United States. Rhode Island's per capita personal income has tracked that of the United States throughout the 1986 – 2003 period. In general, Rhode Island's per capita nominal personal income exceeded that of the United States from 1986 to 1997, with the exception of 1994. Over this period, Rhode Island per capita nominal personal income averaged \$251 more than United States per capita nominal personal income. From 1998 to 2002 this relationship was reversed with United States per capita nominal personal income exceeding that of Rhode Island by an average of \$359. In 2003, Rhode Island per capita nominal personal income again exceeded that of the U.S. as a whole by \$284. Note that Rhode Island per capita nominal personal income has trailed that of the New England region throughout the entire period 1986 – 2003 by an average \$4,185. 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 \$7,080 in 2001. In 2003, the gap had fallen 11.7 percent to \$6,255.

Between 1986 and 1989, per capita real income levels in Rhode Island grew at an annual rate higher than that for the United States. This trend was reversed in 1990 – 1992 as Rhode Island slipped into a recession that was compounded by the banking crisis of 1990. From 1993 to 1998, the relationship between per capita real income growth in Rhode Island alternately exceeded and trailed that of the United States. In 1998 – 2000, Rhode Island per capita real income growth once again trailed that of the United States. In 2001 - 2003, this pattern again reversed itself as the national economy slid into recession. With respect to New England, Rhode Island per capita real income growth has generally lagged that of the region. In fact, over the seventeen-year period from 1986 to 2003, Rhode Island per capita real income growth has exceeded that of New England as a whole on only seven occasions, 1988 – 1989, 1993, 1995, and, most recently, 2001 – 2003.

The chart below the table shows real per capita personal income in Rhode Island, New England and the United States since 1986. As is clear from the graph, Rhode Island real per capita personal income tracks closely with that of the United States but consistently lags that of the New England region.



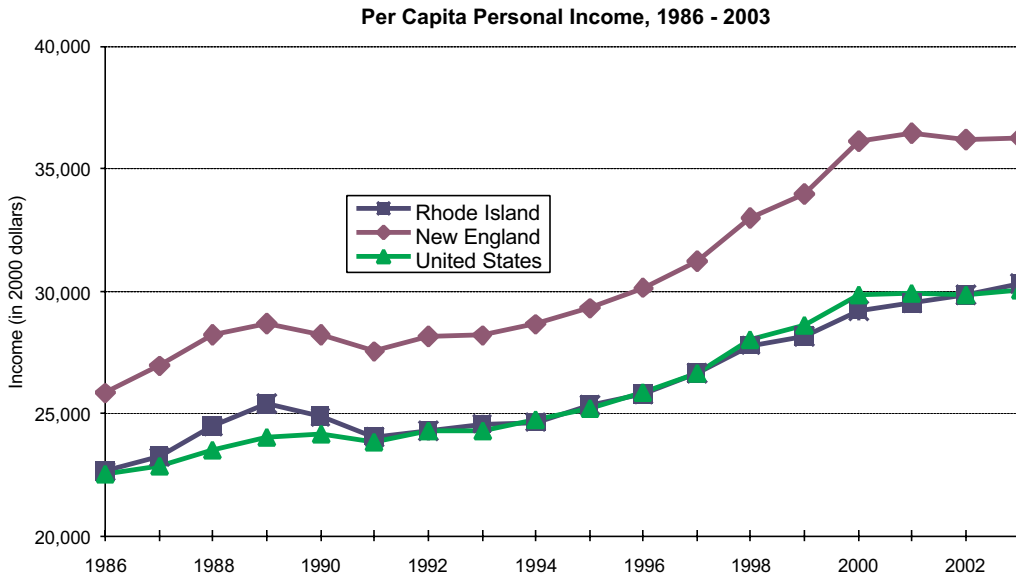
Per Capita Personal Income, 1986 - 2003

Year	Nominal Income (In current dollars)			2000 Deflator	Real Income (In 2000 dollars)			Percentage Change In Real Income		
	R.I.	N.E.	U.S.		R.I.	N.E.	U.S.	R.I.	N.E.	U.S.
1986	15,526	17,722	15,442	68.57%	22,643	25,845	22,520	-	-	-
1987	16,482	19,119	16,240	70.95%	23,231	26,948	22,890	2.6%	4.3%	1.6%
1988	18,045	20,811	17,331	73.76%	24,466	28,216	23,498	5.3%	4.7%	2.7%
1989	19,546	22,083	18,520	76.97%	25,393	28,689	24,060	3.8%	1.7%	2.4%
1990	20,006	22,712	19,477	80.50%	24,853	28,215	24,196	-2.1%	-1.7%	0.6%
1991	20,049	22,969	19,892	83.42%	24,034	27,535	23,846	-3.3%	-2.4%	-1.4%
1992	20,867	24,172	20,854	85.82%	24,314	28,165	24,299	1.2%	2.3%	1.9%
1993	21,586	24,752	21,346	87.81%	24,584	28,190	24,311	1.1%	0.1%	0.0%
1994	22,097	25,687	22,172	89.65%	24,647	28,651	24,731	0.3%	1.6%	1.7%
1995	23,225	26,832	23,076	91.58%	25,361	29,300	25,199	2.9%	2.3%	1.9%
1996	24,106	28,194	24,175	93.55%	25,769	30,139	25,843	1.6%	2.9%	2.6%
1997	25,341	29,687	25,334	95.12%	26,640	31,209	26,633	3.4%	3.5%	3.1%
1998	26,670	31,677	26,883	95.98%	27,787	33,004	28,009	4.3%	5.8%	5.2%
1999	27,459	33,126	27,939	97.58%	28,141	33,949	28,633	1.3%	2.9%	2.2%
2000	29,216	36,121	29,847	100.00%	29,216	36,121	29,847	3.8%	6.4%	4.2%
2001	30,103	37,183	30,527	102.04%	29,502	36,440	29,917	1.0%	0.9%	0.2%
2002	30,859	37,413	30,906	103.43%	29,836	36,173	29,881	1.1%	-0.7%	-0.1%
2003(p)	31,916	38,171	31,632	105.33%	30,302	36,241	30,033	1.6%	0.2%	0.5%

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

(p) = preliminary

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

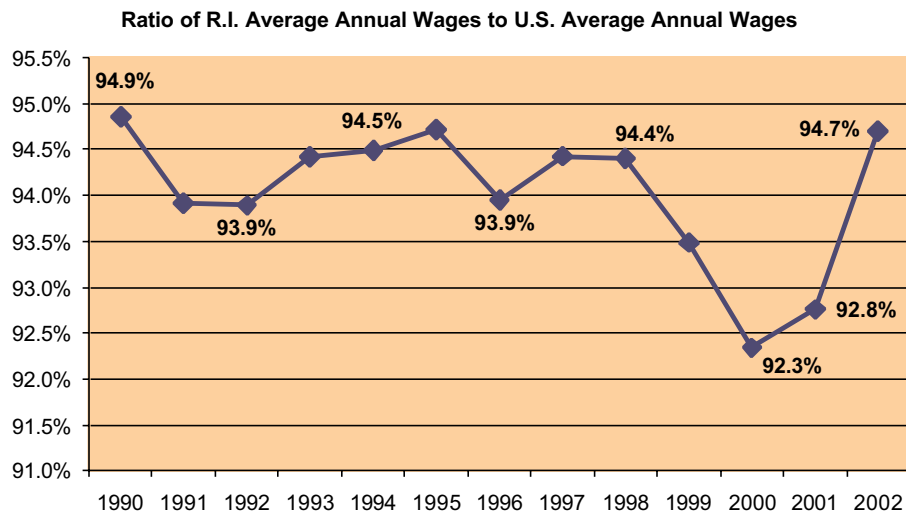


**Average Annual Pay.** Although the growth in Rhode Island per capita personal income has fluctuated, annual pay has grown steadily in Rhode Island over the past twelve years. Average annual pay is computed by dividing total annual payrolls of employees covered by unemployment insurance programs by the average monthly number of these employees. Although average annual pay has increased consistently for the last twelve years, the ratio of pay levels in Rhode Island to the United States has been on a downward trend. In 1990, average annual pay in Rhode Island was 94.9 percent of the national average. By 2001, the ratio had fallen to 92.8 percent. For 2002, average annual pay in Rhode Island rebounded to 94.7 percent, \$34,810 versus \$36,764 in the United States.

**Average Annual Pay, 1990 - 2002**  
(In current dollars)

Year	Annual Pay		Ratio R.I./U.S.	Percentage Change	
	R.I.	U.S.		R.I.	U.S.
1990	22,387	23,602	94.9%	-	-
1991	23,082	24,578	93.9%	3.1%	4.1%
1992	24,315	25,897	93.9%	5.3%	5.4%
1993	24,889	26,361	94.4%	2.4%	1.8%
1994	25,454	26,939	94.5%	2.3%	2.2%
1995	26,375	27,846	94.7%	3.6%	3.4%
1996	27,194	28,946	93.9%	3.1%	4.0%
1997	28,662	30,353	94.4%	5.4%	4.9%
1998	30,156	31,945	94.4%	5.2%	5.2%
1999	31,169	33,340	93.5%	3.4%	4.4%
2000	32,615	35,320	92.3%	4.6%	5.9%
2001	33,603	36,219	92.8%	3.0%	2.5%
2002	34,810	36,764	94.7%	3.6%	1.5%

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



**Consumer Prices.** The following table presents consumer price index trends for the Northeast region and the United States for the period between 1986 and 2003. 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 1987 to 1992, consumer price inflation in the Northeast consistently exceeded that for the United States by at least 0.3 percent. From 1993 to 2001, consumer price inflation in the Northeast has been on average equal to that of the United States. During this period, consumer price inflation in the Northeast region has been less than for the United States in each of the following years (1993-1996, 1998 and 1999). In 2000 and 2001, consumer price inflation in the Northeast region was equal to that of the United States. In 2002 and 2003, consumer price inflation exceeded that of the United States by 0.5 percent while.

**Consumer Price Index for All Urban Consumers (CPI-U), 1986 - 2003  
(1982 - 1984 = 100)**

Year	CPI-U		Ratio Northeast/U.S.	Pct. Change	
	Northeast	U.S.		Northeast	U.S.
1986	111.1	109.6	101.4%	-	-
1987	116.0	113.6	102.1%	4.4%	3.6%
1988	121.8	118.3	103.0%	5.0%	4.1%
1989	128.6	124.0	103.7%	5.6%	4.8%
1990	136.3	130.7	104.3%	6.0%	5.4%
1991	142.5	136.2	104.6%	4.5%	4.2%
1992	147.3	140.3	105.0%	3.4%	3.0%
1993	151.4	144.5	104.8%	2.8%	3.0%
1994	155.1	148.2	104.7%	2.4%	2.6%
1995	159.1	152.4	104.4%	2.6%	2.8%
1996	163.6	156.9	104.3%	2.8%	3.0%
1997	167.6	160.5	104.4%	2.4%	2.3%
1998	170.0	163.0	104.3%	1.4%	1.6%
1999	173.5	166.6	104.1%	2.1%	2.2%
2000	179.4	172.2	104.2%	3.4%	3.4%
2001	184.4	177.1	104.1%	2.8%	2.8%
2002	188.2	179.9	104.6%	2.1%	1.6%
2003	193.5	184.0	105.2%	2.8%	2.3%

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

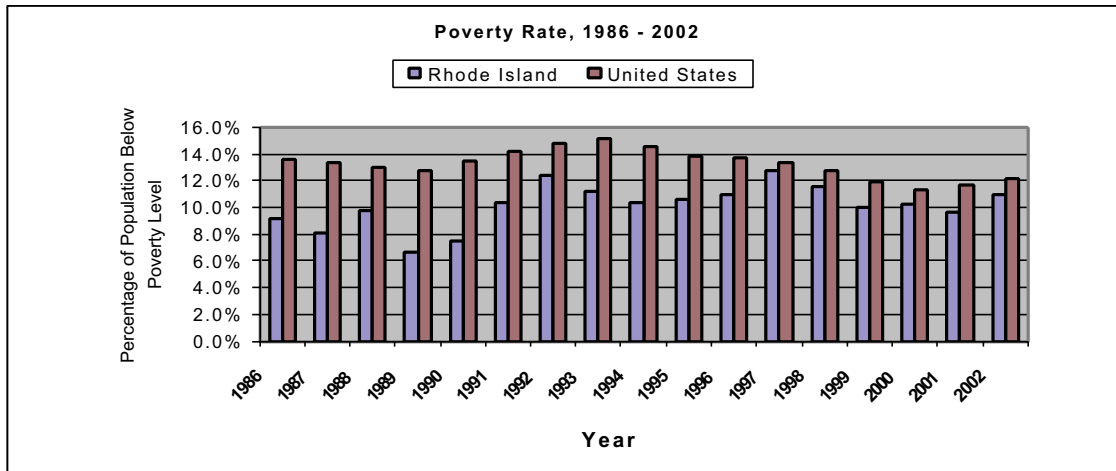
**Poverty.** The Rhode Island poverty rate is significantly below the national average. Between 1986 and 2002, the percentage of the Rhode Island population below the federal poverty line has varied from a low of 6.7 percent in 1989 to a high of 12.7 percent in 1997. During the same time, the national poverty rate varied from a low of 11.3 percent in 2000 to a high of 15.1 percent in 1993. Interestingly, in 2002, the poverty rate in Rhode Island was 11.0 percent while the poverty rate in the United States was 12.1 percent. These official poverty statistics are not adjusted for regional differences in the cost of living. The following chart and table illustrate the lower poverty rates in Rhode Island compared with the national average from 1986 through 2002.

**Poverty Rate, 1986 - 2002**

Year	Ratio		Percentage Change		
	R.I.	U.S.	R.I./U.S.	R.I.	U.S.
1986	9.1	13.6	66.9%	-	-
1987	8.1	13.4	60.4%	-11.0%	-1.5%
1988	9.8	13.0	75.4%	21.0%	-3.0%
1989	6.7	12.8	52.3%	-31.6%	-1.5%
1990	7.5	13.5	55.6%	11.9%	5.5%
1991	10.4	14.2	73.2%	38.7%	5.2%
1992	12.4	14.8	83.8%	19.2%	4.2%
1993	11.2	15.1	74.2%	-9.7%	2.0%
1994	10.3	14.5	71.0%	-8.0%	-4.0%
1995	10.6	13.8	76.8%	2.9%	-4.8%
1996	11.0	13.7	80.3%	3.8%	-0.7%
1997	12.7	13.3	95.5%	15.5%	-2.9%
1998	11.6	12.7	91.3%	-8.7%	-4.5%
1999	10.0	11.9	84.0%	-13.8%	-6.3%
2000	10.2	11.3	90.3%	2.0%	-5.0%
2001	9.6	11.7	82.1%	-5.9%	3.5%
2002	11.0	12.1	90.9%	14.6%	3.4%

U.S. Census Bureau

The bar chart below plots the data from the above table and demonstrates the jump in the base level of the poverty rate in Rhode Island between the 1980s and the 1990s. It also illustrates the downward trend in the United States poverty rate over the course of the 1990s.



## Employment

The table below shows Rhode Island Nonfarm Employment for the 1990 to 2003 period. The table below reflects the new North American Industrial Classification System (NAICS) composition of employment.

### Rhode Island Non-farm Employment by Industry, 1990 - 2003

Year	Construction, Natural Resources & Mining		Manufacturing		Trade, Transportation & Utilities		Information, Financial Activities, & Business Services		Educational & Health Services		Leisure, Hospitality & Other Services		Government		Total Nonfarm Employment	
	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change
1990	18,700	-	95,100	-	77,500	-	79,500	-	66,200	-	51,900	-	62,500	-	451,200	-
1991	13,700	-26.7%	87,500	-8.0%	71,000	-8.4%	73,100	-8.1%	66,800	0.9%	48,600	-6.4%	60,900	-2.6%	421,500	-6.6%
1992	12,500	-8.8%	84,800	-3.1%	71,100	0.1%	72,300	-1.1%	72,100	7.9%	50,900	4.7%	61,200	0.5%	424,800	0.8%
1993	12,800	2.4%	83,600	-1.4%	71,200	0.1%	74,700	3.3%	74,200	2.9%	52,100	2.4%	61,400	0.3%	430,000	1.2%
1994	13,300	3.9%	82,600	-1.2%	72,400	1.7%	76,200	2.0%	75,000	1.1%	53,100	1.9%	61,700	0.5%	434,200	1.0%
1995	13,600	2.3%	80,300	-2.8%	75,600	4.4%	77,600	1.8%	77,200	2.9%	54,600	2.8%	61,300	-0.6%	440,100	1.4%
1996	14,200	4.4%	77,400	-3.6%	73,600	-2.6%	78,300	0.9%	79,200	2.6%	57,700	5.7%	61,300	0.0%	441,600	0.3%
1997	14,800	4.2%	76,200	-1.6%	72,900	-1.0%	82,500	5.4%	80,700	1.9%	59,600	3.3%	63,200	3.1%	450,000	1.9%
1998	16,200	9.5%	74,900	-1.7%	74,700	2.5%	86,800	5.2%	81,600	1.1%	61,000	2.3%	62,900	-0.5%	458,000	1.8%
1999	18,000	11.1%	72,200	-3.6%	75,700	1.3%	90,000	3.7%	82,300	0.9%	64,000	4.9%	63,400	0.8%	465,500	1.6%
2000	18,400	2.2%	71,200	-1.4%	79,600	5.2%	92,900	3.2%	83,200	1.1%	67,100	4.8%	64,400	1.6%	476,700	2.4%
2001	19,200	4.3%	67,800	-4.8%	79,300	-0.4%	94,000	1.2%	84,900	2.0%	68,000	1.3%	65,200	1.2%	478,400	0.4%
2002	19,600	2.1%	62,300	-8.1%	80,500	1.5%	93,000	-1.1%	88,000	3.7%	70,000	2.9%	66,100	1.4%	479,400	0.2%
2003	21,000	7.1%	58,900	-5.5%	80,800	0.4%	94,000	1.1%	90,500	2.8%	72,200	3.1%	66,500	0.6%	483,700	0.9%

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

As is evident from the table, between 1990 and 1991, total nonfarm employment in Rhode Island declined 6.6 percent. During this time all sectors experienced declines, with the exception of Educational and Health Services, which increased by 0.9 percent. These decreases in employment were the result of the recession that gripped the State and the nation during this time. The economic recovery took hold in Rhode Island in 1992 with nonfarm employment growing by 0.8 percent. This growth in total employment was followed by strong gains in 1993, 1994 and 1995 of 1.2 percent, 1.0 percent and 1.4 percent respectively. Employment growth slowed again in 1996 to a 0.3 percent rate and then rebounded sharply over the 1997 to 2000 period during which time Rhode Island total nonfarm employment growth averaged 1.9 percent. In 2001, Rhode Island employment growth moderated to a rate of 0.4 percent with the onset of a national recession in March 2001. In 2002, it weakened further to a rate of 0.1 percent as the "jobless" recovery commenced in early 2002. In 2003, Rhode Island employment growth moved sharply upward to a rate of 0.9 percent reflecting the strengthening national economy.

**Non-farm Employment by Industry.** The table below summarizes the changes in Rhode Island employment by sector from 1993 to 2003. Total nonfarm employment increased by 12.5 percent during this period, but the composition of this total employment changed markedly. As is evident from the table, manufacturing employment decreased by 29.5 percent during this time period while average employment growth for all other sectors excluding government was 32.8 percent. The biggest gaining sector during

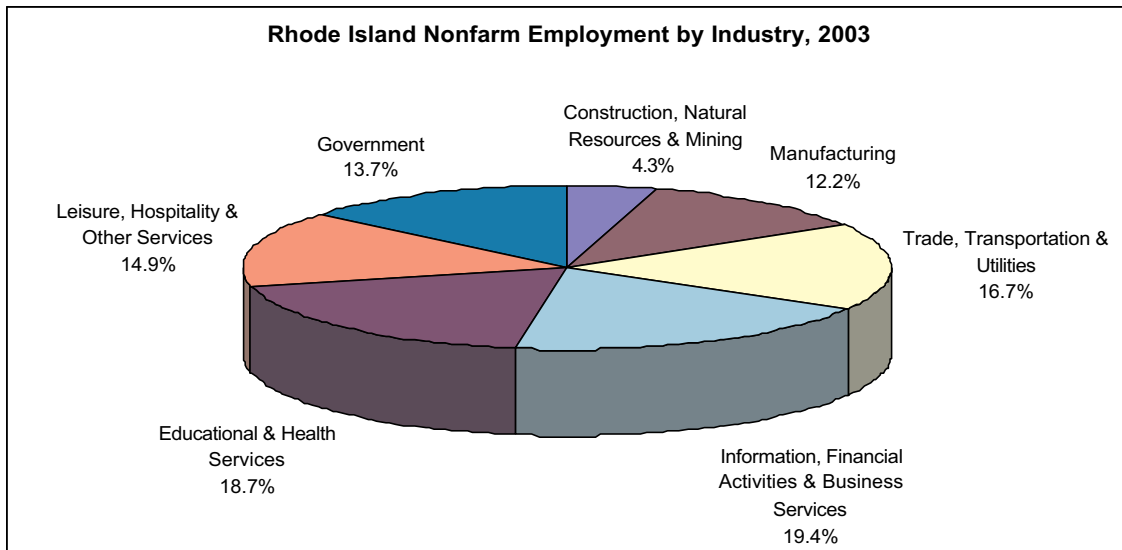
this period was Construction, Natural Resources and Mining, which grew by 64.1 percent. Clearly, the Rhode Island economy underwent a significant restructuring during the 1993 to 2003 period, transforming from a manufacturing based economy to service based economy.

**Rhode Island Non-Farm Employment by Industry, 1993 & 2003**

<b>Employment Sector</b>	<b>1993</b>	<b>% of Total</b>	<b>2003</b>	<b>% of Total</b>	<b>% Change 1993-2003</b>
<b>Construction, Natural Resources &amp; Mining</b>	12,800	3.0%	21,000	4.3%	64.1%
<b>Manufacturing</b>	83,600	19.4%	58,900	12.2%	-29.5%
<b>Trade, Transportation &amp; Utilities</b>	71,200	16.6%	80,800	16.7%	13.5%
<b>Information, Financial Activities &amp; Business Services</b>	74,700	17.4%	94,000	19.4%	25.8%
<b>Educational &amp; Health Services</b>	74,200	17.3%	90,500	18.7%	22.0%
<b>Leisure, Hospitality &amp; Other Services</b>	52,100	12.1%	72,200	14.9%	38.6%
<b>Government</b>	61,400	14.3%	66,500	13.7%	8.3%
<b>Total Employment</b>	<b>430,000</b>	<b>100.0%</b>	<b>483,700</b>	<b>100.0%</b>	<b>12.5%</b>

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

The pie chart illustrates the composition of Rhode Island employment after the restructuring of the state’s economy during the 1990s. The Information, Financial Activities and Business Services sector, with 19.4 percent of the nonfarm work force in 2003, is the largest employment sector in the Rhode Island economy, followed by Educational and Health Services (18.7 percent), Trade, Transportation and Utilities (16.7 percent), and Leisure, Hospitality and Other Services employment (14.9 percent).



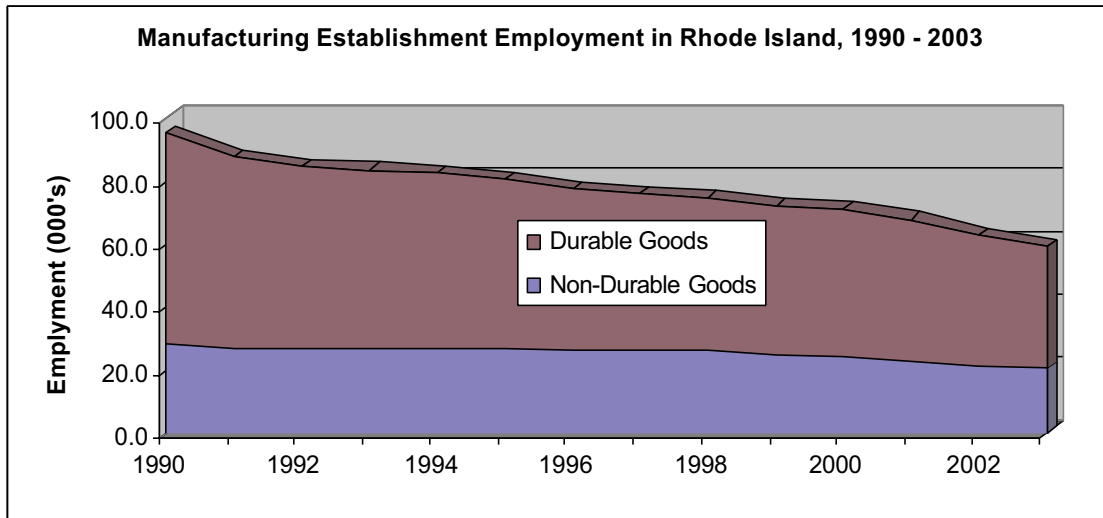
**Manufacturing Employment.** Like many industrial states, Rhode Island has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined in every year between 1990 and 2003, falling a total of 38.1 percent over this period. The rate of decline in manufacturing employment began to slow with the end of the recession and the beginning of recovery in 1992. For example, in 1991 manufacturing employment fell 8.0 percent and another 3.1 percent in 1992. By 2000, this rate of decline had slowed to 1.4 percent before ticking back up to 8.1 percent in 2002 and 5.5 percent in 2003.

**Manufacturing Establishment Employment in Rhode Island, 1990 - 2003**  
(In Thousands)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Non-Durable Goods</b>	28.6	27.1	26.6	26.9	26.9	26.7	26.3	26.4	25.9	24.8	24.1	22.6	21.3	20.5
Percentage Change	-	-5.2%	-1.8%	1.1%	0.0%	-0.7%	-1.5%	0.4%	-1.9%	-4.2%	-2.8%	-6.2%	-5.8%	-3.8%
<b>Durable Goods</b>	66.6	60.4	58.2	56.7	55.7	53.7	51.1	49.8	49.0	47.3	47.1	45.2	41.0	38.3
Percentage Change	-	-9.3%	-3.6%	-2.6%	-1.8%	-3.6%	-4.8%	-2.5%	-1.6%	-3.5%	-0.4%	-4.0%	-9.3%	-6.6%
<b>Total Manufacturing Employment</b>	95.1	87.5	84.8	83.6	82.6	80.3	77.4	76.2	74.9	72.2	71.2	67.8	62.3	58.9
Percentage Change	-	-8.0%	-3.1%	-1.4%	-1.2%	-2.8%	-3.6%	-1.6%	-1.7%	-3.6%	-1.4%	-4.8%	-8.1%	-5.5%

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

Employment in the manufacture of non-durable goods, which had declined or remained even in every year since 1990, grew in 1993 and 1997 (at rates of 1.1 percent and 0.4 percent, respectively). Despite a decline in employment, the manufacturing sector continues to be a significant component in Gross State Product (See “Economic Base and Performance” below), as evidenced by its production in terms of dollars.



**Largest Employers in Rhode Island.** The following table lists, in descending order by employment, the largest employers in Rhode Island for 2003. Together, the top 100 employers employ 170,475 or over 35.0 percent of the total nonfarm wage and salary employment in Rhode Island.

### Rhode Island's Largest Employers

Employed	Employer	Primary Business Activity
16,304	State of Rhode Island	Government
10,300	U.S. Government (excluding military)	Government
10,082	Lifespan	Hospital
6,500	City of Providence	Government
5,630	Diocese of Providence	Catholic Church
5,622	CVS Corporation	Pharmacies
5,608	Care New England	Hospital
4,555	Stop & Shop Supermarket Co.	Grocery Stores
4,450	Brown University	University
4,100	Royal Bank of Scotland	Bank
3,967	Fleet Financial Corp.	Bank
3,465	The Jan Companies	Eating Places
2,900	City of Warwick	Government
2,800	City of Cranston	Government
2,383	RIARC	Association for Retarded Citizens
2,200	City of Pawtucket	Government
2,100	Shaw's Super Market	Grocery Stores
2,075	General Dynamics Corp.	Ship & Boat Building Mfg.
2,000	Metropolitan Life Insurance Co.	Insurance
1,875	WAL-Mart	Retail
1,749	Raytheon Company	Nautical Systems & Equipment Mfg.
1,653	Memorial Hospital of Rhode Island	Hospital
1,605	St. Joseph Health Services of Rhode Island	Hospital
1,600	Blue Cross & Blue Shield	Medical Insurance
1,600	Fidelity Investments	Investment Services
1,581	Amica Mutual Insurance Co.	Insurance
1,500	City of East Providence	Government
1,435	Verizon	Communications
1,340	Roger Williams Medical Center	Hospital
1,300	American Power Conversion	Uninterruptible Power Supplies & Access.
1,300	Town of Coventry	Government
1,300	City of Woonsocket	Government
1,270	Johnson & Wales University	University
1,250	Sovereign BankCorp	Bank
1,250	The Home Depot	Building Supplies
1,200	Town of North Kingstown	Government
1,180	Leviton Manufacturing Co., Inc.	Household Wiring Devices and Switches
1,175	Landmark Health System	Hospital
1,170	Cox Communications	Communications
1,125	A.H. Belo Company	Publishing
1,120	GTECH Corporation	Lottery Systems
1,050	South County Hospital Healthcare	Hospital
1,050	Securitas, AB	Security Services
1,025	Hasbro, Inc.	Toy Manufacturing
1,000	United Parcel Service	Package Delivery
1,000	Town of North Providence	Government
1,000	Town of West Warwick	Government
930	Providence College	College
910	Chelo's	Eating Places
900	National Grid	Power Generation

R.I. Economic Development Corporation, Research Division.

**Unemployment.** From 1986 to 1989, the Rhode Island unemployment rate was lower than the national unemployment rate. With the onset of recession in 1990, this pattern was reversed and remained that way until 1996 when once again the unemployment rate in Rhode Island was less than that for the United States. From 1996 to 2001, Rhode Island's unemployment rate tracked closely with that of the United



States. In 2002, the United States unemployment rate again rose above Rhode Island's. 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 1986 and 2003.

**Annual Average Civilian Labor Force and Unemployment, 1986 – 2003**  
(In Thousands)

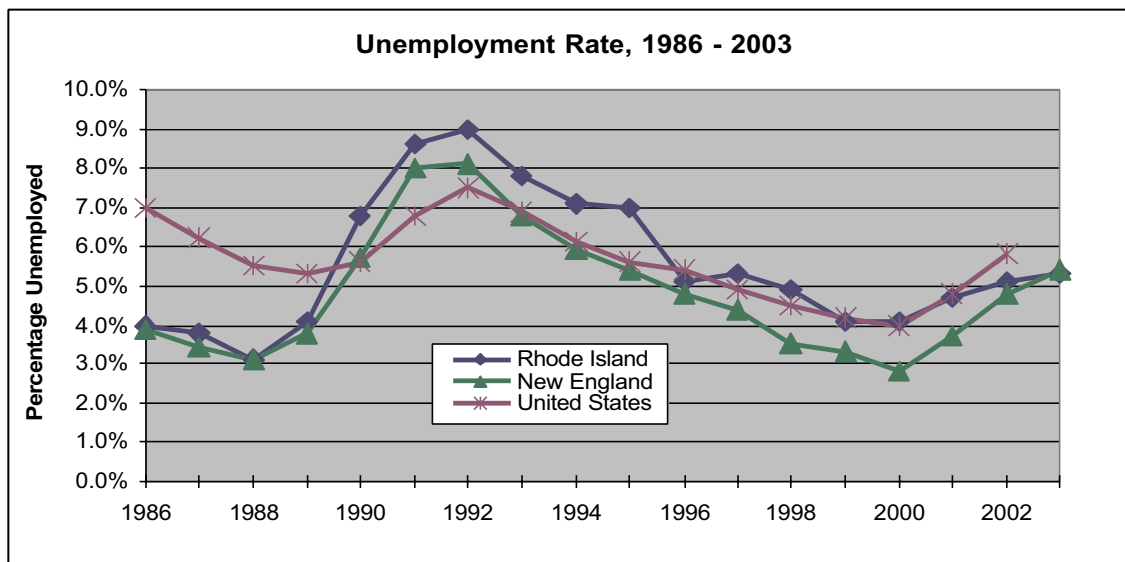
Year	Civilian Labor Force			Unemployed			Unemployment Rate			R.I. Rate as a % of U.S.
	R.I.	N.E.	U.S.	R.I.	N.E.	U.S.	R.I.	N.E.	U.S.	
1986	509	6,721	117,834	21	265	8,237	4.0%	3.9%	7.0%	57.1%
1987	519	6,829	119,865	20	229	7,425	3.8%	3.4%	6.2%	61.3%
1988	525	6,914	121,669	16	216	6,701	3.1%	3.1%	5.5%	56.4%
1989	525	6,998	123,869	21	269	6,528	4.1%	3.8%	5.3%	77.4%
1990(c)	520	7,153	125,840	35	409	7,047	6.8%	5.7%	5.6%	121.4%
1991(c)	518	7,104	126,346	45	570	8,628	8.6%	8.0%	6.8%	126.5%
1992(c)	531	7,091	128,105	48	571	9,613	9.0%	8.1%	7.5%	120.0%
1993(c)	525	7,074	129,200	41	482	8,940	7.8%	6.8%	6.9%	113.0%
1994(c)	515	7,020	131,056	36	415	7,996	7.1%	5.9%	6.1%	116.4%
1995(c)	506	7,040	132,304	35	378	7,404	7.0%	5.4%	5.6%	125.0%
1996(c)	518	7,108	133,943	27	341	7,236	5.1%	4.8%	5.4%	94.4%
1997(c)	532	7,248	136,297	28	320	6,739	5.3%	4.4%	4.9%	108.2%
1998(c)	531	7,256	137,673	26	255	6,210	4.9%	3.5%	4.5%	108.9%
1999(c)	542	7,329	139,368	22	241	5,880	4.1%	3.3%	4.2%	97.6%
2000(b)	543	7,355	140,863	22	203	5,655	4.1%	2.8%	4.0%	102.5%
2001(b)	546	7,420	141,815	26	272	6,742	4.7%	3.7%	4.8%	97.9%
2002(b)	553	7,548	142,535	28	366	8,266	5.1%	4.8%	5.8%	87.9%
2003(b)	573	7,554	n/a	30	409	n/a	5.3%	5.4%	n/a	n/a

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

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

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

The chart below graphs the unemployment rates for Rhode Island, New England, and the United States over the 1986-2003 period. This graph portrays Rhode Island's laggard status with respect to the rest of New England. 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

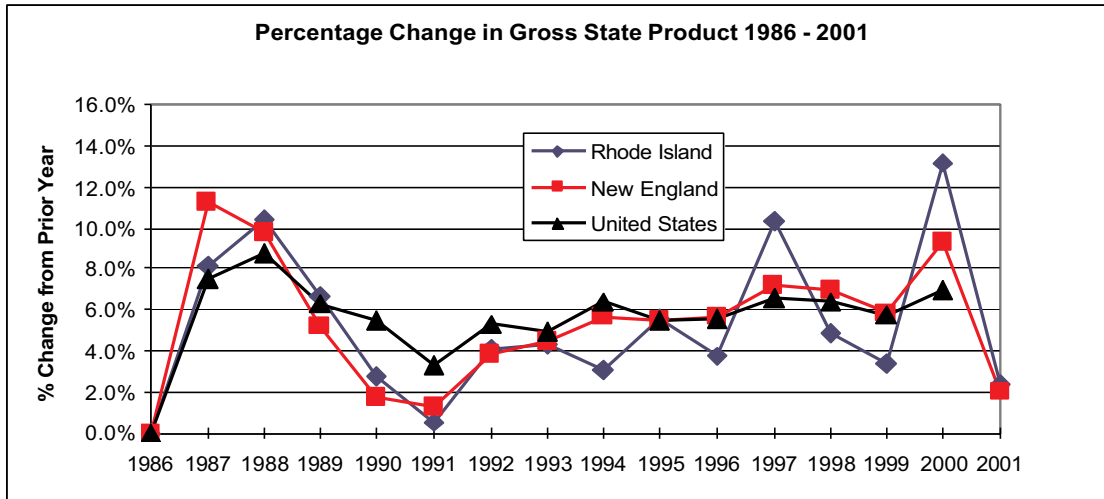
Between 1986 and 1988, the economies of Rhode Island and New England were among the strongest performers in the nation, with growth rates considerably higher than those for the national economy as a whole. The onset of recession in 1990 reversed this relationship with both Rhode Island and New England experiencing growth rates significantly below the national average for the 1990-1994 period. From 1995 - 2000, growth in New England Gross State Product (GSP) equaled or exceeded that for the United States. Over this same period, growth in Rhode Island GSP exceeded 10 percent on two occasions, 1997 and 2000. The table below gives the Gross State Product and the annual growth rates for Rhode Island, New England, and the United States over the 1986 – 2001 period.

**Gross State Product, 1986 – 2001**  
(Millions of Current Dollars)

Year	Rhode Island		New England		United States	
	GSP	Change	GSP	Change	GSP	Change
1986	16,521	-	259,916	-	4,355,877	-
1987	17,866	8.1%	289,060	11.2%	4,683,245	7.5%
1988	19,728	10.4%	317,217	9.7%	5,092,174	8.7%
1989	21,050	6.7%	333,763	5.2%	5,411,353	6.3%
1990	21,632	2.8%	339,683	1.8%	5,706,658	5.5%
1991	21,758	0.6%	344,025	1.3%	5,895,430	3.3%
1992	22,656	4.1%	357,145	3.8%	6,209,096	5.3%
1993	23,627	4.3%	373,298	4.5%	6,513,026	4.9%
1994	24,352	3.1%	394,406	5.7%	6,930,791	6.4%
1995	25,703	5.5%	416,166	5.5%	7,309,516	5.5%
1996	26,656	3.7%	439,596	5.6%	7,715,901	5.6%
1997	29,409	10.3%	471,336	7.2%	8,224,960	6.6%
1998	30,838	4.9%	503,940	6.9%	8,750,174	6.4%
1999	31,895	3.4%	533,324	5.8%	9,251,541	5.7%
2000	36,086	13.1%	582,874	9.3%	9,891,187	6.9%
2001	36,939	2.4%	594,686	2.0%	10,137,190	2.5%

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

The graph below plots the percentage change in GSP for Rhode Island, New England, and the United States over the 1986-2001 period. In general, growth in Rhode Island Gross State Product has been more volatile than that of either New England or the United States. This has been especially true since 1993. The large swings in the growth of Rhode Island GSP have 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 real Gross State Product (GSP) of several industrial and non-industrial sectors.

**Gross State Product by Industry in Rhode Island, 1990 – 2001**  
(Millions of Dollars)

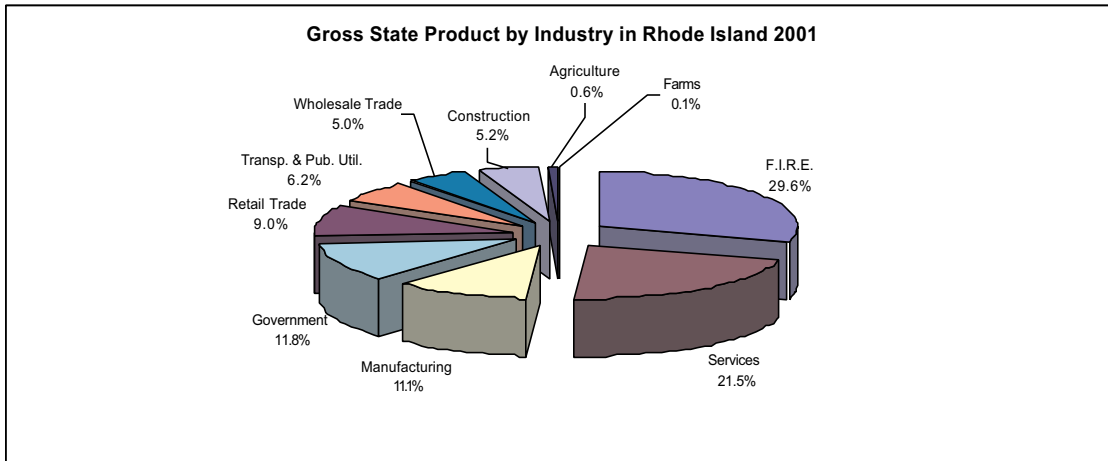
<b>Industrial Sector</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Finance, Insurance & Real Estate	4,635	4,943	4,975	5,145	5,342	5,770	5,910	7,576	8,096	8,185	10,828	10,934
Services	4,326	4,457	4,793	5,037	5,303	5,614	5,922	6,328	6,757	7,088	7,394	7,951
Manufacturing	4,292	4,272	4,194	4,329	4,205	4,230	4,270	4,311	4,213	4,140	4,244	4,105
Government	2,700	2,741	2,939	3,029	3,020	3,249	3,393	3,609	3,697	3,876	4,198	4,352
Retail Trade	1,988	1,917	2,027	2,100	2,170	2,212	2,266	2,494	2,632	2,829	3,177	3,312
Transportation and Public Utilities	1,337	1,361	1,607	1,770	1,837	1,974	2,107	2,084	2,154	2,115	2,242	2,285
Wholesale Trade	1,154	1,103	1,166	1,207	1,326	1,440	1,447	1,517	1,603	1,711	1,903	1,830
Construction	998	772	760	800	950	1,019	1,146	1,291	1,479	1,733	1,870	1,922
Agriculture	191	183	182	197	183	180	185	185	196	207	221	234
Farms	51	50	57	47	47	41	44	33	31	29	29	29
<b>Total GSP</b>	<b>21,632</b>	<b>21,758</b>	<b>22,656</b>	<b>23,627</b>	<b>24,352</b>	<b>25,703</b>	<b>26,656</b>	<b>29,409</b>	<b>30,838</b>	<b>31,895</b>	<b>36,086</b>	<b>36,939</b>

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

As is apparent from the table, Rhode Island has experienced strong growth in the Finance, Insurance and Real Estate (FIRE), Services, and Construction sectors. Between 1990 and 2001, the FIRE and Construction sectors have more than doubled in value contributed to Gross State Product while Services has nearly doubled in value contributed to Gross State Product. During this same period, the value Manufacturing has contributed to GSP has been flat while that of Farms has fallen considerably.

**Gross State Product by Industry in Rhode Island**

The pie chart below shows the share of total Gross State Product in 2001 attributable to each of the industry sectors noted above.



**Finance, Insurance and Real Estate.** This is the largest sector in the economy of Rhode Island in terms of number of dollars. In 2001 FIRE accounted for \$10.9 billion or 29.6 percent of total gross state product. For the period 1999 – 2001 this sector expanded by a respectable 33.6 percent.

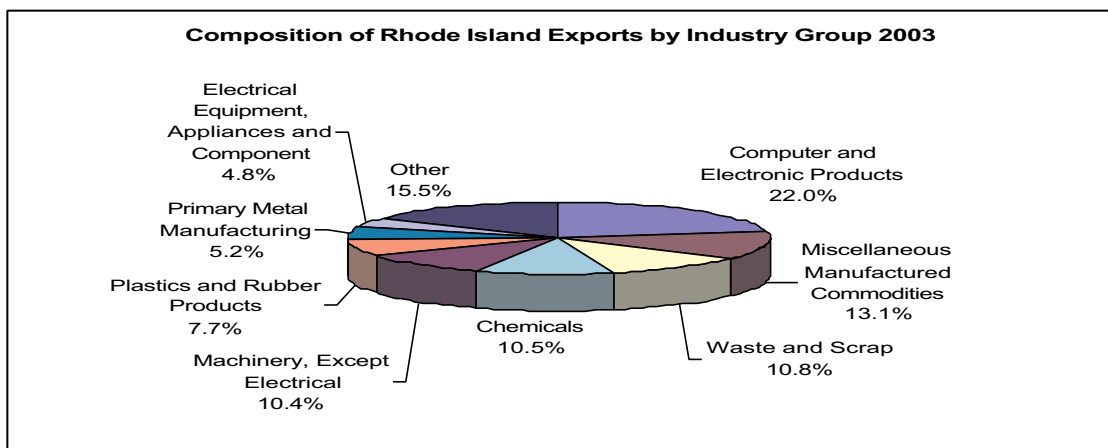
**Services.** The second most important sector at 21.5 percent of GSP is Services. It has recorded steady growth in every year from 1990 – 2001. In 2001 Services produced \$7.95 billion, an increase of 6.2 percent from the previous year.

**Retail Trade.** Production in Retail Trade declined during 1990 and 1991 but has grown steadily since. Retail Trade, in 2001, was the fifth largest sector in Rhode Island at \$3.3 billion or 9.0 percent of the total. This sector increased by 4.2 percent from the 2000 level.

**Construction.** The construction industry declined by 19.8 percent from 1990 – 1993. Since 1993, with the return to general growth in the Rhode Island economy, construction has rebounded with growth rates of 17.2 percent in 1999, 7.9 percent in 2000 and 2.8 percent in 2001. Construction activity, in 2001, contributed 5.2 percent of the Rhode Island Gross State Product.

### 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 2001 was \$1.3 billion. This represented 3.4 percent of Rhode Island Gross State Product of \$36.9 billion. In 2002, Rhode Island's exports declined to \$1.1 billion.



The most important exports, as shown in the pie chart above, were computer and electronic products (22.0%), miscellaneous manufactured commodities (13.1%), waste and scrap (10.8%), chemicals (10.5%), and machinery, except electrical (10.4%).

The table below provides greater detail of Rhode Island exports by industry for the 2001-2003 period.

**Rhode Island Exports by Industry, 2001 - 2003**  
( in thousands )

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

Massachusetts Institute for Social and Economic Research (MISER)

**Retail Sales**

According to the Economy.com, nominal retail sales for Rhode Island, New England, and the United States have increased each year. The table below shows the annual retail sales activity from 1985 – 2003. Note that Rhode Island's retail sales were stronger than those of New England and the United States in 2001, 2002, and 2003.

**Retail Sales, 1984 – 2003**  
(Millions of Current Dollars, SAAR)

Year	Rhode Island		New England		United States	
	Sales	% Change	Sales	% Change	Sales	% Change
1984	4,502	-	77,900	-	1,344,098	-
1985	4,812	6.9%	85,827	10.2%	1,441,613	7.3%
1986	5,021	4.3%	93,746	9.2%	1,519,426	5.4%
1987	5,311	5.8%	101,632	8.4%	1,618,107	6.5%
1988	5,487	3.3%	104,242	2.6%	1,722,152	6.4%
1989	5,850	6.6%	105,946	1.6%	1,852,025	7.5%
1990	6,224	6.4%	107,391	1.4%	1,947,515	5.2%
1991	6,279	0.9%	108,970	1.5%	1,978,481	1.6%
1992	6,502	3.6%	111,407	2.2%	2,047,868	3.5%
1993	6,933	6.6%	113,723	2.1%	2,192,068	7.0%
1994	7,285	5.1%	126,907	11.6%	2,370,825	8.2%
1995	7,599	4.3%	133,561	5.2%	2,495,225	5.2%
1996	7,884	3.8%	141,256	5.8%	2,638,630	5.7%
1997	8,189	3.9%	148,245	4.9%	2,769,533	5.0%
1998	8,719	6.5%	160,330	8.2%	2,907,358	5.0%
1999	9,427	8.1%	174,155	8.6%	3,151,005	8.4%
2000	9,965	5.7%	189,465	8.8%	3,360,755	6.7%
2001	10,349	3.9%	196,475	3.7%	3,487,440	3.8%
2002	10,711	3.5%	199,066	1.3%	3,582,000	2.7%
2003	11,365	6.1%	208,438	4.7%	3,756,000	4.9%

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

### Housing

The following table shows the number of housing permits authorized on an annual basis in Rhode Island, New England, and the United States. Between 1985 and 1986, both Rhode Island and New England experienced explosive growth in the number of housing permits authorized. This period of strong growth was followed by a decline between 1986 and 1991 during which the number of housing permits authorized in Rhode Island declined by 63.2 percent. In 2003, the number of housing permits authorized decreased by 4.8 percent in Rhode Island, compared to an increase of 2.5 percent for New England and an increase of 4.6 percent for the United States.

**Housing Permits Authorized, 1985 - 2003**  
(Seasonally Adjusted)

Year	Rhode Island		New England		United States	
	Total Permits	Percent Change	Total Permits	Percent Change	Total Permits	Percent Change
1985	5,415	-	96,080	-	1,733,000	-
1986	6,948	28.3%	107,805	12.2%	1,772,000	2.3%
1987	6,612	-4.8%	101,599	-5.8%	1,541,000	-13.0%
1988	5,717	-13.5%	82,768	-18.5%	1,453,000	-5.7%
1989	4,205	-26.4%	54,129	-34.6%	1,351,000	-7.0%
1990	3,177	-24.4%	38,148	-29.5%	1,124,000	-16.8%
1991	2,557	-19.5%	30,396	-20.3%	946,000	-15.8%
1992	2,644	3.4%	37,000	21.7%	1,099,000	16.2%
1993	2,618	-1.0%	39,765	7.5%	1,208,000	9.9%
1994	2,516	-3.9%	39,976	0.5%	1,367,000	13.2%
1995	2,287	-9.1%	37,356	-6.6%	1,337,000	-2.2%
1996	2,363	3.3%	39,984	7.0%	1,420,000	6.2%
1997	2,725	15.3%	42,308	5.8%	1,442,000	1.5%
1998	2,657	-2.5%	47,847	13.1%	1,619,000	12.3%
1999	3,237	21.8%	47,346	-1.0%	1,662,000	2.7%
2000	2,663	-17.7%	43,730	-7.6%	1,600,000	-3.7%
2001	2,412	-9.4%	42,875	-2.0%	1,639,000	2.4%
2002	2,579	6.9%	47,307	10.3%	1,750,000	6.8%
2003	2,456	-4.8%	48,503	2.5%	1,831,000	4.6%

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

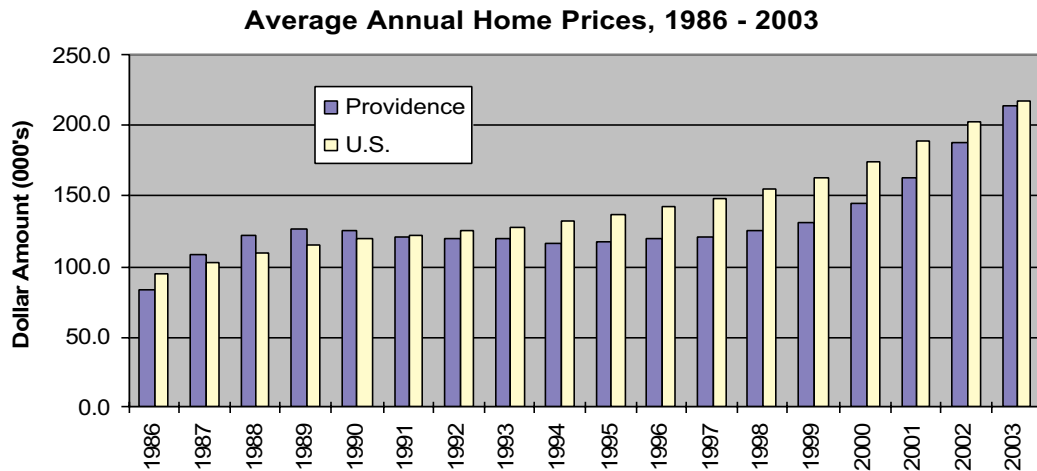
Perhaps the strongest sector of the state's economy has been housing. Significant declines in existing home sales in Rhode Island in 1990 and 1991 (of -13.4 percent and -5.2 percent, respectively) were followed by rapid sales growth for 1992 and 1993, when existing home sales in Rhode Island increased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

**Existing Home Sales, 1985 - 2003**  
(In Thousands, SAAR)

Year	Rhode Island		New England		United States	
	Sales	Percent Change	Sales	Percent Change	Sales	Percent Change
1986	10.6	-	169.2	-	3,772.5	-
1987	10.5	-0.9%	174.5	3.1%	3,767.5	-0.1%
1988	11.0	4.8%	178.5	2.3%	3,882.5	3.1%
1989	11.2	1.8%	163.0	-8.7%	3,672.0	-5.4%
1990	9.7	-13.4%	134.0	-17.8%	3,603.5	-1.9%
1991	9.2	-5.2%	140.5	4.9%	3,533.3	-1.9%
1992	11.9	29.3%	170.6	21.4%	3,889.5	10.1%
1993	13.0	9.2%	193.8	13.6%	4,220.3	8.5%
1994	13.1	0.8%	200.3	3.4%	4,409.8	4.5%
1995	13.5	3.1%	185.7	-7.3%	4,342.3	-1.5%
1996	14.7	8.9%	200.7	8.1%	4,705.3	8.4%
1997	15.9	8.2%	219.4	9.3%	4,908.8	4.3%
1998	19.0	19.5%	248.3	13.2%	5,585.3	13.8%
1999	20.7	8.9%	253.3	2.0%	5,922.8	6.0%
2000	19.5	-5.8%	242.0	-4.5%	5,831.8	-1.5%
2001	20.0	2.6%	239.6	-1.0%	6,026.3	3.3%
2002	19.7	-1.5%	244.5	2.0%	6,421.3	6.6%
2003	20.2	2.5%	279.2	14.2%	6,994.8	8.9%

National Association of Realtors  
Federal Reserve Bank of Boston

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



Single-family home prices for the Providence Metropolitan area (not seasonally adjusted) appear in the above chart. While Providence housing prices were 12.1 percent higher than the US average in 1988, by 2003 they had fallen below the rest of the country at 98.9 percent of the national average.

### 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 1999, contracts again declined as the country cashed in the “peace dividend” from the end of the Cold War. In 2002 contracts had risen again to \$365 million, up 29.0 percent from the previous year. The relationship of the defense industry to the Rhode Island economy is reflected in the following table, which shows the value of Department of Defense contract awards between 1990 and 2002. Since 1990, Rhode Island's share of New England contract awards has decreased from 3.9 percent to 2.8 percent of such awards in 2002.

**Department of Defense Contract Awards, 1990 – 2002**  
(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%

Department of Defense



## **Travel and Tourism**

According to the May 2003 Rhode Island Travel and Tourism Research Report from the University of Rhode Island and the Rhode Island Economic Development Corporation, travel and tourism revenue broke the four billion-dollar mark, at \$4.5 billion in 2002. This generated 57,900 jobs (9.9% of the State total) and 1.0 billion in employee compensation (4.9% of the State total).

In 2002 an estimated 15.8 million travelers visited Rhode Island for business, conventions or leisure. Of these, 10.7 million spent the day in the state. Of these 10.7 million day trippers, nearly half, or 5.1 million stayed overnight. An additional 22.5 million travelers "passed through" the state en route to other destinations.

The highest daily expenditures in 2002 were by overnight convention visitors (\$222.71 per day), overnight business visitors (\$219.47 per day), and leisure visitors who stayed in hotels and motels (\$150.59).

Visitor indicators for 2002 were down, with one exception. The Newport Bridge Traffic was up 3.8%. Lodgings Tax revenues decreased by 1.8%. Visits to the Preservation Society of Newport County were down 2.9%; commercial air passengers arriving and departing through T.F. Green Airport were down 2.5% and the I-95 Welcome Center Visitors declined by 9.2%.

Sales revenues in the travel and tourism industry declined by 3.5% in 2002. The services sector had the largest percentage drop in 2002 with a 5.1% decrease in sales revenues. The transportation sector receipts decreased by 3.7% and the retail trade sector receipts decreased by 2.5%. The equivalent number of firms in the tourism industry grew by 1.2% in 2002, while wages increased by 1.4% and the number of employees decreased by 0.1%.

## **Human Resources**

The availability of a skilled and well-educated population is an important resource for Rhode Island. The level of education reached by the population of Rhode Island compares favorably with the United States as a whole, as the following chart demonstrates. Although spending on education is not necessarily an indication of results, it is important to note that Rhode Island spends more per pupil than the national average on primary and secondary education. In fact, per pupil spending in Rhode Island has been significantly higher than the national average since 1989. The ratio of Rhode Island spending to the national average has varied from 120.6 percent in 1990-91 to a high of 130.5 percent in 1999-00. For the 2000-01 academic year Rhode Island spent 28.1 percent more on public elementary and secondary education than the United States average: \$10,116 per student compared to a national average of \$7,898 per student. The following table shows expenditures per pupil for Rhode Island and the United States since the 1989-90 academic year. For the 2000-01 academic year, Rhode Island per pupil expenditures were the fifth highest in the nation.

**Per Pupil Expenditure in Public Elementary and Secondary Schools**  
**Academic Years 1989-90 – 2000-01**  
 (Based on Average Daily Attendance)

Academic Year	Rhode Island	United States	Ratio (R.I./U.S.)
1989-90	6,368	4,980	127.9%
1990-91	6,343	5,258	120.6%
1991-92	6,546	5,421	120.8%
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	7,898	128.1%

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

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

From July 1, 2001 to June 30, 2002, Rhode Island institutions of higher education conferred 15,733 degrees and certificates, an increase of 7.9 percent over the 14,587 awards of the previous year. In 2001-2002 public institutions of higher education conferred 5,453 degrees and certificates, or 34.7 percent of all awards, while independent institutions awarded 10,255 degrees and certificates, or 65.2 percent of the total. The number of awards at public institutions increased by 5.8 percent, while awards at independent institutions increased by 9.0 percent.

APPENDIX B

Proposed Form of Legal Opinion

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Date of Delivery

UBS Financial Services Inc.,  
as Representative of the Underwriters  
1285 Avenue of the Americas  
New York, New York 10019

J.P. Morgan Trust Company, National Association  
as Trustee  
Providence Washington Plaza  
121 South Main Street, 8<sup>th</sup> Floor  
Providence, Rhode Island 02903

Re: \$58,910,000 State of Rhode Island and Providence Plantations Lease  
Participation Certificates (Kent County Courthouse Project - 2004 Series A)

Ladies and Gentlemen:

You have asked our opinion as to certain matters in connection with the execution of a Sublease Agreement dated as of August 1, 2004 (the "Sublease") by and between J.P. Morgan Trust Company, National Association, in its capacity as Trustee (hereinafter defined), as lessor (the "Lessor") and the State of Rhode Island and Providence Plantations, as lessee (the "Lessee"), and a Lease Agreement dated as of August 1, 2004 by and between the State of Rhode Island and Providence Plantations, as lessor, and J.P. Morgan Trust Company, National Association, in its capacity as Trustee (hereinafter defined) as lessee (the "Lease"). The Lessor has established a grantor trust (the "Trust") pursuant to a Declaration of Trust dated as of August 1, 2004 (the "Declaration of Trust") wherein the J.P. Morgan Trust Company, National Association shall act as trustee (the "Trustee") and pursuant to which the Lessor's interest in and to the Lease Payments (defined in the Sublease) and other amounts received pursuant to the Sublease has been granted to the Trust for the benefit of the owners of the \$58,910,000 Lease Participation Certificates (Kent County Courthouse Project - 2004 Series A) (the "Certificates") issued pursuant to the Declaration of Trust.

Based on our review of the Declaration of Trust, the Sublease, the Lease, the Official Statement dated August 11, 2004, relating to the sale of the Certificates (the "Official Statement"), and certain other documents and certifications delivered in connection with the foregoing and such other matters as we have deemed relevant, we are of the opinion that, under the law in effect on the date hereof:

1. The Sublease and the Lease have each been duly authorized, executed and delivered by the Lessee and are legal, valid, binding obligations of the Lessee, enforceable in accordance with their terms.

2. The Declaration of Trust has been duly authorized, executed and delivered by the Lessor and the obligations of the Trustee thereunder have been accepted by the Trustee and constitute, legal, valid, binding and enforceable obligations of the Trustee in accordance with the terms of the Declaration of Trust.

3. The Certificates have been duly authorized, executed, issued and delivered by the Trustee pursuant to the Declaration of Trust and are legal, valid, binding and enforceable in accordance with their terms.

4. The interest component of the Lease payments made by the Lessee under the Sublease is excludable from the gross income of the owner thereof for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, although such component will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. In addition, the interest component of Sublease payments under the Sublease is excludable from gross income for purposes of State of Rhode Island personal income taxation, to the extent such interest is excludable from gross income for federal income tax purposes.

In rendering this opinion, we have relied upon covenants and certifications and representations of fact of the Lessee, including specifically those contained in the Tax Compliance Certificate of the Lessee dated the date hereof (the "Tax Compliance Certificate"), which we have not independently verified. Our opinion as to the exemption of the portion of Sublease payments designated as interest from federal income taxation is based on a review of and assumes the accuracy of certain representations and compliance with certain covenants of the Lessee as set forth in the Tax Compliance Certificate which are intended to evidence and assure that the Sublease payments are local bonds described in Section 103(a) of the Code. On the date of this opinion and subsequent to the original delivery of the Lease, those representations must be accurate and the Lessee must comply with those covenants for the portion of the lease payments designated as interest to be excluded from gross income for federal income tax purposes.

We call to your attention certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the use, expenditure and investment of the proceeds of the Certificates and the property financed therewith. Failure by the Lessee to comply with such requirements subsequent to the issuance of the Certificates may cause that portion of the Sublease payments made by the Lessee under the Sublease designated as interest and distributable to the Certificate owners as interest to become subject to federal income taxation retroactive to the date of their issuance. The Lessee has covenanted to take all lawful action necessary to comply with those provisions of the Code that, except for such compliance, would affect adversely the excludability of the portion of Sublease payments made by the Lessee under the Sublease designated as interest and distributable to the Certificate owners as interest from gross income for federal income tax purposes. We express no opinion with respect to other federal tax consequences arising with respect to the Certificates.

For purposes of this opinion, interest on the Certificates includes original issue discount, if any, properly allocable to the Certificates.

We express no opinion as to the tax-exempt status of the Certificates or of the interest portions thereof under federal or state law in the event of termination of the Sublease.

The opinions as to enforceability of the Sublease, the Lease, the Declaration of Trust and the Certificates contained in paragraphs one, two and three above are qualified in that the enforceability thereof is subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws in effect from time to time which affect the rights of creditors and further in that the enforceability thereof may be limited by the application of general principles of equity.

With respect to the due authorization, execution and delivery by, and enforceability against the Lessor and the Trustee of the Lease and the Declaration of Trust, we have relied on the opinion of even date of counsel to the Lessor and the Trustee. With respect to the due authorization, execution and delivery by, and enforceability against, the Lessee of the Sublease and the Lease, we have relied on the opinion of even date herewith of the Attorney General of the State of Rhode Island.

Very truly yours,

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APPENDIX C

Specimen Bond Insurance Policy

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# FINANCIAL GUARANTY INSURANCE POLICY

## MBIA Insurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]  
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

\_\_\_\_\_  
President

Attest:

\_\_\_\_\_  
Assistant Secretary

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