

*In the opinion of Holland & Knight 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 the Lease Payments distributable to Owners of the Certificates as interest to the extent such payments are appropriated by the State and received by the Owners 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. However, the portion of each payment distributable to Owners of the Certificates as interest will be taken into account in computing an adjustment made in determining a corporate Certificate Owner's minimum tax based on such Owner's adjusted current earnings. The portion of each of the Lease Payments distributable to Owners 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. See "TAX STATUS" and "APPENDIX B — Proposed Form of Legal Opinion" herein.*

**\$6,000,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Lease Participation Certificates (State Vehicles Project – 2006 Series A)**

**Dated:** Date of Delivery

**Due:** April 15, as shown on the inside front cover

The Certificates represent undivided interests in the 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 the 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 and interest portions on the Certificates will be made solely from amounts derived under the terms of the Sublease, including the 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 the 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 such 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.)

The principal of the Certificates is payable on April 15 as set forth on the inside cover hereof and interest thereon is payable on October 15 and April 15 of each year commencing October 15, 2006. So long as DTC is the registered owner of the Certificates, principal and interest are payable to DTC by the Trustee, as paying agent.

**THE CERTIFICATES ARE SUBJECT TO SPECIAL MANDATORY REDEMPTION PRIOR TO MATURITY AS MORE FULLY DESCRIBED HEREIN.** (See "DESCRIPTION OF THE CERTIFICATES - Special Mandatory Redemption" herein).

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 "BOOK ENTRY ONLY SYSTEM" herein.) The Certificates are subject to acceleration and redemption prior to maturity as described herein.

**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 Certificates are offered when, as and if issued by the State and received by the original purchasers, subject to receipt of the approving legal opinion of Holland & Knight 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. 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 June 29, 2006.

## MATURITY SCHEDULE

\$6,000,000 Lease Participation Certificates  
(State Vehicles Project – 2006 Series A)

<b>Maturity Date</b> <b><u>(April 15)</u></b>	<b>Principal</b> <b><u>Amount</u></b>	<b>Interest</b> <b><u>Rate</u></b>	<b><u>Price</u></b>	<b><u>CUSIP</u></b> <sup>†</sup>
2007	\$1,365,000	3.96%	NRO	76222WAA9
2008	1,375,000	3.96	NRO	76222WAB7
2009	1,440,000	3.96	NRO	76222WAC5
2010	420,000	3.96	NRO	76222WAD3
2011	445,000	3.96	NRO	76222WAE1
2012	465,000	3.96	NRO	76222WAF8
2013	490,000	3.96	NRO	76222WAG6

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<sup>†</sup> The CUSIP numbers have been assigned by an independent company not affiliated with the State and are included solely for the convenience of the owners of the Certificates. The State is not 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 Original Purchasers 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 Original Purchasers 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.

First Southwest Company, financial advisor to the State (the “Financial Advisor”) has provided the following sentence for inclusion in this Official Statement: The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the State and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information. The inclusion of said sentence does not imply any such guarantee by any other party.

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

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dated April 26, 2006

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Ending June 30, 2005

EXHIBIT B - State Economic Information

APPENDIX B - Proposed Form of Legal Opinion

**STATE OF RHODE ISLAND  
AND PROVIDENCE PLANTATIONS**



**CONSTITUTIONAL OFFICERS**

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

**APPOINTED OFFICIALS**

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

**BOND COUNSEL**

Holland & Knight LLP  
Providence, Rhode Island

**DISCLOSURE COUNSEL**

Partridge Snow & Hahn LLP  
Providence, Rhode Island

**FINANCIAL ADVISOR**

First Southwest Company  
Lincoln, Rhode Island

**OFFICIAL STATEMENT**  
**of the**  
**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Relating to**

**\$6,000,000 Lease Participation Certificates**  
**(State Vehicles Project-2006 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 the \$6,000,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (State Vehicles Project-2006 Series A) (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 vehicles (the "Project"). The Project will be leased to the State pursuant to a Sublease dated as of June 1, 2006 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 pursuant to the Declaration of Trust, as lessor (the "Lessor"). Under the Declaration of Trust dated as of June 1, 2006 as the same may be amended from time to time (the "Declaration of Trust"), all right to the 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).

The Project is being leased to the Lessor by the State pursuant to a lease (the "Lease") dated as of June 1, 2006. The Lease expires on April 15, 2013. The Trustee's leasehold interest under the Lease is subleased to the State under the Sublease, and all right to the 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. 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.)

**SECURITY FOR THE CERTIFICATES**

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 the 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 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. **HOWEVER, 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 Sublease provides an initial term commencing June 29, 2006 and terminating June 30, 2007, with annual renewals on July 1 of each year, commencing July 1, 2007, with a final Sublease term commencing July 1, 2012 and terminating April 15, 2013 (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 sixty 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 15 and October 15) 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 if the Sublease is reinstated.

In the event the Sublease is terminated 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.**

### **THE PROJECT**

The Project consists of the purchase of miscellaneous state vehicles, together with all additions, replacements, repairs, substitutions, accessions, accessories and improvements therefor and/or thereto.



*Estimated Sources and Uses of Certificate Proceeds*

Sources:

Principal Amount of Certificates	<u>\$6,000,000</u>
Total	<u>\$6,000,000</u>

Uses:

Project Account Deposit <sup>(1)</sup>	\$5,950,000
Cost of Issuance <sup>(2)</sup>	<u>50,000</u>
Total	<u>\$6,000,000</u>

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

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

**DESCRIPTION OF THE STATE**

See “APPENDIX A -- Information Statement of the State of Rhode Island and Providence Plantations”, dated April 26, 2006 for a description of the State, its budgetary process and financial profile.

**DESCRIPTION OF THE CERTIFICATES**

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 “BOOK-ENTRY-ONLY SYSTEM” herein.)

The principal portions of the Certificates are payable on April 15 of each year as set forth on the inside cover page hereof. The interest portions of the Certificates will be payable semi-annually on April 15 and October 15 of each year commencing October 15, 2006 (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 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.

### *No Optional Redemption*

The Certificates are not subject to optional redemption prior to maturity.

### *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 insurance payable with respect to the damage, destruction, theft or other loss of the Project which are not applied to repair or replacement of the Project in accordance with the Sublease; and (iii) 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, 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.

NEITHER THE STATE, THE PAYING AGENT, NOR THE TRUSTEE WILL HAVE ANY 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 CERTIFICATE OWNERS 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, or interest portion 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>
2007	\$1,365,000	\$188,760	\$1,553,760
2008	1,375,000	183,546	1,558,546
2009	1,440,000	129,096	1,569,096
2010	420,000	72,072	492,072
2011	445,000	55,440	500,440
2012	465,000	37,818	502,818
2013	<u>490,000</u>	<u>19,404</u>	<u>509,404</u>
Total	\$6,000,000	\$ 686,136	\$6,686,136

### **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 for any Certificates. 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.

#### **Special Mandatory Redemption or Acceleration Prior to Maturity**

The Certificates are subject to special mandatory redemption or acceleration prior to maturity. (See "DESCRIPTION OF THE Certificates – Special Mandatory 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 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 the leased property which are of limited value to anyone other than a state governmental department.

## **Risk of Non-Appropriation and Non-Renewal**

The Sublease is for a period ending June 30, 2007, 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 "SUMMARY OF CERTAIN PROVISIONS OF THE SUBLEASE - Term and Renewals" 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 Law 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.

## **Securities Law Effects on the Certificates in the Event of Termination of the Sublease**

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.

## **SUMMARY OF CERTAIN PROVISIONS OF THE SUBLEASE**

The following is a summary of certain provisions of the Sublease. Reference is hereby made to the actual documents for a complete recital of their terms.

## **Term and Renewals**

The Sublease is effective as of June 1, 2006 and will terminate on June 30, 2007. The Sublease is effective as of June 1, 2006 and will terminate on June 30, 2007. The Sublease may be renewed, upon the terms and conditions set forth therein, for the Renewal Periods of one year. 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 "SUMMARY OF CERTAIN PROVISIONS OF THE SUBLEASE -- Non-appropriation of Funds" herein.

## **Rent**

The State agrees to pay the payments specified in the Sublease equal to the principal portion of and interest portion 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.

### **Title**

The State will continue to possess title to the Project. Title to the Project will be freed of such leasehold interests, upon the complete payment and performance by the State of all of its obligations during the Sublease term.

### **Insurance**

The Lessee is required at all times during the term of the Sublease to maintain comprehensive property and public liability insurance or self-insurance consistent with prevailing standards for comparable public bodies of similar size in the region. The proceeds of insurance (other than self-insurance) recovered on portions of the Project lost, stolen, destroyed or damaged shall be applied to the



repair or replacement of the Project. In the event of self-insurance, proceeds of self-insurance shall be applied to repair or replace the Project to the extent proceeds are lawfully appropriated therefore.

### **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 state vehicles identified as the Project;
- (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 items comprising the Project 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.

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.

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

The following is a description of certain provisions of the Declaration of Trust. Reference is hereby made to the actual documents for a complete recital of their terms.

### **General**

The Declaration of Trust establishes a Trust for the benefit of the Owners of the Certificates issued thereunder, to secure the payment of the principal portions of, 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.

### **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, and interest portion on, 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 special mandatory 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 –Special Mandatory 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 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 in the event of a special mandatory redemption or upon acceleration.

Moneys in the Redemption Account shall be used solely to redeem the Certificates or to pay the principal of, and interest portion 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 debt 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 J.P. Morgan 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 Certificate Owners 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).

(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 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.

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.

### **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, and interest portions on, the Certificates to the respective Owners thereof at the time, place, from the source and in the manner provided in said Certificates.

### **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.

### **Amendments and Supplemental Amendments**

The Trustee may, 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; and
- (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.

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 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. 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 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.

## **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 Holland & Knight LLP, Providence, Rhode Island, special counsel to the State, and by Partridge Snow & Hahn LLP, Providence, Rhode Island, disclosure counsel to the State.

## TAX STATUS

Holland & Knight LLP is of the opinion that, under existing law and assuming compliance with certain arbitrage rebate and other tax requirements referred to in this section, 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"). Holland & Knight 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 for purposes of computing the federal alternative minimum tax. The portion of the Lease Payments designated as Interest on the Certificates will, however, be taken into account in computing an adjustment made in determining a corporate Certificate Owner's minimum tax based on such Certificate Owner's adjusted current earnings.

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 Holland & Knight 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. Holland & Knight LLP expresses no opinion regarding other federal tax consequences arising with respect to the 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.

HOLLAND & KNIGHT 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.

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.

#### **FINANCIAL ADVISOR**

The State has retained First Southwest Company (the "Financial Advisor") to serve as its financial advisor in connection with the issuance of the Certificates. The Financial Advisor has not independently verified any of the information contained in this Official Statement and makes no guarantee as to its completeness or accuracy. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates, and receipt by the State of payment therefor. The State may engage the Financial Advisor to perform other services, including without limitation, providing certain investment services with regard to the investment of proceeds of the Certificates.

#### **RATINGS**

Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., have assigned ratings of "A1" and "AA-" respectively, to the Certificates. Any explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. A credit rating is not a recommendation to buy, sell or hold securities. There is no assurance that the ratings will continue for any given period of time or that they might not be revised downward or withdrawn entirely by the rating agencies, if in their judgment circumstances so warrant. Any such downward revision or withdrawal of the ratings might have an adverse effect on the market price of 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, 2006, 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) promptly upon their public release, the audited financial statements of the State for the most recently ended fiscal year, to the extent such statements have been commissioned, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by Rhode Island law. The State reserves the right to modify from time to time the specific types of information provided under clause (a) above or the format of the presentation of such information, provided that any such modification will be done in a manner consistent with the Rule.

2. The State will provide in a timely manner to each NRMSIR or 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 judgment 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 Owners 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.

Except as noted in the next sentence, the State has never failed to comply, in all material respects, with any previous undertakings to provide annual reports or notices of material events in accordance with the Rule. In February 2005 the State submitted its annual disclosure related to Motor Fuel Tax Revenue Bonds and GARVEE Bonds approximately seventeen days late. The State has implemented procedures to ensure timely filing in the future.

The State Budget Officer, or such official's designee from time to time, shall be the contact person on behalf of the State from whom the foregoing information, data and notices may be obtained. The name, address and telephone number of the initial contact person is 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 April 26, 2006 and the General Purpose Financial Statements of the State, as of and for the year ended June 30, 2005. 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

June 22, 2006

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

**DATED: April 26, 2006**

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## STATE GOVERNMENT ORGANIZATION AND FINANCES

### General Information

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

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

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

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

### Municipalities

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

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

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

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

In 1998, the General Assembly enacted measures designed to phase out, over a number of years, two separate components of the local property tax levy. One is the local levy on inventories. The phase out period will span ten years and will progressively eliminate ten percent of the tax levy each year until it is totally phased-out by fiscal year 2009. Local communities are to be reimbursed for lost revenues from the inventory tax through the State's General Revenue Sharing program, which was scheduled to increase from 1.0 percent of tax revenues in FY 1998 to 4.7 percent in FY 2009. The planned phase-out was delayed by one year as part of the FY 2003 budget, and then again as part of the FY 2005 budget, such that the percentage distribution is now scheduled to be 4.7 percent in FY 2011. The final FY 2006 budget provides 3 percent of tax revenues in the reference year will be distributed as general revenue sharing. Despite these delays and proposed freezes, the local reduction in the levy on inventories has continued on the original schedule.

The other local property tax levy to be reduced or eliminated is the local levy on motor vehicles and trailers. This tax may be phased out subject to annual review and appropriation by the General Assembly by providing increasing exemptions against the assessed value of all motor vehicles. Local communities are reimbursed on the value of the exempted amounts and assumed cumulative growth in the tax rate equal to the Consumer Price Index (CPI). Beginning in FY 2004, however, there is no longer a CPI adjustment for an assumed growth in municipal tax rates. For FY 2006, the first \$5,000 in value of a vehicle is exempted from taxation and municipalities are prohibited from applying an excise tax rate higher than the rate applied in 1998. Municipalities are being reimbursed for the lost revenue resulting from the exemption. During the 2005 Session of the General Assembly, additional video lottery terminals were authorized which are expected to yield additional lottery revenues to the State. Most additional revenues are dedicated to tax relief. It is expected that these enhanced revenues will result in the elimination of the motor vehicle excise tax by FY 2010, and provides additional property tax relief by dedicating funds to the general revenue sharing and distressed communities program.

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

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

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 2006 Enacted Budget provides \$47.2 million for this category of aid, an increase of 160 percent since FY 1997. A related program will provide approximately \$2.7 million in FY 2006 to cities and towns to provide aid in the construction of libraries.

Other local aid programs include the general revenue sharing and payment-in-lieu of taxes (PILOT) program. Beginning in 1987 a variety of general state aid programs were consolidated into one general revenue sharing program which incorporated a distribution formula based upon relative population, tax effort and personal income of each city and town. The general revenue sharing program now also incorporates additional funding to compensate municipalities for the phased loss of the inventory tax as described above. The FY 2006 Enacted Budget includes \$65.3 million for this program.

The PILOT program authorizes the General Assembly to appropriate and distribute to communities amounts not to exceed 27 percent of the property taxes that would have been collected on tax exempt properties. Properties included in this program are non-profit educational institutions, non-profit or state-owned hospitals, veterans' residential facility, and correctional facilities. The FY 2006 Enacted Budget includes \$27.0 million for this program. Also, the State makes payments to communities identified as distressed based upon four different criteria. Appropriations of \$10.0 million were made for FY 2006 to fund entitlements for four communities. Of these four communities, Central Falls was determined to be especially distressed in 1991 and in FY 1993 the state assumed full responsibility for funding education in Central Falls. Finally, Rhode Island distributes the proceeds of a statewide tax imposed on the tangible personal property of telephone, telegraph, cable, express and telecommunications companies. This aid is estimated at \$10.1 million for FY 2006.

## **Principal Governmental Services**

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

### ***General Government***

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

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

*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 (CHIP), vocational rehabilitation, supplemental security income, general public assistance, food stamps, family independence program, cash assistance, child care and training and social services. The Department also operates the Rhode Island Veterans' Home, the Veterans' cemetery, and administers vocational rehabilitative services and services for the blind and visually impaired.

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

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

### ***Education***

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

*Board of Regents for Elementary and Secondary Education.* The Board of Regents for Elementary and Secondary Education is responsible for the formulation and implementation of statewide goals and objectives for elementary, secondary and special populations education and for the allocation and coordination of various educational functions among the educational agencies of the State and local school districts. The Board also establishes State aid reimbursement payments to local school districts, operates the Rhode Island School for the Deaf, the Metropolitan Career and Technical School and William M. Davies Vocational-Technical School, and supervises the State's area vocational-

technical schools. The Department also operates the Central Falls School District. The Board appoints a Commissioner of Elementary and Secondary Education to serve as its chief executive officer and the chief administrative officer of the Department of Elementary and Secondary Education.

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

### ***Public Safety***

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

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

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

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

### ***Natural Resources***

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

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

## ***Transportation***

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

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

*Department of Transportation.* The Department of Transportation is responsible for the integration of all modes of transportation into a single transportation system. The Department is organized to carry out its responsibilities for the construction and maintenance of all State roads, bridges, transportation facilities (other than those operated and maintained by the Rhode Island Turnpike and Bridge Authority), and the administration of State and Federal highway construction assistance programs. The Department's activities have substantially increased primarily due to the continued road funding resulting from passage of the 1998 Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21). Major ongoing construction and rehabilitation projects include the Route 195 Relocation, reconstruction of the Washington Bridge, replacement of the Sakonnet River Bridge, the extension of Route 403 and the Freight Rail Improvement program. During the 2003 session of the General Assembly, the Rhode Island Department of Economic Development at the request of the Governor and Department of Transportation, received authority to issue bonds secured by future distributions of Federal Highway Trust funds and a dedicated portion of motor fuel tax revenues to speed completion of these projects. It is the State's expectation that such "GARVEE" financing will be completed in three series over a period of six years. The first series, in the amount of \$216,805,000, was issued on November 25, 2003. The second series, in the amount of \$184,620,000, was issued on March 2, 2006.

## **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 issuance and implementation of GASB Statements 43 and 45, "*Other Post Employment Benefits*," in December 2003, 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. The State anticipates that it will obtain an updated estimate based upon the actual standard adopted by GASB taking in account the pension reform provisions impacting the state and teacher systems which were enacted during the 2005 session of the General Assembly.

## **Budget Procedures**

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

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

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

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

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

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

In addition to the preparation of the annual budget, the State Budget Officer is also authorized and directed by the general laws: (a) to exercise budgetary control over all State departments; (b) to operate an appropriation allotment system; (c) to develop long-term activity and financial programs, particularly capital improvement programs; (d) to approve or disapprove all requests for new personnel; and (e) to prepare annually a five-year financial projection of

anticipated general revenue receipts and expenditures, including detail of principal revenue sources and expenditures by major program areas which shall be included in the budget submitted to the General Assembly.

A budget reserve and cash stabilization account was created by statute in 1990. In 1992, the Rhode Island Constitution was amended specifying that the reserves created could only be called upon in an emergency involving the health, safety, or welfare of the State or in the event of an unanticipated deficit caused by a shortfall in general revenue receipts. Such reserve account is capped at 3 percent of general fund revenues. The reserve account is funded by limiting annual appropriations to 98 percent of estimated revenues. The FY 2005 budget reserve account balance was \$90.89 million.

## **Financial Controls**

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

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

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

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

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

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

## GENERAL FUND REVENUES AND EXPENDITURES

The State draws nearly all of its revenue from a series of non-property related taxes and excises, principally the personal income tax and the sales and use tax, from federal assistance payments and grants-in aid, and from earnings and receipts from certain State-operated programs and facilities. The State additionally derives revenue from a variety of special purpose fees and charges that must be used for specific purposes as required by State law. The amounts discussed as revenues for FY 2005 reflect final audited revenues.

### Major Sources of State Revenue

**Tax Revenues:** Approximately 69.1 percent of all taxes and departmental receipts in FY 2005 were derived from the Rhode Island personal income tax and the sales and use tax. They constituted 60.8 percent of all general revenues.

*Personal Income Tax.* Until July 1, 2001, State law provided for a personal income tax on residents and non-residents (including estates and trusts) equal to the percentage of the federal income tax liability attributable to the taxpayer's Rhode Island income ("piggyback tax"). In FY 2002, the tax structure was changed to offset the tax rate and bracket changes passed by the federal government in the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"). Rhode Island's personal income tax system now applies to Rhode Island taxable income in such a manner so as to compute the tax that would otherwise have been due under the "piggyback tax" pre-EGTRRA. A resident's Rhode Island taxable income is the same as his or her federal taxable income, subject to specified modifications. The most significant modification provides for eliminating capital gains taxes on assets held more than five years. This modification takes effect on January 1, 2007. Current law allows the Tax Administrator to modify income tax rates as necessary when the General Assembly is not in session to adjust for federal tax law changes to ensure maintenance of the revenue base upon which appropriations are made.

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

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

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

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

For the tax year beginning January 1, 2003, several changes to the State's personal income tax were enacted in order to hold the State harmless relative to the passage at the federal level of the Job Creation and Worker Assistance Act

of 2002 (JCWAA). In particular, a provision was enacted that “provides that the five (5) year carry back provision of a net operating loss provided by” the JCWAA for federal tax purposes shall not be allowed for Rhode Island tax purposes. In addition, state legislative action eliminated the current two year carry back provision for net operating losses and allowed the use of net operating losses only “on a carry forward basis for the number of succeeding taxable years allowed under section 172 of Internal Revenue Code [26 U.S.C.]”. These changes to the State’s tax code primarily impact subchapter S Corporation filers.

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

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

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

The Rhode Island personal income tax accounted for approximately \$979.1 million, or 32.6 percent, of the State’s FY 2005 total general revenues. FY 2005 personal income tax collections rose not only in dollar amount but also in share of total general revenues from FY 2004.

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

The State sales and use tax rate is 7.0 percent and is imposed upon retailers’ gross receipts from taxable sales. From the beginning of FY 1992 until August 2000, the State had dedicated six tenths of one cent of the sales tax to pay the debt service on the bonds issued by the Rhode Island Depositors Economic Protection Corporation (DEPCO). The bond proceeds were used to pay off uninsured depositors of the State’s failed credit unions. Effective August 1, 2000,

DEPCO defeased its outstanding debt. As a result, since August 1, 2000, the State's General Fund has received all of the State sales and use tax revenues collected from the imposition of the 7.0 percent sales and use tax.

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

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

The sales and use tax accounted for approximately \$847.7 million, or 28.2 percent, of the State's FY 2005 total general revenues. FY 2005 final sales and use tax collections rose in dollar terms but fell in share of total general revenues from FY 2004.

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

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

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

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

In the 2003 Session, the General Assembly amended the multi-state apportionment formula for manufacturers to allow them to elect to use a double weighted sales factor apportionment if doing so would provide a favorable treatment

of net income for tax purposes. This amendment was phased in over a two-year period becoming fully effective on January 1, 2004.

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

The business corporation tax accounted for approximately \$116.0 million, or 3.9 percent, of the State's FY 2005 total general revenues. FY 2005 final business corporations tax collections rose both in dollar terms and in the share of total general revenues from FY 2004.

*Health Care Provider Assessment.* The State levies a health care provider assessment on residential facilities for the mentally retarded. The levy has been set at 6.0 percent of gross revenues since 1994. In 2003, the General Assembly expanded the base of providers covered by the tax to include facilities with three or fewer residents.

The State also levies tax on the gross revenues of nursing homes. In 2003, the gross revenue tax on nursing homes was increased from 4.75 percent to 6.0 percent. In addition, a 1.50 percent tax on gross revenues from freestanding Medicaid facilities not associated with hospitals is levied.

The health care provider assessment accounted for approximately \$46.8 million, or 1.6 percent, of the State's FY 2005 total general revenues. Both the dollar amount and the share of total general revenues increased for the health care provider assessment between FY 2005 and FY 2004.

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

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

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

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

The public service corporation tax accounted for approximately \$86.4 million, or 2.9 percent, of the State's FY 2005 total general revenues. Both the dollar amount and the share of total general revenues decreased for the public utilities gross earnings tax between FY 2005 and FY 2004.

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

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

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

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

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

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

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

The insurance companies' tax accounted for approximately \$53.3 million, or 1.8 percent, of the State's FY 2005 total general revenues. Both the dollar amount and the share of total general revenues increased for the tax on insurance companies between FY 2005 and FY 2004.

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

The 1994 General Assembly passed legislation creating passive investment companies and exempting said companies from the financial institutions excise tax. A passive investment company is one with five or more full-time

equivalent employees that maintain offices in Rhode Island and whose activities are limited to the maintenance and management of intangible investments such as securities, accounts receivable, patents, trademarks and similar intellectual properties

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

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

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

The financial institutions tax accounted for approximately \$(1.5 million), or 0.0 percent, of the State's FY 2005 total general revenues. Both the dollar amount and the share of total general revenues increased for the financial institutions excise tax between FY 2005 and FY 2004.

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

The bank deposits tax accounted for approximately \$1.5 million, or 0.1 percent, of the State's FY 2005 total general revenues. The dollar amount of bank deposits taxes was less in FY 2005 versus FY 2004 while its share of total general revenues remained the same.

*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 \$33.0 million, or 1.1 percent, of the State's FY 2005 total general revenues. The dollar amount of estate taxes and share of total general revenues was more in FY 2005 versus FY 2004.

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

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



pack of 20 cigarettes. The rate of tax on the wholesale price of cigars, pipe tobacco, and other tobacco products has also risen over the past five years, although not as frequently as the cigarette stamp tax. On July 1, 2001, the other tobacco products tax was increased from 20.0 percent of the wholesale price of other tobacco products to 30.0 percent of the same. On July 1, 2005, it was increased again from 30.0 percent to 40.0 percent of the wholesale price of other tobacco products.

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

The cigarette tax accounted for approximately \$136.3 million, or 4.5 percent, of the State's FY 2005 total general revenues. Both the dollar amount and the share of total general revenues increased for the cigarette tax between FY 2005 and FY 2004.

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

The State has pursued a long-term plan to dedicate all of the motor fuel tax receipts to transportation-related projects and operations. Prior to the convening of the 2002 General Assembly, all motor fuel tax proceeds were to be allocated for transportation purposes in FY 2003. The 2002 General Assembly, in Article 29 of the FY 2003 Appropriations Act, however, delayed the transfer of the final 0.25 cents from the General Fund to the Department of Transportation until FY 2004. In addition, the General Assembly increased the State's motor fuel tax from \$0.28 a gallon to \$0.30 a gallon effective July 1, 2002. The 2.0 cents per gallon increase in the gas tax was to remain with the General Fund for all future tax years. The allocation of motor fuel revenues was changed again by action of the 2003 General Assembly (see Transportation) such that for FY 2004 1.4 cents of motor fuel revenues will be available for the General Fund. In 2004, at the request of the Governor and with the concurrence of the General Assembly, the 2.0 cents of the per gallon motor fuel tax was again dedicated to the General Fund effective March 1, 2004. Finally, in the 2005 Session, the General Assembly with the concurrence of Governor Carcieri transferred 1.0 cent of the motor fuel tax from the General Fund to the Rhode Island Public Transit Authority effective July 1, 2005.

The transfer of the motor fuel tax to the General Fund accounted for approximately \$9.0 million, or 0.3 percent, of the State's FY 2005 total general revenues. The dollar amount of the motor fuel tax increased between FY 2005 and FY 2004 transfer and its share of total general revenues remained stable between FY 2005 and FY 2004. It should be noted that \$14.3 million of FY 2003 motor fuel taxes collected represented the Department of Transportation's repayment of the debt service savings it reaped from the defeasance of some of its outstanding debt via the securitization of the State's future tobacco Master Settlement Agreement payments.

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

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

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

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

Other taxes accounted for approximately \$76.1 million, or 2.5 percent, of the State's FY 2005 total general revenues. FY 2005 other tax collections rose in dollar terms but fell in share of total general revenues from FY 2004.

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

The hospital licensing fee was first enacted in 1994 and yielded \$77.3 million in FY 1995. The FY 1998, FY 1999, and FY 2000 Appropriations Acts each extended the fee for one year and changed the base year upon which the fee would be applied. In each fiscal year, the hospital licensing fee was assessed at the rate of 2.0 percent of gross patient service receipts in the hospitals' 1995 base year. These changes yielded revenues of \$37.4 million annually for FY 1998, FY 1999 and FY 2000. The FY 2001 Appropriations Act extended the fee for FY 2001 at the rate of 4.0 percent of net patient service receipts in the hospitals' 1999 base year and retroactively increased the fee to 2.65 percent for FY 2000. The retroactive increase for FY 2000 was assessed as a one-time 0.65 percent surcharge on gross patient service receipts in the hospitals' 1995 base year. The total impact of these changes was a revenue yield of \$65.7 million in FY 2001. The FY 2002 Appropriations Act extended the fee for FY 2002 at the rate of 4.25 percent of net patient service revenues in the hospitals' 1999 base year, yielding \$56.2 million. The FY 2003 Appropriations Act extended the fee for FY 2003 at the rate of 4.35 percent of net patient service receipts in the hospitals' 2000 base year. For FY 2004 the rate was set at 4.0 percent of net patient service revenues applicable to the 2001 base year. Finally, in the 2004 Session, the FY 2005 rate was set at 3.14 percent of net patient service revenues generated in the 2003 base year.

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

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

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

Departmental Receipts were approximately \$268.0 million, or 8.9 percent, of the State's total general revenue in FY 2005. FY 2005 departmental receipts fell on both a nominal basis and as a share of total general revenues when compared to FY 2004.

*Other Sources.* The largest component of Other Sources is lottery revenues. 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 in the operation of the State lotteries; and (3) payment to the State's General Fund of all revenues remaining in the State Lottery fund, provided that the amount to be transferred into the General Fund must equal not less than 30 percent of the total revenue received and accrued from the sale of lottery tickets plus any other income earned from the lottery.

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

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

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

In the 2005 Session, the General Assembly passed legislation that allowed the Director of State Lotteries to enter into long-term contracts with the owners of the State's two licensed video lottery retailers. These master contracts allow for the addition of 2,550 video lottery terminals between the two facilities (1,750 at Lincoln Park and 800 at Newport Grand), provided that the facilities invest \$145.0 million in structural and operational upgrades and expansions within the next three years (\$125.0 million at Lincoln Park and \$20.0 million at Newport Grand). These master contracts freeze the share of video lottery NTI that is allocated to each facility at 26.0 percent.

Lottery transfers to the General Fund totaled \$307.5 million, which accounted for 10.2 percent of the State's total general revenues in FY 2005. The dollar amount of the lottery transfer increased between FY 2005 and FY 2004. The lottery transfers to the General Fund share of total general revenues remained the same between FY 2005 and FY 2004.

The next largest component of Other Sources is the Other Miscellaneous category. This category includes the State's Tobacco Master Settlement Agreement (MSA) payments as well as operating transfers to the General Fund from the proceeds of the State's securitization of its future tobacco MSA payments. The former totaled \$52.7 million and the later \$113.5 million for a total of \$166.2 million in tobacco settlement monies utilized in FY 2003. In FY 2004, tobacco Master Settlement Agreement payments totaled \$453,661 while tobacco securitization proceeds were \$1.45 million, or a total of \$1.9 million in tobacco settlement monies. In FY 2005, tobacco settlement monies were not utilized as an Other Source for State general revenues.

The total amount of Other Miscellaneous monies received was approximately \$28.2 million, which accounted for 0.9 percent of the State's audited FY 2005 total general revenues. For FY 2004, these amounts were \$19.7 million and 0.7 percent respectively.

Also included in the Other Sources category is the motor fuel tax transfer from the Intermodal Surface Transportation Fund. Gasoline tax receipts not dedicated for use by transportation agencies become available to the General Fund. As noted above this amount was \$9.0 million in FY 2005.

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

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

Unclaimed property transfers totaled \$15.6 million in FY 2005 and accounted for 0.5 percent of the State's total general revenues for FY 2005. Both the dollar amount of the unclaimed property transfer and its share of total general revenues decreased between FY 2005 and FY 2004.

*Restricted Receipts.* In FY 2005, the State expended \$101.2 million that was received in restricted receipts, excluding transfers into the General Fund. These expenditures reflect various dedicated fees and charges, interest on certain funds and accounts maintained by the State and private contributions and grants to certain State programs. Such receipts are restricted under law to offset State expenditures for the program under which such receipts are derived.

*Federal Receipts:* In FY 2005, the State expended \$1.850 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 based upon a percentage of expenditures or 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. Effective October 1, 2004 to September 30, 2005, the rate is 55.38 percent. For the period October 1, 2005 to September 30, 2006, the rate is 54.45 percent. For the period October 1, 2006 to September 30, 2007, the rate is 52.35 percent.

### ECONOMIC FORECAST

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

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

The Revenue Estimating Conference incorporates a range of economic forecasts and economic information in making revenue estimates. During its November 2005 meeting, forecasts were presented by *Economy.com* and *Global Insight*. The Rhode Island Department of Labor and Training (DLT) also presented current employment and labor force trends.

Due to the Rhode Island Division of Taxation's procurement of an updated personal income tax simulation model in 2001, additional economic variables needed to be forecast at the November 2001 Conference and all Revenue Estimating Conferences thereafter. Thus, at the November 2005 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 2014.

During the November 2005 Conference, as compared to the consensus economic forecast adopted at the May 2005 Revenue Estimating Conference, *Economy.com* reduced its forecast for RI non-farm employment growth in FY 2006, from 1.1 percent to 1.0 percent. In FY 2007, *Economy.com* increased its forecast of non-farm employment by 30 basis points from 1.3 percent to 1.6 percent and further revised its forecast of non-farm employment for FY 2008 from 1.2 percent to 0.9 percent, a decrease of 30 basis points. For FY 2009 and FY 2010, *Economy.com* revised its forecast down by 20 basis points to 0.9 percent and by 10 basis points to 0.8 percent respectively. After decreasing its estimate for RI non-farm employment growth in the FY 2009 – FY 2010 period, *Economy.com* decreased it every year for the FY 2011–FY 2013 period by 10 to 20 basis points. Finally, *Economy.com* forecasted FY 2014 RI non-farm employment growth of 0.8 percent.

*Global Insight* also decreased its FY 2006 estimate for RI non-farm employment growth, from 1.5 percent to 1.3 percent. In FY 2007, *Global Insight* increased its forecast of non-farm employment from 0.9 percent to 1.1 percent. For FY 2008, a similar upward revision was made with non-farm employment growth increasing from 0.7 percent to 1.0 percent between the May and November conferences. *Global Insight* also revised its forecast for FY 2009 non-farm employment growth up by 30 basis points to 0.9 percent. For FY 2010, *Global Insight's* forecast revision for non-farm employment growth was smaller, an increase of 10 basis points to 0.6 percent. In general, *Global Insight's* adjustments to their May 2005 forecast were positive for the FY 2008 – FY 2010 period whereas those of *Economy.com* were negative to their May 2005 forecast. In the FY 2011 – FY 2013 period, *Global Insight* made no changes to the forecast of RI non-farm employment growth it put forth in May 2005. For FY 2014, *Global Insight* forecasted 0.5 percent growth in Rhode Island non-farm employment.

In November 2005, *Economy.com* has forecasted RI non-farm employment growth at an average of 30 basis points higher than *Global Insight* for the period FY 2006 – FY 2014. Faced with converging views on short-term growth levels and divergent views on current adjustments, the conferees adopted a growth forecast for RI non-farm employment that was a 20 basis point reduction and no change from the May 2005 Consensus Economic Forecast for FY 2006 and FY 2007 respectively. In addition, the principals agreed to a 25 basis point increase for FY 2008, a 15 basis point increase for FY 2009, a 10 basis point increase for FY 2010, and no change for the FY 2011 – FY 2013 period. For FY 2014, the adopted forecast was 0.7 percent growth in RI non-farm employment.

As determined by the November 2005 Revenue Estimating Conference, Rhode Island’s labor market has been strong but slowing, with total non-farm employment growing from 481,300 jobs in FY 2003 to 491,200 jobs in FY 2005. This gain of approximately 9,900 jobs is 600 less than forecasted in May 2005. In addition, the November 2005 Conference forecasted job growth in FY 2006 of approximately 6,500 jobs, or 1.3 percent, and forecasted job growth of 6,200 jobs, or 1.2 percent, in non-farm employment in FY 2007. These adopted growth rates represent a revision downward from the May 2005 Conference estimates of 7,400 jobs, or 1.5 percent growth, in FY 2006 and 6,200 jobs, or 1.3 percent growth, in FY 2007. Rhode Island’s long-run steady state non-farm employment growth rate is estimated at 0.8 percent, however, the principals of the November 2005 Conference forecast that the State will be able to exceed that level in FY 2008 by 0.3 percentage points. This employment refers to the number of Rhode Island residents working, as opposed to the number of jobs in Rhode Island establishments.

The November 2005 Conference forecasted that personal income will continue to grow over the FY 2006 – FY 2014 period, with average growth of approximately 4.7 percent over these fiscal years. The November 2005 Conference forecasts consumer price inflation to increase to 3.2 percent in FY 2006 and 2.5 percent in FY 2007, both upward adjustments from the May 2005 Conference estimates of 2.4 percent for FY 2006 and 2.2 percent for FY 2007. For the FY 2008 – FY 2014 period, consumer price inflation was forecasted to stabilize at 2.2 percent, or 0.3 percentage points lower annually than forecasted in May 2005. In addition, Rhode Island’s unemployment rate is forecasted to rise to 5.0 percent in FY 2006 from 4.8 percent in FY 2005 and then remain stable at 5.0 percent for the period FY 2006 – FY 2008. The unemployment rate is then expected to fall to 4.9 percent in FY 2009 and to remain at its steady state equilibrium of 4.9 percent through FY 2014.

The consensus economic forecast for the fiscal years 2005 to 2008 agreed upon by the conferees at the November 2005 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 stable but with slightly less robust growth in employment and stronger growth in personal income in the short term than was predicted at the May 2005 Revenue Estimating Conference.

<b>The November 2005 Consensus Economic Forecast</b>				
<b>Rates of Growth</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
Total Employment	1.0%	1.3%	1.2%	1.1%
Personal Income	6.0 %	5.5%	5.1%	4.6%
Wage and Salary Income	4.5%	5.0%	5.2%	4.9%
Farm Income	0.0%	0.0%	0.0%	0.0%
Non-Farm Business Income	8.4%	7.3%	5.7%	5.0%
Dividends, Interest and Rent	6.4%	5.0%	5.6%	5.2%
Total Transfer Payments	7.1%	6.4%	5.2%	4.5%
<b>Nominal Levels</b>				
U.S. CPI-U	3.0%	3.2%	2.5%	2.1%
Unemployment Rate	4.8%	5.0%	5.0%	5.0%
Ten Year Treasury Notes	4.2%	4.7%	5.3%	5.4%
Three Month Treasury Bills	2.2%	3.8%	4.5%	4.5 %

## REVENUE ESTIMATES

Revenue estimates are predicated upon the consensus arrived at the November 2005 Revenue Estimating Conference. The Revenue Estimating Conference is required by law to convene at least twice annually to adopt a consensus forecast of general revenues for the current year and the budget year, based upon current law, collection trends, and the Consensus Economic Forecast.

The November 2005 Revenue Estimating Conference estimated general revenues of \$3.079 billion for FY 2006. This revised FY 2006 estimate is a decrease of \$86.7 million, or 2.7 percent, from the General Assembly's estimated general revenues of \$3.166 billion that were included in the FY 2006 Enacted Budget. The annual estimated revenue growth for FY 2006 is 2.5 percent more than the audited general revenues collected in FY 2005.

### FY 2006 Enacted Revenue Estimate

The November 2005 Revenue Estimating Conference revised the enacted FY 2006 estimated general revenues down by \$86.7 million. Over half of this decrease is accounted for in three major revenue estimate revisions. Included in this \$86.7 million decrease is \$25.1 million of local education agency matching funds for Medicaid eligible public school special needs students. Recently, the Auditor General concluded that the State should no longer record these payments as general revenue as the State serves only as a pass-through entity for these transactions. In addition, the FY 2006 estimate of the Lottery transfer to the General Fund was revised downward by \$25.4 million after the State experienced year-over-year growth in the single digits for the first time. The third most sizeable revision was a \$17.6 million decrease in personal income tax collections primarily due to lower than expected withholding payments, growing refund payments, as well as the utilization of the State's Historic Structures Tax Credit (HSTC) program. Despite these and other smaller revisions to the FY 2006 revenue estimates, the majority of tax categories are still expected to exhibit increased collections over audited FY 2005 revenues.

The majority of tax categories are expected to exhibit increased collections over audited FY 2005, although the business corporations, motor fuel, cigarettes, inheritance and gift, and racing and athletics taxes are all estimated to decrease. Revised revenues for FY 2006 are predicated upon a \$62.9 million increase in tax collections over audited FY 2005 collections, an increase of 2.6 percent. The increase in Departmental Receipts is estimated to be on the order of \$7.1 million over audited FY 2005 collections, an increase of 2.7 percent. Other Sources are also expected to increase in FY 2006 by \$3.7 million, or 1.0 percent, from audited FY 2005 collections. Much of the increase in FY 2006 Other Sources is due to the resilience of the Lottery transfer which, despite the previously noted downward revision, is forecasted to grow by \$17.6 million, or 5.7 percent, in FY 2006 over the audited FY 2005 transfer to the General Fund.

The largest source of FY 2006 revised general revenues is Personal Income Tax payments, which are estimated to increase to \$1.016 billion, an increase of 3.8 percent over final FY 2005 audited collections. Rhode Island's personal income tax rate remains unchanged from FY 2005 at 25.0 percent of Rhode Island taxable income. The Historic Structures Tax Credits were estimated to decrease personal income tax collections in FY 2006. The HSTC program is estimated to cost the State \$35.6 million in personal income tax revenues in FY 2006. The increased Investment Tax Credit and Research and Development Tax Credits continue to impact tax collections in FY 2006, as individuals and businesses continue to reap the benefits of an improved tax structure in Rhode Island. Personal income taxes are expected to comprise 32.3 percent of revised general revenues collected in FY 2006.

The Sales and Use Tax is expected to show gains in FY 2006 revised collections of \$33.8 million from final FY 2005 audited collections. Sales and use taxes represent 28.0 percent of revised general revenues in FY 2006. The strength in sales and use tax collections in Rhode Island is very dependent on the State's housing market. In prior fiscal years, historically low long-term interest rates and multiple rounds of mortgage refinancings by homeowners had made available a significant source of income that was used to remodel primary residences, purchase appliances, and retire personal debt. From the State's perspective, the distribution of this consumption activity is significant, as most of the spending had been concentrated on items that are subject to the 7.0 percent state sales tax. As long-term interest rates have begun to rise, the State's housing sector has cooled down substantially and this reduced housing sector activity has slowed the rate of growth in the sales and use tax collections. Anticipated collections in FY 2006 are \$881.5 million, reflecting a growth rate of 4.0 percent over final FY 2005 audited collections.

Within the excise tax category, motor vehicle tax collections are revised to \$48.9 million, an increase of 3.7 percent over final FY 2005 audited collections. The enacted FY 2006 motor carrier fuel tax estimate of \$900,000 is \$1.1 million less than final FY 2005 audited collections. The decrease in motor carrier fuel taxes is attributable to a one-time proof of claim for bankruptcy of \$1.0 million paid in FY 2005. A corrective posting was made in FY 2006 to deposit the monies into the Intermodal Surface Transportation Fund (ISTF), from which it was reallocated among the different motor fuel tax recipients at statutory rates. The revised FY 2006 cigarette tax estimate of \$129.7 million is a decrease of \$6.6 million, or 4.9 percent, from the final FY 2005 audited collections. This decrease is due to the fact that the State increased its cigarette excise tax to \$2.46 per pack in FY 2005. As a result of this tax increase, the State received \$4.8 million in cigarette floor stock taxes in FY 2005. The cigarette floor stock tax is a one-time revenue that occurs only when the State's cigarette excise tax is increased. In FY 2006, no increase in the State's cigarette excise tax was enacted. Additionally, the public smoking ban that went into effect on March 1, 2005 has likely contributed to a larger decrease in cigarette consumption in FY 2006. The excise tax on alcohol was revised at \$11.0 million in FY 2006, an increase of 4.4 percent from the \$10.5 million final FY 2005 collections.

The revised FY 2006 estimate of general business taxes projects positive growth over final FY 2005 audited collections in nearly all categories, the exception being business corporations taxes which are projected to decline by \$8.7 million. The revised FY 2006 estimate for the public utilities gross earnings tax of \$97.3 million is an increase of \$10.9 million from the final FY 2005 audited collections. The revised FY 2006 estimate reflects growth of 12.7 percent from final FY 2005 audited collections. The estimated increase in public utilities gross earnings taxes are a result of the substantial rate increases received by the electric and natural gas utilities in the first half of the fiscal year. Revised FY 2006 Business corporations taxes are expected to fall \$8.7 million below audited FY 2005 collections. Of the \$8.7 million decrease in business corporations taxes, \$6.2 million is the result of a Job Development Tax Credit due to a single taxpayer that experienced a sizeable increase in corporate profits for tax year 2005. Insurance companies taxes are anticipated to generate \$57.0 million in FY 2006, or \$3.7 million higher than in FY 2005. Both business corporations and the insurance companies taxes are impacted by the Historic Structures Tax Credit program. The estimated foregone revenue in business corporations taxes is \$2.1 million in FY 2006. For insurance companies taxes, an estimated \$6.1 million less in collections is due to the HSTC program. The health care provider assessment is estimated to yield \$48.4 million in FY 2006, an increase of \$1.6 million over the \$46.8 million collected in audited FY 2005. Taxes on bank deposits are expected to grow 5.0 percent to \$1.6 million in FY 2006 over final audited FY 2005 collections.

The financial institutions tax is projected to decrease by \$6.9 million in FY 2006 from the final FY 2005 audited collections. At the November 2005 Conference, the estimators were told that a single taxpayer had requested a \$11.4 million refund in FY 2006 and this fact was incorporated into the adopted estimate. This taxpayer had overpaid its tax liability on a cumulative basis by \$22.1 million over the past several years. In FY 2004, the taxpayer received a \$10.7 million refund from the State.

Inheritance and Gift taxes were revised downward in FY 2006 at \$28.0 million, \$5.0 million less than the final FY 2005 audited level. FY 2006 Racing and Athletics taxes were revised downward by \$390,803 from the final FY 2005 audited estimate of \$4.0 million. Realty Transfer taxes were revised to \$17.0 million for FY 2006, an increase of \$2.6 million from the final FY 2005 audited estimate of \$14.4 million. The revised FY 2006 estimate is 17.9 percent greater than final FY 2005 audited collections.

The revised FY 2006 estimate for Departmental Receipts is \$275.1 million, an increase of \$7.1 million, or 2.7 percent, from final FY 2005 audited collections. The revised FY 2006 Departmental Receipts estimate includes increased hospital licensing fee collections of \$12.2 million, an increase of \$3.6 million from changing the fee for processing historic structures tax credits (HSTC) from a flat \$500 to \$2,000 depending on the total qualified rehabilitation costs (QRC) of the project to 2.25 percent of the total QRC of a project (applied to projects completed after July 31, 2005), the receipt of late payments of auto theft and insurance fraud surcharges, which is expected to bring in \$1.2 million more than in FY 2005, the increase of the cost recovery rate from 7.0 percent to 10.0 percent in FY 2006 is estimated to generate \$2.5 million more than in FY 2005, higher FY 2006 child support enforcement collections of \$644,513 are estimated and increased FY 2006 revenues of \$552,465 in penalties on overdue taxes are projected. These revenue enhancements are offset by a \$13.4 million decrease in disproportionate share ("dish") payments to Slater Hospital as a result of the resumption of 100 percent reimbursement for uncompensated care costs in FY 2006, down from 175 percent reimbursement in FY 2005, and a decline of \$2.1 million in intermediate hospital settlement payments.

Other sources receipts were revised to \$364.1 million in FY 2006, a decrease of \$20.3 million from the enacted FY 2006 budget. This is an increase of \$3.7 million, or 1.0 percent, from final FY 2005 audited collections. 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 revised FY 2006 estimate for unclaimed property is \$6.0 million more than that for enacted FY 2006 and \$582,268 more than final FY 2005 audited, primarily the result of final one-time revenues from the Bank of America and Fleet Bank merger being realized in FY 2006. Other miscellaneous sources were decreased by \$930,700 from the FY 2006 enacted budget. Other miscellaneous sources are projected to decrease by \$10.2 million in FY 2006 from final FY 2005 audited.

Revised FY 2006 transfers from the ISTF are the same as FY 2006 enacted, and are expected to be \$4.8 million in FY 2006. This total is \$4.3 million less than in final FY 2005 audited due to the shift of \$0.01 of the \$0.30 per gallon motor fuel tax from the General Fund to the Rhode Island Public Transit Authority effective July 1, 2005.

The Lottery transfer is expected to increase by \$17.6 million in FY 2006 over the audited FY 2005 transfer. It is an increase of 5.7 percent over the audited FY 2005 transfer and a 7.2 percent decrease from FY 2006 enacted growth. The downward revision from the enacted transfer is the result of several months of unanticipated single digit growth in lottery receipts beginning in April 2005 and continuing without interruption to date. The increase in the year-over-year transfer is attributable primarily to expected growth in video lottery net terminal income from higher utilization of existing and new machines (3,642 VLTs were in place in FY 2005 versus 4,242 in place for FY 2006). It is important to note that the Narragansett Indian Tribe is expected to receive between \$200,000 and \$300,000 from the net new revenue generated by the installation of 600 video lottery terminals at Lincoln Park under the terms of BLB legislation passed in July 2005. In FY 2006, the Lottery transfer to the General Fund is expected to equal 10.3 percent of revised general revenues.

#### **FY 2007 Revenue Estimate**

The November 2005 Revenue Estimating Conference estimated general revenues of \$3.149 billion for FY 2007. This FY 2007 estimate is an increase of \$69.7 million, or 2.3 percent, from the FY 2006 revised revenue estimate of \$3.079 billion. This increase does not include \$70.8 million for the Hospital Licensing Fee realized in FY 2006. The Governor's proposed FY 2007 budget contains net revenue enhancements of \$55.9 million, including \$70.8 million for the Hospital Licensing Fee, for total recommended revenues of \$3.204 billion. The Governor's recommended FY 2007 revenues represent growth of 1.7 percent over the revised FY 2006 budget.

The estimate for personal income taxes adopted at the November 2005 Revenue Estimating Conference was \$1.067 billion. The Governor's recommended FY 2007 budget estimates the personal income tax to be \$1.072 billion, an increase of \$54.8 million over the estimate in the Governor's revised FY 2006 budget. The Governor's FY 2007 personal income tax estimate contains a gain of \$4.8 million in collections due to the anticipated increase in tax payments received as a result of his proposed tax amnesty program. The tax amnesty will allow delinquent taxpayers to have the penalty waived in exchange for paying one-half the amount of overdue taxes owed immediately with the remaining balance to be paid in two equal monthly payments. It should be noted that the Budget Office estimates that the FY 2007 personal income tax estimate adopted at the November 2005 conference incorporated \$49.2 million in revenue lost to the Historic Structures Tax Credits program.

The estimate for sales and use taxes adopted at the November 2005 Revenue Estimating Conference was \$925.8 million. The Governor's recommended FY 2007 budget estimates the sales and use tax to be \$927.7 million, an increase of \$46.2 million, or 5.2 percent, over the estimate in the revised FY 2006 budget. The recommended FY 2007 sales and use tax estimate contains \$1.9 million in revenue enhancements. Additional sales tax revenues of \$4.8 million are estimated from the Governor's proposed tax amnesty program. Another \$2.4 million is anticipated from the implementation of legislation necessary to get Rhode Island to conform with the national Streamlined Sales Tax Agreement (SSUTA). The SSUTA will allow the State to more effectively collect sales taxes on remote sales through collaboration with other states that are signatories to the agreement. The Governor has also proposed the "Endless Summer" Sales and Use Tax Holiday, allowing two days of sales tax-free shopping on the Saturday and Sunday prior to Victory Day of each year. This proposal is expected to decrease FY 2007 sales and use tax collections by \$5.3 million.



The estimate for taxes on insurance companies adopted at the November 2005 Revenue Estimating Conference was \$54.1 million. The Governor's recommended FY 2007 budget estimates the insurance companies tax to be \$2.9 million less than, or -5.1 percent, the estimate in the Governor's revised FY 2006 budget. The Budget Office estimates that the FY 2007 insurance premiums taxes will be reduced by \$11.2 million as a result of the use of Historic Structures Tax Credits. This estimated revenue loss is included in the November 2005 Revenue Estimating Conference estimate for insurance premiums taxes.

The estimate for cigarette tax collections adopted at the November 2005 Revenue Estimating Conference was \$126.7 million, a decrease of \$3.0 million, or 2.3 percent, from the revised FY 2006 estimate. This decline is a result of the estimated drop in cigarette consumption. The Governor's recommended FY 2007 budget does not propose any change to the State's cigarette tax.

The estimate for other miscellaneous revenues adopted at the November 2005 Revenue Estimating Conference was \$14.2 million. The Governor's recommended FY 2007 budget estimates other miscellaneous revenues to be \$17.5 million, an increase of \$3.3 million, or 23.2 percent, over the estimate adopted at the November 2005 REC. The Governor's recommended FY 2007 budget for other miscellaneous revenues is \$62.5 million less than the revised FY 2006 level, a drop of 78.1 percent. This decrease is due in large part to the use of \$49.0 million of one-time revenues in the revised FY 2006 budget. The Governor's FY 2007 budget recommends transferring \$3.3 million in retained earnings from the Rhode Island Resource Recovery corporation to the General Fund. This is a decrease of \$4.5 million from the revised FY 2006 budget. Finally, several other one-time revenues totaling \$7.8 million were included in the revised FY 2006 budget that do not repeat in FY 2007.

The estimate for the lottery transfer to the General Fund adopted at the November 2005 Revenue Estimating Conference was \$364.2 million. The Governor's recommended FY 2007 budget maintains this estimated level of the lottery transfer. It represents an increase of \$39.1 million, or 12.0 percent, over the revised FY 2006 estimate for the lottery transfer to the General Fund. The primary source for this increase has to do with the operation of video lottery terminals at the state's two licensed gaming facilities. In FY 2006, 600 newly authorized video lottery terminals (VLTs) were installed at Lincoln Park. This was in addition to 459 existing authorized VLTs that were installed at Lincoln Park in May 2005. Thus, by FY 2007, a full 1,059 new VLTs are fully operational at Lincoln Park. Given the July 2005 sale of Lincoln Park to BLB Investors, a premier gaming management company, the principals of the November 2005 Conference were comfortable in believing that net terminal income growth at Lincoln Park and, to a lesser extent, Newport Grand would return to a more "normal" level. As a result, the transfer from video lottery operations is expected to increase. It should be noted that the Narragansett Indian Tribe's share of net new revenue in FY 2007 is estimated to be between \$500,000 and \$700,000. In FY 2007, the lottery transfer is expected to be \$364.2 million and comprise 11.4 percent of total general revenues.

The estimate for the unclaimed property transfer to the General Fund adopted at the November 2005 Revenue Estimating Conference was \$10.8 million, a decrease of \$5.4 million from the revised FY 2006 estimate. This decrease is attributable to the a one-time unexpected increase in proceeds from the issuance of Met Life and Prudential stock in FY 2006 resulting from the demutualization of both companies. As of the November 2005 Revenue Estimating Conference, estimated proceeds from this stock issuance increased by \$6.6 million over the November 2004 Revenue Estimating Conference of \$11.5 million. This influx of revenue is not expected again in FY 2007. The unclaimed property transfer is projected to comprise 0.3 percent of all general revenues in FY 2007.

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

The following tables set forth comparative summaries for all State General Revenues for fiscal years 2004 through 2007 and expenditures for the fiscal years 2004 through 2007. General Fund data for FY 2004 and FY 2005 is derived from the State's Comprehensive Annual Financial Report prepared by the State Controller, and post audited by the Auditor General. Expenditures for fiscal year 2006 reflect enacted appropriations adjusted for the changes to appropriations enacted by the General Assembly which have been recommended by the Governor. Expenditures for FY 2007 reflect the budget submitted by the Governor to the General Assembly. 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 2004 and FY 2005 reflect the audited actual revenues as reported by the State Controller. FY 2006 revenues are predicated upon consensus estimates of the Revenue Estimating Conferences in November 2005, as adjusted by the statutory changes to revenues adopted by the Revenue Estimating Conference which have been proposed by the Governor. These estimates are explained under the section above entitled *Revenue Estimates* and the subheading below entitled *Free Surplus*.

## General Revenues as Recommended

	FY 2004 Actual	FY 2005 Preliminary	FY 2006 Revised	FY 2007 Recommended
<b>Personal Income Tax</b>	\$870,203,448	\$978,922,876	\$1,015,900,000	\$1,071,727,868
<b>General Business Taxes</b>				
Business Corporations*	75,996,096	116,143,553	107,300,000	112,490,936
Public Utilities Gross Earnings	92,209,614	86,357,789	97,300,000	95,200,000
Financial Institutions	(7,296,194)	(1,480,365)	(300,000)	200,000
Insurance Companies	43,418,735	53,333,488	57,000,000	54,100,000
Bank Deposits	1,579,935	1,524,111	1,600,000	1,600,000
Health Care Provider Assessment	40,317,507	46,827,408	48,400,000	49,600,000
<b>Sales and Use Taxes</b>				
Sales and Use	822,855,222	847,726,627	881,500,000	927,742,698
Motor Vehicle	47,355,716	47,137,097	48,900,000	50,000,000
Motor Fuel	859,502	1,978,991	900,000	1,106,029
Cigarettes	117,263,392	136,342,162	129,700,000	126,700,000
Alcohol	10,342,162	10,536,807	11,000,000	11,400,000
Controlled Substances	-	-	-	-
<b>Other Taxes</b>				
Inheritance and Gift	23,904,508	32,980,957	28,000,000	28,773,614
Racing and Athletics	4,587,070	3,990,803	3,600,000	3,400,000
Realty Transfer	13,036,709	14,423,038	17,000,000	17,300,000
<b>Total Taxes</b>	<b>\$2,156,633,422</b>	<b>\$2,376,745,342</b>	<b>\$2,447,800,000</b>	<b>\$2,551,341,145</b>
<b>Departmental Receipts</b>	\$285,004,989	\$267,079,817	\$275,842,430	\$255,633,862
<b>Taxes and Departmentals</b>	<b>\$2,441,638,411</b>	<b>\$2,643,825,159</b>	<b>\$2,723,642,430</b>	<b>\$2,806,975,007</b>
<b>Other Sources</b>				
Gas Tax Transfer	\$7,760,433	\$9,022,662	\$4,760,000	\$4,937,335
Other Miscellaneous	19,705,661	28,197,313	80,006,332	17,549,500
Lottery	281,141,647	307,540,000	325,100,000	364,200,000
Unclaimed Property	17,042,121	15,617,732	16,200,000	10,800,000
<b>Other Sources</b>	<b>\$325,649,862</b>	<b>\$360,377,707</b>	<b>\$426,066,332</b>	<b>\$397,486,835</b>
<b>Total General Revenues</b>	<b>\$2,767,288,273</b>	<b>\$3,004,202,866</b>	<b>\$3,149,708,762</b>	<b>\$3,204,461,842</b>

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

## Expenditures from All Funds

	FY 2004 Actual	FY 2005 Prelim. Actual	FY 2006 Enacted	FY 2006 Revised*	FY 2007 Recommended
<b>General Government</b>					
Administration	\$504,133,268	\$523,788,173	\$593,001,271	\$794,615,085	\$779,981,009
Business Regulation	9,885,090	9,754,827	11,343,606	11,333,680	12,065,720
Labor and Training	470,281,830	447,983,389	445,950,069	456,629,153	462,566,192
Legislature	25,851,141	28,031,704	30,228,786	33,963,024	33,697,225
Lieutenant Governor	841,746	848,006	917,362	958,767	967,512
Secretary of State	6,533,065	8,593,464	6,267,053	12,022,101	8,250,835
General Treasurer	37,585,650	36,348,161	30,045,868	39,635,940	29,239,448
Boards for Design Professionals	418,901	379,272	359,516	380,673	394,153
Board of Elections	2,268,661	2,569,068	2,508,556	2,463,256	4,602,956
Rhode Island Ethics Commission	850,786	969,234	1,207,394	1,191,330	1,322,186
Governor's Office	4,380,811	4,362,965	4,606,682	4,960,144	5,265,747
Public Utilities Commission	4,609,881	4,817,830	6,420,340	6,599,484	6,924,526
Rhode Island Commission on Women	65,185	83,741	86,557	91,820	99,915
<b>Subtotal - General Government</b>	<b>\$1,067,706,015</b>	<b>\$1,068,529,834</b>	<b>\$1,132,943,060</b>	<b>\$1,364,844,457</b>	<b>\$1,345,377,424</b>
<b>Human Services</b>					
Children, Youth, and Families	252,281,073	263,113,618	278,707,878	283,995,164	289,725,844
Elderly Affairs	45,782,712	42,036,630	43,089,254	45,458,816	37,797,500
Health	110,852,272	104,931,884	110,327,338	118,445,184	112,095,170
Human Services	1,546,320,461	1,629,207,079	1,781,887,713	1,733,551,813	1,621,074,658
Mental Health, Retardation, & Hospitals	456,741,976	465,965,281	488,752,255	496,162,935	503,165,186
Office of the Child Advocate	598,228	420,874	546,681	546,681	602,596
Commission on Deaf & Hard of Hearing	236,615	262,320	352,942	352,084	373,729
RI Developmental Disabilities Council	481,413	598,694	511,924	458,614	463,053
Governor's Commission on Disabilities	585,205	706,319	911,942	1,061,092	1,023,634
Commission for Human Rights	1,101,206	1,107,462	1,249,102	1,318,390	1,404,894
Office of the Mental Health Advocate	322,571	339,922	351,329	374,432	397,798
<b>Subtotal - Human Services</b>	<b>\$2,415,303,732</b>	<b>\$2,508,690,083</b>	<b>\$2,706,688,358</b>	<b>\$2,681,725,205</b>	<b>\$2,568,124,062</b>
<b>Education</b>					
Elementary and Secondary	929,629,298	980,989,560	1,021,591,220	1,019,525,913	1,064,545,457
Higher Education - Board of Governors	615,252,583	629,473,283	682,476,495	678,348,799	708,981,244
RI Council on the Arts	2,186,617	2,507,198	3,982,358	3,916,434	4,118,380
RI Atomic Energy Commission	967,810	976,442	1,247,939	1,306,426	1,382,908
Higher Education Assistance Authority	22,500,404	25,419,111	28,689,247	29,118,154	29,758,012
Historical Preservation and Heritage Comm.	1,611,544	1,965,282	2,231,145	2,581,396	2,243,581
Public Telecommunications Authority	2,348,499	3,170,445	2,042,817	3,853,604	2,219,167
<b>Subtotal - Education</b>	<b>\$1,574,496,755</b>	<b>\$1,644,501,321</b>	<b>\$1,742,261,221</b>	<b>\$1,738,650,726</b>	<b>\$1,813,248,749</b>

\*FY 2006 revised includes Lottery agency expenditures previously not included.

## Expenditures from All Funds

	<b>FY 2004 Actual</b>	<b>FY 2005 Prelim. Actual</b>	<b>FY 2006 Enacted</b>	<b>FY 2006 Revised*</b>	<b>FY 2007 Recommended</b>
<b>Public Safety</b>					
Attorney General	18,223,562	19,628,994	20,522,639	22,607,020	22,808,544
Corrections	148,463,054	151,740,062	160,624,173	175,435,875	181,597,593
Judicial	77,534,188	81,582,201	83,957,104	91,248,944	92,225,771
Military Staff	24,737,549	20,268,716	30,032,698	43,958,715	37,513,061
E-911 Emergency Telephone System	4,037,237	4,918,862	6,046,223	6,262,724	6,923,925
Fire Safety Code Board of Appeal & Review	211,693	237,485	266,894	287,505	292,554
State Fire Marshal	1,615,060	2,221,107	2,722,739	3,035,927	3,005,010
Commission on Judicial Tenure & Discipline	95,720	129,108	106,650	113,411	114,772
Rhode Island Justice Commission	4,931,034	5,295,881	5,734,692	5,591,479	5,002,694
Municipal Police Training Academy	365,117	389,141	403,710	490,812	470,910
State Police	43,295,892	46,460,587	50,344,373	52,948,240	54,117,790
Office Of Public Defender	6,675,442	7,155,719	7,994,972	8,715,546	9,080,122
<b>Subtotal - Public Safety</b>	<b>\$330,185,548</b>	<b>\$340,027,863</b>	<b>\$368,756,867</b>	<b>\$410,696,198</b>	<b>\$413,152,746</b>
<b>Natural Resources</b>					
Environmental Management	57,089,852	64,728,697	80,391,127	82,456,995	89,416,706
Coastal Resources Management Council	8,381,456	3,830,827	4,139,088	5,529,947	6,109,259
Water Resources Board	2,204,822	2,635,204	2,803,450	2,869,827	2,413,802
<b>Subtotal - Natural Resources</b>	<b>\$67,676,130</b>	<b>\$71,194,728</b>	<b>\$87,333,665</b>	<b>\$90,856,769</b>	<b>\$97,939,767</b>
<b>Transportation</b>					
Transportation	321,209,122	327,710,269	311,924,072	350,465,109	342,407,872
<b>Subtotal - Transportation</b>	<b>\$321,209,122</b>	<b>\$327,710,269</b>	<b>\$311,924,072</b>	<b>\$350,465,109</b>	<b>\$342,407,872</b>
<b>Total</b>	<b>\$5,776,577,302</b>	<b>\$5,960,654,098</b>	<b>\$6,349,907,243</b>	<b>\$6,637,238,464</b>	<b>\$6,580,250,620</b>

\*FY 2006 revised includes Lottery agency expenditures previously not included.

## Expenditures from General Revenues

	FY 2004 Actual	FY 2005 Prelim. Actual	FY 2006 Enacted	FY 2006 Revised	FY 2007 Recommended
<b>General Government</b>					
Administration	\$336,916,338	\$416,002,357	\$469,270,013	\$446,609,576	\$441,954,450
Business Regulation	9,330,043	9,278,429	10,535,244	10,539,584	11,260,362
Labor and Training	7,534,669	7,096,275	7,441,870	7,706,093	7,532,903
Legislature	24,362,256	26,933,113	28,956,307	32,611,520	32,240,992
Lieutenant Governor	841,746	848,006	917,362	958,767	967,512
Secretary of State	4,554,708	5,288,648	4,799,470	5,245,812	5,657,590
General Treasurer	2,731,693	3,166,378	2,898,672	2,802,656	2,991,870
Boards for Design Professionals	418,901	379,272	359,516	380,673	394,153
Board of Elections	1,315,570	1,502,197	1,421,683	1,434,137	3,784,056
Rhode Island Ethics Commission	850,786	969,234	1,207,394	1,191,330	1,322,186
Governor's Office	4,380,811	4,362,965	4,530,495	4,771,168	4,962,015
Public Utilities Commission	639,946	628,341	710,111	693,544	746,530
Rhode Island Commission on Women	65,185	83,741	86,557	91,820	99,915
<b>Subtotal - General Government</b>	<b>\$393,942,652</b>	<b>\$476,538,956</b>	<b>\$533,134,694</b>	<b>\$515,036,680</b>	<b>\$513,914,534</b>
<b>Human Services</b>					
Children, Youth, and Families	141,197,300	155,364,630	164,678,493	165,600,390	171,984,600
Elderly Affairs	29,279,214	25,660,265	21,093,567	22,208,708	19,230,920
Health	33,719,333	29,859,395	31,829,313	36,266,504	33,255,571
Human Services	633,285,805	694,484,822	773,199,536	741,035,999	722,197,463
Mental Health, Retardation, & Hospitals	214,539,342	230,338,122	240,055,689	249,493,430	257,467,252
Office of the Child Advocate	497,068	339,721	498,621	536,189	562,596
Commission on Deaf & Hard of Hearing	236,615	262,320	307,606	337,084	358,729
RI Developmental Disabilities Council	-	-	-	-	-
Governor's Commission on Disabilities	538,148	535,199	531,409	548,321	602,509
Commission for Human Rights	1,038,517	997,419	979,397	1,005,908	1,075,216
Office of the Mental Health Advocate	322,571	339,922	351,329	374,432	397,798
<b>Subtotal - Human Services</b>	<b>\$1,054,653,913</b>	<b>\$1,138,181,815</b>	<b>\$1,233,524,960</b>	<b>\$1,217,406,965</b>	<b>\$1,207,132,654</b>
<b>Education</b>					
Elementary and Secondary	776,026,245	793,955,132	837,487,852	835,339,739	877,187,462
Higher Education - Board of Governors	171,028,239	173,432,404	182,368,837	178,932,477	190,585,120
RI Council on the Arts	1,605,871	1,791,045	2,623,921	2,641,572	2,373,685
RI Atomic Energy Commission	695,635	716,418	765,890	770,250	836,702
Higher Education Assistance Authority	11,051,447	9,956,900	9,900,422	7,729,028	9,372,402
Historical Preservation and Heritage Commission	1,022,293	1,221,109	1,410,602	1,415,285	1,489,494
Public Telecommunications Authority	1,217,692	1,039,184	1,285,906	1,316,268	1,390,669
<b>Subtotal - Education</b>	<b>\$962,647,422</b>	<b>\$982,112,192</b>	<b>\$1,035,843,430</b>	<b>\$1,028,144,619</b>	<b>\$1,083,235,534</b>

## Expenditures from General Revenues

	FY 2004 Actual	FY 2005 Prelim. Actual	FY 2006 Enacted	FY 2006 Revised	FY 2007 Recommended
<b>Public Safety</b>					
Attorney General	16,077,703	17,141,816	18,231,163	19,686,252	20,515,081
Corrections	144,082,968	146,860,786	146,939,175	159,505,789	166,278,333
Judicial	67,428,309	71,715,433	72,187,967	76,676,577	50,863,408
Military Staff	2,019,613	2,336,253	2,331,813	2,734,825	3,175,751
E-911 Emergency Telephone System	4,037,237	3,881,544	4,170,299	4,129,917	4,540,876
Fire Safety Code Board of Appeal & Review	211,693	237,485	266,894	287,505	292,554
State Fire Marshal	1,514,606	2,099,879	2,368,505	2,656,030	2,814,010
Commission on Judicial Tenure and Discipline	95,720	129,108	106,650	113,411	114,772
Rhode Island Justice Commission	161,663	253,856	253,085	254,020	263,972
Municipal Police Training Academy	343,298	342,853	373,710	373,710	425,910
State Police	39,147,188	42,443,124	45,368,538	47,302,684	49,057,151
Office Of Public Defender	6,291,199	6,871,288	7,757,125	8,449,477	8,944,421
<b>Subtotal - Public Safety</b>	<b>\$281,411,197</b>	<b>\$294,313,425</b>	<b>\$ 300,354,924</b>	<b>\$322,170,197</b>	<b>\$307,286,239</b>
<b>Natural Resources</b>					
Environmental Management	31,448,346	33,277,951	35,796,460	37,539,885	38,728,932
Coastal Resources Management Council	1,457,694	1,416,887	1,580,355	1,677,005	1,762,667
Water Resources Board	911,497	1,087,511	1,845,239	1,876,879	1,933,202
<b>Subtotal - Natural Resources</b>	<b>\$33,817,537</b>	<b>\$35,782,349</b>	<b>\$ 39,222,054</b>	<b>\$ 41,093,769</b>	<b>\$ 42,424,801</b>
<b>Transportation</b>					
Transportation	-	-	-	-	-
<b>Subtotal - Transportation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>\$2,726,472,721</b>	<b>\$2,926,928,737</b>	<b>\$3,142,080,062</b>	<b>\$3,123,852,230</b>	<b>\$3,153,993,762</b>

## Expenditures from Federal Funds

	FY 2004 Actual	FY 2005 Prelim. Actual	FY 2006 Enacted	FY 2006 Revised	FY 2007 Recommended
<b>General Government</b>					
Administration	\$82,293,909	\$32,942,033	\$25,888,496	\$31,160,309	\$27,147,961
Business Regulation	-	-	-	-	-
Labor and Training	31,357,468	31,826,292	28,569,144	35,850,895	31,983,168
Legislature	-	-	-	-	-
Lieutenant Governor	-	-	-	-	-
Secretary of State	1,502,841	2,913,387	981,955	6,301,396	2,106,890
General Treasurer	2,372,572	1,713,752	1,499,239	2,338,078	1,024,419
Boards for Design Professionals	-	-	-	-	-
Board of Elections	953,091	1,066,871	1,086,873	1,029,119	818,900
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	-	-	-	-
Public Utilities Commission	60,539	56,367	75,437	83,562	88,567
Rhode Island Commission on Women	-	-	-	-	-
<b>Subtotal - General Government</b>	<b>\$118,540,420</b>	<b>\$70,518,702</b>	<b>\$58,101,144</b>	<b>\$76,763,359</b>	<b>\$63,169,905</b>
<b>Human Services</b>					
Children, Youth, and Families	109,087,004	106,338,985	109,771,324	114,530,214	112,480,150
Elderly Affairs	11,776,519	11,769,152	13,910,687	16,140,108	12,556,580
Health	67,324,256	64,504,296	66,802,877	70,944,891	67,134,754
Human Services	909,408,857	931,182,907	1,003,025,555	987,227,767	894,483,826
Mental Health, Retardation, & Hospitals	241,479,073	232,779,398	242,185,305	241,477,557	240,557,934
Office of the Child Advocate	84,478	81,153	48,060	10,492	40,000
Commission on Deaf & Hard of Hearing	-	-	45,336	15,000	15,000
RI Developmental Disabilities Council	481,413	598,694	511,924	458,614	463,053
Governor's Commission on Disabilities	17,568	39,209	116,928	226,439	195,681
Commission for Human Rights	62,689	110,043	269,705	312,482	329,678
Office of the Mental Health Advocate	-	-	-	-	-
<b>Subtotal - Human Services</b>	<b>\$1,339,721,857</b>	<b>\$1,347,403,837</b>	<b>\$1,436,687,701</b>	<b>\$1,431,343,564</b>	<b>\$1,328,256,656</b>
<b>Education</b>					
Elementary and Secondary	151,504,398	183,084,922	178,766,858	179,673,323	182,778,989
Higher Education - Board of Governors	1,882,161	2,527,352	3,085,532	3,085,532	3,146,976
RI Council on the Arts	568,614	677,768	758,437	674,862	736,500
RI Atomic Energy Commission	123,663	64,899	325,000	375,000	375,000
Higher Education Assistance Authority	7,481,024	7,721,509	12,390,339	12,380,178	12,927,312
Historical Preservation and Heritage Comm.	511,398	569,714	583,881	605,643	487,267
Public Telecommunications Authority	194,865	360,905	-	-	-
<b>Subtotal - Education</b>	<b>\$162,266,123</b>	<b>\$195,007,069</b>	<b>\$195,910,047</b>	<b>\$196,794,538</b>	<b>\$200,452,044</b>



## Expenditures from Federal Funds

	FY 2004 Actual	FY 2005 Prelim. Actual	FY 2006 Enacted	FY 2006 Revised	FY 2007 Recommended
<b>Public Safety</b>					
Attorney General	1,477,922	1,585,915	1,158,544	1,468,281	1,055,397
Corrections	1,800,395	2,889,866	9,473,800	11,549,949	8,338,120
Judicial	2,651,129	2,604,779	3,129,095	4,765,871	1,986,119
Military Staff	22,404,349	17,651,183	26,480,631	39,980,557	32,835,045
E-911 Emergency Telephone System	-	66,625	219,000	304,936	70,936
Fire Safety Code Board of Appeal & Review	-	-	-	-	-
State Fire Marshal	100,454	121,228	341,635	367,298	191,000
Commission on Judicial Tenure & Discipline	-	-	-	-	-
Rhode Island Justice Commission	4,748,950	5,017,915	5,451,607	5,307,459	4,708,722
Municipal Police Training Academy	21,819	46,288	30,000	117,102	45,000
State Police	1,323,303	1,143,803	1,979,224	2,058,361	1,758,907
Office Of Public Defender	384,243	284,431	237,847	266,069	135,701
<b>Subtotal - Public Safety</b>	<b>\$34,912,564</b>	<b>\$31,412,033</b>	<b>\$48,501,383</b>	<b>\$66,185,883</b>	<b>\$51,124,947</b>
<b>Natural Resources</b>					
Environmental Management	14,636,019	16,417,852	30,190,338	31,157,219	32,169,302
Coastal Resources Management Council	1,541,458	2,279,028	1,753,000	2,539,121	1,599,392
Water Resources Board	553,805	606,874	500,000	500,000	-
<b>Subtotal - Natural Resources</b>	<b>\$16,731,282</b>	<b>\$19,303,754</b>	<b>\$32,443,338</b>	<b>\$34,196,340</b>	<b>\$33,768,694</b>
<b>Transportation</b>					
Transportation	162,802,416	185,914,260	207,852,520	244,187,122	239,052,428
<b>Subtotal - Transportation</b>	<b>\$162,802,416</b>	<b>185,914,260</b>	<b>\$207,852,520</b>	<b>\$244,187,122</b>	<b>\$239,052,428</b>
<b>Total</b>	<b>\$1,834,974,662</b>	<b>\$1,849,559,655</b>	<b>\$1,979,496,133</b>	<b>\$2,049,470,806</b>	<b>\$1,915,824,674</b>

## Expenditures From Restricted Receipts

	FY 2004 Actual	FY 2005 Prelim. Actual	FY 2006 Enacted	FY 2006 Revised	FY 2007 Recommended
<b>General Government</b>					
Administration	\$10,244,668	\$8,285,544	\$10,145,202	\$4,315,371	\$3,098,413
Business Regulation	555,047	476,398	808,362	794,096	805,358
Labor and Training	22,053,116	22,322,945	20,684,521	22,588,326	23,954,322
Legislature	1,488,885	1,098,591	1,272,479	1,351,504	1,456,233
Lieutenant Governor	-	-	-	-	-
Secretary of State	475,516	391,429	485,628	474,893	486,355
General Treasurer	27,669,550	25,494,082	20,148,483	26,849,577	18,396,066
Boards for Design Professionals	-	-	-	-	-
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	-	-	103,611	211,603
Public Utilities Commission	3,909,396	4,133,122	5,634,792	5,822,378	6,089,429
Rhode Island Commission on Women	-	-	-	-	-
<b>Subtotal - General Government</b>	<b>\$66,396,178</b>	<b>\$62,202,111</b>	<b>\$59,179,467</b>	<b>\$62,299,756</b>	<b>\$54,497,779</b>
<b>Human Services</b>					
Children, Youth, and Families	1,976,012	1,409,503	1,628,401	2,284,900	1,661,094
Elderly Affairs	-	-	3,325,000	2,350,000	1,250,000
Health	9,729,391	10,530,235	11,580,072	11,203,829	11,674,885
Human Services	3,625,799	3,539,350	5,612,622	5,238,047	4,393,369
Mental Health, Retardation, & Hospitals	45,970	50,000	100,000	90,000	90,000
Office of the Child Advocate	16,682	-	-	-	-
Commission on Deaf & Hard of Hearing	-	-	-	-	-
RI Developmental Disabilities Council	-	-	-	-	-
Governor's Commission on Disabilities	12,489	22,634	63,605	86,332	25,444
Commission for Human Rights	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
<b>Subtotal - Human Services</b>	<b>\$15,406,343</b>	<b>\$15,551,722</b>	<b>\$22,309,700</b>	<b>\$21,253,108</b>	<b>\$19,094,792</b>
<b>Education</b>					
Elementary and Secondary	1,900,632	2,873,249	4,859,230	3,989,445	4,527,067
Higher Education - Board of Governors	446,842	532,955	607,689	1,137,680	1,179,479
RI Council on the Arts	12,132	38,385	600,000	600,000	1,008,195
RI Atomic Energy Commission	-	-	-	-	-
Higher Education Assistance Authority	-	-	-	-	-
Historical Preservation and Heritage Commissio	77,853	174,459	236,662	560,468	266,820
Public Telecommunications Authority	-	-	-	-	-
<b>Subtotal - Education</b>	<b>\$2,437,459</b>	<b>\$3,619,048</b>	<b>\$6,303,581</b>	<b>\$6,287,593</b>	<b>\$6,981,561</b>

## Expenditures From Restricted Receipts

	FY 2004 Actual	FY 2005 Prelim. Actual	FY 2006 Enacted	FY 2006 Revised	FY 2007 Recommended
<b>Public Safety</b>					
Attorney General	667,937	698,341	861,932	986,909	1,073,066
Corrections	1,811,063	217,362	-	2,812	-
Judicial	7,209,394	6,730,331	7,390,042	8,236,254	38,526,244
Military Staff	80,254	156,049	421,429	357,429	430,385
E-911 Emergency Telephone System	-	970,693	1,656,924	1,827,871	2,312,113
Fire Safety Code Board of Appeal & Review	-	-	-	-	-
State Fire Marshal	-	-	-	-	-
Commission on Judicial Tenure & Discipline	-	-	-	-	-
Rhode Island Justice Commission	20,421	24,110	30,000	30,000	30,000
Municipal Police Training Academy	-	-	-	-	-
State Police	379,015	248,488	301,100	356,592	235,411
Office Of Public Defender	-	-	-	-	-
Sheriffs of Several Counties	-	-	-	-	-
<b>Subtotal - Public Safety</b>	<b>\$10,168,084</b>	<b>\$9,045,374</b>	<b>\$10,661,427</b>	<b>\$11,797,867</b>	<b>\$42,607,219</b>
<b>Natural Resources</b>					
Environmental Management	9,856,218	9,171,245	10,394,288	10,635,082	15,886,924
Coastal Resources Management Council	5,210,304	134,912	805,733	1,263,821	2,747,200
Water Resources Board	537,975	848,273	338,899	361,792	400,000
<b>Subtotal - Natural Resources</b>	<b>\$15,604,497</b>	<b>\$10,154,430</b>	<b>\$11,538,920</b>	<b>\$12,260,695</b>	<b>\$19,034,124</b>
<b>Transportation</b>					
Transportation	31,105,365	636,146	6,000	3,061,001	3,066,699
<b>Subtotal - Transportation</b>	<b>\$31,105,365</b>	<b>636,146</b>	<b>\$6,000</b>	<b>\$3,061,001</b>	<b>\$3,066,699</b>
<b>Total</b>	<b>\$141,117,926</b>	<b>\$101,208,831</b>	<b>\$109,999,095</b>	<b>\$116,960,020</b>	<b>\$145,282,174</b>

## Expenditures From Other Funds

	FY 2004 Actual	FY 2005 Prelim. Actual	FY 2006 Enacted	FY 2006 Revised*	FY 2007 Recommended
<b>General Government</b>					
Administration	\$74,678,353	\$66,558,239	\$87,697,560	\$312,529,829	\$307,780,185
Business Regulation	-	-	-	-	-
Labor and Training	409,336,577	386,737,877	389,254,534	390,483,839	399,095,799
Legislature	-	-	-	-	-
Lieutenant Governor	-	-	-	-	-
Secretary of State	-	-	-	-	-
General Treasurer	4,811,835	5,973,949	5,499,474	7,645,629	6,827,093
Boards for Design Professionals	-	-	-	-	-
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	-	76,187	85,365	92,129
Public Utilities Commission	-	-	-	-	-
Rhode Island Commission on Women	-	-	-	-	-
<b>Subtotal - General Government</b>	<b>\$488,826,765</b>	<b>\$459,270,065</b>	<b>\$482,527,755</b>	<b>\$710,744,662</b>	<b>\$713,795,206</b>
<b>Human Services</b>					
Children, Youth, and Families	20,757	500	2,629,660	1,579,660	3,600,000
Elderly Affairs	4,726,979	4,607,213	4,760,000	4,760,000	4,760,000
Health	79,292	37,958	115,076	29,960	29,960
Human Services	-	-	50,000	50,000	-
Mental Health, Retardation, & Hospitals	677,591	2,797,761	6,411,261	5,101,948	5,050,000
Office of the Child Advocate	-	-	-	-	-
Commission on Deaf & Hard of Hearing	-	-	-	-	-
RI Developmental Disabilities Council	-	-	-	-	-
Governor's Commission on Disabilities	17,000	109,277	200,000	200,000	200,000
Commission for Human Rights	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
<b>Subtotal - Human Services</b>	<b>\$5,521,619</b>	<b>\$7,552,709</b>	<b>\$14,165,997</b>	<b>\$11,721,568</b>	<b>\$13,639,960</b>
<b>Education</b>					
Elementary and Secondary	198,023	1,076,257	477,280	523,406	51,939
Higher Education - Board of Governors	441,895,341	452,980,572	496,414,437	495,193,110	514,069,669
RI Council on the Arts	-	-	-	-	-
RI Atomic Energy Commission	148,512	195,125	157,049	161,176	171,206
Higher Education Assistance Authority	3,967,933	7,740,702	6,398,486	9,008,948	7,458,298
Historical Preservation and Heritage Commis	-	-	-	-	-
Public Telecommunications Authority	935,942	1,770,356	756,911	2,537,336	828,498
<b>Subtotal - Education</b>	<b>\$447,145,751</b>	<b>\$463,763,012</b>	<b>\$504,204,163</b>	<b>\$507,423,976</b>	<b>\$522,579,610</b>

\*FY 2006 revised includes Lottery agency expenditures previously not included.

## Expenditures From Other Funds

	FY 2004 Actual	FY 2005 Prelim. Actual	FY 2006 Enacted	FY 2006 Revised*	FY 2007 Recommended
<b>Public Safety</b>					
Attorney General	-	202,922	271,000	465,578	165,000
Corrections	768,628	1,772,048	4,211,198	4,377,325	6,981,140
Judicial	245,356	531,658	1,250,000	1,570,242	850,000
Military Staff	233,333	125,231	798,825	885,904	1,071,880
E-911 Emergency Telephone System	-	-	-	-	-
Fire Safety Code Board of Appeal & Review	-	-	-	-	-
State Fire Marshal	-	-	12,599	12,599	-
Commission on Judicial Tenure & Discipline	-	-	-	-	-
Rhode Island Justice Commission	-	-	-	-	-
Municipal Police Training Academy	-	-	-	-	-
State Police	2,446,386	2,625,172	2,695,511	3,230,603	3,066,321
Office Of Public Defender	-	-	-	-	-
<b>Subtotal - Public Safety</b>	<b>\$3,693,703</b>	<b>\$5,257,031</b>	<b>\$9,239,133</b>	<b>\$10,542,251</b>	<b>\$12,134,341</b>
<b>Natural Resources</b>					
Environmental Management	1,149,269	5,861,649	4,010,041	3,124,809	2,631,548
Coastal Resources Management Council	172,000	-	-	50,000	-
Water Resources Board	201,545	92,546	119,312	131,156	80,600
<b>Subtotal - Natural Resources</b>	<b>\$1,522,814</b>	<b>\$5,954,195</b>	<b>\$4,129,353</b>	<b>\$3,305,965</b>	<b>\$2,712,148</b>
<b>Transportation</b>					
Transportation	127,301,341	141,159,863	104,065,552	103,216,986	100,288,745
<b>Subtotal - Transportation</b>	<b>\$127,301,341</b>	<b>141,159,863</b>	<b>\$104,065,552</b>	<b>\$103,216,986</b>	<b>\$100,288,745</b>
<b>Total</b>	<b>\$1,074,011,993</b>	<b>\$1,082,956,875</b>	<b>\$1,118,331,953</b>	<b>\$1,346,955,408</b>	<b>\$1,365,150,010</b>

\*FY 2006 revised includes Lottery agency expenditures previously not included.

## 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 opening surplus for FY 2006 is \$38.7 million, with \$13.5 million of general revenues reappropriated from FY 2005. This surplus is \$2.1 million less than the \$40.8 million upon which the FY 2006 enacted budget was based. Based upon the revised FY 2006 budget recommended by the Governor in February 2006, the State Budget Office projects a surplus of \$14.3 million, including the expenditure of \$13.5 million of reappropriations.

	<b><u>FY 2005</u></b> <b><u>Audited</u><sup>(1)</sup></b> <b>(In Millions)</b>	<b><u>FY 2006</u></b> <b><u>Enacted</u><sup>(2)</sup></b> <b>(In Millions)</b>	<b><u>FY 2006</u></b> <b><u>Revised</u><sup>(3)</sup></b> <b>(In Millions)</b>	<b><u>FY 2007</u></b> <b><u>Current</u><sup>(4)</sup></b> <b>(In Millions)</b>
Opening Surplus				
Free Surplus	\$24.4	\$40.8	\$38.7	\$14.3
Reappropriated Surplus	<u>10.1</u>	<u>0.0</u>	<u>13.5</u>	<u>0.0</u>
Subtotal	\$34.6	\$40.8	\$52.2	\$14.3
Revenues and Transfers				
Revenues	2,644.7	2,781.2	2,723.6	2,807.0
Other Sources	<u>360.4</u>	<u>384.4</u>	<u>426.1</u>	<u>397.5</u>
Subtotal	3,005.1	3,165.6	3,149.7	3,205.5
Cash Stabilization Fund	(60.6)	(64.1)	(63.8)	(64.4)
Total Available	\$2,979.9	\$3,142.2	\$3,138.1	\$3,154.0
Projected Expenditures	\$2,926.9	\$3,142.1	\$3,123.9	\$3,153.6
<b>Free Surplus</b>	<b>\$38.7</b>	<b>\$0.1</b>	<b>\$14.3</b>	<b>\$0.4</b>
<b>Reappropriations</b>	<b>13.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total Ending Balances</b>	<b>\$52.2</b>	<b>\$0.1</b>	<b>\$14.3</b>	<b>\$0.4</b>

\*May not add due to rounding.

<sup>(1)</sup>Reflects actual audited results for FY 2005.

<sup>(2)</sup>Reflects the FY 2006 budget originally adopted by the General Assembly.

<sup>(3)</sup>Reflects the FY 2006 budget including revenues adopted by the Revenue Estimating Conference in November 2005 and changes to those adopted revenue estimates and changes in appropriations proposed by the Governor in the Supplemental Appropriation Act, as amended.

<sup>(4)</sup>Reflects the FY 2007 budget recommended by the Governor.

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

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

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

On May 28, 2003, President Bush signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003, which provided 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 was 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 came in the form of increased Medicaid funds and \$50 million in flexible funds. There was an estimated loss of approximately \$9.5 million in state tax revenues due to provisions of the federal tax act which would have flowed through to Rhode Island taxes if then current law had remained unchanged.

The following table sets forth a comparative statement of General Fund free surplus for fiscal years 2004 through 2007. FY 2004 and FY 2005 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 free surplus for FY 2005 is \$38.7 million, and there are \$13.5 million of reappropriations carried forward. The budget enacted by the General Assembly in June 2005 for FY 2006 was predicated upon available resources of \$3,142.2 million net of reserve fund contributions, and expenditures of \$3,142.1 million resulting in an estimated closing surplus of \$0.1 million. The revised budget proposed by the Governor in February 2006 reflects an estimated surplus of \$14.3 million. These projections are based upon an opening surplus which is \$2.1 million less and the enacted FY 2006 revenues and enacted FY 2006 appropriations adjusted by the November 2005 Revenue and Caseload Conference estimates and changes to the adopted estimates proposed by the Governor in his revised FY 2006 budget. Included within the revenue and expenditure change are \$13.5 million of reappropriations from FY 2004. This is reflected in the FY 2006 revised column on the following table.

## General Revenue Budget Surplus Statement

	FY2004	FY2005	FY 2006		FY2007
	Audited	Audited	Enacted	Revised	Recommended
<b>Surplus</b>					
Opening Surplus	\$ 42,633,628	\$ 24,451,367	\$ 40,802,481	\$ 38,698,361	\$ 14,275,964
Reappropriated Surplus	7,346,513	10,145,888		13,489,214	-
Subtotal	<b>49,980,141</b>	<b>34,597,255</b>	<b>40,802,481</b>	<b>52,187,575</b>	<b>14,275,964</b>
<b>General Taxes</b>	2,156,633,422	2,376,770,047	2,468,556,474	2,468,556,474	2,547,000,000
Revenue estimators' revision	-	-	-	(28,856,474)	4,341,145
Changes to adopted revenue estimates				8,100,000	
Subtotal	<b>2,156,633,422</b>	<b>2,376,770,047</b>	<b>2,468,556,474</b>	<b>2,447,800,000</b>	<b>2,551,341,145</b>
<b>Departmental Revenues</b>	285,004,989	267,952,890	312,586,831	312,586,831	267,952,890
Revenue estimators' revision	-	-	-	(37,486,831)	(12,319,028)
Changes to adopted revenue estimates				742,430	
Subtotal	<b>285,004,989</b>	<b>267,952,890</b>	<b>312,586,831</b>	<b>275,842,430</b>	<b>255,633,862</b>
<b>Other Sources</b>					
Gas Tax Transfers	7,760,433	9,022,662	4,760,000	4,760,000	4,810,000
Changes to adopted revenue estimates					127,335
Other Miscellaneous	19,705,661	28,197,313	18,950,000	18,950,000	14,249,500
Rev Estimators' revision-Miscellaneous	-	-	-	(930,700)	-
Changes to adopted revenue estimates				61,987,032	3,300,000
Lottery	281,141,647	307,549,646	350,500,000	350,500,000	364,200,000
Revenue Estimators' revision-Lottery	-	-	-	(25,400,000)	-
Unclaimed Property	17,042,121	15,617,732	10,199,000	10,199,000	10,800,000
Revenue Estimators' revision-Unclaimed	-	-	-	6,001,000	-
Subtotal	<b>325,649,862</b>	<b>360,387,353</b>	<b>384,409,000</b>	<b>426,066,332</b>	<b>397,486,835</b>
<b>Total Revenues</b>	\$ 2,767,288,273	\$ 3,005,110,290	\$ 3,165,552,305	\$ 3,149,708,762	\$ 3,204,461,842
<b>Budget Stabilization</b>	(56,198,438)	(60,591,233)	(64,127,096)	(63,768,142)	(64,374,756)
<b>Total Available</b>	\$ 2,761,069,976	\$ 2,979,116,312	\$ 3,142,227,690	\$ 3,138,128,194	\$ 3,154,363,050
Actual/Enacted Expenditures	\$ 2,726,472,721	\$ 2,926,928,737	\$ 3,142,080,062	\$ 3,142,080,062	\$ 3,153,993,762
Reappropriations	-	-	-	13,489,214	-
Changes to appropriations	-	-	-	(31,717,046)	-
<b>Total Expenditures</b>	\$ 2,726,472,721	\$ 2,926,928,737	\$ 3,142,080,062	\$ 3,123,852,230	\$ 3,153,993,762
<b>Free Surplus</b>	\$ 24,451,367	\$ 38,698,361	\$ 147,628	\$ 14,275,964	\$ 369,288
<b>Reappropriations</b>	10,145,888	13,489,214	-	-	-
<b>Total Ending Balances</b>	\$ 34,597,255	\$ 52,187,575	\$ 147,628	\$ 14,275,964	\$ 369,288
<b>Budget Reserve and Cash Stabilization Account</b>	\$ 84,297,657	\$ 90,886,850	\$ 96,190,644	\$ 95,652,214	\$ 96,562,134



## **TIMING OF AUDITED FINANCIAL REPORTS**

Prior to Fiscal Year 2002, the State's audited annual financial report had typically been completed approximately six to nine months after the close of a fiscal year. The report for the year ending June 30, 2002 was completed sixteen months after the close of that year. There were two primary reasons for this delay. First, the 2002 report was the first report required to comply with GASB Statement 34. Completing the inventory of fixed assets which was required in order to provide a complete report of the State entity in accordance with GASB 34 took longer than anticipated. Second, at the beginning of the year ending June 30, 2002, the State introduced a new accounting system. There had been a number of training and system problems with the new software package which have required adjustments to correct initial recording of expenditures or interfund transfers. The 2003 report was completed sixteen months after the close of the fiscal year due to the late start on the FY 2003 audit and some continuing issues with the reconciliation and fixed assets reporting. The report for the fiscal year ending June 30, 2004 was issued in July 2005. The report for fiscal year ending June 30, 2005 was issued in February 2006.

## **STATE INDEBTEDNESS**

### **Authorization and Debt Limits**

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

### **Public Finance Management Board**

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

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

### **Sinking Fund Commission**

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

**Tax Anticipation Notes**

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

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

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

<u>Fiscal Year</u>	<u>Maximum Principal Amount Outstanding</u>	<u>Percent of Prior Year’s Tax Receipts</u>
1990	\$ 70,000,000	6.0%
1991	200,000,000	17.0
1992	240,000,000	20.0
1993	225,000,000	18.0
1994	150,000,000	11.0
1995	125,000,000	9.0
1996	100,000,000	8.0
1997	108,000,000	8.0
1998	0	0.0
1999	0	0.0
2000	0	0.0
2001	0	0.0
2002	90,000,000	4.4
2003	150,000,000	7.9
2004	200,000,000	7.4
2005	0	0.0
2006	0(est)	0.0

**Net Tax Supported State Debt**

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

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

As of March 1, 2006, authorized but unissued direct and guaranteed debt totaled \$304,762,881.

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

	<u>Debt Outstanding June 30, 2001</u>	<u>Debt Outstanding June 30, 2002<sup>(1)</sup></u>	<u>Debt Outstanding June 30, 2003</u> <sup>(1)</sup>	<u>Debt Outstanding June 30, 2004<sup>(1)</sup></u>	<u>Debt Outstanding June 30, 2005</u>
<b>Direct Debt:</b>					
Various Purpose Bonds Outstanding	\$ 822,485	\$ 654,879	\$ 694,933	\$ 737,772	\$ 778,250
Variable Rate General Obligations	<u>31,365</u>	<u>28,165</u>	<u>27,965</u>	<u>24,865</u>	<u>22,665</u>
<b>Subtotal</b>	<b>\$853,850</b>	<b>\$ 683,044</b>	<b>\$ 722,898</b>	<b>\$ 762,637</b>	<b>\$ 800,915</b>
<b>Guaranteed Debt:</b>					
Narragansett Bay District Commission Bonds <sup>(2)</sup>	<u>18,459</u>	<u>15,019</u>	<u>13,119</u>	<u>11,266</u>	-
<b>Subtotal</b>	<b>18,459</b>	<b>15,019</b>	<b>13,119</b>	<b>11,266</b>	-
<b>Other Debt Subject to Annual Appropriation:</b>					
RI Refunding Bond Authority Lease Rental Bonds	146,055	132,440	100,705	84,730	74,615
RI Refunding Bond Authority – Direct	1,300	650	-	-	-
RI Refunding Bond Auth. – Gurtn Narr. Bay	30	15	-	-	-
Convention Center Authority Outstanding <sup>(3)</sup>	315,805	319,435	310,005	302,320	202,855
Economic Development Corporation – Transportation	-	-	-	47,405	42,255
Certificates of Participation – Master Equipment Lease <sup>(4)</sup>	11,015	7,995	8,865	5,180	9,505
Certificates of Participation – Intake Center	21,470	19,500	17,440	15,285	13,025
Certificates of Participation – Attorney General	3,740	2,795	2,795	2,795	2,795
Certificates of Participation – DLT Howard Complex	22,265	21,335	20,365	19,345	18,275
Certificates of Participation – Pastore Steam Plant	28,180	23,440	23,440	23,440	23,440
Certificates of Participation – Shepards Building	30,215	28,820	27,655	26,410	25,080
Certificates of Participation – Kent County Courthouse	-	-	-	-	58,910
Certificates of Participation – Traffic Tribunal Court Complex	-	-	-	-	21,565
Certificates of Participation – Training School	-	-	-	-	51,985
Rhode Island Housing/Traveler’s Aid/NOP Program	-	12,550	12,550	12,550	13,060
Economic Development – Dow Chemical Corporation	25,000	25,000	25,000	25,000	24,542
Economic Development – URI Power Plant	15,859	15,304	14,729	14,134	13,514
Economic Development – McCoy Stadium	<u>9,585</u>	<u>8,780</u>	<u>7,945</u>	<u>7,080</u>	<u>6,180</u>
<b>Subtotal</b>	<b>630,519</b>	<b>618,059</b>	<b>574,849</b>	<b>585,674</b>	<b>601,601</b>
<b>Performance Based Agreements<sup>(5)</sup></b>					
Economic Development – Fidelity Building I	24,116	23,615	23,071	22,487	21,847
Economic Development – Fidelity Building II	-	10,000	10,000	10,000	10,000
Economic Development – Fleet Bank Lease	<u>10,640</u>	<u>10,500</u>	<u>10,350</u>	<u>10,180</u>	<u>10,015</u>
<b>Subtotal</b>	<b>34,756</b>	<b>44,115</b>	<b>43,421</b>	<b>42,677</b>	<b>41,862</b>
Gross Debt	1,537,584	1,360,237	1,354,288	1,402,253	1,444,379
Less: Adjustments for Agency Payments:	(66,700)	(72,593)	(70,000)	(67,441)	(54,976)
<b>Net Tax Supported Debt</b>	<b>\$1,470,884</b>	<b>\$1,287,643</b>	<b>\$1,280,933</b>	<b>\$1,334,812</b>	<b>\$1,389,403</b>
<b>Debt Ratios</b>					
<b>Personal Income</b>	<b>\$31,527,250</b>	<b>\$32,767,677</b>	<b>\$33,747,431</b>	<b>\$35,830,000</b>	<b>\$37,985,750</b>
<b>Debt as a Percent of Personal Income</b>	<b>4.67%</b>	<b>3.93%</b>	<b>3.80%</b>	<b>3.73%</b>	<b>3.66%</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) Reflects the defeasance in June 2005 of the user fee funded general obligation bonds by the Narragansett Bay District Commission which were guaranteed by the State.
- (3) Convention Center Authority defeased debt using proceeds from the sale of the Westin Hotel.
- (4) Includes non-certificated lease obligations in the master equipment lease category in the amount of \$318,000 as of June 30, 2000.
- (5) 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, 2005, the State had \$800.9 million of general obligation tax supported bonds outstanding. Authorized but unissued direct debt totaled \$304.8 million as of March 1, 2006.

The following table sets forth the debt service requirements on outstanding general obligation bonds of the State as of March 1, 2006 which are supported by State revenues for FY 2006 through FY 2024.

**Debt Service Schedule for General Obligation**  
**Debt Issued as of March 30, 2006 for FY 2006-2024**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2006	\$48,754,243	\$40,502,546	\$91,426,575
2007	43,517,653	39,534,947	90,209,271
2008	38,300,786	36,418,200	81,868,507
2009	43,988,740	31,518,543	82,630,179
2010	48,064,000	29,038,943	84,212,464
2011	46,750,000	26,810,747	80,664,268
2012	58,515,000	24,357,063	89,971,334
2013	65,790,000	21,059,412	93,950,558
2014	58,495,000	18,008,619	83,602,265
2015	53,910,000	15,084,153	76,095,424
2016	48,900,000	12,517,486	68,520,882
2017	47,650,000	10,074,343	64,823,989
2018	39,115,000	7,890,413	54,121,804
2019	37,340,000	6,003,283	50,495,772
2020	30,385,000	4,346,106	41,916,062
2021	27,135,000	2,944,481	37,293,977
2022	17,000,000	1,884,794	26,133,565
2023	17,780,000	1,060,894	26,117,865
2024	6,860,000	343,000	14,514,221
Subtotal-Fixed Rate Debt	<u>\$871,635,422</u>	<u>\$381,639,102</u>	<u>\$1,253,274,524</u>
Subtotal-Variable Rate Debt**	22,665,000		
Total*	894,300,422		

\* Reflects full fiscal year general obligation tax supported debt service for bonds issued as of March 1, 2006. Excludes guaranteed and contingent debt. Debt outstanding as of June 30, 2006 is expected to be approximately \$842.5 million.

\*\* Reflects multi-modal general obligation bonds which bear interest at variable rates. Reflects total principal outstanding as of June 30, 2005 in the amount of \$22,665,000.

In addition, the following table sets forth the amounts, purposes and statutory authorizations of authorized but unissued general obligation direct debt of the State as of March 1, 2006 which has been approved by referenda of the electors.

<u>Purpose</u>	<u>Statutory Authorization</u>	Authorized but Unissued Debt as of Authority as of <u>March 1, 2006</u>
<b>Direct Debt:</b>		
Clean Water Act Environmental Trust Fund	Ch. 289-P.L. of 1986	1,764,627
Open Space	Ch. 425-P.L. of 1987	3,254
Mental Health, Retardation and Hospitals	Ch. 434-P.L. of 1990	1,345,000
RI Water Pollution Revolving Loan Fund	Ch. 434-P.L. of 1990	7,200,000
Elementary & Secondary Education	Ch. 70-P.L. of 1994	815,000
Higher Education Facilities	Ch. 31-P.L. of 1998	2,685,000
Environmental Management	Ch. 55-P.L. of 2000	7,430,000
State Police Headquarters Facility and State Municipal Fire Academy	Ch. 65-P.L. of 2002	46,470,000
Preservation, Recreation & Heritage	Ch. 65-P.L. of 2002	5,300,000
Transportation	Ch. 65-P.L. of 2002	470,000
Transportation	Ch. 595-P.L. of 2004	24,520,000
Regional Career and Technical Schools	Ch. 595-P.L. of 2004	10,795,000
Higher Education Residence Halls	Ch. 595-P.L. of 2004	30,240,000
Emergency Water Interconnect	Ch. 595-P.L. of 2004	8,000,000
Open Space Recreation, Bay & Watershed Protection	Ch. 595-P.L. of 2004	61,325,000
Pell Library – Undersea Exploration Center	Ch. 595-P.L. of 2004	11,800,000
Historic Preservation	Ch. 595-P.L. of 2004	3,000,000
URI Biotechnology & Life Sciences Center	Ch. 595-P.L. of 2004	39,600,000
Quonset Point/Davisville	Ch. 595-P.L. of 2004	<u>42,000,000</u>
<b>Total Direct and Guaranteed Debt</b>		<b>\$304,762,881</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, 2005, the bonds were no longer considered an obligation since the Commission had provided resources in an escrow to economically defease all these state guaranteed obligations. There is no authorization for future issuance.

### 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 \$22,733,222, 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, 2005, \$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, 2005, \$13,025,000 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, 2005, \$18,275,000 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, 2005, \$25,080,000 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, 2005, \$6,180,000 was outstanding.

On June 29, 2000, the State entered into a lease agreement with a financial institution, which issued \$9,525,000 of certificates of participation for the purchase and installation of telecommunications equipment, furnishings and vehicles and rolling stock. The State also privately placed \$318,000 of taxable certificates at that time. In June 2001, the State financed an additional \$3,150,000 of vehicles and rolling stock in this manner. In December 2002, the State financed an additional \$3,890,000 of vehicles and rolling stock. In June 2005, the State financed an additional \$6,950,000. As of June 30, 2005, \$9,505,000 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, 2005, 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 \$13,060,000 of debt to provide funds for the relocation of the Traveler’s Aid facility and for the Neighborhood Opportunities Program which provides affordable housing. In 2005, the State provided an additional \$2,250,000 for the Traveler’s Aid project through the loan agreement. As of June 30, 2005, there was \$13,060,000 outstanding.

In November 2003, the State entered into a payment agreement with the Rhode Island Economic Development Corporation relating to the issuance of \$53,030,000 of Motor Fuel Tax Revenue Bonds to provide funds for the State match for certain major Transportation projects funded by GARVEE bonds also issued by the Corporation. The Motor Fuel Tax Revenue Bonds are secured by two cents of the motor fuel tax dedicated to the Department of Transportation, subject to annual appropriation. As of June 30, 2005, \$42,255,000 was outstanding. In March 2006, a second series of bonds totaling \$42,815,000 was sold.

**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, 2005, \$31.847 million of Fidelity bonds were outstanding. Job rent credits are expected to result in a State obligation of \$1.6 million in 2005, and \$2.5 million annually when maximized.

In November 1997, the Economic Development Corporation entered into a similar agreement with Fleet Bank; bonds issued for that transaction totaled \$11.0 million. As of June 30, 2005, \$10.15 million of Fleet bonds were outstanding. Under the lease agreement with Fleet, debt service on only \$3.4 million of the total debt would be reimbursed through the applications of job rent credits. Job rent credits, if earned, are estimated to result in a State obligation of approximately \$.3 million per year.

### **State Agencies and Authorities**

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

*Rhode Island Turnpike and Bridge Authority.* Originally created by an act of the General Assembly, Chapter 12, title 24, in 1954, the Rhode Island Turnpike and Bridge Authority has rights and obligations under agreements which secure its outstanding bonds. On August 21, 1997 the Authority issued \$42,985,000 Refunding Revenue Bonds Series 1997 providing escrowed funds to defease bond issues outstanding totaling \$41,355,000, (the original issues in 1965 and 1967 totaled \$61,000,000). On July 31, 2003 the Authority issued \$35,765,000 Taxable Refunding Bonds and together with other funds paid the outstanding balance Series 1997 of Revenue Refunding Bonds. Accordingly, as of June 30, 2004 the Authority had no obligations related to the defeased Series 1997 bonds. The Authority voted to remove the tolls from the Mt. Hope Bridge on May 1, 1998. The Mt. Hope Bridge will continue to be maintained by the Authority. Tolls on the Claiborne Pell Bridge are the primary source of revenues and together with interest earned on investments are anticipated to be adequate to service debt and maintain the Authority's facilities. The outstanding balance of the 2003A issue of taxable refunding bonds is \$31,710,000 at June 30, 2005.

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, 2005, the State had issued \$92,425,000 of outstanding general obligation bonds on behalf of the Commission. Of this amount, the Commission had been responsible for paying debt service on \$13,485,000 from its user fee revenues. The bonds were defeased in June 2005, and the total outstanding state general obligation bonds currently payable from user fees is \$0 as reflected in the Commission's financial statements as of June 30, 2005.

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

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

As of June 30, 2005, the Authority had outstanding mortgage agreements and other commitments for \$26,040,657 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, 2005, the Fund had a balance of \$1,739,569. The State has agreed to appropriate or borrow and pay to the Authority any amounts required to service insured loans that are in default should the Fund be insufficient. The State has never been called upon to replenish the Industrial-Recreational Building Mortgage Insurance Fund.

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

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

The Public Buildings Authority had six series of bonds outstanding as of June 30, 1997, in the amount of \$202,750,000, which are payable solely from revenues derived from lease rentals pursuant to lease agreements between the Authority and the State. The State's payment of such lease rentals is subject to and dependent upon annual appropriations being made by the General Assembly. In June 1998, the Refunding Bond Authority refunded portions of four of these series of bonds with the issuance of the 1998 Series A Bond in the amount of \$39,875,000. The 1988 Series A Revenue Bonds were redeemed during the fiscal year ended June 30, 2003. In May 2003 the Authority issued \$67,625,000 State Public Projects Revenue Bonds, Series 2003 A dated April 1, 2003 to refund the outstanding principal of State Public Projects Revenue Bonds, 1993 Series A originally issued by the Rhode Island Public Buildings Authority. Total net debt outstanding on the 1998 and 2003 issues as of June 30, 2005 totals \$74,615,000.



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

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

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

Currently the Authority has \$202,070,000 in outstanding debt consisting of the following issues:

1993 Series B - \$60,225,000  
1993 Series C - 835,000  
2001 Series A - 65,085,000  
2003 Series A - 41,315,000  
2005 Series A - 34,610,000

In 2005, the General Assembly authorized the Authority to issue \$92,500,000 in bonds to acquire the Dunkin Donuts Center (formerly known as the Providence Civic Center) from the City of Providence and to substantially renovate the facility. In December 2005, the Authority acquired the facility and issued \$33,000,000 in taxable Civic Center Revenue Bonds to finance the acquisition and start-up renovation costs.

Pursuant to a Lease and Agreement dated as of November 1, 1991, between the Authority, as lessor, and the State, as lessee, the Authority leased the Convention Center facilities to the State. Pursuant to a Lease and Agreement dated as of November 30, 2006, between the Authority, as lessor, and the State, as lessee, the Authority leased the Dunkin Donuts Center facilities to the State. The State is obligated to make lease payments in an amount sufficient to pay the operating expenditures of the Authority and the corresponding debt service on its obligations including, but not limited to, the bonds. The lease payments are subject to annual appropriation by the General Assembly.

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

During January 2002, the Corporation issued Resource Recovery System Revenue Bonds, 2002 Series A (the Bonds), in the aggregate principal amount of \$19,945,000. The Bond proceeds were used to finance the construction and equipping of a tipping facility to receive and handle commercial and municipal solid waste delivered to the facility. These bonds bear interest at rates that range from 3.5% to 5% and mature in varying installments beginning March 1, 2003 through March 1, 2022. The outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required on bonds over various years beginning in 2018 through 2022 at the principal amount of the bonds. The outstanding balance at June 30, 2005 totals \$17,611,881.

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.

During 2005, in conjunction with the purchase of several properties held for development, the Corporation issued various notes payable, bearing interest at 5% per annum, in the original amount of \$2,000,000, due in installments payable through September 2006.

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

Fiscal Year	Amount
1995	\$ 6,000,000
1996	15,000,000
1997	0
1998	2,000,000
1999	4,000,000
2000	0
2001	3,115,000
2002	3,000,000
2003	6,000,000
2004	0
2005	<u>4,300,000</u>
	\$43,415,000

In FY 1994, the General Assembly approved a municipal tip fee of \$32.00 per ton. Annually, the legislature has maintained the municipal tip fee at the FY 1994 level by reauthorizing the Corporation to charge \$32.00 per ton for municipal solid waste. A portion of the Corporation's landfill is a designated Superfund site. During 1996, the Corporation entered into a Consent Decree with the United States Environmental Protection Agency (EPA) concerning remedial actions taken by the Corporation for groundwater contamination. The Consent Decree requires the establishment of a trust in the amount of \$27,000,000 for remedial purposes. The Central Landfill Remediation Trust Fund Agreement was approved August 22, 1996 by the EPA. In accordance with the terms of the agreement, the Corporation has deposited approximately \$33,300,000 into the trust fund and has disbursed approximately \$5,200,000 for remediation expenses through June 30, 2005. Additionally, trust fund earnings, net of changes in market value have totaled approximately \$8,150,000.

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

The Corporation has also established trust funds, in accordance with EPA requirements for a municipal solid waste landfill, for the closure and postclosure care costs related to Phases II, III and IV. At June 30, 2005, the Corporation had transferred approximately \$24,000,000 into the trust funds to meet the financial requirements of closure and postclosure care costs related to Phases II & III and Phase IV. Future trust fund contributions will be made each year to enable the Corporation to satisfy these closure and postclosure care cost. In November 2005, the Corporation intends to establish and fund the Phase V trust fund.

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

The Agency is empowered to issue revenue bonds and notes, which are not guaranteed by the State. As of June 30, 2005, the Agency has issued bonds in the aggregate amount of \$585,015,000 to fund \$630,027,855 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, 2005 is \$366,045,000 in the clean water state revolving fund (CWSRF wastewater projects), \$55,485,000 for two conduit financings and one note for \$7,719,000 and \$83,130,000 in the drinking water state revolving fund. Also, in years 1997 through 2005, the Agency made a total of \$37,380,000 in direct loans (loans issued without bond financing) out of the CWSRF, a total of \$25,989,537 in Direct Loans out of the drinking water State revolving fund and \$58,095,000 out of the Rhode Island Water Pollution Control Revolving Fund.

***Rhode Island Public Transit Authority.*** The Public Transit Authority was created under Chapter 18, title 39 of the General Laws of Rhode Island, by the General Assembly in 1964 as a body politic and corporate in response to the continuing financial difficulties being experienced by private bus transportation companies in the State resulting in the disruption of service. The Authority, with assistance from the State and with the proceeds of a federal loan, acquired the assets of the former United Transit Company and is authorized to acquire any other bus passenger systems or routes in the State which have filed with the Chairman of the State Public Utilities Commission a petition to discontinue service, and which the Authority deems necessary in the public interest. The Authority has expanded its operations statewide and operates a fleet of approximately 238 buses and 115 vans carrying approximately 21.9 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 \$1.50 in February 2005. 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, 2005, audited results of operations reveal that State-operating assistance to the Authority totaled \$30,218,644, operating revenues totaled \$27,664,074, and other revenues totaled \$16,394,513.

***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, 2005, the Corporation had revenue bonds outstanding of \$672,084,274 including conduit debt of \$46,575,000 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.

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, 2005, the outstanding balance was \$21,847,453.

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, 2005, 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, 2005, the outstanding balance was \$10,015,000.

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

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

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

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

Pursuant to the State Lease Agreement, RIAC has leased T.F. Green Airport (Airport) and the five general aviation airports (collectively, Airports) from the State for a term ending June 30, 2035, at a rental rate of \$1.00 per year. In consideration of RIAC's assumption of the Rhode Island Department of Transportation's (RIDOT) responsibilities with respect to the Airports, the State and RIDOT have assigned to RIAC all of their rights to the revenues of the Airports, the proceeds of State General Obligation (G.O.) bonds related to the Airports, Federal Aviation Administration (FAA) grant agreements, a Federal Highway Administration grant, insurance proceeds, all contracts including concession agreements and the prior airline agreements, and all licenses and permits.

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

RIAC does not have the authority to issue bonds or notes or to borrow money without the approval of EDC. In addition, RIAC does not have the power of eminent domain with respect to real property. RIAC does have certain contractual rights under the Lease Agreement to require the State to exercise powers of eminent domain for the benefit of RIAC.

RIAC operates T.F. Green Airport (Airport), which is Rhode Island's only certified Part 139 commercial carrier. There are five General Aviation Airports operated by RIAC, each of which is managed pursuant to a Management Contract originally dated as of May 7, 1996, that has been extended to June 30, 2006, by and between RIAC and Piedmont Hawthorne Aviation, Inc. The contract provides for two (2) additional five-year terms beginning July 1, 2006. Each of these airports is briefly described below:

- North Central Airport – located in Lincoln, R.I., approximately fifteen miles from T.F. Green Airport. North Central Airport is classified as a reliever airport to T.F. Green by the Federal Aviation Administration (FAA).

- Quonset Airport – located in North Kingstown, R.I., approximately ten miles south of T.F. Green Airport. The Rhode Island Air National Guard moved its operations from T.F. Green Airport to Quonset Airport in 1986. Quonset also has additional industrial facilities which are leased to various tenants. Quonset Airport is classified as a reliever airport.
- Westerly Airport – located in Westerly, R.I., approximately thirty-five miles from T.F. Green Airport. Westerly Airport is classified as a commercial service airport and enplanes approximately 7,000 commuter passengers annually.
- Newport Airport – located in Middletown, R.I., approximately seventeen miles from T.F. Green Airport. Newport Airport is classified as a general aviation airport.
- Block Island Airport – located in Block Island, just off the southern coast of Rhode Island, approximately twenty-five miles from T.F. Green Airport. Block Island Airport is also classified as a commercial service airport and enplanes approximately 7,000 commuter passengers annually.

As of June 30, 2005, and based upon classifications defined by the U.S. Department of Transportation, the Airport has scheduled passenger service provided by thirteen major/national and three commuter airlines. Air Georgian provides international service at the Airport. Three airlines provide all-cargo service.

RIAC has entered into Airport Use & Lease Agreements (Airline Agreements) with the following Signatory Airlines as of June 30, 2005:

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

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

T.F. Green Airport ranked as the 58th busiest airport in the country for the federal fiscal year 2003 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 56th busiest in federal fiscal year 2002, 57th busiest in federal fiscal year 2001, 58th busiest in federal fiscal years 2000 and 1999, and 60th busiest in federal fiscal year 1998, and 63rd busiest in federal fiscal year 1997.

Actual enplaned passengers for fiscal year 2005 were approximately 233,571 above 2004, resulting in an increase of 8.9% and RIAC’s best fiscal year since its inception. The most recent growth experienced by the Airport is attributable to several factors, including the commencement of service in fiscal year 2005 by Spirit Airlines and Independence Air, as well as the continued expansion at the Airport by Southwest Airlines. Independence Air has since gone into bankruptcy and ceased operations nationwide.

In July 1993, the date RIAC took financial responsibility of the Airport from the State, RIAC agreed under the Lease Agreement to reimburse the State for the principal and interest payments due on G.O. bonds issued by the State for airport purposes. These bonds mature annually from 1993 through 2020. The balance outstanding at June 30, 2005 and 2004 was \$16,721,389 and \$18,856,688, respectively.

In 1993, RIAC issued \$78,100,000 of General Airport Revenue Bonds dated October 20, 1993, maturing annually from 1998 through 2004 with interest coupons ranging from 4.2% to 5.25%. The balance outstanding at June 30, 2005 and 2004 was \$0 and \$2,400,000, respectively.

In May 1994, RIAC issued \$30,000,000 General Airport Revenue Bonds dated May 19, 1994, maturing annually from 1998 through 2014 with interest coupons ranging from 5.25% to 7%. The balance outstanding at June 30, 2005 and 2004 was \$6,070,000 and \$6,700,000, respectively.

In December 1998, RIAC issued \$8,035,000 Series A and \$53,140,000 Series B General Airport Revenue Bonds dated June 11, 1998, maturing annually from 2001 through 2028 with interest coupons ranging from 4.2% to 5.25%. The balance outstanding as of June 30, 2005 and 2004 was \$56,910,000 and \$58,050,000, respectively.

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

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

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

On June 28, 2005, RIAC issued \$43,545,000 Series A and \$27,245,000 Series B Airport Revenue Bonds maturing annually from 2009 through 2030 with interest coupons ranging from 4.625% to 5%. Also on June 28, 2005, RIAC issued \$44,465,000 Series C Airport Revenue Refunding Bonds to enable the defeasance of \$42,165,000 in 2000 Series B General Airport Revenue Bonds. The refunding issue matures annually from 2006 through 2028 with interest coupons ranging from 3% to 5%. RIAC's defeasance of the 2000 Series B Bonds resulted in an economic present value gain of \$3.040 million or 7.2% of the refunded bonds. The balances outstanding for the 2005 Series as of June 30, 2005 were as follows: 2005 Series A - \$43,545,000; 2005 Series B - \$27,245,000; and 2005 Series C - \$44,465,000.

Since the inception of RIAC in 1992, there have been five General Airport Revenue Bonds (GARBs) issued by the Rhode Island Economic Development Corporation (EDC), the parent of RIAC, to finance construction and other related costs for certain capital improvements at T.F. Green Airport and three Airport Revenue Refunding Bonds (ARRBs) to defease all of the 1993 GARB debt, a portion of the 1994 GARB debt, and all of the 2000 Series B GARB debt. The GARBs include the 1993 Series A Bonds (\$78,100,000, all of which is now defeased), 1994 Series A Revenue Bonds (\$30,000,000, with \$6,070,000 outstanding), 1998 Series A&B Revenue Bonds (\$61,175,000), 2000 Series A&B Revenue Bonds (\$50,545,000, \$7,375,000 Series A outstanding; Series B is now defeased) and the 2005 Series A&B Revenue Bonds (\$70,790,000). The ARRBs include the 2003 Series A Bonds (\$31,725,000), the 2004 Series A Bonds (\$52,665,000) and the 2005 Series C Bonds (\$44,465,000).

In the 2005 Session, the General Assembly approved the issuance of \$123 million of debt to finance an intermodal train station facility near the airport in Warwick to be financed by special purpose airport revenue bonds and a TFIA loan. The total project cost is expected to be \$220 million.

***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, 2005, the Corporation had an outstanding principal balance of conduit debt of \$84,732,378. Except for any obligations secured by mortgages which are insured by the Rhode Island Industrial-Recreational Building Authority, the State shall not be liable for the payment of the principal of or interest on any bonds or notes of the Corporation, or for the performance of any pledge, mortgage obligation or agreement of any kind whatsoever which may be undertaken by the Corporation nor shall such bonds and notes be construed to constitute an indebtedness of the State. Outstanding mortgage obligations of the Corporation which are insured by the Rhode Island Industrial-Recreational Building Authority totaled \$26,040,657 as of June 30, 2005.

***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, 2005 was \$1,361,201,753 consisting of \$1,062,921,753 of long-term bonds and \$298,280,000 of short-term or convertible-option bonds. Included in the \$1,062,921,753 is \$272,975,263 in bonds, which are secured in part by capital reserve funds, which have aggregated to \$42,134,451 on June 30, 2005. 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, 2005, the Corporation had combined total fund equity of approximately \$261,611,342.

***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, 2005, the Authority held \$475,172,298 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, 2005, \$20,071,306 in Rhode Island Family Education Loans and \$192,196,276 in College Bound Loans. As of September 30, 2005, the Authority had \$803,410,000 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 Boundfund®, 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, 2005 was \$4,730,000. On March 1, 1994, the Board issued revenue bonds for public drinking water protection in the amount of \$11,835,000.

On November 15, 2002, the Board issued \$11,385,000 of refunding revenue bonds. The proceeds refunded the 1994 series on March 1, 2004 in the amount of \$7,847,700. The excess proceeds will be used to fund Phase III of public drinking water protection. The amount of the series 2002 refunding bonds outstanding as of June 30, 2005 was \$9,800,000.

***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, 2005, the Corporation had \$1,703,029,871 of bonds and notes outstanding (excluding series secured by trust funds for future redemption).

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

The 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, 2005, \$674,830,000 of bonds were outstanding.

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

## **EMPLOYEE RELATIONS**

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

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

As of March 8, 2006 the State had 16,373 paid employees. This equates to approximately 15,135 full-time equivalent positions. Of this amount, 12,342 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 4,659 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 (1,041 employees); the Rhode Island Brotherhood of Correctional Officers (1,162 employees); the American Association of University Professors (692 employees) to name a few. In addition, there are 4,031 non-union employees. Contracts with six of the collective bargaining units had previously expired and nine others expired on June 30, 2004. In July 2005, the largest bargaining unit, Council 94, settled a four-year contract which provides for four consecutive cost-of-living adjustments and initiation of co-sharing of employee medical benefit coverage. There are currently nine collective bargaining agreements which have not settled. The three largest include the Rhode Island Brotherhood of Correctional Officers, the Rhode Island Alliance of Social Service Employees, and the Rhode Island State Police. 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. Retiree health insurance benefits are currently

funded on a pay-as-you-go basis and are not paid from any trust fund. The System's Actuary is currently Gabriel, Roeder, Smith & Company.

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

The actuarial cost method and the amortization periods are set by statute. As of the June 30, 1999 valuation, Rhode Island General Laws 36-10-2 and 36-10-2.1 provide for a funding method of Entry Age Normal (EAN) and amortization of the Unfunded Actuarial Accrued Liability (UAAL) over a period not to exceed thirty (30) years as of June 30, 1999. Under this method, the actuarial gains (losses) are reflected as they occur in a decrease (increase) in the UAAL. The contribution rates are intended to be sufficient to pay normal cost and to amortize UAAL in level payments over a fixed period of 26 years (30 years from June 30, 1999). The actuary considers the funding period reasonable.

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

The funded ratio (the ratio of the actuarial value of assets to the unfunded actuarial accrued liability) is a standard measure of a plan's funded status. In the absence of benefit improvements, it should increase over time, until it reaches 100 percent. For the State employees, the funded ratio decreased from 65.5 percent to 59.6 percent during the period July 1, 2003 to June 30, 2004, while for teachers the ratio decreased from 64.9 percent to 59.3 percent over the same period. These funding ratios do not incorporate the result of "pension reform" described in the following section. These are based on the Entry Age Normal funding method effective June 30, 1999.

### **Pension Reform**

Article 7 of the Fiscal Year 2006 Appropriations Act (Chapter 117 of the RI Public Laws of 2005) enacted and signed by the Governor on June 30, 2005 provided for major changes in the retirement age, accrual of benefits, and cost of living adjustments for all non-vested (less than 10 years of service) state employees and teachers effective July 1, 2005. The law provides for an actuarially reduced retirement available at age 55 and 20 years of service. Enactment of these changes resulted in significantly lower state and local contributions beginning in Fiscal Year 2006 than would have otherwise been required as follows:

**Employer/Employee Contribution Rates**

	FY 2005 Employer Contribution Rate Actual	FY 2006 Employer Contribution Rate Baseline	FY 2006 Employer Contribution Rate After Reform
State Employee	11.51%	16.96%	14.84%
Teachers	14.84%	20.01%	16.47%
State Share	6.12%	8.17%	6.75%
Local Share	8.72%	11.84%	9.72%

Pursuant to state law, state employees contribute 8.75% of salary and teachers contribute 9.5% of salary. These contribution rates were not changed as part of the reform. The pension reform changes impacted those employees with less than 10 years of contributory service as of July 1, 2005 and are reflected in the Tier II column below. Tier I members are those members who were vested as of July 1, 2005, and will be eligible to retire under the former provisions.

**Change in Age Eligibility**

<u>Tier I Members</u>	<u>Tier II – Enacted Reform</u>
28 Years of Service or Age 60 with 10 Years of Service	Age 59 with 29 Years of Service Or Age 65 with 10 Years of Service

**Change in Benefit Accrual Rates**

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

**Change in Cost of Living Adjustment**

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

**Social Security Option**

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

**GASB 25 and Funding Progress**

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

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

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

Development of Contribution Rates  
June 30, 2004

	State Employees	Teachers
1. Compensation		
(a) Supplied by ERSRI	\$ 575,574,300	\$ 810,064,092
(b) Adjusted for one-year's pay increase	606,087,585	866,532,598
2. Actuarial accrued liability	3,694,787,818	5,634,195,435
3. Actuarial value of assets	2,202,900,345	3,340,527,073
4. Unamortized accrued actuarial liability (UAAL) (2 - 3)	1,491,887,473	2,293,668,362
5. Remaining amortization period at valuation date	25	25
6. Contribution effective for fiscal year ending:	June 30, 2007	June 30, 2007
7. Payroll projected for two-year delay	652,396,464	932,741,105
8. Amortization of UAAL	110,765,306	168,372,938
9. Normal cost		
(a) Total normal cost rate	10.17%	11.09%
(b) Employee contribution rate	8.75%	9.50%
(c) Employer normal cost rate ( a - b )	1.42%	1.59%
10. Employer contribution rate as percent of payroll		
(a) Employer normal cost rate	1.42%	1.59%
(b) Amortization payments ( 8 / 7 )	16.98%	18.05%
(c) Total ( a + b )	18.40%	19.64%
11. Estimated employer contribution amount (7 x 10(c))	\$ 120,040,949	\$ 183,190,533

**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) (3)-(2)	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>State Employees</b>						
June 30, 1997	\$1,810,447,649	\$2,312,563,765	\$502,116,116	78.3%	\$443,709,290	113.2%
June 30, 1998	2,075,619,320	2,576,282,134	500,662,814	80.6%	477,319,627	104.9%
June 30, 1999 <sup>1</sup>	2,201,890,748	2,607,397,329	405,506,581	84.4%	494,815,513	82.0%
June 30, 2000	2,345,319,663	2,874,905,547	529,585,884	81.6%	517,632,152	102.3%
June 30, 2001	2,406,278,029	3,089,247,738	682,969,709	77.9%	539,015,218	126.7%
June 30, 2002	2,353,855,871	3,284,126,961	930,271,090	71.7%	586,888,745	158.5%
June 30, 2003*	2,267,673,016	3,517,352,031	1,249,679,015	64.5%	606,087,585	206.2%
June 30, 2004	2,202,900,345	3,694,787,818	1,491,887,473	59.6%	606,087,585	246.2%
<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, 1991	3,259,015,814	3,967,529,172	708,513,358	82.1%	673,484,467	105.2%
June 30, 2000	3,514,399,312	4,359,881,262	845,481,950	80.6%	703,201,056	105.2%
June 30, 2001	3,619,863,426	4,679,288,010	1,059,424,584	77.4%	748,460,527	120.2%
June 30, 2002	3,553,823,995	4,857,003,061	1,303,179,066	73.2%	792,015,577	164.5%
June 30, 2003*	3,427,685,554	5,341,627,416	1,913,941,862	64.2%	834,642,391	229.3%
June 30, 2004	3,340,527,073	5,634,195,435	2,293,668,362	59.3%	866,532,598	264.7%

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<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

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

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

ERS Fiscal Year Ended <u>June 30</u>	<u>State Employees</u>		<u>Teachers (State)</u>		<u>Teachers (Local)</u>	
	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
2004	\$55,699,588	100%	\$45,039,279	100%	\$70,666,221	100%
2003	45,323,258	100%	38,242,690	100%	55,504,739	100%
2002	31,801,645	100%	30,763,337	100%	44,391,050	100%
2001	44,540,998	100%	35,365,234	100%	48,153,386	100%
2000	44,353,675	100%	40,719,407	100%	57,667,528	100%
1999	48,526,064	100%	30,202,943	100%	42,373,952	100%
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, 2004	June 30, 2004
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percentage, closed	Level percentage, closed
Remaining amortization period	25 years	25 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 <sup>(1)</sup>	4.50% to 8.25%	4.50% to 17.00%
Includes inflation at:	3.00%	3.00%
Cost of Living Adjustment – Schedule A	3.00%	3.00%
Cost of Living Adjustment – Schedule B	2.50%	2.50%

(1) Reflects range of estimated increase with highest increases occurring in early years of service and lower increases in later years.



## **OTHER BENEFITS**

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

In anticipation of the issuance and implementation of GASB Statements 43 and 45, "Other Post Employment Benefits," in December 2003, the State has obtained an actuarial estimate of the unfunded liability relating to retiree medical benefits based upon standards proposed at that time. The unfunded liability was 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. The State anticipates that it will obtain an updated estimate based upon the actual standard adopted by GASB taking into account the pension reform provisions impacting the State and teacher system which was enacted during the 2005 Session of the General Assembly.

## **LITIGATION**

The State, its officers and employees are defendants in numerous lawsuits. With respect to any such litigation, State officials are of the opinion that the lawsuits are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position. It should be noted, however, that litigation has been initiated against the State and the State's Fire Marshal arising out of a tragic fire at a nightclub in West Warwick, Rhode Island. The fire resulted in 100 deaths and injuries to approximately 200 people. Numerous suits have been served upon the State and its Fire Marshal. 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 per plaintiff 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, 2005, and the report thereon by the Auditor General, a certified public account appointed by the Joint Committee on Legislative Services.

EXHIBIT A

State of Rhode Island and Providence Plantations  
Audited Financial Statements  
for the Fiscal Year Ended June 30, 2005

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AUDITOR GENERAL  
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STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island and Providence Plantations (the State) as of and for the year ended June 30, 2005 which collectively comprise the State's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of:

- certain component units which represent 3% of the assets and 1% of the revenues of the governmental activities and 1% of the assets and 3% of the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which also represents 38% of the assets and 2% of the revenues of the business-type activities; and
- component units which represent 100% of the assets and 100% of the revenues of the aggregate discretely presented component units.

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

Except as discussed in the following two paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and

Exhibit A-1

Finance Committee of the House of Representatives  
Joint Committee on Legislative Services

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

We were unable to obtain sufficient evidence regarding the completeness of the furniture and equipment, depreciable intangible, and building improvement categories of capital assets included in governmental activities at June 30, 2005. Due to insufficient physical inventories of capital assets and weaknesses in accounting controls over the accumulation of capital asset acquisitions and disposals, we were unable to satisfy ourselves as to the carrying value of these categories of capital assets and the related depreciation expense by other auditing procedures. The furniture and equipment, depreciable intangible, and building improvement capital asset categories represent \$122 million or 8% of total recorded net governmental activities capital assets of \$1,457 million at June 30, 2005.

We were unable to obtain sufficient evidence regarding the completeness of accounts payable and amounts due from other governments and agencies and related expenditures and federal revenue reported for the Intermodal Surface Transportation (IST) Fund, a major fund, due to weaknesses in accounting controls over the accumulation and reporting of information included in these account classifications.

Management has not presented encumbrances outstanding at June 30, 2005 as a reserved component of fund balance within the State's major governmental funds and other governmental funds or disclosed such amounts in the notes to the basic financial statements as required by accounting principles generally accepted in the United States of America. 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 such adjustments, if any, on the IST Fund as might have been considered to be necessary had we been provided sufficient evidence regarding accounts payable and amounts due from other governments and agencies and related expenditures and federal revenue, and except for the omission of encumbrances outstanding at June 30, 2005 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 each major fund and the aggregate remaining fund information of the State as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Finance Committee of the House of Representatives  
Joint Committee on Legislative Services

In addition, in our opinion, except for the effects of such adjustments, if any, on the governmental activities included in the statement of net assets and the related statement of activities as might have been determined to be necessary had we been provided sufficient evidence regarding the carrying value of the furniture and equipment, depreciable intangible, and building improvement components of capital assets, 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, and the aggregate discretely presented component units of the State as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the basic financial statements, the State adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3* effective July 1, 2004.

As discussed in note 17 to the basic financial statements, beginning net assets of the governmental activities on the statement of net assets were decreased by \$11.4 million for the recording of additional long-term liabilities. Beginning net assets of the discretely presented component units on the statement of net assets were increased by \$11.6 million primarily to reflect a reduction in previously recorded long-term liabilities.

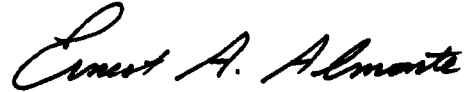
As provided by GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, the State has included only capital outlays for infrastructure since July 1, 2001 as capital assets within governmental activities on the statement of net assets.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

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

The Management’s Discussion and Analysis, on pages A-5 through A-16, the Budgetary Comparison Schedules on pages A-56 through A-68, and the Schedules of Funding Progress on page A-69 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally

Finance Committee of the House of Representatives  
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of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Ernest A. Almonte, CPA, CFE  
Auditor General

February 17, 2006

## 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, 2005. Readers are encouraged to consider the information presented here in conjunction with the letter of transmittal, which can be found at the front of this report, and with the State's financial statements, which follow this section.

### Financial Highlights – Primary Government

#### Government-wide Financial Statements

- **Net Assets** The total assets of the State exceeded total liabilities at June 30, 2005 by \$347.4 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, (\$946.6) million was reported as unrestricted net assets, \$548.8 million was restricted net assets, and \$745.2 million was invested in capital assets, net of related debt.
- **Changes in Net Assets** In the Statement of Activities the State's total net assets changed by \$211.0 million in fiscal year 2005. Net assets of governmental activities changed by \$211.5 million, while net assets of the business-type activities changed by (\$0.5) million. The primary reason for the \$211.0 million increase was the \$122.0 million increase in fund balances of the governmental funds due primarily to unspent proceeds from the sale of debt instruments of certain capital projects funds and the \$140.9 million increase in invested in capital assets, net of related debt. The primary reason for the difference in the business-type activities was the increase in operating transfers out.

#### Fund Financial Statements

- The State's governmental funds reported a combined ending fund balance of \$831.6 million, an increase of \$122.0 million in comparison with the previous fiscal year. The primary reason for this is the unspent proceeds in other governmental (capital projects) funds.
- The General Fund ended the current fiscal year with an unreserved, undesignated balance of \$38.7 million, an increase of \$14.2 million in comparison with the previous fiscal year. The primary reason for the increase is that actual general revenue expenditures were \$39.0 million less than budgeted and general revenue was \$26.5 million less than budgeted.
  - ◆ The Budget Reserve Account ended the fiscal year with a balance of \$90.9 million, an increase of \$6.6 million in comparison with the previous fiscal year.
- The Intermodal Surface Transportation Fund ended the fiscal year with an unreserved fund balance of \$32.6 million, which was a decrease of \$3.8 million from the previous year. . The primary reason for this decrease was that actual revenue was \$20.0 million higher than budget while actual expenditures were \$15.5 million over budget.
- The GARVEE Fund ended its fiscal year with a fund balance of \$195.9 million of which \$9.3 million is reserved for debt. The fund balance decreased by \$61.0 million. The primary reason for this decrease was that the \$65.0 million of capital outlay expenditures were out of bond proceeds from prior year issuances.

## Management's Discussion and Analysis

- The Rhode Island State Lottery transferred \$307.6 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of \$26.5 million in comparison with the previous fiscal year.

### Overview of the Financial Statements

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

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

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

### Changes in Presentation

For the fiscal year ended June 30, 2005, the R.I. Temporary Disability Insurance Fund did not meet the criteria of a major fund as described in Note 1(D). Accordingly, it is included in the Other Governmental Funds column on the fund financial statements in the basic financial statements.

### Government-wide Financial Statements

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

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

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



## Management's Discussion and Analysis

- **Governmental Activities:** The activities in this section represent most of the State's basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the State include general government, human services, education, public safety, natural resources, and transportation. The net assets and change in net assets of the internal service funds are also included in this column.
- **Business-type Activities:** These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include the operations of the Lottery Commission, R.I. Convention Center Authority and the Employment Security Trust Fund.
- **Discretely Presented Component Units:** Component units are entities that are legally separate from the State, but for which the State is financially accountable. The State has 20 discretely presented component units. Financial information for these entities is presented separately from the financial information presented for the primary government.

### Fund Financial Statements

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

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

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

Governmental funds include the general fund and special revenue, capital projects and permanent funds. The State has several governmental funds, of which GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for*

## Management's Discussion and Analysis

*State and Local Governments* defines the general fund as a major fund. The criteria for determining if any of the other governmental funds are major funds are detailed in Note 1(D). The Intermodal Surface Transportation Fund and the GARVEE Fund are also major funds. Each of the major funds is presented in a separate column in the governmental funds balance sheet and statement of revenues, expenditures and changes in fund balances. The remaining governmental funds are combined in a single aggregated column on these financial statements. Individual fund data for each of these nonmajor governmental funds can be found in the supplementary information section of the State's Comprehensive Annual Financial Report (CAFR).

- **Proprietary funds:** Services for which the State charges customers a fee are generally reported in proprietary funds. The State maintains two different types of proprietary funds; enterprise funds and internal service funds. Enterprise funds report activities that provide supplies and services to the general public. Internal service funds report activities that provide supplies and services for the State's other programs and activities. Like the government-wide statements, proprietary funds use the accrual basis of accounting. The State has three enterprise funds, the Lottery Fund, Convention Center Authority Fund 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 internal service funds are reported on the basic proprietary fund financial statements in a single combined column. Individual fund data for these funds is provided in the form of combining statements and can be found in the supplementary information section of the State's CAFR.

In anticipation of the implementation of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in fiscal 2007, the State has obtained an actuarial estimate of the unfunded liability relating to retiree medical benefits. The unfunded liability was estimated to be approximately \$600 million for State employees and \$29 million for the State's share for teachers as of December 2003. The actuarially based funding of this liability is reflected in the State's five-year forecast and would require an estimated rate of contribution of 8.57% of payroll. The State anticipates that it will obtain an updated estimate based upon the actual standard adopted by GASB taking into account the pension reform provisions impacting the State and teacher system which was enacted during the 2005 session of the General Assembly.

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

# Management's Discussion and Analysis

Major Features of the Basic Financial Statements

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

## Notes to the Financial Statements

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

## Required Supplementary Information

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

## Other Supplementary Information

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

## Government-Wide Financial Analysis

### Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (governmental and business-type activities) totaled \$347.4 million at the end of fiscal year 2005, compared to \$136.4 million at the end of the prior fiscal year. The primary reason for the \$211.0 million increase was the \$122.0 million increase

## Management's Discussion and Analysis

in fund balances of the governmental funds due primarily to unspent proceeds from the sale of debt instruments of certain capital projects funds and the \$140.9 million increase in investment in capital assets net of related debt.

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) recorded for fiscal years 2002 through 2005, less any related debt outstanding that was needed to acquire or construct the assets. The State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources.

State of Rhode Island's Net Assets as of June 30, 2005  
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 1,464,055	\$ 1,257,114	\$ 257,003	\$ 276,030	\$ 1,721,058	\$ 1,533,144
Capital assets	1,456,908	1,256,951	124,874	199,644	1,581,782	1,456,595
Total assets	<u>2,920,963</u>	<u>2,514,065</u>	<u>381,877</u>	<u>475,674</u>	<u>3,302,840</u>	<u>2,989,739</u>
Long-term liabilities outstanding	1,992,541	1,879,935	199,987	286,424	2,192,528	2,166,359
Other liabilities	732,911	650,086	30,010	36,915	762,921	687,001
Total liabilities	<u>2,725,452</u>	<u>2,530,021</u>	<u>229,997</u>	<u>323,339</u>	<u>2,955,449</u>	<u>2,853,360</u>
Net assets:						
Invested in capital assets, net of related debt	816,578	675,696	(71,413)	(84,910)	745,165	590,786
Restricted	315,370	301,346	233,476	251,596	548,846	552,942
Unrestricted	(936,437)	(992,998)	(10,183)	(14,351)	(946,620)	(1,007,349)
Total net assets	<u>\$ 195,511</u>	<u>\$ (15,956)</u>	<u>\$ 151,880</u>	<u>\$ 152,335</u>	<u>\$ 347,391</u>	<u>\$ 136,379</u>

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 \$211.0 million during the current fiscal year. Total revenues of \$6,927.0 million were more than expenses of \$6,727.9 million. Approximately 38.8% of the State's total revenue came from taxes, while 27.4% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 31.6% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services, 37.3% and intergovernmental, 16.8%. In fiscal year 2005, the State ceased reporting grants as separate expenditure line in the financial statements. These grant expenditures were primarily related to education. In fiscal year 2005, governmental activity expenses exceeded program revenues, which resulted in the use of \$3,119.9 million in general revenues (mostly taxes). On the other hand, net program revenues from business-type activities in fiscal year 2005 exceeded expenses by \$263.0 million. In fiscal year 2004, payments from component units were included in miscellaneous general revenue.

## Management's Discussion and Analysis

State of Rhode Island's Changes in Net Assets  
For the Fiscal Year Ended June 30, 2005  
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 351,784	\$ 342,366	\$ 1,835,511	\$ 1,684,585	\$ 2,187,295	\$ 2,026,951
Operating grants and contributions	1,794,965	1,703,526	2,633	29,492	1,797,598	1,733,018
Capital grants and contributions	97,681	156,372			97,681	156,372
<b>General revenues:</b>						
Taxes	2,687,684	2,477,453			2,687,684	2,477,453
Interest	14,443	9,812	10,875	12,884	25,318	22,696
Miscellaneous	104,411	136,122	7,633	5,568	112,044	141,690
Gain on sale of capital assets	853				853	
Payments from component units	18,503				18,503	
<b>Total revenues</b>	<b>5,070,324</b>	<b>4,825,651</b>	<b>1,856,652</b>	<b>1,732,529</b>	<b>6,926,976</b>	<b>6,558,180</b>
<b>Program expenses:</b>						
General government	503,659	474,640			503,659	474,640
Human services	2,512,628	2,420,998			2,512,628	2,420,998
Education	264,385	75,744			264,385	75,744
Public safety	336,069	321,015			336,069	321,015
Natural resources	65,913	61,839			65,913	61,839
Transportation	226,529	173,935			226,529	173,935
Intergovernmental	1,127,496	1,047,537			1,127,496	1,047,537
Grants		299,291				299,291
Interest	116,171	104,760			116,171	104,760
Lottery			1,330,298	1,200,059	1,330,298	1,200,059
Convention Center			35,746	62,622	35,746	62,622
Employment insurance			209,018	238,220	209,018	238,220
	<u>5,152,850</u>	<u>4,979,759</u>	<u>1,575,062</u>	<u>1,500,901</u>	<u>6,727,912</u>	<u>6,480,660</u>
Increase in net assets before transfers and special items	(82,526)	(154,108)	281,590	231,628	199,064	77,520
Special items			11,948		11,948	
Transfers	293,993	266,886	(293,993)	(266,886)		
<b>Change in net assets</b>	<b>211,467</b>	<b>112,778</b>	<b>(455)</b>	<b>(35,258)</b>	<b>211,012</b>	<b>77,520</b>
Net assets - Beginning	(15,956)	(117,341)	152,335	187,593	136,379	70,252
Cumulative effect of prior period adjustments		(11,393)				(11,393)
Net assets - Beginning, as restated	(15,956)	(128,734)	152,335	187,593	136,379	58,859
<b>Net assets - Ending</b>	<b>\$ 195,511</b>	<b>\$ (15,956)</b>	<b>\$ 151,880</b>	<b>\$ 152,335</b>	<b>\$ 347,391</b>	<b>\$ 136,379</b>

### Financial Analysis of the State's Funds

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

#### Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the State's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the State's governmental funds reported a combined ending fund balance of \$831.6 million, an increase of \$122.0 million. Reserved fund balances are not available for new spending because they have already been committed as follows: (1) \$90.9 million for a "rainy day" account, (2) \$55.2 million for continuing appropriations, (3) \$91.1 million principally for liquidating debt, (4) \$132.0 million for employment insurance programs

## Management's Discussion and Analysis

and (5) \$1.4 million for other restricted purposes. Approximately 50.8% (\$422.3 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 \$38.7 million, while total fund balance was \$184.8 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 0.8% of total General Fund expenditures, while total fund balance represent 3.8% of the same amount. The General Fund's unreserved fund balance increased from \$24.5 million to \$38.7 million, an increase of \$14.2 million during the current fiscal year. The primary reason for the increase is that actual general revenue expenditures were \$39.0 million less than budgeted and general revenue was \$26.5 million less than budgeted.

**Intermodal Surface Transportation Fund.** The Intermodal Surface Transportation Fund (ISTEA) accounts for the collection of gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system. At the end of the current fiscal year, unreserved fund balance of the ISTEA fund was \$32.6 million, while the total fund balance was \$33.9 million. Total fund balance of the ISTEA fund decreased by \$3.8 million during the current fiscal year. The primary reason for this decrease was that actual revenue was \$20.0 million higher than budget while actual expenditures were \$15.5 million over budget.

**GARVEE Fund.** This fund accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, related expenditures and the two cents per gallon gasoline tax that is dedicated for the debt service of the RIMFT bonds. The GARVEE Fund ended the fiscal year with a fund balance of \$195.9 million, a decrease of \$61.0 million. The primary reason for this decrease was that the \$65.0 million of capital outlay expenditures were made out of bond proceeds from prior year issuances.

### General Fund Budgetary Highlights

According to the State's Constitution, general revenue appropriations in the general fund cannot exceed 98% of available general revenue sources, which consist of the current fiscal year's budgeted general revenue plus the general fund undesignated fund balance from the prior fiscal year. The budgets for the components of the current fiscal year's general revenue estimates are established by the State's revenue estimating conference. If actual general revenue is less than the projection, appropriations have to be reduced or additional revenues must be imposed. Certain agencies have federal programs that are entitlements, which continue to require State funds to match the federal funds. Agencies may get additional appropriations providing a need is established. Adjustments to general revenue receipt estimates resulted in an increase of \$79.0 million, 1.6%, between the original budget and the final budget. General revenue appropriations increased from the original budget by \$18.1 million, 0.6%. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations are listed below.

## Management's Discussion and Analysis

General revenues	Change	
Taxes	(In thousands)	Percent
Personal Income	\$ 54,325	5.9%
Business Corporations	20,669	22.6%
Insurance Companies	10,700	26.1%
Sales and Use	(9,500)	-1.1%
Cigarettes	(7,100)	-4.9%
Inheritance and Gift	6,700	26.8%
Departmental Revenue	(8,789)	-2.9%
Other		
Transfer from Lottery	(12,397)	-3.8%
Other General Revenue	24,352	0.8%
Total Increase in Estimated Revenue	<u>\$ 78,960</u>	2.7%
General revenue appropriations		
Department		
Administration	\$ 6,951	1.7%
Children, Youth and Families	11,648	8.1%
Human Services	9,659	1.4%
Mental Health, Retardation and Hospitals	6,025	2.7%
Other	(16,233)	-0.6%
Total Increase in Appropriations	<u>\$ 18,050</u>	0.6%

### 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, 2005, amounts to \$1,581.8 million, net of accumulated depreciation of \$493.7 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 8.6% in terms of net book value. The R.I. Convention Center Authority sold the land and building known as the Westin Hotel. The sale reduced net capital assets of the business-type activities by \$74.6 million.

Actual expenditures to purchase or construct capital assets were \$247.6 million for the year. Of this amount, \$168.2 million was used to construct or reconstruct roads. Depreciation charges for the year totaled \$55.6 million.

## Management's Discussion and Analysis

State of Rhode Island's Capital Assets as of June 30, 2005  
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Capital assets not being depreciated						
Land	\$ 326,514	\$ 322,369	\$ 31,474	\$ 38,032	\$ 357,988	\$ 360,401
Intangibles	90,989	85,564			90,989	85,564
Construction in progress	133,878	82,810	306	1,189	134,184	83,999
Total capital assets not being depreciated	551,381	490,743	31,780	39,221	583,161	529,964
Capital assets being depreciated						
Land improvements	3,601	3,601			3,601	3,601
Buildings	430,678	429,982	148,481	229,813	579,159	659,795
Building improvements	199,469	198,632			199,469	198,632
Equipment	170,620	158,399	8,196	24,722	178,816	183,121
Intangibles	1,196	898			1,196	898
Infrastructure	530,050	361,850			530,050	361,850
	1,335,614	1,153,362	156,677	254,535	1,492,291	1,407,897
Less: Accumulated depreciation	430,087	387,154	63,583	94,113	493,670	481,267
Total capital assets being depreciated	905,527	766,208	93,094	160,422	998,621	926,630
Total capital assets (net)	\$ 1,456,908	\$ 1,256,951	\$ 124,874	\$ 199,643	\$ 1,581,782	\$ 1,456,594

Significant capital projects under construction include relocation of a segment of interstate highway, a county courthouse, a traffic tribunal courthouse, youth correctional facilities and a State Police headquarters.

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

### Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of \$50,000 without the consent of the people (voters), except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. At the end of the current fiscal year, the State's governmental activities had total bonded debt outstanding of \$1,779.0 million of which \$801.0 million is general obligation debt, \$228.0 million is special obligation debt and \$750.0 million is debt of the blended component units. The State's total bonded debt decreased by \$15.0 million during the current fiscal year. This decrease is the net of a \$38.0 million increase in general obligation debt, a decrease of \$36.0 million in special obligation debt and a decrease of \$17.0 million in the blended component units. Additionally, the State has extended its credit through contractual agreements of a long-term nature, which are subject to annual appropriations.

During the current fiscal year, the State issued \$87.1 million of general obligation bonds and \$117.0 million of general obligation refunding bonds. These bonds have been assigned ratings by Fitch, Inc. (Fitch), Moody's Investors Service (Moody's) and Standard and Poor's Rating Services (Standard and Poor's).

The State does not have any debt limitation. Bonds authorized by the voters, that remain unissued as of the end of the current fiscal year, amounted to \$398.1 million. Additional



## Management's Discussion and Analysis

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

In October 2005, Standard and Poor's raised the underlying rating for general obligation bonds of the State from AA- to AA.

### Economic Factors

The State's economy has continued to perform well, albeit at a slightly lower level than previously forecasted. According to the U.S. Bureau of Labor Statistics, Rhode Island experienced an increase in non-farm employment of 4,900 jobs, or 1.0 percent, in FY 2005. In FY 2004, Rhode Island gained 5,300 jobs, an increase of 1.1 percent over FY 2003. On a calendar year basis, Rhode Island added 9,100 jobs in 2003 and 2004. The November 2005 Revenue Estimating Conference's Consensus Economic Forecast projects Rhode Island non-farm employment to total 494,200 in 2005, an increase of 5,800 jobs, or 1.2 percent, over 2004, and 501,100 in 2006, an increase of 6,900 jobs, or 1.4 percent, over projected 2005.

According to Moody's Economy.com's November 2005 *Forecast Report: U.S., New England, and Rhode Island*, Rhode Island's recent labor market performance "has been steady and solid throughout most of 2005, but has stalled in recent months." Although "[T]he construction, education/health services, and leisure/hospitality sectors continue to advance at a healthy clip," financial and professional services employment has slowed, retail trade employment has stalled, and manufacturing employment has continued to decline. The education and health services sector accounts for 19.0 percent of Rhode Island total non-farm employment well above the U.S. average of 12.5 percent. This sector has been responsible for the creation of 55.0 percent of the State's "industry jobs." Rhode Island construction employment has been increasing since the fourth quarter of 2004 fueled by the State's exceptionally strong housing and commercial real estate markets as well as substantial government spending on road improvement and pollution abatement projects. The State's manufacturing sector, which had begun to stabilize after an employment decline of 1.5 percent in 2004, once again has turned down, decreasing by 4.0 percent over the past year. Finally, Rhode Island's "small business economy" has performed well, recording a 13.0 percent increase in the "number of small business births between 2003 and 2004 to a level that now surpasses the previous high in 2000." In addition, to the sharp increase in small business births, Rhode Island's "small business terminations have fallen 15.0 percent since peaking in 2002." This confluence of rising small business births and declining small business terminations "is a positive development, as it brings new talent and ideas into the marketplace."

Rhode Island personal income growth has also accelerated over the past year; however, the gap between Rhode Island and U.S. personal income growth has narrowed during this period. In FY 2003, Rhode Island personal income growth was 3.96 percent vs. 2.13 percent for U.S. personal income growth, a difference of 183 basis points. In FY 2004, Rhode Island personal income growth was 4.81 percent and U.S. personal income growth was 4.68 percent, essentially equal to that of Rhode Island. In FY 2005, Rhode Island personal income growth once again accelerated to an annual rate of 6.05 percent, however, for the country as a whole the personal income growth rate was 6.49 percent. The reversal of the spread between Rhode Island and U.S. personal income growth is a result of the rebound of the national economy from its recessionary level in 2002. It should be noted that Rhode Island experienced a mild economic downturn in 2002 relative to that of the United States as a whole.

## Management's Discussion and Analysis

Moody's Economy.com (11/2005) remains "optimistic about the near-term outlook" for Rhode Island's economy with payroll growth expected "to strengthen in 2006 as the national economy bounces back from the slowdown caused by Hurricane Katrina." Rhode Island "payroll employment growth is forecast to stabilize at around [a] 1.0 percent" annualized rate. One of the catalysts for near- to medium-term growth remains rising national defense spending. Moody's Economy.com (11/2005) notes that "the [S]tate is expected to gain about 861 jobs primarily at Naval Station Newport" from the final approval of the Base Realignment & Closure Commission's recommendations. These jobs tend to be ones that require high levels of human capital and are being added to complement the already existing job base not only at Naval Station Newport but also at nearby Raytheon. Aquidneck Island has become a national center for the development and testing of undersea surveillance, control and warfare systems.

The biotechnology industry cluster that has begun to emerge in Rhode Island should positively impact the State's long term economic performance. According to Moody's Economy.com (11/2005), "[T]he state is putting a lot of effort" into attracting and developing biotechnology companies, with "wide-ranging" initiatives from the creation of the Governor's Science and Technology Advisory Council to "making sure that enough biotech accommodating office/industrial space is available." The State's voters approved a \$50 million bond referendum for the construction of the Center for Biotechnology and Life Sciences at the University of Rhode Island. Amgen has invested \$1.5 billion in the State since 2001 building the largest biopharmaceutical manufacturing facility in the U.S. for the production of its blockbuster rheumatoid arthritis drug Enbrel®. The final phase of the plant is expected to open in 2005 adding from 300 to 400 jobs. The State's chief assets for the development of a viable biotechnology industry cluster are its "proximity to academic institutions, a good pool of job candidates", a compact geography, and its responsive government at the state and local levels. From Moody's Economy.com's (11/2005) perspective, these factors "make Rhode Island especially likely to succeed in this endeavor."

One of the "main threats" to the State's economic performance is the high tax burden imposed on Rhode Island businesses and households. Moody's Economy.com (11/2005) notes that "[S]ince 1990, Rhode Island's state and local tax burden has steadily increased...[and is] estimated at 11.4 percent of income,...well above the national average of 10.1 percent." High property taxes at the local level and high personal income tax rates at the state level drive Rhode Island's heavy tax burden. The former discourages businesses that are making relocation decisions from choosing Rhode Island. The latter discourage entrepreneurs and venture capitalists from enhancing new business development in the State giving Rhode Island a less dynamic economy than Connecticut and Massachusetts.

### 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). The State's Comprehensive Annual Financial Report may be found on the State Controller's home page, <http://controller.doa.state.ri.us>. Requests for additional information related to component units should be addressed as listed in Note 1 of the financial statements.

**State of Rhode Island and Providence Plantations**

**Statement of Net Assets**

**June 30, 2005**

**(Expressed in Thousands)**

	Primary Government			Component Units
	Governmental Activities	Business - Type Activities	Totals	
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 480,750	\$ 10,728	\$ 491,478	\$ 452,913
Funds on deposit with fiscal agent	321,051	165,887	486,938	
Investments	143		143	725,121
Receivables (net)	295,686	61,050	356,736	1,135,451
Restricted assets:				
Cash and cash equivalents		17,063	17,063	209,078
Investments	74,542		74,542	132,004
Due from primary government				2,323
Due from component units	4,686		4,686	
Internal balances	3,059	(3,059)		
Due from other governments and agencies	199,771	1,254	201,025	4,581
Inventories	2,487	754	3,241	9,007
Other assets	49,079	711	49,790	12,742
Total current assets	1,431,254	254,388	1,685,642	2,683,220
Noncurrent assets:				
Investments				143,737
Receivables (net)	780		780	1,168,506
Restricted assets:				
Cash and cash equivalents				102,032
Investments				93,148
Other assets				173,993
Due from component units	22,953		22,953	
Capital assets - nondepreciable	551,381	31,780	583,161	419,625
Capital assets - depreciable (net)	905,527	93,094	998,621	1,010,216
Other assets	9,068	2,615	11,683	85,856
Total noncurrent assets	1,489,709	127,489	1,617,198	3,197,113
Total assets	2,920,963	381,877	3,302,840	5,880,333
<b>Liabilities</b>				
Current Liabilities:				
Cash overdraft	1,761	24	1,785	27
Accounts payable	390,496	11,012	401,508	83,276
Due to primary government				4,686
Due to component units	2,323		2,323	
Due to other governments and agencies	398	1,407	1,805	3,776
Deferred revenue	22,966	1,640	24,606	24,191
Other current liabilities	148,558	2,449	151,007	63,938
Current portion of long-term debt	166,409	6,925	173,334	396,665
Obligation for unpaid prize awards		6,553	6,553	
Total current liabilities	732,911	30,010	762,921	576,559
Noncurrent Liabilities:				
Due to primary government				22,953
Due to other governments and agencies				4,258
Deferred revenue		10,625	10,625	5,379
Notes payable				13,556
Loans payable				213,990
Obligations under capital leases	226,405		226,405	18,976
Compensated absences	17,855		17,855	22,241
Bonds payable	1,706,911	189,362	1,896,273	2,944,612
Other liabilities	41,370		41,370	296,837
Total noncurrent liabilities	1,992,541	199,987	2,192,528	3,542,802
Total liabilities	2,725,452	229,997	2,955,449	4,119,361
<b>Net Assets</b>				
Invested in capital assets, net of related debt	816,578	(71,413)	745,165	795,530
Restricted for:				
Budget reserve	90,887		90,887	
Transportation	1,353		1,353	
Debt	91,094	16,485	107,579	518,231
Employment insurance programs	132,036	216,991	349,027	
Other				155,203
Other nonexpendable				66,678
Unrestricted	(936,437)	(10,183)	(946,620)	225,330
Total net assets	\$ 195,511	\$ 151,880	\$ 347,391	\$ 1,760,972

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

**State of Rhode Island and Providence Plantations**  
**Statement of Activities**  
**For the Year Ended June 30, 2005**  
**(Expressed in Thousands)**

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets							
	Program Revenues				Primary Government			Component Units
	Expenses	Charges for Services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Totals	
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 503,659	\$ 141,290	\$ 70,512	\$ 356	\$ (291,501)		\$ (291,501)	\$
Human services	2,512,628	122,212	1,347,214	190	(1,043,012)		(1,043,012)	
Education	264,385	3,469	186,892	33	(73,991)		(73,991)	
Public safety	336,069	46,216	30,680	732	(258,441)		(258,441)	
Natural resources	65,913	30,340	18,129	4,274	(13,170)		(13,170)	
Transportation	226,529	8,257	141,538	92,096	15,362		15,362	
Intergovernmental	1,127,496				(1,127,496)		(1,127,496)	
Interest and other charges	116,171				(116,171)		(116,171)	
Total governmental activities	<u>5,152,850</u>	<u>351,784</u>	<u>1,794,965</u>	<u>97,681</u>	<u>(2,908,420)</u>		<u>(2,908,420)</u>	
Business-type activities:								
State lottery	1,330,298	1,636,638				306,340	306,340	
Convention center	35,746	14,042				(21,704)	(21,704)	
Employment security	209,018	184,831	2,633			(21,554)	(21,554)	
Total business-type activities	<u>1,575,062</u>	<u>1,835,511</u>	<u>2,633</u>			<u>263,082</u>	<u>263,082</u>	
Total primary government	<u>\$ 6,727,912</u>	<u>\$ 2,187,295</u>	<u>\$ 1,797,598</u>	<u>\$ 97,681</u>	<u>(2,908,420)</u>	<u>263,082</u>	<u>(2,645,338)</u>	
<b>Component units</b>	<u>\$ 1,056,770</u>	<u>\$ 736,388</u>	<u>\$ 39,096</u>	<u>\$ 38,239</u>				<u>(243,047)</u>
<b>General Revenues:</b>								
Taxes					2,687,684		2,687,684	
Interest and investment earnings					14,443	10,875	25,318	47,108
Miscellaneous					104,411	7,633	112,044	26,327
Gain on sale of capital assets					853		853	2,897
Special items						11,948	11,948	
Transfers					293,993	(293,993)		
Payments from component units					18,503		18,503	
Payments from primary government								259,463
Total general revenues, special items and transfers					<u>3,119,887</u>	<u>(263,537)</u>	<u>2,856,350</u>	<u>335,795</u>
Change in net assets					211,467	(455)	211,012	92,748
Net assets - beginning, as restated					(15,956)	152,335	136,379	1,668,224
Net assets - ending					<u>\$ 195,511</u>	<u>\$ 151,880</u>	<u>\$ 347,391</u>	<u>\$ 1,760,972</u>

Exhibit A-18

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

**State of Rhode Island and Providence Plantations**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2005**  
**(Expressed in Thousands)**

	<u>General</u>	<u>Intermodal Surface Transportation</u>	<u>GARVEE</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 264,618	\$ 11,176	\$	\$ 190,402	\$ 466,196
Funds on deposit with fiscal agent			211,905	109,146	321,051
Investments				143	143
Restricted investments				74,542	74,542
Receivables (net)	229,063	13,342		41,181	283,586
Due from other funds				7,829	7,829
Due from component units	1,049			10	1,059
Due from other governments and agencies	131,753	65,561		2,457	199,771
Loans to other funds	22				22
Other assets	38,894		212	517	39,623
Total assets	<u>\$ 665,399</u>	<u>\$ 90,079</u>	<u>\$ 212,117</u>	<u>\$ 426,227</u>	<u>\$ 1,393,822</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	321,938	28,072	15,343	7,077	372,430
Due to other funds	438	3,202	924	1,446	6,010
Due to component units		2,323			2,323
Due to other governments and agencies		398			398
Loans from other funds				22	22
Deferred revenue	34,183	22,068		66	56,317
Other liabilities	124,038	76		589	124,703
Total liabilities	<u>480,597</u>	<u>56,139</u>	<u>16,267</u>	<u>9,200</u>	<u>562,203</u>
<b>Fund Balances</b>					
Reserved for:					
Budget reserve	90,887				90,887
Appropriations carried forward	55,216				55,216
Debt			9,341	81,753	91,094
State infrastructure bank		1,353			1,353
Employment insurance programs				132,036	132,036
Unreserved, reported in:					
General fund	38,699				38,699
Special revenue funds		32,587		1	32,588
Capital projects funds			186,509	202,320	388,829
Permanent fund				917	917
Total fund balances	<u>184,802</u>	<u>33,940</u>	<u>195,850</u>	<u>417,027</u>	<u>831,619</u>
Total liabilities and fund balances	<u>\$ 665,399</u>	<u>\$ 90,079</u>	<u>\$ 212,117</u>	<u>\$ 426,227</u>	<u>\$ 1,393,822</u>

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

State of Rhode Island and Providence Plantations  
 Reconciliation of the Balance Sheet of the Governmental Funds  
 to Statement of Net Assets for Governmental Activities  
 June 30, 2005  
 (Expressed in Thousands)

Fund balance - total governmental funds	\$	831,619
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds.		1,452,214
Bond, notes, certificates of participation, accrued interest and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds.		(2,158,152)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		52,398
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net assets of the internal service funds are reported with governmental activities.		17,432
Net assets - total governmental activities	\$	195,511

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

**State of Rhode Island and Providence Plantations**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2005**  
**(Expressed in Thousands)**

	General	Intermodal Surface Transportation	GARVEE	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Taxes	\$ 2,376,770	\$ 142,696	\$	\$ 168,016	\$ 2,687,482
Licenses, fines, sales, and services	238,256	35		53	238,344
Departmental restricted revenue	105,367	8,222			113,589
Federal grants	1,655,563	226,839		1,702	1,884,104
Income from investments		191	6,495	7,084	13,770
Other revenues	32,563	2,042		46,267	80,872
<b>Total operating revenues</b>	<b>4,408,519</b>	<b>380,025</b>	<b>6,495</b>	<b>223,122</b>	<b>5,018,161</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	329,197			183,699	512,896
Human services	2,504,107			2,822	2,506,929
Education	255,762			9,239	265,001
Public safety	328,824			15	328,839
Natural resources	62,338			1,800	64,138
Transportation		203,588	4,830	1,052	209,470
Capital outlays	33,105	106,626	65,449	36,126	241,306
Intergovernmental	1,121,818	1,880		3,798	1,127,496
<b>Debt service:</b>					
Principal	72,848	719	35,905	6,850	116,322
Interest and other charges	52,293	100	12,708	45,142	110,243
<b>Total operating expenditures</b>	<b>4,760,292</b>	<b>312,913</b>	<b>118,892</b>	<b>290,543</b>	<b>5,482,640</b>
Excess (deficiency) of revenues over (under) expenditures	(351,773)	67,112	(112,397)	(67,421)	(464,479)
<b>Other financing sources (uses):</b>					
Bonds and notes issued				87,095	87,095
Refunding bonds issued				117,010	117,010
Proceeds from the sale of Certificates of Participation				139,410	139,410
Premium and accrued interest				17,602	17,602
Operating transfers in	399,257	32,701	51,322	54,338	537,618
Payments from component units	18,503				18,503
Other	34,941			142	35,083
Payment to refunded bonds escrow agent				(123,300)	(123,300)
Operating transfers out	(72,420)	(103,670)		(66,425)	(242,515)
<b>Total other financing sources (uses)</b>	<b>380,281</b>	<b>(70,969)</b>	<b>51,322</b>	<b>225,872</b>	<b>586,506</b>
<b>Net change in fund balances</b>	<b>28,508</b>	<b>(3,857)</b>	<b>(61,075)</b>	<b>158,451</b>	<b>122,027</b>
<b>Fund balances - beginning (restated)</b>	<b>156,294</b>	<b>37,797</b>	<b>256,925</b>	<b>258,576</b>	<b>709,592</b>
<b>Fund balances - ending</b>	<b>\$ 184,802</b>	<b>\$ 33,940</b>	<b>\$ 195,850</b>	<b>\$ 417,027</b>	<b>\$ 831,619</b>

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

State of Rhode Island and Providence Plantations  
 Reconciliation of the Statement of Revenues, Expenditures, and  
 Changes in Fund Balances of Governmental Funds to the Statement of Activities  
 For the Year Ended June 30, 2005  
 (Expressed in Thousands)

Net change in fund balances - total governmental funds \$ 122,027

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Current year acquisitions are therefore deducted from expenses on the Statement of Activities, less current year depreciation expense and revenue resulting from current year disposals. 198,624

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. (121,576)

Revenues (expenses) in the Statement of Activities that do not provide (use) current financial resources are not reported as revenues (expenditures) in the governmental funds. 3,595

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. 8,797

Change in net assets - total governmental activities \$ 211,467

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



**State of Rhode Island and Providence Plantations**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2005**  
**(Expressed in Thousands)**

	Business-type Activities-- Enterprise Funds			Governmental Activities	
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 7,899	\$ 2,465	\$ 364	\$ 10,728	\$ 14,554
Restricted cash and cash equivalents		17,063		17,063	
Funds on deposit with fiscal agent			165,887	165,887	
Receivables (net)	7,820	828	52,402	61,050	11,885
Due from other funds					3,766
Due from other governments and agencies			1,254	1,254	
Inventories	754			754	2,487
Other assets	201	510		711	9,456
Total current assets	<u>16,674</u>	<u>20,866</u>	<u>219,907</u>	<u>257,447</u>	<u>42,148</u>
Noncurrent assets:					
Capital assets - nondepreciable		31,780		31,780	
Capital assets - depreciable (net)	1,550	91,544		93,094	3,280
Other assets		2,615		2,615	390
Total noncurrent assets	<u>1,550</u>	<u>125,939</u>		<u>127,489</u>	<u>3,670</u>
Total assets	<u>18,224</u>	<u>146,805</u>	<u>219,907</u>	<u>384,936</u>	<u>45,818</u>
<b>Liabilities</b>					
Current Liabilities:					
Cash overdraft	24			24	1,761
Accounts payable	9,367	1,645		11,012	18,393
Due to other funds	1,550		1,509	3,059	2,526
Due to other governments and agencies			1,407	1,407	
Deferred revenue	804	836		1,640	
Other current liabilities	551	1,898		2,449	2,426
Bonds payable		6,925		6,925	
Obligations under capital leases					595
Obligation for unpaid prize awards	6,553			6,553	
Total current liabilities	<u>18,849</u>	<u>11,304</u>	<u>2,916</u>	<u>33,069</u>	<u>25,701</u>
Noncurrent Liabilities:					
Deferred contract revenue	10,625			10,625	
Obligations under capital leases					137
Bonds payable		189,362		189,362	
Total noncurrent liabilities	<u>10,625</u>	<u>189,362</u>		<u>199,987</u>	<u>137</u>
Total liabilities	<u>29,474</u>	<u>200,666</u>	<u>2,916</u>	<u>233,056</u>	<u>25,838</u>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	1,550	(72,963)		(71,413)	2,548
Restricted for:					
Debt		16,485		16,485	
Employment insurance programs			216,991	216,991	
Unrestricted	(12,800)	2,617		(10,183)	17,432
Total net assets	<u>\$ (11,250)</u>	<u>\$ (53,861)</u>	<u>\$ 216,991</u>	<u>\$ 151,880</u>	<u>\$ 19,980</u>

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

**State of Rhode Island and Providence Plantations**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2005**  
**(Expressed in Thousands)**

	Business-type Activities-- Enterprise Funds			Governmental Activities	
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Operating revenues:					
Charges for services	\$ 1,636,638	\$ 13,110	\$ 183,952	\$ 1,833,700	\$ 211,519
Grants			2,633	2,633	
Miscellaneous		932	879	1,811	
Total operating revenues	1,636,638	14,042	187,464	1,838,144	211,519
Operating expenses:					
Personal services	3,963	5,274		9,237	18,459
Supplies, materials, and services	187,024	9,480		196,504	179,121
Prize awards	1,138,998			1,138,998	
Depreciation and amortization	313	5,924		6,237	750
Benefits paid			202,178	202,178	
Total operating expenses	1,330,298	20,678	202,178	1,553,154	198,330
Operating income (loss)	306,340	(6,636)	(14,714)	284,990	13,189
Nonoperating revenues (expenses):					
Interest revenue		1,435	9,440	10,875	89
Other nonoperating revenue	1,835		5,798	7,633	
Interest expense		(15,068)		(15,068)	
Other nonoperating expenses			(6,840)	(6,840)	9
Total nonoperating revenue (expenses)	1,835	(13,633)	8,398	(3,400)	98
Income (loss) before special items and transfers	308,175	(20,269)	(6,316)	281,590	13,287
Special items		11,948		11,948	
Transfers in		18,083	1,106	19,189	
Transfers out	(307,550)		(5,632)	(313,182)	(1,110)
Change in net assets	625	9,762	(10,842)	(455)	12,177
Total net assets - beginning	(11,875)	(63,623)	227,833	152,335	7,803
Total net assets - ending	\$ (11,250)	\$ (53,861)	\$ 216,991	\$ 151,880	\$ 19,980

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

State of Rhode Island and Providence Plantations  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2005  
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds			Governmental Activities	
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
<b>Cash flows from operating activities:</b>					
Cash received from customers	\$ 1,641,923	\$ 18,141	\$ 176,894	\$ 1,836,958	\$ 203,055
Cash received from grants			2,633	2,633	
Cash payments to suppliers for goods and services	(3,544)	(12,767)		(16,311)	(175,504)
Cash payments to employees for services	(3,901)	(6,559)		(10,460)	(17,581)
Cash payments to prize winners	(1,144,881)			(1,144,881)	
Cash payments for commissions	(182,987)			(182,987)	
Cash payments for benefits			(202,205)	(202,205)	
Other operating revenue (expense)			(1,579)	(1,579)	9
Net cash provided by (used for) operating activities	306,610	(1,185)	(24,257)	281,168	9,979
<b>Cash flows from noncapital financing activities:</b>					
Loans from other funds					19,050
Repayment of loans to other funds					(19,150)
Operating transfers in		17,053	1,106	18,159	
Operating transfers out	(307,142)		(5,483)	(312,625)	(1,106)
Net transfers from (to) fiscal agent			27,878	27,878	
Negative cash balance implicitly financed	24			24	1,761
Net cash provided by (used for) noncapital financing activities	(307,118)	17,053	23,501	(266,564)	555
<b>Cash flows from capital and related financing activities:</b>					
Principal paid on capital obligations		(99,465)		(99,465)	(523)
Interest paid on capital obligations		(14,302)		(14,302)	
Acquisition of capital assets	(156)	(5,254)		(5,410)	(247)
Proceeds from the disposition of capital assets		95,002		95,002	
Net cash provided by (used for) capital and related financing activities	(156)	(24,019)		(24,175)	(770)
<b>Cash flows from investing activities:</b>					
Proceeds from sale and maturity of investments		17,174		17,174	
Interest on investments	606	1,359		1,965	90
Net cash provided by (used for) investing activities	606	18,533		19,139	90
Net increase (decrease) in cash and cash equivalents	(58)	10,382	(756)	9,568	9,854
Cash and cash equivalents, July 1	7,957	9,146	1,120	18,223	4,700
Cash and cash equivalents, June 30	\$ 7,899	\$ 19,528	\$ 364	\$ 27,791	\$ 14,554
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>					
Operating income (loss)	306,340	(6,636)	(14,714)	284,990	13,189
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b>					
Depreciation and amortization	313	18,588		18,901	749
Other revenue (expense) and operating transfer in (out)	389	(10,107)	(2,486)	(12,204)	5
Net changes in assets and liabilities:					
Receivables, net	(1,623)	1,068	(7,030)	(7,585)	(10,088)
Inventory	295			295	(199)
Prepaid items		423		423	(8,711)
Other assets	237			237	
Accounts and other payables	110	(2,227)	(27)	(2,144)	14,040
Accrued expenses	171	(2,012)		(1,841)	994
Deferred revenue	14	(282)		(268)	
Prize awards payable	364			364	
Total adjustments	270	5,451	(9,543)	(3,822)	(3,210)
Net cash provided by (used for) operating activities	\$ 306,610	\$ (1,185)	\$ (24,257)	\$ 281,168	\$ 9,979

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

**State of Rhode Island and Providence Plantations**  
**Statement of Net Assets**  
**Fiduciary Funds**  
**June 30, 2005**  
**(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	\$ 4,622	\$	\$ 15,286
Deposits held as security for entities doing business in the State			67,148
<b>Receivables</b>			
Contributions	23,080		
Due from state for teachers	11,202		
Miscellaneous	3,883		
Total receivables	<u>38,165</u>		
<b>Investments, at fair value</b>			
Equity in Short-Term Investment Fund	18,610		
Equity in Pooled Trust	6,665,539		
Plan specific investments	15,984		
Other investments		2,010	
Total investments before lending activities	<u>6,700,133</u>	<u>2,010</u>	
Invested securities lending collateral	<u>1,010,616</u>		
<b>Property and equipment, at cost, net of accumulated depreciation</b>			
Total Property and Equipment	<u>13,336</u>		
Total assets	<u>7,766,872</u>	<u>2,010</u>	<u>82,434</u>
<b>Liabilities</b>			
Securities lending liability	1,010,616		
Accounts payable	6,432		
Deposits held for others			82,434
Total liabilities	<u>1,017,048</u>		<u>82,434</u>
Net assets held in trust for pension and other benefits	<u>\$ 6,749,824</u>	<u>\$ 2,010</u>	<u>\$</u>

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

**State of Rhode Island and Providence Plantations**  
**Statement of Changes in Fund Net Assets**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2005**  
**(Expressed in Thousands)**

	<b>Pension Trust</b>	<b>Private Purpose Touro Jewish Synagogue</b>
<b>Additions</b>		
Contributions		
Member contributions	\$ 154,362	\$
Employer contributions	158,635	
State contributions for teachers	48,835	
Interest on service credits purchased	1,568	
Total contributions	<u>363,400</u>	
Investment income		
Net appreciation (depreciation) in fair value of investments	517,402	172
Interest	84,922	24
Dividends	69,685	
Other investment income	56,284	
	<u>728,293</u>	<u>196</u>
Less investment expense	21,990	
Net income from investing activities	<u>706,303</u>	<u>196</u>
Securities Lending		
Securities lending income	20,479	
Less securities lending expense	18,494	
Net securities lending income	<u>1,985</u>	
Total net investment income	<u>708,288</u>	<u>196</u>
Total additions	<u>1,071,688</u>	<u>196</u>
<b>Deductions</b>		
Benefits		
Retirement benefits	431,370	
Cost of living adjustment	101,340	
SRA Plus Option	27,711	
Supplemental benefits	1,067	
Death benefits	3,087	
Total benefits	<u>564,575</u>	
Refund of contributions	10,730	
Administrative expense	6,452	
Distribution		89
Total deductions	<u>581,757</u>	<u>89</u>
Change in net assets	489,931	107
Net assets held in trust for pension benefits		
Net assets - beginning	6,259,893	1,903
Net assets - ending	<u>\$ 6,749,824</u>	<u>\$ 2,010</u>

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

State of Rhode Island and Providence Plantations  
Notes to the Basic Financial Statements  
June 30, 2005

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

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

**B. Reporting Entity**

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

**Blended Component Units**

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

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

**Rhode Island Convention Center Authority (RICCA)** - This Authority was created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One West Exchange Street, Dome Building, 3<sup>rd</sup> Floor, Providence, RI 02903.

State of Rhode Island and Providence Plantations  
Notes to the Basic Financial Statements  
June 30, 2005

**Rhode Island Refunding Bond Authority (RIRBA)** - This authority was created by law for the purpose of loaning money to the State to provide funds to pay, redeem, or retire certain general obligation bonds. In fiscal 1998, the State abolished the R.I. Public Buildings Authority (RIPBA) and assigned the responsibility for managing RIPBA's outstanding debt to the RIRBA. RIPBA was previously reported as a blended component unit. The RIRBA is authorized to issue bonds. Even though it is legally separate, the RIRBA is reported as if it were part of the primary government because it provides services entirely to the primary government. For more detailed information, a copy of the financial statements can be obtained by writing to the Deputy General Treasurer, Office of General Treasurer, 40 Fountain Street, Providence, RI 02903.

**Rhode Island Economic Policy Council (RIEPC)** - This council is a non-profit organization created by executive order in March 1995 and incorporated in January 1996. The purpose of the council is to work closely with State officials to identify issues facing the State's economy, to develop and recommend creative strategies and policies to address them, to advise the State legislature in policy matters relating to economic development, and to administer a program designed to foster private technology commercialization and plant and process modernization through research centers, higher education partnerships and cluster collaboratives. For more detailed information, a copy of the financial statements can be obtained by writing to the Executive Director, R.I. Economic Policy Council, 3 Davol Square, Box 185, Providence, RI 02903.

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

**Discretely Presented Component Units**

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

**University and Colleges** - The Board of Governors for Higher Education has oversight responsibility for the University of Rhode Island, Rhode Island College and Community College of Rhode Island. The Board is appointed by the Governor with approval of the Senate. The university and colleges are funded through State appropriations, tuition, federal grants, private donations and grants. For more detailed information, a copy of the financial statements can be obtained by writing to Office of The Controller, University of Rhode

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2005**

Island, 75 Lower College Road, Kingston, RI 02881; Office of The Controller, Rhode Island College, 600 Mount Pleasant Avenue, Providence, RI 02908; and Office of The Controller, Community College of Rhode Island, 400 East Avenue, Warwick, RI 02886-1805.

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

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

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

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

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

**Narragansett Bay Commission (NBC)** - This Commission was created for the purposes of acquiring, planning, constructing, extending, improving, operating and maintaining publicly

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

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

**Rhode Island Industrial Facilities Corporation (RIIFC)** - The purpose of this corporation is to issue revenue bonds, construction loan notes and equipment acquisition notes for the financing of projects which further industrial development in the State. All bonds and notes issued by RIIFC are payable solely from the revenues derived from leasing or sale by RIIFC of its projects. The bonds and notes do not constitute a debt or pledge of the faith and credit

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of RIIFC or the State and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial Facilities Corporation, One West Exchange Street, Providence, RI 02903.

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

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

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

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

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

**Rhode Island Underground Storage Tank Responsibility (RIUSTR)** - The Board provides a mechanism for Rhode Island underground storage tank owners, including city, town and State facilities, to comply with the financial responsibility requirements established by the US Environmental Protection Agency. For more detailed information, a copy of the

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financial statements can be obtained by writing to the Rhode Island Underground Storage Tank Review Board, 235 Promenade Street, Suite 455, Providence, RI 02908.

**C. Government-wide and Fund Financial Statements**

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

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

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

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

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

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

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



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

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

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

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

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

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

The State reports the following major funds:

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

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

**GARVEE Fund.** This fund accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds,

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related expenditures and the two cents a gallon gasoline tax that is dedicated for the debt service of the RIMFT bonds.

The State reports the following major proprietary funds:

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

**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.

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

**Proprietary Fund Types:**

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

**Fiduciary Fund Types:**

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

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Benefit Trust, and Judicial Retirement Benefit Trust, which accumulate resources for pension benefit payments to qualified employees.

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

**Agency Funds.** These funds account for assets held by the State pending distribution to others or pledged to the State as required by statute.

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

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

**E. Cash and Cash Equivalents**

Cash represents amounts in demand deposit accounts with financial institutions. Cash equivalents are highly liquid investments with 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.

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

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

**G. Investments**

Investments are generally stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than a

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forced or liquidation sale. Short-term investments are stated at amortized cost, which approximates fair value.

**H. Receivables**

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

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

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

**J. Interfund Activity**

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

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

**K. Inventories**

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

**L. Capital Assets**

Capital assets, which include all land, buildings (over \$100,000), equipment and infrastructure assets (e.g., roads, bridges, and similar assets) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The State defines equipment acquisitions as capital assets when the initial, individual cost (value, if donated, forfeited or seized) is more than \$5,000 (amount not

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rounded) and the estimated useful life is more than one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

**M. Bonds Payable**

In the Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds, bond discounts/premiums and issuance costs are recognized in the current period. Bond discounts, premiums and issuance costs in the government-wide financial statements are deferred and amortized over the term of the bonds using the straight-line method. For proprietary fund types and component units bond discounts, premiums and issuance costs are generally deferred and amortized over the term of the bonds using the straight-line method for issuance costs and the interest method for discounts and premiums. Bond discounts and premiums are presented as an adjustment to the face amount of bonds payable. Bond issuance costs are included in other assets.

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**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. Compensated Absences**

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

**P. Other Liabilities**

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

**Q. Fund Balances**

Reserved fund balances represent amounts which are (1) not appropriate 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. Change in Presentation**

For the fiscal year ended June 30, 2005, the R.I. Temporary Disability Insurance Fund did not meet the criteria of a major fund as described in Note 1(D). Accordingly, it is included in the Other Governmental Funds column on the fund financial statements in the basic financial statements.

**S. New Pronouncements**

The State implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3.*

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**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 and judicial branches.

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

**Cash**

Primary Government

At June 30, 2005, the carrying amount of the State's cash deposits was \$119,351,000 and the bank balance was \$142,294,000. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are: a. Uncollateralized b. Collateralized with securities held by the pledging financial institution, or c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name. Of the bank balance, \$921,000 was covered by federal depository insurance and \$76,939,000 was collateralized with securities held by the pledging financial

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institution, as it's agent but not in the State's name. The remaining amount, \$64,434,000 was uninsured and uncollateralized. The carrying amount and bank balance includes \$2,171,000 of certificates of deposit.

In December 2004, the General Fund borrowed \$50,000,000 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, 2005 with interest at the rate of 2.49%, which reflected the average General Fund investment rate for the applicable period.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government were required to be collateralized at June 30, 2005.

**Investments**

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

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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is mitigated by the State's minimum rating criteria policy, collateralization and maximum participation by any one issuer is limited to 35% of the total portfolio. As of June 30, 2005, the State's investments in GE Capital Corporation commercial paper was rated A1+ by Standard and Poors and P1 by Moody's. The State's investments in Morgan Stanley commercial paper was rated A1 by Standard and Poors and P1 by Moody's. The State's investments in US Government Agency Securities were rated AAA by Moody's. The State's investment in mutual funds were rated Aaa by Moody's.

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

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Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either: a. The counterparty or b. The counterparty's trust department or agent but not in the government's name. Of the State's \$26,338,000 investment in repurchase agreements, \$1,714,000 of underlying securities are held by the investment's counterparty, not in the name of the State.

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

Type	Issuer	Amount	Percentage
Commercial Paper	GE Capital Corporation	\$ 44,693	9.6%
Repurchase Agreements	Citizens Bank	24,624	5.3%
Commercial Paper	Morgan Stanley	51,922	11.2%
US Government Agency Securities	Federal Home Loan Bank	45,700	9.9%

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk is mitigated by the portfolio's short duration (<7 days).

The State's investments (expressed in thousands) at June 30, 2005 all having maturities of less than one year are as follows.

Investment Type	Fair Value
U.S. Government Agency Securities	\$ 66,308
Money Market	271,616
Commercial Paper	99,613
Repurchase Agreements	26,338
	<u>463,875</u>
Less amounts classified as cash equivalents	389,190
Investments	<u>\$ 74,685</u>

**Fiduciary Funds**

**Pension Trusts**

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

**Cash**

At June 30, 2005, the carrying amounts of these plans' cash deposits (expressed in thousands) are listed below:

	ERSP	MERS	SPRBT	JRBT	Total
Book balance	\$ 3,996	\$ 190	\$ 261	\$ 175	\$ 4,622
Bank balance	3,821	538	263	176	4,798

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The bank balances represent the plans' deposits in short-term trust accounts that are covered by federal depository insurance. At the end of each business day, the excess bank balances are invested in overnight repurchase agreements. The book and bank balances include fully collateralized deposits of \$99,151 and overnight repurchase agreements of \$1,179,382 which were fully collateralized.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the ERS's deposits were required to be collateralized at June 30, 2005.

**Investments**

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

On July 1, 1992, the State Investment Commission pooled the assets of the ERSP with the assets of the MERS for investment purposes only, and assigned units to the plans based on their respective share of market value. On September 29, 1994 and November 1, 1995, the assets of the SPRBT and the JRBT, respectively, were added to the pool for investment purposes only. The custodian bank holds most assets of the ERS in two pooled trusts, Short-term Investment Trust and Pooled Trust. Each plan holds units in the trusts. The number of units held by each plan is a function of each plans' respective contributions to, or withdrawals from, the trust. Certain investments are not pooled and are held by only one plan (Plan specific investments). As of June 30, 2005, the ERS held a loan receivable with a fair value of \$15,000,000. This loan is secured by commercial real estate located in Rhode Island (see note 22 - Subsequent Events).

The following table presents the fair value (expressed in thousands) of investments by type at June 30, 2005:

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Investment Type	Fair Value
U.S. Government Securities	\$ 539,403
U.S. Government Agency Securities	415,813
Collateralized Mortgage Obligations	75,625
Corporate Bonds	508,771
International Corporate Bonds	47,195
Domestic Equity Securities	1,211,576
International Equity Securities	1,303,429
Foreign Currencies	12,758
Private Equity	399,942
Real Estate	16,351
Money Market Mutual Fund	237,860
Commingled Funds - Domestic Equity	1,788,279
Commingled Funds - International Equity	143,131
Investments at Fair Value	6,700,133
Securities Lending Collateral Pool	1,010,616
Total	<u>\$ 7,710,749</u>

**Interest Rate Risk**

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

Duration is a measure of a debt security's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The ERS manages its exposure to interest rate risk by comparing each debt security manager portfolio's effective duration against a predetermined benchmark index based on that manager's mandate. Currently each portfolio's duration must be within +/- 20-35% of the effective duration of the appropriate index. The fixed income indices currently used by the ERS are:

- Salomon Brothers Broad Investment Grade Bond Index
- Lehman US TIPS Index
- Lehman Brothers MBS Fixed Rate Index
- CS First Boston High Yield Index
- Lehman Corporate Index

At June 30, 2005, no fixed income manager was outside of the policy guidelines.

The following table shows the ERS's fixed income investments by type, fair value (expresses in thousands) and the effective durations at June 30, 2005:

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Investment Type	Fair Value	Effective Duration
U.S. Government Securities	\$ 539,403	5.18
U.S. Government Agency Securities	415,813	2.56
Collateralized Mortgage Obligations	75,625	2.92
Corporate Bonds	508,771	4.24
International Corporate Bonds	47,195	7.96
	<u>\$ 1,586,807</u>	4.21

The ERS also invested in a short-term money market mutual fund that held investments with an average maturity of 29 days. The maximum maturity of any instrument in the money market mutual fund is 13 months.

The ERS invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMO), interest-only and principal-only (PO) strips. They are reported in 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 ERS may invest in interest-only (IO) and principal-only strips (PO) in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments.

**Credit Risk**

The ERS requires its fixed income managers to maintain a well-diversified portfolios by sector, credit rating and issuer.

The ERS directs its investment managers to maintain diversified portfolios by sector and by issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds. Each manager's portfolio composition is aligned with a benchmark and is constructed based on specific guidelines that are reflective of the manager's mandate. An example of a high yield fixed income manager is as follows:

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

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

The ERS's exposure to credit risk (expressed in thousand) as of June 30, 2005 is as follows:

Quality Rating *	Collateralized Mortgage Obligations	U.S. Government Agency Securities	Corporate Bonds	International Corporate Bonds
Aaa	\$ 40,081	\$ 415,813	\$ 20,021	\$ 8,232
Aa	7,058		44,715	8,770
A	5,583		119,803	14,514
Baa	1,880		109,031	5,942
Ba			44,476	2,248
B			123,469	6,071
Caa			33,387	455
Ca			672	
Not rated	21,023		13,197	963
	<u>\$ 75,625</u>	<u>\$ 415,813</u>	<u>\$ 508,771</u>	<u>\$ 47,195</u>

\* Moody's bond rating

The ERS's investment in a short-term money market mutual fund was unrated but held investments with an average quality rating of A-1+ / P-1.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of an ERS's investments in a single issuer. There is no single issuer exposure within the ERS's portfolio that comprises 5% of the overall portfolio and, therefore, there is no concentration of credit risk.

**Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ERS will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2005 all securities were registered in the name of the ERS and were held in the possession of the ERS's custodial bank, State Street Bank and Trust.

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Portfolios are diversified to limit foreign currency and security

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risk and the ERS's investment asset allocation policy targets non-US equity investments at 20%. The ERS may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments.

The ERS's exposure to foreign currency (expressed in thousands) risk at June 30, 2005, was as follows:

Currency	Currency	Equities	Fixed Income	Total
Australian Dollar	\$ 419	\$ 82,682	\$	\$ 83,101
Brazilian Real			4,625	4,625
Canadian Dollar	259	49,125	4,556	53,940
Danish Crone	54	4,157		4,211
Euro Currency	1,565	491,786	33,722	527,073
Hong Kong Dollar	156	26,307		26,463
Hungarian Forint		358		358
Indonesian Rupiah	167	2,177		2,344
Japanese Yen	1,607	256,658		258,265
Malaysian Ringitt			781	781
Mexican Peso	15	222	695	932
New Zealand Dollar	15	10,294		10,309
Norwegian Krone	22	14,616		14,638
Pound Sterling	2,616	250,934	1,998	255,548
Singapore Dollar	273	17,239		17,512
South African Rand	580	7,022		7,602
South Korean Won	1,252	14,293		15,545
Swedish Krona	3,508	18,416	818	22,742
Swiss Franc	250	54,898		55,148
New Taiwan Dollar		2,245		2,245
	<u>\$ 12,758</u>	<u>\$ 1,303,429</u>	<u>\$ 47,195</u>	<u>\$ 1,363,382</u>

The ERS also had exposure to foreign currency risk though its investment in an international commingled equity fund.

**Derivatives and Other Similar Investments**

Some of the ERS's investment managers are allowed to invest in certain derivative type transactions, including forward foreign currency transactions, futures contracts and mortgage-backed securities. According to investment policy guidelines, derivative type instruments may be used for hedging purposes and not for leveraging plan assets.

**Forward Foreign Currency Contracts** – The ERS 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 ERS's Statements of Fiduciary Net Assets. The face or contract amount in U.S. dollars reflects the total exposure the ERS has in that particular currency contract. By policy, no more than 25% of actively managed Foreign Equity securities (at fair value) may be hedged into the base currency (US Dollars). The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation

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service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

**Futures contracts** – The ERS 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 ERS's exposure to the underlying instrument. Selling futures tends to decrease the ERS's exposure to the underlying instrument, or hedge other ERS investments. Losses may arise from changes in the value of the underlying instruments, if there is an illiquid secondary market for the contracts, or if the counterparties do not perform under the contract terms.

Through commingled funds, the ERS also indirectly holds derivative type instruments, primarily equity index futures. Other types of derivative type instruments held by the commingled funds include purchased or written options, forward security contracts, forward foreign currency exchange contracts, interest rate swaps and total return swaps. The ERS may sell a security they do not own in anticipation of a decline in the fair value of that security. Short sales may increase the risk of loss to the ERS when the price of a security underlying the short sale increases and the ERS is subject to a higher cost to purchase the security in order to cover the position.

**Securities Lending**

Policies of the State Investment Commission permit the ERS to enter into securities lending transactions. The ERS has contracted with State Street Bank & Trust Company (SSB) as third party securities lending agent to lend the ERS's debt and equity securities for cash, securities and sovereign debt of foreign countries as collateral at not less than 100% of the market value of the domestic securities on loan and at not less than 100% of the market value of the international securities on loan. In practice, U.S. equities and bonds are collateralized at 102% and international equities are collateralized at 105%. There are no restrictions on the amount of loans that can be made. The contract with the lending agent requires them to indemnify the ERS if the borrowers fail to return the securities. Either the ERS or the borrower can terminate all securities loans on demand.

The cash collateral received on security loans was invested in the lending agent's short-term investment pool for an average duration of 25 days and a weighted average maturity of 174 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The ERS is not permitted to pledge or sell collateral securities received unless the borrower defaults. There were no losses during the fiscal year resulting from default of the borrowers or lending agent.

At June 30, 2005, management believes the ERS has no credit risk exposure to borrowers because the amounts the ERS owes the borrowers do not exceed the amounts the borrowers owe the ERS. The securities on loan at year-end were \$988,765,048 (fair value), and the collateral received for those securities on loan was \$1,017,104,074 (fair value).

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Private Purpose Trusts

The private purpose trusts had investments of \$2,010,000 in a mutual fund. The average maturity of the fund was not available.

**Note 4. Receivables**

Receivables at June 30, 2005 (expressed in thousands) consist of the following:

	Taxes	Accounts	Accrued Interest	Notes and Loans	Allowance for Uncollectibles	Total Receivables
<b>Governmental Activities:</b>						
General	\$ 250,592	\$ 81,684	\$	\$ 485	\$ (103,093)	\$ 229,668
Intermodal Surface Transportation	12,744	(402)		1,000	(402)	13,342
Other governmental	37,647	5,517			(1,983)	41,181
Internal Service		11,885		390		12,275
<b>Total - governmental activities</b>	<b>\$ 300,983</b>	<b>\$ 99,086</b>	<b>\$</b>	<b>\$ 1,875</b>	<b>\$ (105,478)</b>	<b>\$ 296,466</b>
<b>Amounts not expected to be collected in the subsequent year and recorded as deferred revenue</b>						
General	\$ 5,027	\$ 6,256				
Intermodal Surface Transportation		22,068				
<b>Business-type activities:</b>						
State Lottery	\$	\$ 8,280	\$	\$	\$ (460)	\$ 7,820
Convention Center		672	206		(50)	828
Employment Security	50,119	12,665			(10,382)	52,402
<b>Total - business-type activities</b>	<b>\$ 50,119</b>	<b>\$ 21,617</b>	<b>\$ 206</b>	<b>\$</b>	<b>\$ (10,892)</b>	<b>\$ 61,050</b>
<b>Component Units</b>	<b>\$</b>	<b>\$ 93,598</b>	<b>\$ 32,922</b>	<b>\$ 2,232,850</b>	<b>\$ (55,413)</b>	<b>\$ 2,303,957</b>

**Component Units**

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



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

Intra-entity receivables and payables, as of June 30, 2005, 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	\$	\$ 438
Intermodal Surface Transportation Fund		3,202
GARVEE		924
<b>Other</b>		
Bond Capital	7,829	
RI Temporary Disability Insurance		850
COPS		596
Total Other	<u>7,829</u>	<u>1,446</u>
Total Governmental	<u>7,829</u>	<u>6,010</u>
<b>Proprietary Funds</b>		
<b>Enterprise</b>		
RI Lottery		1,550
Employment Security Trust Fund		1,509
Total Enterprise		<u>3,059</u>
<b>Internal Service</b>		
Assessed Fringe Benefits		681
Central Utilities	150	
Information Processing		1,640
Central Postage		121
Centrex	1,243	
Pastore Communications	48	
Central Pharmacy	820	
Central Laundry	41	
Automotive Maintenance		48
Central Warehouse	124	
Correctional Industries	476	
Health Insurance	864	
Records Center		36
Total Internal Service	<u>3,766</u>	<u>2,526</u>
<b>Totals</b>	<u>\$ 11,595</u>	<u>\$ 11,595</u>

Exhibit A-39

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**Note 6. Capital Assets**

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

**Primary Government**

**Governmental Activities**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Capital assets not being depreciated:</b>				
Land	\$ 322,369	\$ 4,145	\$	\$ 326,514
Intangibles	85,564	5,425		90,989
Construction in progress	82,810	51,156	(88)	133,878
Total capital assets not being depreciated	<u>490,743</u>	<u>60,726</u>	<u>(88)</u>	<u>551,381</u>
<b>Capital assets being depreciated:</b>				
Land improvements	3,601			3,601
Buildings	429,982	696		430,678
Building Improvements	198,632	837		199,469
Furniture and equipment	158,399	16,296	(4,075)	170,620
Intangibles	898	298		1,196
Infrastructure	361,850	168,200		530,050
Total capital assets being depreciated	<u>1,153,362</u>	<u>186,327</u>	<u>(4,075)</u>	<u>1,335,614</u>
<b>Less accumulated depreciation for:</b>				
Land improvements	2,158	181		2,339
Buildings	138,043	8,296		146,339
Building Improvements	108,936	8,647		117,583
Furniture and equipment	120,355	14,635	(3,901)	131,089
Intangibles	205	209		414
Infrastructure	17,458	14,865		32,323
Total accumulated depreciation	<u>387,155</u>	<u>46,833</u>	<u>(3,901)</u>	<u>430,087</u>
Total capital assets being depreciated, net	<u>766,207</u>	<u>139,494</u>	<u>(174)</u>	<u>905,527</u>
Governmental activities capital assets, net	<u>\$ 1,256,950</u>	<u>\$ 200,220</u>	<u>\$ (262)</u>	<u>\$ 1,456,908</u>

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

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

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General government	\$	5,193
Human services		9,743
Education		2,902
Public safety		8,734
Natural resources		2,327
Transportation		17,934
Total depreciation expense - governmental activities	\$	<u>46,833</u>

**Business-Type Activities**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 38,032	\$	\$ (6,558)	\$ 31,474
Construction in progress	1,189	2,641	(3,524)	306
Total capital assets not being depreciated	<u>39,221</u>	<u>2,641</u>	<u>(10,082)</u>	<u>31,780</u>
Capital assets being depreciated:				
Buildings	229,813	54	(81,386)	148,481
Machinery and equipment	24,722	3,793	(20,319)	8,196
Total capital assets being depreciated	<u>254,535</u>	<u>3,847</u>	<u>(101,705)</u>	<u>156,677</u>
Less accumulated depreciation	94,113	8,766	(39,286)	63,583
Total capital assets being depreciated, net	<u>160,422</u>	<u>(4,919)</u>	<u>(62,409)</u>	<u>93,094</u>
Business-type activities capital assets, net	<u>\$ 199,643</u>	<u>\$ (2,278)</u>	<u>\$ (72,491)</u>	<u>\$ 124,874</u>

**Discretely Presented Component Units**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 86,479	\$ 3,733	\$ (10,314)	\$ 79,898
Construction in progress	255,517	111,488	(27,278)	339,727
Total capital assets not being depreciated	<u>341,996</u>	<u>115,221</u>	<u>(37,592)</u>	<u>419,625</u>
Capital assets being depreciated:				
Buildings	970,521	31,531	(16,777)	985,275
Land improvements	105,325	29,325	(1,125)	133,525
Machinery and equipment	237,099	24,017	(14,537)	246,579
Infrastructure	295,366	14,529		309,895
Total capital assets being depreciated	<u>1,608,311</u>	<u>99,402</u>	<u>(32,439)</u>	<u>1,675,274</u>
Less accumulated depreciation for:				
Buildings	348,317	35,092	(19,911)	363,498
Land improvements	61,103	5,855		66,958
Machinery and equipment	132,059	19,892	(9,226)	142,725
Infrastructure	85,806	6,071		91,877
Total accumulated depreciation	<u>627,285</u>	<u>66,910</u>	<u>(29,137)</u>	<u>665,058</u>
Total capital assets being depreciated, net	<u>981,026</u>	<u>32,492</u>	<u>(3,302)</u>	<u>1,010,216</u>
Total capital assets, net	<u>\$ 1,323,022</u>	<u>\$ 147,713</u>	<u>\$ (40,894)</u>	<u>\$ 1,429,841</u>

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**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.

**A. Bonds Payable**

At June 30, 2005, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government				Component Units	
	Governmental Activities		Business Type Activities		Principal	Interest
	Principal	Interest	Principal	Interest		
2006	\$ 100,489	\$ 97,251	\$ 6,925	\$ 10,369	\$ 243,911	\$ 125,861
2007	76,478	93,737	7,250	10,063	153,293	119,475
2008	72,836	88,978	7,585	9,721	145,088	114,430
2009	78,474	82,536	7,865	9,363	89,892	109,113
2010	72,309	78,524	8,240	8,992	79,108	105,505
2011-2015	417,095	331,721	47,635	36,682	437,762	473,277
2016-2020	236,715	246,221	58,195	21,640	489,702	372,423
2021-2025	184,310	194,268	50,630	7,192	407,311	257,416
2026-2030		167,686	8,530	508	357,232	166,691
2031-2035	168,260	136,768			412,955	83,739
2036-2040		116,158			398,615	20,570
2041-2045	371,700	46,463			8,230	1,613
2046-2050					2,865	74
	<u>\$ 1,778,666</u>	<u>\$ 1,680,309</u>	<u>\$ 202,855</u>	<u>\$ 114,950</u>	<u>\$ 3,191,984</u>	<u>\$ 1,950,187</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 \$22,665,000 of general obligation multi-modal variable rate demand bonds maturing in fiscal year 2020. These bonds were initially issued in the weekly rate mode but can be changed by the issuer (the State) to a daily, commercial paper or term rate mode. The interest rate is determined either weekly or daily based on the mode; interest is paid monthly. The owners of the bonds in a weekly mode can require the State (acting through its remarketing and tender agents) to repurchase the bonds. The remarketing agent is authorized to use its best efforts to resell any purchased bonds by adjusting the interest rate offered. The State has entered into a standby bond purchase agreement (liquidity facility) with the tender agent and a commercial bank (the bank). The remarketing agent is required to offer for sale all bonds properly tendered for purchase. In the event the remarketing agent is unable to remarket tendered bonds, the standby bond purchase agreement provides that the bank agrees to purchase any bonds from time to time in an amount not to exceed the principal amount plus accrued interest up to 37 days at an interest rate not to exceed 12% per annum, subject to the terms and provisions of the liquidity facility.

This agreement has been extended through June 2006. The State is required to pay the bank

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at an interest rate based on its prime lending rate or the federal funds rate plus 1/2 of 1 percent, whichever is higher. The standby bond purchase agreement remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank.

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

In June 2002, the Tobacco Settlement Financing Corporation (TSFC), a blended component unit, issued \$685,390,000 of Tobacco Asset-Backed Bonds (Bonds) that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent Decree and Final Judgment. As stated in the bond indenture, the Bonds are payable as to principal and interest solely out of the assets of the TSFC pledged for such purpose; neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal or of the interest on the Bonds; the Bonds do not constitute an indebtedness of the State or any political subdivision of the State; the Bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC; the Bonds do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof and the State has no obligation or intention to satisfy any deficiency or default of any payment of the Bonds. The TSFC has no taxing power. During the year ended June 30, 2005, TSFC utilized \$6,850,000 of excess collections to early redeem an equal amount of outstanding bonds.

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

Revenue bonds of the R.I. Convention Center Authority (RICCA) were issued to (a) refund bonds and notes, (b) pay construction costs, (c) pay operating expenses, (d) pay interest on revenue bonds prior to completion of construction, (e) fund a debt service reserve and (f) pay costs of issuance. The revenue bonds are secured by all rents receivable, if any, under a lease and agreement between the RICCA and the State covering all property purchased by the RICCA. It also covers a mortgage on facilities and land financed by the proceeds of the revenue bonds and amounts held in various accounts into which bond proceeds were deposited. Minimum annual lease payments by the State are equal to the gross debt service of RICCA. In the event of an operating deficit (excluding depreciation), annual lease payments may be increased by the amount of the deficit. The obligation of the State to pay such rentals is subject to and dependent upon annual appropriations of such payments being

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made by the Rhode Island General Assembly for such purpose. Those appropriations are made in connection with the State's annual budgetary process and are therefore dependent upon the State's general financial resources and factors affecting such resources.

During November 2001, the RICCA issued Refunding Revenue Bonds, 2001 Series A (the bonds), in the aggregate principal amount of \$101,315,000. The Bonds may bear interest at Daily Rates, Weekly Rates, or Term Rates, as defined in the Bond Resolution adopted by the RICCA on October 18, 2001, for periods selected from time to time by the RICCA and determined by UBS Painewebber, Inc. (UBS), as Remarketing Agent under the Remarketing Agreement (the Agreement) dated November 6, 2001. In addition, the RICCA may convert the Bonds to fixed rate bonds. The Bonds initially bear interest at the weekly rate as determined by UBS and are payable in monthly installments. Total interest paid to the Bondholders for the year ended June 30, 2005 was \$1,768,700. The Bonds mature in varying installments beginning on May 15, 2004 through May 15, 2027. During May 2005, a portion of the bonds maturing between 2006 and 2027, in the amount of \$32,210,000, were called and retired during June 2005.

Concurrent with the issuance of the 2001 Series A Refunding Revenue Bonds, the RICCA entered into an interest rate swap agreement (the Swap Agreement) with UBSAG, Stamford Branch (UBSAG). Under the terms of the Swap Agreement, the RICCA agrees to pay to UBSAG a fixed interest rate of 3.924% on the outstanding principal amount of the Bonds each May 15<sup>th</sup> and November 15<sup>th</sup> through May 15, 2027. In exchange, UBSAG agrees to pay to the RICCA interest at the Weekly Rate on a monthly basis through May 15, 2027. The Swap Agreement contains a barrier option early termination date of November 15, 2006 and every fixed rate payment due date thereafter. In addition, UBSAG has the right, but not the obligation, on providing 30 calendar days notice prior to the early termination date, to terminate the Swap Agreement if the averaged Weekly Rate has exceeded 5.25% per annum within the preceding 180 days. Such termination shall not require the consent of the RICCA and no fees, payments or other amounts shall be payable by either party in respect of this termination. Total interest paid by the RICCA to UBSAG for the years ended June 30, 2005 under the Swap Agreement was \$3,528,800. Total interest received by the RICCA from UBSAG for the years ended June 30, 2005 under the Swap Agreement was \$1,696,400. By entering into the Swap Agreement, the RICCA converted variable rate bonds to fixed rate bonds to minimize interest rate fluctuation risk.

Concurrently, the RICCA entered into a standby bond purchase agreement with Dexia Credit Local (Dexia). Under the terms of the standby bond purchase agreement, Dexia agrees from time to time during the commitment period, as defined by the standby bond purchase agreement, to purchase bonds from the RICCA that bear interest at variable rates. The purchase price shall not exceed the aggregate amount of principal and interest outstanding on said bonds at the time of purchase. Under the terms of the standby bond purchase agreement, Dexia agrees to purchase the bonds when notified by U.S. Bank (the Bonds' paying agent). The initial purchase price is \$102,480,817, which consists of the original \$101,315,000 of principal plus accrued interest in the amount of \$1,165,817 through May 15, 2002.

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The termination date of the standby bond purchase agreement is the later of November 1, 2006 or when all principal and interest on any bonds purchased by Dexia have been paid in full. Under the terms of the standby bond purchase agreement, the RICCA is obligated to pay a fee equal to .165% per annum of the outstanding bond principal and interest. Fees paid by the RICCA for the years ended June 30, 2005 totaled \$166,200.

The Rhode Island Economic Development Corporation (RIEDC) issued \$216,805,000 of Grant Anticipation Revenue Bonds which are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RIEDC has no taxing power. The obligation of the State to make payments to the trustee of future federal aid revenues is subject to annual appropriation by the General Assembly.

The Rhode Island Economic Development Corporation issued \$53,030,000 of Rhode Island Motor Fuel Tax Revenue Bonds which are payable solely from certain pledged revenues derived from two cents (\$.02) per gallon of the thirty cents (\$.30) per gallon Motor Fuel Tax. The bonds provide the state matching funds for the Grant Anticipation Revenue Bonds. The bonds do not constitute a debt, liability, or obligation of the State or political subdivision thereof. The RIEDC has no taxing power. The obligation of the State to make payments to the trustee of future pledged motor fuel taxes are subject to annual appropriation by the General Assembly.

At June 30, 2005 general obligation bonds authorized by the voters and unissued amounted to \$398,149,000. In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved unless extended by the General Assembly.

See Note 13 for information concerning contingent liabilities relating to "Moral Obligation" bonds.

**Component Units**

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

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equal to debt service on the bonds. The bonds are secured by a pledge of revenues of the respective institutions.

Bonds of the R.I. Housing and Mortgage Finance Corporation (RIHMFC) are special obligations of RIHMFC, payable from the revenue, prepayments and all the funds and accounts pledged under the various bond resolutions to the holders of the bonds. The proceeds of the bonds were generally used to acquire mortgage loans which are secured principally by a first lien upon real property and improvements.

The R.I. Student Loan Authority issued tax exempt Student Loan Revenue Bonds that are secured by eligible student loans, the monies in restricted funds established by the trust indenture and all related income. The proceeds of the issuance and operating cash were used to refund bonds and to originate and purchase eligible student loans.

The R.I. Economic Development Corporation (RIEDC) has bonds outstanding referred to as Airport Revenue Bonds. They were issued to finance the construction and related costs of certain capital improvements at T.F. Green State Airport. The proceeds of the bonds were loaned to the R.I. Airport Corporation, a subsidiary and component unit of RIEDC. The remainder of bonds outstanding comprise the financing to purchase land and make land improvements at Island Woods Industrial Park in Smithfield, R.I. and to acquire land, make improvements and renovations of a building and parking lot (The Fleet National Bank Project).

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

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

The \$80,000,000 of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority is limited by mortgage balances that it has insured, \$26,041,000 at June 30, 2005 (See Note 21). The insured mortgages are guaranteed by the State.

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**B. Notes Payable**

Notes payable (expressed in thousands) at June 30, 2005 are as follows:

Component Units	
Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024.	\$ 2,050
R.I. Housing and Mortgage Finance Corporation bank notes, 2.30% to 5.46% interest, payable through 2006.	127,000
R.I. Clean Water Finance Agency Bond Anticipation Note maturing on March 1, 2007 at an interest rate of 2.60%	7,719
R.I. Resource Recovery Corporation notes due in installments through September 2006, 5 % interest.	2,000
R.I. Industrial-Recreational Building Authority bank note, prime minus 5 % or LIBOR plus 1.25%, due 2010	3,000
	<u>141,769</u>
Less: current payable	<u>(128,213)</u>
	<u>\$ 13,556</u>

**C. Loans Payable**

**Component Units**

Loans payable include liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) of \$238,314,838.

**D. Obligations Under Capital Leases**

**Primary Government**

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

The State's obligation under capital leases at June 30, 2005 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds.

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

The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2005.

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Fiscal Year Ending June 30	COPS	Other	Total
2006	\$ 19,539	\$ 1,922	\$ 21,461
2007	23,808		23,808
2008	23,807		23,807
2009	23,348		23,348
2010	23,259		23,259
2011 - 2015	94,242		94,242
2016 - 2020	74,304		74,304
2021 - 2025	50,182		50,182
Total future minimum lease payments	332,489	1,922	334,411
Amount representing interest	(101,729)	(218)	(101,947)
Present value of future minimum lease payments	\$ 230,760	\$ 1,704	\$ 232,464

**Component Units**

In addition to capital leases with outside vendors, Rhode Island College (RIC) and R.I. Public Telecommunications Authority (RIPTCA) obligations under capital leases include construction of facilities by the R.I. Refunding Bond Authority, a blended component unit. RIC and the University of Rhode Island (URI) have capital lease agreements for land and/or buildings with related parties (their respective foundations). URI has a capital lease obligation for the construction of a steam plant with the RI Economic Development Corporation (RIEDC) (a blended component unit). The Community College of Rhode Island (CCRI) has a capital lease for land and building.

Capital lease obligations of the RIEDC are for equipment purchases.

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, 2005.

Fiscal Year Ending June 30	URI	RIC	CCRI	RIEDC	RIPTCA	NBC
2006	\$ 1,914	\$ 64	\$ 89	\$ 1,087	\$ 505	\$ 238
2007	1,785	64	90	930	863	164
2008	1,763	64	89	637	976	112
2009	1,427	42	156	610	756	7
2010	1,424		156	715		
2011-2015	6,539		781	1,038		
2016-2020	6,304		782	0		
2021-2025			624			
Total future minimum lease payments	21,256	234	2,767	5,017	3,100	521
Amount representing interest	(5,746)	(39)	(946)	(584)	(309)	(40)
Present value of future minimum lease payments	\$ 15,510	\$ 195	\$ 1,821	\$ 4,433	\$ 2,791	\$ 481

**E. Compensated Absences**

State employees are granted vacation and sick leave in varying amounts based upon years of service. At the termination of service, the employee is paid for accumulated unused vacation leave. Also, the employee is entitled to payment of a percentage of accumulated sick leave at

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retirement. The State calculates the liability for accrued sick leave for only those employees that are eligible for retirement. Payment is calculated at their then-current rate of pay.

The compensated absences liability attributable to the governmental activities will be liquidated in the applicable fund as the sick and vacation time is discharged. Upon termination the applicable amount owed will be paid out of the Assessed Fringe Benefit Fund, an internal service fund.

**F. Other Long-Term Liabilities**

Items in this category include, but not limited to, income on invested general obligation bond proceeds, determined to be arbitrage earnings in accordance with federal regulations. These amounts are generally payable to the federal government five years after the bond issuance date. Retainage payable is also included since the related construction projects are not expected to be completed in the subsequent fiscal period. In addition, this section includes special obligation notes with a local banking institution.

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

During the fiscal year ended June 30, 2005, the following changes (expressed in thousands) occurred in long-term debt:

**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	\$ 762,027	\$ 204,105	\$ (165,828)	\$ 800,306	\$ 48,448	\$ 751,858
Capital appreciation bonds	610			610	305	304
Accrued interest on capital appreciation bonds	7,433	2,136		9,569	5,107	4,462
Premium and deferred amount on refunding	25,908	9,718	(2,479)	33,147		33,147
	795,978	215,959	(168,305)	843,632	53,861	789,771
RIEDC Grant Anticipation Bonds	216,805		(30,755)	186,050	32,230	153,760
Premium	19,779		(1,894)	17,895		17,895
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds	47,405		(5,150)	42,255	5,150	37,105
Premium	85		(5)	80		80
Revenue bonds - RIRBA	84,730		(10,115)	74,615	14,295	60,320
Net premium/discount and deferred amount on refunding	4,710		(2,021)	2,689		2,689
Tobacco Settlement Asset-Backed Bonds	681,680		(6,850)	674,830		674,830
Net premium/discount	(32,405)		2,866	(29,539)		(20,539)
Bonds payable	1,818,767	215,959	(222,219)	1,812,507	105,596	1,706,911
Certificates of Participation (COP)	99,535	130,410	(8,185)	230,760	10,005	220,755
Premium	3,350	5,796	(1,648)	5,650		5,650
Other capital leases	102,885	145,206	(9,977)	238,114	11,709	226,405
Obligations under capital leases	60,716	55,367	(51,435)	64,648	46,793	17,855
Compensated absences	52,039	8,847	(17,004)	43,881	2,311	41,370
Other long-term liabilities	\$ 2,034,407	\$ 425,179	\$ (300,635)	\$ 2,158,950	\$ 166,409	\$ 1,992,541
<b>Business type activities</b>						
Revenue bonds	\$ 302,320	\$	\$ (99,465)	\$ 202,855	\$ 6,925	\$ 195,930
Add: bond premium	4,258		(1,455)	2,803		2,803
Less: issuance discounts	5,202		(2,909)	2,293		2,293
Deferred amounts on refunding	16,822		(9,744)	7,078		7,078
Bonds payable	284,554		(89,267)	196,287	6,925	189,362
Other long-term liabilities	153		(153)			
	\$ 284,707	\$	\$ (89,420)	\$ 196,287	\$ 6,925	\$ 189,362

Certain beginning balances for deferred costs were restated to eliminate the netting of bond issue costs with the premiums. The beginning balance of other long-term liabilities was restated because of unrecorded long-term debt.

**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, 2005, the following bonds outstanding (expressed in thousands) are considered defeased:

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	Amount
Primary government:	
General Obligation Bonds	
(includes \$9,532 of NBC)	\$ 396,805
Certificates of Participation	1,240
R.I. Convention Center Authority	60,225
Component Units:	
R.I. Clean Water Finance Agency	5,665
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	324,615
R.I. Economic Development Corporation	67,245
R.I. Turnpike and Bridge Authority	34,300

**Primary Government**

In March 2005, the State issued \$60,695,000 Consolidated Capital Development Loan of 2005, Refunding Series A & B, with interest rates ranging from 3.00% to 5.00%, maturing from 2006 through 2019. The proceeds were used to advance refund portions of the 1995B, 1997A, 1998A, 1999A, 2000A and 2001 Refunding Series B Bonds totaling \$59,350,00. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. The refunding decreased total debt service payments over the next 14 years by \$3,678,687 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,737,226.

In April 2005, the State issued \$56,315,000 Consolidated Capital Development Loan of 2005, Refunding Series D, with interest rates ranging from 2.50% to 5.00%, maturing from 2006 through 2019. The proceeds were used to advance refund portions of the 1997A, 1998A, 1999A, 2000A and 2001 Refunding Series B Bonds totaling \$55,510,00. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. The refunding decreased total debt service payments over the next 14 years by \$3,820,979 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,300,801.

**Component Units**

During the fiscal year ended June 30, 2005, RIEDC, on behalf of the Airport Corporation, issued \$44,465,000 of revenue bonds with an average interest rate of 4.916% to advance refund \$42,165,000 of revenue bonds with an average interest rate of 6.065%. These bonds were advance refunded to reduce total debt service payments over the next 16 years by approximately \$3,040,000 and to obtain an economic gain of approximately \$223,000. The reacquisition price exceeded the carrying amount of the old debt by \$5,366,543. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued.

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The proceeds of the refunding bonds were used to purchase U.S. Government securities which were deposited into an irrevocable trust with an escrow agent to provide for all future payments on the refunded bonds. Thus, \$42,165,000 of refunded revenue bonds are considered defeased and the liability for those bonds has been removed from the statement of net assets as of June 30, 2005.

On June 29, 2005, NBC entered into a prepayment and escrow agreement with the State to effectuate the prepayment in full and the economic defeasance of their State Obligations. NBC deposited \$10,977,827 with an escrow trustee, who shall use the proceeds of the invested funds to pay the interest, premium, if any, and principal of the Bonds and the payment of the Tobacco Bond Payment Amounts.

**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, 2005 was \$111,000,000, \$1,703,029,871 and \$630,222,000 respectively. Certain issues of conduit debt are moral obligations of the State and the cumulative amounts outstanding are disclosed in Note 13.

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**Note 8. Net Assets**

**Government-Wide Unrestricted Net Assets**

	Governmental Funds	
Deficit	\$ (1,470,118)	
General Revenue	38,699	Unrestricted balance
Appropriations carried forward:		
General Revenues	13,489	General revenues carried forward for original purpose
Restricted Revenues	34,303	Restricted revenues carried forward for original purpose
Other	7,424	Principally capital accounts carried forward for original purpose
Special Revenue	32,558	ISTEA, Tobacco Settlement, Trust, R.I. TDI Fund Ri Economic Policy Council
Capital Projects Fund	388,829	Committed for capital projects
Permanent Fund	917	Permanent School
Internal Service Funds	17,432	Unrestricted balance of all Internal Service Funds
Unrestricted Net Assets	<u>\$ (936,437)</u>	

**Changes in General Fund Reserved Fund Balances**

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

	Reserved Fund Balance July 1	Additions	Reductions	Reserved Fund Balance June 30
State Budget Reserve Account	\$ 84,298	\$ 60,591	\$ (54,002)	\$ 90,887
Appropriations carried forward				
General revenue	10,146	13,489	(10,146)	13,489
Departmental restricted revenue	28,977	34,303	(28,977)	34,303
Operating transfers in	8,422	7,424	(8,422)	7,424
Total	<u>\$ 131,843</u>	<u>\$ 115,807</u>	<u>\$ (101,547)</u>	<u>\$ 146,103</u>

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

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

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**Note 9. Taxes**

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

	Governmental Funds	Statement of Activities
General Fund		
Personal Income Tax	\$ 979,082	\$ 979,495
General Business Taxes:		
Business Corporation Tax	115,916	115,932
Non-resident Contractor Tax	111	111
Gross Earnings Tax-Public Utilities	86,358	86,296
Income Tax-Financial Institutions	(1,480)	(1,478)
Tax on Insurance Companies	53,333	53,324
Tax on Deposits-Banking Institutions	1,524	1,524
Health Care Provider Assessment	10,921	10,921
Nursing Facilities Provider Assessments	35,906	35,892
Sub-total - General Business Taxes	<u>302,589</u>	<u>302,522</u>
Sales and Use Taxes:		
Sales and Use Tax	836,355	836,183
Providence Place Sales Tax	11,372	11,372
Motor Vehicle Tax	44,252	44,252
Rental Vehicle Surcharge	2,885	2,882
Fuel Use Tax on Motor Carriers	1,961	1,958
Cigarette Tax	134,432	134,433
Smokeless Tobacco Tax	1,910	1,917
Alcoholic Beverage Import Fees	10,501	10,501
Tax on Mfg. of Beers, Liquors, etc.	36	36
Sub-total - Sales and Use Taxes	<u>1,043,704</u>	<u>1,043,534</u>
Other Taxes:		
Inheritance Tax	32,981	33,007
Simulcast Wagering	2,682	2,682
Dog Racing - Pari-mutuel Betting	1,290	1,290
Dog Racing - Tax on Breakage	19	19
Realty Transfer Tax	14,405	14,405
Mobile Home Conveyance Tax	18	18
Sub-total - Other Taxes	<u>51,395</u>	<u>51,421</u>
Total - General Fund	<u>2,376,770</u>	<u>2,376,972</u>
Intermodal Surface Transportation Fund		
Gasoline	142,696	142,696
Other Governmental Funds	168,016	168,016
Total Taxes	<u>\$ 2,687,482</u>	<u>\$ 2,687,684</u>



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**Note 10. Operating Transfers**

Operating transfers for the fiscal year ended June 30, 2005 are presented below (expressed in thousands):

**Fund Financial Statements**

	Transfers	Description
Governmental activities		
Major Funds		
General Fund		
Major Funds		
Intermodal Surface Transportation	\$ 52,348	Debt service and operating assistance
Nonmajor Funds		
Bond Capital	32,568	Debt service and capital projects
RI Temporary Disability Insurance	1,155	Operating assistance
Surplus Property	4	
Business-Type Activities		
Lottery	307,550	Net income
Employment Security	5,632	Operating assistance
ISTEA Fund		
Bond Capital	32,701	Infrastructure
GARVEE		
Intermodal Surface Transportation	51,322	Debt Service
Nonmajor Fund		
Bond Capital		
General Fund	54,002	Debt service and capital projects
Economic Policy Council		
General Fund	336	Operating assistance
Total Governmental Activities	<u>537,618</u>	
Business-Type Activities		
Employment Security		
Assessed Fringe Benefits	1,106	Reimbursement for State employee's unemployment compensation
Convention Center		
General Fund	18,083	Debt service
Total operating transfers	<u>\$ 556,806</u>	

**Note 11. Operating Lease Commitments**

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$13,066,000 for the fiscal year ended June 30, 2005.

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, 2005:

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Fiscal Year Ending June 30	
2006	11,521
2007	8,504
2008	6,827
2009	6,475
2010	6,204
2011 - 2015	19,490
2016 - 2020	7,613
Total	<u>\$ 66,634</u>

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

**Note 12. Commitments**

**Primary Government**

The primary government is committed at June 30, 2005 under various contractual obligations for transportation construction and other capital projects, which will be principally financed with bond proceeds and federal grants. The primary government is also committed at June 30, 2005 under contractual obligations with various service providers, which will be funded through appropriations of general revenue, and federal and restricted revenues in succeeding fiscal years.

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, entered into several agreements with Providence Place Group Limited Partnership (PPG). The agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements developed by PPG. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer, during the first 20 years only, of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) \$3,680,000 in the first five years and \$3,560,000 in years 6 through 20.

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 and parking garages.

During May 2003, the Lottery entered into a 20-year master contract with its gaming systems provider granting them the right to be the exclusive provider of information technology hardware, software, and related services for all lottery games. This contract is effective from July 1, 2003 through June 30, 2023, and amends all previous agreements between the parties.

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**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 \$4,500,000 which is expected to be funded from current available resources and future operations.

The Narragansett Bay Commission has entered into various engineering and construction contracts for the design and improvement of its facilities as part of a capital improvement program. Commitments under these contracts aggregated approximately \$127,310,000 at June 30, 2005.

A portion of the Rhode Island Resource Recovery Corporation (RIRRC) landfill is a designated Superfund site. During 1996, the RIRRC entered into a Consent Decree with the United States Environmental Protection Agency (EPA) concerning remedial actions taken by RIRRC for groundwater contamination. The consent Decree requires the establishment of a trust in the amount of \$27,000,000 for remedial purposes. The Central Landfill Remediation Trust Fund Agreement was approved August 22, 1996 by the EPA. In accordance with the terms of the agreement, RIRRC has deposited approximately \$33,300,000 into the trust fund and has disbursed approximately \$5,200,000 for remediation expenses through June 30, 2005. Additionally, trust fund earnings, net of changes in market value have totaled approximately \$8,151,000.

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

The Environmental Protection Agency (EPA) established closure and postclosure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. In 2004, RIRRC reviewed and revised its estimates relating to methane gas monitoring as required by the EPA and leachate pretreatment costs and flows. In addition, the RIRRC began construction of the Phase I and Phase II/III caps. In 2005, RIRRC began landfilling in Phase V and further revised its estimates relating to capping, maintenance and leachate flow costs. The net effect of the changes in assumptions on the provision for landfill closure and postclosure care costs was a decrease in operating income of approximately \$4,600,000 in 2005. The total estimate of future landfill closure and postclosure care costs was increased to approximately \$89,353,000 at June 30, 2005.

The liability for closure and postclosure care costs at June 30, 2005 of \$45,958,380 is recorded in the accompanying statements of net assets, as noted below, with \$43,395,335

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remaining to be recognized at June 30, 2005. The detail of the recorded liability (expressed in thousands) is listed below.

	2005
Phase V	\$ 5,381
Phase IV	14,919
Phases II and III	5,828
Phase I	19,830
	<u>\$ 45,958</u>

Based on the estimates of RIRRC engineers, approximately 95% and 11% of capacity for Phase IV and Phase V, respectively, has been used to date, and it is expected that full capacity will be reached during fiscal 2006 for Phase IV and fiscal 2012 for Phase V.

Amounts provided for closure and postclosure care are based on current costs. These costs may be adjusted each year due to changes in the closure and postclosure care plan, inflation or deflation, technology, or applicable laws or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

Included in restricted assets on the accompanying statements of net assets is \$24,079,387 at June 30, 2005, consisting of amounts placed in trust to meet the financial requirements of closure and postclosure care costs related to Phases II, III, and IV. RIRRC plans to make additional trust fund contributions each year to enable it to satisfy these costs.

The R.I. Housing and Mortgage Finance Corporation had loan commitments of \$36,739,000 under various loan programs at June 30, 2005.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2005 remaining commitments on these contracts approximated \$1,154,000, primarily due in one year or less.

The R.I. Public Transit Authority is committed under construction contracts in the amount of \$12,919,072 at June 30, 2005.

The R.I. Higher Education Assistance Authority is required to return to the federal government \$1,116,117 as it's share of Reserve Funds pursuant to the 1998 reauthorization of the Higher Education Act recall from guaranty agencies. The Authority's share is payable in three installments. As of June 30, 2005, the amount outstanding is \$736,637, payable in two installments of \$368,319 and \$368,318 on September 1, 2006 and 2007, respectively.

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 \$1,500,000, respectively.

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The R.I. Children's Crusade has committed \$2,451,440 toward scholarships for tuition during the 2005/2006 school year. This represents approximately 1,100 students for an average award of approximately \$2,230 per student. As of June 30, 2005, the estimated value of the potential future scholarship costs through the year 2018 is estimated to be between \$3,800,000 and \$15,700,000.

**Note 13. Contingencies**

**Primary Government**

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

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

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

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

Litigation has been filed against tobacco manufacturers as well as certain states and public entities. The lawsuits allege, among other claims, that the Master Settlement Agreement (MSA) violates provisions of the U.S. Constitution, state constitutions, federal antitrust and civil rights laws, state consumer protection laws; these actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek to prevent the states from collecting any monies under the MSA, and/or a determination that prevents the tobacco manufacturers from collecting MSA payments through price increases to cigarette consumers. In addition, class action lawsuits have been filed in jurisdictions alleging violations of state Medicaid agreements. To date, no such lawsuits have been successful. The enforcement of the terms of the MSA may continue to be challenged in the future. In the event of an adverse court ruling, the corporation may not have adequate financial resources to service its debt obligations.

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In April 2005 twenty of the tobacco manufacturers participating in the MSA either withheld all or portions of their payments due, or remitted their payments to an escrow account, disputing the calculation of amounts due under the agreement. These manufacturers assert that the calculations of the April 2005 payments failed to recognize a non-participating manufactures adjustment. Some of the SPM sought to arbitrate the non-participating manufactures' adjustment rather than follow the procedure outlined in the MSA which required a significant factors determination proceeding before an NPM adjustment could be applied.

The non-participating manufacturer (NPM) adjustment would permit the Participating Manufacturers (PM) to reduce their MSA payments if their market share loss exceeds 2% of the original participating manufacturers' 1997 market share, and if the MSA was a significant factor for the PMs' market share loss, and if the PMs prevailed in proving lack of diligent enforcement of the MSA and the escrow statutes.

For 2003, the Independent Auditor determined that the PMs' market share loss exceeded 2% of the original participating manufacturers' 1997 market share. Rhode Island along with the other Settling States and the PMs have begun a Significant Factors Determination (SFD) proceeding to determine whether or not the PMs have lost market share due to the MSA. Although no date is set for a final determination for the SFD proceeding, Rhode Island anticipates a SFD determination in 2006.

In addition, two NPMs have filed for bankruptcy protection and a PM threatened to seek bankruptcy protection. In December 2005, the Illinois Supreme court reversed a \$10.1 billion verdict against Phillip Morris USA, which had caused concern in the market due to the threat of bankruptcy by Phillip Morris. A bankruptcy could slow the flow of MSA payments which secure the TSFC's outstanding bonds. A significant participant in the MSA, Phillip Morris is responsible for over 50% of the payments under the 1998 MSA. While disposing of this litigation cures some of the bankruptcy event risks viewed by the market, there are still cases pending which challenge the validity of the MSA itself.

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 300 people. Numerous suits have been served upon the State and its Fire Marshal. There is no way to estimate the potential claims against the State and/or its employees. The State intends to contest any liability on its part or that of its employees. In any event, the Attorney General believes the State and its employees have immunity from suit based upon R.I. General Law § 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 per plaintiff limitation contained in the State's Tort Claims Act.

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**Federal Grants**

The State receives significant amounts of federal financial assistance under grant agreements which specify the purpose of the grant and conditions under which the funds may be used. Generally, these grants are subject to audit. Any disallowances as a result of these audits become a liability of the State. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

**Moral Obligation Bonds**

Some component units issue bonds with bond indentures requiring capital reserve funds. Moneys in the capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bond holder(s). These bonds are considered "moral obligations" of the State when the General Laws require the executive director to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget. At June 30, 2005 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had \$272,975,263 and \$66,404,274 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 \$1,800,000 of the debt on the related economic development revenue bonds in fiscal year 2006.

**Component Units**

**R.I. Student Loan Authority**

The R.I. Student Loan Authority (RISLA) maintains letters of credit in the original stated amount of \$31,940,000 on its January 1995 weekly adjustable interest rate bonds and the originally stated amount of \$69,203,000 on its April 1996 Series I, II and III variable rate bonds. The letters of credit obligate the letter of credit provider to pay to the trustee an amount equal to principal and interest on the bonds when the same becomes due and payable (whether by reason of redemption, acceleration, maturity or otherwise) and to pay the purchase price of the bonds tendered or deemed tendered for purchase but not remarketed. The letters of credit will expire on the earliest to occur: a) June 30, 2009, for the January 1995 and April 1996 issue; b) the date the letter of credit is surrendered to the letter of credit provider; c) when an alternative facility is substituted for the letter of credit; d) when the bonds commence bearing interest at a fixed rate; e) when an event of default has occurred or f) when no amount becomes available to the trustee under the letter of credit.

Under an agreement with a provider, the Administrative Fund receives account maintenance, direct commission and other fees from the Program Fund. All the Administrative Fund's

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operating revenues, totaling \$5,828,948, are derived from the Program Fund. In addition, Rhode Island Higher Education Assistance Authority (RIHEAA) receives \$250,000 annually (in quarterly installments) directly from Alliance. During 2002, RIHEAA established two scholarship and grant programs, to be funded with Rhode Island Higher Education Savings Trust (RIHEST) administrative fees, as follows:

Academic Promise Scholarship Program: up to \$1,000,000 is invested annually through RIHEAA in the CollegeBoundfund for the benefit of 100 academic and income-qualified students to provide up to \$10,000 to each student over a four-year scholarship period. During 2005, \$1,000,000 was transferred to RIHEAA and RIHEAA in turn invested that amount in the CollegeBoundfund on behalf of unnamed beneficiaries. 5 and 10 Matching Grant Program: up to \$500,000 may be made available annually by the Authority to invest through RIHEAA into the CollegeBoundfund as matching contribution accounts for individual's account established for the benefit of income-qualifying individuals. .

During 2005, the Board of Directors authorized the transfer of \$4,458,167 to supplement amounts available for need-based scholarships under the State's grant program.

**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, 2005.

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

The R.I. Children's Crusade for Higher Education has a \$850,000 line of credit agreement. Interest is payable monthly at the prime rate less one quarter, which was 3.75% at June 30, 2005. There was an outstanding balance of \$125,000 as of June 30, 2005. Total interest expense for the fiscal year ended June 30, 2005 was \$2,490.

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**Note 14. Employer Pension Plans**

**Plan Descriptions**

The State, through the Employees' Retirement System (System), administers four defined benefit pension plans. Three of these plans; the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan and the Judicial Retirement Benefits Trust (JRBT) and the State Police Retirement Benefits Trust (SPRBT), single-employer defined benefit pension plans; cover most State employees. The State does not contribute to the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to State employees, which is subject to amendment by the general assembly, is established by the General Laws as listed below. In addition to the State, there are 40 local public school entities that are members of the ERS. The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903.

**Summary of Significant Accounting Policies**

**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 based on audited December 31 net asset values adjusted for purchases, sales, and cash flows for the period January 1 through June 30.

Commingled funds consist primarily of institutional equity index funds. The fair value of the commingled funds is based on the reported share value of the respective fund. Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded.

**Funding Policy and Annual Pension Cost**

The State's annual pension cost (expressed in thousands) for the current year and related information for each plan is listed below. The most recent actuarial information may be found in the separately issued audit report referred to above.

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust	
<b>Contribution rates:</b>				
State	11.51%	28.87%	36.19%	
Plan members - state employees	8.75%	8.75%	8.75%	
State contribution for teachers	5.62% and 6.12%			
Annual pension cost	\$114,923	\$2,615	\$2,057	
Contributions made - state employees	\$56,088	\$2,615	\$2,057	
Contributions made - teachers	\$48,835			
Actuarial valuation date	June 30, 2002	June 30, 2002	June 30, 2002	
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	
Equivalent Single Remaining Amortization Period	27 years	27 years	27 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	4.25% to 14.25%	5% to 15.00%	5.50%	
Inflation	3.00%	3.00%	3.00%	
Cost-of-living adjustments	3% compounded	\$1,500 per annum	3%	
<b>Level of benefits established by:</b>				
General Law(s)	35-4 to 10	42-28-22.1	8-3-16, 8-6-10.1, 8-2-7 and 28-30-16.1	
<b>Three-Year Trend Information</b>				
	Year Ending	Annual Pension Cost (APC) (in Thousands)	Percentage of APC Contributed	Net Pension Obligation
Employees' Retirement System	6/30/03	\$ 83,384	100%	\$ 0
	6/30/04	100,739	100%	0
	6/30/05	114,923	100%	0
State Police Retirement Benefits Trust	6/30/03	2,257	100%	0
	6/30/04	2,224	100%	0
	6/30/05	2,615	100%	0
Judicial Retirement Benefits Trust	6/30/03	1,857	100%	0
	6/30/04	1,830	100%	0
	6/30/05	2,057	100%	0

Article 7 of the Fiscal Year 2006 Appropriation Act (Chapter 117 of the RI Public Laws of 2005) enacted and signed by the Governor on June 30, 2005 provided for major changes in the retirement age, accrual of benefits, and cost of living adjustments for all non-vested (less than 10 years of service) state employees and teachers effective July 1, 2005. The law provides for an actuarially reduced retirement available at age 55 and 20 year of service. Enactment of these changes resulted in significantly lower state and local contributions beginning in Fiscal Year 2006 than would have otherwise been required.

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**Other**

Certain employees of the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts with the Teachers' Insurance and Annuity Association. Total expenditures by the institutions for such annuity contracts amounted to \$12,710,225 during the year ended June 30, 2005.

The R.I. Public Transit Authority has two pension plans that cover employees meeting certain eligibility requirements. Employer contribution paid in fiscal year 2005 was \$4,667,483. At January 1, 2005, the most recent valuation date, the total actuarial accrued liability was \$55,908,000 and the actuarial value of assets was \$31,085,548. The net pension obligation as of June 30, 2005 is \$1,833,410.

Certain other component units have defined contribution pension and savings plans. For information regarding these pension and savings plans, please refer to the component units' separately issued financial reports.

**Note 15. Postemployment Benefits**

In accordance with the General Laws, postretirement health care benefits are provided to State employees who retire on or after July 1, 1989. The benefits in general cover medical and hospitalization costs for pre-Medicare retirees and a Medicare supplement for Medicare-eligible retirees. The State provides a subsidy for all recipients equal to the difference between the retiree premium and the active premium. This subsidy cost approximately \$5.6 million in FY 2005. Additionally the State provides an additional benefit based upon years of service. The State's share varies with years of service and ranges from 50% for retirees with 10-15 years of service to 100% for retirees with 35 years of service. During fiscal year 2005, the State contributed 1.87% 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, 2005 were \$9,061,813 net of retirees' contributions for the 5,486 retirees receiving benefits.

In addition to the pension benefits described above, expenditures of \$977,879 were recognized for postretirement benefits provided under early retirement incentive programs (an average of \$1,195 for each of the 818 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. Restatement of Net Assets**

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

	Beginning Net Assets	Changes	Beginning Net Assets as Restated
Entity-wide			
Governmental Activities	\$ (4,563)	\$ (11,393)	\$ (15,956)
	<u>\$ (4,563)</u>	<u>\$ (11,393)</u>	<u>\$ (15,956)</u>
Component Units			
RITBA	\$ 65,114	\$ 173	\$ 65,287
RIPTA	87,600	893	88,493
RICCHE	(2,382)	10,500	8,118
Other	1,506,326		1,506,326
	<u>\$ 1,656,658</u>	<u>\$ 11,566</u>	<u>\$ 1,668,224</u>
			Beginning
	Beginning	Changes	Fund Balance
Governmental Funds	\$ 709,595	\$ (3)	\$ 709,592
	<u>\$ 709,595</u>	<u>\$ (3)</u>	<u>\$ 709,592</u>

The State recorded additional long-term liabilities. RICCHE reduced the long-term estimated scholarship costs, which has been determined not to be a legal obligation of RICCHE. RITBA and RIPTA made corrections in accounting transactions.

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**Note 18. Condensed Financial Statement Information**

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

	RIHFC	RISLA	RITBA	RIEDC	RIUSTFR	NBC
Other assets	\$ 1,844,266	\$ 900,739	\$ 40,280	\$ 279,843	\$ 2,660	\$ 64,351
Capital assets - nondepreciable			7,992	86,652		275,933
Capital assets - depreciable (net)			59,417	242,839	57	207,493
Due from primary government						
Long term debt	1,361,202	803,367	31,796	321,380		293,217
Other liabilities	221,453	31,725	3,484	13,166	691	15,634
Due to primary government				18,307		
Net assets:						
Invested in capital assets, net of related debt	20,132		35,613	136,410	57	190,210
Restricted						
Debt service	164,304	63,462	8,760			
Other				90,424	535	49
Other nonexpendable						
Unrestricted	77,175	2,185	28,036	29,647	1,434	48,667
Operating expenses	77,523	39,507	6,113	66,317	4,172	34,796
Depreciation, depletion, and amortization	4,476	252	1,572	15,414	18	6,397
Program revenue						
Charges for services	61,357	40,854	12,293	54,720	4,802	53,778
Operating grants and contributions				802		36
Capital grants and contributions				9,022		2,942
Net program (expense) revenue	(20,642)	1,095	4,608	(17,187)	412	15,590
Interest and investment earnings	28,954	1,830	2,514	5,125	25	914
Miscellaneous		(2,333)		17,876		(8)
Payments from primary government				9,180		
Change in net assets	8,312	592	7,122	14,794	437	16,466
Beginning net assets	253,299	65,055	65,287	241,887	1,589	222,460
Ending net assets	261,611	65,647	72,409	256,681	2,026	238,926

	RIHEBC	RIRRC	RINEAA	RIPTA	RIIFC
Other assets	\$ 11,994	\$ 101,728	\$ 27,892	\$ 11,683	\$ 1,196
Capital assets - nondepreciable		8,078	194	2,879	
Capital assets - depreciable (net)	88	68,287	1,184	86,936	
Due from primary government				2,323	
Long term debt		19,612	350		
Other liabilities	130	77,507	4,608	10,193	829
Due to primary government				8,283	
Net assets:					
Invested in capital assets, net of related debt	88	81,068	1,377	89,815	
Restricted					
Debt service		1,707			
Other			17,972		
Other nonexpendable					
Unrestricted	11,864	(1,801)	4,963	(4,470)	367
Operating expenses	1,189	47,655	23,617	73,144	(31)
Depreciation, depletion, and amortization	31	10,653	251	9,937	
Program revenue					
Charges for services	1,800	65,048	15,455	27,664	137
Operating grants and contributions				12,609	
Capital grants and contributions				6,242	
Net program (expense) revenue	580	6,740	(8,413)	(36,568)	168
Interest and investment earnings	169	3,472	610	66	11
Miscellaneous		(6,011)	(2,681)	3,133	(250)
Payments from primary government				9,957	30,219
Change in net assets	749	4,201	(527)	(3,148)	(71)
Beginning net assets	11,203	76,773	24,839	88,493	438
Ending net assets	11,952	80,974	24,312	85,345	367

	RICWA	RIIRBA	RIWRBC	RIPTCA	RICCHE
Other assets	\$ 827,848	\$ 4,222	\$ 13,198	\$ 1,336	\$ 9,599
Capital assets - nondepreciable		181		821	
Capital assets - depreciable (net)	50	396	4	5,156	51
Due from primary government					
Long term debt	525,161	3,000	14,232	2,979	
Other liabilities	10,975	60	904	1,513	3,566
Due to primary government					
Net assets:					
Invested in capital assets, net of related debt	50	577		2,480	51
Restricted					
Debt service	279,998				
Other			(2,301)		616
Other nonexpendable					
Unrestricted	11,714	1,162	367	341	5,417
Operating expenses	23,331	403	822	3,553	9,428
Depreciation, depletion, and amortization	272	36	107	736	32
Program revenue					
Charges for services	27,098	256	1,483	2,240	5,766
Operating grants and contributions	23,985		(1,225)		
Capital grants and contributions					
Net program (expense) revenue	27,480	(183)	(491)	(2,049)	(3,694)
Interest and investment earnings		74	169	67	217
Miscellaneous					95
Payments from primary government					3,189
Change in net assets	27,480	(109)	(322)	1,424	(2,034)
Beginning net assets	264,282	1,848	(1,612)	1,397	8,118
Ending net assets	291,762	1,739	(1,934)	2,821	6,084

	URI	RIC	CCRI	CPSD	Totals
Other assets	\$ 248,519	\$ 36,691	\$ 14,143	\$ 5,981	\$ 4,448,169
Capital assets - nondepreciable	15,700	8,833	12,362		419,625
Capital assets - depreciable (net)	248,390	48,927	37,140	3,801	1,010,216
Due from primary government					2,323
Long term debt	200,398	20,105	11,044	2,197	3,610,040
Other liabilities	55,694	17,058	6,789	5,723	481,882
Due to primary government			1,049		27,639
Net assets:					
Invested in capital assets, net of related debt	147,543	42,960	43,827	3,272	795,530
Restricted					
Debt service					518,231
Other	34,669	7,596	5,508	135	155,203
Other nonexpendable	58,142	8,536			66,678
Unrestricted	16,163	(1,804)	(4,552)	(1,546)	225,330
Operating expenses	334,165	102,735	86,746	48,548	983,536
Depreciation, depletion, and amortization	15,515	4,931	2,394	210	73,234
Program revenue					
Charges for services	248,514	59,112	44,034	10,197	736,388
Operating grants and contributions		1,704	1,185		39,096
Capital grants and contributions	6,415	3,194	7,424		38,239
Net program (expense) revenue	(91,751)	(43,658)	(36,497)	(38,561)	(243,047)
Interest and investment earnings	1,632	1,283	176	17	47,108
Miscellaneous	18,105	1,016	112	153	29,224
Payments from primary government	81,841	43,892	41,816	37,804	259,463
Change in net assets	9,827	2,535	5,607	(587)	92,748
Beginning net assets	246,690	54,753	36,176	2,449	1,668,224
Ending net assets	256,517	57,288	44,783	1,862	1,760,972

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Significant transactions between primary government and component units

	Revenue (Expenses)	Description
<b>Governmental activities</b>		
<b>General Fund</b>		
R.I. Higher Education Assistance Authority	\$ (9,957)	Operating assistance
R.I. Economic Development Corporation	(8,762)	Operating assistance
RI Student Loan Authority	5,000	Surplus
University of Rhode Island	(72,492)	Educational assistance
Rhode Island College	(43,692)	Educational assistance
Community College of Rhode Island	(36,349)	Educational assistance
Central Falls School District	(37,804)	Educational assistance
<b>ISTEA Fund</b>		
R.I. Public Transit Authority	(30,219)	Operating assistance
<b>Capital Projects</b>		
University of Rhode Island	(8,349)	Construction, improvement or purchase of assets
Community College of Rhode Island	<u>(5,467)</u>	Construction, improvement or purchase of assets
<b>Total Governmental Activities</b>	<b>\$ <u>(249,291)</u></b>	

**Note 19. Risk Management**

The State is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; employee injury; and natural disasters.

The State has entered into agreements with commercial insurance companies for comprehensive insurance coverage on State property to protect the State against loss from fire and other risks. Furthermore, the State is required by the General Laws to provide insurance coverage on all motor vehicles owned by the State and operated by State employees in the sum of \$100,000 per person and \$300,000 per accident for personal injury and \$20,000 for property damage.

The State also has a contract with an insurance company to provide health care benefits to employees. The State reimburses the company for the costs of all claims paid plus administrative fees. The estimated liability for incurred but not reported (IBNR) claims of \$15,161,000 at June 30, 2005 was calculated by a human resources consulting firm based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	Liability at July 1	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30
<b>Health Insurance Fund</b>				
Liability for unpaid claims	\$	\$ 97,521	\$ 81,754	\$ 15,767

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

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that services, among other things, workers' compensation claims. Funding is provided through a fringe benefit rate applied to State payrolls on a pay-as-you-go basis.

**Note 20. Special Items**

**Primary Government**

In April 2005, The Rhode Island Convention Center Authority (RICCA) sold the land and building known as the Westin Hotel to a private third party for the sale price of \$95,500,000. As a result of the sale RICCA realized a gain in the amount of \$11,947,952, which consists of a loss on defeasance of bonds (\$16,205,277), income from discontinued operations \$4,531,953, and a gain on disposal of discontinued operations \$23,621,276.

**Note 21. Related Party Transactions**

The R.I. Industrial-Recreational Building Authority is authorized to insure mortgages and first security agreements for companies conducting business in the State, granted by financial institutions and the R.I. Industrial Facilities Corporation.

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC) a subsidiary of the R.I. Economic Development Corporation whereby the State has agreed to lease various assets to RIAC. The agreement requires RIAC to reimburse the State for principal and interest payments for certain airport related General Obligation Bonds. The term of the agreement is 30 years beginning July 1, 1993, with annual rent of \$1.00.

The Rhode Island Student Loan Authority (RISLA) and the Rhode Island Higher Education Assistance Authority (RIHEAA), component units of the State, are related parties. RISLA is a public instrumentality created to provide a statewide student loan program through the acquisition and origination of student loans. RIHEAA is a public instrumentality created for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post-secondary student financial assistance assigned by law.

Transactions between RISLA and RIHEAA as of and during the year ended June 30, 2005 were as follows:

Guaranteed loans outstanding at June 30, 2005	\$469,117,000
Loans guaranteed during the year	199,680,000
Guarantee claims paid during the year	10,686,000

The Rhode Island Housing and Mortgage Finance Corporation (Corporation) and the State have entered into a contractual relationship whereby the Corporation assumed the responsibility for the State Rental Subsidy Program for the period July 1, 1994 through June 30, 1997. In addition, the Corporation made \$3,800,000 in advances on behalf of the



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State for this program in the fiscal year ended June 30, 1994. As provided in the contractual arrangement, the State agreed to repay the \$3,800,000, subject to appropriations, in installments of \$950,000 over a four year period beginning in the year ended June 30, 1996, but to date no payments have been received, nor have any payments for advances totaling \$31,940,146 made during the years ended June 30, 1998 through 2005 been received.

**Note 22. Subsequent Events**

**Primary Government – Governmental Activities**

In July 2005, the General Assembly abolished the State Lottery Commission that oversaw the operations of the State Lottery, a blended component unit, and established the State Lottery as a division of the Department of Administration.

Subsequent to June 30, 2005 the Director of State Lotteries entered into long-term contracts with the owners of the State's two licensed video lottery retailers. These master contracts allow for the addition of 2,550 video lottery terminals between the two facilities, provided that the facilities invest \$150.0 million in structural and operational upgrades and expansions within the next three years. These master contracts freeze the share of video lottery NTI that is allocated to each facility at a fixed percent.

In November 2005, the state issued \$93,385,000 of general obligation bonds with interest rates ranging from 3.00% to 5.00% with maturity dates of November 2006 through November 2025.

In July 2005, the Rhode Island House and Senate gave the RI Convention Center Authority (RICCA) approval to issue bonds to finance the acquisition of the Dunkin' Donuts Center. The legislation authorizes RICCA to issue up to \$92,500,000 in revenue bonds to finance the acquisition from the City of Providence of the real property and improvements constituting the Dunkin' Donuts Center, the renovation, equipping, improvement and redevelopment of the facility, and the costs of issuing and insuring the bonds.

In December 2005, RICCA issued \$33,000,000 in revenue bonds to finance the above acquisition.

In August 2005, RICCA issued 2005 Series A Revenue Refunding Bonds in an aggregate principal amount of \$34,610,000 for the purpose of refunding \$35,395,000 of RICCA's outstanding 1993 Series C Refunding Revenue Bonds and to pay the cost of issuance. The 2005 Series A Bonds will mature between 2006 and 2023 and bear interest at 3.5% to 5%. This advance refunding meets the qualifications of in-substance defeasance due to the fact, that among other things, RICCA purchased U.S. Treasury Securities and the refunding results in a net present value savings of \$1,597,800.

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In October 2005, Standard and Poor's Rating Service raised the underlying rating for general obligation bonds of the State from AA- to AA.

In November 2005, Employees' Retirement System obtained title to commercial real estate located in Providence, Rhode Island as a result of bankruptcy foreclosure proceedings in the U.S. Bankruptcy Court. The Employees' Retirement System held a first lien on the commercial real estate owned by an obligor of a mortgage loan receivable held as a plan specific investment. The mortgage loan receivable is guaranteed by the Rhode Island Economic Development Corporation (RIEDC) to the extent of \$3 million. The Employees' Retirement System has requested payment of a guarantee by RIEDC. In January 2006, the Employees' Retirement System leased the premises to a corporation pursuant to a 3-year operating lease.

The Rhode Island Economic Development Corporation (RIEDC) plans to issue, in March 2006, \$184,620,000 of Grant Anticipation Revenue Bonds which are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects. These bonds have interest rates between 4.000% and 5.000% and mature June 2007 through June 2018.

The RIEDC plans to issue, in March 2006, \$42,815,000 of Rhode Island Motor Fuel Tax Revenue Bonds which are payable solely from certain pledged revenues derived from two cents (\$.02) per gallon of the thirty cents (\$.30) per gallon Motor Fuel Tax. These bonds have interest rates between 3.500% and 5.000% and mature June 2007 through June 2026.

**Component Units**

Subsequent to June 2005, The Rhode Island Housing and Mortgage Finance Corporation instructed its trustee to redeem the Homeownership Opportunity Bonds in the amount of \$46,735,000.

Subsequent to June 2005 the Narragansett Bay Commission (NBC) issued \$45,000,000 in Wastewater System Revenue Bonds 2005 Series A. The 30-year revenue bond is structured as interest only for the first 20 years with principal payments commencing in 2026. The bonds will be used to finance NBC's construction in progress.

Subsequent to June 2005 the Rhode Island Resource Recovery Corporation (RIRRC) entered into a sales agreement to sell its existing Plainfield Pike location. The sales agreement is contingent upon the purchaser obtaining all the necessary permits for his intended use of the property.

In July 2005, RIRRC acquired land adjacent to its existing Shun Pike location for a purchase price of \$4,000,000. RIRRC issued \$2,500,000 of promissory notes in conjunction with the land acquisition.

Subsequent to June 30, 2005, the R.I. Health and Educational Building Corporation, the R.I. Economic Development Corporation and the R.I. Industrial Facilities Corporation have

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issued various conduit debt obligations, which are not obligations of the respective corporations or the State.

Subsequent to June 30, 2005, the R.I. Health and Educational Building Corporation issued

- \$13,840,000 in URI Dining Facility Bonds 2005 Series C. The 2005 Series C Bonds will mature between 2007 and 2036 and bear interest at 3% to 4.625%.
- \$19,625,000 in Auxiliary Enterprise Refunding Bonds 2005 Series D (URI). The 2005 Series D Bonds will mature between 2008 and 2030 and bear interest at 3.5% to 4.5%.
- \$3,530,000 in Auxiliary Enterprise Refunding Bonds 2005 Series E (RIC). The 2005 Series E Bonds will mature between 2007 and 2031 and bear interest at 3.5% to 4.5%.
- \$3,245,000 in Tyler Hall Renovations Bonds 2005 Series F (URI). The 2005 Series F Bonds will mature between 2007 and 2026 and bear interest at 3.25% to 4.5%.
- \$44,805,000 in Education and General Refunding Bonds 2005 Series G (URI). The 2005 Series G Bonds will mature between 2008 and 2031 and bear interest at 4% to 5%.

Subsequent to June 30, 2005, the R. I. Housing and Mortgage Finance Corporation issued

- \$43,135,000 in Homeownership Opportunity Bonds Series 50-A. The 2005 Series 50-A Bonds will mature between 2006 and 2035 and bear interest at 2.6% to 4.65%.
- \$38,365,000 in Homeownership Opportunity Bonds Series 50-B. The 2005 Series 50-B Bonds will mature in 2036 and bear interest rate of 4.6%.
- \$32,570,000 in Homeownership Opportunity Note Series 50-C. The 2005 Series 50-C Notes will mature in 2008 and bear interest rate of 4.0%.
- \$47,165,000 in Homeownership Opportunity Bonds Series 51-A. The 2005 Series 51-A Bonds will mature between 2007 and 2033 and bear interest at 3.2% to 4.85%.
- \$7,605,000 in Homeownership Opportunity Bonds Series 51-B. The 2005 Series 51-B Bonds mature between 2036 and 2037 and bear interest at 4.875% to 5.0%.
- \$3,765,000 in Homeownership Opportunity Note Series 51-C. The 2005 Series 51-C Notes will mature in 2009 and bear interest rate of 4.5%.
- \$27,120,000 in Homeownership Opportunity Note Series 51-D. The 2005 Series 51-D Notes will mature in 2009 and bear interest rate of 4.5%.
- \$21,180,000 in Housing Bonds Series A-1A. The 2005 Series A-1A Bonds will mature between 2007 and 2036 and bear interest at 3.1% to 4.875%.
- \$5,235,000 in Housing Bonds Series A-1B. The 2005 Series A-1B Bonds will mature between 2013 and 2036 and bear interest at 4.9% to 5%.
- \$7,845,000 in Housing Bonds Series A-2T. The 2005 Series A-2T Bonds will mature between 2016 and 2036 and bear interest at 5.14% to 5.76%.

Subsequent to June 2005 the Rhode Island Clean Water Financing Agency (RICWFA) granted Narragansett Bay Commission (NBC), another component unit, a \$30,000,000 Leveraged Loan. NBC will repay the loan over 20 years at interest rates of 1.110% to 1.565%.

Subsequent to June 2005 a borrower defaulted on loan issued by the R. I. Industrial Facilities Corporation and secured by mortgage insurance issued by the R.I. Industrial-Recreational Building Authority (RIIRBA), another component unit. RIIRBA paid \$3,000,000 plus interest to settle the default.

**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
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**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
<b>Revenues:</b>				
<b>General Revenues:</b>				
Personal Income Tax	\$ 926,275	\$ 980,600	\$ 979,082	\$ (1,518)
General Business Taxes:				
Business Corporations	91,331	112,000	116,026	4,026
Franchise				
Public Utilities Gross Earnings	86,500	89,000	86,358	(2,642)
Financial Institutions	(3,000)	(1,100)	(1,480)	(380)
Insurance Companies	41,000	51,700	53,333	1,633
Bank Deposits	1,010	1,600	1,524	(76)
Health Care Provider Assessment	43,800	48,000	46,827	(1,173)
Sales and Use Taxes:				
Sales and Use	858,600	849,100	847,727	(1,373)
Motor Vehicle	47,100	46,500	47,137	637
Motor Fuel	1,092	1,000	1,961	961
Cigarettes	143,800	136,700	136,342	(358)
Alcohol	10,500	11,000	10,537	(463)
Controlled Substances				
Other Taxes:				
Inheritance and Gift	25,000	31,700	32,981	1,281
Racing and Athletics	4,610	4,200	3,991	(209)
Realty Transfer Tax	11,000	14,500	14,423	(77)
<b>Total Taxes</b>	<b>2,288,618</b>	<b>2,376,500</b>	<b>2,376,769</b>	<b>269</b>
<b>Departmental Revenue</b>	<b>303,475</b>	<b>294,686</b>	<b>267,953</b>	<b>(26,733)</b>
<b>Total Taxes and Departmental Revenue</b>	<b>2,592,093</b>	<b>2,671,186</b>	<b>2,644,722</b>	<b>(26,464)</b>
<b>Other Sources</b>				
Gas Tax Transfer	9,560	9,400	9,023	(377)
Other Miscellaneous	19,173	26,950	28,197	1,247
Lottery	322,397	310,000	307,550	(2,450)
Unclaimed Property	11,150	15,797	15,618	(179)
<b>Total Other Sources</b>	<b>362,280</b>	<b>362,147</b>	<b>360,388</b>	<b>(1,759)</b>
<b>Total General Revenues</b>	<b>2,954,373</b>	<b>3,033,333</b>	<b>3,005,110</b>	<b>(28,223)</b>
Federal Revenues	1,646,382	1,719,761	1,655,563	(64,198)
Restricted Revenues	109,645	116,198	105,367	(10,831)
Other Revenues	114,754	104,786	95,180	(9,606)
<b>Total Revenues</b>	<b>4,825,154</b>	<b>4,974,078</b>	<b>4,861,220</b>	<b>(112,858)</b>
<b>Expenditures:</b>				
<b>Department of Administration</b>				
Central Management				
General Revenue Total	3,820	5,462	5,606	(144)
Federal Funds Total	281	324	256	68
Restricted Receipts		28	7	21
** Total-Central Management	4,101	5,814	5,869	(55)
<b>Accounts &amp; Control</b>				
General Revenue	4,005	4,029	3,889	140
<b>Total-Accounts &amp; Control</b>	<b>4,005</b>	<b>4,029</b>	<b>3,889</b>	<b>140</b>

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**(Expressed in Thousands)**

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**General Fund**  
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**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
<b>Budgeting</b>				
General Revenue Total	2,367	2,426	2,208	218
Total-Budgeting	2,367	2,426	2,208	218
<b>Municipal Affairs</b>				
General Revenue Total	1,188	1,025	1,008	17
Federal Funds Total	9,966	7,941	6,090	1,851
Total-Municipal Affairs	11,154	8,966	7,097	1,869
<b>Purchasing</b>				
General Revenue Total	2,016	2,037	1,907	130
Total-Purchasing	2,016	2,037	1,907	130
<b>Auditing</b>				
General Revenue Total	1,690	1,674	1,499	175
Total-Auditing	1,690	1,674	1,499	175
<b>Human Resources</b>				
Other Fund Total		8	9	(1)
General Revenue Total	6,900	6,372	6,210	162
Federal Funds Total		85	85	
Total-Human Resources	6,900	6,465	6,304	161
<b>Personnel Appeal Board</b>				
General Revenue Total	118	94	86	8
Total-Personnel Appeal Board	118	94	86	8
<b>Taxation</b>				
Motor Fuel Tax Evasion Program	56	56	30	26
Temporary Disability Insurance	757	736	704	32
General Revenue Total	18,184	17,780	17,038	742
Federal Funds Total	1,027	999	959	40
Restricted Receipts Total	1,109	1,071	726	345
Total-Taxation	21,134	20,642	19,456	1,186
<b>Registry of Motor Vehicles</b>				
General Revenue Total	15,354	16,367	16,506	(139)
Federal Funds Total	29	690	257	433
Restricted Receipts Total	14	14	15	(1)
Total-Registry of Motor Vehicles	15,397	17,070	16,778	292
<b>Child Support</b>				
General Revenue Total	3,309	3,300	3,300	
Federal Funds Total	6,656	6,589	6,410	179
Total-Child Support	9,965	9,889	9,710	179

	Original Budget	Final Budget	Actual	Variance
<b>Central Services</b>				
General Revenue Totals	11,622	12,453	13,037	(584)
Energy Office Grants	663	900	980	(80)
Renewable Energy Program	2,150	3,000	2,063	937
Federal Funds Totals	18,069	17,508	16,301	1,207
Restricted Receipts Total	777	899	569	330
Total-Central Services	33,281	34,759	32,950	1,809
<b>Office of Library &amp; Information Service</b>				
Federal Highway-PL Systems Planning	997	1,019	868	151
Air Quality Modeling	17	17	16	1
General Revenue Total	4,746	4,874	4,288	586
Federal Funds Total	1,288	2,320	1,393	927
Restricted Receipts Total	5	8	1	7
Total-Office of Library & Information Service	7,054	8,238	6,565	1,673
<b>General</b>				
RICAP-State House Terrace/South Stairs	583	333	311	22
RICAP-Pastore Center Sewer Improvements	1,750	1,900	993	907
RICAP-Chapin Health Laboratory	263	83	51	32
RICAP-Cranston Street Armory	946	946	468	478
RICAP-Cannon Building	101	101	92	9
RICAP-Old State House	400	25		25
RICAP-State Office Building	215	215	276	(61)
RICAP-Veterans Office Building	294	294	240	54
RICAP- State Information Operations Center	43	15	22	(7)
RICAP-Old Colony House	134	74	20	54
RICAP-Washington County Government Center	251	251	36	215
RICAP-State House Security	33	6	6	
RICAP-State House Renovations - Phase II	539	339	286	53
RICAP-William Powers Building	213	163	120	43
RICAP-State House Renovations-Phase III	290	445	292	153
RICAP-Powers Building Tech Infrastructure	222	222	184	38
RICAP-Board of Elections Building	28	28	50	(22)
RICAP-Environmental Compliance	713	463	282	181
RICAP-Fox Point Hurricane Barrier	50	50	50	
RICAP-Bio Tech Training Lab-Planning Funds	200	200		200
RICAP-Fire Code Compliance State Building	250	50		50
Information Processing Rotary Account-Overhead	680	680	680	
Property Tax Relief Credit	6,000	6,000	6,000	
Rhode Island Sports Foundation	550	550	550	
Shepard Building Operating/Parking	1,970	2,076	2,162	(86)
Miscellaneous Grants and Payments	1,028	1,083	1,083	
Torts-Court Awards	400	400	614	(214)
Asset Inventory	150	150	51	99
Race and Police Community Relations Commission	78	78	83	(5)
State Employees/Teachers Retiree Health	5,644	6,442	5,748	694
Masonic Temple	500	500	500	
Contingency Fund	648	648	468	180
Economic Development Corporation Grant	6,833	6,833	6,817	16
Office of City and Town Development-EDC	375	375	375	

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, 2005**  
**(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, 2005**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Centers of Excellence	3,000	3,000	3,000	
Economic Policy Council	300	300	336	(36)
Housing Resources Commission	3,383	3,522	3,360	162
Neighborhood Opportunities Program	5,000	5,000	4,903	97
Motor Vehicle Excise Tax Payment	104,987	104,987	104,845	142
Property Valuation	861	861	648	213
General Revenue Sharing Program	52,439	52,439	52,439	
Payment in Lieu of Tax Exempt Properties	22,716	22,716	22,716	
Distressed Communities Relief Program	8,533	9,533	9,533	
Resource Sharing and State Library Aid	8,092	8,085	8,069	16
Library Construction Aid	2,621	2,541	2,492	49
EPScore-EDC	1,500			
Federal Funds		402	(17)	419
Restricted Receipts Total	1,126	1,126	1,081	45
Total-General	246,856	246,530	242,314	4,216
Debt Service Payments				
RICAP-DEM-Narragansett Bay Commission	373	373	373	
RICAP-DEM-Wastewater Treatment	4,731	4,685	4,685	
RICAP-DEM-Debt Service-Recreation	6,167	6,033	6,033	
RIPTA Debt Service	623	583	583	
RICAP-MHRH Com Services	5,413	5,306	5,306	
RICAP-MHRH Comm. Mental Health	2,087	2,375	2,375	
Transportation Debt Service	34,570	33,045	33,041	4
RIRBA-DLT Temporary Disability Insurance	46	46	62	(16)
COPS-DLT Building-TDI	361	363	355	8
Cops-DLT Building-Reed Act	30	37	27	10
COPS-Center General-Furniture-TD1	19	18	18	
COPS-Center General-Furniture-Reed Act	6	7	5	2
COPS-Center General-Furniture-Reed Act	1	2	1	1
COPS-Pastore Center Telecomm-TDI	17	17	16	1
Debt-URI Education and General	1,089	1,089	3,597	(2,508)
Debt-URI Housing Loan Funds	1,752	1,752	2,505	(753)
Debt-URI Dining Services	267	267	241	26
Debt-URI Health Services	126	126	114	12
Debt-W. Alton Jones Service	113	113	101	12
Debt-URI Memorial Union	98	98	89	9
Debt-URI Sponsored Research (Indirect Cost)	101	101	100	1
Debt-RIC Education and General	297	297	292	5
Debt-RIC Housing	568	568	522	46
Debt-RIC Student Center and Dining	178	178	158	20
Debt-RIC Student Union	217	217	275	(58)
Debt-CCRI Bookstore	177	177	176	1
Debt Service Special Account			104	(104)
Debt Service Payments	89,725	85,118	85,120	(2)
Federal Funds	1,286	1,355	1,209	146
Restricted Receipts Fund	7,787	6,551	5,887	664
Total-Debt Service Payments	158,227	150,898	153,370	(2,472)

	Original Budget	Final Budget	Actual	Variance
Sheriffs				
General Revenue Total	13,428	13,598	13,786	(188)
Total Sheriffs	13,428	13,598	13,786	(188)
Pay Plan Reserve General Revenue		7,138		7,138
General Revenue Fund Total-Dept Of Admin	419,495	426,446	416,002	10,444
Federal Grant Fund Total-Dept of Admin	38,602	38,214	32,942	5,272
Restricted Fund Total-Dept of Admin	10,818	9,697	8,286	1,411
Other Fund Total-Dept of Admin	68,776	65,913	66,558	(645)
Total-Department of Administration	537,690	540,270	523,788	16,482
Department of Business Regulation				
Central Management				
General Revenue Total	1,686	1,710	1,743	(33)
Total-Central Management	1,686	1,710	1,743	(33)
Banking Regulation				
General Revenue Total	1,687	1,676	1,659	17
Total-Banking Regulation	1,687	1,676	1,659	17
Security Regulation				
General Revenue Total	806	790	775	15
Total-Security Regulation	806	790	775	15
Commercial Licensing and Regulation				
General Revenue Total	1,207	1,226	1,219	7
Restricted Revenue Total	100	100	16	84
Total-Commercial Licensing and Regulation	1,307	1,326	1,235	91
Racing and Athletics				
General Revenue Total	546	474	477	(3)
Total-Racing and Athletics	546	474	477	(3)
Insurance Regulation				
General Revenue Total	3,985	3,501	3,272	229
Restricted Receipts Total	530	684	460	224
Total-Insurance Regulation	4,515	4,186	3,732	454
Board of Accountancy				
General Revenue Total	135	138	133	5
Total-Board of Accountancy	135	138	133	5
General Revenue Fund Total-DBR	10,053	9,515	9,278	237
Restricted Fund Total-DBR	630	784	476	308
Total-Department of Business Regulation	10,683	10,300	9,755	545

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, 2005**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Department of Labor and Training				
Central Management				
General Revenue Total	272	374	275	99
Director of Workers' Compensation	446	686	523	163
Total-Central Management	719	1,060	799	261
Workforce Development Services				
Reed Act-Woonsocket Network Office Renovations	150	314	36	278
Reed Act-Rapid Job Development	1,650	1,651	1,336	315
Reed Act-Workforce Development	5,998	4,780	2,456	2,324
Federal Funds Total	14,674	17,670	15,171	2,499
Restricted Receipts	12,961	11,164	10,352	812
Total-Workforce Development Services	35,433	35,580	29,351	6,229
Workforce Regulation and Safety				
General Revenue Total	3,399	3,340	3,334	6
Total-Workforce Regulation and Safety	3,399	3,340	3,334	6
Income Support				
General Revenue Total	2,908	3,049	3,153	(104)
Federal Funds Total	14,061	14,476	16,656	(2,180)
Restricted Receipt Total	1,378	1,349	1,364	(15)
Total-Income Support	18,348	18,874	21,173	(2,299)
Injured Workers Services				
Restricted Receipts Total	11,232	11,680	10,083	1,597
Total-Injured Workers Services	11,232	11,680	10,083	1,597
Labor Relations Board				
General Revenue Total	342	319	334	(15)
Total-Labor Relations Board	342	319	334	(15)
General Revenue Fund Total-DLT	6,921	7,082	7,096	(14)
Federal Grants Fund Total-DLT	28,735	32,146	31,826	320
Restricted Fund Total-DLT	26,017	24,879	22,323	2,556
Other Fund Total-DLT	7,799	6,746	3,828	2,918
Total-Department of Labor and Training	69,472	70,853	65,074	5,779
General Assembly				
General Revenue Fund Total	31,444	29,385	26,933	2,452
Restricted Receipts Fund Total	1,099	1,099	1,099	
Legislative Office Building	1,500			
General Revenue Fund Total-Gen Assembly	31,444	29,385	26,933	2,452
Restricted Fund Total-Gen Assembly	1,099	1,099	1,099	
Other Fund Total-Gen Assembly	1,500			
Total-General Assembly	34,044	30,483	28,032	2,451

Exhibit A-59

**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, 2005**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Office of the Lieutenant Governor				
Lt. Governor's Office-General				
General Revenue Total	865	867	848	19
General Revenue Fund Total-Office of Lieutenant Governor	865	867	848	19
Total-Office of the Lieutenant Governor	865	867	848	19
Department of State				
Administration				
General Revenue Total	1,505	1,534	1,612	(78)
Total-Administration	1,505	1,534	1,612	(78)
Corporations				
General Revenue Total	1,500	1,504	1,563	(59)
RI e-Gov Fund-UCC Automated System	72	84	55	29
Total-Corporation	1,572	1,588	1,618	(30)
State Archives				
General Revenue Total	97	94	94	
Restricted Receipts total	523	481	391	90
Total-State Archives	621	575	485	90
Elections				
General Revenue Total	743	786	807	(21)
Federal Funds Total	2,635	2,934	2,913	21
Total-Elections	3,378	3,720	3,721	(1)
State Library				
General Revenue Total	727	710	712	(2)
Total-State Library	727	710	712	(2)
Office of Public Information				
General Revenue Total	427	412	444	(32)
Total-Office of Public Information	427	412	444	(32)
General Revenue Fund Total-Sec of State	5,072	5,124	5,289	(165)
Federal Grant Fund Total-Sec of State	2,635	2,934	2,913	21
Restricted Fund Total-Sec of State	523	481	391	90
Total-Department of State	8,230	8,539	8,593	(54)
Treasury Department				
Treasury				
General Revenue Total	2,513	2,511	2,398	113
Federal Funds Total	261	259	237	22
Restricted Receipts Total	10	10	10	
Total-Treasury	2,783	2,780	2,635	145

**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, 2005**  
**(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, 2005**  
**(Expressed in Thousands)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>		<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
State Retirement System					Office of Governor				
Administrative Expenses-State Retirement System	6,759	6,809	4,763	2,046	General Revenue Total	4,390	4,440	4,363	77
Retirement-Treasury Investment Operations	686	685	994	(309)	General Revenue Fund Total-Office of the Governor	4,390	4,440	4,363	77
Total-State Retirement System	7,445	7,494	5,757	1,737	Total-Office of the Governor	4,390	4,440	4,363	77
Unclaimed Property					Public Utilities Commission				
Restricted Receipts Total	19,561	25,304	25,202	102	General Revenue Total	820	678	628	50
Total-Unclaimed Property	19,561	25,304	25,202	102	Federal Funds Total	73	72	56	16
RI Refunding Bond Authority					Restricted Receipts Total	5,338	5,376	4,133	1,243
General Revenue Total	72	52	32	20	General Revenue Fund Total-PUC	820	678	628	50
Total-RI Refunding Bond Authority	72	52	32	20	Federal Grant Fund Total-PUC	73	72	56	16
Crime Victim Compensation Program					Restricted Fund Total-PUC	5,338	5,376	4,133	1,243
General Revenue Total	3,228	752	737	15	Total-Public Utilities Commission	6,232	6,126	4,818	1,308
Federal Funds Total	4,111	1,931	1,477	454	Rhode Island Commission on Women				
Restricted Receipts Total	2,801	2,070	293	1,777	General Revenue Total	84	85	84	1
Total-Crime Victim Compensation Program	10,140	4,753	2,506	2,247	General Revenue Fund Total-RI Commission on Women	84	85	84	1
General Revenue Fund Total-Treasury	5,813	3,316	3,166	150	Total-Rhode Island Commission on Women	84	85	84	1
Federal Grant Fund Total-Treasury	4,372	2,190	1,714	476	Department of Children, Youth, and Families				
Restricted Fund Total-Treasury	22,372	27,384	25,494	1,890	Central Management				
Other Fund Total-Treasury	7,445	7,494	5,757	1,737	General Revenue Total	7,814	7,671	8,238	(567)
Total-Treasury Department	40,001	40,384	36,131	4,253	Federal Funds Total	3,780	3,738	3,359	379
Boards for Design Professionals-PL					Total-Central Management	11,594	11,409	11,597	(188)
Boards For Professional Design					Children's Behavioral Health Services				
General Revenue Total	414	422	379	43	RICAP-Spurwink/RI	23	1	1	
General Revenue Fund Total-Board of Professional Design	414	422	379	43	General Revenue Total	21,867	28,690	27,374	1,316
Total-Boards For Professional Designs-PL	414	422	379	43	Federal Funds Total	24,103	35,612	33,343	2,269
Board of Elections					Total-Children's Behavioral Health Services	45,993	64,303	60,717	3,586
General Revenue Total	1,608	1,567	1,502	65	Juvenile Correctional Services				
Federal Funds Total	1,002	1,342	1,067	275	RICAP-RI Training School-Girls Facilities		900		900
General Revenue Fund Total-Board of Elections	1,608	1,567	1,502	65	RICAP-NAFI Center	52			
Federal Grant Fund Total-Board of Elections	1,002	1,342	1,067	275	General Revenue Total	28,554	28,870	28,420	450
Total-Board Of Elections	2,610	2,909	2,569	340	Federal Funds Total	2,760	2,843	3,017	(174)
Rhode Island Ethics Commission					Restricted Receipts Total	7	611	44	567
General Revenue Total	1,170	1,138	969	169	Total-Juvenile Correctional Services	31,372	33,224	31,481	1,743
General Revenue Fund Total-RI Ethics Commission	1,170	1,138	969	169	Child Welfare				
Total-Rhode Island Ethics Commission	1,170	1,138	969	169	General Revenue Total	85,254	89,904	91,133	(1,229)
					Federal Funds Total	64,612	66,761	66,620	141
					Restricted Receipts Total	1,512	1,609	1,365	244
					Total-Child Welfare	151,378	158,273	159,119	(846)

Exhibit A-60

**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, 2005**  
**(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, 2005**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Higher Education Incentive Grant				
General Revenue Total	200	200	200	
Total-Higher Education Incentive Grants	200	200	200	
General Revenue Fund Total-DCYF	143,688	155,336	155,365	(29)
Federal Grant Fund Total-DCYF	95,254	108,954	106,339	2,615
Restricted Fund Total-DCYF	1,519	2,220	1,410	810
Other Fund Total-DCYF	75	901	1	900
Total-Department of Children, Youth, and Families	240,536	267,410	263,114	4,296
Department of Elderly Affairs				
Intermodel Surface Transportation Fund	4,780	4,700	4,607	93
General Revenues Total	15,243	12,462	14,916	(2,454)
Safety and Care of the Elderly	1	1	1	
RIPAE	14,771	11,791	10,744	1,047
Federal Funds Total	12,396	13,916	11,769	2,147
General Revenue Fund Total-Dept of Elderly Affairs	30,014	24,254	25,660	(1,406)
Federal Grant Fund Total-Dept of Elderly Affairs	12,396	13,916	11,769	2,147
Other Fund Totals-Dept of Elderly Affairs	4,780	4,700	4,607	93
Total-Department of Elderly Affairs	47,190	42,870	42,037	833
Department of Health				
Central Management				
General Revenues Total	4,676	4,475	4,693	(218)
Federal Funds Total	5,210	4,453	4,074	379
Restricted Receipts Total	2,925	3,821	3,612	209
Total-Central Management	12,811	12,750	12,379	371
State Medical Examiner				
General Revenue Total	1,827	1,859	1,828	31
Federal Funds Total	157	138	140	(2)
Total-State Medical Examiners	1,983	1,997	1,969	28
Family Health				
General Revenues Total	2,831	2,843	2,898	(55)
Federal Funds Total	32,002	30,799	29,491	1,308
Restricted Receipts Total	5,723	5,689	4,311	1,378
Total-Family Health	40,556	39,331	36,700	2,631
Health Services Regulation				
General Revenues Total	4,618	4,462	4,235	227
Federal Funds Total	5,003	5,972	5,010	962
Restricted Receipts Total	382	358	294	64
Total-Health Services Regulation	10,004	10,792	9,539	1,253

	Original Budget	Final Budget	Actual	Variance
Environmental Health				
General Revenue Total	4,430	4,370	4,395	(25)
Federal Funds Total	4,070	5,338	3,789	1,549
Restricted Receipts Total	1,439	1,670	1,475	195
Total-Environmental Health	9,939	11,377	9,659	1,718
Health Laboratories				
General Revenue Total	6,008	5,913	5,844	69
Federal Funds Total	2,294	2,485	2,586	(101)
Total-Health Laboratories	8,302	8,399	8,430	(31)
Disease Prevention and Control				
General Revenue Total	4,786	5,154	5,219	(65)
Smoking Cessation	835	835	748	87
Federal Funds Total	16,138	19,520	19,414	106
Restricted Receipts Total	1,049	1,142	838	304
Trauma Registry				
Child Safety Program	79	84	21	63
Walkable Communities Initiative	20	28	17	11
Total-Disease Prevention and Control	22,907	26,764	26,257	507
General Revenue Fund Total-Health	30,012	29,912	29,859	53
Federal Grant Fund Total-Health	64,874	68,704	64,504	4,200
Restricted Fund Total-Health	11,518	12,680	10,530	2,150
Other Fund Total-Health	99	113	38	75
Total-Department of Health	106,503	111,408	104,932	6,476
Department of Human Services				
Central Management				
General Revenue Total	6,693	6,434	5,952	482
Federal Funds Total	4,321	5,204	3,791	1,413
Restricted Receipts Total	2,450	2,444	2,399	45
Total-Central Management	13,464	14,082	12,142	1,940
Individual and Family Support				
RICAP-Blind Vending Facilities	187			
General Revenue Total	21,297	21,057	21,304	(247)
Federal Funds Total	53,649	53,778	49,019	4,759
Restricted Receipts Total	79	85	85	
Total-Individual and Family Support	75,212	74,920	70,407	4,513
Veterans' Affairs				
General Revenue Total	16,784	16,826	16,871	(45)
Federal Funds Total	6,088	6,208	4,889	1,319
Restricted Receipts Total	1,125	1,377	589	788
Total-Veterans' Affairs	23,997	24,411	22,349	2,062

Exhibit A-61

**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, 2005**  
**(Expressed in Thousands)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Health Care Quality, Financing and Purchases				
General Revenue Total	28,156	27,600	19,031	8,569
Federal Funds Total	41,756	43,344	36,029	7,315
Restricted Receipts Total	521	512	461	51
Total-Health Care Quality, Financing & Purchase	70,432	71,455	55,521	15,934
Medical Benefits				
General Revenue				
Managed Care	174,410	170,245	167,827	2,418
Hospital	104,295	109,744	111,857	(2,113)
Other	103,983	118,373	120,065	(1,692)
Special Education	15,561	14,805	14,805	
Nursing Facilities	136,614	131,685	130,336	1,349
General Revenue Total	534,863	544,851	530,085	14,766
Federal Funds				
Managed Care	215,107	215,802	210,440	5,362
Hospitals	127,537	129,656	132,388	(2,732)
Nursing Facilities	170,643	164,515	162,421	2,094
Other	130,135	147,891	153,350	(5,459)
Special Education	19,439	18,495	19,239	(744)
Federal Funds Total	662,861	676,360	677,839	(1,479)
Restricted Receipts Total	15	15	5	10
Total-Medical Benefits	1,197,739	1,221,226	1,207,929	13,297
Supplemental Security Income Program				
General Revenue Total	27,300	27,414	27,314	100
Total-Supplemental Security Income Program	27,300	27,414	27,314	100
Family Independence Program				
TANF/Families Independence Program	11,712	14,069	14,821	(752)
Child Care	57,350	56,047	56,126	(79)
Federal Funds Total	83,137	82,857	81,964	893
Total-Family Independence Program	152,198	152,973	152,912	61
State Funded Programs				
General Public Assistance	3,332	2,847	2,930	(83)
Citizen Participation Program	50	50	50	
Federal Funds Total	73,485	75,913	77,653	(1,740)
Total-State Funded Programs	76,867	78,809	80,633	(1,824)
General Revenue Fund Total-Human Services	707,536	717,195	694,485	22,710
Federal Grant Fund Total-Human Services	925,296	943,662	931,183	12,479
Restricted Fund Total-Human Services	4,190	4,433	3,539	894
Other Fund Total-Human Services	187			
Total-Department of Human Services	1,637,210	1,665,290	1,629,207	36,083

**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, 2005**  
**(Expressed in Thousands)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Department of Mental Health, Retardation, and Hospital				
Central Management				
General Revenue Total	2,244	2,128	2,090	38
Total-Central Management	2,244	2,128	2,090	38
Hospital & Community System Support				
RICAP-Utilities Upgrade	708	516	132	384
RICAP-Medical Center Rehabilitation	470	470	246	224
RICAP-Utilities Systems Water Tanks and Pipes	241	97	16	81
RICAP-Central Power Plant Rehabilitation	224	268	132	136
RICAP-Community Fire Code Compliance	365	90	45	45
General Revenue Total	22,209	24,816	26,229	(1,413)
Total-Hospital & Community System Support	24,218	26,258	26,800	(542)
Service for the Developmentally Disabled				
RICAP-MR/DD Residential Development	1,500	1,110	1,185	(75)
General Revenue Total	102,081	103,488	102,527	961
RICAP-DD State Owned Group Home	996	996	966	30
Federal Funds Total	126,971	125,889	126,002	(113)
Total-Service for the Developmentally Disabled	231,548	231,483	230,681	802
Integrated Mental Health Services				
General Revenue Total	39,474	40,990	40,341	649
Federal Funds Total	36,364	37,402	35,890	1,512
Total-Integrated Mental Health Services	75,838	78,392	76,230	2,162
Hospital & Community Rehabilitation Svcs				
RICAP-Zambarano Buildings and Utilities	239	239	22	217
General Revenue Total	45,746	46,072	44,533	1,539
Federal Funds Total	55,360	54,480	56,856	(2,376)
Total-Hospital & Community Rehabilitation Svcs	101,346	100,791	101,411	(620)
Substance Abuse				
RICAP-Asset Protection	104	104	54	50
General Revenues Total	14,567	14,852	14,618	234
Federal Funds Total	14,233	15,089	14,032	1,057
Restricted Receipts Total	75	100	50	50
Total-Substance Abuse	28,979	30,145	28,753	1,392
General Revenue Fund Total-MHRH	226,321	232,346	230,338	2,008
Federal Grant Fund Total-MHRH	232,928	232,861	232,779	82
Restricted Fund Total-MHRH	75	100	50	50
Other Fund Total-MHRH	4,848	3,891	2,798	1,093
Total-Department of Mental Health, Retardation, and Hospital	464,173	469,198	465,965	3,233



**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, 2005**  
**(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, 2005**  
**(Expressed in Thousands)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Office of Child Advocate				
General Revenue Total	501	398	340	58
Federal Funds Total	54	34	81	(47)
Restricted Receipts Total		1	1	
General Revenue Fund Total-Office of Child Advocate	501	398	340	58
Federal Grant Fund Total-Office of Child Advocate	54	34	81	(47)
Restricted Fund Total-Office of Child Advocate		1	1	
Total-Office of the Child Advocate	555	433	421	12
Rhode Island Commission of the Deaf and Hard of Hearing				
Commission On Deaf and Hard Of Hearing				
General Revenue Total	272	302	262	40
General Revenue Fund Total-RI Comm of the Deaf	272	302	262	40
Total-Rhode Island Commission of the Deaf and Hard of Hearing	272	302	262	40
State Council on Developmental Disabilities				
Federal Funds Total	571	510	599	(89)
Federal Grant Fund Total-State Comm on Dev Disab.	571	510	599	(89)
Total-State Council on Developmental Disabilities	571	510	599	(89)
Governor's Commission on Disabilities				
General Revenue Total	534	513	535	(22)
Federal Funds Total	180	153	39	114
Restricted Receipts Total	35	62	23	39
RICAP-Handicapped Accessibility Facility Renovation	283	105	109	(4)
General Revenue Fund Total-Governor's Comm on Disab.	534	513	535	(22)
Federal Grant Fund Total-Governor's Comm on Disab.	180	153	39	114
Restricted Fund Total-Governor's Comm on Disab.	35	62	23	39
Other Fund Total-Governor's Comm on Disab.	283	105	109	(4)
Total-Governor's Commission on Disabilities	1,032	833	706	127
Rhode Island Commission for Human Rights				
General Revenue Total	984	994	997	(3)
Federal Funds Total	239	216	110	106
General Revenue Fund Total-RI Comm for Human Rights	984	994	997	(3)
Federal Grant Fund Total-RI Comm for Human Rights	239	216	110	106
Total-Rhode Island Commission for Human Rights	1,224	1,210	1,107	103
Office of Mental Health Advocate				
General Revenue Total	332	339	340	(1)
General Revenue Fund Total-Office of Mental Health Advocate	332	339	340	(1)
Total-Office of Mental Health Advocate	332	339	340	(1)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Department of Elementary and Secondary Education				
State Aid				
General Revenue Total	624,404	625,356	625,340	16
Federal Funds Total	579	2,462	1,867	595
Restricted Funds Total	1,968	2,060	1,167	893
Total-State Aid	626,951	629,877	628,374	1,503
School Housing Aid				
General Revenue Total	43,856	42,180	42,180	
Total-School Housing Aid	43,856	42,180	42,180	
Teachers' Retirement				
General Revenue Total	52,583	48,503	48,503	
Total-Teachers' Retirement	52,583	48,503	48,503	
RI School for the Deaf				
RICAP-School for the Deaf-Physical Education Fac	561	561	507	54
General Revenue Total	5,700	5,749	5,747	2
Federal Funds Total	790	409	265	144
Total-RI School for the Deaf	7,051	6,720	6,520	200
Central Falls School District				
General Revenue Total	35,992	37,804	37,804	
Total-Central Falls School District	35,992	37,804	37,804	
Davies Career and Technical School				
RICAP-Davies Roof Repair	437	437	432	5
General Revenue Total	12,527	12,174	11,951	223
Federal Funds Total	1,150	1,454	1,194	260
Restricted Receipts Total	25	15	1	14
Total-Davies Career and Technical School	14,140	14,080	13,579	501
Metropolitan Career and Technical School				
General Revenue Total	7,262	7,262	7,262	
Total-Metropolitan Career and Technical School	7,262	7,262	7,262	
Administration of the Comprehensive Education Strategy				
RICAP-Chariho Wells		81	15	66
RICAP-State Owned Schools-Fire Alarm Systems	577	143	122	21
General Revenue Total	15,439	15,178	15,167	11
Federal Funds Total	144,765	164,783	179,759	(14,976)
Restricted Receipts Total	997	1,212	1,705	(493)
Total-Administration of the Comprehensive Education Strategy	161,777	181,396	196,767	(15,371)
General Revenue Fund Total-Dept of Elem & Sec Education	797,763	794,206	793,955	251
Federal Grant Fund Total-Dept of Elem & Sec Education	147,283	169,108	183,085	(13,977)
Restricted Fund Total-Dept of Elem & Sec Education	2,990	3,287	2,873	414
Other Fund Total-Dept of Elem & Sec Education	1,575	1,222	1,076	146
Total-Department of Elementary and Secondary Education	949,612	967,823	980,990	(13,167)

Exhibit A-63

**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, 2005**  
**(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, 2005**  
**(Expressed in Thousands)**

Exhibit A-64

	Original Budget	Final Budget	Actual	Variance
Board of Governors for Higher Education				
Board Of Governors/Office				
General Revenue Fund Total	5,855	5,893	5,883	10
Federal Fund Total	3,352	3,352	2,527	825
General Revenue Fund Total-URI	81,600	81,841	81,841	
General Revenue Fund Total-RIC	43,633	43,892	43,892	
General Revenue Fund Total-CCRI	43,167	41,816	41,816	
General Revenue Fund Total-BOG Higher Education	174,256	173,442	173,432	10
Federal Grant Fund Total-BOG Higher Education	3,352	3,352	2,527	825
Total-Board of Governors for Higher Education	177,607	176,794	175,960	834
Rhode Island State Council on the Arts				
Operating Support	456	1,248	462	786
Grants	1,987	1,200	1,329	(129)
Federal Funds Total	721	677	678	(1)
Restricted Receipts Total	200	200	38	162
General Revenue Fund Total-RI State Council on the Arts	2,442	2,448	1,791	657
Federal Grant Fund Total-RI State Council on the Arts	721	677	678	(1)
Restricted Fund Total-RI State Council on the Arts	200	200	38	162
Total-Rhode Island State Council on the Arts	3,363	3,326	2,507	819
Rhode Island Atomic Energy Commission				
URI Sponsored Research	157	147	142	5
RICAP-Paint Interior Reactor Building Walls	55	55	54	1
General Revenue Total	727	720	716	4
Federal Funds Total	325	325	65	260
General Revenue Fund Total-RI Atomic Energy Council	727	720	716	4
Federal Grant Fund Total-RI Atomic Energy Council	325	325	65	260
Other Fund Total-RI Atomic Energy Council	212	202	195	7
Total-Rhode Island Atomic Energy Commission	1,264	1,246	976	270
R I Higher Education Assistance Authority				
General Revenue Total	9,956	9,960	9,957	3
General Revenue Fund Total-RI Higher Education Assistance Authority	9,956	9,960	9,957	3
Total-R I Higher Education Assistance Authority	9,956	9,960	9,957	3
Historical Preservation and Heritage Commission				
General Revenue Total	1,221	1,225	1,221	4
Federal Funds Total	593	604	570	34
Restricted Receipts Total	207	219	174	45
General Revenue Fund Total-Historical Preservation	1,221	1,225	1,221	4
Federal Grant Fund Total-Historical Preservation	593	604	570	34
Restricted Fund Total-Historical Preservation	207	219	174	45
Total-Historical Preservation and Heritage Commission	2,021	2,047	1,965	82

	Original Budget	Final Budget	Actual	Variance
R I Public Telecommunication Authority				
General Revenue Total	1,238	1,067	1,039	28
General Revenue Fund Total-R I Public Telecommunication Authority	1,238	1,067	1,039	28
Total-R I Public Telecommunication Authority	1,238	1,067	1,039	28
Department of Attorney General				
Criminal				
General Revenue Total	11,324	11,037	10,750	287
Federal Funds Total	1,334	1,315	1,242	73
Restricted Receipts Total	346	356	239	117
Total-Criminal	13,005	12,708	12,231	477
Civil				
General Revenue Total	3,488	3,455	3,616	(161)
Federal Funds Total	76	76	76	
Restricted Receipts Total	456	485	459	26
Total-Civil	4,020	3,940	4,075	(135)
Bureau of Criminal Identification				
General Revenue Total	815	814	827	(13)
Federal Funds Total	165	379	344	35
Total-Bureau of Criminal Identification	980	1,193	1,172	21
General				
General Revenue Total	1,717	1,941	1,949	(8)
RICAP-Building Renovations & Repairs	398	398	203	195
Total-General	1,717	1,941	1,949	(8)
General Revenue Fund Total-Dept of Attorney General	17,344	17,247	17,142	105
Federal Grant Fund Total-Dept of Attorney General	1,576	1,694	1,586	108
Restricted Fund Total-Dept of Attorney General	803	841	698	143
Other Fund Total-Dept of Attorney General	398	398	203	195
Total-Department of Attorney General	20,120	20,179	19,629	550
Department of Corrections				
Central Management				
General Revenue Total	10,009	10,576	10,057	519
Federal Funds Total	361	361	191	170
Total-Central Management	10,009	10,937	10,248	689
Parole Board				
General Revenue Total	1,063	1,057	1,002	55
Federal Fund Total	33	33	25	8
Total-Parole Board	1,063	1,090	1,027	63

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, 2005  
 (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, 2005  
 (Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Institutional Corrections				
RICAP-Fire Code Safety Improvements	533	100	1	99
RICAP-Security Camera Installation	573	303	261	42
RICAP-Bernadette Guay Bldg. Roof	415	15	8	7
RICAP-Heating & Temperature Controls	342	195	211	(16)
RICAP-Medium HVAC Renovations	31			
RICAP-Reintegration Center State Match	689	150		150
RICAP-Dix Expansion-State Match	46	6	6	
RICAP-General Renovations-Maximum	554	584	451	133
RICAP-Roof/Masonry Renovations-Women's	1,030	1,000	545	455
RICAP-Perimeter/Security Upgrades	288	100	38	62
RICAP-Women's Bath Renovation	749	400	237	163
RICAP-Dix Expansion Consolidation				
RICAP-Correctional Industries Roof	176	21	15	6
General Revenue Total	124,687	124,559	124,649	(90)
Federal Funds Total	7,958	8,465	1,602	6,863
Restricted Receipts Total	137	220	217	3
Total-Institutional Corrections	138,209	136,118	128,240	7,878
Community Corrections				
General Revenue Total	12,329	11,178	11,153	25
Federal Funds Total	1,754	1,981	1,072	909
Total-Community Corrections	14,083	13,160	12,225	935
General Revenue Fund Total-Corrections	148,089	147,370	146,861	509
Federal Grant Fund Total-Corrections	9,712	10,841	2,890	7,951
Restricted Fund Total-Corrections	137	220	217	3
Other Fund Total-Corrections	5,427	2,874	1,772	1,102
Total-Department of Corrections	163,364	161,305	151,740	9,565
Judicial Department				
Supreme Court				
RICAP-McGrath Judicial Complex Interior	100	425	318	107
RICAP-Blackston Valley Courthouse Study	300	150		150
RICAP-Murray Judicial Complex - Interior Refurbishment	73	23	19	4
RICAP-Fogarty Judicial Annex	48	23		23
RICAP-Garrahy Lighting & Ceiling	600			
RICAP-Licht Judicial Complex Roof Study	25			
RICAP-Licht Judicial Complex-Foundation	35	35		35
RICAP-Judicial Complexes HVAC	197	197	194	3
General Revenue Total	22,923	23,653	22,802	851
Defense of Indigents	2,507	2,573	2,655	(82)
Federal Funds Total	849	1,099	749	350
Restricted Receipts Total	901	954	898	56
Total-Supreme Court	28,558	29,131	27,636	1,495
Superior Court				
Federal Funds Total	633	728	188	540
General Revenue Total	17,613	17,570	17,151	419
Total-Superior Court	18,246	18,298	17,338	960

	Original Budget	Final Budget	Actual	Variance
Family Court				
General Revenue Total	13,890	13,290	14,601	(1,311)
Federal Funds Total	2,666	3,329	1,666	1,663
Restricted Receipts Total	148	141		141
Total-Family Court	16,704	16,760	16,267	493
District Court				
General Revenue Total	8,670	8,376	8,287	89
Federal Funds Total	5	9	2	7
Total-District Court	8,675	8,385	8,289	96
Traffic Tribunal				
General Revenue Total	6,587	6,637	6,220	417
Total-Traffic Tribunal	6,587	6,637	6,220	417
Worker's Compensation Court				
Restricted Receipts Total	6,124	6,201	5,833	368
Total-Worker's Compensation Court	6,124	6,201	5,833	368
General Revenue Fund Total-Judicial Dept	72,190	72,099	71,715	384
Federal Grant Fund Total-Judicial Dept	4,153	5,165	2,605	2,560
Restricted Fund Total-Judicial Dept	7,173	7,295	6,730	565
Other Fund Total-Judicial Dept	1,378	853	532	321
Total-Judicial Department	84,894	85,412	81,582	3,830
Militia of the State				
National Guard				
RICAP-Logistic/Maintenance Facilities				
RICAP-Camp Fogarty Training Site	50			
RICAP-Bristol Armory Rehabilitation	95			(5)
RICAP-Benefit St. Arsenal Rehabilitation	233		7	(7)
RICAP-Schofield Armory Rehabilitation	220	20		20
RICAP-US Property and Finance Office-HVAC	107	107	110	(3)
RICAP-State Armories Fire Code Comp	13	13		13
RICAP-Warwick Armory Boiler	50	50		50
RICAP-Federal Armories Fire Code Comp	6	25		25
RICAP-North Smithfield Armory	86			
RICAP-Emergency Operations Center		10		10
RICAP-AMC Roof Rehabilitation	50		4	(4)
RICAP-Army Aviation Support Facility				
RICAP-Logistics/Maintenance Facilities	6	25		25
General Revenue Total	1,632	1,736	1,643	93
Federal Funds Total	8,594	6,997	5,574	1,423
Restricted Receipts Total		145	38	107
Total-National Guard	11,141	9,128	7,381	1,747

Exhibit A-65

**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, 2005**  
**(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, 2005**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Emergency Management				
General Revenue Total	544	582	693	(111)
Federal Funds Total	26,450	34,542	12,077	22,465
Restricted Receipts Total	188	274	118	156
Total-Emergency Management	27,183	35,398	12,888	22,510
General Revenue Fund Total-Militia of the State	2,176	2,317	2,336	(19)
Federal Grant Fund Total-Militia of the State	35,044	41,540	17,651	23,889
Restricted Fund Total-Militia of the State	188	419	156	263
Other Fund Total-Militia of the State	915	249	125	124
Total-Militia of the State	38,323	44,525	20,269	24,256
E-911 Uniform Emergency Telephone System				
General Revenue Total	3,821	3,838	3,882	(44)
Federal Funds Total		136	67	69
Restricted Receipts Total	1,650	1,534	971	563
General Revenue Fund Total-E-911 Uniform Emer Telephone System	3,821	3,838	3,882	(44)
Federal Funds Total-E-911 Uniform Emer Telephone Systems		136	67	69
Restricted Receipts Total-E-911 Uniform Emer Telephone System	1,650	1,534	971	563
Total-E-911 Uniform Emergency Telephone System	5,471	5,508	4,919	589
Fire Safety Code Board of Appeal and Review				
Fire Code Commission				
General Revenue Total	241	243	237	6
General Revenue Fund Total-Fire Safety Code	241	243	237	6
Total-Fire Safety Code Board of Appeal and Review	241	243	237	6
Division of Fire Safety				
Fire Safety & Training Academy				
General Revenue Total	1,978	2,042	2,100	(58)
Federal Funds Total	408	340	121	219
Other Funds	20	13	13	13
General Revenue Fund Total-Div. of Fire Safety	1,978	2,042	2,100	(58)
Federal Grant Fund Total-Div. of Fire Safety	408	340	121	219
Other Fund Total-Div. of Fire Safety	20	13	13	13
Total-Division of Fire Safety	2,406	2,395	2,221	174
Commission on Judicial Tenure & Discipline				
General Revenue Total	103	125	129	(4)
General Revenue Fund Total-Comm on Judicial Tenure	103	125	129	(4)
Total-Commission on Judicial Tenure & Discipline	103	125	129	(4)

	Original Budget	Final Budget	Actual	Variance
Rhode Island Governor's Justice Commission				
General Revenue Total	248	254	254	
Federal Funds Total	5,688	5,787	5,018	769
Restricted Receipts Total	90	30	24	6
General Revenue Fund Total-RI Gov Just Comm	248	254	254	
Federal Grant Fund Total-RI Gov Just Comm	5,688	5,787	5,018	769
Restricted Fund Total-RI Gov Just Comm	90	30	24	6
Total-Rhode Island Governor's Justice Commission	6,026	6,071	5,296	775
Municipal Police Training School				
General Revenue Total	361	364	343	21
Federal Funds Total	143	129	46	83
General Revenue Fund Total-Municipal Police Training School	361	364	343	21
Federal Grant Fund Total-Municipal Police Training School	143	129	46	83
Total-Municipal Police Training School	504	493	389	104
Rhode Island State Police				
RICAP-Barracks & Training Headquarters'	165	190		190
RICAP-Headquarters Repair/Renovation	75	75	59	16
Traffic Enforcement-Municipal Training	119	88	161	(73)
Lottery Commission Assistance	119	129	128	1
Road Construction Reimbursement	1,587	2,278	2,277	1
General Revenue Total	43,114	42,549	42,443	106
Federal Funds Total	1,715	1,973	1,144	829
Restricted Receipts Total	298	445	248	197
General Revenue Fund Total-State Police	43,114	42,549	42,443	106
Federal Grant Fund Total-State Police	1,715	1,973	1,144	829
Restricted Fund Total-State Police	298	445	248	197
Other Fund Total-State Police	2,065	2,760	2,625	135
Total-Rhode Island State Police	47,192	47,726	46,461	1,265
Office of Public Defenders				
General Revenue Total	6,876	6,957	6,871	86
Federal Funds Total	419	452	284	168
General Revenue Fund Total-Office of Public Defenders	6,876	6,957	6,871	86
Federal Grant Fund Total-Office of Public Defenders	419	452	284	168
Total-Office of Public Defenders	7,295	7,409	7,156	253
Department of Environmental Management				
Policy and Administration				
DOT Recreational Projects	49	48	28	20
Blackstone Bikepath Design	1,249	1,249	1,150	99
RICAP-Dam Repair	1,394	1,660	2,165	(505)
General Revenue Total	8,315	8,452	8,064	388
Federal Funds Total	1,991	2,450	710	1,740
Restricted Receipts Total	2,868	3,206	3,500	(294)
Total-Policy and Administration	15,865	17,065	15,618	1,447

Exhibit A-66

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, 2005  
 (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, 2005  
 (Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Natural Resources				
RICAP-Jamestown Fishing Pier	75	75	7	68
RICAP-Fort Myers Rehabilitation	350	350	350	
RICAP-Recreational Facilities Improvement	1,904	904	633	271
RICAP-Wickford Marine facility	200	200	2	198
RICAP-Galilee Piers	1,047	1,512	1,322	190
RICAP-Boyd's Marsh Habitant Restoration			24	(24)
RICAP-Newport Piers	202	202	180	22
General Revenue Total	15,417	15,636	16,094	(458)
Federal Funds Total	13,487	15,679	8,641	7,038
Restricted Receipts Total	3,656	3,824	2,970	854
Total-Natural Resources	36,337	38,381	30,223	8,158
Environmental Protection				
General Revenue Total	9,013	9,119	9,120	(1)
Federal Funds Total	9,915	10,257	7,066	3,191
Restricted Receipts Total	4,505	4,294	2,702	1,592
Total-Environmental Protection	23,433	23,670	18,888	4,782
General Revenue Fund Total-DEM	32,745	33,207	33,278	(71)
Federal Grant Fund Total-DEM	25,393	28,386	16,418	11,968
Restricted Fund Total-DEM	11,029	11,324	9,171	2,153
Other Fund Total-DEM	6,468	6,199	5,862	337
Total-Department of Environmental Management	75,635	79,117	64,729	14,388
Coastal Resources Management Council				
RICAP-Allins Cove		50		50
General Revenue Total	1,460	1,480	1,417	63
Federal Funds Total	2,145	2,843	2,279	564
Restricted Total	250	250	135	115
General Revenue Fund Total-Coastal Resources	1,460	1,480	1,417	63
Federal Grant Fund Total-Coastal Resources	2,145	2,843	2,279	564
Restricted Fund Total-Coastal Resources	250	250	135	115
Other Fund Total-Coastal Resources		50		50
Total-Coastal Resources Management Council	3,855	4,623	3,831	792

	Original Budget	Final Budget	Actual	Variance
Water Resources Board				
RICAP-Big River Management Area	104	104	93	11
RICAP-Supplemental Water Supplies Development	400			
General Revenue Total	1,229	1,161	1,088	73
Federal Total	500	500	607	(107)
Restricted Receipts Total	495	939	848	91
General Revenue Fund Total-Water Resources Board	1,229	1,161	1,088	73
Federal Grant Fund Total-Water Resources Board	500	500	607	(107)
Restricted Fund Total-Water Resources Board	495	939	848	91
Other Fund Total-Water Resources Board	504	104	93	11
Total-Water Resources Board	2,728	2,705	2,635	70
Departmental Expenditures	4,818,704	4,906,718	4,778,710	128,008
Transfer of Excess Budget Reserve to Bond Capital Fund			54,002	(54,002)
Total Expenditures	4,818,704	4,906,718	4,832,712	74,006
Change in Fund Balance	\$ 6,450	\$ 67,360	28,508	\$ 38,852
Fund balance - beginning			156,294	
Fund balance - ending			\$ 184,802	
General Revenue Funds Total	\$ 2,947,923	\$ 2,965,973	\$ 2,926,928	\$ 39,045
Federal Grants Funds Total	1,646,382	1,719,761	1,655,563	64,198
Restricted Funds Total	109,645	116,198	100,040	16,158
Other Funds Total	114,754	104,786	96,179	8,607
General Fund Grand Total	\$ 4,818,704	\$ 4,906,718	\$ 4,778,710	\$ 128,008

\*\* Certain totals may not add due to rounding.

**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Intermodal Surface Transportation Fund**  
**For the Fiscal Year Ended June 30, 2005**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>				
Taxes	\$ 143,400	\$ 141,000	\$ 142,696	\$ 1,696
Departmental restricted revenue	4,450	6,380	8,222	1,842
Federal grants	207,421	207,386	226,839	19,453
Other revenues	5,268	5,268	2,268	(3,000)
Total revenues	360,539	360,034	380,025	19,991
<b>Other financing sources:</b>				
Operating transfers in			32,701	32,701
Total revenues and other financing sources	360,539	360,034	412,726	52,692
<b>Expenditures:</b>				
<b>Central Management</b>				
Gasoline Tax	3,545	3,508	3,142	366
Federal Funds	8,962	8,958	2,270	6,688
Total - Central Management	12,507	12,466	5,412	7,054
<b>Management and Budget</b>				
Gasoline Tax	1,946	1,970	2,314	(344)
Total - Management and Budget	1,946	1,970	2,314	(344)
<b>Infrastructure - Engineering</b>				
Gasoline Tax	49,631	46,282	48,253	(1,971)
RJCAP - RIPTA Land and Buildings	107	107	28	79
Train Station	100	100		100
State Infrastructure Bank	1,000	1,000		1,000
Land Sale Revenue	4,000	4,000	902	3,098
Federal Funds	198,459	198,428	183,644	14,784
Restricted Receipts	4,450	6,380	636	5,744
Subtotal - Infrastructure - Engineering	257,747	256,297	233,463	22,834
State Match - FHWA			44,429	(44,429)
Total - Infrastructure - Engineering	257,747	256,297	277,892	(21,595)
<b>Infrastructure - Maintenance</b>				
Gasoline Tax	39,533	41,472	42,092	(620)
Outdoor Advertising				
Total - Infrastructure - Maintenance	39,533	41,472	42,092	(620)
Total Expenditures	311,733	312,205	327,710	(15,505)
<b>Other financing uses:</b>				
Transfers to other funds				
Federal			41,809	(41,809)
Gas tax			46,896	(46,896)
Other			168	(168)
Total expenditures and other financing uses	311,733	312,205	416,583	(104,378)
Net change in fund balance	\$ 48,806	\$ 47,829	(3,857)	\$ (51,686)
Fund balance - beginning			37,797	
Fund balance - ending			\$ 33,940	

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State of Rhode Island and Providence Plantations  
 Required Supplementary Information  
 Schedules of Funding Progress  
 June 30, 2005  
 (Expressed in thousands)

State of Rhode Island and Providence Plantations  
 Notes to Required Supplementary Information  
 June 30, 2005

**Employees' Retirement System**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2004	5,543,427	9,328,983	3,785,556	59.4%	1,472,620	257.1%
06/30/2003 **	5,695,358	8,858,979	3,163,621	64.3%	1,440,744	219.6%
06/30/2002	5,907,680	8,141,130	2,233,450	72.6%	1,378,905	162.0%

**State Police Retirement Benefits Trust**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2004	24,767	32,689	7,922	75.8%	11,422	69.4%
06/30/2003	20,966	28,443	7,477	73.7%	11,286	66.3%
06/30/2002	17,770	23,527	5,757	75.5%	10,933	52.7%

**Judicial Retirement Benefits Trust**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2004	16,019	21,846	5,827	73.3%	5,638	103.3%
06/30/2003	13,270	18,435	5,165	72.0%	5,303	97.4%
06/30/2002	11,129	16,243	5,114	68.5%	4,738	107.9%

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 and judicial branches.

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

\*\* Restated June 30, 2003 actuarial accrued liability due to the adoption of Article 7, Substitute A as Amended

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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 an average annual population increase of 0.5 percent between 1990 and 2004. In 2005, the U.S. Census Bureau estimated that Rhode Island's population declined by 0.4 percent. The 2000 United States census count for Rhode Island was 1,048,319 or 4.2 percent more than the 1,005,995 counted in 1990. In contrast, the total United States population increased by 13.0 percent between 1990 and 2000. The U.S. Census Bureau estimates that Rhode Island's population has grown to 1,076,189 as of July 1, 2005.

***Personal Income and Poverty.*** Per capita personal income levels in Rhode Island had been consistent with those in the United States for the 1990 to 2001 period. Since 2002, Rhode Island per capita personal income growth has accelerated relative to U.S. per capita personal income growth to the point where, in 2005, Rhode Island per capita personal income was \$36,153 versus U.S. per capita personal income of \$34,586. In addition, Rhode Island has maintained a poverty rate below the national average. Over the 2001 – 2004 period, Rhode Island's average poverty rate was 10.9 percent versus the U.S. average poverty rate of 12.3 percent.

***Employment.*** According to the Rhode Island Department of Labor and Training, total Rhode Island non-farm employment grew at a rate of 1.0 percent in 2003, 0.9 percent in 2004 and 0.6 percent in 2005. The growth rate for 2005 was equal to the average annual growth rate for RI non-farm employment for the 1990 – 2005.

***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 27.2 percent of its residents over the age of 25 having received a Bachelor's degree or a Graduate or Professional degree according to the Current Population Report of March 2005 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 2002-03 Rhode Island spent 31.3 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.

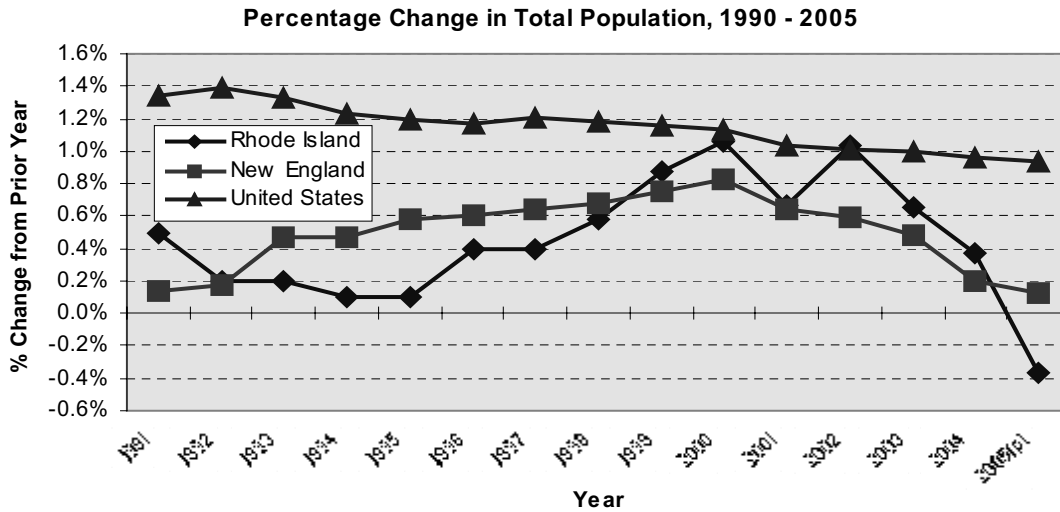
Between 1995 and 2005 Rhode Island's population increased by 5.8 percent, compared to a 5.7 percent increase for the New England region, and a 11.3 percent increase for the United States. As the following chart indicates, the percentage change in Rhode Island's population from 1993 to 1998 has lagged 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 2004, however, Rhode Island's population growth rate was higher than that of the New England region, at 3.8 percent compared to 2.8 percent for New England as a whole. The preliminary 2005 population estimates indicate that Rhode Island's population growth rate, at -0.4 percent over 2004, is again lower than that of New England's growth rate of 0.1 percent. With respect to the United States, Rhode Island's population growth has been both lower and more erratic. Over the 1995 to 2005 period, the United States' average annual population growth rate was 1.1 percent, more than twice that of Rhode Island.

**Population, 1990 - 2005**  
(in thousands)

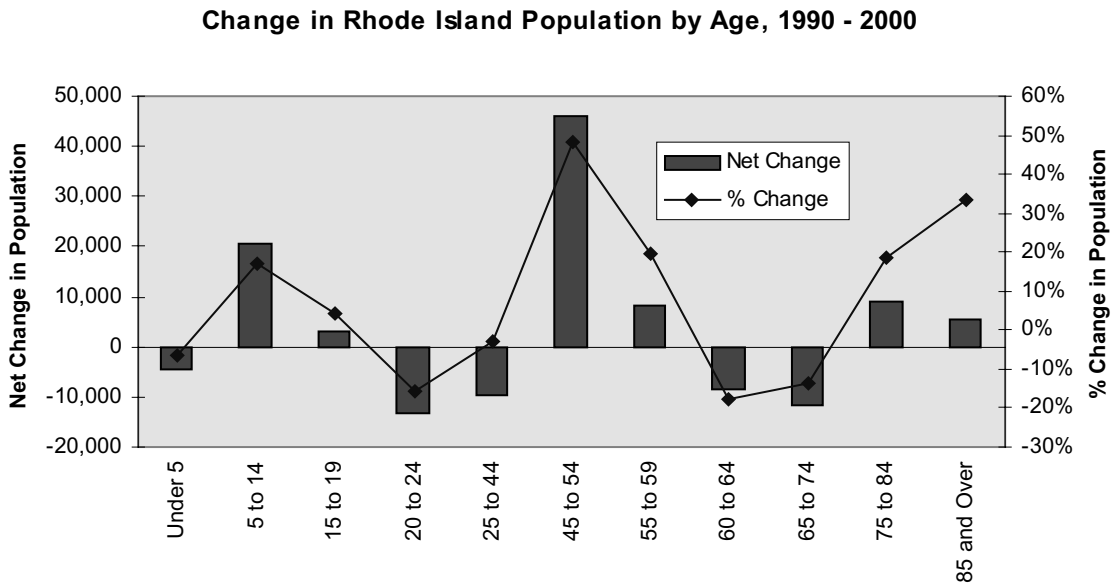
Year	Rhode Island		New England		United States	
	Total	% Change	Total	% Change	Total	% Change
1990	1,006	-	13,230	-	249,623	-
1991	1,011	0.5%	13,248	0.1%	252,981	1.3%
1992	1,013	0.2%	13,271	0.2%	256,514	1.4%
1993	1,015	0.2%	13,334	0.5%	259,919	1.3%
1994	1,016	0.1%	13,396	0.5%	263,126	1.2%
1995	1,017	0.1%	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%	13,953	0.8%	282,193	1.1%
2001	1,058	0.7%	14,043	0.6%	285,107	1.0%
2002	1,069	1.0%	14,126	0.6%	287,984	1.0%
2003	1,076	0.7%	14,194	0.5%	290,850	1.0%
2004	1,080	0.4%	14,222	0.2%	293,657	1.0%
2005(p)	1,076	-0.4%	14,240	0.1%	296,410	0.9%

U.S. Department of Commerce. Bureau of Economic Analysis  
(p) = Preliminary estimate.

The chart below displays the growth rate changes shown in the table above. Note the volatility in the population growth rate for Rhode Island as compared to the New England region and the United States.



The following chart shows the net change in Rhode Island’s population between 1990 and 2000 by age group. Note that, like the rest of the country, Rhode Island has seen a sharp change in the age distribution of its population in accordance with the chronological advancement of the “baby boom” generation. The upswing in Rhode Islanders in the “5 to 14” age group is a reflection of the “baby boom echo” generation.

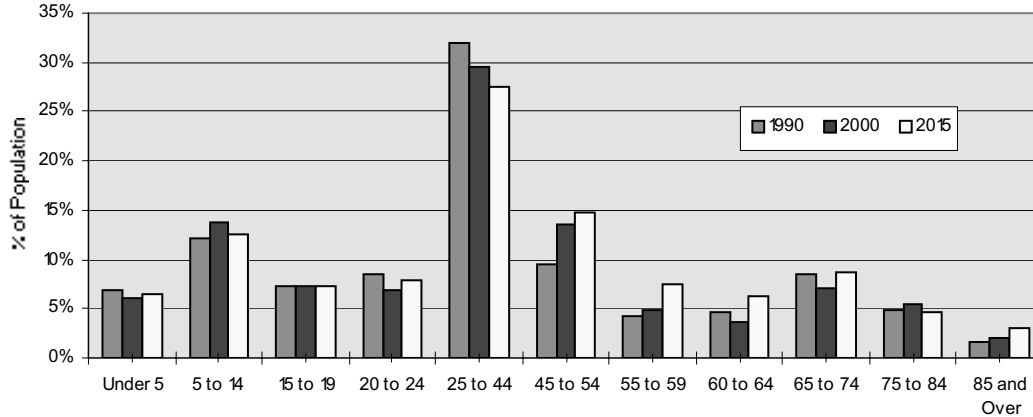


Rhode Island Economic Development Corporation. Research Division.

The U.S. Census Bureau projects that the next fifteen years will bring about a considerable change in the age distribution of the Rhode Island population. As the “baby boom” generation continues to age, the state should see a sizeable increase in its middle aged to older population (i.e., 45 to 64). In addition, the state should experience a decline in its young adult population (i.e., 20 to 44) and stability in its youth population (i.e., under 5 to 19).

The chart below shows the projected graying of the Rhode Island population in 2015. In 2015, Rhode Island's population is projected to be distributed more heavily in the "45 – 54" age group. At the same time, the percentage of people in the "15 – 44" age group declines. In addition, the percentage of the population 85 and over is expected to rise. The median age for Rhode Islanders in 1990 was 33.8 years and rose to 36.7 years in 2000. By 2015, the median age for Rhode Islanders should rise further.

**Distribution of Rhode Island Population by Age**



U.S. Census Bureau

### Personal Income, Consumer Prices, and Poverty

**Personal Income.** The table below shows nominal and real per capita personal income for Rhode Island, New England, and the United States. Rhode Island's per capita personal income has tracked that of the United States throughout the 1990 – 2005 period. In general, Rhode Island's per capita nominal personal income exceeded that of the United States from 1990 to 1997, with the exception of 1994 and 1996. Over this period, Rhode Island per capita nominal personal income averaged \$119 more than United States per capita nominal personal income. From 1998 to 2000 this relationship was reversed with United States per capita nominal personal income exceeding that of Rhode Island by an average of \$441. From 2002 to 2005, Rhode Island per capita nominal personal income again exceeded that of the U.S. as a whole by an average of \$896. Note that Rhode Island per capita nominal personal income has trailed that of the New England region throughout the entire period 1990 – 2005 by an average \$4,727. In fact, the gap between Rhode Island per capita nominal personal income and New England per capita nominal personal income has grown sharply over this time period peaking at \$6,904 in 2000. In 2005, the gap had fallen 10.8 percent to \$6,161.

From 1990 to 1993, per capita real income levels in Rhode Island grew at an annual rate higher than that for the United States. From 1994 to 1997, the relationship between per capita real income growth in Rhode Island alternately trailed and exceeded 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 - 2005, this pattern again reversed itself as the national economy slid into recession. With respect to New England, Rhode Island per capita real income growth has generally lagged that of the region. In fact, over the fifteen year period from 1990 to 2005, Rhode Island per capita real income growth has exceeded that of New England as a whole on five occasions, 1993, 1995, and, most recently, 2001 – 2003. In 2004, the growth in per capita real income for New England once again surged ahead of that for the State of Rhode Island. Finally, in 2005, Rhode Island per capita real income jumped 1.0 percent over 2004 while New England per capita real income grew by only 0.4 percent.

### Per Capita Personal Income, 1990 – 2005

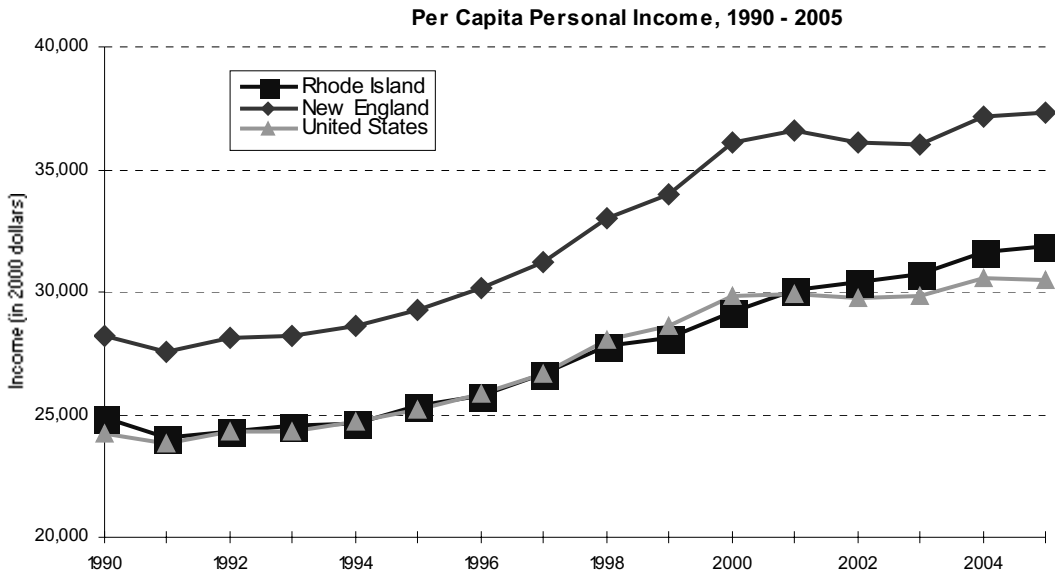
Year	Nominal Income (in current dollars)			2000 Deflator	Real Income (in 2000 dollars)			Percentage Change in Real Income		
	R.I.	N.E.	U.S.		R.I.	N.E.	U.S.	R.I.	N.E.	U.S.
1990	20,006	22,712	19,477	80.50%	24,853	28,215	24,196	-	-	-
1991	20,049	22,969	19,892	83.42%	24,034	27,535	23,846	-3.3%	-2.4%	-1.4%
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	29,214	36,118	29,845	100.00%	29,214	36,118	29,845	3.8%	6.4%	4.2%
2001	30,687	37,342	30,574	102.09%	30,058	36,576	29,947	2.9%	1.3%	0.3%
2002	31,478	37,379	30,810	103.54%	30,401	36,100	29,756	1.1%	-1.3%	-0.6%
2003	32,459	38,009	31,484	105.52%	30,761	36,021	29,837	1.2%	-0.2%	0.3%
2004	34,207	40,260	33,050	108.25%	31,601	37,193	30,533	2.7%	3.3%	2.3%
2005(p)	36,153	42,314	34,586	113.31%	31,905	37,343	30,523	1.0%	0.4%	0.0%

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

(p) = Preliminary estimate.

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

The chart below shows real per capita personal income in Rhode Island, New England and the United States since 1990. As is clear from the graph, Rhode Island real per capita personal income tracks closely with that of the United States until 2002 when Rhode Island real per capita income exceeded that of the United States, a gap that has grown over the 2003 – 2005 period. Rhode Island real per capita personal income has consistently lagged that of the New England region for the entire 1990 – 2005 period.



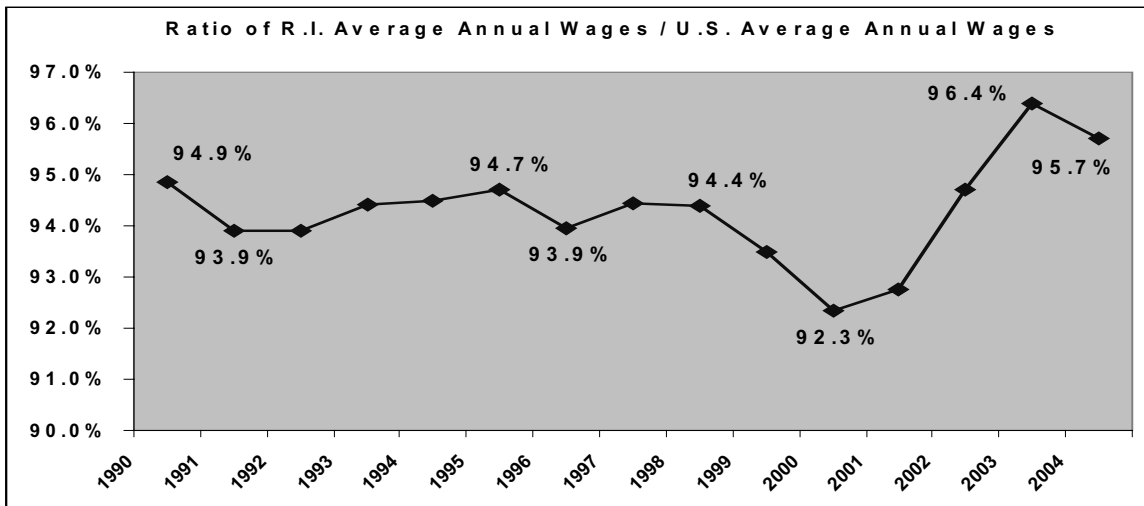
**Average Annual Pay.** Although the growth in Rhode Island per capita personal income has fluctuated, annual pay has grown steadily in Rhode Island over the past fourteen years. Average annual pay is computed by dividing total annual payrolls of employees covered by unemployment insurance programs by the average monthly number of these employees. Although average annual pay has increased consistently for the last fourteen years, the ratio of pay levels in Rhode Island to the United States has been on a downward trend until recently. In 1990, average annual pay in Rhode Island was 94.9 percent of the national average. By 2001, the ratio had fallen to 92.8 percent. For 2002, average annual pay in Rhode Island rebounded to 94.7 percent of U.S. average annual pay. This was followed by a further increase to 96.4 percent in 2003, \$36,415 for Rhode Island versus \$37,765 for the United States as a whole. In 2004, average annual pay in Rhode Island again fell as a percentage of average annual pay in the U.S. The relationship between Rhode Island and U.S. average annual pay is shown in the table below.

**Average Annual Pay, 1990 – 2004**  
(in current dollars)

Year	Annual Pay		Ratio R.I./U.S.	Percentage Change	
	R.I.	U.S.		R.I.	U.S.
1990	22,387	23,602	94.9%	-	-
1991	23,082	24,578	93.9%	3.1%	4.1%
1992	24,315	25,897	93.9%	5.3%	5.4%
1993	24,889	26,361	94.4%	2.4%	1.8%
1994	25,454	26,939	94.5%	2.3%	2.2%
1995	26,375	27,846	94.7%	3.6%	3.4%
1996	27,194	28,946	93.9%	3.1%	4.0%
1997	28,662	30,353	94.4%	5.4%	4.9%
1998	30,156	31,945	94.4%	5.2%	5.2%
1999	31,169	33,340	93.5%	3.4%	4.4%
2000	32,615	35,320	92.3%	4.6%	5.9%
2001	33,603	36,219	92.8%	3.0%	2.5%
2002	34,810	36,764	94.7%	3.6%	1.5%
2003	36,415	37,765	96.4%	4.6%	2.7%
2004	37,651	39,354	95.7%	3.4%	4.2%

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

The chart below plots the ratio of Rhode Island average annual wages to U.S. average annual wages over the 1990 – 2004 period.



**Consumer Prices.** The following table presents consumer price index trends for the Northeast region and the United States for the period between 1990 and 2005. 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 1990 to 1992, the consumer price inflation in the Northeast consistently exceeded that for the United States by at least 0.3 percentage points. From 1993 to 2001, consumer price inflation rate in the Northeast has been, on average, slightly below that of the United States. During this period, consumer price inflation in the Northeast region has been less than for the United States in each of the following years 1993 – 1996, 1998 and 1999. In 2000 and 2001 consumer price inflation in the Northeast region was equal to that of the United States. In 2002, 2003, 2004, and 2005, the consumer price inflation rate in the Northeast region has exceeded that of the United States by 0.5 percent, 0.5 percent, 0.8 percent, and 0.2 percent respectively.

**Consumer Price Index for All Urban Consumers (CPI-U), 1990 – 2005  
(1982 – 1984 = 100)**

Year	CPI-U		Ratio Northeast/U.S.	Pct. Change	
	Northeast	U.S.		Northeast	U.S.
1990	136.3	130.7	104.3%	-	-
1991	142.5	136.2	104.6%	4.5%	4.2%
1992	147.3	140.3	105.0%	3.4%	3.0%
1993	151.4	144.5	104.8%	2.8%	3.0%
1994	155.1	148.2	104.7%	2.4%	2.6%
1995	159.1	152.4	104.4%	2.6%	2.8%
1996	163.6	156.9	104.3%	2.8%	3.0%
1997	167.6	160.5	104.4%	2.4%	2.3%
1998	170.0	163.0	104.3%	1.4%	1.6%
1999	173.5	166.6	104.1%	2.1%	2.2%
2000	179.4	172.2	104.2%	3.4%	3.4%
2001	184.4	177.1	104.1%	2.8%	2.8%
2002	188.2	179.9	104.6%	2.1%	1.6%
2003	193.5	184.0	105.2%	2.8%	2.3%
2004	200.2	188.9	106.0%	3.5%	2.7%
2005	207.5	195.3	106.2%	3.6%	3.4%

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

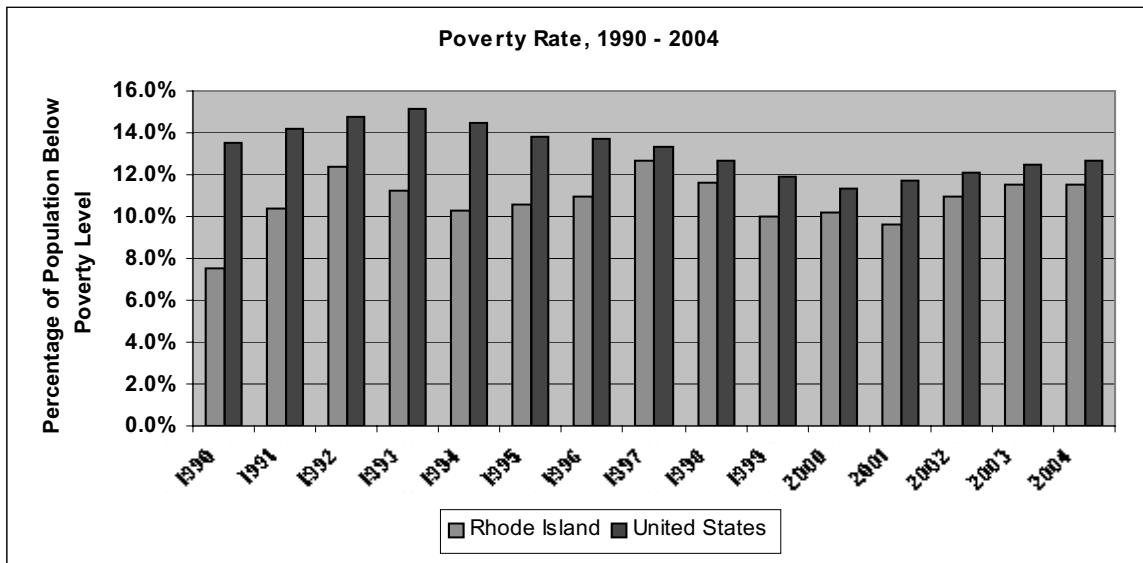
**Poverty.** From 1990 – 2004 the Rhode Island poverty rate has been below the poverty rate for the United States as a whole. The poverty rate is measured as the percent of a region’s population that lives below the federal poverty level as determined by the U.S. Census Bureau. Between 1990 and 2004, the percentage of the Rhode Island population below the federal poverty line has varied from a low of 7.5 percent in 1990 to a high of 12.7 percent in 1997. During the same time, the national poverty rate varied from a low of 11.3 percent in 2000 to a high of 15.1 percent in 1993. Interestingly, in the 2002-2003 period, although Rhode Island’s poverty rate has remained below that of the United States, the percentage change in Rhode Island’s poverty rate has exceeded the percentage change in that of the U.S. These official poverty statistics are not adjusted for regional differences in the cost of living. The table below portrays the lower poverty rates in Rhode Island compared with the national average from 1990 through 2004.

Poverty Rate, 1990 – 2004

Year	Ratio			Percentage Change	
	R.I.	U.S.	R.I./U.S.	R.I.	U.S.
1990	7.5	13.5	55.6%	-	-
1991	10.4	14.2	73.2%	38.7%	5.2%
1992	12.4	14.8	83.8%	19.2%	4.2%
1993	11.2	15.1	74.2%	-9.7%	2.0%
1994	10.3	14.5	71.0%	-8.0%	-4.0%
1995	10.6	13.8	76.8%	2.9%	-4.8%
1996	11.0	13.7	80.3%	3.8%	-0.7%
1997	12.7	13.3	95.5%	15.5%	-2.9%
1998	11.6	12.7	91.3%	-8.7%	-4.5%
1999	10.0	11.9	84.0%	-13.8%	-6.3%
2000	10.2	11.3	90.3%	2.0%	-5.0%
2001	9.6	11.7	82.1%	-5.9%	3.5%
2002	11.0	12.1	90.9%	14.6%	3.4%
2003	11.5	12.5	92.0%	4.5%	3.3%
2004	11.5	12.7	90.6%	0.0%	1.6%

U.S. Census Bureau

The bar chart below plots the data from the above table and demonstrates the poverty level of Rhode Island and the United States from 1990 – 2004. 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 2005 period. The table reflects the new North American Industrial Classification System (NAICS) composition of employment.

### Rhode Island Non-Farm Employment by Industry, 1990 – 2005

Year	Construction, Natural Resources & Mining		Manufacturing		Trade, Transportation & Utilities		Information, Financial Activities, & Business Services		Educational & Health Services		Leisure, Hospitality & Other Services		Government		Total Nonfarm Employment	
	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change
1990	18,700	-	95,100	-	77,500	-	79,500	-	66,200	-	51,900	-	62,500	-	451,200	-
1991	13,700	-26.7%	87,500	-8.0%	71,000	-8.4%	73,100	-8.1%	66,800	0.9%	48,600	-6.4%	60,900	-2.6%	421,500	-6.6%
1992	12,500	-8.8%	84,800	-3.1%	71,100	0.1%	72,300	-1.1%	72,100	7.9%	50,900	4.7%	61,200	0.5%	424,800	0.8%
1993	12,800	2.4%	83,600	-1.4%	71,200	0.1%	74,700	3.3%	74,200	2.9%	52,100	2.4%	61,400	0.3%	430,000	1.2%
1994	13,300	3.9%	82,600	-1.2%	72,400	1.7%	76,200	2.0%	75,000	1.1%	53,100	1.9%	61,700	0.5%	434,200	1.0%
1995	13,600	2.3%	80,300	-2.8%	75,600	4.4%	77,600	1.8%	77,200	2.9%	54,600	2.8%	61,300	-0.6%	440,100	1.4%
1996	14,200	4.4%	77,400	-3.6%	73,600	-2.6%	78,300	0.9%	79,200	2.6%	57,700	5.7%	61,300	0.0%	441,600	0.3%
1997	14,800	4.2%	76,200	-1.6%	72,900	-1.0%	82,500	5.4%	80,700	1.9%	59,600	3.3%	63,200	3.1%	450,000	1.9%
1998	16,200	9.5%	74,900	-1.7%	74,700	2.5%	86,800	5.2%	81,600	1.1%	61,000	2.3%	62,900	-0.5%	458,000	1.8%
1999	18,000	11.1%	72,200	-3.6%	75,700	1.3%	90,000	3.7%	82,300	0.9%	64,000	4.9%	63,400	0.8%	465,500	1.6%
2000	18,400	2.2%	71,200	-1.4%	79,600	5.2%	92,900	3.2%	83,200	1.1%	67,100	4.8%	64,400	1.6%	476,700	2.4%
2001	19,200	4.3%	67,800	-4.8%	79,300	-0.4%	94,000	1.2%	84,900	2.0%	68,000	1.3%	65,200	1.2%	478,400	0.4%
2002	19,600	2.1%	62,300	-8.1%	80,500	1.5%	93,000	-1.1%	88,000	3.7%	70,000	2.9%	66,100	1.4%	479,400	0.2%
2003	21,000	7.1%	58,700	-5.8%	80,800	0.4%	94,700	1.8%	91,000	3.4%	72,000	2.9%	66,200	0.2%	484,300	1.0%
2004	21,200	1.0%	57,000	-2.9%	80,200	-0.7%	98,400	3.9%	92,900	2.1%	73,300	1.8%	65,500	-1.1%	488,500	0.9%
2005	22,200	4.7%	55,100	-3.3%	80,100	-0.1%	100,500	2.1%	95,300	2.6%	73,500	0.3%	65,100	-0.6%	491,600	0.6%

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

As is evident from the table, between 1990 and 1991, total nonfarm employment in Rhode Island declined 6.6 percent. During this time all sectors experienced declines, with the exception of Educational and Health Services, which increased by 0.9 percent. These decreases in employment were the result of the recession that gripped the State and the nation during this time. The economic recovery took hold in Rhode Island in 1992 with nonfarm employment growing by 0.8 percent. This growth in total employment was followed by strong gains in 1993, 1994 and 1995 of 1.2 percent, 1.0 percent and 1.4 percent respectively. Employment growth slowed again in 1996 to a 0.3 percent rate and then rebounded sharply over the 1997 to 2000 period during which time Rhode Island total nonfarm employment growth averaged 1.9 percent. In 2001, Rhode Island employment growth moderated to a rate of 0.4 percent with the onset of a national recession in March 2001. In 2002, it weakened further to a rate of 0.2 percent as the “jobless” recovery commenced in early 2002. In 2003, Rhode Island employment growth moved sharply upward to a rate of 1.0 percent, then began declining again in 2004 and 2005 at rates of 0.9 percent and 0.6 percent respectively.

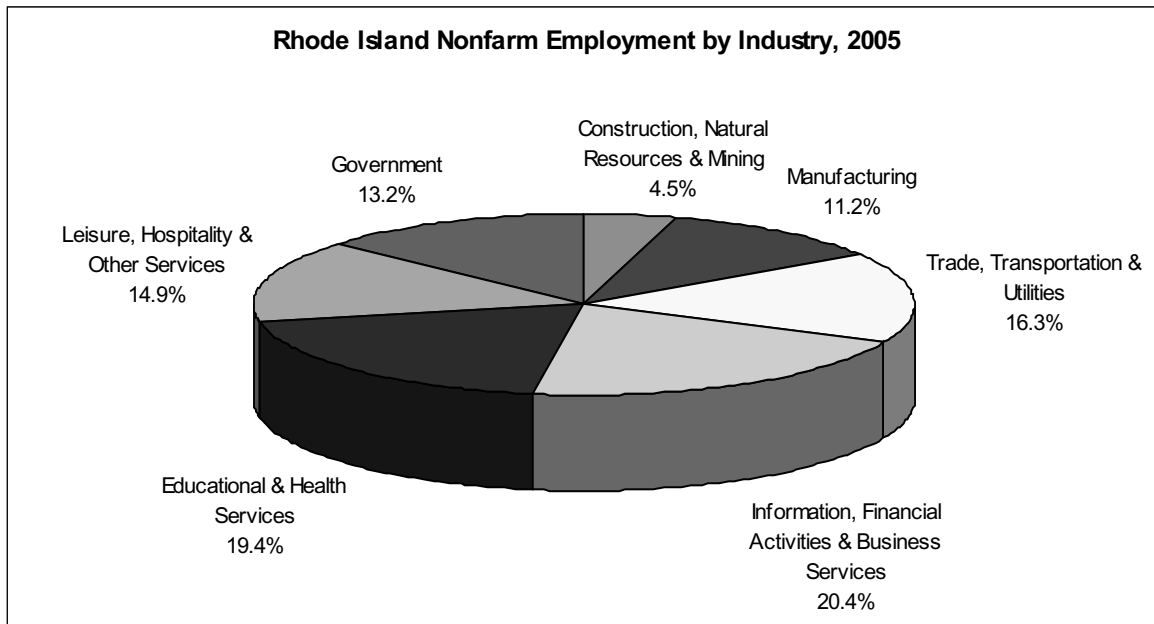
**Non-farm Employment by Industry.** The table below summarizes the changes in Rhode Island employment by sector from 1995 to 2005. Total nonfarm employment increased by 11.7 percent during this period, but the composition of this total employment changed markedly. As is evident from the table, manufacturing employment decreased by 31.4 percent during this time period while average employment growth for all other sectors, excluding government, was 31.4 percent. The biggest gaining sector during this period was Construction, Natural Resources and Mining, which grew by 63.2 percent. Clearly, the Rhode Island economy underwent a significant restructuring during the 1995 to 2005 period, transforming from a manufacturing based economy to service based economy.

### Rhode Island Non-Farm Employment by Industry, 1995 & 2005

Employment Sector	1995	% of Total	2005	% of Total	% Change 1995-2005
<b>Construction, Natural Resources &amp; Mining</b>	13,600	3.1%	22,200	4.5%	63.2%
<b>Manufacturing</b>	80,300	18.2%	55,100	11.2%	-31.4%
<b>Trade, Transportation &amp; Utilities</b>	75,600	17.2%	80,100	16.3%	6.0%
<b>Information, Financial Activities &amp; Business Services</b>	77,600	17.6%	100,500	20.4%	29.5%
<b>Educational &amp; Health Services</b>	77,200	17.5%	95,300	19.4%	23.4%
<b>Leisure, Hospitality &amp; Other Services</b>	54,600	12.4%	73,500	15.0%	34.6%
<b>Government</b>	61,300	13.9%	65,100	13.2%	6.2%
<b>Total Employment</b>	440,100	100.0%	491,600	100.0%	11.7%

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

The pie chart illustrates the composition of Rhode Island employment after the restructuring of the State's economy during the 1990s. The Information, Financial Activities and Business Services sector, with 20.4 percent of the nonfarm work force in 2005, is the largest employment sector in the Rhode Island economy, followed by Educational and Health Services (19.4 percent), Trade, Transportation and Utilities (16.3 percent), and Leisure, Hospitality and Other Services employment (15.0 percent).



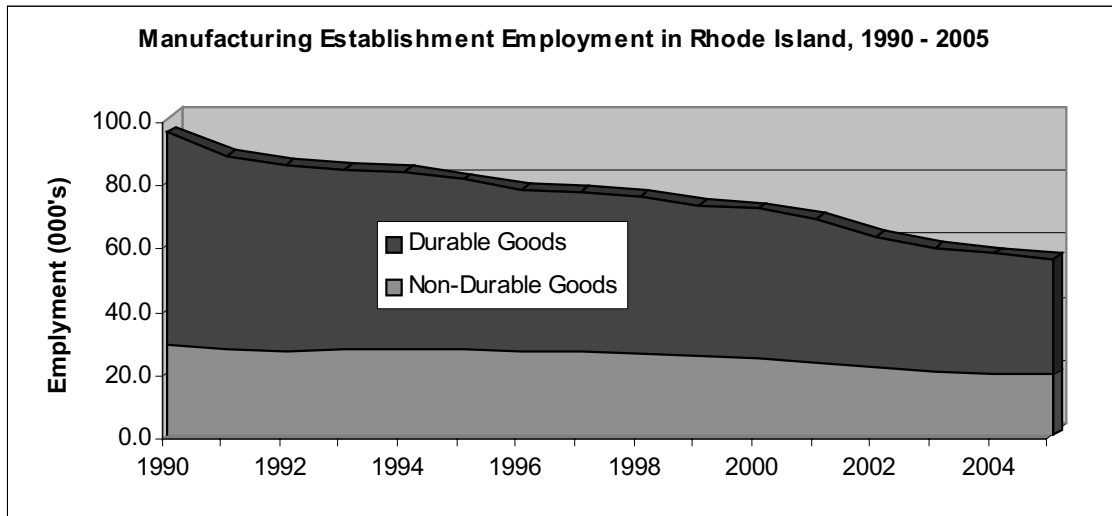
**Manufacturing Employment.** Like many industrial states, Rhode Island has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined in every year between 1995 and 2005, falling by 31.4 percent over this period. The rate of decline in manufacturing employment began to slow with the onset of the “Y2K expansion” that took hold in 1997. From 1997 to 2000, the decline in manufacturing employment was less than 2.0 percent per year with the exception of 1999. By 2000, this rate of decline had slowed to 1.4 percent. With the national economy slipping into recession in March 2001, the rate of decline in manufacturing employment accelerated to 4.8 percent in 2001. This rate of decline accelerated further in 2002 to 8.1 percent. Since that time, the rate of decline has again decelerated to 5.8 percent in 2003, 2.9 percent in 2004 and 3.3 percent in 2005, consistent with the overall recovery in the national economy.

**Manufacturing Establishment Employment in Rhode Island, 1995 - 2005**  
(In Thousands)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Non-Durable Goods</b>	26.7	26.3	26.4	25.9	24.8	24.1	22.6	21.3	20.2	19.5	18.9
Percentage Change	-0.7%	-1.5%	0.4%	-1.9%	-4.2%	-2.8%	-6.2%	-5.8%	-5.2%	-3.5%	-3.1%
<b>Durable Goods</b>	53.7	51.1	49.8	49.0	47.3	47.1	45.2	41.0	38.5	37.5	36.2
Percentage Change	-3.6%	-4.8%	-2.5%	-1.6%	-3.5%	-0.4%	-4.0%	-9.3%	-6.1%	-2.6%	-3.5%
<b>Total Manufacturing Employment</b>	80.3	77.4	76.2	74.9	72.2	71.2	67.8	62.3	58.7	57.0	55.1
Percentage Change	-2.8%	-3.6%	-1.6%	-1.7%	-3.6%	-1.4%	-4.8%	-8.1%	-5.8%	-2.9%	-3.3%

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

Employment in the manufacture of non-durable goods, which had declined or remained even in every year since 1990, grew in 1993 and 1997 (at rates of 1.1 percent and 0.4 percent, respectively). Despite a decline in employment, the manufacturing sector continues to be a significant component in Gross State Product, as evidenced by its production in terms of dollars. (See "Economic Base and Performance" below.)



**Largest Employers in Rhode Island.** The following table lists, in descending order by employment, the largest employers in Rhode Island for 2005. Together, the top 100 employers employ 121,359 persons, which is approximately 25 percent of the total nonfarm wage and salary employment in Rhode Island.

**Rhode Island's Largest Employers**

<b>Employed</b>	<b>Employer</b>	<b>Primary Business Activity</b>
14,561	State of Rhode Island	Government
10,597	Lifespan	Hospital
9,800	U.S. Government (excluding military)	Government
6,526	Care New England	Hospital
6,200	Roman Catholic Diocese of Providence	Catholic Church
5,500	Citizens Financial Group (Royal Bank of Scotland)	Bank
5,314	CVS Corporation	Pharmacies
4,455	Stop & Shop Supermarket Co., Inc (Royal Ahold)	Grocery Stores
3,251	Brown University	University
3,240	Bank of America Corp.	Bank
2,383	RIARC (Total of independent chapters)	Association for Retarded Citizens
2,240	Shaw's Super Markets (Albertsons, Inc.)	Grocery Stores
2,200	General Dynamics Corp.	Ship & Boat Building Mfg.
2,115	The Jan Companies	Eating Places
2,013	Metropolitan Life Insurance Co.	Insurance
1,875	WAL-Mart	Retail
1,852	St. Joseph Health Services of Rhode Island	Hospital
1,828	Maxi Drug, Inc.	Pharmacies
1,779	Raytheon Systems Company	Nautical Systems & Equipment Mfg.
1,603	Memorial Hospital of Rhode Island	Hospital
1,600	Fidelity Investments	Investment Services
1,440	The Home Depot	Building Supplies
1,340	Roger Williams Medical Center	Hospital
1,300	Amgen, Inc.	Biotechnology
1,290	Amica Life Insurance Company	Insurance
1,270	Johnson & Wales University	University
1,224	Cox Communications	Communications
1,224	McDonald's	Eating Places
1,210	American Power Conversion	Uninterruptible Power Supplies & Access.
1,175	Landmark Health System	Hospital
1,155	Verizon	Communications
1,144	GTECH Corporation	Lottery Systems
1,066	Blue Cross & Blue Shield	Medical Insurance
1,050	Sovereign Bank	Bank
1,050	South County Hospital	Hospital
1,050	Securitas, AB	Security Services
1,034	Hasbro, Inc.	Toy Manufacturing
1,000	United Parcel Service	Package Delivery
946	Veterans' Administration Medical Center	Hospital
990	Chelo's	Eating Places
989	Belo Corporation	Publishing
900	Rhode Island of Design	College
873	R.I. Public Transit Authority	Public Transit Authority
865	Stanley Bostitch	Building Products
856	Gilbane Building Company	Construction
840	Homefront Health Care	Health Care
810	Laidlaw, Inc.	Transportation
800	U.S. Security Associates, Inc.	Security Services
775	Aramark Services	Diversified
761	Honeywell	Environmental Control Systems

R.I. Economic Development Corporation, Research Division.

**Unemployment.** From 1990 to 1995, the Rhode Island unemployment rate was higher than the national unemployment rate. With the onset of recession in 1990, this pattern remained until 1996 when once again the unemployment rate in Rhode Island was less than that for the United States. From 1996 to 2001, Rhode Island's unemployment rate tracked closely with that of the United States. In 2002, the United States unemployment rate again rose above Rhode Island's. The following table compares the annual civilian labor force, the number unemployed, and the unemployment rate averages of Rhode Island, New England, and the United States between 1990 and 2005.

**Annual Average Civilian Labor Force and Unemployment, 1990 – 2005**  
(In Thousands)

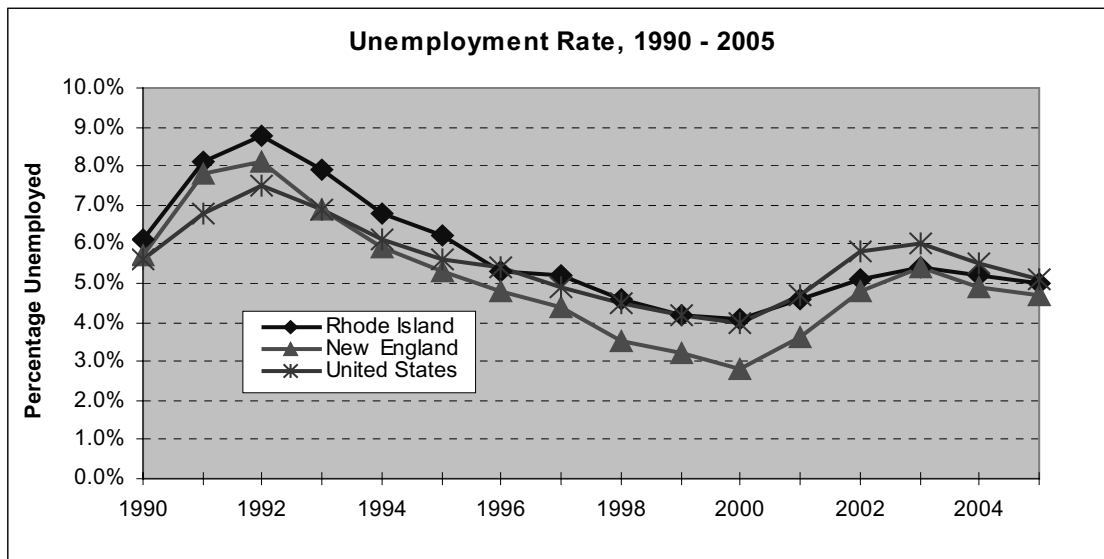
Year	Civilian Labor Force			Unemployed			Unemployment Rate			R.I. Rate as a % of U.S.
	R.I.	N.E.	U.S.	R.I.	N.E.	U.S.	R.I.	N.E.	U.S.	
1990(m)	526	7,128	125,840	32	409	7,047	6.1%	5.7%	5.6%	108.9%
1991(m)	523	7,112	126,346	42	558	8,628	8.1%	7.8%	6.8%	119.1%
1992(m)	530	7,105	128,105	47	573	9,613	8.8%	8.1%	7.5%	117.3%
1993(m)	527	7,062	129,200	42	486	8,940	7.9%	6.9%	6.9%	114.5%
1994(m)	516	7,041	131,056	35	415	7,996	6.8%	5.9%	6.1%	111.5%
1995(m)	509	7,053	132,304	31	375	7,404	6.2%	5.3%	5.6%	110.7%
1996(m)	517	7,118	133,943	28	340	7,236	5.3%	4.8%	5.4%	98.1%
1997(m)	532	7,228	136,297	28	315	6,739	5.2%	4.4%	4.9%	106.1%
1998(m)	534	7,257	137,673	24	253	6,210	4.6%	3.5%	4.5%	102.2%
1999(m)	541	7,327	139,368	23	234	5,880	4.2%	3.2%	4.2%	100.0%
2000(b)	543	7,353	142,583	23	203	5,692	4.1%	2.8%	4.0%	102.5%
2001(b)	545	7,420	143,734	25	267	6,801	4.6%	3.6%	4.7%	97.9%
2002(b)	556	7,515	144,863	28	364	8,378	5.1%	4.8%	5.8%	87.9%
2003(b)	568	7,546	146,510	31	409	8,774	5.4%	5.4%	6.0%	90.0%
2004(b)	562	7,517	147,401	29	368	8,149	5.2%	4.9%	5.5%	94.5%
2005(b)	569	7,551	149,320	29	353	7,591	5.0%	4.7%	5.1%	98.0%

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

(m) Reflects new modeling approach and reestimation as of March 2005. (R.I. & N.E. only)

(b) Reflects revised population controls and model reestimation through 2005. (RI & NE only)

The chart below graphs the unemployment rates for Rhode Island, New England, and the United States over the 1990 - 2005 period. This graph portrays Rhode Island's laggard status with respect to New England as a whole. This relationship between the Rhode Island unemployment rate and that for the New England region has been consistent over an extended period of time.



**Unemployment Compensation Trust Fund.** The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide benefits for eligible individuals when they are unemployed through no fault of their own. Benefits are paid from the Rhode Island Unemployment Compensation Trust Fund and financed through employer contributions.

### Economic Base and Performance

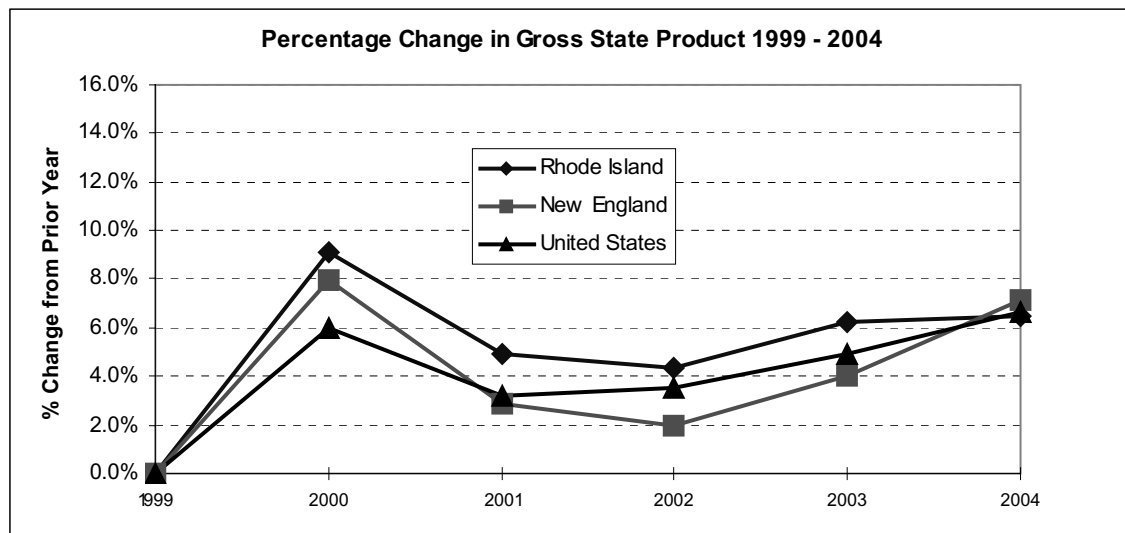
From 2000 – 2003, growth in Rhode Island Gross State Product (GSP) was greater than GSP growth in the United States. For 2004, Rhode Island GSP growth fell behind that of the United States. During the 2000 – 2003 period, Rhode Island GSP growth exceeded that of New England as well. The table below gives the Gross State Product and the annual growth rates for Rhode Island, New England, and the United States over the 1999 – 2004 period.

**Gross State Product, 1999 – 2004**  
(Millions of Current Dollars)

Year	Rhode Island		New England		United States	
	GSP	Change	GSP	Change	GSP	Change
1999	31,019	-	526,249	-	9,201,137	-
2000	33,835	9.1%	568,212	8.0%	9,749,104	6.0%
2001	35,489	4.9%	584,487	2.9%	10,058,156	3.2%
2002	37,040	4.4%	596,017	2.0%	10,412,244	3.5%
2003	39,363	6.3%	620,136	4.0%	10,923,849	4.9%
2004	41,921	6.5%	664,181	7.1%	11,649,827	6.6%

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

The graph below plots the percentage change in GSP for Rhode Island, New England, and the United States over the 1999 - 2004 period. It demonstrates that from 2000 to 2003, Rhode Island's GSP continued to rise at a faster pace than the nation and the region. The upswing in the growth of Rhode Island's GSP has been attributed in part to large gains in productivity of the state's labor force. Some of this productivity gain has been the result of the restructuring of the state's economy away from low value-added manufacturing to higher value-added services, such as those associated with the Finance, Insurance and Real Estate sector.



**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, 1999 – 2004**  
(Millions of Dollars)

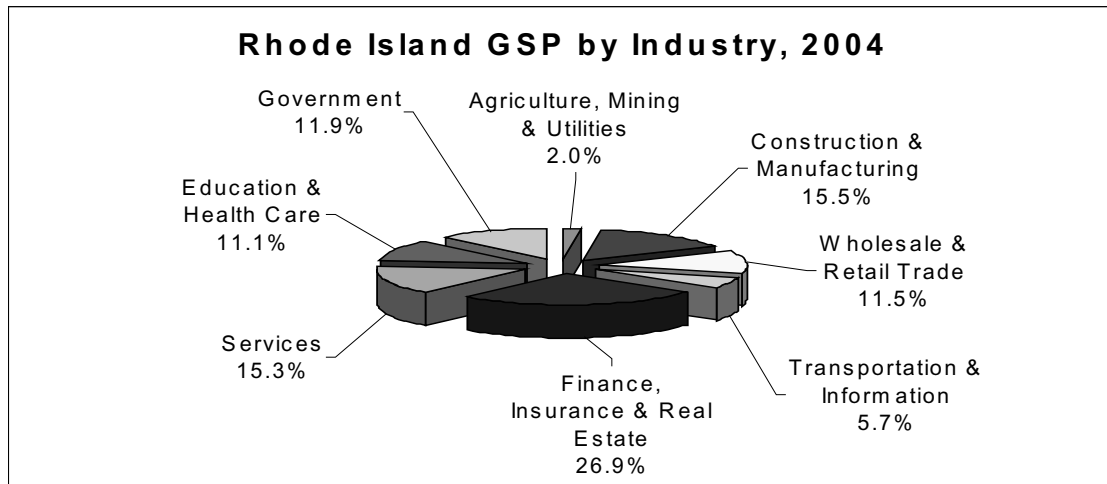
<b>Industrial Sector</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Agriculture, forestry, fishing and hunting	43	40	85	85	93	96
Mining	10	10	11	14	12	12
Utilities	653	760	731	683	719	735
Construction	1,763	1,808	1,978	2,100	2,376	2,459
Manufacturing	3,844	4,042	3,910	3,856	3,859	4,006
Wholesale Trade	1,639	1,713	1,742	1,873	1,990	2,062
Retail Trade	1,971	2,157	2,252	2,560	2,687	2,746
Transportation and warehousing, excluding postal service	537	569	530	566	630	644
Information	1,094	1,100	1,259	1,292	1,459	1,720
Finance and insurance	3,350	4,480	4,854	4,854	5,267	5,795
Real estate, rental and leasing	4,069	4,338	4,803	4,983	5,118	5,421
Professional and technical services	1,678	1,750	1,823	1,891	2,063	2,198
Management of companies and enterprises	573	644	523	535	820	838
Administrative and waste services	759	807	826	814	837	954
Educational services	625	680	714	768	810	848
Health care and social assistance	2,805	2,852	3,061	3,381	3,588	3,798
Government	3,821	4,140	4,319	4,565	4,715	4,945
Other	1,785	1,945	2,068	2,220	2,320	2,402
<b>Total GSP</b>	<b>31,019</b>	<b>33,835</b>	<b>35,489</b>	<b>37,040</b>	<b>39,363</b>	<b>41,679</b>

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

As is apparent from the table, Rhode Island has experienced strong growth in all sectors except Utilities, Manufacturing, Mining, and Transportation. All but these exceptions grew by over 25.0 percent from 1999 to 2004. The Agriculture, Finance and Insurance, Information, and Management of Companies and Enterprises sectors grew the most markedly, all at over 46.0 percent during the 1999 – 2004 period. During this same period, the Manufacturing sector stagnated while the Utilities sectors attained slightly better than 10.0 percent growth.

**Gross State Product by Industry in Rhode Island**

The pie chart below shows the share of total Gross State Product in 2004 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. F.I.R.E.'s contribution to total GSP has grown from 23.9 percent of GSP in 1999 to 26.9 percent of GSP in 2004. In 2004, F.I.R.E. accounted for \$11.2 billion of total gross state product of \$41.7 billion. For the period 1999 – 2004 this sector expanded by a respectable 51.2 percent.

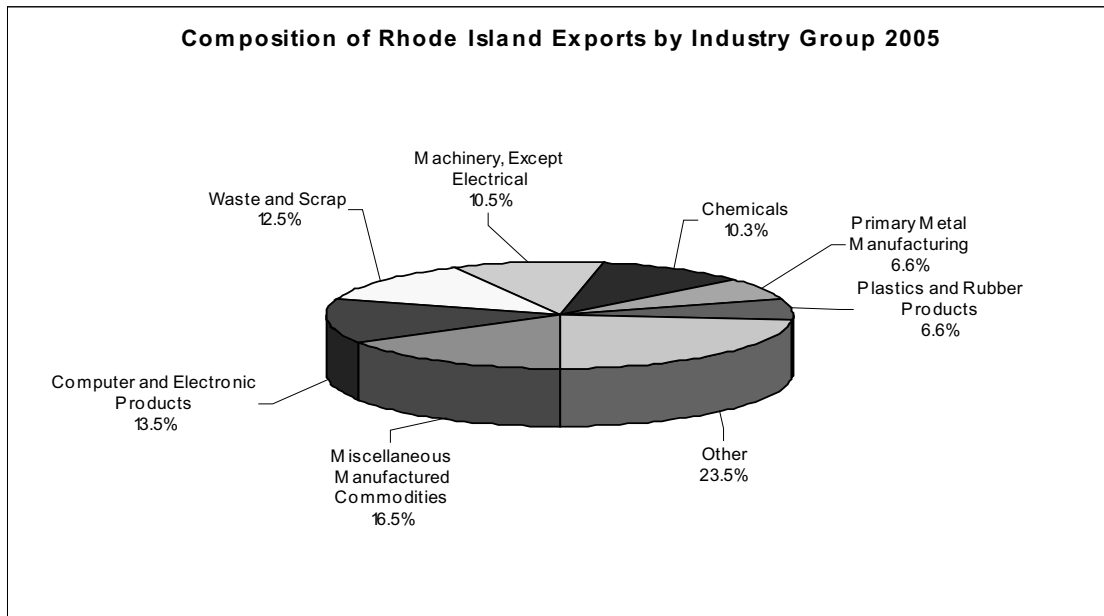
**Construction and Manufacturing.** In 2004, Construction and Manufacturing was the second largest sector in Rhode Island at \$6.5 billion, or 15.5 percent of the total Gross State Product. This sector increased by 15.3 percent from the 1999 level although it decreased in percent contribution to GSP. In 1999, Construction and Manufacturing comprised a slightly larger piece of GSP at 18.1 percent of the total.

**Government.** At 11.9 percent of GSP in 2004, the Government sector has grown slowly and steadily since 1999. Yet, due to the gains in other sectors, particularly F.I.R.E., Government contributes less as a percentage of GSP in 2004 than it did in 1999. In 1999, the Government sector accounted for 12.3 percent of GSP. The growth rate in 2000 was 8.3 percent, in 2001 it was 4.3 percent, in 2002 it was 5.7 percent, in 2003 it was 3.3 percent, and in 2004 it was 4.9 percent. In 2004, the Government sector contributed \$4.9 billion to total gross state product.

**Services.** Services consists of professional and technical services, management services, administrative and waste services, as well as other non-government services. Since 1999, Services have remained an integral sector accounting for 15.3 percent of Rhode Island's GSP in 2004. From 1999 to 2004, Services have grown by 31.9 percent, indicating the continuing shift from Rhode Island's traditional role as a manufacturing based economy to that of a service based economy.

### International Trade and the Rhode Island Economy

Rhode Island products are exported throughout the United States and the world. The total value of all international shipments from Rhode Island in 2002 was \$1.1 billion. This represented 3.0 percent of Rhode Island Gross State Product of \$37.0 billion. By 2004, Rhode Island's exports increased to \$1.3 billion, or 3.1 percent of Rhode Island Gross State Product.



The most important exports, as shown in the pie chart above, were miscellaneous manufactured commodities (16.5 percent), computer and electronic products (13.5 percent), waste and scrap (12.5 percent), machinery, except electrical (10.5 percent) and chemicals (10.3 percent).



The table below provides greater detail of Rhode Island exports by industry for the 2002-2005 period.

**Rhode Island Exports by Industry, 2002 – 2005**  
(in thousands of dollars)

	2002	2003	2004	2005
<b>Total All Industries</b>	1,121,005	1,177,475	1,286,324	1,268,589
Miscellaneous Manufactured Commodities	141,823	153,774	203,171	208,824
Computer and Electronic Products	205,962	258,505	254,324	171,883
Waste and Scrap	144,788	127,122	157,435	158,092
Machinery, Except Electrical	107,672	122,495	128,390	133,527
Chemicals	126,029	123,247	122,716	130,464
Primary Metal Manufacturing	89,841	61,791	70,252	84,330
Plastics and Rubber Products	75,055	90,561	83,045	83,600
Electrical Equipment, Appliances and Component	40,686	56,904	51,387	56,096
Fabricated Metal Products, NESOI	34,200	40,391	52,316	45,481
Transportation Equipment	20,624	18,073	30,687	44,073
Textiles and Fabrics	31,929	32,108	31,162	35,914
Fish - Fresh, Chilled or Frozen & Other Marine Products	16,772	18,349	17,653	24,823
Paper	23,090	20,130	17,243	17,360
Food and Kindred Products	8,831	4,892	11,096	16,416
Printing, Publishing and Similar Products	6,965	5,073	8,159	13,377
Special Classification Provisions, NESOI	9,129	6,938	7,619	8,367
Textile Mill Products	7,451	10,151	9,019	7,824
Nonmetallic Mineral Products	13,997	11,102	10,567	7,297
Furniture and Fixtures	3,217	4,368	7,254	5,611
Agricultural Products	805	406	304	3,223
Apparel and Accessories	2,819	2,214	3,005	3,163
Leather and Allied Products	2,624	2,115	2,060	2,309
Minerals and Ores	356	1,024	1,235	1,529
Petroleum and Coal Products	466	1,180	1,264	1,332
Wood Products	716	1,108	863	1,209
Used or Second-Hand Merchandise	1,706	631	1,312	827
Goods Returned to Canada (Exports Only); U.S. Goods	2,397	2,017	1,416	800
Forestry Products, NESOI	973	670	1,035	405
Prepackaged Software	0	36	165	223
Livestock and Livestock Products	82	94	170	166
Beverages and Tobacco Products	0	6	0	40
Oil and Gas	0	0	0	4

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

## Housing

The following table shows the number of housing permits authorized on an annual basis in Rhode Island, New England, and the United States. In 1991 the number of housing permits authorized in Rhode Island declined by 19.5 percent. In 2005, the number of housing permits authorized increased by 18.8 percent in Rhode Island, compared to an increase of only 1.5 percent for New England and an increase of 6.3 percent for the United States.

### Housing Permits Authorized, 1990– 2005 (Seasonally Adjusted)

Year	Rhode Island		New England		United States	
	Total Permits	Percent Change	Total Permits	Percent Change	Total Permits	Percent Change
1990	3,177	-	38,148	-	1,124,000	-
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	2,291	-8.9%	37,386	-6.5%	1,337,000	-2.2%
1996	2,355	2.8%	39,999	7.0%	1,420,000	6.2%
1997	2,729	15.9%	42,306	5.8%	1,442,000	1.5%
1998	2,654	-2.7%	47,919	13.3%	1,619,000	12.3%
1999	3,235	21.9%	47,378	-1.1%	1,662,000	2.7%
2000	2,657	-17.9%	43,763	-7.6%	1,600,000	-3.7%
2001	2,404	-9.5%	42,916	-1.9%	1,639,000	2.4%
2002	2,596	8.0%	47,292	10.2%	1,750,000	6.8%
2003	2,435	-6.2%	48,401	2.3%	1,890,000	8.0%
2004	2,532	4.0%	56,118	15.9%	1,996,000	5.6%
2005	3,007	18.8%	56,945	1.5%	2,121,000	6.3%

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

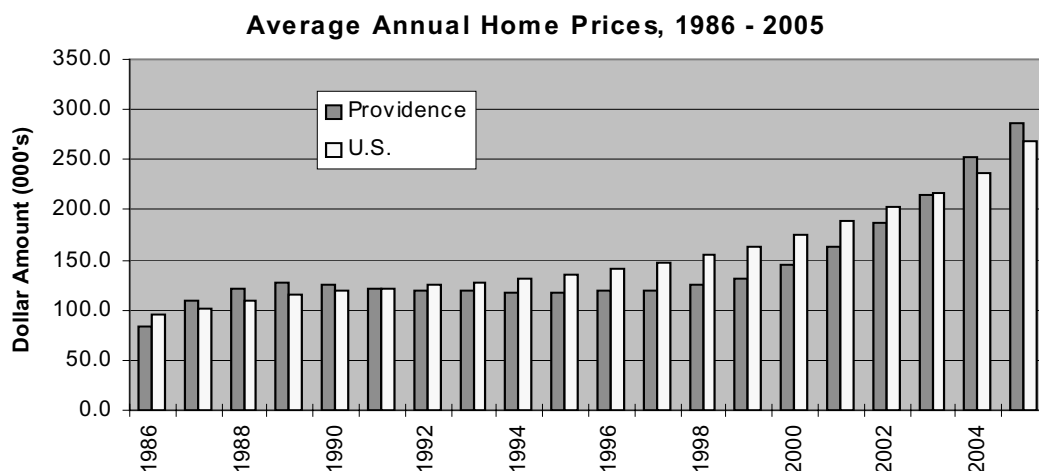
The strongest sector of the state's economy has been housing. A decline in existing home sales in Rhode Island in 1991 (-5.2 percent) was followed by rapid sales growth for 1992 and 1993. The current boom in housing in Rhode Island commenced in 1996 and was sustained up to 2000. Over this period, existing 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 decreased by 5.8 percent in 2000. Since then, existing home sales have been erratic.

### Existing Home Sales, 1990 - 2005 (In Thousands, SAAR)

Year	Rhode Island		New England		United States	
	Sales	Percent Change	Sales	Percent Change	Sales	Percent Change
1990	9.7	-	134.0	-	3,603.5	-
1991	9.2	-5.2%	140.5	4.9%	3,533.3	-1.9%
1992	11.9	29.3%	170.6	21.4%	3,889.5	10.1%
1993	13.0	9.2%	193.8	13.6%	4,220.3	8.5%
1994	13.1	0.8%	200.3	3.4%	4,409.8	4.5%
1995	13.5	3.1%	185.7	-7.3%	4,342.3	-1.5%
1996	14.7	8.9%	200.7	8.1%	4,705.3	8.4%
1997	15.9	8.2%	219.4	9.3%	4,908.8	4.3%
1998	19.0	19.5%	248.3	13.2%	5,585.3	13.8%
1999	20.7	8.9%	253.3	2.0%	5,922.8	6.0%
2000	19.5	-5.8%	242.0	-4.5%	5,831.8	-1.5%
2001	20.0	2.6%	239.6	-1.0%	6,026.3	3.3%
2002	19.7	-1.5%	244.5	2.0%	6,421.3	6.6%
2003	20.2	2.5%	275.6	12.7%	6,994.3	8.9%
2004	19.2	-5.0%	305.3	10.8%	6,722.8	-3.9%
2005	19.7	2.6%	n/a		7,049.3	4.9%

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, inverting again in 2004.



Fannie Mae and Freddie Mac; Federal Reserve Bank of Boston

Single-family home prices for the Providence Metropolitan area (not seasonally adjusted) appear in the above chart. While Providence housing prices were 110.8 percent of the US average in 1988, by 1999 they had fallen to 80.5 percent of the U.S. average. Since 1999, the Providence Metropolitan area home prices have climbed relative to the U.S. average, attaining parity in 2003. In 2004 and 2005, Providence Metropolitan area home prices rose above the U.S. average and now stand at 107.0 percent of the U.S. level.

### Military Contracts

Following a peak in the value of Department of Defense contracts awarded to Rhode Island firms in 1990 of \$554 million, defense related contracts declined 29.6 percent by 1993 to \$390 million. By 1994, the value of defense related contracts had rebounded to \$422 million, up 8.2 percent from 1993. From 1995 to 1998, contracts again declined as the country cashed in the "peace dividend" from the end of the Cold War. In 2003 contracts had risen again to \$489 million, up 34.0 percent from the previous year and in 2004 contracts declined again by 14.5 percent to \$418 million. The relationship of the defense industry to the Rhode Island economy is reflected in the following table, which shows the value of Department of Defense contract awards between 1990 and 2004. Since 1990, Rhode Island's share of New England contract awards has decreased from 3.9 percent to 2.2 percent of such awards in 2004.

**Department of Defense Contract Awards, 1990 – 2004**  
(In Millions)

<b>Fiscal Year</b>	<b>R.I.</b>	<b>N.E.</b>	<b>U.S.</b>	<b>R.I. Percentage of New England</b>	<b>R.I. Percentage of U.S.</b>
<b>1990</b>	554	14,271	121,254	3.88%	0.46%
<b>1991</b>	413	13,889	124,119	2.97%	0.33%
<b>1992</b>	455	11,033	112,285	4.12%	0.41%
<b>1993</b>	390	10,789	114,145	3.61%	0.34%
<b>1994</b>	422	9,329	110,316	4.52%	0.38%
<b>1995</b>	388	9,374	109,004	4.14%	0.36%
<b>1996</b>	334	9,237	109,408	3.62%	0.31%
<b>1997</b>	275	9,152	106,561	3.00%	0.26%
<b>1998</b>	217	9,284	109,386	2.34%	0.20%
<b>1999</b>	312	9,456	114,875	3.30%	0.27%
<b>2000</b>	418	8,745	123,295	4.78%	0.34%
<b>2001</b>	283	11,094	135,225	2.55%	0.21%
<b>2002</b>	365	13,029	158,737	2.80%	0.23%
<b>2003</b>	489	17,544	191,221	2.79%	0.26%
<b>2004</b>	418	19,062	203,389	2.19%	0.21%

Department of Defense

### **Travel and Tourism**

According to the April 2005 Rhode Island Travel and Tourism Research Report from the University of Rhode Island and the Rhode Island Economic Development Corporation, travel and tourism revenue broke the four billion-dollar mark, at \$4.6 billion in 2003 and hit \$4.7 billion in 2004. This generated 57,837 jobs (9.6 percent of the State total) and \$1.1 billion in employee compensation (4.7 percent of the State total).

In 2004 an estimated 16 million travelers visited Rhode Island for business, conventions or leisure. Of these, 10.9 million spent the day in the State and 5.1 million stayed overnight. An additional 23.7 million travelers “passed through” the state en route to other destinations.

The highest daily expenditures in 2004 were by overnight convention visitors (\$232.75 per day), overnight business visitors (\$231.11 per day), and leisure visitors who stayed in hotels and motels (\$157.76).

Three of the five visitor indicators for 2004 recovered , while two continued to decline. The Newport Bridge Traffic was up 3.2 percent. Lodgings Tax revenues increased by 4.4 percent. Visits to the Newport Mansions were down 6.0 percent, commercial air passengers arriving and departing through T.F. Green Airport were up 6.4 percent, and I-95 Welcome Center Visitors declined by 8.9 percent.

Sales revenues in the travel and tourism industry increased by 3.2 percent in 2004. The retail trade and the transportation sectors had the largest percentage increases in 2004 at 3.4 percent each. Service sector receipts increased by 2.3 percent. The number of firms in the tourism industry grew by 3.0 percent in 2004, while wages increased by 3.4 percent and the number of employees increased by 0.9 percent.

### **Human Resources**

The availability of a skilled and well-educated population is an important resource for Rhode Island. The level of education reached by the population of Rhode Island compares favorably with the United States as a whole, as the following chart demonstrates. Although spending on education is not necessarily an indication of results, it is important to note that Rhode Island spends more per pupil than the national average on primary and secondary education. In fact, per pupil spending in Rhode Island has been significantly higher than the national average since 1989. The ratio of Rhode Island spending to the national average has varied from 120.6 percent in 1990-91 to a high of 130.5 percent in 1999-00. For the 2002-03 academic year Rhode Island spent 31.3 percent more on public elementary and secondary

education than the United States average: \$11,377 per student compared to a national average of \$8,663 per student. The following table shows expenditures per pupil for Rhode Island and the United States since the 1989-90 academic year.

**Per Pupil Expenditure in Public Elementary and Secondary Schools**  
**Academic Years 1989-90 – 2002-03**  
 (Based on Average Daily Attendance)

<b>Academic Year</b>	<b>Rhode Island</b>	<b>United States</b>	<b>Ratio (R.I./U.S.)</b>
1989-90	6,368	4,973	128.1%
1990-91	6,343	5,252	120.8%
1991-92	6,546	5,405	121.1%
1992-93	6,938	5,574	124.5%
1993-94	7,333	5,767	127.2%
1994-95	7,715	5,978	129.1%
1995-96	7,936	6,135	129.4%
1996-97	8,307	6,361	130.6%
1997-98	8,627	6,631	130.1%
1998-99	9,049	6,991	129.4%
1999-00	9,646	7,395	130.4%
2000-01	10,116	7,891	128.2%
2001-02	10,552	8,315	126.9%
2002-03	11,377	8,663	131.3%

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

For the 2002-03 academic year, Rhode Island per pupil expenditures was the fourth highest in the nation. The following table shows each of the fifty states and the District of Columbia ranked in terms of average expenditure per pupil.

**National Ranking of Expenditure per Pupil in Public Elementary and Secondary Schools**  
**Academic Year 2002-03**  
 (Based on Average Daily Attendance)

<b>Ranking</b>	<b>State</b>	<b>Expenditure</b>	<b>Ranking</b>	<b>State</b>	<b>Expenditure</b>
1	District of Columbia	14,735	26	Kansas	8,373
2	New York	13,211	27	Georgia	8,308
3	New Jersey	13,093	28	Virginia	8,300
<b>4</b>	<b>Rhode Island</b>	<b>11,377</b>	29	Missouri	8,002
5	Connecticut	11,302	30	Iowa	7,943
6	Massachusetts	11,161	31	Washington	7,882
7	Vermont	10,903	32	Colorado	7,826
8	Alaska	10,770	33	South Carolina	7,759
9	Delaware	10,257	34	Kentucky	7,728
10	Maine	10,114	35	Texas	7,714
11	Wyoming	9,906	36	California	7,601
12	Michigan	9,847	37	Louisiana	7,492
13	Maryland	9,801	38	North Dakota	7,315
14	Pennsylvania	9,648	39	South Dakota	7,192
15	Wisconsin	9,538	40	New Mexico	7,126
16	Illinois	9,309	41	North Carolina	7,057
17	Ohio	9,160	42	Arkansas	6,981
18	West Virginia	9,025	43	Florida	6,922
19	New Hampshire	8,900	44	Arizona	6,783
20	Hawaii	8,770	45	Tennessee	6,674
21	Indiana	8,582	46	Alabama	6,642
22	Nebraska	8,550	47	Oklahoma	6,540
23	Oregon	8,486	48	Nevada	6,496
24	Minnesota	8,440	49	Idaho	6,454
25	Montana	8,391	50	Mississippi	6,186
			51	Utah	5,247

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

According to the May 2005 report by the Rhode Island Office of Higher Education, in fall 2004, the total enrollment in Rhode Island institutions of higher education was 80,395 students, up from the 79,085 students reported in fall 2003. Enrollment decreased 0.4 percent in the public sector (-17 students) and increased 3.4 percent in the independent sector (+1,327 students).

From July 1, 2004 to June 30, 2005, Rhode Island institutions of higher education conferred 16,873 degrees and certificates, an increase of 0.6 percent over the 16,778 awards of the previous year. In 2004-2005 public institutions of higher education conferred 5,404 or 32.0 percent of all awards, while independent institutions awarded 11,469 or 68.0 percent.

APPENDIX B

Proposed Form of Legal Opinion

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June 29, 2006

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

Re: *\$6,000,000 State of Rhode Island and Providence Plantations Lease  
Participation Certificates (State Vehicles Project - 2006 Series A)  
(the "Certificates")*

Ladies and Gentlemen:

We have acted as Special Counsel to the State of Rhode Island and Providence Plantations in connection with the issuance of the Certificates and the related execution of a Sublease Agreement dated as of June 1, 2006 (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 June 1, 2006 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 June 1, 2006 (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 (the "Owners") of the \$6,000,000 Lease Participation Certificates (State Vehicles Project - 2006 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 June 22, 2006, 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 portion of payments made by the Lessee under the Sublease (the "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"), and such portion of the Lease Payments designated as Interest on the Certificates will not be treated as an item of tax preference for purposes of computing the federal alternative minimum tax. The portion of the Lease Payments designated as Interest on the Certificates will, however, be taken into account in computing an adjustment made in determining a corporate Certificate Owner's minimum tax based on such Certificate Owner's adjusted current earnings. We are also of the opinion that the portion of Lease Payments distributable as Interest on the Certificates 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.

We call to your attention certain requirements of the Code 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. Our opinion 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. We express no opinion regarding other federal tax consequences arising with respect to the Certificates.

We express 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 on the Certificates in the event of non-appropriation by the State of the Lease Payments. In addition, we 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.

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,

**Holland & Knight LLP**

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