NEW ISSUE/BOOK ENTRY-ONLY

Ratings: *Moody's Investors Services, Inc.: "Aa3"*
Standard & Poor's: "AA-"
Fitch: "AA-"
See "RATINGS" herein

In the opinion of Hinckley, Allen & Snyder 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 2013 Series A Lease Payments, the 2013 Series B Lease Payments, the 2013 Series C Lease Payments, the 2013 Series D Lease Payments and the 2013 Series E Lease Payments (collectively the "Lease Payments") distributable respectively to Owners of the 2013 Series A Certificates, the 2013 Series B Certificates, the 2013 Series C Certificates, the 2013 Series D Certificates and the 2013 Series E Certificates (collectively, the "Certificates") as interest to the extent such Lease 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 C — "Proposed Forms of Legal Opinion" herein.

$36,310,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
Lease Participation Certificates (Kent County Courthouse Project - 2013 Refunding Series A)
$36,575,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
Lease Participation Certificates (Training School Project - 2013 Refunding Series B)
$17,520,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
Lease Participation Certificates (Energy Conservation Project - 2013 Series C)
$9,170,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
Lease Participation Certificates (Information Technology Project - 2013 Series D)
$15,290,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
Lease Participation Certificates (Traffic Tribunal Project - 2013 Refunding Series E)

Dated: Date of Delivery **Due:** As shown on the inside front cover

Each series of the Certificates represent undivided interests in the related Lease Payments to be made by the State of Rhode Island and Providence Plantations (the "Lessee") under the related Sublease as more fully described herein. The State is obligated under the related Sublease to make Lease Payments equal to the principal of and interest on the applicable series of Certificates. The State's obligation to make the related Lease Payments and any other obligations of the State under the related 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 related Sublease, including the related Lease Payments, and amounts from time to time on deposit under the terms of the related Declaration of Trust executed in connection with the related Certificates, as more fully described herein. The failure of the State to appropriate funds for the Lease Payments will result in termination of the applicable Sublease. Should such applicable Sublease terminate, there can be no assurance that the related Certificates will be repaid. Special counsel will express no opinion as to tax exemption of the related Certificates upon termination of a Sublease and, following termination of any such Sublease, transfer of the related 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 2013 Series A Certificates is payable on October 1 of each year as set forth on the inside cover hereof and interest thereon is payable on April 1 and October 1 of each year commencing October 1, 2013. The principal of the 2013 Series B Certificates is payable on October 1 of each year as set forth on the inside cover hereof and interest thereon is payable on April 1 and October 1 of each year commencing October 1, 2013. The principal of the 2013 Series C Certificates is payable on April 1 of each year as set forth on the inside cover hereof and interest thereon is payable on April 1 and October 1 of each year commencing October 1, 2013. The principal of the 2013 Series D Certificates is payable on April 1 of each year as set forth on the inside cover hereof and interest thereon is payable on April 1 and October 1 of each year commencing October 1, 2013. The principal of the 2013 Series E Certificates is payable on October 1 of each year as set forth on the inside cover hereof and interest thereon is payable on April 1 and October 1 of each year commencing October 1, 2013. 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.) In addition, the 2013 Series B Certificates and the 2013 Series E Certificates are subject to optional redemption as more fully described herein. (See "DESCRIPTION OF THE CERTIFICATES - Optional Redemption of 2013 Series B Certificates and 2013 Series E Certificates" herein.) The 2013 Series A Certificates, the 2013 Series C Certificates and the 2013 Series D Certificates are not subject to optional redemption.

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 opinions of Hinckley, Allen & Snyder LLP, Providence, Rhode Island, as special counsel. Certain other legal matters will be passed upon for the State by the Attorney General of the State and for the Underwriters by their counsel Law Offices of Gerald T. Harrington, Ltd., Providence, Rhode Island. Certain matters will be passed upon for the State by Partridge Snow & Hahn LLP, Providence, Rhode Island, as disclosure counsel. FirstSouthwest is serving as financial advisor to the State in this transaction. It is expected that delivery of the Certificates in definitive form will be available for delivery to DTC in New York, New York on or about May 2, 2013.

Raymond James **Janney Montgomery Scott**

BofA Merrill Lynch **Fidelity Capital Markets**
Morgan Stanley **Oppenheimer & Co. Inc.**
Ramirez & Co., Inc. **TD Securities (USA) LLC**

April 11, 2013

MATURITY SCHEDULE
Maturities, Amounts, Interest Rates and Prices or Yields

$36,310,000 Lease Participation Certificates
(Kent County Courthouse Project - 2013 Refunding Series A)

Maturity Date (October 1)	Principal Amount	Interest Rate	Yield	CUSIP†
2013	$3,130,000	2.00%	0.25%	76222WFM8
2014	1,305,000	4.00	0.50	76222WFN6
2015	1,360,000	4.00	0.74	76222WFP1
2016	3,205,000	5.00	0.97	76222WFQ9
2017	3,370,000	5.00	1.21	76222WFR7
2018	3,520,000	4.00	1.47	76222WFS5
2019	3,685,000	5.00	1.72	76222WFT3
2020	3,875,000	5.00	2.00	76222WFU0
2021	4,075,000	5.00	2.21	76222WFV8
2022	4,285,000	5.00	2.40	76222WFW6
2023	4,500,000	5.00	2.57	76222WFX4

$36,575,000 Lease Participation Certificates
(Training School Project - 2013 Refunding Series B)

Maturity Date (October 1)	Principal Amount	Interest Rate	Yield	CUSIP†
2013	$2,750,000	2.00%	0.25%	76222WFY2
2014	1,555,000	4.00	0.50	76222WFZ9
2015	1,615,000	4.00	0.74	76222WGA3
2016	2,820,000	4.00	0.97	76222WGB1
2017	2,940,000	4.00	1.21	76222WGC9
2018	3,060,000	4.00	1.47	76222WGD7
2019	3,200,000	5.00	1.72	76222WGE5
2020	3,365,000	5.00	2.00	76222WGF2
2021	3,540,000	5.00	2.21	76222WGG0
2022	3,720,000	5.00	2.40	76222WGH8
2023	3,905,000	5.00	2.57	76222WGJ4
2024	4,105,000	5.00	2.71*	76222WGK1

† 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. Neither the Underwriters, Financial Advisor nor the State is responsible for the selection or use of the CUSIP numbers, and no representation is made as to their correctness on the Certificates or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Certificates as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as to the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Certificates.

* Priced to the stated yield to the October 1, 2023 optional redemption date at a price of 100%.

$17,520,000 Lease Participation Certificates
(Energy Conservation Project - 2013 Series C)

Maturity Date (April 1)	Principal Amount	Interest Rate	Yield	CUSIP[†]
2014	$1,530,000	2.00%	0.33%	76222WGL9
2015	1,495,000	4.00	0.69	76222WGM7
2016	1,550,000	4.00	0.92	76222WGN5
2017	1,615,000	4.00	1.16	76222WGP0
2018	1,680,000	4.00	1.42	76222WGQ8
2019	1,745,000	5.00	1.69	76222WGR6
2020	1,835,000	5.00	1.95	76222WGS4
2021	1,925,000	5.00	2.16	76222WGT2
2022	2,020,000	5.00	2.35	76222WGU9
2023	2,125,000	5.00	2.52	76222WGV7

$9,170,000 Lease Participation Certificates
(Information Technology Project - 2013 Series D)

Maturity Date (April 1)	Principal Amount	Interest Rate	Yield	CUSIP[†]
2014	$825,000	2.00%	0.45%	76222WGW5
2015	815,000	2.00	0.69	76222WGX3
2016	830,000	3.00	0.92	76222WGY1
2017	855,000	3.00	1.16	76222WGZ8
2018	880,000	3.00	1.42	76222WHA2
2019	910,000	5.00	1.69	76222WHB0
2020	955,000	3.00	1.95	76222WHC8
2021	985,000	5.00	2.16	76222WHD6
2022	1,030,000	5.00	2.35	76222WHE4
2023	1,085,000	3.00	2.52	76222WHF1

[†] 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. Neither the Underwriters, Financial Advisor nor the State is responsible for the selection or use of the CUSIP numbers, and no representation is made as to their correctness on the Certificates or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Certificates as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as to the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Certificates.

$15,290,000 Lease Participation Certificates
(Traffic Tribunal Project - 2013 Refunding Series E)

Maturity Date (October 1)	Principal Amount	Interest Rate	Yield	CUSIP†
2013	$1,175,000	2.00%	0.25%	76222WHG9
2014	795,000	2.00	0.50	76222WHH7
2015	810,000	2.00	0.74	76222WHJ3
2016	1,190,000	3.00	0.97	76222WHK0
2017	1,235,000	4.00	1.21	76222WHL8
2018	1,280,000	4.00	1.47	76222WHM6
2019	1,325,000	3.00	1.72	76222WHN4
2020	1,370,000	3.00	2.00	76222WHP9
2021	325,000	4.00	2.21	76222WHQ7
2021	1,095,000	5.00	2.21	76222WHU8
2022	225,000	4.00	2.40	76222WHR5
2022	1,265,000	5.00	2.40	76222WHV6
2023	1,565,000	4.00	2.57	76222WHS3
2024	1,635,000	5.00	2.71*	76222WHT1

† 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. Neither the Underwriters, Financial Advisor nor the State is responsible for the selection or use of the CUSIP numbers, and no representation is made as to their correctness on the Certificates or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Certificates as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as to the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Certificates.

* Priced to the stated yield to the October 1, 2023 optional redemption date at a price of 100%.

No dealer, broker, salesperson or other person has been authorized by the State or the Underwriters in connection with the offering contained herein, 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 the State or the Underwriters. 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 any of the foregoing. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof.

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

Upon issuance, the Certificates will not be registered under the Securities Act of 1933, as amended, in reliance upon exemptions contained in such Act. The Certificates will not be listed on any stock or other securities exchange. Any registration or qualification of the Certificates in accordance with applicable provisions of securities laws of the states in which the Certificates may be registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency will have passed upon the accuracy of this Official Statement or, except for the State, approved the Certificates for sale. Any representation to the contrary may be a criminal offense.

The information relating to The Depository Trust Company ("DTC") and the book-entry only system contained in this Official Statement have been furnished by DTC (See "BOOK-ENTRY ONLY SYSTEM" herein). No representation is made by the State as to the adequacy or accuracy of such information. The State has not made any independent investigation of DTC or the book-entry only system.

The Financial Advisor to the State has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the State and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute "forward looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The State does not plan to issue any updates or revisions to those forward-looking statements if or when the expectations, events, conditions or circumstances on which such statements are based occur.

The cover page, the inside cover page hereof, this page and the appendices attached hereto are integral parts of this Official Statement.

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STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS

CONSTITUTIONAL OFFICERS

Governor	Lincoln D. Chafee
Lieutenant Governor	Elizabeth H. Roberts
General Treasurer	Gina M. Raimondo
Attorney General	Peter F. Kilmartin
Secretary of State	A. Ralph Mollis

APPOINTED OFFICIALS

Director of Administration	Richard A. Licht
Budget Officer	Thomas A. Mullaney
State Controller	Marc A. Leonetti
Auditor General	Dennis E. Hoyle

SPECIAL COUNSEL

Hinckley, Allen & Snyder LLP
Providence, Rhode Island

DISCLOSURE COUNSEL

Partridge Snow & Hahn LLP
Providence, Rhode Island

FINANCIAL ADVISOR

FirstSouthwest
Lincoln, Rhode Island

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OFFICIAL STATEMENT
of the
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Relating to

$36,310,000 Lease Participation Certificates
(Kent County Courthouse Project — 2013 Refunding Series A)

$36,575,000 Lease Participation Certificates
(Training School Project — 2013 Refunding Series B)

$17,520,000 Lease Participation Certificates
(Energy Conservation Project — 2013 Series C)

$9,170,000 Lease Participation Certificates
(Information Technology Project — 2013 Series D)

$15,290,000 Lease Participation Certificates
(Traffic Tribunal Project — 2013 Refunding Series E)

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 $36,310,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Kent County Courthouse Project — 2013 Refunding Series A) (the "2013 Series A Certificates"), the $36,575,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Training School Project — 2013 Refunding Series B) (the "2013 Series B Certificates"), the $17,520,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Energy Conservation Project — 2013 Series C) (the "2013 Series C Certificates"), the $9,170,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Information Technology Project — 2013 Series D) (the "2013 Series D Certificates") and $15,290,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Traffic Tribunal Project — 2013 Refunding Series E) (the "2013 Series E Certificates") (the 2013 Series A Certificates, the 2013 Series B Certificates, the 2013 Series C Certificates, the 2013 Series D Certificates and the 2013 Series E Certificates are collectively referred to herein as the "Certificates.").

The 2013 Series A Certificates

The 2013 Series A Certificates represent the proportionate interest of the registered owners thereof in lease payments ("2013 Series A Lease Payments") to be made by the State of Rhode Island and Providence Plantations acting by and through its Department of Administration (the "State" or the "Lessee") for the rental of certain real property and buildings, structures and improvements now or hereafter situated on a site located on the grounds of the Kent County Courthouse, also known as the Governor Philip W. Noel Judicial Complex, located at 222

Quaker Lane in Warwick, Rhode Island and consisting of a 163,000 square foot parking garage and 192,267 square foot building (the "2013 Series A Project"). The 2013 Series A Project will be leased to the State pursuant to a Sublease dated as of April 1, 2013 as the same may be amended from time to time (the "2013 Series A Sublease") by and between the State and The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee for the benefit of the 2013 Series A Certificate Owners pursuant to the 2013 Series A Declaration of Trust (as herein defined), as lessor (the "Lessor"). Under the 2013 Series A Declaration of Trust dated as of April 1, 2013 as the same may be amended from time to time (the "2013 Series A Declaration of Trust"), all right to the 2013 Series A Lease Payments under the 2013 Series A Sublease is set aside, granted and assigned to a grantor trust (the "2013 Series A Trust"). The Bank of New York Mellon Trust Company, N.A. will act as trustee (the "2013 Series A Trustee") under the 2013 Series A Declaration of Trust, Lessor under the 2013 Series A Sublease and lessee under the 2013 Series A Lease (as herein defined).

The 2013 Series A Project is being leased to the Lessor by the State pursuant to a lease (the "2013 Series A Lease") dated as of April 1, 2013. The 2013 Series A Lease expires on October 1, 2023.The Trustee's leasehold interest under the 2013 Series A Lease is subleased to the State under the 2013 Series A Sublease, and all right to the 2013 Series A Lease Payments under the 2013 Series A Sublease is set aside, granted and assigned to the 2013 Series A Trust.

The 2013 Series A Certificates will be issued pursuant to the 2013 Series A Declaration of Trust. The proceeds of the sale of the 2013 Series A Certificates will be deposited in the 2013 Series A Trust. A portion of the proceeds of the 2013 Series A Certificates in the 2013 Series A Trust will be distributed into a 2013 Series A Project Account established by the 2013 Series A Declaration of Trust. Amounts held in the 2013 Series A Project Account will be disbursed by the Trustee from the 2013 Series A Project Account to pay costs of issuance of the 2013 Series A Certificates. The remaining proceeds of the 2013 Series A Certificates will be deposited into a refunding trust fund as described in "PLAN OF REFUNDING" herein.

No Additional 2013 Series A Certificates

The 2013 Series A Sublease and the 2013 Series A Declaration of Trust will not provide for the ability to issue additional certificates with the 2013 Series A Certificates.

The 2013 Series B Certificates

The 2013 Series B Certificates represent the proportionate interest of the registered owners thereof in lease payments ("2013 Series B Lease Payments") to be made by the State for the rental of certain real property and buildings, structures and improvements now or hereafter situated on two sites, one located in an area known as the John O. Pastore Government Center on Cherrydale Court in Cranston, Rhode Island, presently consisting of the State's Department of Children, Youth and Families (DCYF) Roosevelt Benton Youth Assessment Facility, and one located at 57 Power Road in Cranston, Rhode Island, presently consisting of DCYF's Youth Development Facility (the "2013 Series B Project"). The 2013 Series B Project will be leased to the State pursuant to a Sublease dated as of April 1, 2013 as the same may be amended from time to time (the "2013 Series B Sublease") by and between the State and The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee for the benefit of the 2013 Series B Certificate Owners pursuant to the 2013 Series B Declaration of Trust (as herein defined), as lessor (the "Lessor"). Under the 2013 Series B Declaration of Trust dated as of April 1, 2013 as the same may be amended from time to time (the "2013 Series B Declaration of Trust"), all right to the 2013 Series B Lease Payments under the 2013 Series B Sublease is set aside, granted and assigned to a grantor trust (the "2013 Series B Trust"). The Bank of New York Mellon Trust Company, N.A. will act as trustee (the "2013 Series B Trustee") under the 2013 Series B Declaration of Trust, Lessor under the 2013 Series B Sublease and lessee under the 2013 Series B Lease (as herein defined).

The 2013 Series B Project is being leased to the Lessor by the State pursuant to a lease (the "2013 Series B Lease") dated as of April 1, 2013. The 2013 Series B Lease expires on October 1, 2024. The Trustee's leasehold interest under the 2013 Series B Lease is subleased to the State under the 2013 Series B Sublease, and all right to the 2013 Series B Lease Payments under the 2013 Series B Sublease is set aside, granted and assigned to the 2013 Series B Trust.

The 2013 Series B Certificates will be issued pursuant to the 2013 Series B Declaration of Trust. The proceeds of the sale of the 2013 Series B Certificates will be deposited in the 2013 Series B Trust. The proceeds of the 2013 Series B Certificates in the 2013 Series B Trust will be distributed into a 2013 Series B Project Account established by the 2013 Series B Declaration of Trust. Amounts held in the 2013 Series B Project Account will be disbursed by the Trustee from the 2013 Series B Project Account to pay costs of issuance of the 2013 Series B Certificates. The remaining proceeds of the 2013 Series B Certificates will be deposited into a refunding trust fund as described in "PLAN OF REFUNDING" herein.

No Additional 2013 Series B Certificates

The 2013 Series B Sublease and the 2013 Series B Declaration of Trust will not provide for the ability to issue additional certificates with the 2013 Series B Certificates.

The 2013 Series C Certificates

The 2013 Series C Certificates represent the proportionate interest of the registered owners thereof in lease payments ("2013 Series C 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 purchase and rental of certain energy conservation equipment and systems and related improvements to property to accommodate such energy conservation infrastructure (the "2013 Series C Project"). The 2013 Series C Project will be leased to the State pursuant to a Sublease dated as of April 1, 2013 as the same may be amended from time to time (the "2013 Series C Sublease") by and between the State and The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee for the benefit of the 2013 Series C Certificate Owners pursuant to the 2013 Series C Declaration of Trust (as herein defined), as lessor (the "Lessor"). Under the 2013 Series C Declaration of Trust dated as of April 1, 2013 as the same may be amended from time to time (the "2013 Series C Declaration of

Trust"), all right to the 2013 Series C Lease Payments under the 2013 Series C Sublease is set aside, granted and assigned to a grantor trust (the "2013 Series C Trust"). The Bank of New York Mellon Trust Company, N.A. will act as trustee (the "2013 Series C Trustee") under the 2013 Series D Declaration of Trust, Lessor under the 2013 Series D Sublease and lessee under the 2013 Series D Lease (as herein defined).

The 2013 Series C Project is being leased to the Lessor by the State pursuant to a lease (the "2013 Series C Lease") dated as of April 1, 2013. The 2013 Series C Lease expires on April 1, 2023.The Trustee's leasehold interest under the 2013 Series C Lease is subleased to the State under the 2013 Series C Sublease, and all right to the 2013 Series C Lease Payments under the 2013 Series C Sublease is set aside, granted and assigned to the 2013 Series C Trust.

The 2013 Series C Certificates will be issued pursuant to the 2013 Series C Declaration of Trust. The proceeds of the sale of the 2013 Series C Certificates will be deposited in the 2013 Series C Trust. The proceeds of the 2013 Series C Certificates in the 2013 Series C Trust will be distributed into a 2013 Series C Project Account and a 2013 Series C Lease Payment Account established by the 2013 Series C Declaration of Trust. Amounts held in the 2013 Series C Project Account will be disbursed by the Trustee from the 2013 Series C Project Account to finance the 2013 Series C Project and to pay costs of issuance of the 2013 Series C Certificates. (See "THE PROJECTS – The 2013 Series C Projects — Energy Conservation" herein.)

Additional 2013 Series C Certificates

The 2013 Series C Sublease and the 2013 Series C Declaration of Trust provide for the issuance of additional certificates to (i) provide monies needed to construct extensions, improvements or additions to the 2013 Series C Project, and (ii) pay costs of issuance related to such additional certificates. Such additional certificates will be issued on a parity with and will be equally and ratably secured with the Lessee's then outstanding 2013 Series C Certificates under the 2013 Series C Declaration of Trust (See "SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATIONS OF TRUST — Amendments and Supplemental Amendments" herein). Any additional certificates will be issued pursuant to supplemental amendments to the 2013 Series C Sublease and the 2013 Series C Declaration of Trust, and such amendments shall grant to the Trustee additional 2013 Series C Lease Payments to be made by the 2013 Series C Lessee. Such an amendment to the 2013 Series C Sublease shall provide for additional 2013 Series C Base Rent (as defined in the 2013 Series C Sublease) sufficient to pay the principal and interest portions of such additional certificates.

The 2013 Series D Certificates

The 2013 Series D Certificates represent the proportionate interest of the registered owners thereof in lease payments ("2013 Series D 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 purchase and rental of certain information technology equipment and systems and related improvements to real property to accommodate such information technology infrastructure (the "2013 Series D Project"). The 2013 Series D Project will be leased to the State pursuant to a Sublease dated as of April 1, 2013 as the same may be amended from time to time (the "2013 Series D Sublease") by and between the State and The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee for the benefit of the 2013 Series D Certificate Owners pursuant to the 2013 Series D Declaration of Trust (as herein defined), as lessor (the "Lessor"). Under the 2013 Series D Declaration of Trust dated as of April 1, 2013 as the same may be amended from time to time (the "2013 Series D Declaration of Trust"), all right to the 2013 Series D Lease Payments under the 2013 Series D Sublease is set aside, granted and assigned to a grantor trust (the "2013 Series D Trust"). The Bank of New York Mellon Trust Company, N.A. will act as trustee (the "2013 Series D Trustee") under the 2013 Series D Declaration of Trust, Lessor under the 2013 Series D Sublease and lessee under the 2013 Series D Lease (as herein defined).

The 2013 Series D Project is being leased to the Lessor by the State pursuant to a lease (the "2013 Series D Lease") dated as of April 1, 2013. The 2013 Series D Lease expires on April 1, 2023.The Trustee's leasehold interest under the 2013 Series D Lease is subleased to the State under the 2013 Series D Sublease, and all right to the 2013 Series D Lease Payments under the 2013 Series D Sublease is set aside, granted and assigned to the 2013 Series D Trust.

The 2013 Series D Certificates will be issued pursuant to the 2013 Series D Declaration of Trust. The proceeds of the sale of the 2013 Series D Certificates will be deposited in the 2013 Series D Trust. The proceeds of the 2013 Series D Certificates in the 2013 Series D Trust will be distributed into a 2013 Series D Project Account and a 2013 Series D Lease Payment Account established by the 2013 Series D Declaration of Trust. Amounts held in the 2013 Series D Project Account will be disbursed by the Trustee from the 2013 Series D Project Account to finance the 2013 Series D Project and to pay costs of issuance of the 2013 Series D Certificates. (See "THE PROJECTS – The 2013 Series D Projects — Information Technology" herein.)

Additional 2013 Series D Certificates

The 2013 Series D Sublease and the 2013 Series D Declaration of Trust provide for the issuance of additional certificates to (i) provide monies needed to construct extensions, improvements or additions to the 2013 Series D Project, and (ii) pay costs of issuance related to such additional certificates. Such additional certificates will be issued on a parity with and will be equally and ratably secured with the Lessee's then outstanding 2013 Series D Certificates under the 2013 Series D Declaration of Trust (See "SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATIONS OF TRUST — Amendments and Supplemental Amendments" herein). Any additional certificates will be issued pursuant to supplemental amendments to the 2013 Series D Sublease and the 2013 Series D Declaration of Trust, and such amendments shall grant to the Trustee additional 2013 Series D Lease Payments to be made by the 2013 Series D Lessee. Such an amendment to the 2013 Series D Sublease shall provide for additional 2013 Series D Base Rent (as defined in the 2013 Series D Sublease) sufficient to pay the principal and interest portions of such additional certificates.

The 2013 Series E Certificates

The 2013 Series E Certificates represent the proportionate interest of the registered owners thereof in lease payments ("2013 Series E Lease Payments") to be made by the State of Rhode Island and Providence Plantations acting by and through its Department of Administration (the "State" or the "Lessee") for the rental of certain real property and buildings, structures and improvements now or hereafter situated on a site located at 670 New London Avenue in Cranston, Rhode Island known as the Rhode Island Traffic Tribunal which houses seven courtrooms, administrative court support facilities and record storage (the "2013 Series E Project"). The 2013 Series E Project will be leased to the State pursuant to a Sublease dated as of April 1, 2013 as the same may be amended from time to time (the "2013 Series E Sublease") by and between the State and The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee for the benefit of the 2013 Series E Certificate Owners pursuant to the 2013 Series E Declaration of Trust (as herein defined), as lessor (the "Lessor"). Under the 2013 Series E Declaration of Trust dated as of April 1, 2013 as the same may be amended from time to time (the "2013 Series E Declaration of Trust"), all right to the 2013 Series E Lease Payments under the 2013 Series E Sublease is set aside, granted and assigned to a grantor trust (the "2013 Series E Trust"). The Bank of New York Mellon Trust Company, N.A. will act as trustee (the "2013 Series E Trustee") under the 2013 Series E Declaration of Trust, Lessor under the 2013 Series E Sublease and lessee under the 2013 Series E Lease (as herein defined).

The 2013 Series E Project is being leased to the Lessor by the State pursuant to a lease (the "2013 Series E Lease") dated as of April 1, 2013. The 2013 Series E Lease expires on October 1, 2024. The Trustee's leasehold interest under the 2013 Series E Lease is subleased to the State under the 2013 Series E Sublease, and all right to the 2013 Series E Lease Payments under the 2013 Series E Sublease is set aside, granted and assigned to the 2013 Series E Trust.

The 2013 Series E Certificates will be issued pursuant to the 2013 Series E Declaration of Trust. The proceeds of the sale of the 2013 Series E Certificates will be deposited in the 2013 Series E Trust. A portion of the proceeds of the 2013 Series E Certificates in the 2013 Series E Trust will be distributed into a 2013 Series E Project Account established by the 2013 Series E Declaration of Trust. Amounts held in the 2013 Series E Project Account will be disbursed by the Trustee from the 2013 Series E Project Account to pay costs of issuance of the 2013 Series E Certificates. The remaining proceeds of the 2013 Series E Certificates will be deposited into a refunding trust fund as described in "PLAN OF REFUNDING" herein.

No Additional 2013 Series E Certificates

The 2013 Series E Sublease and the 2013 Series E Declaration of Trust will not provide for the ability to issue additional certificates with the 2013 Series E Certificates.

SECURITY FOR THE CERTIFICATES

The 2013 Series A Certificates

The 2013 Series A Certificates are payable from (i) 2013 Series A Lease Payments received by the Trustee from the State with respect to the 2013 Series A Certificates; (ii) certain amounts on deposit from time to time in the 2013 Series A Trust established with respect thereto, including any remaining proceeds of the sale of the 2013 Series A Certificates and investment earnings on amounts on deposit in the 2013 Series A Trust; and (iii) proceeds from the disposition of the 2013 Series A Project upon the occurrence of an Event of Default under the 2013 Series A Sublease or upon termination of the 2013 Series A Sublease pursuant to non-appropriation of funds by the State. The 2013 Series A Sublease provides for 2013 Series A Lease Payments payable at times and in amounts equal to the principal of and interest on the 2013 Series A Certificates. The 2013 Series A Lease Payments will be made directly to the Trustee.

The State covenants in the 2013 Series A Sublease to do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which 2013 Series A 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 2013 SERIES A 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 2013 Series A Sublease provides an initial term commencing April 1, 2013 and terminating June 30, 2013, with annual renewals on July 1 of each year, commencing July 1, 2013, with a final 2013 Series A Sublease term commencing July 1, 2022 and terminating October 1, 2023 (the "Renewal Periods"). The State shall be deemed to have exercised its right of renewal for each succeeding Renewal Period, if at or prior to the expiration of the then current lease term, there are lawfully appropriated by the State sufficient funds enabling the payment of all 2013 Series A Lease Payments due during the next succeeding Renewal Period.

If during the initial 2013 Series A Sublease term or any 2013 Series A Sublease term thereafter, there are lawfully appropriated funds enabling payment of all 2013 Series A Lease Payments due within the next six-month period, the 2013 Series A Sublease shall be deemed renewed with respect to the 2013 Series A 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 2013 Series A Lease Payments for such six-month period.

If a 2013 Series A Sublease term terminates without a renewal of the 2013 Series A Sublease for a succeeding 2013 Series A Sublease term and if within sixty days after such date of termination there are lawfully appropriated funds which would have caused the 2013 Series A Sublease to be renewed if the appropriation had occurred prior to the termination of the 2013 Series A Sublease then the 2013 Series A 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 2013 Series A Lease Payment Date (April 1 and October 1) between the date of termination and the date of reinstatement of the 2013 Series A Sublease, the 2013 Series A Lease Payment which would have been due on such date if the 2013 Series A Sublease had not been terminated shall become immediately due and payable on the date if the 2013 Series A Sublease is reinstated.

In the event the 2013 Series A 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 2013 Series A Project. Under such circumstances, the State shall deliver the 2013 Series A Project to the Trustee and the Trustee has the right to lease the 2013 Series A Project and apply the net proceeds thereof to payment of the principal and interest portions of the 2013 Series A Certificates. UPON ANY SUCH OTHER SUBLEASE OF THE 2013 SERIES A PROJECT THERE MAY BE INSUFFICIENT MONIES HELD BY THE TRUSTEE UNDER THE 2013 SERIES A DECLARATION OF TRUST TO MAKE PAYMENT IN FULL OF THE PRINCIPAL AND INTEREST PORTIONS OF THE 2013 SERIES A CERTIFICATES. THE 2013 SERIES A PROJECT IS OF LIMITED VALUE FOR USE BY ANYONE OTHER THAN A DEPARTMENT OF STATE GOVERNMENT.

The 2013 Series B Certificates

The 2013 Series B Certificates are payable from (i) 2013 Series B Lease Payments received by the Trustee from the State with respect to the 2013 Series B Certificates; (ii) certain amounts on deposit from time to time in the 2013 Series B Trust established with respect thereto, including any remaining proceeds of the sale of the 2013 Series B Certificates and investment earnings on amounts on deposit in the 2013 Series B Trust; and (iii) proceeds from the disposition of the 2013 Series B Project upon the occurrence of an Event of Default under the 2013 Series B Sublease or upon termination of the 2013 Series B Sublease pursuant to non-appropriation of funds by the State. The 2013 Series B Sublease provides for 2013 Series B Lease Payments payable at times and in amounts equal to the principal of and interest on the 2013 Series B Certificates. The 2013 Series B Lease Payments will be made directly to the Trustee.

The State covenants in the 2013 Series B Sublease to do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which 2013 Series B 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 2013 SERIES B 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 2013 Series B Sublease provides an initial term commencing April 1, 2013 and terminating June 30, 2013, with annual renewals on July 1 of each year, commencing July 1, 2013, with a final 2013 Series B Sublease term commencing July 1, 2024 and terminating October 1, 2024 (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 2013 Series B Lease Payments due during the next succeeding Renewal Period.

If during the initial 2013 Series B Sublease term or any 2013 Series B Sublease term thereafter, there are lawfully appropriated funds enabling payment of all 2013 Series B Lease Payments due within the next six-month period, the 2013 Series B Sublease shall be deemed renewed with respect to the 2013 Series B 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 2013 Series B Lease Payments for such six-month period.

If a 2013 Series B Sublease term terminates without a renewal of the 2013 Series B Sublease for a succeeding 2013 Series B Sublease term and if within sixty days after such date of termination there are lawfully appropriated funds which would have caused the 2013 Series B Sublease to be renewed if the appropriation had occurred prior to the termination of the 2013 Series B Sublease then the 2013 Series B 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 2013 Series B Lease Payment Date (April 1 and October 1) between the date of termination and the date of reinstatement of the 2013 Series B Sublease, the 2013 Series B Lease Payment which would have been due on such date if the 2013 Series B Sublease had not been terminated shall become immediately due and payable on the date if the 2013 Series B Sublease is reinstated.

In the event the 2013 Series B 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 2013 Series B Project. Under such circumstances, the State shall deliver the 2013 Series B Project to the Trustee and the Trustee has the right to lease the 2013 Series B Project and apply the net proceeds thereof to payment of the principal and interest portions of the 2013 Series B Certificates. UPON ANY SUCH OTHER SUBLEASE OF THE 2013 SERIES B PROJECT THERE MAY BE INSUFFICIENT MONIES HELD BY THE TRUSTEE UNDER THE 2013 SERIES B DECLARATION OF TRUST TO MAKE PAYMENT IN FULL OF THE PRINCIPAL AND INTEREST PORTIONS OF THE 2013 SERIES B CERTIFICATES. THE 2013 SERIES B PROJECT IS OF LIMITED VALUE FOR USE BY ANYONE OTHER THAN A DEPARTMENT OF STATE GOVERNMENT.

The 2013 Series C Certificates

The 2013 Series C Certificates are payable from (i) 2013 Series C Lease Payments received by the Trustee from the State with respect to the 2013 Series C Certificates; (ii) certain amounts on deposit from time to time in the 2013 Series C Trust established with respect thereto, including any remaining proceeds of the sale of the 2013 Series C Certificates and investment earnings on amounts on deposit in the 2013 Series C Trust; and (iii) proceeds from the disposition of the 2013 Series C Project upon the occurrence of an Event of Default under the 2013 Series C Sublease or upon termination of the 2013 Series C Sublease pursuant to non-appropriation of funds by the State. The 2013 Series C Sublease provides for 2013 Series C Lease Payments payable at times and in amounts equal to the principal of and interest on the 2013 Series C Certificates. The 2013 Series C Lease Payments will be made directly to the Trustee.

The State covenants in the 2013 Series C Sublease to do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which 2013 Series C 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 2013 SERIES C 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 2013 Series C Sublease provides an initial term commencing April 1, 2013 and terminating June 30, 2013, with annual renewals on July 1 of each year, commencing July 1, 2013, with a final 2013 Series C Sublease term commencing July 1, 2022 and terminating April 1, 2023 (the "Renewal Periods"). The State shall be deemed to have exercised its right of renewal for each succeeding Renewal Period, if at or prior to the expiration of the then current lease term, there are lawfully appropriated by the State sufficient funds enabling the payment of all 2013 Series C Lease Payments due during the next succeeding Renewal Period.

If during the initial 2013 Series C Sublease term or any 2013 Series C Sublease term thereafter, there are lawfully appropriated funds enabling payment of all 2013 Series C Lease Payments due within the next six-month period, the 2013 Series C Sublease shall be deemed renewed with respect to the 2013 Series C 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 2013 Series C Lease Payments for such six-month period.

If a 2013 Series C Sublease term terminates without a renewal of the 2013 Series C Sublease for a succeeding 2013 Series C Sublease term and if within sixty days after such date of termination there are lawfully appropriated funds which would have caused the 2013 Series C Sublease to be renewed if the appropriation had occurred prior to the termination of the 2013 Series C Sublease then the 2013 Series C 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 2013 Series C Lease Payment Date (April 1 and October 1) between the date of termination and the date of reinstatement of the 2013 Series C Sublease, the 2013 Series C Lease Payment which would have been due on such date if the 2013 Series C Sublease had not been terminated shall become immediately due and payable on the date if the 2013 Series C Sublease is reinstated.

In the event the 2013 Series C 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 2013 Series C Project. Under such circumstances, the State shall deliver the 2013 Series C Project to the Trustee and the Trustee has the right to lease the 2013 Series C Project and apply the net proceeds thereof to payment of the principal and interest portions of the 2013 Series C Certificates. UPON ANY SUCH OTHER SUBLEASE OF THE 2013 SERIES C PROJECT THERE MAY BE INSUFFICIENT MONIES HELD BY THE TRUSTEE UNDER THE 2013 SERIES C DECLARATION OF TRUST TO MAKE PAYMENT IN FULL OF THE PRINCIPAL AND INTEREST PORTIONS OF THE 2013 SERIES C CERTIFICATES. THE 2013 SERIES C PROJECT IS OF LIMITED VALUE FOR USE BY ANYONE OTHER THAN A DEPARTMENT OF STATE GOVERNMENT.

The 2013 Series D Certificates

The 2013 Series D Certificates are payable from (i) 2013 Series D Lease Payments received by the Trustee from the State with respect to the 2013 Series D Certificates; (ii) certain amounts on deposit from time to time in the 2013 Series D Trust established with respect thereto, including any remaining proceeds of the sale of the 2013 Series D Certificates and investment earnings on amounts on deposit in the 2013 Series D Trust; and (iii) proceeds from the disposition of the 2013 Series D Project upon the occurrence of an Event of Default under the 2013 Series D Sublease or upon termination of the 2013 Series D Sublease pursuant to non-appropriation of funds by the State. The 2013 Series D Sublease provides for 2013 Series D Lease Payments payable at times and in amounts equal to the principal of and interest on the 2013 Series D Certificates. The 2013 Series D Lease Payments will be made directly to the Trustee.

The State covenants in the 2013 Series D Sublease to do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which 2013 Series D 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 2013 SERIES D 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 2013 Series D Sublease provides an initial term commencing April 1, 2013 and terminating June 30, 2013, with annual renewals on July 1 of each year, commencing July 1, 2013, with a final 2013 Series D Sublease term commencing July 1, 2022 and terminating April 1, 2023 (the "Renewal Periods"). The State shall be deemed to have exercised its right of renewal for each succeeding Renewal Period, if at or prior to the expiration of the then current lease term, there are lawfully appropriated by the State sufficient funds enabling the payment of all 2013 Series D Lease Payments due during the next succeeding Renewal Period.

If during the initial 2013 Series D Sublease term or any 2013 Series D Sublease term thereafter, there are lawfully appropriated funds enabling payment of all 2013 Series D Lease Payments due within the next six-month period, the 2013 Series D Sublease shall be deemed renewed with respect to the 2013 Series D 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 2013 Series D Lease Payments for such six-month period.

If a 2013 Series D Sublease term terminates without a renewal of the 2013 Series D Sublease for a succeeding 2013 Series D Sublease term and if within sixty days after such date of termination there are lawfully appropriated funds which would have caused the 2013 Series D Sublease to be renewed if the appropriation had occurred prior to the termination of the 2013 Series D Sublease then the 2013 Series D 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 2013 Series D Lease Payment Date (April 1 and October 1) between the date of termination and the date of reinstatement of the 2013 Series D Sublease, the 2013 Series D Lease Payment which would have been due on such date if the 2013 Series D Sublease had not been terminated shall become immediately due and payable on the date if the 2013 Series D Sublease is reinstated.

In the event the 2013 Series D 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 2013 Series D Project. Under such circumstances, the State shall deliver the 2013 Series D Project to the Trustee and the Trustee has the right to lease the 2013 Series D Project and apply the net proceeds thereof to payment of the principal and interest portions of the 2013 Series D Certificates. UPON ANY SUCH OTHER SUBLEASE OF THE 2013 SERIES D PROJECT THERE MAY BE INSUFFICIENT MONIES HELD BY THE TRUSTEE UNDER THE 2013 SERIES D DECLARATION OF TRUST TO MAKE PAYMENT IN FULL OF THE PRINCIPAL AND INTEREST PORTIONS OF THE 2013 SERIES D CERTIFICATES. THE 2013 SERIES D PROJECT IS OF LIMITED VALUE FOR USE BY ANYONE OTHER THAN A DEPARTMENT OF STATE GOVERNMENT.

The 2013 Series E Certificates

The 2013 Series E Certificates are payable from (i) 2013 Series E Lease Payments received by the Trustee from the State with respect to the 2013 Series E Certificates; (ii) certain amounts on deposit from time to time in the 2013 Series E Trust established with respect thereto, including any remaining proceeds of the sale of the 2013 Series E Certificates and investment earnings on amounts on deposit in the 2013 Series E Trust; and (iii) proceeds from the disposition of the 2013 Series E Project upon the occurrence of an Event of Default under the 2013 Series E Sublease or upon termination of the 2013 Series E Sublease pursuant to non-appropriation of funds by the State. The 2013 Series E Sublease provides for 2013 Series E Lease Payments payable at times and in amounts equal to the principal of and interest on the 2013 Series E Certificates. The 2013 Series E Lease Payments will be made directly to the Trustee.

The State covenants in the 2013 Series E Sublease to do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which 2013 Series E 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 2013 SERIES E 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 2013 Series E Sublease provides an initial term commencing April 1, 2013 and terminating June 30, 2013, with annual renewals on July 1 of each year, commencing July 1, 2013, with a final 2013 Series E Sublease term commencing July 1, 2024 and terminating October 1, 2024 (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 2013 Series E Lease Payments due during the next succeeding Renewal Period.

If during the initial 2013 Series E Sublease term or any 2013 Series E Sublease term thereafter, there are lawfully appropriated funds enabling payment of all 2013 Series E Lease Payments due within the next six-month period, the 2013 Series E Sublease shall be deemed renewed with respect to the 2013 Series E 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 2013 Series E Lease Payments for such six-month period.

If a 2013 Series E Sublease term terminates without a renewal of the 2013 Series E Sublease for a succeeding 2013 Series E Sublease term and if within sixty days after such date of termination there are lawfully appropriated funds which would have caused the 2013 Series E Sublease to be renewed if the appropriation had occurred prior to the termination of the 2013 Series E Sublease then the 2013 Series E 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 2013 Series E Lease Payment Date (April 1 and October 1) between the date of termination and the date of reinstatement of the 2013 Series E Sublease, the 2013 Series E Lease Payment which would have been due on such date if the 2013 Series E Sublease had not been terminated shall become immediately due and payable on the date if the 2013 Series E Sublease is reinstated.

In the event the 2013 Series E 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 2013 Series E Project. Under such circumstances, the State shall deliver the 2013 Series E Project to the Trustee and the Trustee has the right to lease the 2013 Series E Project and apply the net proceeds thereof to payment of the principal and interest portions of the 2013 Series E Certificates. UPON ANY SUCH OTHER SUBLEASE OF THE 2013 SERIES E PROJECT THERE MAY BE INSUFFICIENT MONIES HELD BY THE TRUSTEE UNDER THE 2013 SERIES E DECLARATION OF TRUST TO MAKE PAYMENT IN FULL OF THE PRINCIPAL AND INTEREST PORTIONS OF THE 2013 SERIES E CERTIFICATES. THE 2013 SERIES E PROJECT IS OF LIMITED VALUE FOR USE BY ANYONE OTHER THAN A DEPARTMENT OF STATE GOVERNMENT.

THE PROJECTS

The 2013 Series A Project — Kent County Courthouse

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

The new Kent County Courthouse, which opened August 1, 2006, is located at the Governor Philip W. Noel Judicial Complex in Warwick, Rhode Island. The courthouse totals approximately 192,267 square feet of floor space with four floors above grade, a partial floor below grade, a secure bridge from the parking garage for protected access and a covered walkway between the garage and main building for public and employee access. The facility has sixteen courtrooms and office support space as follows: six Superior Court courtrooms; five Family Court courtrooms; and five District Court courtrooms. Each court has a dedicated floor. The ground level houses the Office of the Attorney General, the Office of the Public Defender, Adult and Juvenile Probation Offices and the Capitol Police. The courthouse is designed to meet security and accessibility needs of the public as well as provide the flexibility required for changing spatial and technological needs.

The project was financed by the State's $58,910,000 Lease Participation Certificates (Kent County Courthouse Project — 2004 Series A) dated as of August 25, 2004, of which $39,410,000 remains outstanding (the "2004 Series A Certificates"). The 2013 Series A Certificates are advance refunding the 2004 Series A Certificates. See "PLAN OF REFUNDING" herein.

The 2013 Series B Project — Training School

DCYF and the Division of Capital Projects of the Department of Administration developed two buildings. The Roosevelt Benton Youth Assessment Facility (YAF), formerly known as the Youth Assessment Facility, which houses up to 52 detained young males (who have not completed the court process and are not sentenced) and the Youth Development Facility (YDF), which houses up to 96 adjudicated young males (sentenced to the Training School).

The YAF, which opened January 4, 2009, is located on an area known as the John O. Pastore Government Center, located on Cherrydale Court in Cranston, Rhode Island (the "Pastore Center"). The site was formerly occupied by parking facilities and two cottages holding state offices. The YDF, which opened March 11, 2009, is located at 57 Power Road in Cranston, Rhode Island, formerly the site of three buildings occupied by the Training School.

The project was financed by the State's $51,985,000 Lease Participation Certificates (Training School Project — 2005 Series A) dated as of June 28, 2005, of which $38,030,000 remains outstanding (the "2005 Series A Certificates"). The 2013 Series B Certificates are advance refunding the 2005 Series A Certificates. See "PLAN OF REFUNDING" herein.

The 2013 Series C Project — Energy Conservation

The proceeds from the 2013 Series C Certificates will be utilized for the implementation of an energy conservation project in the State via "Energy Performance Contracts" (EPCs). An EPC is a contract with an Energy Service Company (ESCO) to replace or upgrade energy equipment (boilers, heating/air conditioning systems, lighting systems, etc.) that is antiquated, inefficient, and expensive to maintain. The resultant energy cost savings are then guaranteed under the terms of the EPC as sufficient to provide complete cost recovery on the new equipment. The 2013 Series C Certificates will finance the execution of an EPC at the State of Rhode Island Department of Administration's Pastore Center and Zambarano Campus Facilities.

Energy Conservation - Pastore Center and Zambarano Campus Facilities

The State has authorized up to $53,100,000 in additional financing to support an EPC with an ESCO for various facilities at the Pastore Center in Cranston and the Zambarano Campus in Burrillville, including improvements to and replacement of existing equipment, with a contractual guarantee of energy cost savings. Infrastructure upgrades will include boiler and chiller replacements, lighting upgrades with controls, energy management system improvements, building envelope, and water conservation initiatives. The performance contracting program will enable the State to manage its rising energy costs and to improve the overall energy infrastructure at these locations.

A total of $7,600,000 has been authorized for the Zambarano Campus, of which $7,555,000 was funded through the issuance of the 2011 Series A Certificates. A total of $45,500,000 has been authorized for the Pastore Center, of which $12,275,000 was funded through the issuance the 2011 Series A Certificates, and $17,520,000 will be funded through the issuance of the 2013 Series C Certificates. The State anticipates funding the balance of the Pastore Center project through the issuance of additional certificates of participation in FY 2014 or later.

The 2013 Series D Project — Information Technology

Across many areas of responsibility spanning several agencies within state government, critical information technology upgrades have become necessary due to obsolescence and resulting inefficiencies. The proceeds from the 2013 Series D Certificates will be utilized to modernize the technology used to support the State's tax enforcement activities within the division of taxation. In addition, the State's local education agencies ("LEAs"), districts, charter schools and state school's need to upgrade their existing technology infrastructure.

Information Technology – Integrated Tax System

The 2013 Series D Certificates proceeds will finance the acquisition of a modern integrated tax system that would allow the division of taxation to centralize tax payer information in one computer system. The integrated tax system will help the division of taxation better support its tax enforcement activities. A total of $25,000,000 has been authorized for the project. $3,865,000 will be funded through the issuance of the 2013 Series D Certificates. The State anticipates funding the balance of this project through the issuance of additional certificate of participation in FY 2014 or later.

Information Technology – LEA Technology Infrastructure

The Series 2013 D Certificate proceeds will finance information technology improvements at LEAs, district, charter schools and state schools in order to provide twenty-first century technology-based learning, including e-learning opportunities, online textbooks and online assessments. A total of $19,800,000 has been authorized for the project. $5,000,000 will be funded through the issuance of the 2013 Series D Certificate. The State anticipates funding the balance of this project through the issuance of additional certificate of participation in FY 2014 or later.

The 2013 Series E Project — Traffic Tribunal

The Rhode Island Traffic Tribunal ("RITT") is part of the State's unified court system. RITT, which opened in January 2008, is located at 670 New London Avenue in Cranston, Rhode Island and contains approximately 86,000 square feet of floor space. The RITT houses seven courtrooms, administrative court support facilities and record storage. The RITT also houses support facilities including the Law Library, Sheriff's Division, State Police, Security Officers, Facilities Management, and Central Holding for prisoners. The facility includes 450 parking spaces for judges, staff and the public and 175 parking spaces for State employees at the Aimee Forand building.

The project was financed by the State's $21,565,000 Lease Participation Certificates (Traffic Tribunal Project — 2005 Series B) dated as of June 28, 2005, of which $15,415,000 remains outstanding (the "2005 Series B Certificates"). The 2013 Series E Certificates are advance refunding the 2005 Series B Certificates. See "PLAN OF REFUNDING" herein.

PLAN OF REFUNDING

The State, upon delivery of the 2013 Series A Certificates, the 2013 Series B Certificates and the 2013 Series E Certificates, will enter into a refunding escrow agreement (the "Refunding Escrow Agreement") with The Bank of New York Mellon Trust Company, N.A., as refunding trustee (the "Refunding Trustee"). The Refunding Escrow Agreement will provide for the deposit of net proceeds of the 2013 Series A Certificates, the 2013 Series B Certificates and the 2013 Series E Certificates with the Refunding Trustee in separate accounts. The State, depending upon market conditions, in addition to or in lieu of depositing cash into the escrow as described above, may acquire and deposit in the escrow direct obligations of the United States of America or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America. The Refunding Escrow Agreement will require that maturing principal of and interest on the Government Obligations, if any, plus any initial cash deposit, be held in trust in such accounts and be paid to the paying agent for the 2004 Series A Certificates, the 2005 Series A Certificates and the 2005 Series B Certificates in amounts sufficient and solely for the payment of principal of and redemption premium, if any, and interest on the 2004 Series A Certificates, the 2005 Series A Certificates and the 2005 Series B Certificates. For a list of the outstanding 2004 Series A Certificates, the 2005 Series A Certificates and the 2005 Series B Certificates to be defeased through the proceeds of the 2013 Series A Certificates, the 2013 Series B Certificates and the 2013 Series E Certificates, see Appendix B – "Table of 2004 Series A Certificates, 2005 Series A Certificates and 2005 Series B Certificates" herein.

VERIFICATION OF MATHEMATICAL CALCULATIONS

American Municipal Tax Exempt Compliance Corporation ("AMTEC"), independent certified public accountants, will verify the accuracy as of the date of the closing on the Certificates of (1) the mathematical computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposited listed in such schedules, to be held in escrow, will be sufficient to pay, when due, the principal, interest and call premium payment requirements, if any, of the 2004 Series A Certificates, the 2005 Series A Certificates and the 2005 Series B Certificates (the "Refunded Certificates"), and (2) the mathematical computations of yield on the securities held in the escrow for the Refunded Certificates contained in the provided schedules used by Special Counsel in its determination that the interest on the Certificates is not included in gross income for federal income tax purposes. AMTEC will express no opinion on the assumptions provided to them, nor as of the exclusion of interest on the Certificates from gross income for federal income tax purposes.

SOURCES AND USES OF CERTIFICATE PROCEEDS

The 2013 Series A Certificates

Sources:	
Principal Amount of Certificates	$36,310,000.00
Original Issue Premium	5,958,176.80
Deposit from Project Fund for 2004 Series A Certificates	18.53
Total	$42,268,195.33
Uses:	
Project Account Deposit[1]	$112,334.00
Deposit to refunding trust fund	42,024,563.96
Underwriters' Discount	131,297.37
Total	$42,268,195.33

[1] For costs of issuance.

The 2013 Series B Certificates

Sources:

Principal Amount of Certificates	$36,575,000.00
Original Issue Premium	5,863,229.10
Deposit from Project Fund for 2005 Series A Certificates	5.13
Total	$42,438,234.23

Uses:

Project Account Deposit(1)	$107,915.72
Deposit to refunding trust fund	42,196,281.86
Underwriters' Discount	134,036.65
Total	$42,438,234.23

(1) For costs of issuance.

The 2013 Series C Certificates

Sources:

Principal Amount of Certificates	$17,520,000.00
Original Issue Premium	2,601,725.75
Total	$20,121,725.75

Uses:

Project Account Deposit(1)	$20,052,779.37
Underwriters' Discount	68,946.38
Total	$20,121,725.75

(1) For project fund proceeds and costs of issuance.

The 2013 Series D Certificates

Sources:	
Principal Amount of Certificates	$9,170,000.00
Original Issue Premium	906,779.65
Total	$10,076,779.65
Uses:	
Project Account Deposit[1]	$10,039,998.61
Underwriters' Discount	36,781.04
Total	$10,076,779.65

[1] For project fund proceeds and costs of issuance.

The 2013 Series E Certificates

Sources:	
Principal Amount of Certificates	$15,290,000.00
Original Issue Premium	1,767,197.75
Deposit from Project Fund for 2005 Series B Certificates	2.04
Total	$17,057,199.79
Uses:	
Project Account Deposit[1]	$50,516.63
Deposit to refunding trust fund	16,951,103.35
Underwriters' Discount	55,579.81
Total	$17,057,199.79

[1] For costs of issuance.

DESCRIPTION OF THE STATE

See APPENDIX A -- "Information Statement of the State of Rhode Island and Providence Plantations", dated March 14, 2013 for a description of the State, its budgetary process and financial profile. On November 17, 2011, the State General Assembly adopted "The Rhode Island Retirement Security Act" (the "Retirement Security Act") which restructures the State-run retirement systems. See the section entitled "State Retirement Systems" in APPENDIX A — "Information Statement of the State of Rhode Island and Providence Plantations" dated March 14, 2013. See also the section entitled "Litigation" herein and pages A-129-130 and A-135-137 in APPENDIX A — "Information Statement of the State of Rhode Island and Providence Plantations" dated March 14, 2013 for a description of certain litigation challenging the legality of the Retirement Security Act and other State pension reform legislation.

DESCRIPTION OF THE CERTIFICATES

The 2013 Series A Certificates represent an undivided interest in the 2013 Series A Lease Payments to be made by the State to the Trustee under the 2013 Series A Sublease. The 2013 Series B Certificates represent an undivided interest in the 2013 Series B Lease Payments to be made by the State to the Trustee under the 2013 Series B Sublease. The 2013 Series C Certificates represent an undivided interest in the 2013 Series C Lease Payments to be made by the State to the Trustee under the 2013 Series C Sublease. The 2013 Series D Certificates represent an undivided interest in the 2013 Series D Lease Payments to be made by the State to the Trustee under the 2013 Series D Sublease. The 2013 Series E Certificates represent an undivided interest in the 2013 Series E Lease Payments to be made by the State to the Trustee under the 2013 Series E Sublease. 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 (as hereinafter defined) of the Certificates will be the responsibility of the DTC Participants and Indirect Participants, as more fully described herein. (See "BOOKENTRY-ONLY SYSTEM" herein.)

The principal portions of the Certificates are payable on October 1 or April 1 of each year as set forth on the inside cover page hereof. The interest portions of the Certificates will bear interest at the rates per annum (computed on the basis of a 360-day year of twelve 30-day months) as shown on the inside cover page hereof and will be payable semi-annually on April 1 and October 1 of each year commencing October 1, 2013 (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 applicable Trustee for that purpose; provided, however, that the applicable Trustee may establish a special record date in connection with the payment of interest in default.

Optional Redemption of 2013 Series B Certificates and 2013 Series E Certificates

The 2013 Series B Certificates maturing on or before October 1, 2023 are not subject to redemption prior to their stated dates of maturity. The 2013 Series B Certificates maturing on and after October 1, 2024 are subject to optional redemption prior to their stated dates of maturity on and after October 1, 2023 as a whole or in part at any time, and may be redeemed by the exercise of the option to make payment of all or part of the Rent Prepayment Price as provided in the 2013 Series B Sublease in such order of maturity and in such amounts as directed by the Lessee, at a redemption price of 100% of the principal amount of the Certificates to be redeemed, plus accrued interest to the redemption date. The 2013 Series E Certificates maturing on or before October 1, 2023 are not subject to redemption prior to their stated dates of maturity. The 2013 Series E Certificates maturing on and after October 1, 2024 are subject to optional redemption prior to their stated dates of maturity on and after October 1, 2023 as a whole or in part at any time, and may be redeemed by the exercise of the option to make payment of all or part of the Rent Prepayment Price as provided in the 2013 Series E Sublease in such order of maturity and in such amounts as directed by the Lessee, at a redemption price of 100% of the principal amount of the Certificates to be redeemed, plus accrued interest to the redemption date.

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 applicable Trustee from: (i) the reletting of the applicable Project in connection with the enforcement of the applicable Trustee's rights under the applicable Sublease; and (ii) the proceeds of condemnation or of insurance payable with respect to the damage, destruction, theft or other loss of the applicable Project which are not applied to repair or replacement of the applicable Project in accordance with the applicable Sublease.

Selection for Redemption

If less than all of the outstanding Certificates of any maturity of a series of 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 applicable Trustee by lot or any customary manner of selection.

Notice of Redemption

When redemption of the Certificates is required pursuant to the applicable Declaration of Trust, the applicable 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 each series of the Certificates in the aggregate principal amount of such series and maturity and will be deposited with DTC.

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

Purchases of 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

Scheduled 2013 Series A Lease Payments

The following is a schedule of 2013 Series A Lease Payments of Base Rent (as hereinafter defined) due under the 2013 Series A Sublease in each fiscal year, and attributed to the 2013 Series A Certificates, assuming that the 2013 Series A Sublease is continually renewed:

Fiscal Year Ending June 30	Principal Portion of Lease Payment	Interest Portion of Lease Payment	Total Base Rent Lease Payment
2014	$ 3,130,000	$1,485,527.08	$4,615,527.08
2015	1,305,000	1,571,050.00	2,876,050.00
2016	1,360,000	1,517,750.00	2,877,750.00
2017	3,205,000	1,410,425.00	4,615,425.00
2018	3,370,000	1,246,050.00	4,616,050.00
2019	3,520,000	1,091,400.00	4,611,400.00
2020	3,685,000	928,875.00	4,613,875.00
2021	3,875,000	739,875.00	4,614,875.00
2022	4,075,000	541,125.00	4,616,125.00
2023	4,285,000	332,125.00	4,617,125.00
2024	4,500,000	112,500.00	4,612,500.00
Total	$36,310,000	$10,976,702.08	$47,286,702.08

Scheduled 2013 Series B Lease Payments

The following is a schedule of 2013 Series B Lease Payments of Base Rent (as hereinafter defined) due under the 2013 Series B Sublease in each fiscal year, and attributed to the 2013 Series B Certificates, assuming that the 2013 Series B Sublease is continually renewed:

Fiscal Year Ending June 30	Principal Portion of Lease Payment	Interest Portion of Lease Payment	Total Base Rent Lease Payment
2014	$2,750,000	$1,458,803.19	$4,208,803.19
2015	1,555,000	1,540,250.00	3,095,250.00
2016	1,615,000	1,476,850.00	3,091,850.00
2017	2,820,000	1,388,150.00	4,208,150.00
2018	2,940,000	1,272,950.00	4,212,950.00
2019	3,060,000	1,152,950.00	4,212,950.00
2020	3,200,000	1,011,750.00	4,211,750.00
2021	3,365,000	847,625.00	4,212,625.00
2022	3,540,000	675,000.00	4,215,000.00
2023	3,720,000	493,500.00	4,213,500.00
2024	3,905,000	302,875.00	4,207,875.00
2025	4,105,000	102,625.00	4,207,625.00
Total	$36,575,000	$11,723,328.19	$48,298,328.19

Scheduled 2013 Series C Lease Payments

The following is a schedule of 2013 Series C Lease Payments of Base Rent (as hereinafter defined) due under the 2013 Series C Sublease in each fiscal year, and attributed to the 2013 Series C Certificates, assuming that the 2013 Series C Sublease is continually renewed:

Fiscal Year Ending June 30	Principal Portion of Lease Payment	Interest Portion of Lease Payment	Total Base Rent Lease Payment
2014	$1,530,000	$700,678.61	$2,230,678.61
2015	1,495,000	736,100.00	2,231,100.00
2016	1,550,000	676,300.00	2,226,300.00
2017	1,615,000	614,300.00	2,229,300.00
2018	1,680,000	549,700.00	2,229,700.00
2019	1,745,000	482,500.00	2,227,500.00
2020	1,835,000	395,250.00	2,230,250.00
2021	1,925,000	303,500.00	2,228,500.00
2022	2,020,000	207,250.00	2,227,250.00
2023	2,125,000	106,250.00	2,231,250.00
Total	$17,520,000	$4,771,828.61	$22,291,828.61

Scheduled 2013 Series D Lease Payments

The following is a schedule of 2013 Series D Lease Payments of Base Rent (as hereinafter defined) due under the 2013 Series D Sublease in each fiscal year, and attributed to the 2013 Series D Certificates, assuming that the 2013 Series D Sublease is continually renewed:

Fiscal Year Ending June 30	Principal Portion of Lease Payment	Interest Portion of Lease Payment	Total Base Rent Lease Payment
2014	$825,000	$289,885.56	$1,114,885.56
2015	815,000	300,700.00	1,115,700.00
2016	830,000	284,400.00	1,114,400.00
2017	855,000	259,500.00	1,114,500.00
2018	880,000	233,850.00	1,113,850.00
2019	910,000	207,450.00	1,117,450.00
2020	955,000	161,950.00	1,116,950.00
2021	985,000	133,300.00	1,118,300.00
2022	1,030,000	84,050.00	1,114,050.00
2023	1,085,000	32,550.00	1,117,550.00
Total	$9,170,000	$1,987,635.56	$11,157,635.56

Scheduled 2013 Series E Lease Payments

The following is a schedule of 2013 Series E Lease Payments of Base Rent (as hereinafter defined) due under the 2013 Series E Sublease in each fiscal year, and attributed to the 2013 Series E Certificates, assuming that the 2013 Series E Sublease is continually renewed:

Fiscal Year Ending June 30	Principal Portion of Lease Payment	Interest Portion of Lease Payment	Total Base Rent Lease Payment
2014	$1,175,000	$497,377.50	$1,672,377.50
2015	795,000	525,650.00	1,320,650.00
2016	810,000	509,600.00	1,319,600.00
2017	1,190,000	483,650.00	1,673,650.00
2018	1,235,000	441,100.00	1,676,100.00
2019	1,280,000	390,800.00	1,670,800.00
2020	1,325,000	345,325.00	1,670,325.00
2021	1,370,000	304,900.00	1,674,900.00
2022	1,420,000	250,475.00	1,670,475.00
2023	1,490,000	180,475.00	1,670,475.00
2024	1,565,000	113,050.00	1,678,050.00
2025	1,635,000	40,875.00	1,675,875.00
Total	$15,290,000	$4,083,277.50	$19,373,277.50

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 applicable Sublease. The State is not required to appropriate funds to make payments required under the applicable 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 applicable Trustee would have sufficient funds, by leasing of the applicable Project or otherwise, to make payment in full of the principal and interest portions of the applicable Certificates.

Each series of Certificates is only payable from amounts to be derived under the terms of the related Sublease, related Lease Payments and amounts on deposit under the related Declaration of Trust. The separate series of Certificates are not cross-collateralized or cross-defaulted in any manner.

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 "SUMMARY OF CERTAIN PROVISION OF THE DECLARATIONS 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 Projects

With respect to the Series 2013 A, B, C and E Projects, the Trustee's leasehold interests in the applicable Project, which constitute part of the security for the applicable Certificates, are leasehold interests in real property which may be of limited value to anyone other than a state governmental department. Moreover, significant portions of the 2013 Series C Project consist of improvements to real estate to accommodate the new energy cost saving equipment. Such assets incorporated into the real estate would not be available to the Series 2013 C Trustee to re-let in the event of non-appropriation by the State. The 2013 Series D Project consists solely of personal or intangible property, some of which will be in the possession of the LEA's. The 2013 D Trustee would need to obtain possession of such equipment prior to re-letting in the event of non-appropriation by the State. Additionally, significant portions of the 2013 Series D Project consist of related IT software, which do not result in acquired physical assets available to the 2013 Series D Trustee to be re-let in the event of non-appropriation by the State.

Risk of Non-Appropriation and Non-Renewal

Each of the Subleases is for a period ending June 30, 2013, 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 with respect to the applicable Sublease. The State is not obligated to renew the applicable 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 SUBLEASES - Term and Renewals" herein.)

Certain Matters Relating to Enforceability of the Leases and the Subleases

The obligations of the State under the Leases and the Subleases 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. None of the Declarations of Trust provide for the payment of any additional interest in the event the interest on the related Certificates becomes includable in gross income for federal income tax purposes.

Tax Law Effects on the Certificates in the Event of Termination of any Sublease

Special Counsel will express no opinion as to the effect that termination of any 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 any Sublease will be excludable from gross income under federal or State laws.

Securities Law Effects on the Certificates in the Event of Termination of any Sublease

Special Counsel also expresses no opinion as to the transferability of the Certificates under federal and state securities laws after termination of the related 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 SUBLEASES

The following is a summary of certain provisions of the Sublease. The 2013 Series A Sublease, the 2013 Series B Sublease, the 2013 Series C Sublease, the 2013 Series D Sublease and the 2013 Series E Sublease are substantially similar (except as otherwise differentiated in this summary). In this summary, the terms "Sublease," "Project," "Declaration of Trust" and "Lease Payments" should be read as referring to the documents related to the 2013 Series A Certificates, the 2013 Series B Certificates, the 2013 Series C Certificates, the 2013 Series D Certificates or the 2013 Series E Certificates, as applicable. Reference is hereby made to the actual documents for a complete recital of their terms.

Term and Renewals

The Sublease will be effective the date of the Certificates and will terminate on June 30, 2013. 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 SUBLEASES -- 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 "SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATIONS 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 during the Lease Term, (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 covenants that its Department of Administration 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 State is required at all times during the term of the Sublease to maintain comprehensive property insurance (in an amount not less than 100% of replacement value of the Project and in all events not less than the principal amount of the applicable Certificates then outstanding) and public liability insurance in regard to any loss or damage incurred with regard to the Project. The proceeds of insurance recovered on portions of the Project lost, stolen, destroyed or damaged shall be applied to the repair or replacement of the Project or at the election of the State to prepayment of Lease Payments and the special mandatory redemption of Certificates.

Rent Prepayment Option for 2013 Series B Certificates and 2013 Series E Certificates

On and after October 1, 2023 pursuant to the 2013 Series B Sublease and the 2013 Series E Sublease, upon sixty (60) days prior written notice from the State to the 2013 Series B Trustee or the 2013 Series E Trustee, as applicable, and provided that there is not then existing an Event of Default, or a default which with notice or lapse of time, or both, could become an Event of Default, the State will have the right to prepay payments under the 2013 Series B Sublease and the 2013 Series E Sublease, in whole or in part at any time by paying to the 2013 Series B Trustee or the 2013 Series E Trustee, as applicable, on such date, the payments then due under the 2013 Series B Sublease or the 2013 Series E Sublease, as applicable, together with the Rent Prepayment Price being paid on such date along with instructions to the 2013 Series B Trustee or the 2013 Series E Trustee, as applicable, as to how such Rent Prepayment Price shall be applied by the 2013 Series B Trustee or the 2013 Series E Trustee in its capacity as 2013 Series B Trustee or the 2013 Series E Trustee for the Owners of 2013 Series B Certificates or 2013 Series E Certificates. Upon satisfaction by the State of payment of the entire Rent Prepayment Price, the 2013 Series B Trustee or the 2013 Series E Trustee, as applicable, will transfer any and all of its right, title and interest in the 2013 Series B Project or 2013 Series E Project, as is, to the State, without warranty, express or implied, except that the 2013 Series B Trustee or the 2013 Series E Trustee will warrant to the State that the Project is free and clear of any liens created by the 2013 Series B Trustee or the 2013 Series E Trustee.

Events of Default

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

(a) The State fails to make any Lease Payment as it becomes due in accordance with the terms of the Sublease; or

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

Remedies

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

(a) By written notice to the State, request the State to (and the State agrees that it will) relinquish possession of all of the equipment and related software constituting the Project, as applicable, and deliver the same to the Trustee or completely relinquish the site of the Project and all buildings, structures or improvements erected or situation therein whereupon the Trustee will enter the State's premises and take possession of the site of the Project and all buildings, structures and improvements erected or situated thereon for the period remaining under the Lease and any renewal options thereunder;

(b) By written notice to the State, declare an amount equal to all amounts then due under the Sublease and all remaining payments due under the Sublease during the remaining term of the Sublease to be immediately due and payable whereupon the same shall become immediately due and payable;

(c) Lease the site of the Project and all improvements and additions thereon 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 thereunder; and

(d) Exercise any other right, remedy or privilege which may be available to it under applicable laws of the State or any other applicable law or proceed by appropriate court action to enforce the terms of the Sublease or to recover damages for the breach of the Sublease or to rescind the Sublease as to the Project.

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

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

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

SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATIONS OF TRUST

The following is a summary of certain provisions of the Declaration of Trust. The 2013 Series A Declaration of Trust, the 2013 Series B Declaration of Trust, the 2013 Series C Declaration of Trust, the 2013 Series D Declaration of Trust and the 2013 Series E Declaration of Trust are substantially similar (except as otherwise differentiated in this summary). In this summary, the terms “Sublease,” “Project,” “Declaration of Trust,” and “Lease Payments” should be read as referring to the documents relating to the 2013 Series A Certificates, the 2013 Series B Certificates, the 2013 Series C Certificates, the 2013 Series D Certificates or the 2013 Series E Certificates, as applicable. 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"*. The 2013 Series B Certificates and the 2013 Series E Certificates are also subject to optional description as described in "DESCRIPTION OF THE CERTIFICATES — *Optional Redemption of 2013 Series B Certificates and 2013 Series E Certificates.*

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.

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. <u>Farmers Housing Administration (FmHA)</u>

   Certificates of beneficial ownership

2. <u>Federal Housing Administration Debentures (FHA)</u>

3. <u>General Services Administration</u>

   Participation certificates

4. <u>Government National Mortgage Association (GNMA or "Ginnie Mae")</u>

   GNMA - guaranteed mortgage-backed bonds

   GNMA - guaranteed pass-through obligations (participation certificates)

5. <u>U.S. Maritime Administration</u>

   Guaranteed Title XI financing

6. <u>U.S. Department of Housing and Urban Development (HUD)</u>

   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) (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

   Senior debt obligations

3. Federal National Mortgage Association (FNMA or "Fannie Mae")

   Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

4. Farm Credit System

   Consolidated system wide 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 "AA-m" or "AAm-G" and if rated by Moody's rated "Aa2" or better, including, without limitation, any 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 Declaration of Trust, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to this Declaration of Trust 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) Commercial paper (having original maturities of not more than 270 days) rated "Prime - 1" by Moody's and "A-1+" or better by S&P.

(h) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated at least "A3" by Moody's and at least "A-" by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(i) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (h) above and rated "A-1+" by S&P and "MIG-1" by Moody's.

(j) Special revenue bonds (as defined in the United States Bankruptcy Code) of any state or state agency described in (i) above and rated "AA-" or better by S&P and Aa3" or better by Moody's.

(k) 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" by Moody's and "A-1+" or better by S&P.

(l) 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.

(m) Ocean State Investment Pool created pursuant to Section 35-10.2-1 through 35-10.2-11 of the Rhode Island General Laws.

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 remaining Lease Payments and other amounts 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; and further provided that the Trustee be provided with indemnification satisfactory to the Trustee.

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 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 grossly 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

Except as otherwise provided under "SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATION OF TRUST — Acceleration," 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;

(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; and

(f) In the case of the 2013 Series C Declaration of Trust and the 2013 Series D Declaration of Trust, to issue additional certificates pursuant to the applicable 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. Except as permitted under the 2013 Series C Declaration of Trust and the 2013 Series D Declaration of Trust with respect to the issuance of additional certificates, the Trustee shall not consent to any amendment, change or modification of the Sublease which would change the amount of the Lease Payments required to be paid under the Sublease, or the Lease Payment Dates under the Sublease unless the Owners of not less than a majority in aggregate principal amount of the Certificates then outstanding shall approve the Trustee's consent to such amendment; provided, however that no amendment to the Sublease shall be consented to if the amendment would result: (i) in an extension of the maturity of the principal portion of or the interest portion on any Certificate issued in connection therewith, or a reduction in the principal amount of any Certificate or the rate of interest 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.

Defeasance of Certificates

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

LITIGATION

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

In June 2012 certain unions, retired state employees and associations of retired state and municipal employees who maintain they are current beneficiaries of the State Employees' Retirement System commenced five separate lawsuits in State court challenging the Retirement Security Act enacted by the General Assembly. As a result of the Retirement Security Act, the unfunded liability of $6.8 billion for State employees and teachers in the June 30, 2010 actuarial valuation for the State Employees' Retirement System has been reduced to $4.4 billion as reported in the June 30, 2011 valuation. Also, the projected employer contribution has been reduced from $622 million as reported in the 2010 actuarial valuation to $380 million as reported in the June 30, 2011 valuation. A hearing on the defendant's motion to dismiss the *Rhode Island Public Employees Retirement Coalition v. Chafee*, C.A. No. 12-3166 case was held in December 2012. The parties anticipate receiving a decision on that motion to dismiss and motions filed in four related cases during the first quarter or second quarter of 2013. An adverse judgment against the State in such pension litigation could impact all or some of such reductions achieved by the Retirement Security Act. Depending upon the extent to which an adverse judgment impacts the reductions in unfunded liability and employer contributions that have been achieved by the Retirement Security Act, an adverse judgment under such pension litigation could affect materially the State's financial position. On January 2, 2013, the court ordered the partners to participate in mediation, which is ongoing. The parties have been ordered to appear before the court on April 22, 2013. For a discussion regarding such pension litigation, as well as certain pension litigation challenging the 2009 and 2010 pension reform and other pending litigation where the potential exposure for which is greater than $5,000,000, see the section entitled "Litigation" in APPENDIX A – "Information Statement of the State of Rhode Island and Providence Plantations" dated March 14, 2013. For a discussion regarding the status of the State Employees' Retirement System and the significance of unfunded liability and employer contributions with respect to the State Employees' Retirement System, see the section entitled "State Retirement Systems" in APPENDIX A – "Information Statement of the State of Rhode Island and Providence Plantations" dated March 14, 2013.

LEGAL MATTERS

The Attorney General of the State has reviewed and approved all the documentation related to the Subleases and the Leases and will render an opinion to the effect that the State possesses the authority necessary to enter into the Subleases and the Leases and that the Subleases and the Leases 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 Hinckley, Allen & Snyder LLP, Providence, Rhode Island, special counsel to the State, and by Partridge Snow & Hahn LLP, Providence, Rhode Island, disclosure counsel to the State. Certain legal matters will be passed upon for the Underwriters by its counsel, Law Offices of Gerald T. Harrington, Ltd., Providence, Rhode Island.

TAX STATUS

Hinckley, Allen & Snyder LLP is of the opinion that, under existing laws, regulations, rulings, and court decisions and assuming, among other matters, continuing compliance with certain tax covenants described herein, 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 excluded from gross income of such Owners for federal income tax purposes under Section 103 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, although such amounts may be included in the measure of Rhode Island estate taxes and certain Rhode Island corporate and business taxes. Hinckley, Allen & Snyder LLP has not opined as to taxability under the laws of any state other than Rhode Island. (See APPENDIX C – "Proposed Forms of Legal Opinion").

Hinckley, Allen & Snyder LLP is also of the opinion that the portion of the Lease Payments designated as Interest on the Certificates will not be treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code, although such amounts are included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax.

The Code establishes certain requirements regarding the use, expenditure and investment of proceeds of the 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 Hinckley, Allen & Snyder LLP is subject to the condition that the State comply with all requirements of the Code that must be satisfied subsequent to the issuance of the 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. Hinckley, Allen & Snyder LLP expresses no opinion regarding any other federal, state or local tax consequences with respect to the Certificates. Hinckley, Allen & Snyder LLP renders its opinion under existing laws, regulations, rulings, and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Hinckley, Allen & Snyder LLP expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of that portion of the Lease Payments designated as Interest, or under state or local tax law.

Premium

Certain of the Certificates (the "Premium Certificates") may be offered and sold to the public at a purchase price that reflects a premium over the sum of all amounts payable on the Certificate. In general, under Section 171 of the Code, an owner of a Premium Certificate must amortize the certificate premium over the remaining term of the Premium Certificate, based on the owner's yield over the remaining term of the Premium Certificate, determined based on constant yield principles. An owner of a Premium Certificate must amortize the certificate premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the certificate premium allocable to that period. In the case of a tax-exempt Premium Certificate, if the certificate premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of the Premium Certificate may realize a taxable gain upon disposition of the Premium Certificate even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Certificates should consult their own tax advisors regarding the treatment of certificate premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium 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, individuals otherwise eligible for the earned income tax credit, and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. In addition, taxpayers disposing of property, the acquisition of which is financed in whole or in part after 1990 with federally-subsidized indebtedness (qualified mortgage bonds or mortgage credit Certificates) must take receipts or accruals of interest on the 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.

HINCKLEY, ALLEN & SNYDER 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.

UNDERWRITING

The Certificates are being purchased by the Underwriters listed on the cover page hereof. Raymond James & Associates, Inc. is acting as representative on behalf of the Underwriters. The aggregate offering price of the Series A Certificates to the public is $42,268,176.80 and the Underwriters have agreed, subject to certain conditions, to purchase the Series A Certificates at a purchase price of $42,136,879.43 and to reoffer the Series A Certificates at no greater than the initial public offering price or prices set forth on the inside cover page hereof. The aggregate offering price of the Series B Certificates to the public is $42,438,229.10 and the Underwriters have agreed, subject to certain conditions, to purchase the Series B Certificates at a purchase price of $42,304,192.45 and to reoffer the Series B Certificates at no greater than the initial public offering price or prices set forth on the inside cover page hereof. The aggregate offering price of the Series C Certificates to the public is $20,121,725.75 and the Underwriters have agreed, subject to certain conditions, to purchase the Series C Certificates at a purchase price of $20,052,779.37 and to reoffer the Series C Certificates at no greater than the initial public offering price or prices set forth on the inside cover page hereof. The aggregate offering price of the Series D Certificates to the public is $10,076,779.65 and the Underwriters have agreed, subject to certain conditions, to purchase the Series D Certificates at a purchase price of $10,039,998.61 and to reoffer the Series D Certificates at no greater than the initial public offering price or prices set forth on the inside cover page hereof. The aggregate offering price of the Series E Certificates to the public is $17,057,197.75 and the Underwriters have agreed, subject to certain conditions, to purchase the Series E Certificates at a purchase price of $17,001,617.94 and to reoffer the Series E Certificates at no greater than the initial public offering price or prices set forth on the inside cover page hereof. The Underwriters may offer and sell the Certificates to certain dealers (including dealers depositing Certificates into investment trusts and others) at prices lower than the public offering prices stated on the inside cover page hereof. The purchase contract provides that the Underwriters will purchase all the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the purchase contract.

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

FINANCIAL ADVISOR

The State has retained FirstSouthwest (the "Financial Advisor") to serve as its financial advisor in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates, and receipt by the State of payment therefor.

RATINGS

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

Such ratings reflect only the views of such organizations, and an explanation of the significance of such ratings may be obtained from the respective Rating Agencies furnishing the same. There is no assurance that the ratings given the Certificates by the Rating Agencies will be maintained for any given period of time or that they may not be revised downward or withdrawn entirely. Any such downward change in or withdrawal of such rating may 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 shall 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, through the State Budget Office, will undertake in a written agreement ("Continuing Disclosure Certificate") for the benefit of the owners of Certificates to provide in electronic format to the Electronic Municipal Market Access System ("EMMA") maintained by the Municipal Securities Rulemaking Board ("MSRB"), as the sole repository for the central filing of electronic disclosure pursuant to the Rule, the following information.

The State shall provide (a) not later than the end of each calendar year, commencing with December 31, 2013, 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 any such statements have been commissioned, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by Rhode Island law. The State reserves the right to modify from time to time the specific types of information provided under subparagraph (a) above or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the State; provided that any such modification will be done in a manner consistent with the Rule. The State shall provide, in a timely manner, to the MSRB, notice of a failure to satisfy the requirements of this paragraph.

The State shall provide or cause to be provided, within ten (10) business days after the occurrence thereof, to the MSRB notice of the occurrence of any of the following events with respect to the Certificates:

(a) Principal and interest payment delinquencies;

(b) Non-payment related defaults, if material;

(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, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Certificates or other material events affecting the tax status of the Certificates;

(g) Modifications to the rights of beneficial owners of the Certificates, if material;

(h) Certificate calls, if material;

(i) tender offers;

(j) Defeasances;

(k) The release, substitution, or sale of property securing repayment of the Certificates, if material;

(l) Rating changes;

(m) Bankruptcy, insolvency, receivership or similar event of the State*;

(n) The consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(o) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(It should be noted, however, as of the date of this Official Statement, events of the types listed in clauses (c), (d), (e) and (i) are not applicable to the Certificates)

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

* As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the State in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the State, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the State.

material with respect to the Certificates, but the State does not undertake to commit to provide any such notice of the occurrence of any event except those listed above.

The provisions of the Continuing Disclosure Certificate may be amended by the State without the consent of, or notice to, any beneficial owners of the Certificates, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the State for the benefit of the beneficial owners of Certificates, (d) to modify the content, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of any applicable state legislation responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Certificates, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the beneficial owners of the Certificates, as determined either by a party unaffiliated with the State (such as special counsel), or by the vote or consent of beneficial owners of a majority in outstanding principal amount of the Certificates affected thereby at or prior to the time of such amendment. Furthermore, to the extent that the Rule, as in effect from time to time, no longer requires the issuers such as the State to provide all or any portion of the information the State has agreed to provide pursuant to this Continuing Disclosure Certificate with respect to securities such as the Certificates, the obligation of the State to provide such information also shall cease immediately.

The purpose of the State's undertaking in the Continuing Disclosure Certificate is to conform to the requirements of the Rule and, except for creating the right on the part of the beneficial owners of the Certificates, from time to time, to specifically enforce the State's obligations under the Continuing Disclosure Certificate, 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 provision of the Continuing Disclosure Certificate shall be an action for the specific performance of the State's obligations under the Continuing Disclosure Certificate 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 below, the State has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule for the past five years. Due to an administrative oversight, the State failed to cause the Rhode Island Refunding Bond Authority, a component unit of the State for financial reporting purposes, to file on a timely basis the audited financial statements of the Rhode Island Refunding Bond Authority for the fiscal year ending June 30, 2007 pursuant to certain undertakings of the

State relating solely to the bonds of the Rhode Island Refunding Bond Authority. The State implemented procedures to ensure timely filing in the future.

The State Budget Officer, or such official's designee from time to time, shall be the contact person on behalf of the State from whom the foregoing information, data and notices may be obtained. The name, address and telephone number of the initial contact person is Thomas A. Mullaney, State Budget Officer, State Administration Building, One Capitol Hill, Providence, Rhode Island 02908, Telephone (401) 222-6300.

MISCELLANEOUS INFORMATION

The descriptions herein of the Subleases, the Leases, and the Declarations 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 Declarations 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 March 14, 2013, and the Basic Financial Statements of the State, as of and for the year ended June 30, 2011, both of which have been prepared and furnished by the State and which are included in APPENDIX A.

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

The 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/ Gina M. Raimondo
General Treasurer

By: /s/ Richard A. Licht
Director of Administration

Dated: April 11, 2013

APPENDIX A

INFORMATION STATEMENT OF THE STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

DATED: March 14, 2013

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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, automobile excise taxes, and state aid for provision of revenue.

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

During the 2006 session of the General Assembly, significant amendments to 44-5-2 were enacted. The amendments progressively reduce the maximum property tax levy from a 5.5 percent increase over the prior year levy to 4.0 percent in the year 2013 and thereafter, while expanding and clarifying exemptions from the property tax cap. Limitations on the tax rate were removed. The previous property tax limitation applied a 5.5 percent cap on the tax rate or the levy. In those municipalities where a city or town council has final tax levy approval, a four-fifths vote would be required to exceed the applicable cap. In the case of a city or town having a financial town meeting, the majority of the electors present and voting at the town financial meeting shall also approve the excess levy. The act also capped the amount of funds requested by a school committee of a city or town at the same rate of increase as the maximum tax levy increase. The act also broadened the definition of State mandates on municipalities and restricted the flexibility of the Governor or Legislature to forego reimbursement of State mandates.

Status of Pension and OPEB Plans Administered by Municipalities

The Office of the Auditor General completed an initial review in 2007 of the fiscal health of the various locally-administered defined benefit pension plans covering Rhode Island municipal employees. Updated reviews have been completed in March 2010 and September 2011, which also included an assessment of the status of other post-employment benefit plans offered by municipalities. Twenty-four communities have created 36 pension plans, which they administer for their employees. The State Auditor General considered 24 locally administered pension plans to be at risk, twelve were considered most at risk because the plans were significantly underfunded and annual contributions were significantly less than annual required amounts. The collective funded ratio of the plans decreased from 43 percent, as reported in March 2010, to 40 percent, as reported in the September 2011 update. Total assets collectively held by these 36 pension plans were $1.4 billion (as reported in their fiscal 2010 audit reports or more current valuations when available). The collective unfunded actuarial liability for future benefits under these locally-administered plans was approximately $2.1 billion (as of the most recent actuarial valuation referenced in their June 30, 2010 financial statements or more current valuations when available).

The Office of the Auditor General's September 2011 report further summarized the status of other post-employment benefit (OPEB) plans administered by municipalities for their employees. The actuarial value of assets held by these plans was $27.5 million and the collective unfunded actuarial accrued liability for future benefits was nearly $3.5 billion (as of the most recent actuarial valuation referenced in their June 30, 2010 financial statements). The collective funded ratio of the locally-administered OPEB plans was less than one percent. The State Auditor General made a number of recommendations to improve the funded status of the locally-administered pension and Other Post Employment Benefits (OPEB) plans.

In November 2011, the General Assembly enacted reforms to state pensions through passage of the Retirement Security Act of 2011, and provided for a Study Commission (the "Commission"), chaired by the Director of Revenue, to be established to review existing legislation and pension plan administrative practices and to make recommendations for the improved security and funding of locally administered plans and other post-retirement benefit obligations of cities and towns. The commission consists of fourteen (14) members, and began meeting on January 25, 2012. In accordance with the act, Rhode Island municipalities with locally administered plans were required to submit an initial actuarial Experience Study and actuarial Valuation Study to the Commission by April 1, 2012. Actuarial valuations have to be submitted annually thereafter, whereas subsequent experience studies must be submitted to the Commission no less frequently than once every three years. Municipalities whose pension plans are deemed to be in "critical" status (below 60 percent funded) must notify the plans' participants & beneficiaries, the General Assembly, the Department of Revenue, the Auditor General and the General Treasurer within 30 days following that certification. In addition, municipalities with plans in critical status are required, within 180 days of receiving critical status notice to submit to the Commission a reasonable alternative funding improvement plan to emerge from critical status. The Commission developed guidelines to assist municipalities whose locally-administered pension plans are deemed to be in critical status and is providing support to municipalities. The Commission is currently reviewing the Funding Improvement Plans that have been submitted to the Commission.

Based on the reports filed with the Commission, initially there were twenty-two (22) plans that fell into the critical status category; however, since that time two more plans were deemed to be in critical status, based on the most recent submitted actuarial valuations.

State Oversight for Municipal Fiscal Stability

In June 2010, the General Assembly enacted "An Act Providing for the Financial Stability of Cities and Towns" ("Fiscal Stability Act") to provide a mechanism for the State to work with cities and towns undergoing financial distress that threatens the fiscal well-being, public safety and welfare of such cities and towns, or other cities and towns or the State, and to provide stability to the municipal credit markets for Rhode Island and its cities and towns through a predictable, stable mechanism for addressing cities and towns in financial distress.

The Fiscal Stability Act was a response to a display of fiscal weakness in several communities, including the filing of a petition for judicial receivership by the City of Central Falls in the Rhode Island Superior Court on May 18, 2010. Under the Fiscal Stability Act, Central Falls moved from having a judicially-appointed receiver to a state appointed receiver (the "State Receiver"). Under the State Receiver appointed by the Director of Revenue under the Fiscal Stability Act, Central Falls filed for federal bankruptcy protection on August 1, 2011, (see 'Central Falls Bankruptcy' below). The State has a compelling interest in the fiscal health of Rhode Island municipalities. The Fiscal Stability Act gives the State, acting primarily through the Department of Revenue, the power to exercise varying levels of support for and control over municipalities depending on the particular financial circumstances. The Fiscal Stability Act repealed Chapter 45-9 relating to Budget Commissions in its entirety and created three levels of State oversight and control. The three levels are: fiscal overseer, budget commission and state receiver. If the Director of Revenue determines, in consultation with the Auditor General, that a city or town is facing a fiscal emergency and that circumstances do not allow for the appointment of a fiscal overseer or a budget commission, the Director of Revenue may appoint a receiver without first having appointed a fiscal overseer or budget commission. The Fiscal Stability Act also prohibits municipalities from filing for or being placed into, either voluntarily or involuntarily, judicial receivership and clarifies that the Superior Court has only limited jurisdiction to ratify certain actions taken prior to the enactment of the legislation upon the request of the Director of Revenue and to take such further actions as may be necessary to ensure an orderly transition. When the Director of Revenue abolishes a fiscal overseer, budget commission or receiver of a city or town as the case may be after determining in writing that the city or town's fiscal stability has improved to a level that said fiscal overseer, budget commission or a receiver is no longer needed, the city or town must create and maintain for a period of five (5) years a department of administration and finance, which shall be responsible for the overall budgetary and financial administration of the city and town. The Division of Municipal Finance must submit a list of three (3) names to the chief executive officer of the city or town who must appoint one of those individuals for a period of not more than five (5) years as the officer who shall be responsible for the department of administration and finance. The appointment and removal of said officer must be approved in writing by the Division of Municipal Finance. The Fiscal Stability Act applied retroactively to May 15, 2010.

Bills were introduced during the 2011 legislative session at the request of the Department of Revenue to address issues in connection with the Fiscal Stability Act that had arisen during the course of the Central Falls receivership. Two of those bills enacted as Chapter 277 of the Public Laws of 2011 and its companion Chapter 269 of the Public Laws of 2011 amended two sections of current law (R.I. Gen. Laws §45-12-1 and R.I. Gen. Laws §45-12-22.4) to (i) provide for a pledge of general fund revenues of cities and towns to the payment of general obligation debt and, to the extent appropriations have been made, lease appropriation debt of cites and towns; (ii) make any municipal or district employee or official who intentionally violates the law personally liable to the city, town or district for amounts not expended in accordance with such appropriations and make said employee or official subject to removal; and (iii) prohibit a municipality from issuing pension and Other Post-Employment Benefits (OPEB) debt without approval of the State Auditor General and Director of the Department of Revenue. The purpose of this legislation was to enhance capital market access for cities, towns and districts. Both bills were passed by the General Assembly and were enacted into law. The bills took effect upon passage and applied to general obligation bonds and other financing obligations issued by cities, towns and districts including those issued prior to the date of enactment.

Two other bills, enacted as Chapter 279 of the Public Laws of 2011 and its companion Chapter 304 of the Public Laws of 2011 "clean up" some provisions of the Fiscal Stability Act, which was passed during the 2010 legislative session, and (i) clarify that the receiver – as well as budget commissions – is entitled to exercise all power that elected officials may exercise under applicable laws; (ii) prohibit expenditures by elected officials in excess of appropriations and provide that any elected official who intentionally violates that provision will be personally liable for those expenditures; (iii) clarify that powers of the city or town council exercisable by resolution or ordinance will be exercised by order of the receiver; (iv) provide that the state shall indemnify fiscal overseers, budget commission members and receivers arising out of actions taken by them except in instances of malfeasance or gross negligence and provide that said individuals will not be subject to any civil liability for any actions taken or omitted in the course of performing their official duties and that they shall not be subject to prosecution or have any liability for misdemeanor violations of criminal laws for actions taken or omitted in the course of performing official duties under chapter 45-9; (v) provide that any person who violates the law or ignores a written demand made by a fiscal overseer, budget and review commission, receiver or administration and finance officer would be required to pay the reasonable attorney fees incurred to seek enforcement or compliance with the written demand; and (vi) clarify that the law would not pre-empt or restrict the powers and remedies available to a state-appointed receiver under Chapter 9 of Title 11 of the United States Code and the receiver's ability to exercise such powers and remedies on a municipality's behalf in such a federal proceeding.

Bills have been introduced during the 2013 session of the Rhode Island legislative session which propose to amend certain provisions of the Fiscal Stability Act; however, at this time it is not known whether any of those bills (or amended versions thereof) will become law. (One of the bills that have been introduced would amend the Fiscal Stability Act to relieve cities and towns from the responsibility of paying for the expenses of personnel hired to perform required responsibilities under the Act and require the state to pay for those expenses.)

Central Falls Bankruptcy

In June 2011, the City of Central Falls (the "City") adopted a budget of $21.6 million for FY 2012. Subsequently, the City was estimated to have a structural deficit of $6.1 million for FY 2012. The adopted State FY 2012 budget included no appropriation to Central Falls to enable the City to close its cumulative deficits and its estimated FY 2012 deficit. As of June 2010, the City had approximately $79 million in unfunded pension and health insurance liabilities. As a part of his efforts to balance the budget and resolve the deficit, the State Receiver sought major concessions from retirees and union groups, proposing to cut approximately $2.5 million from the budget through cuts to pensions and payments for retiree health care benefits, as well as other cuts. The concessions were not achieved, and as a result the State Receiver filed for federal Chapter 9 bankruptcy protection for the City on August 1, 2011.

On September 22, 2011, the City filed a plan of debt adjustment with the Bankruptcy Court. The plan of debt adjustment provided for balanced budgets for Fiscal Years 2012-2016. After September 22, 2011, the City reached new collective bargaining agreements with (1) the Central Falls Police Department, Fraternal Order of Police, Central Falls Lodge No. 2, (2) the International Association of Fire Fighters, Local 1485, AFL-CIO, and (3) the Rhode Island Council 94, American Federation of State, County and Municipal Employees AFL-CIO, Local 1627.

The City also reached a settlement with the retirees which provided for permanent cuts in their pensions of up to 55 percent. The agreement required the Director of Revenue to seek legislation from the General Assembly granting a $2.6 million appropriation to be disbursed by the City over a period of five years such that the combined supplemental transition payment and the reduced retirees' pensions would result in a reduction of no more than 25 percent. The General Assembly passed 2012-H 7323 Substitute A, as amended (FY 2013 Budget Bill) and Governor Lincoln Chafee signed it into law on June 15, 2012. Article 22 of the Budget Bill provided for the $2.6 million dollar appropriation.

One important issue in the Bankruptcy Court was whether the Central Falls School Department was a department of the City. On March 23, 2012, the Bankruptcy Court determined that the Central Falls School District is not part of the City of Central Falls.

The above-referenced plan of debt adjustment filed with Bankruptcy Court on September 22, 2011 did not account for the subsequently-agreed upon collective bargaining agreements with the three (3) municipal unions and the settlement agreement with the retirees. On June 15, 2012, the City filed an amended plan of debt adjustment and then, to respond to concerns expressed by the Bankruptcy Court, filed a Second Amended Plan of Debt Adjustment on July 10, 2012, a Third Amended Plan of Debt Adjustment on July 23, 2012, and a Fourth Amended Plan of Debt Adjustment on July 27, 2012. The Fourth Amended Plan of Debt Adjustment was confirmed by the Bankruptcy

Court by confirmation order entered on September 11, 2012. Over 99 percent of the creditors that voted on the plan, voted to accept. Not a single creditor filed an objection to the plan.

The Fourth Amended Plan of Debt Adjustment became effective on October 25, 2012 and the City of Central Falls emerged from bankruptcy on that date. Under the plan, the City will have court-ordered balanced budgets for Fiscal Years 2013, 2014, 2015, 2016 and 2017 and imposes a four percent (4.0%) property tax increase in each of the next five years. Also, as a result of the agreement with the retirees, the City's five-year budget plan contains affordable pay as you go pension and retiree health insurance costs based upon the restructured plans.

Counsel for certain members of the Central Falls city council filed a motion seeking to terminate the receivership. Counsel for the state filed an objection to that motion on the grounds that the Director of Revenue was not yet able to make the required determination under the Fiscal Stability Act that the receivership was no longer necessary. In response, the Rhode Island Superior Court (Judge Silverstein) entered an order requiring the parties to participate in mediation to attempt to resolve their differences. A mediator was appointed and the mediation commenced on February 4, 2013 and is on-going.

East Providence

In November 2011, the Director of Revenue determined, in consultation with the Auditor General, that the City of East Providence was facing fiscal deficits and cash shortfalls of such a magnitude that the appointment of a fiscal overseer under the Fiscal Stability Act was required.

The fiscal overseer concluded that East Providence (1) was unable to present a balanced municipal budget; (2) faced a fiscal crisis that posed an imminent danger to the safety of the citizens of the City and/or their property; and (3) would not achieve fiscal stability without the assistance of a budget commission.

In December 2011, the Director of Revenue established a budget commission under the Fiscal Stability Act thereby placing the finances of East Providence under the jurisdiction of that commission. The Budget Commission has assumed responsibility for all budget and financial matters, but is expected to end its involvement in East Providence at the March 28, 2013 meeting.

Woonsocket

In April 2012, the Woonsocket City Council passed an ordinance requesting that the Rhode Island General Assembly pass enabling legislation to allow the City to assess and collect a supplemental tax. While the legislation was introduced, the General Assembly did not pass the legislation. Subsequently, in May 2012 the Mayor and City Council made a joint request to the Division of Municipal Finance to establish a Budget Commission for the City. That request was approved. On May 29, 2012, the Director of the Department of Revenue, in consultation with the Auditor General, appointed a Budget Commission pursuant to R.I. Gen. Laws 45-9-5, thereby placing the finances of Woonsocket under the jurisdiction of that commission. Since that time the Budget Commission has continued its work in assisting the City with its fiscal challenges.

The Budget Commission has assumed responsibility for all budget and financial matters.

Local Tax Relief

In 1998, the General Assembly enacted measures designed to phase out, over a number of years, two separate components of the local property tax levy. One is the local levy on inventories. The phase out period spanned ten years and progressively eliminated ten percent of the tax levy each year until it was totally phased-out as of fiscal year 2009. Local communities were to be reimbursed for lost revenues from the inventory tax through the State's General Revenue Sharing program, which was to have increased from 1.0 percent of tax revenues in FY 1998 to 4.7 percent in FY 2009. Expanded sharing of State revenue was delayed beginning in FY 2003 and all appropriations for general revenue sharing were eliminated beginning in FY 2010. Despite the reductions in state aid, the local reduction in the levy on inventories continued on the original schedule and the tax has now been eliminated.

The other local property tax levy reduced was the local levy on motor vehicles and trailers. This tax was to be phased out subject to annual review and appropriation by the General Assembly by providing increasing exemptions against the assessed value of all motor vehicles. Local communities were 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 was no longer a CPI adjustment for an assumed growth in municipal tax rates. For FY 2008 and FY 2009, the first $6,000 in value of a vehicle was exempted from taxation and municipalities were prohibited from applying an excise tax rate higher than the rate applied in 1998. Municipalities were being reimbursed for the lost revenue resulting from the exemption. Beginning in FY 2008, municipalities were being reimbursed for 98 percent of the tax value of the exemption. During the 2005 Session of the General Assembly, additional video lottery terminals were authorized which were expected to yield additional lottery revenues to the State, a portion of which was to be dedicated to local governments through the Motor Vehicle Excise Tax Reimbursement Program. In the FY 2010 supplemental budget enacted by the General Assembly, the Motor Vehicle Excise Tax Reimbursement Program was reduced by $18.1 million, approximately 13.4 percent of the enacted FY 2010 budget amount. The statute was amended to require reimbursement to communities equal to 88 percent of the 98 percent current rate of reimbursement. For FY 2011, the Governor proposed, in his recommended FY 2011 budget, to eliminate all state appropriations to reimburse local governments for the $6,000 exemption, and included permissive language to allow for taxation by local governments subject to the cap on property tax levy discussed above. For FY 2011 and thereafter, the General Assembly enacted legislation that mandates a $500 exemption for which the state will reimburse municipalities an amount subject to appropriation. The legislation further allows municipalities to provide an additional exemption; however, that additional exemption will not be subject to reimbursement. The Assembly also removed the provision that restricted municipalities from taxing the difference in the event that the value of a vehicle is higher than the prior fiscal year. It also allowed for rates to be lowered from the then current frozen levels.

The Assembly provided $10.0 million in FY 2011, FY 2012 and in the FY 2013 enacted budget for the Motor Vehicle Excise Tax Reimbursement Program. The Governor's recommendation is to level fund the program at the FY 2013 enacted level of $10.0 million for the FY 2013 revised and the FY 2014 budget. The Assembly did not provide funding for fire districts beyond FY 2010, but for FY 2011 and thereafter, it restored the authority for fire districts to levy a motor vehicle excise tax.

State Aid to Local Communities

The largest category of State aid to cities and towns is assistance programs for school operations and school construction. In addition, the State makes contributions to the Employee Retirement System of Rhode Island on behalf of local districts and charter schools, which partially relieves them of the cost of funding retirement benefits for teachers.

In June 2010, the General Assembly enacted a funding formula to guide education aid payments beginning July 1, 2011 (FY 2012). The formula redistributes current education aid spending among school districts, state-operated schools, and charter schools. For school districts that receive more money under the new formula, the increase is being phased in over seven years. For school districts that receive less money under the new formula, the decrease is being phased in over ten years. The funding formula aid program disburses funding to communities on the basis of a number of factors including wealth of the community, the average daily number of students in the community's schools, and the number of children in the community's schools who are eligible for free or reduced price meals.

For FY 2013, not including aid to State-operated schools, the State appropriated $714.6 million in education aid to local school districts and charter schools through the funding formula ($745.8 million if you include the State-operated Davies Career and Technical High School, the Metropolitan Career and Technical School, and the Rhode Island School for the Deaf). The Governor recommends level funding in his FY 2013 revised budget. For FY 2014, the Governor recommends $743.4 million in formula aid ($773.3 million if the State-operated schools are included).

In addition to redistributing current aid levels, the formula establishes six categories of funding outside of the core formula amount. These categories are subject to appropriations and may be ratably reduced if demand exceeds the available funding, however they are integral parts of the funding formula and are being funded under a ten-year transition plan. Under these new categories, the state will pay for the costs of setting up and running career and technical education programs, the costs of pre-kindergarten programs, transportation for out-of-district non-public students and students in regionalized school districts, and the amount of the cost of any special education student that is above five times the core education aid amount (meaning the cost for a non-special education student who is eligible for the free and reduced lunch program). Existing permanent bonuses for regionalized school districts will be replaced with temporary bonuses that phase out over two years. Lastly, the State will match funding for the Central Falls School Department from the City of Central Falls as it gradually resumes paying its required local contribution during a transition period of ten years (currently the State pays 100 percent of the local contribution for Central Falls). The State appropriated $7.5 million for these categories in FY 2013 and the Governor recommends $10.2 million in FY 2014.

There are also a handful of aid categories still being funded that pre-date the funding formula. In the FY 2013 budget state general aid support of $8.7 million is provided for internet access, for administering the school breakfast program, for textbooks for non-public schools, and for a payment based on the number of group home beds in each community. This is increased to $9.2 million in the FY 2013 revised budget and decreases to $8.0 million in the FY 2014 recommended budget due to a reduction in the number of group home beds.

In addition to reimbursement of school operations costs, State school construction aid is provided at levels ranging from 30 percent to 93 percent of the construction cost of new facilities and renovations. Under current law, the minimum reimbursement percentage is 35 percent for FY 2013 and thereafter. The level for each individual community 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. The definition of reimbursable expenditures includes capital expenditures made through a capital lease or lease revenue bonds or from a municipality's capital reserve account. In June 2011, the General Assembly enacted a moratorium on the approval of new projects with the exception of those needed for health and safety issues. This moratorium is scheduled to run through June 30, 2014. The State appropriated $74.6 million for this category in the FY 2013 enacted budget, but this decreases to $72.1 million in the FY 2013 revised budget due to several projects not reaching completion in time for current year reimbursement. The Governor recommends $71.1 million in FY 2014 for anticipated payments. A related program will provide approximately $2.5 million in FY 2013 and FY 2014 to cities and towns to provide aid in the construction of libraries.

The final major category of State aid is state funding of teachers' retirement costs. Both the employer and the employee contribute to the costs of the defined benefit plan that covers teachers throughout the state. Effective July 1, 2012 there is a defined contribution plan, which features both employer and employee contributions. For teachers, by Rhode Island law, the employer share is split between the State and the local school district or charter school, with the State paying 40 percent of the employer share and the local district or charter school paying 60 percent. These payments are made directly to the Employees Retirement System of Rhode Island. The only public school teachers who do not participate in this system are those at State-operated schools that are staffed by state employees and those at schools that are exempt from participating: namely Mayoral Academy charter schools and the Metropolitan Career and Technical School. The State appropriated $79.8 million for this category in the FY 2013 enacted budget. The FY 2013 revised budget includes $76.9 million based on a recalculation of teachers salaries based on actual FY 2012 expenditures. The Governor recommends $82.5 million for the state's share of teachers' retirement costs in FY 2014.

Other local aid programs include the motor vehicle excise tax reimbursement (as discussed above), payment-in-lieu of taxes (PILOT) program and distressed communities aid program. The Motor Vehicle Excise Tax Reimbursement Program was funded at $135.6 million in the FY 2010 Enacted Budget. As noted above, however, this was reduced in the final enacted budget to $117.2 million. For FY 2011 and FY 2012, the enacted budget included an appropriation of $10.0 million to local governments for the Motor Vehicle Excise Tax Reimbursement and a reduction of the exemption from $6,000 to $500. The FY 2013 enacted budget also includes $10.0 million in appropriations. The Governor's recommendation is to level fund the program at the FY 2013 enacted level of $10.0 million for the FY 2013 revised and the FY 2014 budget.

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 higher educational institutions, non-profit or State-owned hospitals, veterans' residential facilities, and correctional facilities. The FY 2013 Enacted Budget included $33.1 million for this program. The Governor's recommendation is to level fund the program at the FY 2013 enacted level of $33.1 million for the FY 2013 revised and FY 2014 budgets. Funding by community has been adjusted to reflect changes in tax rates and values, as well as any changes to the exempted tax rolls.

Also, the State makes payments to communities identified as distressed based upon four different criteria. As a result of the indices established by Rhode Island General Laws 45-13-12, the following communities would receive funds through the Distressed Communities Relief Fund: Central Falls, Cranston, North Providence, Pawtucket, Providence, West Warwick and Woonsocket. Of these communities, Central Falls was determined to be especially distressed in FY 1991 and in FY 1993 the State assumed full responsibility for funding education in Central Falls. Appropriations of $10.4 million were included in the FY 2013 enacted budget, to fund allocations to eligible communities. For the FY 2013 revised budget and the FY 2014 budget, the Governor recommends increasing funding for this program by $5.0 million when compared to the FY 2013 enacted budget, which would provide distressed communities a total of $15.4 million for each of those two fiscal years.

State library aid provides financial support for local public library services and for the construction and capital improvement of any free public library. A portion of library aid is disbursed directly to local libraries, including private libraries, while other aid is disbursed to the individual cities and towns. Appropriations of $8.7 million are included in the FY 2013 enacted budget and the FY 2014 recommend budget.

Rhode Island also distributes to communities the proceeds of a statewide tax imposed on the tangible personal property of telephone, telegraph, cable, express and telecommunications companies. This aid was projected to be $12.7 million for the FY 2013 enacted budget. For FY 2013 revised and FY 2014 budgets, the Governor recommends the same amount as no growth is forecasted. Funds collected from this tax are distributed to cities and towns within the state on the basis of the ratio of the city or town population relative to the population of the state as a whole

Also, the State distributes a 1.0 percent meals and beverage tax, estimated at $21.5 million for FY 2013 according to the proportion of that tax collected in each community. For FY 2014, the Governor is recommending $22.2 million for the meals and beverage tax. Similarly, the State distributes a 1.0 percent hotel tax as well as a 25.0 percent local share of the state 5.0 percent hotel tax which, when combined, provide municipalities a 2.25 percent gross receipts tax on the rental of lodging accommodations at hotels, inns and certain bed and breakfast establishments within a municipality. For FY 2013, the combined local portion of the hotel tax is estimated at $6.6 million and for FY 2014 the Governor is recommending $6.8 million.

The State also provides funds through the Airport Impact Aid to cities and towns which host airports, and expects to distribute a total of $1.025 million in FY 2013 and FY 2014.

Beginning in 1987, a variety of general aid programs were consolidated into one general revenue sharing program, which incorporated a distribution formula based upon relative population, tax effort for municipal services and personal income of each city and town. The general revenue sharing program also incorporated additional funding to compensate municipalities for the phased loss of the inventory tax, as described above. No funding was provided for this program in either the FY 2013 enacted budget nor is any recommended for FY 2014. This program was last funded in FY 2009 with an appropriation of $25.0 million.

In the FY 2014 Appropriations Act, the Governor proposes Article 11, known as the “Municipal Incentive Aid Act”. The purpose of this Act is to encourage municipalities to improve the sustainability of their retirement plans and to reduce unfunded liabilities. Municipalities that comply with the requirements of this Act will receive aid under this new program. The Governor recommends an appropriation of $10.0 million for FY 2014, with the intent to have an additional $10.0 million appropriated in FY 2015 and FY 2016, respectively. The municipal incentive aid would be distributed to each municipality as a percentage of the municipality’s population as compared to the total state population.

In addition to the above mentioned aid programs, the Governor’s FY 2014 proposed budget also recommends $10.0 million from the Rhode Island Capital Plan fund towards a local roads program in FY 2014. The purpose of a state-funded local roads program is to improve the condition of local roads through a streamlined process to allow local communities to select the roads most in need of resurfacing, and to implement these projects on a local level. Funding for this program will be formula driven and will allocate available funds based on mileage within each municipality, in conjunction with other criteria developed to provide a reasonable minimum to each of Rhode Island’s thiry-nine cities and towns.

State Budgeting Practices for Municipalities

The FY 2013 enacted budget included requirements for fiscally prudent budgeting practices for cities and towns by requiring, for example, cities and towns to provide for a five-year budget forecast and a fiscal impact statement for changes in health care benefits, pension benefits and OPEB. This information would be submitted to the Division of Municipal Finance.

The five-year forecast to be submitted to the Division of Municipal Finance includes two scenarios: one scenario shows a baseline forecast, the other forecast includes pensions and OPEB funded at 100 percent of the Annually Required Contribution (ARC), separately for the general and unrestricted school funds. The forecast also has to show underlying actuarial assumptions.

The fiscal impact statements to the Division of Municipal Finance have to show changes in health care benefits, pension benefits and OPEB, reflecting the impact on the unfunded liability and ARC, as well as the impact on the Five-Year Forecast. Fiscal impact statements have to show underlying actuarial assumptions and support for underlying assumptions.

Financial data, such as quarterly reports, adopted budget surveys and audited financial statements must be submitted to the Division of Municipal Finance within certain timelines as provided under the statute. In addition, each quarterly report submitted must be signed by the chief executive officer, the chief financial officer, as well as the superintendent of the school district and the chief financial officer for the school district. Furthermore, the report must now be submitted to the city or town council president and the school committee chair. It is encouraged, but not required, to have the council president and school committee chair sign the report as well. Furthermore, RI Gen. Laws §45-12-22.2 has been amended to provide that if a quarterly report projects a year-end deficit, a corrective action plan signed by the chief executive officer and chief financial officer must be submitted to both the Division of Municipal Finance and the Auditor General on or before the last day of the month succeeding the close of the fiscal quarter. RI Gen. Laws §45-12-22.3 has been amended to require each municipality to notify both the Auditor General and the Division of Municipal Finance within 30 days if it is likely that a municipality will incur a deficit. RI Gen. Laws §44-5-22 has been amended to require each municipality to submit their certified tax roll to the Division of Municipal Finance no later than the next succeeding August 15. RI Gen Laws §16-2-9 has been amended to require that, in the event of a budget shortfall, a city or town must submit a corrective action plan to both the Auditor General and the Division of Municipal Finance. Local governments would also be required to join electronic reporting and implement the Municipal Uniform Chart of Accounts (UCOA), within six months of statewide implementation.

In the 2012 legislative session, changes were made to the quarterly reporting requirements. In the past, quarterly reports also had to be submitted to the Division of Municipal Finance and the Auditor General. Now the school department must submit a quarterly report certifying the status of the budget, which must also be submitted to the Commissioner of Education.

Furthermore, if any of the quarterly reports project a year-end deficit, the chief financial officer of the municipality has to submit a corrective action plan to the Commissioner of Education. In the past, these action plans were submitted to the Division of Municipal Finance and the Auditor General.

Principal Governmental Services

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

General Government

General Government includes those agencies that provide general administrative services to all other State agencies and those that carry out State licensure and regulatory functions. This function includes most elected officials, administrative agencies, including, but not limited to, the Department of Administration, the Department of

Revenue, the Department of Labor and Training, and the Board of Elections, and regulatory agencies including, but not limited to, the Department of Business Regulation and the Public Utilities Commission. The three major departments in the General Government function are the Department of Administration, the Department of Revenue, and the Department of Labor and Training.

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

At the request of the Governor in his FY 2013 Budget, the 2012 General Assembly approved the creation of two new offices within the Department of Administration. The first, the Office of Management and Budget, incorporates the existing State Budget Office, as well as new units for federal grants management, regulatory reform and performance management. The second, the Office of Digital Excellence to be headed by a Chief Digital Officer, will oversee the implementation of technology infrastructure projects.

The Department of Administration also includes the Office of Energy Resources, which is responsible for coordinating all energy matters. In January 2009, the State signed a joint development agreement with Deepwater Wind Rhode Island, LLC that outlines the terms and conditions for the construction of wind energy development off the shores of Rhode Island that is expected to provide up to one gigawatt per year of renewable energy. The first phase of the project began in late 2010 with preliminary work off of Block Island and actual construction is expected to commence in late 2013. It is expected that the development will cost in excess of $5.0 billion to construct, which will all be funded through private investment sources. In August 2010, the Public Utilities Commission approved a Power Purchase Agreement (PPA) relating to the purchase of power from this development. This PPA was challenged in court by certain local businesses and on July 1, 2011 the Supreme Court found insufficient grounds to overturn the contract under which Rhode Island's largest utility will buy power from the five-turbine wind farm that Providence-based Deepwater Wind proposes building in the waters southeast of Block Island.

Department of Revenue. During the 2006 session of the General Assembly, the Department of Revenue was created. The new department incorporates several divisions and units previously assigned to the Department of Administration, including the Division of Taxation, the Registry of Motor Vehicles, Division of State Lottery, and the Office of Municipal Finance. New offices of the Director and Revenue Analysis were also created. As part of the FY 2012 enacted budget, responsibility for programs relating to state aid were also moved into the Department of Revenue.

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 medical assistance for eligible low-income populations by the Executive Office of Health and Human Services, care of the disabled by the Department of Behavioral Healthcare, Developmental Disabilities 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 and social services provided by the Department of Human Services.

The four major departments in the Human Services function include the Department of Human Services; the Department of Children, Youth and Families; the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals; and the Department of Health. These four departments are collectively under the managerial umbrella of the Executive Office of Health and Human Services, a secretariat that serves as a lead policymaking and coordinating agency for the departments under its purview. The Executive Office also functions as the "single state agency" for Medicaid administration in Rhode Island, maintaining full administrative oversight of the state's Medical Assistance (Medicaid) program, which includes the Children's Health Insurance Program (CHIP).

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 assistance and social services. The responsibilities of the Department include supervision of the following programs: child support enforcement, supplemental security income, general public assistance, supplemental nutrition assistance, TANF cash assistance, child care assistance, home energy assistance, elderly transportation, and other services to the elderly. 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 Behavioral Healthcare, Developmental Disabilities and Hospitals. The Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (DBHDDH) 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. Behavioral health services help people who have psychiatric disorders and severe mental illness, such as manic depression or schizophrenia. 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. DBHDDH 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.

Department of Health. The Department of Health is responsible for the health of the citizens of the State and as such makes investigations into the causes of disease, the prevalence of epidemics and endemics among the people, the sources of mortality, the effect of localities, employments and other conditions, ascertain the causes and the best means for the prevention and control of diseases or conditions detrimental to the public health.

Education

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

As part of the FY 2013 enacted budget, the General Assembly included legislation that abolishes the Board of Governors for Higher Education and the Board of Regents for Elementary and Secondary Education effective January 1, 2013 and creates a new eleven (11) member Rhode Island Board of Education. This new board will have responsibility over Education in Rhode Island from pre-school through post-secondary education. The legislation also abolishes the Office of Higher Education effective January 1, 2014 and creates an executive committee of education comprised of the three institutions of public higher education and the commissioners of higher education and elementary and secondary education. As of February 2013, the Governor has nominated the eleven (11) members of the new board and they have all been confirmed by the Senate.

Prior to the establishment of this new Board of Education, the Board of Regents and the Board of Governors were responsible for Elementary and Secondary Education and Higher Education, respectively.

Board of Regents for Elementary and Secondary Education. Through January 1, 2013, the Board of Regents for Elementary and Secondary Education was 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 established State aid reimbursement payments to local school districts, operated the Rhode Island School for the Deaf, the Metropolitan Career and Technical School and William M. Davies Vocational-Technical School, and supervised the State's area vocational-technical schools. The Department also operated the Central Falls School District. The Board appointed 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. Through January 1, 2013, the Board of Governors for Higher Education was responsible for the formulation and implementation of broad goals and objectives for public higher education in the State, including a comprehensive capital development program. In addition, the Board held title to all public higher education institutions of the State, which include the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island (collectively, the "State Colleges"). While there was institutional autonomy, the Board was 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 was appointed by the Board to serve as chief executive officer of the Board and chief administrative officer of the Office of Higher Education. The Board had the Rhode Island Health and Educational Building Corporation issue on its behalf from time to time revenue bonds to finance various capital improvements for the State Colleges, which revenue bonds are supported by certain revenues derived by the State Colleges and/or certain appropriations made by the State to the State Colleges. The outstanding balance for these revenue bonds as of June 30, 2012 totals $267,236,851.

Public Safety

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

During the 2008 Session of the General Assembly, the Department of Public Safety was created. The following agencies were merged into the new Department of Public Safety: State Police, E-911 Emergency Telephone System, State Fire Marshal, Municipal Police Training Academy, Capitol Police, and the Governor's Justice Commission. In the 2011 Session of the General Assembly, the Sheriffs were transferred from Department of Administration to Department of Public Safety.

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

The Department of Corrections is made up of two main programmatic areas, Institutional Corrections and Community Corrections. The Adult Correctional Institutions (ACI) includes seven 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 and the Coastal Resources Management Council. Staffing responsibilities for the Water Resources Board were transferred to the Department of Administration as part of the FY 2012 Enacted Budget.

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

Transportation

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

The Intermodal Surface Transportation Fund is supported by the State's 32 cents per gallon motor fuel tax, which was raised 2 cents per gallon from 30 cents per gallon in the FY 2010 Enacted Budget. In addition, the State charges $0.01 per gallon of motor fuel delivered to an underground storage tank (UST). In 2009, 0.5 cents of the UST fee was dedicated to the Rhode Island Public Transit Authority (RIPTA); prior to 2009, the full 1.0 cent went to the Department of Environmental Management. Motor fuel tax receipts fund operating and debt service expenditures of the Department of Transportation, as well as specific portions of transportation-related expenditures of RIPTA and the Department of Human Services. As of FY 2010, the 32 cents per gallon motor fuel tax and the 1.0 cent UST fee are allocated as follows: 19.75 cents to the Department of Transportation; 2.0 cents to an indenture trustee to support debt service on motor fuel tax bonds; 9.75 cents to RIPTA, of which 9.25 cents are from motor fuel tax and 0.5 cent is from the UST fee; 1.0 cent to the Department of Human Services for its Elderly and Disabled

Transportation Program, and the remaining 0.5 cent from the UST fee to the Department of Environmental Management's Underground Storage Tank Replacement Fund.

Department of Transportation. The Department of Transportation is responsible for the integration of all modes of transportation into a single transportation system. The Department is organized to carry out its responsibilities for the construction and maintenance of all State roads, bridges, transportation facilities (other than those operated and maintained by the Rhode Island Turnpike and Bridge Authority), and the administration of State and Federal highway construction assistance programs. The Department's activities have substantially increased primarily due to the continued road funding resulting from passage of the 1998 Transportation Equity Act for the 21st Century (TEA-21). Major recent or 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 Economic Development Corporation, at the request of the Governor and Department of Transportation, received authority to issue bonds secured by future distributions of Federal Highway Trust funds and a dedicated portion of motor fuel tax revenues to speed completion of these projects. The State completed the GARVEE financings in three series over a period of six years. The first series, in the amount of $216,805,000, was issued on November 25, 2003. The second series, in the amount of $184,620,000, was issued on March 2, 2006. The third series in the amount of $169,395,000 was issued on April 2, 2009. In July 2011 the Governor signed into law an Act authorizing the sale of surplus property created by the relocation of Interstate 195. The Act also creates the I-195 Redevelopment District Commission. The seven member commission is authorized to plan, implement, administer and oversee the redevelopment of the Interstate 195 surplus properties. The proceeds from the sale or lease of such surplus properties will be used to help finance the completion of the Interstate 195 relocation project. Also included in this legislation was authorization for RI Economic Development Corporation to issue bonds or other obligations not to exceed $42.0 million to finance the acquisition by the I-195 Redevelopment District Commission of the surplus land. This financing, in combination with residual funds from the motor fuel proceeds, is expected to be sufficient to fund completion of its I-195 relocation project and certain activities of the I-195 Redevelopment District Commission. To the extent these resources are not sufficient to complete the projects, other Transportation funds would be made available, which would impact the progress of other contemplated projects.

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

The Blue Ribbon Panel for Transportation Funding released its report dated as of December 23, 2008. The Blue Ribbon Panel projected that the State would need to spend approximately $639.0 million per year during the next 10 years to maintain Rhode Island's highway system in a state of good operation and repair but that state and federal funding only provides approximately $425.9 million in FY 2013. The Blue Ribbon panel suggested various funding strategies that could possibly be implemented to meet, in whole or in part, the $285 million funding gap each year. Such recommended funding strategies included levying a $3.00 toll on all cars and $6.00 on all trucks entering the State, imposing tolls on all bridges between Aquidneck Island and the mainland, raising passenger-vehicle registration fees, raising the State gasoline tax by as much as 15 cents per gallon, creation of a petroleum product gross receipts tax and a vehicle miles traveled fee. The various revenue strategies outlined would require legislation for implementation. Despite the temporary relief provided through America Recovery and Reinvestment Act (ARRA) funding, transportation infrastructure funding will continue to present challenges and the Blue Ribbon Panel funding strategies may be revisited. The Department of Transportation submitted an application to the Federal Highway Administration requesting to be permitted to establish tolls on I-95, under a pilot program that permits tolling on roads that were constructed with federal funds, but has been informed that the final slot under this pilot program has been granted to another state.

The FY 2013 Appropriations Act included Article 20, the East Bay Bridge System, which transfers responsibility for the Sakonnet River Bridge and the Jamestown Verrazzano Bridge from the Department of Transportation to the RI Turnpike and Bridge Authority. The legislation also authorizes the Authority to impose tolls on the Sakonnet River Bridge and for the proceeds to be used for the upkeep of the entire East Bay Bridge system.

Excess revenues, not required for maintenance of the bridges or for debt service, would be transferred to the East Bay Infrastructure Fund and used for road and bridge improvements in East Bay communities.

State Fund Structure – Accounting Basis

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

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

Budget Procedures

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

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

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 expenditures over expected revenue receipts. No appropriation in excess of budget recommendations may be made by the General Assembly unless it shall provide the necessary additional revenue to cover such appropriations. The Governor may veto legislative appropriations bills. However, the Governor does not have line-item veto authority. The General Assembly may override any veto by a 3/5 vote of the members present and voting of each of the houses of the General Assembly. Supplemental appropriation measures shall be submitted by the Governor to the General Assembly on or before the third Thursday 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 and/or enacted by the General Assembly.

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 was capped at 3 percent of General Fund revenues. The reserve account was funded by limiting annual appropriations to 98 percent of estimated revenues. When the Budget Reserve Account has reached its maximum, the excess contribution flows to the Rhode Island Capital Plan Fund. If funds are withdrawn, the Budget Reserve Account is replenished through the funding formula provided for in the Constitution, and the general law requires that the repayment be made to the Rhode Island Capital Plan Fund in the next fiscal year. The actual balance of the Budget Reserve Account at the end of FY 2008 was $103.1 million reflecting full funding. The State closed FY 2008 with a deficit of $42.9 million after the General Assembly declined the Governor's recommendation to transfer funds from the Reserve Account to the General Fund. During the 2009 Session of the General Assembly, the Legislature appropriated $22.0 million from the Budget Reserve Account to fill a budget gap expected at the close of FY 2009. Even with this $22.0 million appropriation, the General Fund ended FY 2009 with a deficit of $62.3 million. The FY 2010 enacted budget included $22.0 million of appropriations to repay the Rhode Island Capital Plan Fund. However, the enacted Supplemental FY 2010 budget delayed that repayment to the Rhode Island Capital Plan Fund to FY 2011. The Governor's FY 2011 Supplemental Budget requested that this repayment be delayed again to FY 2013, but subsequent to the May Revenue Estimating Conference, the Governor requested that some of the additional revenues estimated to be available in FY 2011 be used to make this payment as originally enacted. The General Assembly approved this request as part of the final enacted FY 2011 Supplemental Budget. The balance of the Budget Reserve Account at the end of FY 2012 according to the State Controller's final closing report was $153.4 million.

In November, 2006, the voters of the State approved an amendment to the Rhode Island Constitution that has restricted, as of July 1, 2007, the use of excess funds in the Rhode Island Capital Plan Fund solely for capital projects. Previously, the fund could be used for debt reduction, payment of debt service, and capital projects. Also, the constitutional amendment, beginning on July 1, 2012, increases the Budget Reserve Account by limiting annual appropriations to ninety-seven percent (97.0%) of estimated revenues and increasing the cap on the budget reserve account to five percent (5.0%) of estimated revenues. During the 2007 Session of the General Assembly, a statutory schedule was enacted to provide for incremental decreases of 0.2 percent to gradually move spending from 98 percent of revenues to 97 percent of revenues. Additionally, the Budget Reserve Account maximum balance would be gradually increased by 0.4 percent annually to gradually move from 3.0 percent to 5.0 percent of resources. In FY 2012, spending was limited to 97.2 percent of revenue and the Budget Reserve Account was capped at 4.6 percent. In FY 2013 and thereafter, spending is limited to 97.0 percent and the Budget Reserve Account will be capped at 5.0 percent of resources.

Additionally, during the 2007 Session of the General Assembly, a law was enacted which requires that revenues received in excess of the amount estimated in the enacted budget, net of reserve fund contributions, would be transferred to the State Retirement Fund upon completion of the post audit. Based on the State Controller's final closing report issued on December 20, 2012, $12.9 million of the General Fund balance has been restricted for this transfer. The Governor's recommended FY 2014 Appropriations Act includes a proposal to eliminate the requirement for this transfer for FY 2012 and future years.

Financial Controls

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

The State Controller is required by 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 quarterly statements of 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 also performs an audit of the State's compliance with federal program requirements. 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.

Recent Events

Federal Debt Limit and Potential Federal Spending Cuts: On August 2, 2011, the President signed a bill into law raising the national debt limit and providing for substantial reductions in federal spending over the next decade. It is not known what impact, if any, these cuts may have on the State. It is possible that certain federal aid and other federal payments to the State, as well as to other states and municipalities, could be significantly reduced or otherwise affected. The budget and financial health of the State could be materially adversely affected by any material disruption or change in the flow of anticipated federal dollars to the State.

On January 2, 2013, the President signed the American Taxpayer Relief Act of 2012, addressing some of the issues with the sequestration process provided for in the prior legislation. The act extends unemployment benefits and farm program and delays sequestration for two months to March 1, 2013. The act also reduces the total across the board cut under the sequester from $109 billion to $85 billion, but the reduction will be taken with seven months remaining in the federal fiscal year instead of nine months. The new law does not modify the sequester process

On March 1, 2013, the President signed an executive order required by law to trigger $85.0 billion in spending cuts for federal fiscal year 2013. Following the President's order, the federal Office of Management and Budget issued a memo to federal agencies announcing the final percentage reductions in non-exempt spending. According to this memo, the sequester order requires a 5.0 percent reduction in discretionary domestic spending, a 5.1 percent reduction in domestic mandatory spending, a 7.8 percent reduction in discretionary defense spending and a 2.0 percent reduction to Medicare spending. Federal agencies have some latitude in how they implement these reductions, across the board or more targeted reductions.

The Rhode Island Office of Management and Budget has estimated that the sequestration exposes the state to potential loss of federal funding between March and September 2013 of between $19.4 million and $33.0 million depending on what is defined in the sequestration language. Of Rhode Island's estimated $2.4 billion in federal funds in FFY 2013, approximately 14.3 percent is subject to the sequestration process.

Tropical Storm Irene: On September 3, 2011, the President signed a declaration of emergency for the five counties in the State, as a result of damage from Tropical Storm Irene on August 27-28, 2011. This declaration makes the State and local communities eligible for certain federal reimbursement from FEMA for emergency work and the repair or replacement of disaster damaged facilities. As of February 18, 2013, the RI Emergency Management Agency has collected data on damage and costs incurred by various municipalities and state agencies totaling approximately $8.4 million. The State anticipates that FEMA will reimburse up to 75 percent of these costs.

Hurricane Sandy: The President signed a declaration of emergency for Newport, Bristol and Washington Counties on November 3, 2012 and for Kent County on November 10, 2012. This declaration makes the State and local communities eligible for certain federal reimbursement from FEMA for emergency work and the repair and replacement of disaster damaged facilities. As of February 18, 2013, the RI Emergency Management Agency has collected data on damage and costs incurred by various municipalities and state agencies totaling approximately $14.7 million. The State anticipates that FEMA will reimburse up to 75 percent of these costs.

Blizzard of 2013: The Rhode Island Emergency Management Agency has requested FEMA assistance in conducting preliminary damage assessments across the State. These assessments began on February 19, 2013. In order to qualify for federal assistance, a County must meet both the snow declaration policy criteria of 1) record or near record snowfall as measured by the National Weather Service and 2) County and State thresholds in expenses for the snow event. Assessments are being conducted in Bristol, Kent, Providence and Washington Counties. The official Newport County snowfall total was below the record amount and thus would not qualify.

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 2012 reflect audited revenues. For a discussion of FY 2013 Revenues, see "Revenue Estimates – Revised FY 2013 General Revenues". For a discussion of FY 2014 revenues, see "Revenue Estimates – FY 2014 Estimated Revenues". Discussions of the Governor's recommended revenue changes for FY 2013 and FY 2014 are contained in "Revenue Estimates – Governor's Proposed FY 2013 Revenue Changes" and "Revenue Estimates – FY 2014 Proposed Revenues" respectively.

Major Sources of State Revenue

Tax Revenues: In FY 2012, 75.9 percent of all tax revenues were derived from the Rhode Island personal income tax and the sales and use tax. These two revenue sources constituted 58.4 percent of all general revenues.

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

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

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

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

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

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

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

In the 2004 Session, the General Assembly approved several 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 General Assembly repealed several tax credits that were not cost effective. The tax credits repealed included those for the costs incurred to receive certification from the International Standards Organization (ISO), for the loan guaranty fees charged by the U.S. Small Business Administration, and for donations to public projects and interest income earned on loans to businesses located in state designated enterprise zones. The 2004 General Assembly also reduced the tax credit earned for wages paid to new hires by businesses in a state designated enterprise zone that meet specified job growth criteria. Further, the General Assembly enacted legislation 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 repealed the ISO certification tax credit for tax years 2005 and beyond. In the 2004 session, the General Assembly passed legislation limiting the initial repeal of the ISO certification tax credit to the 2004 tax year. Finally, the General Assembly passed legislation to index the federal alternative minimum income tax threshold for purposes of calculating state income tax liability effective for the 2005 tax year and beyond. In FY 2006, the General Assembly increased the percentage of the federal refundable earned income tax credit that would be refunded by the State of Rhode Island from 10.0 percent to 15.0 percent. The General Assembly also increased the amount of Rhode Island Property Tax Relief from $250 to $300 for tax year 2006.

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

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

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

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

In the 2008 Session, the General Assembly enacted legislation that authorizes the Economic Development Corporation to issue up to $356.2 million in revenue bonds to provide a fund from which the general fund would be reimbursed for the State's historic tax credit liabilities paid out to taxpayers ("Historic Preservation Tax Credit Fund"). In June 2009, $150.0 million of the Economic Development Corporation bonds were issued and secured by payment obligations of the State subject to annual appropriation by the General Assembly. The 2008 legislation also placed a moratorium on new projects eligible for the Historic Preservation Tax Credit program, lowered the effective credits for ongoing projects to 22.0 percent from 27.75 percent after processing fees, and authorized the State to enter into contracts with developers for the amount of credits that would be awarded upon completion of projects. Processing fees collected after June 30, 2008, in the amount of $3.8 million, were deposited in a restricted receipt account and were applied prior to June 30, 2009 to the reimbursement of the historic tax credits previously taken. Beginning in May 2009, the estimates of personal income tax collections adopted at the semi-annual Revenue Estimating Conference no longer reflect a reduction for historic structure tax credits as any credits redeemed are to be reimbursed from the funds authorized by the General Assembly.

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

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

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

In the 2010 Session, the General Assembly enacted a substantive structural reform of the State's personal income tax system. The reformed personal income tax system replaces both the five bracket progressive tax rate and the alternative flat tax rate personal income tax systems effective for tax years beginning after December 31, 2010. The reformed personal income tax system begins with federal Adjusted Gross Income (AGI) modified as provided for in current law and then subtracts an enhanced standard deduction of between $7,500 and $15,000 and a personal and dependent exemption amount of $3,500 to arrive at taxable income. Both the enhanced standard deduction and the personal and dependent exemption amounts are subject to phase-out at modified AGI of more than $175,000.

Unlike in prior tax years, itemized deductions can no longer be passed through from a taxpayer's federal income tax return. Taxable income is then subject to tax at marginal rates of 3.75, 4.75, and 5.99 percent to yield the Rhode Island tax liability before credits. In the tax years ending before January 1, 2011, taxpayer's could choose to either subject modified AGI less deductions and exemptions to marginal rates of 3.75, 7.0, 7.75, 9.0, and 9.9 percent or subject modified AGI to the alternative flat tax rate (which was 6.0 percent in Tax Year 2010) to yield Rhode Island tax liability before credits. Under the reformed personal income tax system, eight tax credits may be taken against the computed Rhode Island tax liability versus 34 tax credits that could be utilized against the Rhode Island tax liability computed under the five bracket progressive rate personal income tax system. (No credits other than taxes paid to other states are allowed for taxpayers that utilized the alternative flat tax rate system.) The tax credits allowed under the reformed personal income tax system are: a partially refundable earned income tax credit, the property tax relief credit, the lead paint abatement credit, a child and dependent care credit, credit for taxes paid to other states, the motion picture production company credit, the credit for contributions to qualified K-12 scholarship organizations, and the historic structures tax credit. Each of these credits is also available under current law. At the time of enactment, the reformed personal income tax system was estimated to be revenue neutral in FY 2011.

In the 2011 Session, the Governor proposed and the General Assembly passed legislation which created two top 100 delinquent taxpayers lists, one list for the top 100 delinquent individual taxpayers and another list for the top 100 delinquent business taxpayers. Prior to July 1, 2011 only one list was published online for both categories of delinquent taxpayers. Additionally, the General Assembly accepted the Governor's proposal to offset lottery winnings in excess of $600 against taxes owed to the Tax Administrator. Finally, the General Assembly passed and the Governor signed into law the addition of four Revenue Agent I positions for the sole purpose of auditing and compliance activities associated with the Division of Taxation's Data Warehouse program.

In the 2012 Session, the General Assembly accepted two proposals included in the Governor's FY 2013 recommended budget. The first proposal was to discontinue the preparation of personal income tax returns for individual taxpayers at no cost. The discontinuation of this service allows the Division of Taxation to reallocate two Revenue Agent I positions from the Taxpayer Services Section to the Office Audit Section to perform compliance audits on the personal income tax. It is anticipated that the reallocation of Division of Taxation staff will generate $1.3 million in additional personal income tax revenues in FY 2013. The second proposal put forth in the Governor's FY 2013 recommended budget that was accepted by the General Assembly is the 2012 Tax Amnesty Act. This act provides for a tax amnesty on overdue taxes that were incurred prior to January 1, 2012 during the period September 1, 2012 through November 15, 2012. The purpose of the tax amnesty is to provide delinquent taxpayers the opportunity to pay taxes that may have become overdue as a result of the Great Recession. Under the tax amnesty, taxpayers with overdue taxes can pay said taxes without penalty and with a reduction in interest owed of 25.0 percent (effectively lowering the interest rate on overdue taxes owed to the State from 18.0 percent to 13.5 percent). Detailed information on the actual FY 2013 cash collections attributable to the 2012 Tax Amnesty program can be found in the "Revised FY 2013 Revenues" section.

Finally, in the 2012 Session, the General Assembly enacted legislation to alter the motion picture production tax credit by (i) allowing documentary productions to qualify for the credit; (ii) defining "Final Production Budget" to include total pre-production, production, and post-production out-of-pocket costs incurred and paid in connection with making a motion picture; (iii) expanding the definition of "Primary Locations" to include that at least 51.0 percent of a motion picture's final production budget is spent and at least five individuals are employed in Rhode Island or in the case of a documentary production that 51.0 percent of the total production days are located in the State; (iv) reducing the total production budget threshold to qualify for the credit to $100,000; (v) limiting the total amount of credit an eligible motion picture production can receive to $5.0 million except in the case of a feature length film or television series up to a maximum of $15.0 million; and (vi) creating a Musical and Theatrical Production Tax Credit that allows any entity that receives "an accredited theater production certificate" a credit of 25.0 percent of the accredited production's "total production and performance expenditures and transportation expenditures" up to a maximum credit of $5.0 million provided that the total production budget is at least $100,000. The musical and theatrical production tax credits are included in the same overall calendar year cap imposed on the motion picture production tax credit. Due to the maintenance of the $15.0 million calendar year cap on the issuance of motion picture production tax credits, including musical and theatrical production tax credits, the changes to the motion picture production tax credit outlined above will likely have no impact on personal income tax revenues received by the State.

Rhode Island personal income tax collections surpassed the billion dollar mark in a fiscal year for the first time in FY 2007. In FY 2012, personal income tax revenues totaled $1.060 billion or 32.4 percent, of audited FY 2012 total general revenues. This represented the third highest total of personal income tax revenues received in the State's history and the first time personal income tax revenues were above $1.0 billion since FY 2008. Audited FY 2012 personal income tax revenues increased by $38.5 million from final audited FY 2011revenues but decreased in the share of total general revenues from FY 2011 levels.

Sales and Use Tax. The State assesses a tax on all retail sales, subject to certain exemptions, on hotel and other public accommodation rentals, and on the storage, use or other consumption of tangible personal property in the State. Major exemptions from the sales and use tax include: (a) food for human consumption off the premises of the retailer, excluding food sold by restaurants, drive-ins or other eating places; (b) clothing and most footwear; (c) prescription medicines and medical devices; (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 are supported by two-thirds of the sales tax revenues generated at the Mall, subject to a cap. In years 1–5 of the Mall's operation the cap was $3.68 million while in years 6–20 of the Mall's operation it is $3.56 million. These provisions are delineated in the Mall Act (R.I.G.L. § 42-63.5-1 et. seq.) enacted by the 1996 General Assembly and Public Investment and HOV Agreement. It is expected that the sales tax revenues generated at the Mall will be sufficient to fully support the revenue note obligations. Sales tax revenues generated at the Mall are recorded as general revenues. The State is not obligated to fund the note payments if the sales tax revenues generated at the Mall are not sufficient. To date, the sales tax revenue generated by the Providence Place Mall has been more than sufficient to meet these obligations.

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

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

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

In the 2009 session, the General Assembly enacted legislation to expand the definition of retailer subject to the state's sales and use tax. In particular, the General Assembly added as a category of retailer, "[E]very person making sales of tangible personal property through an independent contractor or other representative, if the retailer enters into an agreement" with a Rhode Island resident under which the Rhode Island resident receives "a commission or other consideration" for "directly or indirectly, whether by a link on an Internet website" or by other means referring potential customers to the retailer. Known as the "Amazon tax", this expanded definition of retailer took effect on July 1, 2009.

In the 2010 session, the General Assembly passed legislation that legalized the sale and possession of "ground and hand-held sparkling devices", including cylindrical and cone fountains, illuminating torches, wheel and ground spinners, flitter sparklers, toy smoke devices, and wire sparklers/dipped sticks. The legalization of these types of pyrotechnic products was effective June 11, 2010 and expanded the state's taxable retail sales base. In addition, the General Assembly declared Landmark Medical Center (LMC) to be a "distressed essential community hospital" and exempted it, or "any entity owned or controlled by LMC" or any successor-in-interest to LMC "regardless of whether any such successor operates for profit or is subject to federal or state taxation" from the sales and use tax that might be due in connection with any purchases, capital improvements, or any other activities conducted…pursuant to the health facility licenses maintained by LMC (or its successors-in interest)." This legislation has no impact on the State's sales and use tax collections as Landmark Medical Center is currently exempt from the State's sales and use tax as a nonprofit hospital under Rhode Island General Law § 44-18-30(5). Finally, in the 2010 Session, the General Assembly exempted diesel emission control technology that is required by Rhode Island General Law § 31-47.3-4 from the State's sales and use tax.

In the 2011 Session, the General Assembly passed and the Governor signed into law an expansion of the sales tax base. Four items which were previously exempt from the sales and use tax were made subject to the sales and use tax effective October 1, 2011. These four items are: (1) package tour and scenic and sightseeing transportation services; (2) prewritten computer software delivered electronically or by load and leave; (3) patent medicines available without a prescription, including medical marijuana; and (4) insurance proceeds received from the total loss of a passenger automobile that were previously allowed as a trade-in allowance when purchasing a replacement passenger automobile. It should be noted that these changes will have a full fiscal year impact in FY 2013. Additionally, the 2011 Session enacted legislation to reduce the sales and use tax from 7.0 percent to 6.5 percent upon the passage of any federal law which requires remote sellers to collect and remit sales and/or use taxes due on purchases made by state residents, effective the first day of the first state fiscal quarter following passage. Further, upon any federal law which requires remote sellers to collect and remit sales and/or use taxes due on purchases made by state residents the rate for the local meal and beverage tax and the local hotel tax shall be increased from 1.0 percent to 1.5 percent, effective the first day of the first state fiscal quarter following passage. It should be noted that no such legislation has passed yet at the federal level.

In the 2011 Session the General Assembly also enacted legislation and the Governor signed into law the elimination of two sales and use tax exemptions, one administered by the Rhode Island Economic Development Corporation (RIEDC) and one administered by the Rhode Island Industrial Facilities Corporation (RIIFC) effective July 1, 2011. Prior to July 1, 2011 RIEDC and RIIFC were authorized to grant a sales and/or use tax exemption to eligible companies for the materials used in the construction and/or rehabilitation of a building and the equipment purchased to outfit the building for use. Eligible companies with currently active sales and use tax exemption agreements or eligible companies with projects approved prior to July 1, 2011 will receive the sales and use tax exemption through the end of the respective project agreements.

Finally, during the 2011 Session, the General Assembly accepted the Governor's proposal to establish a separate top 100 delinquent business taxpayers list.

In the 2012 Session, the General Assembly approved the extension of the State's 7.0 percent sales tax, effective October 1, 2012, to (1) pet services providers other than providers of veterinary services and laboratory testing; (2) taxicabs and other providers of road transportation services; and (3) items of clothing and footwear that cost more than $250.00 per item By instituting a threshold amount above which an item of clothing or footwear becomes taxable, the State will no longer be in compliance with the Streamlined Sales and Use Tax Agreement (SSUTA) causing the State to forego the receipt of sales tax collected by remote sellers that are signatories to the SSUTA. It is anticipated that sales tax revenues will increase by $10.7 million from the expansion of the sales tax to these items but decrease by $1.4 million due to non-compliance with the SSUTA. The net impact of the approved sales tax base expansion is anticipated to increase revenues in FY 2013 of $9.4 million. It should be noted that these changes will have a full fiscal year impact in FY 2014. The Rhode Island Taxi Owners Association and Airport Taxi, Inc. initiated a lawsuit on September 28, 2012, challenging the enforceability of the law and regulations extending the sales tax to taxicabs and other providers of road transportation services by arguing, among other things, that the law and/or regulations are unconstitutional and were not implemented in accordance with certain State laws. The State projected revenues in FY 2013 of approximately $2.5 million as a result of the sales tax on taxicabs and other providers of road transportation services based upon the nine months of the fiscal year it is to be in effect. The State believes the lawsuit fails to have merit and is contesting the case. The General Assembly also repealed the application of the sales tax to providers of package tours and scenic and sightseeing transportation. The General Assembly had approved the expansion of the sales tax base to include providers of package tours and scenic and sightseeing transportation during the 2011 Session. The contraction of the sales tax base to exclude providers of package tours and scenic and sightseeing transportation is anticipated to reduce FY 2013 sales and use tax revenues by $600,000.

In the 2012 Session, the General Assembly accepted the Governor's proposal in the FY 2013 recommended budget to increase the State's cigarette excise tax. One of the impacts of this tax increase is to raise the retail price of a pack of cigarettes which is subject to the State's sales and use tax. It is estimated that sales and use tax revenues will increase by $128,873 in FY 2013 from higher retail cigarette prices that result from the increased cigarette excise tax rate. Additionally, in the 2012 Session, the General Assembly's acceptance of the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above. Detailed information on the actual FY 2013 cash collections attributable to the 2012 Tax Amnesty program can be found in the "Revised FY 2013 Revenues" section.

Further, in the 2012 Session, the General Assembly passed and the Governor signed into law a modification to Rhode Island's compassion center statute that reduces the amount of medical marijuana that a compassion center can have available for sale at any given time and applies more stringent regulations on the distribution of medical marijuana by a compassion center. Although state law currently allows compassion centers to sell medical marijuana, no compassion center licenses have been issued primarily due to the objections of the U.S. Attorney. The new legislation is designed to make it possible for said licenses to be issued and, since the retail sale of medical marijuana is subject to the State's sales tax, it is estimated that sales and use tax revenues will increase by $837,996 in FY 2013.

Finally in the 2012 Session, the General Assembly passed and the Governor signed into law an expansion of the sales and use tax "exemption for buses, trucks and trailers used in interstate commerce". The sales and use tax exemption was expanded to include buses used 80.0 percent or more in interstate commerce rather than the 100.0 percent threshold in place under prior law. The exemption of buses used 80.0 percent or more in interstate commerce is also applied to local motor vehicle excise taxes levied by municipalities. It is anticipated that state sales and use tax revenues and local tax revenues will decrease as the result of the enactment of this legislation; however, no specific level of impact can be determined.

The sales and use tax totaled $851.1 million, or 26.0 percent, of the State's FY 2012 total audited general revenues. FY 2012 sales and use tax collections increased in dollar terms but decreased in the share of total general revenues from FY 2011.

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

In 1996, the General Assembly enacted the Jobs Development Act (JDA). As subsequently amended, it provided for rate reductions of one-quarter of one percent (up to a maximum reduction of six percent) for each 50 new jobs created by eligible firms (each 10 new jobs created by a small business concern) for three years past the elected base year. A qualifying job is a 30-hour per week, on average, position that pays at least 150 percent of the prevailing hourly minimum wage as determined by State law. After three years, the rate reduction is set at that of the third year for as long as the third year employment level is maintained.

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

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

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

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

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

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

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

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

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

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

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

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

In the 2010 Session, the General Assembly imposed a tax at the rate of 7.5 percent on the taxable income of political organizations as both are defined under Section 527 of the United States Internal Revenue Code. The Political Organization Tax applies only to those political organizations that have $100 or more of political organization taxable income.

In the 2011 Session, the General Assembly proposed and the Governor signed into law the repeal of the exemption of limited partnerships and limited liability partnerships from the corporate minimum tax. Rhode Island's corporate minimum tax is $500. Additionally, the General Assembly accepted the Governor's proposal to establish a separate top 100 delinquent business taxpayers list. Finally, the General Assembly proposed and the Governor signed into law a provision requiring corporations that are part of a "unitary business" to cooperate with the Division of Taxation in a two-year study of the impact that the implementation of combined reporting would have on state revenues as well as the tax liabilities of business corporation taxpayers.

In the 2012 Session, the General Assembly approved the expansion of the enterprise zone in the Town of Middletown to include federal census tract 403.02 and redefined the enterprise zone designation for federal census tract 404 from blocks 2025, 2026, and 2030 to block groups 2 and 3 as approved by the Middletown Town Council. These changes will allow more business corporations tax filers to claim the Enterprise Zone wage tax credit. It is expected that business corporation tax revenues will decrease by $22,348 in FY 2013. This legislation became effective on June 26, 2012 without the Governor's signature.

Additionally, in the 2012 Session, the General Assembly accepted the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above. Detailed information on the actual FY 2013 cash collections attributable to the 2012 Tax Amnesty program can be found in the "Revised FY 2013 Revenues" section. Finally in the 2012 session, changes to the motion picture production tax credit, as described in the Personal Income Tax section, were enacted by the General Assembly with the concurrence of the Governor. Due to the maintenance of the $15.0 million calendar year cap on the issuance of motion picture production tax credits, including musical and theatrical production tax credits, the changes to the motion picture production tax credit outlined in the Personal Income Tax section above will likely have no impact on business corporations tax revenues received by the State.

Business corporations tax revenues totaled $123.1 million, or 3.8 percent, of the State's FY 2012 audited total general revenues. FY 2012 audited business corporations tax revenues increased in both dollar terms and in the share of total general revenues from final audited FY 2011 revenues. It should be noted that the increase in audited FY 2012 revenues reflects the change in the accrual calculation methodology implemented by the State Controller in FY 2011 with concurrence of the Auditor General to align the State's financial reporting with the Governmental Accounting Standards Board's guidelines.

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

The State also levies tax on the gross revenues of nursing homes. In 2003, the gross revenue tax on nursing homes was increased from 4.75 percent to 6.0 percent. In addition, a 1.5 percent tax on gross revenues from freestanding Medicaid facilities not associated with hospitals is levied. In 2008, the General Assembly reduced the nursing homes labor costs principal payment by $5.0 million in FY 2009, which lowered payments received from the 5.5 percent provider tax. The Assembly enacted a decrease of total payments to nursing homes of $57.6 million further decreasing payments generated from the 5.5 percent provider tax. In 2009, a series of expenditure reductions to nursing homes lowered State tax revenues. As of July 1, 2009, due to the approval of the *Rhode Island Global Consumer Choice Compact Section 1115 Demonstration* ("Global Medicaid Waiver"), the State will no longer be able to assess the health care provider assessment on group homes.

In the 2011 Session, the General Assembly accepted the Governor's proposal to establish a separate top 100 delinquent business taxpayers list. The General Assembly proposed and the Governor signed into law the elimination of the "cost-of-living-adjustment" (COLA) that nursing home providers would have received effective July 1, 2011. The COLA would have been in addition to increased payments to nursing home providers of $6.5 million in FY 2012. The increased revenues to nursing home providers resulting from the COLA would have been subject to the 5.5 percent health care provider assessment.

In the 2012 Session, the General Assembly accepted the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above. Detailed information on the actual FY 2013 cash collections attributable to the 2012 Tax Amnesty program can be found in the "Revised FY 2013 Revenues" section.

The health care provider assessment accounted for approximately $41.9 million, or 1.3 percent of the State's FY 2012 audited total general revenues. The dollar amount increased for the health care provider assessment between audited FY 2012 and audited FY 2011; however, the share of total general revenues slightly decreased between the two fiscal years.

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

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

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

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

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

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

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

The 2011 General Assembly passed legislation that requires Rhode Island electric and gas distribution companies to implement a Low Income Home Energy Assistance Program (LIHEAP) Enhancement Charge of not more than $10.00 per customer account such that total projected revenue from the LIHEAP Enhancement Surcharge is no less than $6.5 million and no more than $7.5 million in a given year. The monies generated from the surcharge are to be retained by the Rhode Island electric and gas distribution companies and used to "provide a credit to customers' accounts that are receiving federal LIHEAP assistance payments".

The public service corporation gross earnings tax accounted for approximately $100.6 million, or 3.1 percent, of the State's FY 2012 audited total general revenues. Both the dollar amount and the share of total general revenues decreased for the public utilities gross earnings tax between FY 2012 and FY 2011.

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

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

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

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

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

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

In the 2005 Session, the General Assembly enacted legislation eliminating the exemption from the insurance companies gross premiums tax for the insurer that maintains the State's workers compensation insurance fund effective July 1, 2005.

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

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

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

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

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

In the 2010 Session, the General Assembly enacted legislation to repeal the exemption from the insurance companies gross premiums tax that was granted to any joint underwriting association that issued contracts for medical malpractice insurance effective January 1, 2011. In addition, the 2010 General Assembly increased the rate of tax from 3.0 percent to 4.0 percent for contracts of insurance written by surplus line brokers effective January 1, 2011.

In the 2012 Session, the General Assembly also accepted the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above. Detailed information on the actual FY 2013 cash collections attributable to the 2012 Tax Amnesty program can be found in the "Revised FY 2013 Revenues" section. Finally in the 2012 session, changes to the motion picture production tax credit, as described in the Personal Income Tax section, were enacted by the General Assembly with the concurrence of the Governor. Due to the maintenance of the $15.0 million calendar year cap on the issuance of motion picture production tax credits, including musical and theatrical production tax credits, the changes to the motion picture production tax credit outlined in the Personal Income Tax section above will likely have no impact on insurance companies gross premiums tax revenues received by the state.

Insurance companies gross premiums tax revenues totaled approximately $89.5 million, or 2.7 percent, of the State's FY 2012 audited total general revenues. Both the dollar amount and the share of total general revenues for insurance companies gross premiums tax revenues increased between FY 2012 and FY 2011. It should be noted that the increase in audited FY 2012 revenues largely reflects the change in the accrual calculation methodology implemented by the State Controller in FY 2011, with the concurrence of the Auditor General to align the State's financial reporting with the Governmental Accounting Standards Board's guidelines.

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

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

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

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

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

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

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

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

In the 2012 session, changes to the motion picture production tax credit, as described in the Personal Income Tax section, were enacted by the General Assembly with the concurrence of the Governor. Due to the maintenance of the $15.0 million calendar year cap on the issuance of motion picture production tax credits, including musical and theatrical production tax credits, the changes to the motion picture production tax credit outlined in the Personal Income Tax section above will likely have no impact on financial institutions tax revenues received by the state.

The financial institutions tax accounted for approximately $3.6 million, or 0.1 percent of the State's FY 2012 audited total general revenues. The dollar amount and share of total general revenues increased for financial institutions excise tax revenues between FY 2012 and FY 2011.

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 $2.0 million, or less than 0.1 percent, of the State's FY 2012 audited total general revenues. The dollar amount of bank deposits taxes increased but the share of total general revenues decreased between FY 2012 and FY 2011.

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

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

In the 2012 Session, the General Assembly accepted the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above. Detailed information on the actual FY 2013 cash collections attributable to the 2012 Tax Amnesty program can be found in the "Revised FY 2013 Revenues" section.

The estate tax accounted for approximately $46.4 million, or 1.4 percent, of the State's FY 2012 audited total general revenues. The dollar amount of estate tax revenues and its share of total general revenues decreased slightly between FY 2012 and FY 2011. It should be noted that the decrease in audited FY 2012 estate tax revenues incorporates the change in the accrual calculation methodology implemented by the State Controller in FY 2011, with the concurrence of the Auditor General to align the State's financial reporting with the Governmental Accounting Standards Board's guidelines.

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

The cigarette stamp tax rate has increased consistently over the last several years. In FY 1998 the cigarette excise tax was raised to 71 cents per pack of 20 cigarettes from 61 cents per pack. The cigarette excise tax rate was increased to $1.00 per pack on July 1, 2001 and then to a $1.32 a pack effective May 1, 2002. On July 1, 2003, the cigarette excise tax rate was increased to $1.71 a pack and on July 1, 2004, it was increased by 75 cents to $2.46 per pack of 20 cigarettes. Effective April 10, 2009 the cigarette stamp tax rate increased from $2.46 per pack of 20 cigarettes to $3.46 per pack.

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

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

In the 2012 Session, the General Assembly accepted the Governor's FY 2013 budget recommendation to increase the cigarette excise tax stamp rate from $3.46 per pack of 20 cigarettes to $3.50 per pack of 20 cigarettes effective July 1, 2012. It is estimated that the cigarette stamp tax increase will generate $1.7 million more in cigarettes tax revenues in FY 2013. Additionally, in the 2012 Session, the General Assembly concurred with the Governor's FY 2013 budget proposal to amend the definition of a little cigar to include all non-cigarette tobacco products with an integrated filter that weigh 4.0 pounds or less per 1,000 individual sticks. Under prior law the weight threshold was 3.0 pounds or less per thousand individual sticks. The change in definition for little cigars subjects more non-cigarette tobacco products to the cigarette excise tax of $3.50 per pack of 20 individual sticks rather than the other tobacco products tax of 80.0 percent of the wholesale cost. It is projected that FY 2013 cigarettes tax revenues will increase by $2.4 million from this change in the definition of a little cigar. Finally, the Governor proposed and the General Assembly accepted legislation for four Tax Investigator positions in the Division of Taxation to fully staff its tobacco tax enforcement task force. It is expected that enhanced tobacco tax enforcement will increase FY 2013 cigarettes tax revenues by $2.9 million, mainly through increased compliance with existing state tobacco tax laws.

Cigarettes tax revenues accounted for approximately $131.1 million, or 4.0 percent, of the State's FY 2012 audited total general revenues. Both the dollar amount of cigarettes tax revenues and its share of total general revenues decreased between FY 2012 and FY 2011.

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

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

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

In the 2009 Session, the General Assembly passed legislation to allow the $0.01 per gallon of the motor fuel tax that was transferred to the general fund to remain with the Department of Transportation. In addition, the General Assembly increased the state's motor fuel tax by $0.02 per gallon to $0.32 per gallon. The additional revenue from the $0.02 per gallon increase in the motor fuel tax was dedicated for use by the Rhode Island Public Transit Authority (RIPTA). The tax increase has no impact on state general revenues. Further, the General Assembly passed legislation that exempts the biodiesel portion of certain gallons of blended petro-diesel motor fuel from the state's motor fuel tax. This legislation has no impact on State general revenues. Finally, the General Assembly agreed to transfer to RIPTA one-half cent of the $0.01 per gallon surcharge on motor fuel that was designated for the Underground Storage Tank Review Board. This reallocation has no effect on state general revenues.

Audited FY 2012 motor fuel tax revenues accounted for zero percent of the State's FY 2012 audited total general revenues. Effective July 1, 2009 the State's general fund no longer receives any of the revenues generated by the State's $0.32 per gallon motor fuel tax.

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, motor carrier fuel use and the conveyance of real estate.

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

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

In the 2005 Session, the General Assembly enacted legislation to increase a number of motor vehicle registration and operator license fees effective July 1, 2005.

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

In 2010 the General Assembly passed legislation to increase the fee charged for the issuance of a State Identification Card and for the registration of a school bus. For both the new fee is $25.00, under prior law, the fee for the issuance of a State Identification Card was $15.00, while the fee for the registration of a school bus was $3.00.

In addition, the 2010 General Assembly enacted legislation dropping the requirement that Twin River conduct 125 days of live greyhound racing per year in order to retain the license to house the 4,752 video lottery terminals that Twin River is authorized to manage.

In 2011 the General Assembly passed legislation and the Governor signed into law the establishment of the Rhode Island Highway Maintenance Trust Fund. The purpose of the trust fund is to provide stable financing for the state's Transportation Improvement Program. The Rhode Island Highway Maintenance Trust Fund will be financed by assessing a $30.00 surcharge on the biennial registration of passenger cars and light trucks; a $15.00 surcharge on the annual registration of commercial vehicles; and a $30.00 surcharge on operator licenses which are renewed every five years. These surcharges will be phased-in over a three year period beginning in FY 2014, when one third of each surcharge will be added to the relevant registration and operator license transaction. For FY 2015 the surcharge will increase to two-thirds of the specified surcharge and will be added to the relevant registration and operator license transaction and in FY 2016 the full surcharge amount will be imposed on every registration and operator license transaction.

In the 2012 Session, the General Assembly passed legislation that the Governor signed into law which increased the rental vehicle surcharge from 6.0 percent to 8.0 percent and decreased the State's share of total rental vehicle surcharge revenues from 50.0 percent to 40.0 percent. It is estimated that rental vehicle surcharge revenues will increase by $193,333 in FY 2013 as a result of these changes.

Additionally, in the 2012 Session, the General Assembly passed and the Governor signed into law legislation that exempted any "qualified sale" of a mobile and manufactured home park to a resident organization from state and local excise taxes. A qualified sale is defined as the sale of a mobile or manufactured home park to a residential organization with the goal of resident ownership by at least 51.0 percent of the homeowner households residing in the park. It is anticipated that realty transfer tax revenues will decrease by $7,576 in FY 2013.

Other taxes accounted for approximately $68.8 million, or 2.1 percent, of the State's FY 2012 audited total general revenues. FY 2012 other tax revenues increased slightly in dollar terms but decreased slightly in its percentage share of total general revenues between audited FY 2012 and audited FY 2011.

Departmental Receipts. In FY 2012, 76.4 percent of all departmental receipts revenues were derived from the various licenses and fees assessed by state agencies. Departmental receipts revenues comprised 10.4 percent of all general revenues in audited FY 2012.

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

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

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

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

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

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

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

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

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

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

In the 2009 Session, the General Assembly passed legislation to increase a number of motor vehicle registration and operator license reinstatement fees and certificates of title fees effective April 1, 2009. In addition, the 2009 General Assembly increased the hospital licensing fee rate for FY 2009. Specifically, the General Assembly increased the hospital licensing fee rate for FY 2009 to 5.437 percent and applied it to the 2007 base year net patient revenues. For FY 2010, the General re-instated the hospital licensing fee but decreased the rate to 5.237 percent and applied it to each hospital's fiscal 2008 net patient revenue. The payment of the FY 2010 hospital licensing fee occurred in July 2010.

Further, the 2009 General Assembly increased several fees administered by the Coastal Resources Management Council, raised numerous professional license fees collected by the Department of Business Regulation, and instituted a fee to expunge criminal records. Each of these fee changes were effective July 1, 2009.

In the 2010 Session, the General Assembly increased the rate of the hospital licensing fee from 5.237 percent to 5.314 percent applied to each hospital's fiscal year 2008 net patient revenue. (It should be noted that the FY 2010 hospital licensing fee was paid in July 2010 and accrued back to FY 2010.) For FY 2011, the General Assembly passed legislation to reinstitute the hospital licensing fee but at a rate of 5.465 percent applied to each hospital's fiscal year 2009 net patient revenues. The payment of the FY 2011 hospital licensing fee occurred in July 2011 and was accrued back to FY 2011.

In addition, the 2010 General Assembly enacted legislation to increase a variety of fees administered by the Division of Motor Vehicles and the Department of Public Safety. The Division of Motor Vehicles fees that were changed by the 2010 General Assembly were: motor vehicles dealers' license fees which increased from $100.00 to $300.00; motor vehicles manufacturers and distributors fees which increased from $200.00 to $300.00; and motor vehicles factory representative fees which increased from $40.00 to $100.00. Furthermore, the Division of Motor Vehicles established a new fee for a flashing light permit that was set at $25.00. The Department of Public Safety's accident report fee increased from $10.00 to $25.00.

During the 2010 Session, the General Assembly passed legislation to modify the collection of the State's 911 access fee on prepaid wireless telecommunications services. Under prior law, the Emergency 911 Telecommunications Access fee of $1.00 per month was assessed on all wireless telecommunications service users, however, prepaid wireless telephone users paid the fee only at the time the wireless device was purchased. The new law assesses a fee of 2.5 percent per retail transaction for prepaid wireless telecommunications services.

In the 2011 Session, the General Assembly passed legislation to reinstitute the hospital licensing fee at a rate of 5.430 percent applied to each hospital's fiscal year 2010 net patient revenues. The payment of the FY 2012 hospital licensing fee occurred in July 2012 and was accrued back to FY 2012.

Additionally, the Governor proposed and the General Assembly passed legislation in the 2011 Session to increase two fees administered by the Department of Business Regulation. The license fee for securities sales representatives increased by $15.00 from $60.00 to $75.00 and the fees assessed on federal covered advisors increased by $50.00 from $250.00 to $300.00.

Further, the General Assembly adopted the Governor's proposal in 2011 to increase both the estate tax filing fee and the letter of good standing fee from $25.00 to $50.00. As a result, a revenue increase of $231,840 is anticipated for FY 2012. In addition, the General Assembly concurred with the Governor's proposal to apply a $25.00 surcharge to non-sufficient fund checks written to the Division of Motor Vehicles. This new fee is expected to generate revenues of $18,720 in FY 2012. Also during the 2011 Session of the General Assembly, the Department of Environmental Management increased parking fees at State beaches.

The 2011 Session also saw the General Assembly concur with the Governor's proposal to institute a $10.00 surcharge for conducting application clearances for (1) individuals seeking employment in licensed residential and child day care programs, (2) child caregivers, (3) individuals applying to adopt children, and (4) for intra-state requests for child welfare history.

Finally, in the 2011 Session the General Assembly adopted the Governor's proposal to apply a 4.0 percent surcharge on the three compassion centers that are authorized to provide medical marijuana within Rhode Island.

In the 2012 Session, the General Assembly passed legislation to reinstitute the hospital licensing fee at a rate of 5.350 percent of 2011 net patient revenues. The hospital licensing fee rate of 5.350 percent is discounted by 37.0 percent "for all hospitals located in Washington County, Rhode Island" subject to the approval of the Centers for Medicare and Medicaid Services. The 37.0 percent discount yields an effective hospital licensing fee rate for

Washington County hospitals of 3.3705 percent. The total impact of the change in the rate and the base is to decrease the amount collected from the hospital licensing fee to $141.3 million in FY 2013. The payment of the FY 2013 hospital licensing fee will occur in July 2013.

Additionally in the 2012 Session, the General Assembly and the Governor signed into law a modification to Rhode Island's compassion center statute that reduces the amount of medical marijuana that compassion centers can have available for sale at any given time and applies more stringent regulations on the distribution of medical marijuana by compassion centers. Although state law currently allows compassion centers to sell medical marijuana, no compassion center licenses have been issued primarily due to objections from the U.S. Attorney. The new legislation may make it possible for said licenses to be issued and, since the net patient revenues of medical marijuana dispensaries are subject to a 4.0 percent surcharge, it is estimated that licenses and fees revenues will increase by $512,004 in FY 2013 from the operation of compassion centers in the state.

In the 2012 Session, the Governor proposed and the 2012 General Assembly enacted legislation to expand the definition of beverage containers that are subject to the state's $0.04 per case litter control permit fee. The new law now includes all beverage containers that contain non alcoholic drinks for human consumption, except milk but including beer and other malt beverages. It is expected that FY 2013 licenses and fees will increase by $186,075 as a result of this change in the definition of beverage container.

Furthermore in the 2012 Session, the Governor proposed and the General Assembly enacted legislation to eliminate the Rhode Island Department of Environmental Management's municipal wastewater treatment testing program. Currently municipalities are charged a fee depending on the amount of pollutant discharge. It is anticipated that FY 2013 licenses and fees revenues will decrease by $65,987 from the discontinuation of this program.

Finally in the 2012 Session, the Governor proposed and the General Assembly enacted legislation to restructure the licenses and fees administered by the Rhode Island Department of Health (DOH) into a single fee schedule. DOH proposed to increase, decrease, and implement new fees across a wide range of health professions. The single fee schedule was created to align with the wages and salaries reported by the Rhode Island Department of Labor and Training for these professions. It is estimated that FY 2013 licenses and fees revenues will increase by $1.8 million as a result of the implementation of the single fee schedule in DOH.

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.

The 2010 General Assembly passed legislation to reclassify non-Medicaid hospital payments received by the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (formerly the Department of Mental Health, Retardation, and Hospitals) as restricted receipts for FY 2010.

The 2011 General Assembly accepted the Governor's proposal to allow the Division of Taxation to act as a collection agency on the behalf of other state and municipal agencies. State law allows the Division of Taxation to retain a percentage of the revenues collected to offset its cost of engaging in such collection activity. These revenues, when retained, will be recorded as sales and service receipts.

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

In the 2012 Session, the General Assembly accepted the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above. Detailed information on the actual FY 2013 cash collections attributable to the 2012 Tax Amnesty program can be found in the "Revised FY 2013 Revenues" section.

Lastly, the miscellaneous departmental revenues category includes revenues from investment earnings on General Fund balances, as well as Child Support payments.

In the 2009 Session, the General Assembly increased miscellaneous departmental revenues by including the revenue from the National Council on Aging's (NCA) Choices for Self-Care Challenge grant and from a grant by the American Cancer Society (ACS). The NCA grant will support a statewide chronic disease self-management program for adults 60 and over and the ACS grant will support women's cancer screening activities.

The 2010 General Assembly enacted legislation to reclassify the payments received from local education authorities for the state administered student transportation initiative from miscellaneous departmental receipts to a restricted receipt account for FY 2010 and FY 2011. The 2010 General Assembly passed legislation to subject the telecommunication education access fund to the indirect cost recovery charge. Finally, the General Assembly accepted monies from a non-government entity to continue women's cancer screenings until June 30, 2010.

In the 2011 Session, the General Assembly proposed and the Governor approved for FY 2011 a grant by the Hospital Association of Rhode Island for the Department of Health's cancer registries research. In addition, the 2011 General Assembly enacted legislation to classify the Urban Institute's "Work Support Strategies" grant to the Department of Human Services as general revenue. This grant is designed to help improve the provision of services to low-income working families.

In the 2012 Session, the General Assembly accepted the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above. Detailed information on the actual FY 2013 cash collections attributable to the 2012 Tax Amnesty program can be found in the "Revised FY 2013 Revenues" section.

Additionally in the 2012 Session, the Governor proposed and the General Assembly enacted legislation to eliminate the Rhode Island Department of Environmental Management's well drilling program. Currently the RI DEM administers the program through the Well Drilling Rules and Regulations for Drinking Water Wells. Well drillers are licensed by RI DEM and are required to submit will drilling logs and install wells in accordance with the regulations. Currently the department charges $100.00 per registration per year for the installer. Elimination of this program resulted in the foregoing of this revenue. It is expected that FY 2013 miscellaneous departmental receipts will decrease by $9,695 from the discontinuation of this program.

Departmental receipts revenues were $339.9 million of the State's audited FY 2012 total general revenues of $3.271 billion. Audited FY 2012 departmental receipts increased on a nominal basis but decreased as a share of total general revenues when compared to final audited FY 2011 revenues.

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

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

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

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

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

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

In March 2008, UTGR, Inc., the owner and operator of Twin River, one of the two licensed video lottery facilities of the State, defaulted on loan payments to its lenders who provided a $565.0 million loan package to UTGR, Inc. and its parent companies to buy and expand the Twin River facility. On or about June 23, 2009, UTGR, Inc. d/b/a Twin River, BLB Management Services, Inc, and BLB Worldwide Holdings, Inc. (collectively, the "Debtors") commenced a Chapter 11 bankruptcy proceeding by filing voluntary petitions for relief in the United States Bankruptcy Court for the District of Rhode Island (Case No. 09-12418). The filing was made when – after months of discussions and negotiations – the Debtors, their lenders and the State reached an agreement in principle with respect to a consensual reorganization plan, which was eventually approved by the Bankruptcy Court with modifications in November 2010 and paved the way for the Debtors to emerge from bankruptcy. The consensual plan provided, among other things, that the lenders remove approximately $290.0 million of the approximately $590.0 million of debt on the balance sheet of the facility and, subject to the State's regulatory approval process, the lenders have become the new owners of the facility and are searching for a new operator for the facility to replace the Debtors.

Although the reorganization plan approved by the Bankruptcy Court provides for the State to make additional investments in the marketing and management for the facility, the bankruptcy did not have a significant impact on the lottery revenues the State receives from the facility since Twin River continued to remain open as usual during the bankruptcy. Legislation was introduced to statutorily achieve certain requirements of the restructuring, including but not limited to, the elimination of the requirement that the Debtors offer live greyhound racing as a condition for operating video lottery terminals at the facility. The legislation eliminating dog racing at the facility became law on May 14, 2010. The legislation authorizing the changes necessary to achieve certain requirements of the restructuring became law on May 26, 2010.

The Rhode Island Lottery continues to control and regulate the video lottery operations at the facility, including cash receipts, cash transfers and cash deposits. The cash management process continues to be carried out with a high degree of physical security and financial integrity. The Department of Revenue, Division of State Lottery and the Department of Business Regulation ("Department") continue to closely monitor the situation. Any proposal to have a new operator of the facility and/or any proposal to transfer ownership of the facility needs regulatory approval. After a public hearing on September 29, 2010, a hearing officer for the Department issued a written decision on October 15, 2010 recommending to the Director of the Department, inter alia, that the application filed with the Department on December 14, 2009 by UTGR, Inc., which application was thereafter amended on June 23 and August 24, 2010, seeking approval from the Department for a change in ownership and approval of the management structure of UTGR be approved. The Director adopted the recommendations of the hearing officer on October 18, 2010. Thereafter, on or about November 4, 2010 the Division of State Lottery issued a video lottery license and a retail sales license to UTGR, Inc. and the State, through the Division of Lottery, entered into a First Amendment to the Master Contract with UTGR, Inc.

On or about May 23, 2011 a motion was filed in the Bankruptcy Court by the reorganized debtors seeking an order granting a final decree closing the Chapter 11 cases. The debtors have asked that the motion be granted without a hearing. The U.S. Trustee has consented to the entry of the final decree. On or about June 28, 2011, the federal bankruptcy judge issued an Order indicating he would temporarily withhold entry of the Final Decree and not rule on pending matters until the Debtors provided the court with additional information on or before July 31, 2011 with respect to certain issues that came up while the General Assembly was considering whether or not to allow table and casino-style gaming at the Twin River facility. The Debtors provided the Court with its response, additional comments and information on or before July 31, 2011. On September 29, 2011, the Court issued a Decision and Order approving the debtors' Motion for Entry of Final Judgment and the Final Application for Fees and Expenses.

The 2010 General Assembly enacted legislation that amended the master video lottery terminal contracts for Twin River and Newport Grand. The amendments reduced the employment levels that each facility must have in order to extend the term of the contract, provide for promotional points programs, institutes a marketing program for each facility to be operated jointly with the Division of State Lottery, decreases the State percentage of the net terminal income generated at Newport Grand, and increases the Town of Lincoln's share of the net terminal income generated at Twin River for weeks when Twin River is open 24 hours. Twin River has been operating on a 24 hours a day, seven days a week basis since November 2009. The enhanced payment to the Town of Lincoln expired on June 30, 2011.

In the 2011 Session, the General Assembly enacted legislation to enhance the Town of Lincoln's share of Twin River's net terminal income for those weeks in which Twin River operates on a 24 hour basis. The enhancement in the share of net terminal income going to the Town of Lincoln reduced the State's share of Twin River's NTI on a dollar-for-dollar basis. The enhanced payment to the Town of Lincoln expired on June 30, 2012.

In addition, the 2011 General Assembly enacted legislation to restore the funds Newport Grand would have received in FY 2011 and FY 2012 had the facility met the benchmarks set forth in the First Amendment to the Newport Grand Master Video Lottery Contract with regard to the joint marketing program contained therein. The Newport Grand joint marketing program requires the State to share in the cost of marketing Newport Grand's gaming offerings for approved marketing expenses in excess of $560,000. The state pays out of its share of Newport Grand's video lottery terminal net terminal income (NTI) 61.69 percent of the marketing expenses in excess of the $560,000 threshold. Finally, the 2011 General Assembly realized additional savings within the Division of Lottery's operations resulting in an increase of available revenue to be transferred to the State.

While the possible opening of new gaming sites in Massachusetts may significantly reduce revenues of Twin River since such sites are likely to reduce the number of out-of-state patrons visiting Twin River, it should be noted that during the 2011 legislative session, the Rhode Island General Assembly passed Article 25 of the 2012 Appropriations Act which authorizes the expansion of state-operated gaming at the Twin River facility to include "any and all table and casino-style games played with cards, dice or equipment." Such authorization, however, would only be effective if the qualified voters of the State and the qualified electors of the Town of Lincoln approve the expansion of gambling at the facility to include casino gaming. The Act was signed by the Governor and became law on June 30, 2011. The approval of this expansion of gaming at Twin River was sought and obtained in the November 2012 general election. On or about September 28, 2011, the Narragansett Indian Tribe filed a complaint against the State of Rhode Island in the Rhode Island Superior Court seeking, inter alia, a declaratory judgment on the constitutionality of the Act on the grounds that any proposed casino would not be "state-operated as mandated by the Rhode Island Constitution" and the statute "delegates unconstitutional authority to a private corporation." On or about June 29, 2012, the Superior Court issued a decision holding that the Narragansett Indians had not sustained its burden of proof beyond a reasonable doubt that the law "violates an identifiable aspect of the Rhode Island or United States Constitution" and therefore the court denied their motion for summary judgment. The Narragansett Indians have filed a notice of appeal of that decision with the Rhode Island Superior Court. The remaining issues in the case which are still pending in the Superior Court relate to whether the state "operates" Twin River and Newport Grand. The Superior Court refused to enjoin the State and the Narragansett Indian Tribe filed a notice of appeal to the Supreme Court where the matter presently stands. The State does not believe that the Tribe's law suit seeking a declaratory judgment will be successful.

On November 22, 2011, the Governor of Massachusetts signed into law an act that authorizes the establishment of three destination resort casinos and one slot parlor in the Commonwealth. The act allows for one destination resort casino in each of three regions in the state and the slot parlor at one of the existing pari-mutuel facilities in Massachusetts. Each destination resort casino requires a minimum capital investment of $500 million and must include a hotel. Each destination resorts casino must pay to the Commonwealth a licensing fee of $85.0 million and pay taxes at a rate of 25.0 percent on gross gaming revenue. The slot parlor must pay a $25.0 million dollar licensing fee to the Commonwealth, invest $125 million in the refurbishing of the pari-mutuel facility that hosts the slot parlor and pay taxes at a rate of 40.0 percent of gross gaming revenue to the Commonwealth and a rate of 9.0 percent of gross gaming revenue to the Massachusetts Racehorse Development Fund. Finally, each destination resort casino and the slot parlor must pay an annual licensing fee of $600 for each slot machine in operation at a facility.

In the fall of 2011, the State of Rhode Island Department of Revenue's Division of Lotteries commissioned a study by Christiansen Capital Advisors, LLC to determine the impact that the pending expansion of gaming in Massachusetts might have on Rhode Island's gaming industry and the state's revenues. The Christiansen study examined nine different scenarios depending on the location of the three destination resort casinos and the one slot parlor in Massachusetts assuming there were no table games in Rhode Island and then with table games allowed at the Twin River facility. In a likely case scenario examined by Christiansen, by FY 2017, Rhode Island gross gaming revenue was projected to decline by 25.6 percent from FY 2011 levels or approximately $126.3 million if no table games were allowed in Rhode Island. This translates into a potential decrease in state revenue from the video lottery terminals operated at Twin River and Newport Grand of 25.0 percent or approximately $75.2 million. In another likely case scenario examined by Christiansen with Twin River (but not Newport Grand) having table games, the decline in gross gaming revenue between FY 2011 and FY 2017 is projected to be 15.0 percent or approximately $73.9 million with a resultant 19.6 percent decline in state revenue or approximately $59.2 million from the gaming operations at Twin River and Newport Grand. Even if table gaming is authorized at Twin River and/or Newport Grand, it is not anticipated that table gaming in and of itself will avoid a significant decline in the revenues derived by the State from Twin River and Newport Grand as a result of the expansion of gaming into Massachusetts. There is no assurance that any level of revenue projected from table gaming will be achieved or to what degree gaming in Massachusetts will ultimately impact revenues generated at Twin River and Newport Grand from table gaming, if approved, and video lottery terminals in the future.

During the 2012 legislative session, an initiative was introduced in the General Assembly and became law which authorized the same expansion of gambling at the Newport Grand facility as was approved by the General Assembly for Twin River during the 2011 legislative session. (See above.) That initiative did not become effective because while the qualified voters of the State voted to approve the expansion of gambling at Newport Grand to include casino gaming in the November 2012 general election, the qualified electors of the City of Newport did not approve the expansion of gambling at the Newport Grand facility to include casino gaming in the November 2012 general election.

Also during the 2012 Session, the Rhode Island General Assembly passed two identical bills, 2012 –S 3001 Substitute A and 2012 – H 8213 Substitute A as amended entitled "An Act Relating to Revenue Protection," that were signed into law by the Governor on June 20, 2012. The Revenue Protection Act (i) requires that the Director of the Division of Lotteries promulgate rules and regulations relating to state-operated table gaming on or before March 31, 2013 and set policy for table games; (ii) requires the table game retailer to reimburse and pay the Division of State Lottery for all reasonable costs and expenses associated with the Division's review of the business practices or operations of the table game retailer, including but not limited to, such items as ongoing auditing, legal, investigation services, compulsive and problem gambling programs, and other related matters; and (iii) gives the Director of State Lottery the authority to enforce the provisions of the law and allows for the imposition of administrative penalties of not more than $1,000 for each violation of any rule, regulation, policy or procedure or administrative order with the interest, cost or expense collected appropriated to the Division of State Lottery for administrative purposes.

The law provides, inter alia, (i) effective July 1, 2013, provided that the casino gaming referendum is approved statewide and in the City of Newport, and Newport Grand commences and continues to offer table games, the rate of net terminal income payable to Newport Grand under its Master Contract will increase by one and one half percentage points; (ii) 18.0 percent of the Net Table Game Revenue derived from Table Games at Twin River as defined in the law, is to be deposited into the state lottery fund for administrative purposes with the balance remaining going into the general fund with that percentage being reduced to 16.0 percent on the first date that Twin River's net terminal income for a full State fiscal year is less than Twin River's net terminal income for the prior State fiscal year and (iii) 18.0 percent of the net table game revenue derived from table games at Newport Grand is to be deposited into the state lottery fund for administrative purposed with the balance remaining going into the general fund. At this time, even with the passage of the casino gaming referendum statewide and in the City of Newport and the Town of Lincoln, the actual conduct of table games at Twin River and/or Newport Grand is not expected to commence before June 1, 2013. Because the City of Newport did not pass the casino gaming referendum in November, 2012, the provisions of the Revenue Protection Act that were conditioned upon that passage, did not become effective.

Furthermore, the Revenue Protection Act authorizes a supplementary promotional points program at Twin River and Newport Grand in addition to the initial promotional points program; however, the supplementary promotional points program is subject to terms and conditions established by the Division of State Lottery and cannot exceed 6.0 percent of Twin River's and/or 6.0 percent of Newport Grand's net terminal income of the prior marketing year i.e. the total of the initial promotional points program and the supplementary promotional points program for Twin River cannot exceed 10.0 percent of the amount of Twin River's net terminal income of the prior marketing year and with respect to Newport Grand, cannot exceed 10.0 percent of the amount of Newport Grand's net terminal income of the prior marketing year. The prior marketing year is the prior state fiscal year. The terms of the supplementary promotional points program are to be included in Third Amendments to Twin River's and Newport Grand's Master Contracts with the Division of State Lottery.

The General Assembly once again enacted, in the 2012 Session, legislation to enhance the Town of Lincoln's share of Twin River's net terminal income for those weeks in which Twin River operates on a 24 hour basis. The enhancement in the share of net terminal income going to the Town of Lincoln reduces the State's share of Twin River's NTI on a dollar-for-dollar basis. As a result, a revenue decrease of $946,580 is anticipated for FY 2013. The enhanced payment to the Town of Lincoln expired on June 30, 2012. As a result of the approval of the operation of table games at Twin River, the Town of Lincoln's share of the net terminal income derived from the operation of video lottery terminals at Twin River was permanently increased from 1.26 percent to 1.45 percent effective July 1, 2013.

The lottery transfer to the General Fund totaled $377.7 million which accounted for 11.5 percent of the State's audited total general revenues in FY 2012. The dollar amount of the lottery transfer to the General Fund and its share of total general revenues increased between audited FY 2012 and audited FY 2011.

The next largest component of Other Sources is the other miscellaneous revenues category. This category reflects among other things, non-recurring receipts that are not recorded in other receipt categories, such as one-time receipts from the securitization of tobacco master settlement agreement payments and the sale of state-owned property.

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

The 2009 General Assembly also enacted legislation to transfer a portion of the excess reserves of the Rhode Island Health and Educational Building Corporation. In addition, the General Assembly transferred excess reserves from the Rhode Island Human Resources Investment Council. These two transfers were available as general revenues to be used to finance FY 2010 state operations.

In the 2010 Session, the General Assembly passed legislation to transfer excess reserves from the State's automobile replacement fund. In addition, the General Assembly also transferred additional excess reserves from the Rhode Island Health and Educational Building Corporation (RIHEBC).

In the 2011 Session, the General Assembly concurred with the Governor's proposal to transfer excess reserves from the Rhode Island Resource Recovery Corporation to the state's general fund. Additionally, the General Assembly passed and the Governor signed into law the designation of revenue from land sales received in FY 2012 to the information technology revolving fund, a restricted receipt account.

In the 2012 Session, the General Assembly enacted and the Governor concurred to accept a grant from Neighborhood Health Plan of Rhode Island for dental care for low income adults. The amount of the grant is $1.8 million and its receipt is to be realized in FY 2013.

The total amount of other miscellaneous revenues received in FY 2012 was approximately $20.1 million, which accounted for 0.6 percent of the State's audited total general revenues. For FY 2011, these amounts were $11.1 million and 0.4 percent, respectively.

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

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

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

The unclaimed property transfer totaled $14.6 million in FY 2012 and accounted for 0.4 percent of the State's FY 2012 audited total general revenues. The dollar amount of the unclaimed property transfer increased as did its share of total general revenues between FY 2012 and FY 2011.

Restricted Receipts. In FY 2012, the State expended $184.1 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. Restricted receipts are budgeted at $270.2 million in the FY 2013 revised budget and $252.8 in the FY 2014 recommended budget.

Federal Receipts: In FY 2012, the State expended $2.599 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 funds are budgeted at $2.659 billion in the FY 2013 revised budget and $2.645 billion in the FY 2014 recommended budget.

Federal grants-in-aid reimbursements are normally conditioned to some degree, depending on the particular program being funded, on matching resources by the State ranging from a 50 percent matching expenditure to in-kind contributions. The largest categories of federal grants and reimbursements are made for medical assistance payments for the indigent (Title XIX), and a block grant for Temporary Assistance to Needy Families (TANF). The federal participatory rate for Titles XIX, known as the Federal Medical Assistance Percentage (FMAP), is recalculated annually. The major determinant in the FMAP rate calculation is the relative per capita income of the State. The provisions of ARRA included a temporary increase in the FMAP rate from 52.59 percent to 63.89 through September 30, 2009 and from 52.63 to 63.92 from October 1, 2009 through September 30, 2010. The ARRA-enhanced FMAP for the second quarter of FY 2011 was 64.22. The FMAP enhancement provisions of ARRA were partially continued by Public Law 111-226, the Education Jobs and Medicaid Assistance Act, which resulted in enhanced FMAPs of 61.39 and 59.51 for the third and fourth quarters of FY 2011, respectively. Statutory enhancements of the FMAP ceased on July 1, 2011, at which time the FMAP for Rhode Island reverted to the base level of 52.97 percent for one quarter. From October 1, 2011 through September 30, 2012, the state's prevailing FMAP was 52.12 percent, and further decreased to 51.26 percent for FFY 2013. For the following federal fiscal year, FFY 2014, Rhode Island's FMAP again decreased to 50.11 percent, necessitating additional FY 2014 general revenue appropriations of approximately $16.0 million.

ECONOMIC FORECAST

This section describes the economic forecast used as an input for the Revenue Estimating Conference's consensus revenue estimates.

During its November 2012 meeting, a forecast of the U.S. and Rhode Island economies was presented by Moody's Economy.com. The Rhode Island Department of Labor and Training (DLT) also presented current employment and labor force trends in Rhode Island. The conferees heard the testimony from an economist with Moody's Economy.com, and the Assistant Director for DLT's Labor Market Information unit.

The Revenue Estimating Conference adopted the economic forecast, shown at the end of the section, on November 5, 2012 through a consensus process informed by the testimony provided to the conferees. The updated economic forecast made significant changes to the consensus outlook adopted at the May 2012 Revenue Estimating Conference.

As reported at the November 2012 Revenue Estimating Conference, testimony noted that the state's current economy "lacks spark but is not in recession". The State's economic recovery is being slowed by significant macroeconomic headwinds and uncertainty. In particular, goods-producing industries are essentially seeing no growth, while service-based industries are experiencing enough modest gains to offset the contraction of public sector employment. According to written testimony, the Philadelphia Federal Reserve Bank's coincident index, a measurement of economic activity, Rhode Island's economy bottomed out in 2009 at a level of 143.5. In June of 2012 the index was 148.1, a gain of only 3.2 percent, providing further evidence that Rhode Island's economy, although far from "healthy", is not contracting. These findings mirror three other major indices: the Moody's Analytics Adversity Index, the Rhode Island Current Conditions Index and the Bryant University Current Economic Indicator.

Of particular concern for Rhode Island's economy is the competition from neighboring states. As Rhode Island tries to attract new and develop existing industries, in particular biotechnology and information services, other states are doing the same. These companies may look to Connecticut or Massachusetts for more favorable investment opportunities. Because of these factors and the beginning of Rhode Island's slow economic recovery, Rhode Island's unemployment rate is expected to remain above 10.0 percent until CY 2014 and won't fall below 6.0 percent until CY 2017. Housing prices in the State are projected to bottom out at the end of CY 2012 and show modest increases over the CY 2013 and CY 2014 periods. Personal income growth is anticipated to trail that of the U.S. as a whole, but be positive for the CY 2013 to CY 2015 forecast period. This trend is reversed in CY 2016 through CY 2018 when Rhode Island personal income growth is projected to exceed that of the United States as a whole.

While testimony from Moody's Economy.com gave a broad picture of Rhode Island's economic conditions as of November prior to the presidential election, the Rhode Island Department of Labor presented a detail analysis on Rhode Island's labor market. The Rhode Island Department of Labor and Training reported that the Rhode Island unemployment rate declined to 10.5 percent in September 2012. Rhode Island's resident employment figure peaked at 548,900 in December 2006. Rhode Island resident employment in September 2012 totaled 499,400, or 49,500 off the peak.

Rhode Island's seasonally adjusted unemployment rate for January 2013 stands at 9.8 percent. This is down from 10.0 in November 2012 and 10.9 percent in December 2011. Rhode Island's unemployment rate peaked at 11.9 percent in January and February 2010.

Rhode Island establishment employment decreased over the period September 2011 to September 2012 resulting in 1,700 job losses. The sector breakdown of job losses were as follows: Government, (1,300); Educational Services, (1,200); Other Services, (900); Trade Transportation and Utilities, (900); Professional and Business Services, (600); Manufacturing, (300); and Information, (100). The broad sectors of the Rhode Island economy which added jobs year-over-year in September 2012 were as follows: Financial Activities, 300; Construction, 800; and Leisure and Hospitality, 2,500. The Natural Resources and Mining sectors of the Rhode Island economy remain unchanged relative to September 2011.

Sector	Jobs Change	Sector	Jobs Change
Government	(1,300)	Information	(100)
Education and Health Services	(1,200)	Natural Resource & Mining	-
Other Services	(900)	Financial Activities	300
Trade, Transportation & Utilities	(900)	Construction	800
Professional & Business Services	(600)	Leisure & Hospitality	2,500
Manufacturing	(300)	**Total Non-Farm**	**(1,700)**

Staff from the Rhode Island Department of Labor and Training (DLT) testified that they expect to see significant revisions to the June 2012 job numbers reported by the Bureau of Labor Statistics (BLS). Using a methodology developed by the University of Massachusetts, DLT staff expects total non-farm employment for June 2012 to be revised upward by 5,700 jobs. It should be noted that Moody's economic forecast incorporates upward revisions to BLS data for forecast numbers, but uses current BLS total employment numbers for historical figures. As a result, it is expected that the May 2013 Revenue Estimating Conference will see significant changes to the forecast presented in the next section. The changes by sector as calculated by DLT are shown in the table below.

Sector	Jobs Change	Sector	Jobs Change
Professional & Business Services	3,000	Other Services	100
Trade, Transportation & Utilities	2,800	Natural Resource & Mining	-
Leisure & Hospitality	2,700	Information	(700)
Education and Health Services	400	Manufacturing	(1,300)
Financial Activities	200	Government	(1,500)
Construction	100	**Total Non-Farm**	**5,700**

Source: RI Department of Labor and Training, Labor Market Information Unit, Quareterly Cenus of Employment & Wages (QCEW) and Current Employment Statistics (CES) data, Using methodology developed by the University of Massachusetts.

* Difference is a result of rounding

While there is no official measurement and dating of recessions at the state level, employment is usually used to gauge the cyclical status of the state economy. In FY 2012, total non-farm employment declined by 0.3 percent. In FY 2013, non-farm employment is expected to decrease by 0.4 percent. Total non-farm employment is projected to increase by 1.2 percent from 457,200 in FY 2013 to 462,800 in FY 2014, the first year of positive growth since FY 2007. Over the FY 2015 through FY 2018 period, Rhode Island's economy is expected to add 27,357 jobs. It should be noted that adopted growth rates indicate a positive trend from FY 2014 through FY 2016 before a slowing down in FY 2017 and FY 2018 at rates of growth of 1.9 percent and 0.6 percent respectively.

The unemployment rate for FY 2013 is projected to decline slightly from 11.1 percent in FY 2012 to 10.4 percent. As recovery takes hold, Rhode Island's unemployment rate is expected to decline rapidly from 10.4 percent in FY 2013 to 5.3 percent in FY 2018. Even at this lower rate, Rhode Island's unemployment rate will be 0.4 percentage points higher than the unemployment rate achieved when the economy peaked in FY 2007 of 4.9 percent.

Personal income growth is expected to be 2.6 percent in FY 2013 down from the 3.2 percent growth in FY 2012. The November 2012 Revenue Estimating Conference estimates for personal income growth suggest a positive upward trend from FY 2013 through FY 2017. It should be noted that for FY 2012 through FY 2013 the adopted estimates for personal income growth are below the adopted estimates from the May 2012 Revenue Estimating Conference for the same period. The FY 2012 projected growth rate for personal income is down 0.8 percent growth rate that was adopted in May 2012 of 4.0 percent. For FY 2013 the adopted November 2012 REC estimate is 1.3 percent down from 3.9 percent that was adopted in May. The personal income growth rate is expected to increase to 7.0 percent in FY 2015 and remain at or above 4.4 percent throughout the remainder of the forecast period. This projection indicates that personal income growth will take one more year to accelerate than originally projected in May 2012.

Similarly, FY 2013 estimates of dividend, interest and rents are expected to decrease from FY 2012 growth of 6.5 percent before bouncing back considerably in FY 2014 through FY 2018. Wage and salary income growth is forecasted lower in FY 2012 relative to the projected growth adopted in May 2012. For the FY 2013 to FY 2018 period, the November 2012 growth rates were revised upwards when compared to the forecast adopted in May 2012. Wage and salary income growth is expected to improve beginning in FY 2013 with projected growth of 2.6 percent, an increase of 0.4 percentage points from FY 2012. The rate of growth accelerates in FY 2014 to 5.7 percent and increases again in FY 2015 and FY 2016 to 7.0 percent before decelerating in FY 2017 and FY 2018 to 6.4 percent and 4.8 percent respectively.

The U.S. rate of inflation as measured by the Consumer Price Index for all urban consumers (CPI-U) is anticipated to decrease to 1.9 percent in FY 2013 from 2.9 percent in FY 2012. The decrease is mainly due to the decrease in gasoline, fuel oil and natural gas prices combined with the expectation of quantitative easing from the Federal Reserve. The rate of growth in CPI-U is forecasted to increase in FY 2014 to 2.5 percent before rising to 2.6 percent in FY 2015. In FY 2016 and FY 2018, inflation is expected to decelerate and settle at 2.3 percent.

From FY 2013 through FY 2015, the interest rate on three month Treasury bills is expected to remain low with rates below 0.8 percent. In FY 2016, the interest rate on three month Treasury bills is expected to rise to 2.6 percent and increase again by 1.1 percentage point to approximately 3.7 percent in FY 2017 before stabilizing at 3.5 percent in FY 2018. The interest rate on ten year Treasury notes is expected to decrease slightly from 2.1 percent in FY 2012 to 1.9 percent in FY 2013 but rise to 3.0 percent and 4.0 percent in FY 2014 and FY 2015. The interest rate on ten year Treasury notes is anticipated to increase again to 4.9 percent in FY 2016 and then decrease to 4.8 percent in FY 2017 and 4.7 percent in FY 2018.

The Consensus Economic Forecast for the fiscal years 2013 through 2018 agreed upon by the conferees at the November 2012 Revenue Estimating Conference is shown in the following table.

The November 2012 Consensus Economic Forecast						
Rates of Growth (%)	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**
Non-Farm Employment	-0.4	1.2	3.0	3.2	1.9	0.6
Personal Income	2.6	5.1	7.0	6.5	5.7	4.4
Wage and Salary Income	2.6	5.7	7.0	7.0	6.4	4.8
Dividends, Interest and Rent	3.2	7.4	11.4	10.3	6.9	4.2
Nominal Rates (%)						
U.S. CPI-U	1.9	2.5	2.6	2.4	2.3	2.3
Unemployment Rate	10.4	9.7	7.9	6.6	5.5	5.3
Ten Year Treasury Notes	1.9	3.0	4.0	4.9	4.8	4.7
Three Month Treasury Bills	0.1	0.2	0.8	2.6	3.7	3.5

The revisions to the November 2012 Consensus Economic Forecast vis-à-vis the May 2012 Consensus Economic Forecast are shown in the table below. Negative values indicate that November 2012 values are less than those adopted in May 2012 while positive values represent the converse. For example, in FY 2013 the rate of growth in non-farm employment adopted for the November 2012 Consensus Economic Forecast was 1.3 percentage points lower than the FY 2013 rate of growth in non-farm employment adopted for the May 2012 Consensus Economic Forecast. Similarly, in FY 2014 the Rhode Island unemployment rate adopted for the November 2012 Consensus Economic Forecast was 0.3 percentage points higher than the Rhode Island unemployment rate adopted for the May 2012 Consensus Economic Forecast.

Changes from May 2012 to November 2012 Consensus Economic Forecast					
Rates of Growth (%)	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**
Non-Farm Employment	-1.3	-0.5	0.1	0.2	0.4
Personal Income	-1.3	0.2	1.0	1.0	1.1
Wage and Salary Income	-2.1	0.2	1.1	1.0	1.4
Dividends, Interest and Rent	-1.0	0.0	1.5	2.3	1.8
Nominal Rates (%)					
U.S. CPI-U	0.1	0.3	-0.2	-0.2	0.0
Unemployment Rate	0.1	0.3	0.4	0.4	0.1
Ten Year Treasury Notes	-1.2	-1.2	-0.6	0.1	-0.1
Three Month Treasury Bills	0.0	-0.3	-1.1	-0.5	0.2

REVENUE ESTIMATES

The Revenue Estimating Conference (REC) met on November 1st, 5th, and 9th, 2012, in open public meetings. The Conference adopted the economic forecast for both calendar and fiscal years 2013 to 2018, and issued a revised revenue estimate for FY 2013 and a first estimate of FY 2014 revenues. Based on collection trends, preliminary closing results, and the revised economic forecast, the Conference revised the FY 2013 revenue estimates upward by $7.5 million from the FY 2013 Budget as Enacted amount, to a total of $3.328 billion.

The Conference estimated FY 2014 revenues at $3.288 billion, which is $40.3 million less than the November 2012 REC estimates for FY 2013. The FY 2014 estimates are based on current law and exclude the hospital licensing fee from the estimate. This fee is renewed on a year-to-year basis and has been extended each year since its inception. In FY 2013, the hospital licensing fee is estimated at $141.3 million.

The estimated FY 2014 revenues include additional revenues from the operation of table games at Twin River. During the November 2012 general election, the voters of Rhode Island and the Town of Lincoln approved the operation of table games at Twin River. The estimates adopted at the November 2012 REC incorporate this change within the components of lottery revenue. As a result of the operation of table games at Twin River, the Town of Lincoln's share of the net terminal income derived from the operation of video lottery terminals at Twin River will permanently increase from 1.26 percent to 1.45 percent. Additionally, the State's share of gross table game revenue at Twin River will be 18.0 percent for FY 2014. Finally, it should be noted that the estimated FY 2014 table games revenues transfer to the State is gross revenues, and under current law, the transfer to the State occurs after the expense to implement, regulate, and monitor table games by the Division of Lottery is deducted from the State's share of gross table game revenues. These expenses are specified in the Governor's FY 2014 budget submission and reduce the State's share of gross table game revenues estimated at the November 2012 REC.

Revised FY 2013 Revenues

The November 2012 Revenue Estimating Conference estimated general revenues of $3.328 billion, an increase of 1.8 percent from the audited FY 2012 level. Relative to the final audited FY 2012 figures, the revised FY 2013 estimate of total general revenues is $57.7 million more. The revised FY 2013 estimate includes a revision from the original enacted estimate for the 2012 Tax Amnesty program. At the November 2012 Revenue Estimating Conference the principals did not adopt a consensus revised estimate on anticipated receipts from the 2012 Tax Amnesty Program. As a result, the adopted FY 2013 estimates include an unspecified amount in anticipated receipts from the 2012 Tax Amnesty program. The 2012 Tax Amnesty program ran from September 1, 2012 through November 15, 2012. For a detailed account of enacted versus actual receipts from the 2012 Tax Amnesty program see the table at the end of this section. The revised FY 2013 revenue estimate presumes that the State will regain tax revenues in FY 2013 that previously were lost from several taxes due to the historic structures tax credit which is now paid from revenue bonds issued in June 2009 by the Economic Development Corporation for that purpose. See "State Indebtedness – Authorized but Unissued Obligations Subject to Annual Appropriation" for a further discussion of the revenue bonds issued to fund the Historic Preservation Tax Credit Fund.

The largest source of revised FY 2013 general revenues is the personal income tax, with estimated receipts of $1.079 billion. The revised estimate for personal income tax receipts are $2.3 million less than the enacted FY 2013 level or -0.2 percent. Personal income taxes are expected to comprise 32.4 percent of total general revenues in FY 2013. Relative to audited FY 2012 collections, the Revised FY 2013 revenue estimate for personal income taxes are $18.1 million more, yielding a growth rate of 1.7 percent. The revised FY 2013 revenue estimate for personal income taxes has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against personal income taxes. Through January 2013, these redemptions totaled $2.3 million.

Sales and use tax collections are estimated to total $879.4 million in the revised FY 2013 revenue estimates. The revised estimate for sales and use tax collections is $7.3 million less than the enacted FY 2013 estimate. This is a growth rate of -0.8 percent. The decline in estimated sales and use tax revenues is due to the delay in the licensing of compassion centers that were authorized to engage in the retail sale of medical marijuana and a decline in anticipated receipts. The General Assembly had passed legislation in the 2012 session that subjected the retail sale of medical marijuana to the sales and use tax. The revised FY 2013 estimate for sales and use taxes signifies positive growth of 3.3 percent over audited FY 2012 collections. Sales and Use Taxes are anticipated to contribute 26.4 percent to total general revenues in FY 2013.

Motor vehicle operator license and vehicle registration fees are estimated at $48.7 million in the revised FY 2013 revenue estimate. This is an increase of $941,350 from the FY 2013 enacted estimate, or 2.0 percent. Relative to audited FY 2012 collections, the revised FY 2013 estimate for motor vehicle licenses and fees is 0.6 percent more and is projected to comprise 1.5 percent of all general revenues in FY 2013.

Motor carrier fuel use taxes are projected at $1.0 million for FY 2013, which is $267,328, more than audited FY 2012 collections. Compared to the enacted estimate for FY 2013, the revised FY 2013 estimate for motor carrier fuel use taxes is $100,000 less.

Cigarette taxes, which include excise taxes on cigarettes and ad valorem taxes on other tobacco products such as pipe tobacco, cigars, and the like, are estimated to total $137.7 million in FY 2013. The revised FY 2013 estimate is a decrease of $353,896 from the enacted FY 2013 level, or -0.3 percent. Compared to audited FY 2012 cigarettes tax revenues, the revised FY 2013 estimate is an increase of $6.6 million, or 5.0 percent.

Alcohol taxes are projected at $12.0 million for FY 2013, an increase of 1.1 percent from audited FY 2012 revenues. Relative to the FY 2013 enacted level, the FY 2013 revised estimate is a decrease of $200,000 or -1.6 percent.

General business taxes are projected to comprise 11.5 percent of total general revenues in FY 2013. Business corporations tax revenues are estimated at $135.9 million, an increase of $2.6 million from the FY 2013 enacted level. This is an increase of 2.0 percent. Business corporations tax revenues are estimated to be 10.4 percent, or $12.8 million, higher than audited FY 2012 revenues. Business corporations taxes are expected to constitute 4.1 percent of total general revenues in FY 2013. The revised FY 2013 business corporations tax estimate has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against business corporations taxes. Through January 2013, there have been no redemptions of historic structures tax credit certificates against business corporations taxes.

The health care provider assessment revised FY 2013 estimate is $42.3 million or $93,467 more than the enacted FY 2013 estimate. These estimates incorporate the fact that the assessment on residential facilities for the developmentally disabled has been discontinued for services provided after June 30, 2009. Compared to FY 2012 audited health care provider assessment revenues, the revised estimate represents an increase of 0.9 percent.

Insurance companies gross premiums taxes are estimated at a total of $91.9 million for FY 2013 as adopted at the November 2012 Revenue Estimating Conference and are forecasted to be $2.4 million greater than audited FY 2012 revenues. Relative to the enacted FY 2013 estimate the revised FY 2013 estimate is $2.1 million, or 2.3 percent, more. The revised FY 2013 insurance companies gross premiums tax estimate has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against insurance companies gross premiums taxes. Through January 2013, there have been no redemptions of historic structures tax credit certificates against insurance companies gross premiums taxes. Insurance companies gross premiums taxes are projected to comprise 2.8 percent of total general revenues in FY 2013.

The revised FY 2013 financial institution taxes estimate is $8.2 million. Financial institutions taxes represent 0.2 percent of total revised general revenues in FY 2013. The revised FY 2013 financial institutions taxes estimate is $6.5 million more than the FY 2013 enacted level. It should be noted that the increase in the revised FY 2013 estimate for financial institutions taxes is the result of a large infrequently occurring historic structures tax credit certificate being redeemed prior to the November 2012 REC. Relative to audited FY 2012 revenues, the revised FY 2013 estimate for financial institutions taxes are $4.6 million more. The financial institutions tax estimate has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against financial institutions taxes. Through January 2013, these redemptions totaled $5.1 million.

FY 2013 bank deposits taxes are projected to total $2.1 million, an increase of $99,355 over audited FY 2012 revenues. The revised FY 2013 estimate for bank deposits taxes is unchanged from its originally enacted level.

The revised FY 2013 public utilities gross earnings taxes estimate is projected at $104.0 million and comprises 3.1 percent of revised total general revenues in FY 2013. Compared to the enacted FY 2013 estimate public utilities gross earnings taxes are $3.9 million greater or 3.9 percent. The revised FY 2013 estimate represents an increase of 10.4 percent over audited FY 2012 public utilities gross earnings tax revenues.

Inheritance and gift taxes are estimated at $33.8 million in the revised FY 2013 adopted revenue estimate, which is a decrease of 3.8 percent, or $1.3 million, from the enacted FY 2013 estimate. At $33.8 million, the revised FY 2013 estimate for inheritance and gift taxes are expected to constitute 1.0 percent of revised total general revenues. The revised FY 2013 revenue estimate for inheritance and gift taxes is 27.2 percent less than audited FY 2012 revenues. This decrease in the revised FY 2013 estimate largely reflects the fact that in FY 2012 two unusually large estate tax payments were received. Although such payments have occurred in the past, their frequency is unpredictable. These estimates incorporate the increase in the state's estate tax exemption amount to $910,725 effective for decedents whose death occurs after December 31, 2012.

The revised FY 2013 revenue estimate for realty transfer taxes is projected at $6.5 million, which represents growth of 1.0 percent from audited FY 2012 levels. Compared to the FY 2013 enacted estimate realty transfer taxes are projected to increase by $600,000 or 10.2 percent.

Racing and athletics taxes are estimated at $1.2 million in revised FY 2013. Compared to the enacted FY 2013 estimate racing and athletics taxes is unchanged. The revised FY 2013 estimate represents a decline of $127,003, or -9.6 percent, from audited FY 2012 revenues. The revised FY 2013 estimate for racing and athletics taxes accounts for the fact that live greyhound racing is no longer being held at Twin River.

The total revised revenue estimate for all Other Taxes is 1.2 percent of revised total general revenues in FY 2013.

Revised FY 2013 departmental receipts are estimated to be $4.6 million more than the FY 2013 enacted estimate. Revised FY 2013 departmental receipts comprise 10.4 percent of estimated total general revenues in FY 2013. In the licenses and fees category of departmental receipts, $141.3 million is expected as a result of the hospital licensing fee being assessed at a rate of 5.350 percent of 2011 net patient revenues, "except that the license fee for all hospitals located in Washington County, Rhode Island shall be discounted 37.0 percent". Relative to audited FY 2012 departmental receipt revenues, the revised FY 2013 revenue estimate for departmental receipts yields a growth rate of 2.2 percent. Additionally, at the time of the November 2012 Revenue Estimating Conference the principals were under the impression that the Rhode Island Department of Administration's Regional Greenhouse Gas Initiative restricted receipt account was subject to the State's 10.0 percent indirect cost recovery surcharge. As of December 1, 2012, the State Budget Office determined that the administrative funding authorized under the Regional Greenhouse Gas Initiative legislation was exempt from the indirect cost recovery assessment.

The maximum revenues that can be used for administrative expenses is $300,000, so the maximum loss of indirect cost recoveries is $30,000.

The other sources component of total general revenues is estimated at $396.1 million in the revised FY 2013 estimate, a decrease of $2.3 million or 0.6 percent from the FY 2013 enacted estimate. The revised FY 2013 estimate for other sources is a decrease of 3.6 percent, or $14.8 million, compared to audited FY 2012 other sources revenues. Revised other sources revenues are expected to comprise 11.9 percent of total general revenues for FY 2013.

The revised FY 2013 revenue estimate for other miscellaneous revenues is $175,000 more than the enacted FY 2013 estimate and $15.5 million lower than the audited FY 2012 level. In FY 2012, other miscellaneous revenues included $4.7 million from Medicaid settlements received by the Department of Human Services, $4.8 million in general obligation bond closeouts, $3.3 million in tobacco settlements and a $3.5 million transfer from the Rhode Island Resource Recovery Corporation. These receipts are not expected to recur in FY 2013. Other miscellaneous revenues are projected at $4.6 million in revised FY 2013, amounting to 0.1 percent of FY 2013 total general revenues.

Within the gas tax transfer component, the revised FY 2013 revenue estimate reflects the fact that no portion of the State's $0.32 per gallon motor fuel tax is available for use as general revenue. Thus, the gas tax transfer is estimated at zero for revised FY 2013 just as it was for the enacted FY 2013 budget.

Within the lottery category, the revised FY 2013 revenue estimate of $386.7 million is $853,420, or 0.2 percent, less than the enacted FY 2013 estimate. The revised FY 2013 estimate incorporates the fact that the Rhode Island and Massachusetts lotteries can now sell MegaMillions and PowerBall tickets respectively. Prior to January 31, 2010, Rhode Island could only sell PowerBall tickets while Massachusetts could only sell MegaMillions tickets. The revised FY 2013 lottery transfer estimate is $9.0 million more than the audited FY 2012 transfer, an increase of 2.4 percent. The revised FY 2013 lottery transfer estimate comprises 11.6 percent of total general revenues.

The final category of general revenue receipts is the unclaimed property transfer. This transfer is expected to decrease by $1.6 million in revised FY 2013 vs. the enacted FY 2013 estimate. The revised FY 2013 estimate is a decrease of $8.3 million from the audited FY 2012 transfer. The revised FY 2013 revenue estimate for the unclaimed property transfer is projected to be $6.3 million and is expected to comprise 0.2 percent of FY 2013 total general revenues.

2012 Tax Amnesty Program

The revised FY 2013 revenue estimates adopted at the November 2012 Revenue Estimating Conference included unspecified revenues from the 2012 Tax Amnesty Act. This act provided for a tax amnesty on overdue taxes that were incurred prior to January 1, 2012. The tax amnesty period was from September 1, 2012 through November 15, 2012. The purpose of the tax amnesty was to provide delinquent taxpayers the opportunity to pay taxes that may have become overdue as a result of the Great Recession. Under the tax amnesty program, taxpayers with overdue taxes paid said taxes without penalty and with a reduction in interest owed of 25.0 percent (effectively lowering the interest rate on overdue taxes owed to the State from 18.0 percent to 13.5 percent). The enacted FY 2013 budget included specific estimates of the revenue expected from the tax amnesty. The table below displays the enacted FY 2013 tax amnesty revenue estimates and the actual revenues received under the 2012 Tax Amnesty.

2012 Tax Amnesty Revenues		
Revenue Source	FY 2013 Enacted Estimate	FY 2013 Actual Revenues
Personal Income Taxes	$ 3,012,820	$ 6,110,001
Business Corporations Taxes	351,412	1,553,317
Public Utilities Gross Earnings Taxes	No Estimate	5,161,691
Financial Institutions Taxes	No Estimate	128,747
Insurance Companies Gross Premiums Taxes	25,327	200,055
Health Care Provider Assessments	6,533	19,873
Sales and Use Taxes	4,422,820	2,996,775
Motor vehicle operator license and vehicle registration fees	No Estimate	24,155
Motor Carrier Fuel Use Taxes	No Estimate	5,550
Cigarette and Other Tobacco Product Taxes	No Estimate	67,109
Inheritance and gift taxes	248,959	432,873
Departmental Receipts*	2,874,390	5,583,367
Total	**$ 10,942,261**	**$ 22,283,513**

* The departmental receipts enacted FY 2013 estimate includes $2,827,042 of interest owed on overdue taxes while FY 2013 actual revenues includes $5,389,345 in interest owed on overdue taxes.

Governor's Proposed FY 2013 Revenue Changes

The Governor's FY 2013 Supplemental Budget recommends total general revenues of $3.331 billion, an increase of 1.8 percent from final audited FY 2012 total general revenues. The Governor's FY 2013 recommendation is comprised of the $3.328 billion of revenue estimated at the November 2012 Revenue Estimating Conference and $2.8 million of proposed revenue changes. The Governor's FY 2013 Supplemental Budget anticipates receipts of $4.4 million in overdue payments for the FY 2012 Hospital Licensing Fee and a decrease of $1.6 million for administrative and staffing expenses associated with the operation of table games at Twin River.

FY 2014 Estimated Revenues

The November 2012 Revenue Estimating Conference estimates FY 2014 general revenues of $3.288 billion, a decrease of 1.2 percent from the revised FY 2013 level of $3.328 billion. The estimated FY 2014 revenues do not include collections attributable to the Hospital Licensing Fee. This fee is renewed on a year-to-year basis and has been extended each year since its inception. The estimators, however, must estimate revenues consistent with current law under which no fee is enacted for FY 2014. All references to FY 2014 total general revenues do not include the value of the Hospital Licensing Fee which is estimated at $141.3 million in revised FY 2013. The FY 2014 revenue estimate assumes the State regains tax revenues in FY 2014 formerly lost from several taxes due to the historic structures tax credit, which will now be paid from proceeds from revenue bonds that were issued by the Economic Development Corporation for that purpose.

The largest source of estimated FY 2014 general revenues is the personal income tax, with estimated receipts of $1.129 billion, $50.4 million more, or 4.7 percent greater, than the revised estimate for FY 2013. Personal income taxes are expected to comprise 34.3 percent of total general revenues in FY 2014. The estimated FY 2014 personal income taxes estimate has been grossed up to reflect the reimbursement of the State from proceeds of Economic Development Corporation Revenue Bonds for historic structures tax credit certificates that are expected to be redeemed against personal income taxes.

Sales and use tax revenues are estimated at a total of $904.1 million in FY 2014. The FY 2014 estimate yields growth of 2.8 percent over the revised FY 2013 sales and use tax estimate. Sales and use taxes are anticipated to contribute 27.5 percent to total general revenues in FY 2013.

Motor vehicle operator license and vehicle registration fees are estimated to equal $48.7 million in FY 2014. Relative to the revised FY 2013 estimate, the FY 2014 estimate for motor vehicle licenses and fees is unchanged. Motor carrier fuel use taxes are estimated at $1.0 million in FY 2014, the same level as was estimated for revised FY 2013.

The cigarettes tax component is estimated at $137.4 million in FY 2014, a decrease of $300,000, or 0.2 percent from the revised FY 2013 level. Cigarettes tax revenues are expected to comprise 4.2 percent of estimated total general revenues in FY 2014.

Alcohol excise taxes are estimated at $12.2 million for FY 2014, an increase of $200,000, or 1.7 percent over the revised FY 2013 estimate. Alcohol excise tax revenues are projected to make up 0.4 percent of total estimated general revenues in FY 2014.

General business taxes are estimated to be $388.6 million in FY 2014 and represent 11.8 percent of total general revenues in the FY 2014 revenue estimate. Business corporations tax revenues are estimated to yield $140.4 million in FY 2014, an increase of $4.5 million or 3.3 percent over the revised FY 2013 estimate. Business corporations tax revenues are expected to constitute 4.3 percent of total estimated general revenues in FY 2014. The FY 2014 business corporations tax revenue estimate has been grossed up to reflect the reimbursement of the State from proceeds of Economic Development Corporation Revenue Bonds for historic structures tax credit certificates that are expected to be redeemed against business corporations taxes.

The FY 2014 health care provider assessment estimate is $43.5 million, which is $1.2 million higher than the level contained in the revised FY 2013 estimate. This is an increase of 2.8 percent. The health care provider assessment is anticipated to comprise 1.3 percent of estimated FY 2014 general revenues.

Insurance companies gross premiums tax revenues are estimated at a total of $97.0 million in FY 2014. Insurance companies gross premiums tax revenues are expected to be 5.5 percent higher than the revised FY 2013 estimate. They will comprise 3.0 percent of total estimated general revenues in FY 2014. The FY 2014 insurance companies gross premiums tax revenue estimate has been grossed up to reflect the reimbursement of the State from proceeds of Economic Development Corporation Revenue Bonds for historic structures tax credit certificates that are expected to be redeemed against insurance companies gross premiums taxes.

FY 2014 financial institution tax revenues are estimated at $3.1 million, $5.1 million less than the revised FY 2013 estimate. It should be noted that the decrease in the FY 2014 estimate from the revised FY 2013 level is a result of an infrequently occurring large historic structures tax credit certificate redemption which occurred in FY 2013 but is not expected to reoccur in FY 2014. At a total of $3.1 million, financial institutions tax revenues represent 0.1 percent of total estimated general revenues in FY 2014. The FY 2014 financial institutions tax revenue estimate has been grossed up to reflect the reimbursement of the State from the proceeds of Economic Development Corporation Revenue Bonds for a more usual level of historic structures tax credit certificates that are expected to be redeemed against financial institutions taxes.

FY 2014 bank deposits tax revenues are estimated at $100,000 more or 4.8 percent higher, than the revised FY 2013 estimate. A total of $2.2 million is estimated for FY 2014, and bank deposits tax revenues are expected to comprise 0.1 percent of total estimated FY 2014 general revenues.

The estimated FY 2014 public utilities gross earnings tax revenues are $1.6 million less than the revised FY 2013 general revenue estimates. The estimated FY 2014 public utilities gross earnings tax revenues are $102.4 million and comprise 3.1 percent of total estimated general revenues in FY 2014. The FY 2014 public utilities gross earnings tax revenue estimate has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for historic structures tax credit certificates that are expected to be redeemed against financial institutions taxes.

The estimated total of all other taxes is 1.3 percent of total estimated general revenues in FY 2014. Inheritance and gift tax revenues are estimated at $35.4 million for FY 2014. This revenue estimate includes four full year's worth of the increase in the exemption amount above which an estate becomes subject to Rhode Island's estate tax. The estimated revenue loss from this change in the estate tax exemption amount is approximately $1.7 million in FY 2014. The FY 2014 inheritance and gift taxes are expected to constitute 1.1 percent of total estimated general revenues. The FY 2014 estimate for inheritance and gift taxes is 4.7 percent, or $1.6 million, more than the revised FY 2013 estimate.

FY 2014 realty transfer tax revenues are estimated at $6.7 million, which is $200,000 higher, than the revised FY 2013 estimate. Thus, estimated realty transfer tax revenues are estimated to comprise 0.2 percent of estimated total general revenues in FY 2014. Racing and athletics tax revenues are estimated for FY 2014 at $100,000 below the level contained in the revised FY 2013 estimate. This estimate represents a decline of 8.3 percent, from revised FY 2013 levels. Racing and athletics tax revenues estimated for FY 2014 are $1.1 million.

FY 2014 departmental receipts are expected to generate $140.7 million less than the revised FY 2013 level adopted at the November 2012 Revenue Estimating Conference. Relative to revised FY 2013 departmental receipt levels, the FY 2014 estimate of departmental receipts yields a growth rate of -40.5 percent. This difference is more than accounted for by the fact that the FY 2014 estimate for departmental receipts does not include the Hospital Licensing Fee which is estimated to generate $141.3 million in revised FY 2013. The Revenue Estimating Conference does not estimate the Hospital Licensing Fee because it is authorized annually by the General Assembly and therefore is not considered current law beyond the single year for which it is authorized. FY 2014 departmental receipts represent 6.3 percent of total estimated general revenues in FY 2014. Additionally, at the time of the November 2012 Revenue Estimating Conference the principals were believed that the Rhode Island Department of Administration's Regional Greenhouse Gas Initiative restricted receipt account was subject to the State's 10.0 percent indirect cost recovery surcharge. As of December 1, 2012 the Rhode Island State Budget Office was informed that the Regional Greenhouse Gas Initiative restricted receipt account was statutorily exempt form the State's 10.0 percent indirect cost recovery surcharge. During the May 2013 Revenue Estimating Conference it is anticipated the principals will revise the FY 2014 estimate as a result of this new information.

The other sources component of general revenues is estimated to total $417.1 million in FY 2014, an increase of 4.9 percent, or $19.5 million, compared to the revised FY 2013 other sources estimate. FY 2014 other sources estimated revenues are expected to comprise 12.7 percent of total estimated FY 2014 general revenues.

The November 2012 Revenue Estimating Conference's adopted FY 2014 estimate for other miscellaneous revenues is $2.2 million lower than the revised FY 2013 level, a decrease of 47.3 percent. In FY 2013, other miscellaneous revenues included $1.8 million in a grant from Neighborhood Health Plan for adult dental care. This one time receipt does not recur in FY 2014. Other miscellaneous revenues are estimated at $2.4 million in FY 2014, amounting to 0.1 percent of all general revenues.

Due to the fact that the general fund no longer receives an allocation of gas tax revenue from the Intermodal Surface Transportation Fund (ISTF), the gas tax transfer component of total general revenues is zero in FY 2014 just as it was in revised FY 2013. Since FY 2010, all of the revenue generated from the state's $0.32 per gallon motor fuel tax now remains with the ISTF and is reserved for transportation purposes.

In FY 2014, the lottery transfer is estimated to be $405.1 million and comprise 12.3 percent of total estimated general revenues for FY 2014. The FY 2014 lottery transfer estimate is $18.4 million greater than the revised FY 2013 estimated lottery transfer, an increase of 4.8 percent. The FY 2014 estimate incorporates the 24 hour-seven day a week operations at the state's video lottery terminal operation located at Twin River and the cross selling of MegaMillions and PowerBall on-line games in the states of Rhode Island and Massachusetts. Additionally, the estimated FY 2014 revenues include $10.8 million from the operation of table games at Twin River. During the November 2012 general election, the voters of the State of Rhode Island and of the Town of Lincoln approved the operation of table games at Twin River. The estimates adopted at the November 2012 REC incorporate this change within the components of lottery revenue. As a result of the operation of table games at Twin River, the Town of Lincoln's share of the net terminal income derived from the operation of video lottery terminals at Twin River will permanently increase from 1.26 percent to 1.45 percent. Additionally, the State's share of gross table game revenue at Twin River will be 18.0 percent for FY 2014. Finally, it should be noted that the estimated FY 2014 table games revenues transfer to the State is gross revenues, and under current law, the transfer to the State occurs after the expense to implement, regulate, and monitor table games by the Division of Lottery is deducted from the State's share of gross table game revenues. These expenses are specified in the Governor's FY 2014 budget submission and will reduce the State's share of gross table game revenues estimated at the November 2012 REC.

The final category of general revenues is the unclaimed property transfer. In FY 2014, this transfer is estimated at an amount of $9.6 million, an increase of $3.3 million, or 52.4 percent, from the revised FY 2013 transfer. The unclaimed property transfer is expected to comprise 0.3 percent of all estimated FY 2014 total general revenues.

FY 2014 Proposed Revenues

The Governor's recommended FY 2014 budget estimates general revenues of $3.426 billion, an increase of 2.9 percent from the revised FY 2013 level. The Governor's FY 2014 recommended revenues is comprised of $3.288 billion of revenue estimated at the November 2012 Revenue Estimating Conference and $138.3 million of changes to the adopted FY 2014 estimates.

The largest source of FY 2014 general revenues is the personal income tax, with estimated receipts of $1.131 billion, $1.8 million more than the November 2012 REC adopted estimate for FY 2014 or growth of 4.8 percent from the revised FY 2013 amount. The $1.8 million revenue increase is the result of the Governor's recommendation for the administration of a special tax investigation unit located in the Division of Taxation. The FY 2014 budget projects increased revenue collections of $1.0 million from the tax investigation unit through the process of more efficiently and effectively identifying, monitoring, and quantifying tax fraud and related compliance activity for the personal income tax. The Governor also proposes to allow the Division of Taxation to hire out of state collection agencies to more effectively collect debts from non-resident individuals and business. According to the Division of Taxation, there are currently 11,554 non-resident individuals owing the state over $28.89 million. The FY 2014 budget projects increase revenue collections of $750,000 to reflect increased revenues from this initiative.

General Business taxes are projected to comprise 11.2 percent of total general revenues in the FY 2014 Budget. Business corporations tax revenues are expected to yield $135.1 million, a decrease of $5.3 million from the FY 2014 estimate adopted at the November 2012 REC. This decrease is partially attributable to the Governor's recommendation to reduce the state's corporate tax from 9.0 percent to 7.0 percent over a three year period beginning January 1, 2014. The proposed three year reduction in the business corporations tax rate is as follows:

- Effective January 1, 2014 the business corporations tax rate will decrease from 9.0 percent to 8.0 percent.
- Effective January 1, 2015 the business corporations tax rate will decrease from 8.0 percent to 7.5 percent.
- Effective January 1, 2016 the business corporations tax rate will decrease from 7.5 percent to 7.0 percent.

The FY 2014 budget estimates decreased revenues of $8.0 million in FY 2014 as a result of the rate reduction with greater reductions in revenue estimated for the FY 2015 to FY 2018 period.

The Governor's FY 2014 recommended budget also proposes to reduce the value of the Jobs Development Act (JDA) business corporations tax rate reduction. For tax years beginning on or after January 1, 2014 and before January 1, 2015 the total tax benefit a qualified company receives from the JDA will be reduced by 25.0 percent. For tax years beginning on or after January 1, 2015 and thereafter the tax benefit a qualified company receives from the JDA shall be reduced by 50.0 percent. The calculation of the total tax benefit a qualified company earns under the JDA will be based on the business corporations tax rate that was in effect for tax years beginning on or prior to December 31, 2013. The FY 2014 recommended budget estimates additional revenue of $2.4 million from the JDA tax rate reduction phase-down in FY 2014 with greater additional revenues realized in the FY 2015 to FY 2018 period. Additionally, the Governor recommends the sunset of Rhode Island General Law Chapter 42-64.3 titled "Distressed Areas Economic Revitalization Act" for tax years beginning on or after January 1, 2014. It is anticipated that revenues will increase by $309,380 as a result of the sunset legislation in FY 2014 with larger increases in revenue in the FY 2015 to FY 2018 period. The estimated growth rate in business corporations taxes over the FY 2013 revised level is -0.6 percent.

Insurance companies gross premiums taxes are projected to reach $96.8 million in FY 2014, a decrease of $177,932 from the FY 2014 estimate adopted at the November 2012 REC. This decrease is the result of a decrease in the premiums paid to insurance providers under the State's Medicaid managed care program. The recommended growth rate in FY 2014 insurance companies gross premiums tax revenues over the FY 2013 revised estimate is 5.4 percent.

FY 2014 recommended revenues for the public utilities gross earnings tax, the financial institutions tax, and the bank deposits tax are at the same levels as were adopted at the November 2012 REC. The FY 2014 recommended growth rate for public utilities gross earnings tax revenues relative to the FY 2013 revised estimates is -1.5 percent. For financial institution tax revenues the recommend growth rate for FY 2014 relative to FY 2013 revised estimate is -62.2 percent. Bank deposit tax revenues are expected to grow by 4.8 percent in the FY 2014 recommended budget from the revised FY 2013 estimate.

The health care provider assessment on nursing homes is forecasted to yield $43.1 million, a decrease of $430,279 from the estimate that was adopted at the November 2012 REC. This decrease is attributed to the estimated decline in revenues from the Governor's proposal to suspend the cost of living adjustment that nursing home providers are scheduled to receive on October 1, 2013. The cost of living adjustment applies to payments made by the State on behalf of Medicaid beneficiaries. The recommended growth rate in FY 2014 health care provider assessment revenues over the FY 2013 revised estimate is 1.8 percent.

Sales and use tax collections are expected to yield $904.3 million in FY 2014, $200,000 more than was adopted at the November 2012 Revenue Estimating Conference for FY 2014. This increase is attributable to the Governor's recommendation for a special tax investigation unit within the Division of Taxation. The FY 2014 budget projects increased revenues of $200,000 from this proposal. Sales and use taxes are anticipated to contribute 26.4 percent to total general revenues in FY 2014.

Motor vehicle operator license and vehicle registration fees are forecasted to equal $48.7 million in FY 2014, the same amount that was adopted at the November 2012 REC. Motor Fuel tax revenues are projected to be $1.0 million, the same as the estimate adopted at the November 2012 Revenue Estimating Conference. Cigarette and other tobacco products tax revenues and alcohol excise tax revenues are expected to total $137.4 million and $12.2 million, the same amounts that were adopted at the November 2012 REC. The respective growth rates over the revised FY 2013 estimate for cigarette and other tobacco product taxes is -0.2 percent. Alcohol excise tax revenues are anticipated to increase by 1.7 percent over the FY 2013 revised estimate.

Inheritance and gift tax, racing and athletics tax, and realty transfer tax revenues are all equal in the FY 2014 recommended budget to the FY 2014 amounts adopted at the November 2012 REC. Inheritance and gift tax revenues are estimated at $35.4 million, racing and athletics tax revenues are expected to total $1.1 million, and realty transfer tax revenues are estimated to generate $6.7 million in FY 2014. Other taxes are recommended to comprise 1.3 percent of total general revenues in FY 2014.

FY 2014 departmental receipts are recommended to generate $1.4 million less than the revised FY 2013 estimate. Inclusive of the Governor's proposed changes to departmental receipts, total departmental receipts are recommended to be $353.3 million in FY 2014, or 10.3 percent of total general revenues. The FY 2014 recommended departmental revenues figure includes the following proposals:

- An increase of $141.3 million from reinstituting the hospital licensing fee at 5.350 percent of 2011 net patient revenues, "except that the license fee for all hospitals located in Washington County, Rhode Island shall be discounted 37.0 percent";
- An increase of $5.6 million from anticipated receipts in overdue payments for the FY 2012 Hospital Licensing Fee;
- A decrease of $384,575 from the elimination of the Rhode Island Department of Labor and Training's hazardous substance right to know fee;
- An increase of $40,000 in interest paid on overdue taxes from the creation of a special tax investigation unit;
- An increase of $10,000 in penalties paid on overdue taxes from the creation of a special tax investigation unit;

The FY 2014 recommended revenues for the other sources component totals $412.8 million, an increase of $16.8 million, or 4.2 percent, compared to the revised revenue estimate for FY 2013. The FY 2014 recommended other sources revenues are $4.3 million less than the FY 2014 estimate adopted at the November 2012 REC, a decrease of 1.0 percent.

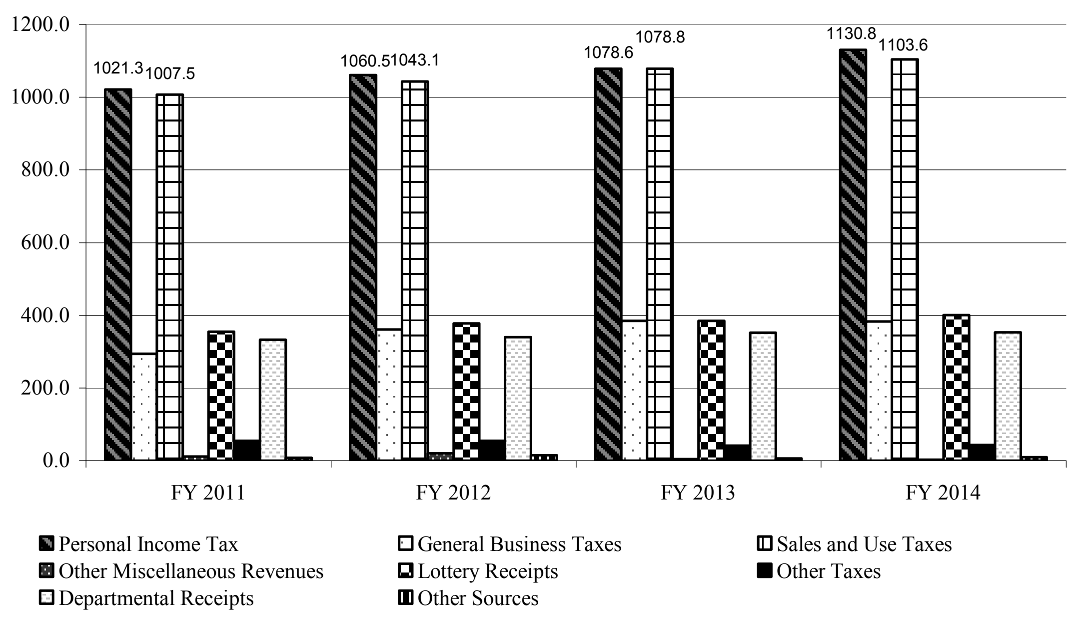
Due to the fact that the general fund no longer receives an allocation of gas tax revenue from the Intermodal Surface Transportation Fund (ISTF), the gas tax transfer component of total general revenues is zero in the recommended FY 2014 budget just as it was in revised FY 2013. Since FY 2010, all of the revenue generated from the state's $0.32 per gallon motor fuel tax now remains with the ISTF and is reserved for transportation purposes.

Other miscellaneous revenues are recommended to generate $2.4 million in FY 2014 the same level adopted at the November 2012 Revenue Estimating Conference and $2.2 million less than the FY 2013 revised estimate. In FY 2014, the unclaimed property transfer is expected to increase by $3.3 million, or 52.4 percent, from the revised FY 2013 estimate. The unclaimed property transfer is projected to be $9.6 million in FY 2014, and comprises 0.3 percent of all general revenues. The recommended FY 2014 unclaimed property transfer is at the same level as was adopted for FY 2014 at the November 2012 Revenue Estimating Conference.

The recommended FY 2014 lottery transfer is $15.7 million more than it is for the revised FY 2013 budget, an increase of 4.1 percent. The recommended FY 2014 estimate is, however, $4.3 million lower than the FY 2014 estimate adopted at the November 2012 REC. This decrease is to account for the administrative and operating expenses incurred by the Division of Lottery to execute its responsibilities with regard to the operation of table games at Twin River. By law, the Division of Lottery's operating expenditures related to table games are netted against gross receipts generated from the table games at Twin River prior to the State's share of table game revenues being transferred to the general fund. In FY 2014, the lottery transfer is recommended to be $400.8 million and comprise 11.7 percent of total general revenues.

The following chart shows the sources of general revenues for the period FY 2011 – FY 2014. The values of the two major sources of general revenues, the personal income tax and the sales and use tax, are highlighted. The general revenue amounts reflected in the chart for FY 2011 and FY 2012 are derived from the State's Comprehensive Annual Financial Reports prepared by the State Controller and post audited by the Auditor General. The general revenue amounts reflected FY 2013 and FY 2014 are those recommended by the Governor.

General Revenue Sources ($ millions)



COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES

The following tables set forth comparative summaries for all State General Revenues for fiscal years 2011 through 2014 and expenditures for the fiscal years 2011 through 2014. General Fund data on expenditures for FY 2011 and FY 2012 are derived from the State's Comprehensive Annual Financial Reports prepared by the State Controller and post audited by the Auditor General. Expenditures for the Original Enacted FY 2013 Budget reflect the budget enacted by the General Assembly in June 2012. Expenditures for Revised FY 2013 Budget reflect the supplemental budget submitted to the General Assembly on January 16, 2013. The expenditures for FY 2014 reflect those contained in the FY 2014 Budget submitted by the Governor to the General Assembly on January 16, 2013. In addition, expenditures include other sources of funds outside the General Fund that are appropriated for budgetary purposes. These include all expenditures shown from other fund sources, as well as certain expenditures from Federal and Restricted sources.

General Fund revenues for FY 2011 and FY 2012 reflect the audited actual revenues as reported by the State Controller. FY 2013 Original Enacted revenues reflect those estimated at the May 2012 Revenue Estimating Conference adjusted by changes enacted by the 2012 General Assembly in the FY 2013 Budget. FY 2013 Revised reflects the November 2012 Revenue Estimating Conference revenues, as amended by the Governor in the FY 2013 supplemental budget. The FY 2014 revenues reflect those adopted by the Conferees at the November 2012 Revenue Estimating Conference and any statutory changes requested by the Governor as part of his FY 2014 Budget proposal. These estimates are explained under the section above entitled *Revenue Estimates* and the subheading below entitled *Free Surplus*.

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General Revenues as Recommended

		FY 2011 Audited		FY 2012 Audited		FY 2013 Enacted		FY 2013 Governor Rec.		FY 2014 Governor Rec.
Personal Income Tax	$	1,021,338,869	$	1,060,481,684	$	1,080,856,603	$	1,078,600,000	$	1,130,750,000
General Business Taxes										
Business Corporations		84,510,308		123,054,377		133,251,413		135,900,000		135,120,004
Public Utilities Gross Earnings		103,743,912		100,631,477		100,100,000		104,000,000		102,400,000
Financial Institutions		2,459,474		3,557,938		1,700,000		8,200,000		3,100,000
Insurance Companies		60,590,000		89,487,511		89,825,327		91,900,000		96,822,068
Bank Deposits		1,967,288		2,000,645		2,100,000		2,100,000		2,200,000
Health Care Provider Assessment		40,760,872		41,922,464		42,206,533		42,300,000		43,069,721
Sales and Use Taxes										
Sales and Use		813,007,301		851,055,730		886,720,059		879,400,000		904,300,000
Motor Vehicle		47,654,534		48,391,564		47,758,650		48,700,000		48,700,000
Motor Fuel		1,054,939		732,672		1,100,000		1,000,000		1,000,000
Cigarettes		134,060,439		131,085,912		138,053,896		137,700,000		137,400,000
Alcohol		11,683,059		11,873,646		12,200,000		12,000,000		12,200,000
Other Taxes										
Inheritance and Gift		46,855,153		46,411,738		35,148,959		33,800,000		35,400,000
Racing and Athletics		1,325,193		1,327,003		1,200,000		1,200,000		1,100,000
Realty Transfer		6,370,632		6,434,665		5,900,000		6,500,000		6,700,000
Total Taxes	**$**	**2,377,381,974**	**$**	**2,518,449,026**	**$**	**2,578,121,440**	**$**	**2,583,300,000**	**$**	**2,660,261,793**
Departmental Receipts	$	332,714,668	$	339,895,284	$	342,873,883	$	351,935,000	$	353,292,687
Taxes and Departmentals	**$**	**2,710,096,641**	**$**	**2,858,344,310**	**$**	**2,920,995,323**	**$**	**2,935,235,000**	**$**	**3,013,554,480**
Other Sources										
Gas Tax Transfer	$	-	$	-	$	-	$	-	$	-
Other Miscellaneous		11,116,047		20,110,214		4,440,000		4,615,000		2,430,000
Lottery		354,860,987		377,706,394		387,553,420		385,100,000		400,800,000
Unclaimed Property		7,640,462		14,555,573		7,900,000		6,300,000		9,600,000
Other Sources	**$**	**373,617,496**	**$**	**412,372,181**	**$**	**399,893,420**	**$**	**396,015,000**	**$**	**412,830,000**
Total General Revenues	**$**	**3,083,714,137**	**$**	**3,270,716,491**	**$**	**3,320,888,743**	**$**	**3,331,250,000**	**$**	**3,426,384,480**

The audited revenues displayed above reflect gross receipts, including reimbursement of tax credits issued through the Historical Structures Tax credit program. The state's consolidated financial report reflects the reimbursement as a transfer from other funds, rather than within each tax scource.

FY 2013 Changes to Adopted

	Enacted	Nov. 2012 REC	Difference Nov. 2012 Rec vs. Governor Rec.	Governor Recommend
Personal Income Tax	$ 1,080,856,603	$ 1,078,600,000	$ -	$ 1,078,600,000
General Business Taxes				
Business Corporations	133,251,413	135,900,000	-	135,900,000
Public Utilities Gross Earnings	100,100,000	104,000,000	-	104,000,000
Financial Institutions	1,700,000	8,200,000	-	8,200,000
Insurance Companies	89,825,327	91,900,000	-	91,900,000
Bank Deposits	2,100,000	2,100,000	-	2,100,000
Health Care Provider Assessment	42,206,533	42,300,000	-	42,300,000
Sales and Use Taxes				
Sales and Use	886,720,059	879,400,000	-	879,400,000
Motor Vehicle	47,758,650	48,700,000	-	48,700,000
Motor Fuel	1,100,000	1,000,000	-	1,000,000
Cigarettes	138,053,896	137,700,000	-	137,700,000
Alcohol	12,200,000	12,000,000	-	12,000,000
Other Taxes				
Inheritance and Gift	35,148,959	33,800,000	-	33,800,000
Racing and Athletics	1,200,000	1,200,000	-	1,200,000
Realty Transfer	5,900,000	6,500,000	-	6,500,000
Total Taxes	**$ 2,578,121,440**	**$ 2,583,300,000**	**$ -**	**$ 2,583,300,000**
Departmental Receipts	$ 342,873,883	$ 347,500,000	4,435,000	$ 351,935,000
Taxes and Departmentals	**$ 2,920,995,323**	**$ 2,930,800,000**	**$ 4,435,000**	**$ 2,935,235,000**
Other Sources				
Gas Tax Transfer	$ -	$ -	$ -	$ -
Other Miscellaneous	4,440,000	4,615,000	-	4,615,000
Lottery	387,553,420	386,700,000	(1,600,000)	385,100,000
Unclaimed Property	7,900,000	6,300,000	-	6,300,000
Other Sources	**$ 399,893,420**	**$ 397,615,000**	**$ (1,600,000)**	**$ 396,015,000**
Total General Revenues	**$ 3,320,888,743**	**$ 3,328,415,000**	**$ 2,835,000**	**$ 3,331,250,000**

FY 2014 Changes to Adopted Estimates

		November 2012 Rev Est Conf		Difference Nov. 2012 Rec vs. Governor Rec.		Governor Recommend	% Diff. Governor Rec. vs. Revised FY 2013
Personal Income Tax	$	1,129,000,000	$	1,750,000	$	1,130,750,000	4.8%
General Business Taxes							
Business Corporations		140,400,000		(5,279,996)		135,120,004	-0.6%
Public Utilities Gross Earnings		102,400,000		-		102,400,000	-1.5%
Financial Institutions		3,100,000		-		3,100,000	-62.2%
Insurance Companies		97,000,000		(177,932)		96,822,068	5.4%
Bank Deposits		2,200,000		-		2,200,000	4.8%
Health Care Provider Assessment		43,500,000		(430,279)		43,069,721	1.8%
Sales and Use Taxes							
Sales and Use		904,100,000		200,000		904,300,000	2.8%
Motor Vehicle		48,700,000		-		48,700,000	0.0%
Motor Fuel		1,000,000		-		1,000,000	0.0%
Cigarettes		137,400,000		-		137,400,000	-0.2%
Alcohol		12,200,000		-		12,200,000	1.7%
Other Taxes							
Inheritance and Gift		35,400,000		-		35,400,000	4.7%
Racing and Athletics		1,100,000		-		1,100,000	-8.3%
Realty Transfer		6,700,000		-		6,700,000	3.1%
Total Taxes	**$**	**2,664,200,000**	**$**	**(3,938,207)**	**$**	**2,660,261,793**	**3.0%**
Departmental Receipts	$	206,800,000	$	146,492,687	$	353,292,687	0.4%
Taxes and Departmentals	**$**	**2,871,000,000**	**$**	**142,554,480**	**$**	**3,013,554,480**	**2.7%**
Other Sources							
Gas Tax Transfer	$	-	$	-	$	-	n/a
Other Miscellaneous		2,430,000		-		2,430,000	-47.3%
Lottery		405,100,000		(4,300,000)		400,800,000	4.1%
Unclaimed Property		9,600,000		-		9,600,000	52.4%
Other Sources	**$**	**417,130,000**	**$**	**(4,300,000)**	**$**	**412,830,000**	**4.2%**
Total General Revenues	**$**	**3,288,130,000**	**$**	**138,254,480**	**$**	**3,426,384,480**	**2.9%**

Expenditures from All Funds

	FY 2011 Actual	FY 2012 Actual	FY 2013 Enacted	FY 2013 Revised	FY 2014 Recommend
General Government					
Administration (1)	$466,222,500	$390,215,975	$389,897,691	$423,479,986	$425,792,843
Business Regulation	9,861,334	12,591,226	13,977,309	14,593,793	13,189,880
Labor and Training	912,521,599	801,847,664	661,604,139	641,586,167	530,600,966
Revenue	268,488,387	345,151,114	333,502,288	344,075,696	361,409,239
Legislature	34,703,108	35,327,139	38,844,218	41,913,816	38,591,548
Lieutenant Governor	890,413	1,068,715	1,092,692	1,089,750	1,125,998
Secretary of State	6,995,441	6,742,224	7,418,107	7,377,488	7,047,764
General Treasurer	28,031,615	39,706,808	37,571,560	45,151,118	35,060,485
Board of Elections	3,400,118	1,660,728	1,952,116	1,921,823	1,739,361
Rhode Island Ethics Commission	1,419,805	1,410,813	1,557,881	1,550,853	1,577,204
Governor's Office	4,701,867	4,648,355	26,581,535	4,400,907	4,493,513
Commission for Human Rights	1,355,743	1,408,199	1,463,760	1,439,817	1,459,423
Public Utilities Commission	6,088,904	6,335,868	8,246,708	8,489,940	8,569,383
Subtotal - General Government	**$1,744,680,834**	**$1,648,114,828**	**$1,523,710,004**	**$1,537,071,154**	**$1,430,657,607**
Human Services					
Office of Health & Human Services (2)	6,284,050	17,098,684	1,752,372,084	1,722,447,966	1,860,362,098
Children, Youth, and Families	235,882,904	216,588,818	216,622,996	213,103,548	211,323,566
Health	119,439,070	104,085,328	119,522,083	126,751,846	121,073,049
Human Services (3)	2,198,054,450	2,206,209,396	650,256,012	666,639,875	676,354,681
Mental Health, Retardation, & Hospitals	450,952,134	428,033,264	445,671,144	431,620,878	444,536,354
Governor's Commission on Disabilities	514,758	597,971	751,439	834,468	1,455,336
Commission On Deaf and Hard of Hearing	358,036	377,005	390,251	381,701	471,609
Office of the Child Advocate	597,596	558,884	657,572	636,732	655,148
Office of the Mental Health Advocate	399,837	387,894	447,119	360,207	486,144
Subtotal - Human Services	**$3,012,482,835**	**$2,973,937,244**	**$3,186,690,700**	**$3,162,777,221**	**$3,316,717,985**
Education					
Elementary and Secondary	1,128,630,343	1,122,700,088	1,198,219,358	1,208,134,629	1,225,960,539
Higher Education - Board of Governors	955,434,665	1,025,536,228	1,031,676,319	1,036,976,342	1,058,235,101
RI Council on the Arts	3,454,128	2,760,124	3,408,107	3,907,496	2,765,495
RI Atomic Energy Commission	1,198,881	1,282,491	1,476,951	1,427,436	1,436,731
Higher Education Assistance Authority	23,672,444	24,036,466	27,722,149	27,043,979	26,963,735
Historical Preservation and Heritage Comm.	2,183,534	1,908,488	2,728,977	2,525,493	3,481,949
Public Telecommunications Authority	1,525,009	1,557,832	1,500,972	795,486	-
Subtotal - Education	**$2,116,099,004**	**$2,179,781,717**	**$2,266,732,833**	**$2,280,810,861**	**$2,318,843,550**

Expenditures from All Funds

	FY 2011 Actual	FY 2012 Actual	FY 2013 Enacted	FY 2013 Revised	FY 2014 Recommend
Public Safety					
Attorney General	23,618,630	24,597,317	30,009,938	29,471,427	30,389,101
Corrections	183,456,477	189,703,151	196,749,862	197,378,249	204,902,527
Judicial	97,166,263	100,907,796	104,248,298	106,246,433	107,811,121
Military Staff	36,424,255	36,046,730	42,450,127	59,502,738	44,831,893
Public Safety (4)	88,811,483	102,975,644	122,500,068	123,116,617	125,349,971
Office Of Public Defender	9,990,893	10,560,861	11,213,124	11,049,410	11,326,682
Subtotal - Public Safety	**$439,468,001**	**$464,791,499**	**$507,171,417**	**$526,764,874**	**$524,611,295**
Natural Resources					
Environmental Management	66,346,606	74,010,170	98,837,511	99,534,595	106,554,385
Coastal Resources Management Council	5,724,792	6,100,774	5,092,818	5,397,705	5,187,128
Water Resources Board (5)	1,335,870	-	-	-	-
Subtotal - Natural Resources	**$73,407,268**	**$80,110,944**	**$103,930,329**	**$104,932,300**	**$111,741,513**
Transportation					
Transportation	345,215,545	387,375,261	511,621,101	467,338,789	469,902,993
Subtotal - Transportation	**$345,215,545**	**$387,375,261**	**$511,621,101**	**$467,338,789**	**$469,902,993**
Total	**$7,731,353,487**	**$7,734,111,493**	**$8,099,856,384**	**$8,079,695,199**	**$8,172,474,943**

(1) In FY 2012 the Sheriffs program was moved to the Department of Public Safety

(2) In FY 2013, the Medicaid program was moved from the Department of Human Services to the Office of Health and Human Services.

(3) In FY 2012, the Department of Elderly Affairs was merged into the Department of Human Services as its own program.

(4) In FY 2012, the Sheriffs program was moved from the Department of Administration to the Department of Public Safety.

(5) In FY 2012, the Water Resources Board was merged into the Statewide Planning program in the Department of Administration.

Expenditures from General Revenues

	FY 2011 Actual	FY 2012 Actual	FY 2013 Enacted	FY 2013 Revised	FY 2014 Recommend
General Government					
Administration (1)	$331,624,886	$248,320,234	$272,514,956	$269,231,023	$271,455,828
Business Regulation	8,128,769	8,394,345	9,362,048	9,200,512	9,445,878
Labor and Training	6,902,869	7,553,602	7,859,170	8,828,901	9,839,061
Revenue	35,111,465	95,686,157	95,342,244	99,940,996	109,976,995
Legislature	33,127,794	33,685,084	37,217,044	40,388,233	36,986,933
Lieutenant Governor	890,413	948,391	962,955	958,311	986,890
Secretary of State	6,564,248	6,262,148	6,913,038	6,893,325	6,597,833
General Treasurer	2,240,286	2,531,859	2,542,115	2,582,801	2,354,692
Board of Elections	3,290,424	1,610,728	1,952,116	1,921,823	1,739,361
Rhode Island Ethics Commission	1,419,805	1,410,813	1,557,881	1,550,853	1,577,204
Governor's Office	4,102,488	4,081,232	4,418,290	4,400,907	4,493,513
Commission for Human Rights	1,214,438	1,093,206	1,137,768	1,133,129	1,150,785
Public Utilities Commission	-	-	-	-	-
Subtotal - General Government	**$434,617,885**	**$411,577,799**	**$441,779,625**	**$447,030,814**	**$456,604,973**
Human Services					
Office of Health & Human Services (2)	3,314,257	9,694,301	825,065,703	801,380,770	851,008,592
Children, Youth, and Families	156,123,293	154,375,838	152,586,452	151,997,086	152,926,991
Health	27,469,636	23,518,929	24,821,836	24,721,722	24,900,291
Human Services (3)	735,671,105	844,385,003	97,023,967	96,845,266	99,520,764
Mental Health, Retardation, & Hospitals	172,743,968	190,883,740	193,137,995	193,234,700	206,649,055
Governor's Commission on Disabilities	352,190	381,164	371,096	357,498	357,711
Commission On Deaf and Hard of Hearing	358,036	377,005	390,251	381,701	391,609
Office of the Child Advocate	550,911	512,165	611,469	590,664	615,151
Office of the Mental Health Advocate	399,837	387,894	447,119	360,207	486,144
Subtotal - Human Services	**$1,096,983,233**	**$1,224,516,039**	**$1,294,455,888**	**$1,269,869,614**	**$1,336,856,308**
Education					
Elementary and Secondary	846,144,623	860,936,950	935,364,061	930,213,401	964,639,970
Higher Education - Board of Governors	163,941,500	165,658,691	172,456,170	172,696,230	180,892,795
RI Council on the Arts	1,681,095	1,656,365	1,565,813	1,565,813	1,335,630
RI Atomic Energy Commission	858,629	875,412	876,213	866,750	861,710
Higher Education Assistance Authority	7,320,186	5,911,331	5,617,064	5,693,667	5,231,726
Historical Preservation and Heritage Comm.	1,294,878	1,253,696	1,361,801	1,265,417	1,332,510
Public Telecommunications Authority	929,325	928,421	799,077	795,486	0
Subtotal - Education	**$1,022,170,236**	**$1,037,220,866**	**$1,118,040,199**	**$1,113,096,764**	**$1,154,294,341**

Expenditures from General Revenues

	FY 2011 Actual	FY 2012 Actual	FY 2013 Enacted	FY 2013 Revised	FY 2014 Recommend
Public Safety					
Attorney General	20,763,515	22,161,393	23,076,324	22,987,371	23,656,979
Corrections	177,719,607	184,655,159	183,293,277	184,546,757	185,879,198
Judicial	84,300,614	87,723,958	89,249,996	87,871,436	91,881,359
Military Staff	3,755,543	3,491,202	3,548,775	3,541,075	4,636,684
Public Safety (4)	69,087,143	90,786,762	94,790,039	91,455,541	97,134,021
Office Of Public Defender	9,493,812	10,166,398	10,791,226	10,757,414	11,034,686
Subtotal - Public Safety	**$365,120,234**	**$398,984,872**	**$404,749,637**	**$401,159,594**	**$414,222,927**
Natural Resources					
Environmental Management	34,074,887	35,707,703	34,546,300	34,263,624	34,876,447
Coastal Resources Management Council	2,063,094	2,234,732	2,264,841	2,240,261	2,299,313
Water Resources Board (5)	1,123,928	0	-	-	-
Subtotal - Natural Resources	**$37,261,909**	**$37,942,435**	**$36,811,141**	**$36,503,885**	**$37,175,760**
Transportation					
Transportation	-	-	-	-	-
Subtotal - Transportation	-	-	-	-	-
Total	**$2,956,153,497**	**$3,110,242,011**	**$3,295,836,490**	**$3,267,660,671**	**$3,399,154,309**

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(3) In FY 2012, the Department of Elderly Affairs was merged into the Department of Human Services as its own program.

(4) In FY 2012, the Sheriffs program was moved from the Department of Administration to the Department of Public Safety.

(5) In FY 2012, the Water Resources Board was merged into the Statewide Planning program in the Department of Administration.

Expenditures from Federal Funds

	FY 2011 Actual	FY 2012 Actual	FY 2013 Enacted	FY 2013 Revised	FY 2014 Recommend
General Government					
Administration (1)	$64,251,529	$64,385,784	$25,578,747	$66,041,287	$53,606,544
Business Regulation	465,176	2,726,596	2,719,081	3,433,208	1,747,589
Labor and Training	234,108,321	205,099,595	111,743,981	94,713,891	39,784,891
Revenue	1,139,852	1,472,179	2,450,709	2,897,330	3,048,651
Legislature	-	-	-	-	-
Lieutenant Governor	-	120,324	129,737	131,439	139,108
Secretary of State	33,659	52,872	-	2,566	-
General Treasurer	1,140,258	1,199,276	1,159,712	1,099,497	1,130,422
Board of Elections	109,694	50,000	0	0	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	40,411	(1)	22,163,245	0	0
Commission for Human Rights	141,305	314,993	325,992	306,688	308,638
Public Utilities Commission	266,641	307,914	321,795	348,421	166,818
Subtotal - General Government	**$301,696,846**	**$275,729,532**	**$166,592,999**	**$168,974,327**	**$99,932,661**
Human Services					
Office of Health & Human Services (2)	2,367,877	6,506,943	914,833,795	907,825,366	999,356,222
Children, Youth, and Families	76,711,604	59,251,759	58,440,291	55,105,897	54,192,405
Health	69,303,495	55,441,392	65,015,651	70,391,194	62,004,542
Human Services (3)	1,446,893,845	1,344,961,678	539,731,758	553,002,562	562,754,777
Mental Health, Retardation, & Hospitals	267,384,605	225,892,158	234,125,964	223,479,713	220,109,814
Governor's Commission on Disabilities	124,377	70,987	120,649	182,291	129,989
Commission On Deaf and Hard of Hearing	-	-	-	-	-
Office of the Child Advocate	46,685	46,719	46,103	46,068	39,997
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	**$1,862,832,488**	**$1,692,171,636**	**$1,812,314,211**	**$1,810,033,091**	**$1,898,587,746**

Expenditures from Federal Funds

	FY 2011 Actual	FY 2012 Actual	FY 2013 Enacted	FY 2013 Revised	FY 2014 Recommend
Education					
Elementary and Secondary	259,873,651	234,690,933	230,760,206	237,992,129	225,746,654
Higher Education - Board of Governors	10,274,936	23,218,046	4,852,615	5,226,649	6,190,306
RI Council on the Arts	954,515	824,067	998,794	754,191	797,329
RI Atomic Energy Commission	76,635	79,057	267,616	267,044	267,044
Higher Education Assistance Authority	9,744,236	9,566,865	13,346,283	12,814,483	13,274,020
Historical Preservation and Heritage Comm.	831,658	537,821	836,139	589,279	609,949
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	**$281,755,631**	**$268,916,789**	**$251,061,653**	**$257,643,775**	**246,885,302**
Public Safety					
Attorney General	1,788,468	1,475,840	1,483,604	2,644,447	1,608,532
Corrections	2,780,906	2,388,892	1,995,588	3,034,940	1,788,688
Judicial	2,555,921	2,377,916	2,682,107	2,760,203	2,624,248
Military Staff	32,256,773	31,350,783	33,842,074	48,024,778	37,653,834
Public Safety (4)	9,267,352	7,573,445	6,940,151	10,359,782	6,155,535
Office Of Public Defender	497,082	394,462	421,898	291,996	291,996
Subtotal - Public Safety	**$49,146,502**	**$45,561,338**	**$47,365,422**	**$67,116,146**	**$50,122,833**
Natural Resources					
Environmental Management	19,885,602	22,171,087	34,997,551	36,678,628	35,126,329
Coastal Resources Management Council	3,501,698	3,054,725	1,677,977	2,185,163	2,637,815
Water Resources Board (5)	-	-	-	-	-
Subtotal - Natural Resources	**$23,387,300**	**$25,225,812**	**$36,675,528**	**$38,863,791**	**$37,764,144**
Transportation					
Transportation	229,999,857	291,517,766	362,340,586	316,461,117	311,761,586
Subtotal - Transportation	**$229,999,857**	**$291,517,766**	**$362,340,586**	**$316,461,117**	**$311,761,586**
Total	**$2,748,818,624**	**$2,599,122,873**	**$2,676,350,399**	**$2,659,092,247**	**$2,645,054,272**

(1) In FY 2012 the Sheriffs program was moved to the Department of Public Safety

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(3) In FY 2012, the Department of Elderly Affairs was merged into the Department of Human Services as its own program.

(4) In FY 2012, the Sheriffs program was moved from the Department of Administration to the Department of Public Safety.

(5) In FY 2012, the Water Resources Board was merged into the Statewide Planning program in the Department of Administration.

Expenditures from Restricted Receipts

	FY 2011 Actual	FY 2012 Actual	FY 2013 Enacted	FY 2013 Revised	FY 2014 Recommend
General Government					
Administration (1)	$14,219,372	$15,107,473	$16,286,426	$15,343,117	$17,277,332
Business Regulation	1,267,389	1,470,285	1,896,180	1,960,073	1,996,413
Labor and Training	20,821,559	23,685,420	36,292,695	60,844,618	43,125,719
Revenue	4,836,294	1,993,811	1,845,255	1,821,849	1,821,886
Legislature	1,575,314	1,642,055	1,627,174	1,525,583	1,604,615
Lieutenant Governor	-	-	-	-	-
Secretary of State	397,534	427,204	505,069	481,597	449,931
General Treasurer	24,442,547	35,767,114	33,618,221	41,252,232	31,346,448
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	558,968	567,124	-	0	0
Commission for Human Rights	-	-	-	-	-
Public Utilities Commission	5,822,263	6,027,954	7,924,913	8,141,519	8,402,565
Subtotal - General Government	**$73,941,240**	**$86,688,440**	**$99,995,933**	**$131,370,588**	**$106,024,909**
Human Services					
Office of Health & Human Services (2)	601,916	897,440	12,472,586	13,241,830	9,997,284
Children, Youth, and Families	2,426,338	2,682,360	2,825,253	2,538,664	2,614,170
Health	22,658,203	25,113,233	29,512,596	31,512,619	34,132,906
Human Services (3)	10,590,911	12,585,836	9,111,103	12,213,022	9,598,776
Mental Health, Retardation, & Hospitals	6,941,943	6,973,731	7,188,834	7,177,366	7,137,054
Governor's Commission on Disabilities	5,191	7,442	9,694	9,214	10,365
Commission On Deaf and Hard of Hearing	-	-	-	-	80,000
Office of the Child Advocate	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	**$43,224,502**	**$48,260,042**	**$61,120,066**	**$66,692,715**	**$63,570,555**
Education					
Elementary and Secondary	19,581,873	23,014,366	25,643,868	26,584,021	27,658,516
Higher Education - Board of Governors	660,509	739,741	702,583	702,583	702,583
RI Council on the Arts	-	-	-	-	-
RI Atomic Energy Commission	-	-	-	-	-
Higher Education Assistance Authority	-	-	-	-	-
Historical Preservation and Heritage Comm.	56,998	41,971	456,037	454,191	454,491
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	**$20,299,380**	**$23,796,078**	**$26,802,488**	**$27,740,795**	**$28,815,590**

Expenditures from Restricted Receipts

	FY 2011 Actual	FY 2012 Actual	FY 2013 Enacted	FY 2013 Revised	FY 2014 Recommend
Public Safety					
Attorney General	791,992	837,372	5,162,510	3,239,609	5,073,590
Corrections	12,347	92,770	61,397	73,362	64,890
Judicial	9,480,024	9,731,044	10,641,195	11,240,237	11,790,514
Military Staff	189,042	205,899	481,278	516,890	523,375
Public Safety (4)	209,090	416,630	12,687,548	12,674,856	12,753,188
Office Of Public Defender	-	-	-	-	-
Subtotal - Public Safety	**$10,682,495**	**$11,283,715**	**$29,033,928**	**$27,744,954**	**$30,205,557**
Natural Resources					
Environmental Management	10,389,053	11,406,708	14,309,942	15,360,459	15,881,515
Coastal Resources Management Council	160,000	145,000	250,000	250,000	250,000
Water Resources Board (5)	-	-	-	-	-
Subtotal - Natural Resources	**$10,549,053**	**$11,551,708**	**$14,559,942**	**$15,610,459**	**$16,131,515**
Transportation					
Transportation	187,949	2,518,104	998,758	1,010,255	8,010,496
Subtotal - Transportation	**$187,949**	**$2,518,104**	**$998,758**	**$1,010,255**	**$8,010,496**
Total	**$158,884,619**	**$184,098,087**	**$232,511,115**	**$270,169,766**	**$252,758,622**

(1) In FY 2012 the Sheriffs program was moved to the Department of Public Safety

(2) In FY 2013, the Medicaid program was moved from the Department of Human Services to the Office of Health and Human Services.

(3) In FY 2012, the Department of Elderly Affairs was merged into the Department of Human Services as its own program.

(4) In FY 2012, the Sheriffs program was moved from the Department of Administration to the Department of Public Safety.

(5) In FY 2012, the Water Resources Board was merged into the Statewide Planning program in the Department of Administration.

Expenditures from Other Funds

	FY 2011 Actual	FY 2012 Actual	FY 2013 Enacted	FY 2013 Revised	FY 2014 Recommend
General Government					
Administration (1)	$56,255,037	$62,402,484	$75,517,562	$72,864,559	$83,453,139
Business Regulation	-	-	-	-	0
Labor and Training	650,688,839	565,509,046	505,708,293	477,198,757	437,851,295
Revenue	227,400,776	245,998,966	233,864,080	239,415,521	246,561,707
Legislature	-	-	-	-	-
Lieutenant Governor	-	-	-	-	-
Secretary of State	-	-	-	-	-
General Treasurer	208,525	208,558	251,512	216,588	228,923
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	-	-	-	-
Commission for Human Rights	-	-	-	-	-
Public Utilities Commission	-	-	-	-	-
Subtotal - General Government	**$934,553,177**	**$874,119,054**	**$815,341,447**	**$789,695,425**	**$768,095,064**
Human Services					
Office of Health & Human Services (2)	-	-	-	-	-
Children, Youth, and Families	621,670	278,859	2,771,000	3,461,901	1,590,000
Health	7,737	11,772	172,000	126,311	35,310
Human Services (3)	4,898,587	4,276,880	4,389,184	4,579,025	4,480,364
Mental Health, Retardation, & Hospitals	3,881,619	4,283,638	11,218,351	7,729,099	10,640,431
Governor's Commission on Disabilities	33,000	138,378	250,000	285,465	957,271
Commission On Deaf and Hard of Hearing	-	-	-	-	-
Office of the Child Advocate	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	**$9,442,613**	**$8,989,527**	**$18,800,535**	**$16,181,801**	**$17,703,376**
Education					
Elementary and Secondary	3,029,539	4,057,838	6,451,223	13,345,078	7,915,399
Higher Education - Board of Governors	778,283,784	820,326,380	853,664,951	858,350,880	870,449,417
RI Council on the Arts	818,518	279,691	843,500	1,587,492	632,536
RI Atomic Energy Commission	263,617	328,022	333,122	293,642	307,977
Higher Education Assistance Authority	6,608,023	8,558,270	8,758,802	8,535,829	8,457,989
Historical Preservation and Heritage Comm.	-	75,000	75,000	216,606	1,084,999
Public Telecommunications Authority	595,684	629,411	701,895	-	-
Subtotal - Education	**$789,599,165**	**$834,254,612**	**$870,828,493**	**$882,329,527**	**$888,848,317**

Expenditures from Other Funds

	FY 2011 Actual	FY 2012 Actual	FY 2013 Enacted	FY 2013 Revised	FY 2014 Recommend
Public Safety					
Attorney General	274,655	122,713	287,500	600,000	50,000
Corrections	2,943,618	2,566,331	11,399,600	9,723,190	17,169,751
Judicial	829,704	1,074,878	1,675,000	4,374,557	1,515,000
Military Staff	222,898	998,846	4,578,000	7,419,995	2,018,000
Public Safety (4)	10,247,898	4,198,808	8,082,330	8,626,438	9,307,227
Office Of Public Defender	-	-	-	-	-
Subtotal - Public Safety	**$14,518,773**	**$8,961,576**	**$26,022,430**	**$30,744,180**	**$30,059,978**
Natural Resources					
Environmental Management	1,997,064	4,724,672	14,983,718	13,231,884	20,670,094
Coastal Resources Management Council	-	666,318	900,000	722,281	-
Water Resources Board (5)	211,943	0	-	-	-
Subtotal - Natural Resources	**$2,209,007**	**$5,390,990**	**$15,883,718**	**$13,954,165**	**$20,670,094**
Transportation					
Transportation	115,027,739	93,339,390	148,281,757	149,867,417	150,130,911
Subtotal - Transportation	**$115,027,739**	**$93,339,390**	**$148,281,757**	**$149,867,417**	**$150,130,911**
Total	**$1,865,350,474**	**$1,825,055,149**	**$1,895,158,380**	**$1,882,772,515**	**$1,875,507,740**

(1) In FY 2012 the Sheriffs program was moved to the Department of Public Safety

(2) In FY 2013, the Medicaid program was moved from the Department of Human Services to the Office of Health and Human Services.

(3) In FY 2012, the Department of Elderly Affairs was merged into the Department of Human Services as its own program.

(4) In FY 2012, the Sheriffs program was moved from the Department of Administration to the Department of Public Safety.

(5) In FY 2012, the Water Resources Board was merged into the Statewide Planning program in the Department of Administration.

Free Surplus

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

The Governor is required to submit a balanced budget. The General Assembly is also required to enact a balanced budget.

The State Budget Office is required to prepare quarterly reports that project the year end balances assuming current trends continue under current laws, and the typical cyclical expenditure patterns prevail over the course of the year. This consolidated report is released within forty-five days of the end of each fiscal quarter. Also, the State Budget Office is required to publish a five year forecast of expenditures and revenues for submission to the General Assembly as part of the annual budget process, and these forecasts over the years, based upon the information then available, have generally projected that out year expenditures will exceed revenues, at times by a substantial amount. The State Budget Office's most recent projections for FY 2015 through FY 2018, which were based on the Governor's recommended budget and revenue forecasts from November 2012, forecasted deficits of $170.5 million for FY 2015, $254.5 million for FY 2016, $377.8 million for FY 2017 and $468.9 million for FY 2018. These estimates take into account the potential impact of implementation of gaming in Massachusetts and the potential loss of revenue to Rhode Island's two gaming facilities. In the event of a budgetary imbalance, the available free surplus will be reduced and or additional resources (i.e. taxes, fines, fees, etc.) will be required and/or certain of the expenditure controls discussed under "State Government Organization and Finances -- Budget Procedures and -- Financial Controls" will be put into effect.

Due to the past fiscal challenges facing the State, the budget has from time to time incorporated certain significant one-time resources. The enacted FY 2002 and FY 2003 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 certificates of participation debt (or $295.5 million reflecting accreted value of capital appreciation bonds), and the remaining $248.9 million was made available for operating budget expenditures in FY 2002–FY 2004. The debt defeasance resulted in debt service savings of $51.6 million in FY 2003 and total debt service savings through FY 2012 of $343.5 million. The legislatively enacted budgets used $135.0 million of the net proceeds to finance operating expenditures in FY 2002, allocated $113.5 million of resources to finance FY 2003 budgeted expenditures, and allocated the remaining $1.7 million (including interest earnings) in FY 2004.

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

The State's Annual Comprehensive Financial Report for FY 2008 revealed a deficit of $42.95 million for the fiscal year ended June 30, 2008. This was a result of revenues falling below enacted estimates by $7.1 million and expenditures exceeding appropriations by $37.4 million. Additionally, the Governor was required by law to reappropriate unexpended balances from FY 2008 for the General Assembly amounting to $1.7 million. The Governor sought appropriation from the Budget Reserve and Cash Stabilization Account, which was fully funded at $102.8 million at the end of FY 2008. The General Assembly did not make an appropriation to resolve the FY 2008 $42.95 million deficit. The deficit of $42.95 million, when combined with the $102.8 million reserve fund, resulted in approximately $60 million of combined balances. The budget enacted by the General Assembly in June 2008 for FY 2009 was predicated upon available resources of $3.2762 billion net of reserve fund contributions, and expenditures of $3.2762 billion resulting in an estimated closing surplus of $0.1 million. The General Assembly enacted a FY 2010 Budget that included expenditures of $3.0 billion from general revenues, $800,000 less than FY 2009 actual expenditures. The reduction in general revenue spending was the result of both reductions in real expenditures and shifts from state general revenue sources to one-time federal fund sources. Much of this shifting was the result of funds being made available from the American Recovery and Reinvestment Act of 2009. For the FY 2010 Revised Budget, the General Assembly appropriated $2.886 billion, which was $113.5 million less than the originally enacted budget. For FY 2011, the General Assembly appropriated $2.942 billion in the Enacted Budget, and $2.974 billion in the Supplemental Budget. For FY 2012, the General Assembly appropriated $3.143 billion in the Enacted Budget and $3.139 billion in the Supplemental Budget. For FY 2013, the General Assembly appropriated $3.296 billion in the Enacted Budget and the Governor recommends $3.268 billion in the FY 2013 Supplemental Budget.

The nation has been feeling the effects of the "Great Recession", the worst economic downturn since the Great Depression. The impact on the State of Rhode Island has been severe, with over 59,900 Rhode Islanders unemployed as of July 2012. The jobless rate peaked at 12.7 percent in December 2009 and the State ranks first in the nation, tied with Nevada, with a 10.2 percent rate of unemployment as of December 2012, compared to 7.8 percent nationally. The State has depleted the resources it set aside to pay unemployment benefits and has been borrowing from the Federal Trust Fund to make benefit payments to unemployed Rhode Islanders.

The impact of the high level of unemployment translated into a sharp decline in tax receipts to the State, as less personal income taxes are received from employers through withholding taxes, and taxpayers transmit lower estimated and final payments, but request larger refunds. Recent data, however, have shown an increase in tax collections. FY 2012 personal income tax collections were $1.060 billion based upon the State Controller's audited financial statements and were estimated at $1.079 billion by the November Revenue Estimating Conference for FY 2013. Uncertainty about the economic future and the contraction of the State's housing market has caused Rhode Islanders to pull back on spending and impacted the State's second largest income stream, the sales and use tax. FY 2012 sales and use tax receipts were $851.1 million based upon the State Controller's audited financial statements and are estimated to reach $879.4 million in FY 2013. The business corporations tax, which peaked in FY 2006 at $165.1 million were $123.1 million in FY 2012 based upon the State Controller's audited financial statements and are expected to be at $135.9 million in the FY 2013 Revised Budget. Rhode Island's final general revenue receipts were $3.271 billion in FY 2012 and are estimated to be $3.331 billion in the FY 2013 Revised Budget.

FY 2013 Enacted/Revised Budgets

The initial projected deficit for FY 2013 was approximately $215.0 million and included a major increase in the estimated annual required contribution (ARC) for the pension benefits for state employees and teachers. This increase in the ARC was the result of certain changes approved by the State Retirement Board to the assumed rate of return on investments and mortality rates for retirees. The ARC for state employee pensions was projected to increase from 22.98 percent in FY 2012 to 36.34 percent in FY 2013. This would have required increased general revenue expenditures of almost $52.8 million. Similar increases were forecast for other employee groups, including judges, and State Police troopers, as well as local teachers, for whom the state covers 40 percent of the annual pension liability. As a result of these projected increases in the State's pension liability, the Governor and the General Treasurer worked closely with the General Assembly to enact comprehensive pension reform legislation in the fall of 2011, resulting in new actuarially determined contribution rates that are significantly lower than those that would have gone into effect on July 1, 2012. As a result of this legislation, projected general revenue spending for FY 2013 was reduced by over $117.9 million. Also included in the pension reform legislation is a new Defined

Contribution Plan for state employees and teachers whereby the employer (state and municipalities) will contribute at least one percent (1.0%) of an employee's pay, and the employees will contribute five percent (5.0%).

Subsequent to pension reform and the November 2011 Revenue and Caseload Estimating Conferences, the projected deficit for FY 2013 was revised to approximately $117.4 million. This deficit was addressed through a combination of expenditure modifications, increased revenues and one-time revenue or expenditure changes. As reflected on the Free Surplus table, a surplus of $115.2 million existed as of the close of FY 2012, which carried over to FY 2013. Based on the Governor's proposed supplemental budget, the projected ending balance for FY 2013 is approximately $79.3 million. Proposed revenue changes are described in detail above under the Revenue section entitled "Revenue Estimates".

FY 2014 Recommended Budget

The Governor's FY 2014 Recommended Budget was designed to address a projected $128.0 million operating deficit. Although this was somewhat lower than deficits faced in recent fiscal years, previous reductions to and/or program eliminations left fewer options available to balance the FY 2014 budget. The Governor is proposing no tax or fee increases in FY 2014 and is proposing that the state's business corporations tax be reduced from 9.0 percent to 7.0 percent over a three year period. Additional funding is proposed for aid to municipalities and for elementary and secondary education and higher education. Reductions are proposed in several human services agencies, which represent the largest share of the total general revenue budget. Based on the Governor's proposed budget, the ending balance of $79.3 million from FY 2013 will be carried over to FY 2014 and combined with projected revenues (net of transfer to rainy day fund) of $3.321 billion and expenditures of $3.399 billion, resulting in a projected year end balance of $1.4 million.

The following table sets forth a comparative statement of General Fund free surplus for fiscal years 2011 through 2014. FY 2011 and FY 2012 data are derived from the State's Comprehensive Annual Financial Reports prepared by the Office of the State Controller and post audited by the Auditor General. The FY 2013 Revised Budget reflects the FY 2013 revised budget submitted to the General Assembly by the Governor on January 16, 2013. The FY 2014 Recommended Budget reflects the FY 2014 budget submitted to the General Assembly by the Governor on January 16, 2013.

The budgets as recommended by the Governor result in revenues of $3.331 billion in FY 2013 and $3.426 billion in FY 2014 and expenditures of $3.268 billion in FY 2013 and $3.3399 billion in FY 2014. The free surplus is estimated to be $79.3 million in FY 2013 and $1.4 million in FY 2014. The final FY 2012 audit report reflects an ending surplus of $115.2 million.

FY 2014 General Revenue Budget Surplus

	FY 2011 Audited [1]	FY 2012 Audited [2]	FY 2013 Enacted [3]	FY 2013 Revised [4]	FY 2014 Recommended [5]
Surplus					
Opening Surplus	$17,889,522	$64,229,426	$93,870,509	$115,187,511	$79,315,556
Audit Adjustments	604,058	-	-	-	-
Adjustment to Opening Surplus [6]	-	-	-	12,943,629	-
Reappropriated Surplus	3,364,847	4,532,242	-	7,726,521	-
Subtotal	**$21,858,427**	**$68,761,668**	**$93,870,509**	**$135,857,662**	**$79,315,556**
General Taxes	$2,377,381,973	$2,518,449,026	2,578,121,440	2,578,121,440	2,664,200,000
Revenue estimators' revision - Nov	-	-	-	5,178,560	-
Governor Changes to Adopted	-	-	-	-	(3,938,206)
Subtotal	**$2,377,381,973**	**$2,518,449,026**	**$2,578,121,440**	**$2,583,300,000**	**$2,660,261,794**
Departmental Revenues	332,714,668	339,895,284	342,873,883	342,873,883	206,800,000
Revenue estimators' revision - Nov		-	-	4,626,117	-
Governor Changes to Adopted	-	-	-	4,435,000	146,492,687
Subtotal	**$332,714,668**	**$339,895,284**	**$342,873,883**	**$351,935,000**	**$353,292,687**
Other Sources					
Other Miscellaneous	11,116,047	20,110,214	4,440,000	4,440,000	2,430,000
Revenue estimators' revision - Nov	-	-	-	175,000	-
Lottery	354,860,987	377,706,394	387,553,420	387,553,420	405,100,000
Revenue estimators' revision - Nov	-	-	-	(853,420)	-
Governor Changes to Adopted	-	-	-	(1,600,000)	(4,300,000)
Unclaimed Property	7,640,462	14,555,573	7,900,000	7,900,000	9,600,000
Revenue estimators' revision - Nov	-	-	-	(1,600,000)	-
Subtotal	**$373,617,496**	**$412,372,181**	**$399,893,420**	**$396,015,000**	**$412,830,000**
Total Revenues	**$3,083,714,137**	**$3,270,716,491**	**$3,320,888,743**	**$3,331,250,000**	**$3,426,384,481**
Transfer to Budget Reserve	**(80,657,401)**	**(93,378,486)**	**(102,442,778)**	**(103,781,434)**	**(105,171,001)**
Total Available	**$3,024,915,163**	**$3,246,099,674**	**$3,312,316,474**	**$3,363,326,227**	**$3,400,529,036**
Actual/Enacted Expenditures	**$2,956,153,495**	**$3,110,242,012**	**$3,295,836,490**	$3,295,836,490	$3,399,154,309
Reappropriations	-	-	-	$7,726,521	-
Caseload Conference Changes - Nov	-	-	-	($24,267,632)	-
Other Changes in Expenditures	-	-	-	($11,634,708)	-
Total Expenditures	**$2,956,153,495**	**$3,110,242,012**	**$3,295,836,490**	**$3,267,660,671**	**$3,399,154,309**
Total Ending Balances	**$68,761,668**	**$135,857,662**	**$16,479,984**	**$95,665,556**	**$1,374,727**
Transfer to Other Funds [6]	**$0**	**($12,943,629)**	**($16,350,000)**	**($16,350,000)**	**$0**
Reappropriations	(4,532,242)	(7,726,521)	-		
Free Surplus	**$64,229,426**	**$115,187,511**	**$129,984**	**$79,315,556**	**$1,374,727**
Budget Reserve and Cash Stabilization Account	**$130,258,817**	**$153,407,512**	**$170,737,963**	**$172,969,057**	**$175,285,002**

(1) Derived from the State Controller's final closing report for FY 2011, dated December 22, 2011.

(2) Derived from the State Controller's final closing report for FY 2012, dated January 4, 2013.

(3) Reflects the FY 2013 budget enacted by the General Assembly and signed into law by the Governor on June 15, 2012.

(4) Reflects the enacted revenues and expenditures adjusted for revenue and caseload estimates adopted at the November 2012 Revenue and Caseload Estimating Conferences and adjustments to revenues and expenditures recommended by the Governor.

(5) Reflects the Govenror's recommended FY 2014 budget, including the results of the November 2012 Revenue and Caseload Estimating Conferences and any proposed legislative changes to modify adopted estimates.

(6) Reflects committed General Fund balance regarding transfers to the retirement fund and to the Information Technology Investment Fund and State Fleet Revolving Loan Fund in FY 2013. The Governor's revised FY 2013 and proposed FY 2014 budget includes an amendment to the General Laws rescinding such transfers to the Retirement Fund retroactive to June 30, 2012. FY 2013 Revised reflects this amount as an adjustment to opening surplus.

CERTAIN MATTERS RELATING TO AUDITED FINANCIAL REPORTS

In recent years, the State has sought to enhance the timeliness of completion regarding the Comprehensive Annual Financial Report (CAFR). As a result, the CAFR and related annual audit for fiscal year ending June 30, 2012 were completed on December 20, 2012.

As part of the auditing process for the fiscal year ending June 30, 2011, the State's Auditor General observed certain deficiencies in the State's financial reporting and management practices, which are reflected in the Auditor General's report entitled "Single Audit Report" for that fiscal year, a copy of which may be obtained from the Office of the Auditor General's website at www.oag.ri.gov/reports.html. The State has dedicated substantial resources to resolving these issues and continues to attempt to address deficiencies as they are raised. The Auditor General is in the process of working on the Single Audit Report for the fiscal year ending June 30, 2012. This is expected to be completed by March 31, 2013.

STATE INDEBTEDNESS

Authorization and Debt Limits

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

Public Finance Management Board

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

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

The Public Finance Management Board has adopted and from time to time revised Credit Guidelines for use in evaluating certain elements of the State's debt burden. The current guidelines are as follows: Tax Supported Debt to not exceed the target range of 5.0 percent to 6.0 percent of personal income, and annual debt service for Tax Supported Debt to not exceed 7.5 percent of general revenues. As of June 30, 2012, net tax supported debt was 4.03 percent of personal income, and annual debt service was 6.52 percent of general revenues. It is anticipated that fluctuation of this ratio over the long-term will be affected by both variations in personal income levels, general revenues and debt issuance. The target ranges will continue to be reviewed on an annual basis with consideration given to trends in the State's debt level and upcoming infrastructure projects. The Board monitors the total amount of Tax Supported Debt, State Supported Revenue Debt, and Agency Revenue Debt in relation to the State's personal income and general revenues. The Credit Guidelines may be exceeded temporarily under certain extraordinary conditions. The Credit Guidelines provide that if a Credit Guideline is exceeded due to economic or financial circumstances, the Public Finance Management Board should request that the Governor and the General Assembly recommend a plan to return debt levels to the Credit Guidelines within five years.

According to the most recent Capital Budget, the projected ratio of debt service to general revenues is projected to range between 6.72 percent and 7.35 percent over the five year planning horizon. The state's general revenue receipts have begun to recover over the last two years, and the out-year forecast reflects a continuing, but slow recovery. The State will continue to take appropriate actions to address debt service obligations, such as refundings, and will closely monitor the growth of debt service expenditures.

Sinking Fund Commission

During the 1998 session of the General Assembly, legislation was enacted that reconstituted the Sinking Fund Commission, which shall have control and management of all sinking funds established for the redemption of any bonds or certificates of indebtedness issued by the State. To address the State's relatively high debt levels, the General Assembly appropriated general revenues of $4.0 million in FY 1999, and $865,245 in FY 2000 to be utilized by the Commission to defease or refund State debt. The Sinking Fund will also receive funds in an amount equal to the annual interest earnings on bond funds. During FY 2000, the Sinking Fund allocated a net $5.5 million to defease debt associated with the Alpha Beta Corporation project financed by the Rhode Island Economic Development Corporation. The Commission executed a defeasance transaction on June 15, 2000 which reduced the State's general obligation debt by an estimated $4.415 million. As of June 30, 2012, the balance of Sinking Fund Commission funds was $0.

Tax Anticipation Notes

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

The State has undertaken a series of measures to improve the timing of receipts and disbursements and to reduce the level of short-term borrowing. These measures include accelerating the collection of certain taxes, the partial restructuring of the State's disbursement pattern, and moving certain special revenue funds into the General Fund as accounts within the General Fund. Based on current cash flow projections by the General Treasurer's Office, the State does not anticipate the need to borrow for cash flow purposes in FY 2013 and no authorization to borrow is requested in the FY 2014 Budget.

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

Fiscal Year	Maximum Principal Amount Outstanding	Percent of Prior Year's Tax Receipts
1990	$ 70,000,000	6.0%
1991	200,000,000	17.0
1992	240,000,000	20.0
1993	225,000,000	18.0
1994	150,000,000	11.0
1995	125,000,000	9.0
1996	100,000,000	8.0
1997	108,000,000	8.0
1998	0	0.0
1999	0	0.0
2000	0	0.0
2001	0	0.0
2002	90,000,000	4.4
2003	150,000,000	7.9
2004	200,000,000	7.4
2005	0	0.0
2006	0	0.0
2007	120,000,000	4.8
2008	220,000,000	7.8
2009	350,000,000	13.4
2010	350,000,000	14.6
2011	350,000,000	15.2
2012	200,000,000 *	8.4
2013	0 **	0.0

*Actual issuance; General Assembly authorized issuance of up to $350.0 million.
** No issuance is currently planned for FY 2013, although the General Assembly authorized issuance of up to $250.0 million

Net Tax Supported State Debt

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

As of January 1, 2013, authorized but unissued direct debt totaled $244,552,195 and there was no authorized but unissued guaranteed debt. However, see the discussion on guaranteed debt under the heading "State Indebtedness – Authorized but Unissued Direct Debt" below.

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 January 1, 2013, the State had $1.192 billion of general obligation tax supported bonds outstanding. The State currently has no variable rate debt outstanding.

The following table sets forth the debt service requirements on outstanding general obligation bonds of the State which are supported by State revenues for FY 2013 through FY 2033.

Outstanding Debt Service Payments
General Obligation Bonds

Fiscal Year	Principal	Interest	Total Debt Service
2013	88,040,000	52,176,560	140,216,560
2014	76,825,000	51,882,935	128,707,935
2015	85,705,000	48,313,391	134,018,391
2016	84,710,000	44,327,640	129,037,640
2017	89,110,000	40,083,702	129,193,702
2018	78,160,000	36,113,098	114,273,098
2019	74,705,000	32,428,983	107,133,983
2020	68,960,000	29,099,932	98,059,932
2021	72,645,000	25,882,802	98,527,802
2022	64,445,000	22,631,191	87,076,191
2023	66,170,000	19,479,473	85,649,473
2024	58,210,000	16,519,032	74,729,032
2025	52,935,000	13,784,317	66,719,317
2026	54,870,000	11,134,412	66,004,412
2027	41,250,000	8,679,063	49,929,063
2028	41,620,000	6,514,841	48,134,841
2029	26,430,000	4,505,124	30,935,124
2030	27,660,000	3,015,832	30,675,832
2031	16,395,000	1,475,463	17,870,463
2032	17,225,000	646,106	17,871,106
2033	5,915,000	118,300	6,033,300
	1,191,985,000	**468,812,194**	**1,660,797,194**

* Reflects full fiscal year general obligation tax supported debt service for bonds issued as of January 1, 2013. Excludes guaranteed and contingent debt.

In addition, the following table sets forth the amounts, purposes and statutory authorizations of authorized but unissued general obligation direct debt of the State as of January 1, 2013 that have been approved by voter referenda.

Authorized but Unissued Direct Debt

Purpose	Statutory Authorization	Authorized but Unissued Debt as of January 1, 2013*
Direct Debt:		
Preservation, Recreation & Heritage	Ch. 65-P.L. of 2002	1,200,000
Emergency Water Interconnect	Ch. 595-P.L. of 2004	1.000,000
Open Space Recreation, Bay & Watershed Protection	Ch. 595-P.L. of 2004	1,700,000
Transportation	Ch. 246-P.L. of 2006	2,195
Transportation	Ch.100-P.L.of 2008	500,000
Open Space and Recreational Development	Ch. 378/469-P.L.of 2008	1,000,000
Higher Education	Ch. 23-P.L. of 2010	10.000,000
Transportation	Ch 22-P.L. of 2010	20,150,000
Affordable Housing	Ch 241-P.L. of 2012	25,000,000
Veterans' Home	Ch 241-P.L. of 2012	94,000,000
Higher Education	Ch 241-P.L. of 2012	50,000,000
Environmental Management	Ch 241-P.L. of 2012	20,000,000
Clean Water Finance Agency	Ch 241-P.L. of 2012	20,000,000
Total Direct Debt		**$244,552,195**

Source: State Budget Office

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

Guaranteed debt of the State includes bonds and notes issued by, or on behalf of, certain agencies, commissions and authorities created by the General Assembly and charged with enterprise undertakings, for the payment of which debt the full faith and credit of the State are pledged in the event that the revenues of such entities may at any time be insufficient. As of January 1, 2013, there was no outstanding or authorized but unissued guaranteed debt. However, the State has agreed to appropriate or borrow and pay to the Rhode Island Industrial Recreational Building Authority any amounts required up to $60,000,000 to service eligible mortgage loans for industrial and/or recreational projects insured under the Industrial Recreational Building Mortgage Insurance Fund that are in default and for which funds in the Industrial Recreational Building Mortgage Insurance Fund are insufficient (see the discussion regarding the Rhode Island Industrial Recreational Building Authority under the section entitled "State Agencies and Authorities").

Extinguishments of Debt Authorization

Chapter 438 of the Public Laws of 1988, which took effect on December 31, 1991, provides that any special act of the State which authorizes the issuance of general obligation bonds or notes of the State, which has a balance that remains unissued, and is seven (7) years old or older is invalid as to that portion which remains unissued. Notwithstanding, the General Assembly may, by special act, extend any authorization for a period of one (1) to five (5) years upon a petition of the Department of Administration. Such extension may be granted more than one (1) time. Upon a certification of the General Treasurer to the Governor as to debt authorizations described above the authorization shall not be deemed or counted toward the authorized but unissued debt of the State. Since December 31, 1991, the State has extinguished a total of $96,276,387, which was previously reflected in the above table. In addition, there is $1,552,805 of authorized debt which will not be issued due to premium received by the State in connection with its sale of $123,255,000 Consolidated Capital Development Loan of 2007, Series A Bonds being allocated to benefit the projects relating to such Bonds. This authorization has been removed from the balance of debt which can be issued.

Obligations Carrying Moral Obligation of State

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

Other Obligations Subject to Annual Appropriation

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

In December 1995, the State entered into a lease agreement with a financial institution which issued $4,500,000 in certificates of participation to finance acquisition and renovation of an office building to house the Office of the Attorney General. $775,000 of these certificates of participation were defeased in June 2002 from the proceeds of the securitization of revenues from the State's tobacco master settlement. All of the remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $2,230,000 Lease Participation Certificates (Attorney General's Building – 2007 Refunding Series G). As of June 30, 2012, $1,145,000 of these certificates were outstanding.

The State also entered into a lease agreement with a financial institution which issued $24.0 million in certificates of participation in January 1997 to finance the renovation of a group of buildings at the State-owned John O. Pastore Center, formerly known as Howard Center in Cranston for use as an office facility for the Department of Labor and Training. These remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $13,375,000 Lease Participation Certificates (Howard Center Improvements – 2007 Refunding Series E). As of June 30, 2012, $8,115,000 of such certificates were outstanding.

In November 1994 the State entered into a lease agreement with the Economic Development Corporation which issued $34.1 million in long-term bonds for the renovation of the Shepard's Building. During August 1997, the State of Rhode Island issued $34,805,000 in certificates of participation that were used to defease the Economic Development Corporation bonds. These remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $21,420,000 Lease Participation Certificates (Shepard's Building – 2007 Refunding Series F). As of June 30, 2012, $13,060,000 in certificates of participation were outstanding.

On June 29, 2000, the State entered into a lease agreement with a financial institution, which issued $9,525,000 in certificates of participation for the purchase and installation of telecommunications equipment, furnishings and vehicles and rolling stock. The State also privately placed $318,000 of taxable certificates at that time. In June 2001, the State financed an additional $3,150,000 of vehicles and rolling stock in this manner. In December 2002, the State financed an additional $3,890,000 of vehicles and rolling stock. In June 2005, the State financed an additional $6,950,000. In June 2006, the State financed an additional $6,000,000. In June 2007, the State financed an additional $9,100,000. As of June 30, 2012, $1,570,000 in certificates were outstanding.

In December 2000, Rhode Island entered into a lease agreement with a financial institution that issued $28.18 million in certificates of participation to rehabilitate and upgrade the Central Power Plant at the Pastore Center Complex. $3,875,000 of these certificates of participation were defeased in June 2002 from the proceeds of the securitization of revenues from the State's tobacco master settlement. All of the remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $22,160,000 Lease Participation Certificates (Central Power Plant – 2007 Refunding Series D). As of June 30, 2012, there was $16,735,000 in certificates outstanding.

In April 2002, the State entered into a loan agreement with the Rhode Island Housing and Mortgage Finance Corporation relating to the issuance of $13,060,000 of debt to provide funds for the relocation of the Traveler's Aid facility and for the Neighborhood Opportunities Program which provides affordable housing. In 2005, the State provided an additional $2,250,000 for the Traveler's Aid project through the loan agreement. In 2006, the State financed $5.0 million for related affordable housing projects. In FY 2008, the State provided an additional $7.5 million through the loan agreement for FY2007 projects. As of June 30, 2012, there was $0 outstanding.

In November 2003, the State entered into a payment agreement with the Rhode Island Economic Development Corporation relating to the issuance of $53,030,000 of Motor Fuel Tax Revenue Bonds to provide funds for the State match for certain major Transportation projects funded by GARVEE bonds also issued by the Corporation. The Motor Fuel Tax Revenue Bonds are secured by two cents of the motor fuel tax dedicated to the Department of Transportation, subject to annual appropriation. In March 2006, a second series of bonds totaling $42,815,000 was sold, and on April 2, 2009 a third series was sold totaling $12,410,000. As of June 30, 2012, $70,350,000 was outstanding.

In 2005, the State entered into a lease agreement with a financial institution that issued $58,910,000 in certificates of participation to construct a new Kent County Courthouse in Warwick. As of June 30, 2012, there was $42,110,000 outstanding.

In 2005, the State entered into a lease agreement with a financial institution that issued $21,565,000 in certificates of participation to construct a new Traffic Tribunal in Cranston. As of June 30, 2012, there was $16,380,000 outstanding.

In 2005, the State entered into a lease agreement with a financial institution that issued $51,985,000 in certificates of participation to construct a new Juvenile Training School, including a Youth Assessment Facility and a Juvenile Detection Center. As of June 30, 2012, there was $40,290,000 outstanding.

In 2007, the State entered into a lease agreement with a financial institution that issued $23,490,000 in certificates of participation for technology improvement projects. In 2009, an additional $12,380,000 was issued. As of June 30, 2012, there was $16,795,000 outstanding.

In 2007, the State entered into a lease agreement with a financial institution that issued certificates of participation for energy conservation projects which are intended to result in cost savings. There was $6.0 million issued for Department of Administration energy projects, and $6.75 million for the University of Rhode Island. In 2009, an additional $11,805,000 was issued for University of Rhode Island projects. As of June 30, 2012, there was $20,120,000 outstanding.

In 2009, the State entered into a lease agreement with a financial institution that issued $30,425,000 of certificates of participation for the construction of a new School for the Deaf. As of June 30, 2012, there was $27,410,000 outstanding.

In June 2009, the State entered into a payment agreement with the Rhode Island Economic Development Corporation relating to the issuance of Economic Development Corporation Revenue Bonds in the amount of $150,000,000 to provide funds to reimburse the State for Historic Structures Tax Credits presented by taxpayers. As of June 30, 2012, there was $105,990,000 of such Revenue Bonds outstanding.

In May 2010, the State entered into a loan agreement with the Bank of America in the amount of $11,000,000 to provide funds for the replacement of the Registry of Motor Vehicle computer system. The debt service on this loan will be funded from a $1.50 surcharge on all Registry transactions. As of June 30, 2012, there was $8,175,000 of this loan outstanding.

In July 2011, the State entered into a lease agreement with a financial institution that issued $31,980,000 certificates of participation for energy conservation projects for the Department of Administration, University of Rhode Island and Community College of Rhode Island, which are intended to result in cost savings. As of June 30, 2012, there was $30,070,000 outstanding.

Moral Obligation of the State Regarding 38 Studios

In November, 2010, the RI Economic Development Corporation issued $75 million of taxable revenue bonds under the Job Creation Guaranty Program. The bond proceeds were loaned to 38 Studios to fund relocation of the company's corporate headquarters to the State and establishment and operation of a video gaming studio in the City of Providence. Proceeds also were used to fund a Capital Reserve Fund and Capitalized Interest Fund. Amounts in the Capital Reserve Fund are to be used in the event that 38 Studios fails to make any required loan payments. In accordance with the enabling legislation and the agreement between the RI Economic Development Corporation, the trustee and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, the RI Economic Development Corporation has agreed to present the Governor with a certificate stating the amounts required to restore any shortfall and the Governor is required to include such amounts in his or her budget request for appropriation to the General Assembly. 38 Studios filed for Chapter 7 bankruptcy protection on June 7, 2012 and the RI Economic Development Corporation and the trustee for the bonds have obtained court approval to take custody of the assets pledged by 38 Studios to secure the payment of the bonds but it is not certain at this time what is the value of the assets pledged. It is estimated that the total debt service on the bonds after considering any existing reserves with the trustee may be in the range of $89 million. The maturity dates on the bonds range from 2015 to 2020 with maximum annual debt service of approximately $12.75 million. Governor Chafee has publicly pledged to request the General Assembly to appropriate funds as necessary to satisfy the funding obligations of the RI Economic Development Corporation in connection with the bonds and has included $2.5 million in his FY 2014 budget to fully fund debt service requirements for that fiscal year. The General Assembly may but is not required to appropriate such amounts.

Obligations for Which Appropriation Has Not Been Made

In December 1999, the Economic Development Corporation entered into a limited recourse guaranty, not to exceed $3,000,000, in connection with the refinancing by the Employee's Retirement System of Rhode Island ("ERS") of a four-story office building in Providence formerly known as the American Express Building. The Economic Development Corporation's delivery of the limited recourse guaranty and its cap of $3,000,000 was potentially to be utilized to supplement a gap between previously issued debt secured by mortgages on the property and certain appraisals of the property's value at that time. After a series of payment defaults to the ERS, and various creditor actions, in December 2004 Gateway Eight Limited Partnership ("Gateway") filed for bankruptcy protection. Thereafter, legal proceedings resulted in the sale of the American Express Building and various creditor rights actions resulted in a net balance deficiency to the ERS of an amount less than $2,000,000. After the sale of the property and the calculation of the deficiency, the ERS invoked the terms of Economic Development Corporation's limited recourse guaranty, which, in addition to limiting payment to $3,000,000, limits the obligations of the Economic Development Corporation to funds received by the General Assembly for this purpose and further limits the Economic Development Corporation's obligations to request the Governor to submit an appropriation request to the General Assembly for any payment obligation of the Economic Development Corporation pursuant to the limited recourse guaranty. The Economic Development Corporation submitted the appropriations requests to the Governor in accordance with the terms of the limited recourse guaranty annually as requested by the ERS. The Governor has not elected to request the General Assembly to fund the limited recourse guaranty to ERS. Unlike certain other bonds or indebtedness of the Economic Development Corporation, pursuant to the enabling act for the Economic Development Corporation, there is no capital reserve fund to be replenished with respect to the limited recourse guaranty to ERS. Hence, there is no requirement under such enabling act that the Governor submit the appropriations request to the General Assembly to fund the Economic Development Corporation's limited recourse guaranty to ERS.

Authorized But Unissued Obligations Subject to Annual Appropriation.

In addition to the debt authorized by the voters for which the full faith and credit is pledged, the General Assembly has authorized the issuance of debt which is subject to annual appropriation. As of January 1, 2013, the following authorizations have been enacted and the State plans to issue the debt over the next several years:

Purpose	Total Remaining Authorization
Energy Conservation Certificates of Participation	$52,720,000

Information Technology Certificates of Participation	$45,300,000
Economic Development Corporation – Historic Structures Tax Credit Fund	$206,200,000
Economic Development Corporation – Fund to Grow Rhode Island Companies	$44,500,000
Economic Development Corporation – 195 Land Sales	$42,000,000
Total Authorized But Unissued Debt Subject to Annual Appropriation	$390,720,000

It is not expected that the Economic Development Corporation will issue any additional debt in FY 2013 for the Historic Structures Tax Credit program. As originally intended the EDC will issue debt in order to reimburse the State each fiscal year for tax credits taken relating to the Historic Structures Tax Credit Program in order to stabilize budget projections and the annual impact of the taking of such tax credits. The actual amount of bonds issued will be dependent upon the compliance by the parties involved with the projects. The debt service on these bonds will be subject to annual appropriation by the General Assembly. There are other debt authorizations approved for quasi-public agencies and the Board of Governors for Higher Education, which will be funded from non-general revenue sources.

It is expected that the Economic Development Corporation will issue up to $42.0 million for the I-195 District Redevelopment Commission to purchase from the Department of Transportation land made available by the relocation of section so I-195 in the City of Providence. The debt service on these bonds will be subject to annual appropriation by the General Assembly.

The State will issue Certificates of Participation during FY 2013 for continuing energy conservation work at state facilities at the Pastore Government Center in Cranston. In addition, Certificates will be issued for Information Technology projects for an Integrated Tax System and for improvements to the technology infrastructure of local education agencies.

The FY 2010 Enacted Budget included a Debt Management Joint Resolution that allows the Rhode Island Public Rail Corporation, which is an instrumentality of the State, to fully indemnify AMTRAK's operations of the South County Commuter Rail. Section 8 of Article 17 of the FY 2010 Appropriations Act authorized, and Section 4 of Article 6 of the FY 2011 Appropriation Act has renewed the authorization of, the Rail Corporation to secure, with the funding support of the Department of Transportation, either a line or evergreen letter of credit in the amount of $7.5 million in favor of AMTRAK to secure the Rail Corporation's performance of its obligations arising under any South County Rail Service agreements that may be entered into. The letter of credit for $7.5 million has been issued.

Performance-based obligations of the Economic Development Corporation.

In May 1996 the Economic Development Corporation issued $25,000,000 of bonds to finance infrastructure for Fidelity Investments. These bonds carry a moral obligation of the State. If at any time, the amount in the capital reserve fund pledged for this bond issue falls below the capital reserve fund requirement as defined in the documents executed in connection with the transaction, a request will be made to the General Assembly to appropriate the amount of the deficiency. In addition, pursuant to the lease agreement between the Economic Development Corporation and FMR Rhode Island, Inc. to secure the bonds, job rent credits are applied against lease payments if certain targeted new job goals are met for the financed project. Currently, it is projected that these job goals will be met. If the job goals are met, the Economic Development Corporation will credit FMR Rhode Island, Inc.'s lease payments and make annual requests to the General Assembly for appropriation which will be used to pay the debt service on this bond issue. In May 2002, an additional $10 million of Phase II bonds with similar provisions were issued. As of June 30, 2012, $24.229 million of Fidelity bonds were outstanding. Job rent credits are expected to result in a State obligation of $2.5 million in 2012, and would reach $2.5 million for Phase I and $954,000 for Phase II annually, if maximized.

In November 1997, the Economic Development Corporation entered into a similar agreement with Fleet Bank (now known as Bank of America); bonds issued for that transaction totaled $11.0 million. As of June 30, 2012, $8,360,000 of Fleet bonds were outstanding. Under the lease agreement with Fleet, job rent credits are applied against lease payments if certain targeted new job goals are met for the financed project. The company has never reported jobs levels in excess of the base number of jobs (approx. 3,900). Job rent credits, if maximized are estimated to result in a State obligation of approximately $945,000 per year.

Borrowing for the Employment Security Fund

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

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

The balance in the Rhode Island Employment Security Fund was ($199.5) million as of December 31, 2012. This was an increase of $28.8 million from December 31, 2011 when the fund balance was ($228.3) million. Notwithstanding the limitations on borrowing described above, the State Constitution permits borrowings from the federal government without consent of the people. The Rhode Island Department of Labor and Training borrowed from the Federal Unemployment Account administered by the federal government $70.3 in FY 2009, $155.2 million in FY 2010, $89.9 million in FY 2011, $228.3 million in FY 2012 and $92.7 million in FY 2013 through January 30, 2013. From May 1, 2011 through January 30, 2013 the Department repaid $418.7 million in principal of its federal loans through the automatic application of Unemployment Insurance taxes received to the outstanding federal loans in order to reduce the interest due each September 30th. The Department projects that it will need to continue to borrow in FY 2013 and FY 2014 as authorized by federal law in order to meet its cash flow needs to finance the cost of unemployment benefit payments.

The last time a borrowing occurred was when the Rhode Island Employment Security Fund borrowed a total of $129.3 million between February 1975 and April 1980 from the Federal Unemployment Account under Title XII of the Social Security Act. In early November 1984, the Governor of the State of Rhode Island authorized the final transfer of $75.8 million from the Employment Security Fund to the Federal Unemployment Account to complete the $129.3 million repayment of the outstanding loan balance.

A history of the Employment Security Fund's financial status since 1975 when the first loan was made is presented in the table below. The first column of the chart presents the ending fund balance for each calendar year between 1975 and 2012. This figure is comprised primarily of a combination of employer contributions and Federal loans (receipts) minus employee benefits and loan repayments (disbursements) less any outstanding loan balance.

Year Ended Dec. 31	Fund Balance (Millions)	Borrowings from Federal Unemployment Account: Amount Borrowed (Millions)	Amount Repaid (Millions)
1975	$ -40.5	$ 45.8	$ -0-
1976	-53.9	20.0	-0-
1977	-66.6	9.0	3.73
1978	-88.0	31.0	-0-
1979	-96.3	5.0	4.31
1980	-94.5	18.5	0.02
1981	-71.0	0	9.26
1982	-76.6	0	10.22
1983	-46.6	-0-	12.15
1984	19.7	-0-	89.61
1985	71.4	-0-	-0-
1986	133.5	-0-	-0-
1987	211.5	-0-	-0-
1988	270.8	-0-	-0-
1989	295.0	-0-	-0-
1990	255.7	-0-	-0-
1991	140.2	-0-	-0-
1992	99.5	-0-	-0-
1993	114.0	-0-	-0-
1994	110.3	-0-	-0-
1995	107.6	-0-	-0-
1996	112.5	-0-	-0-
1997	157.0	-0-	-0-
1998	220.0	-0-	-0-
1999	260.5	-0-	-0-
2000	295.7	-0-	-0-
2001	278.0	-0-	-0-
2002	253.8	-0-	-0-
2003	205.5	-0-	-0-
2004	184.3	-0-	-0-
2005	185.8	-0-	-0-
2006	197.9	-0-	-0-
2007	168.4	-0-	-0-
2008	79.2	-0-	-0-
2009	-127.5	127.5	-0-
2010	-194.3	98.0	-0-
2011[1]	-228.3	169.9	167.1
2012[2]	-199.5	219.2	247.8

[1] Unaudited as of December 31, 2011 including outstanding federal loans
[2] Unaudited as of December 31, 2012 including outstanding federal loans

In March 2009, the Governor applied for repayable advances to the account of the State in the Unemployment Trust Fund from the federal unemployment account in accordance with the provisions of Section 1201 of the Social Security Act. In 2009, the State received $127.5 million in federal advances. The State also borrowed $98.0 million in 2010, $169.9 million in 2011 and $219.2 million in 2012. It is expected that additional borrowing will be needed in 2013 and 2014 for cash flow purposes. The outstanding loan balance is expected to peak at $252 million during April 2013.

Under ARRA, the loans from the federal account did not bear interest through December 2010. Beginning in 2011, any interest due on federal loans must be paid by September 30th of each year. The Department paid $7.1 million to the federal government in interest due on its federal loans for the January 1, 2011 to September 30, 2011 period. The Department also paid $7.6 million to the federal government in interest due on its federal loans for the October 1, 2011 to September 30, 2012 period. It expects to pay approximately $6.0 million in interest for the October 1, 2012 to September 30, 2013 period. Failure to pay interest by a due date would have resulted in a loss of state employer federal unemployment tax (FUTA) tax credits and the loss of the State's Unemployment Insurance (UI) Administrative grant. The interest due on federal loans could not be paid out of the State's UI Trust fund or by UI Grant funds. As a result, the General Assembly passed legislation that deleted a 0.3 percent UI surtax scheduled to take effect on January 1, 2011 and added 0.3 percent to the Job Development Fund Assessment that will be dedicated to paying the principal and interest on the State's UI loans. The Governor's FY 2014 Budget proposes to reduce this assessment to 0.25 percent effective January 1, 2014. If the State is unable to repay federal loans, there are provisions for automatic cuts in federal tax credits that employers receive when state law is in conformity with federal law. Currently, employers pay a FUTA of 6.0 percent to the federal government less a credit of 5.4 percent when state UI law is in conformity with federal law. The net federal tax is, therefore, 0.6 percent. However, after two years of outstanding loans, federal law requires cuts in the federal credit of 0.3 percent for each additional year that the loans remain outstanding. The additional money raised from the cut in the federal tax credit is applied against the State's federal loan balance. Rhode Island employers were subject to the first 0.3 percent tax credit reduction on 2011 taxable wages which reduced the outstanding federal loan by $7.9 million in 2012. Rhode Island still had an outstanding federal loan balance on November 10, 2012, so employers are subject to a 0.6 percent tax credit reduction on 2012 taxable wages with payment due by January 31, 2013.

Article 22 of the FY 2011 Appropriations Act expanded benefit eligibility and allowances under the Unemployment Insurance program. This article was effective January 1, 2011 and applies to all new claims filed from that day forward, but not to existing claims. Implementing these changes allowed the state to receive $15.6 million in Unemployment Insurance Modernization funding in 2010 made available through ARRA.

Article 4 of the FY 2012 Appropriations Act implemented adjustments to the Unemployment Insurance taxable wage base provisions beginning on January 1, 2012 and adjustments to Unemployment Insurance benefit provisions beginning on July 1, 2012. On the employer tax side, the taxable wage base went from a fixed amount based on the Employment Security Fund reserve to a variable amount equal to 46.5 percent of Rhode Island's average annual wage in January 2012. For CY 2012 the taxable wage base for most employers is $19,600. The taxable wage base for employers with the highest negative reserve account percentages is $21,100, which is $1,500 above the level set for all other employers. In CY 2013 the taxable wage base rose by $600 to $20,200 for most employers and $21,700 for employers with the highest negative reserve account percentages.

On the benefits side, the maximum weekly benefit amount formula percentage was adjusted effective July 1, 2012. It was previously set at 67 percent of the statewide average weekly wage. This article reduces the percentage to 57.5 percent of the statewide average weekly wage. However, the maximum cannot be lower than the maximum Weekly Benefit Amount level of $566 that took effect on July 1, 2011 and that remains the current maximum.

For individual workers, the total amount of benefits payable during a benefit year was reduced from a maximum of 36 percent of total wages during his or her base period, to 33 percent effective July 1, 2012. In addition, the percentage of an individual's earnings replaced by Unemployment Insurance benefits was reduced from 60 percent to 57 percent on July 1, 2012. It will be further reduced to 54 percent in FY 2014 and 50 percent in FY 2015.

It is estimated that if projected savings from these changes are realized, then taken together these changes could enable Rhode Island to repay its federal loans in 2015 through a combination of $214.6 million in increased federal and state taxes and estimated projected savings of $100.1 million in benefit adjustments. If the estimated savings are realized, these changes could then enable the Employment Security Fund to rebuild its reserves. These estimates are based on the Department of Labor and Training's projections of employment and unemployment levels assuming a gradual recovery from the current recession and therefore are uncertain and subject to change.

State Agencies and Authorities

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

Rhode Island Turnpike and Bridge Authority. Originally created by an act of the General Assembly, Chapter 12, title 24 of the General Laws, in 1954, the Rhode Island Turnpike and Bridge Authority has rights and obligations under agreements which secure its outstanding bonds. On August 21, 1997 the Authority issued $42,985,000 Refunding Revenue Bonds Series 1997 providing escrowed funds to defease bond issues outstanding totaling $41,355,000, (the original issues in 1965 and 1967 totaled $61,000,000). On July 31, 2003 the Authority issued $35,765,000 Taxable Refunding Bonds and together with other funds paid the outstanding balance of the Series 1997 Revenue Refunding Bonds. Accordingly, as of June 30, 2004 the Authority had no obligations related to the defeased Series 1997 bonds. The Authority voted to remove the tolls from the Mt. Hope Bridge on May 1, 1998. The Mt. Hope Bridge will continue to be maintained by the Authority. Tolls on the Claiborne Pell Bridge are the primary source of the Authority's revenues and together with interest earned on investments are anticipated to be adequate to service debt and maintain the Authority's facilities. The outstanding balance of the 2003A issue of taxable refunding bonds is $16,805,000 at June 30, 2012.

On April 28, 2010, the Authority issued $50,000,000 Revenue Bonds, Series 2010A secured by tolls and other revenues for the purpose of financing the renovation, repair and improvement of the Claiborne Pell Bridge, the Mount Hope Bridge and other facilities for which it is responsible. The outstanding balance of the Series 2010A Revenue Bonds is $50,000,000 at June 30, 2012.

On February 1, 2009, the Authority converted to electronic toll collection (E-ZPass) and discontinued accepting tokens for passage over the Claiborne Pell Bridge. In connection with the Enacted FY 2011 Budget, the General Assembly has authorized the Authority to issue up to an additional $68.1 million of revenue bonds to be secured by toll and other revenues for the purpose of financing the renovation, repair, and improvement of the Claiborne Pell Bridge, the Mount Hope Bridge and other facilities for which it is responsible.

In its 2012 session, the General Assembly amended Chapter 12, Title 24 of the General Laws to authorize the transfer of the Sakonnet River Bridge and the Jamestown Verrazzano Bridge to the Authority and approved tolling the Sakonnet River Bridge subject to federal regulations and approvals. The Authority is currently working on a transition plan with the Department of Transportation pursuant to this legislation. It is anticipated that the transfer would occur during the fiscal year ending June 30, 2013.

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

All of the Commission's full-time union employees participate in the Employees Retirement System ("ERS") of the State of Rhode Island. The Commission has contributed 100 percent of its required pension contribution to ERS. For the fiscal year ended June 30, 2012, the Commission has also fully funded its required contribution to the trust established by the State in Fiscal Year 2012 to accumulate assets and pay benefits and costs associated with other post-retirement health benefits.

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. As of June 30, 2012, the Commission has outstanding net long-term debt (revenue bonds) of $149,568,958 and outstanding net long-term loans payable to the Rhode Island Clean Water Finance Agency of $320,786,986. The Commission issued $40,000,000 in callable Bond Anticipation Notes (BANS) on November 28, 2012 with final maturity on May 23, 2013. Long term bonds are being issued by the Commission to refund the BANS.

Rhode Island Industrial-Recreational Building Authority. The Rhode Island Industrial-Recreational Building Authority was created in 1987, pursuant to legislation under Chapter 34, title 42 of the General Laws and subsequent voter referendum to merge the Recreational Building Authority and the Industrial Building Authority. The Industrial-Recreational Building Authority is a body corporate and politic and a public instrumentality of the State, consisting of five members appointed by the Governor. Voter approval enabled the Authority to pledge the State's full faith and credit up to $80,000,000 for the following purposes: to insure eligible mortgages for new construction, acquisition, and rehabilitation or expansion of facilities used for manufacturing, processing, recreation, research, warehousing, retail, and wholesale or office operations. New or used machinery, equipment, furniture, fixtures or pollution control equipment required in these facilities is also authorized for mortgage insurance. Mortgages insured by the Authority are limited to certain specified percentages of total project cost. The Authority is authorized to collect premiums for its insurance and to exercise rights of foreclosure and sale as to any project in default. Effective July 1, 2008, the General Assembly reduced the authorization to $20,000,000, but the authorization was increased by the General Assembly during the 2010 Session to $60,000,000.

As of June 30, 2012, the Authority had outstanding mortgage agreements and other commitments for $19,476,587 mainly in connection with revenue bonds issued by the Rhode Island Industrial Facilities Corporation. However, during December 2012, a bond for approximately $2.3 million was paid off, therefore reducing the outstanding obligations to approximately $17.1 million. 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, 2012, the Fund had a balance of $1,737,320. 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.

In February 2012, the Authority began using the Insurance Fund to satisfy amounts required to service an outstanding loan guarantee on a $5.0 million loan made to Capco Steel Corporation, which had defaulted on the loan. As of June 30, 2012, the outstanding loan guarantee was $4.6 million.

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

As of June 30, 2012, the Authority had $250,510,000 in principal of outstanding debt (excluding interest) consisting of the following issues:

- 1993 Series B - $ 21,340,000
- 2003 Series A - $ 41,315,000
- 2005 Series A - $ 33,435,000
- 2006 Series A - $ 84,745,000
- 2009 Series A - $ 69,190,000
- 2009 Series B - $ 485,000

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

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

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

During January 2002, the Corporation issued Resource Recovery System Revenue Bonds, 2002 Series A, in the aggregate principal amount of $19,945,000. The bond proceeds were used to finance the construction and equipping of a tipping facility to receive and handle commercial and municipal solid waste delivered to the facility. The outstanding balance at June 30, 2012 totals $12,160,000.

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

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. However, in years when the Corporation took in excess volumes of solid waste that generated surplus cash, the General Assembly required the Corporation to transfer a portion of those surpluses to the State's General Fund.

In FY 1994, the General Assembly approved a municipal tip fee of $32.00 per ton. Annually, the legislature has maintained the municipal tip fee at the FY 1994 level by reauthorizing the Corporation to charge $32.00 per ton for municipal solid waste. A portion of the Corporation's landfill is a designated Superfund site. During 1996, the Corporation entered into a Consent Decree with the United States Environmental Protection Agency (EPA) concerning remedial actions taken by the Corporation for groundwater contamination. The Consent Decree required the establishment of a trust in the amount of $27,000,000 to fund remedial actions; the EPA approved the Central Landfill Remediation Trust Fund Agreement on August 22, 1996. The majority of these remedial actions, including the construction of a landfill cap and the installation of the groundwater pump and treat system, have been completed, paid for and approved by the EPA. Based on current engineering estimates the annual operation and maintenance costs required under the Consent decree for the next five years are included the Corporation's closure / post-closure liability. The EPA reviews the need to continue these activities every five years.

While the cost of future remedial actions may potentially increase based on EPA's review and evaluation, 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 outside of 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 established trust funds, in accordance with Rhode Island Department of Environmental Management (RIDEM) requirements for a municipal solid waste landfill, for the closure and post closure care costs related to all currently operating and closed phases of the landfill. At June 30, 2012, the Corporation has approximately $83,607,663 in trust funds, which includes the remaining balance of the Superfund remediation trust funds, to meet the financial requirements of closure and post closure care costs related to Phases I, II, III, IV and Phase V. Future trust fund contributions will be made each year to enable the Corporation to satisfy these closure and post closure care costs. The Corporation’s total estimate of future landfill closure and post-closure costs for existing phases is approximately $86,000,000 as of June 30, 2012. The RIDEM has approved the Corporation’s application for licensure of Phase VI. Based on current cost estimates the Corporation expects to record an additional $70,000,000 of closure and post-closure costs over the anticipated life of Phase VI which will be activated in 2015.

As a result of some ethical concerns and suspected misuse of Corporation funds raised by the Corporation’s Executive Director, a preliminary forensic audit was ordered by the Governor in January 2008. The findings of that audit completed in March 2008 confirmed these concerns and the Governor then ordered a full forensic audit. On September 22, 2009 the Bureau of Audits released the results of its examination of the Corporation. Although none of the findings are expected to have a significant impact on the Corporation’s financial position, the audit did reveal $75,000,000 of mismanagement losses during the eight year period examined. In 2010, the Agency began the legal process to collect against insurance policies that covered against fiduciary losses and various third-parties.

In December 2005 a Complaint was filed in Providence County Superior Court alleging that the Corporation, its former Executive Director and other defendants (unrelated to the Corporation) through their actions and omissions have caused harm to the plaintiffs through exposure to alleged toxic substances, as well as assertions of unspecified damages and punitive damages. Various claims, including negligence, strict liability and other torts, have been alleged. The Corporation and the former Executive Director have answered and denied the allegations. To date, the plaintiffs have not established a causal relationship between any claimed exposure to substances in the landfill and their claimed medical problems. The Corporation has filed a motion for partial summary judgment on certain of the plaintiffs’ claims and on certain issues of causation. The court has heard arguments on the motion and the matter is under advisement. No trial date has been set. The court has directed the parties to mediation. Three different mediation dates were set in January, February and March 2013 to review the various plaintiffs’ claims. As a result of the January mediation twelve of the plaintiffs have now been dismissed from the action and another two plaintiffs should be dismissed soon. As a result of the February mediation an agreement was reached in principle to resolve the claims of an additional six plaintiffs subject to Board approval and certain other conditions. A final mediation session is scheduled in late March to review any remaining plaintiffs’ claims.

In September 2011 the Corporation sued a waste hauler for the collection of a past due accounts receivable. In response, the defendant filed a counterclaim alleging the Corporation engaged in conduct in violation of Rhode Island’s Anti-Trust Act and seeks $500,000 in compensatory damages and $500,000 in punitive damages. The Corporation’s legal counsel believes the counterclaim to be without merit, and has moved for Summary Judgment, citing the fact that the Corporation as a public body of the State and is exempt from the Act. In June 2012 the defendant’s counterclaim was withdrawn and accordingly dismissed.

On December 14, 2011 the Town of Johnston filed a complaint against the Rhode Island Resource Recovery Corporation alleging that odors emanating from RIRRC’s Central Landfill located at 65 Shun Pike, in Johnston, Rhode Island have given rise to a public nuisance and constitutes a breach of the Host Community Agreement. The complaint seeks unspecified monetary damages as well as injunctive relief. On or about February 10, 2012, the Town of Johnston filed an amended complaint. The parties continue to seek a consensual resolution of this matter, however, due to the limited information presently available, management is not able to categorize the possibility of a future loss, if any, nor can management estimate the range of any possible loss with any reasonable accuracy. The Corporation has notified its pollution liability insurance carrier of this litigation and is seeking coverage under its policy.

On February 2, 2012 the Rhode Island Department of Environmental Management issued a Notice of Violation to the Corporation and Broadrock Gas Services LLC relating to alleged air pollution violations at the Central Landfill. The Notice of Violation required the Corporation and Broadrock Gas Services LLC to take certain action to remediate the alleged violations and assessed a $55,000 penalty. The Corporation has appealed the Notice of Violation, which appeal remains pending. The Corporation has notified its pollution liability insurance carrier of the Notice of Violation and is seeking coverage under its policy.

On August 19, 2011, the City of Cranston (the City) issued its annual industrial pretreatment charge to the Corporation with an assessment of $370,012 (the "2011 IP Invoice"). The assessment consisted of three charges: an IP Fee of $40,442, an IP Violation of $151,692, and an IP Surcharge of $177,878. On October 14, 2011, the Company filed a request for a fee adjustment to the assessment because it is based on incorrect calculations and erroneous application of the City's Sewer Code Ordinance.

On April 24, 2012, the City issued another "invoice" to the Corporation totaling $4,214,212 that reflected an "update" to the 2010 invoice. The invoice reflected the 2010 invoice charges as well as additional charges through 2011 for alleged excess loading impact to the City's WPCF. The Corporation has not yet met with the City to discuss these issues, but a proposed meeting may occur in the near future.

On August 14, 2012, the City issued a "Fine Notice" to the Corporation for alleged exceedences of the Total Toxics Organic limits in the Company's Industrial Wastewater Discharge Permit. The Fine Notice assessed a penalty of $190,000. On August 24, 2012, the Corporation filed a "Request for Reconsideration" to reduce this fine to $40,000. On November 13, 2012, the City denied the Corporation's Request for Reconsideration. On December 7, 2012, the Corporation appealed the City's "ruling" on the Fine Notice to the Cranston City Council. The appeal is pending.

On September 17, 2012, the City issued the annual industrial pretreatment charge to the Corporation (the "2012 IP Invoice"), with an assessment of $272,461. The assessment consisted of three charges: an IP fee $43,992, an IP surcharge fee $131,278 and an IP violation fee $97,191. On October 15, 2012, the Corporation filed a request for a fee adjustment with the City because the fee was based on incorrect calculations.

On October 30, 2012, the Cranston DPW Director responded to both of the Corporation's requests for review of the 2011 IP Invoice and 2012 IP Invoice. The City agreed to withdraw the IP violation charges from the 2011 and 2012 IP invoices, but did not withdraw the remaining charges.

On November 9, 2012, RIRRC filed an appeal of the Cranston DPW Director's October 30, 2012 decisions on the 2011 and 2012 IP Invoices to the Cranston City Council. Both appeals are pending.

On September 12, 2012 and October 12, 2012, the Corporation notified the City of Cranston Department of Public Works that Broadrock had discharged wastewater emanating from the Gas Conditioning and Compression (GCC) site into the Corporation's leachate collection system. On November 5, 2012, the City of Cranston issued a Cease and Desist Order to the Corporation ordering the immediate cease and desist of discharging of any and all wastewaters emanating from the proposed Gas Conditioning and Compression facilities. The City of Cranston has not taken any further action at this time.

On January 4, 2013, Broadrock Gas Services, LLC and Rhode Island LFG Genco, LLC (collectively, "Broadrock") filed a complaint against Rhode Island Resource Recovery Corporation (the "Corporation") in the Superior Court in Providence seeking (a) specific performance to enforce an alternative dispute resolution provision in the Amended and Restated Landfill Gas Services Agreement and the Amended and Restated Site Lease and Landfill Gas Delivery Agreement (collectively, the "Agreements") and (b) a declaratory judgment to determine, inter alia, whether Broadrock had committed Events of Default that justified the Corporation's termination of the Agreements. On February 1, 2013, Broadrock filed a first amended complaint adding a count for a declaratory judgment that it has cured one of the alleged Events of Default. On February 11, 2013, the Corporation answered the first amended complaint denying Broadrock's allegations. Discovery is ongoing.

Pursuant to Rhode Island General Laws Sections 35-18-3 and 35-18-4, the Corporation has requested the approval of the General Assembly of the Corporation's issuance of not more than $40.0 million of Revenue Bonds for the purpose of providing funds for the design and construction of a leachate pretreatment facility to comply with projected changes in discharge standards for the disposal of wastewater into a public sewer system. In the 2012 Session, the General Assembly granted the Corporation the necessary approval to issue these bonds.

The State of Rhode Island, in conjunction with its annual budgeting process, may include a provision in its budget requiring the Corporation to pay an amount to the State's general fund. From fiscal years 1995 through 2012, the Corporation has paid approximately $70,215,000 to the State's general fund. The State's budget for fiscal year 2012 provided for a payment of $3,500,000 from the Corporation to the State's general fund which the Corporation paid in June 2012. No such payments are included in the FY 2013 enacted or the FY 2014 recommended budgets.

Rhode Island Public Transit Authority. The Public Transit Authority was created under Chapter 18, title 39 of the General Laws in 1964 as a body politic and corporate in response to the continuing financial difficulties being experienced by private bus transportation companies in the State resulting in the disruption of service. The Authority, with assistance from the State and with the proceeds of a federal loan, acquired the assets of the former United Transit Company and is authorized to acquire any other bus passenger systems or routes in the State which have filed with the Chairman of the State Public Utilities Commission a petition to discontinue service, and which the Authority deems necessary in the public interest. The Authority has expanded its operations statewide and operates a fleet of approximately 257 buses and 135 vans carrying approximately 19.4 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 time to time with the most recent increase being from $1.50 to $1.75 to $2.00 in September 2010. The Authority, in an effort to build ridership, has maintained rates at a level that has necessitated State appropriations to support its operations. In the fiscal year ended June 30, 2012, audited results of operations reveal that State-operating assistance to the Authority totaled $40,945,215, operating revenues totaled $33698198, and other revenues totaled $24,044,399.

It should be noted that over the past several months the authority has come under a high level of scrutiny related to its management and financial condition. As a result, Governor Chafee ordered a resource team headed by a Lt. Colonel of the Rhode Island State Police to temporarily take over the day to day operations of the Authority and review all aspects of the organization. This Resource Team has been given full authority to carry out its assignment and will update the Board on their findings at their bi-weekly board meetings.

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

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

As of June 30, 2012, the total aggregate principal amount outstanding under all conduit debt obligations was $1,063,289,907. Certain of the bonds of the Corporation can be secured, in addition to a pledge of revenues, by a capital reserve fund established by the Corporation for the applicable bond issue. In accordance with its enabling legislation, if at any time the balance in such capital reserve fund falls below its requirement, the Corporation is authorized to request the General Assembly to appropriate the amount of the deficiency. The General Assembly may, but is not obligated to, appropriate such amounts. Some, but not all, revenue bonds issued by or through the Corporation that are outstanding are listed below.

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

In May 1996, the Corporation issued $25,000,000 in revenue bonds on behalf of Fidelity Management Resources for development of infrastructure improvements at a site in Smithfield to be utilized for Fidelity of Rhode Island, Inc. These bonds are also secured, in part, by the Corporation's capital reserve fund. At June 30, 2012, the outstanding balance was $15,585,987.

In May 2002, the Corporation and Fidelity Management Resources entered into a Second Amendment to Ground Lease, to expand the premises to include additional lots at Fidelity Management Resources site in Smithfield. In connection therewith, the Corporation issued $10,000,000 in revenue bonds on behalf of Fidelity Management Resources. These bonds are secured, in part by the Corporation's capital reserve fund. At June 30, 2012, the outstanding balance was $8,643,067.

In addition, pursuant to the lease, the Corporation entered into an agreement with FMR Rhode Island, Inc., for the Fidelity Management Resources project described above, to secure those bonds, credits are provided for lease payments if certain targeted new job goals are met for the financed project. If the job goals are met, the Corporation will credit FMR Rhode Island, Inc.'s lease payments and make annual requests to the General Assembly for appropriations which will be used to pay the debt service on this issue. In FY 2012, the State's expenditure for this purpose was $2,828,776.

In November 1997, the Corporation issued $11,000,000 in revenue bonds on behalf of Fleet National Bank (which is now part of Bank of America by merger) for development of infrastructure improvements at a site in Lincoln, to be utilized by Fleet National Bank. These bonds are also secured, in part, by the Corporation's capital reserve fund. In addition, the State has provided for credits if certain targeted new job goals are met. No expenditures have been made to date. At June 30, 2012, the outstanding balance was $8,360,000.

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

In May 2000, the Corporation issued revenue note obligations in the amount of $40,820,000 to finance a portion of the costs of the Providence Place Mall. Such financing will be supported by two-thirds of the sales taxes generated at the mall (up to a cap of $3.68 million in years 1-5, and $3.56 million in years 6-20) as provided in the Mall Act (R.I.G.L. § 42-63.5-1 et. seq.) enacted by the General Assembly in 1996 and by Public Investment and HOV Agreement. It is expected that sales tax revenues generated at the Mall will be sufficient to fully support the revenue note obligations. Sales tax generated at the Mall is recorded as general revenues. The State is not obligated to fund the note payments if the sales tax generated is not sufficient. As of June 30, 2012, there was $24,730,000 of bonds outstanding.

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

$42,815,000 was sold. In April 2009, a third series was issued totaling $12,410,000. As of June 30, 2012, $70,350,000 was outstanding.

The GARVEE bonds issued through the Corporation, which are secured by federal funds made available to the Department of Transportation, are not considered part of the State's net tax supported debt. As of June 30, 2012 there was $342,720,000 outstanding which were supported by federal revenues.

In June 2009, the Corporation issued revenue bonds in the amount of $150,000,000 to provide funds to reimburse the State for Historic Structures Tax Credits from time to time presented by taxpayers. These revenue bonds are supported by a payment agreement with the State subject to annual appropriation. As of June 30, 2012, there was $105,990,000 of such revenue bonds outstanding.

In November, 2010 the Corporation issued $75.0 million of taxable revenue bonds under the Job Creation Guaranty Program. The bond proceeds were loaned to 38 Studios, and provided funding for relocation of the company's corporate headquarters to the State and establishment and operation of a video gaming studio in the City of Providence. Proceeds also were used to fund a Capital Reserve Fund and Capitalized Interest Fund. Amounts in the Capital Reserve Fund are to be used in the event that 38 Studios fails to make any required loan payments. In accordance with the enabling legislation and the agreement between the Economic Development Corporation, the trustee and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, the Economic Development Corporation has agreed to present the Governor with a certificate stating the amounts required to restore any shortfall and the Governor is required to include such amounts in his or her budget request for appropriation to the General Assembly. The General Assembly may but is not required to appropriate such amounts. For further information regarding the current status of 38 Studios and the bonds issued by the Economic Development Corporation for 38 Studios, see "State Indebtedness – Moral Obligation of the State Regarding 38 Studios". An additional $5,500,000 in guarantees was issued under the Job Creation Guaranty program for notes through June 30, 2012, and an additional $1,000,000 has subsequently been committed (unfunded) as of February 6, 2013.

During July 2011, the Governor signed into law an Act authorizing the sale of surplus property created by the relocation of Interstate 195. The Act also creates the I-195 redevelopment district commission (the "Redevelopment Commission"). The seven member commission is authorized to plan, implement, administer and oversee the redevelopment of the Interstate 195 surplus properties. The proceeds from the sale or lease of such surplus properties will be used to help finance the completion of the Interstate 195 relocation project. Also included in this legislation was authorization for RI Economic Development Corporation to issue bonds or other obligations not to exceed $42,000,000 to finance the acquisition by the Redevelopment Commission of the surplus land from the State. This financing, in combination with residual funds from the motor fuel proceeds, is expected to be sufficient to fund completion of the Interstate 195 relocation project and certain activities of the Redevelopment Commission. To the extent these resources are not sufficient to complete the project, other state and federal Transportation funds would be made available, which would impact the progress of other contemplated projects.

During August 2012, Quonset Development Corporation, a subsidiary of Economic Development Corporation, entered into loan agreements to borrow $7,500,000 to support the Davisville dredging project.

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

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

RIAC was created to operate as a self-sustaining entity and receives no funds from the State's General Fund for the operation and maintenance of any of the Airports under its jurisdiction. RIAC has 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 borrow money without the approval of EDC.

RIAC operates T. F. Green Airport, which is Rhode Island's only certified Part 139 commercial airport. The Airport is primarily an origin – destination airport. In recent years, approximately 96% of the passengers at the Airport either began or ended their journeys at the Airport. As of June 2012, and based upon classifications defined by the U.S. Department of Transportation, the Airport has scheduled passenger service provided by fifteen major/national and two regional airlines. Air Georgian provides international service at the Airport. Two airlines provide all-cargo service.

Airport Use and Lease Agreements

As of June 2012, RIAC established Signatory Airline Agreements with Delta Airlines, FedEx, Southwest Airlines, United Airlines, United Parcel Service Co. and US Airways. Affiliates of Signatory Airlines operate under the terms and conditions of the Signatory Airline Agreements. Air Georgian and Cape Air executed Non-Signatory Agreements. JetBlue Airways executed a Signatory Airline Agreement and began service at the Airport on November 29, 2012. Air Georgian has announced that it plans to cease operations at the Airport effective February 28, 2013.

The term of the Signatory Airline Agreement is five years from July 1, 2010 through June 30, 2015. A Cost Center Residual Rate Methodology is utilized to establish the Landing Fee and Apron Rental Rates. The Terminal Rental Rate Methodology is Commercial Compensatory. A Majority-in-Interest approval is not required for Capital Improvement Projects. The Signatory Agreement incorporates an Airline Net Revenue Sharing methodology for Signatory Passenger Airlines. Distribution of each Signatory Passenger Airline's portion of the revenue-sharing is based on enplanements. Under this process, RIAC retains the first $1 million and the Signatory Passenger Airlines share the next $600,000. If there are remaining funds after the $1.6 million, the Signatory Airlines share 40% and RIAC retains 60%. Non-Signatory Airlines' landing fees, apron fees and terminal rental rates are 125% of the Signatory Airlines' rates.

Historical Enplanement Data

T.F. Green Airport was ranked as the 63rd busiest airport in the country for federal fiscal year 2010 according to the latest published data in the "Terminal Area Forecast Summary" produced by the U.S. Department of Transportation, FAA. This compares with rankings of 61st busiest in federal fiscal years 2009 and 2008, and 60th busiest in federal fiscal years 2007 and 2006.

Actual enplaned passengers for fiscal year 2012 were 36,752 below 2011, resulting in a decrease of 1.9%. The decline in enplanements at the Airport is attributable to the ongoing impact of the economic downturn.

General Aviation Airports

There are five General Aviation Airports operated by RIAC, each of which is managed pursuant to a Management Contract by and between RIAC and AFCO AvPORTS Management, LLC (AvPORTS). Each of these airports is briefly described below:

North Central Airport

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

Quonset Airport

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

Westerly Airport

This airport is located in Westerly, approximately thirty-five miles southwest of the Airport. Westerly Airport is classified as a commercial service airport and enplanes approximately 10,000 commuter passengers annually.

Newport Airport

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

Block Island Airport

Situated on Block Island just off the southern coast of Rhode Island, Block Island Airport is approximately twenty-five miles from the Airport. Block Island Airport is classified as a commercial service airport and enplanes approximately 10,000 commuter passengers annually.

Long-Term Debt Administration - General

Under the State Lease Agreement, RIAC has agreed to reimburse the State for G.O. Bond debt service accruing after July 1, 1993. In the event there are not sufficient moneys available to reimburse the State, such event shall not constitute an event of default. Instead, the unpaid portion shall accrue and be payable in the next succeeding fiscal year and shall remain a payment obligation of RIAC until paid in full. If the unpaid portion is not reimbursed by the end of the following year, such failure could constitute an event of default on the part of RIAC under the State Lease Agreement. RIAC is current in all of its payment obligations to the State. These bonds mature annually through 2023. The balance outstanding at June 30, 2012 and 2011 was $5.225 million and $6.79 million, respectively.

In 1994, RIAC issued $30 million Series A 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 as of June 30, 2012 and 2011 was $ 3.345 and $4.315 million respectively.

In 1998, RIAC issued $8.035 million Series A and $53.14 million Series B General Airport Revenue Bonds dated June 11, 1998, maturing annually from 2001 through 2028 with interest coupons ranging from 4.2% to 5.25%. The balance outstanding as of June 30, 2012 and 2011 was $32.06 million for both years.

In 2003, RIAC issued $31.725 million Series A Airport Revenue Refunding Bonds dated October 2, 2003 to enable the defeasance of $31.395 million of 1993 Series A General Airport Revenue Bonds. The refund issue matures annually through 2015 with interest coupons ranging from 3.5% to 5%. The balance outstanding as of June 30, 2012 and 2011 was $11.57 million and $14.19 million, respectively.

In 2004, RIAC issued $52.665 million Series A Airport Revenue Refunding Bonds dated March 12, 2004 to enable the defeasance of $31.915 million and $20.19 million of 1993 Series A and 1994 Series A General Airport Revenue Bonds, respectively. The refund issue matures annually through 2024 with interest coupons from 2% to 5%. The balance outstanding as of June 30, 2012 and 2011 was $48.90 million and $48.985 million, respectively.

In 2005, RIAC issued $43.545 million Series A and $27.245 million Series B General Airport Revenue Bonds dated June 28, 2005 maturing annually from 2009 through 2030 with interest coupons ranging from 4.625% to 5%. Also on June 28, 2005, RIAC issued $44.465 million Series C Airport Revenue Refunding Bonds to enable the defeasance of $42.165 million of 2000 Series B General Airport Revenue Bonds. The refund issue matures annually through 2028 with interest coupons ranging from 3% to 5%. RIAC's defeasance of the 2000 Series B Bonds resulted in an economic present value gain of $3.04 million or 7.2% of the refunded bonds. The outstanding balance for the 2005 Series as of June 30, 2012 and 2011 was $109.89 million and $112.21 million, respectively.

In 2008, RIAC issued $17.645 million Series A and $15.49 million Series B General Airport Revenue Bonds dated May 30, 2008 maturing annually through 2038 with interest coupons ranging from 3.5% to 5.25%. Also on May 30, 2008, RIAC issued $18.03 million Series C Airport Revenue Refunding Bonds to enable the defeasance of $18.06 million of 1998 Series B General Airport Revenue Bonds. The refund issue matures annually from 2010 through 2018 with interest coupons ranging from 4% to 5%. RIAC's defeasance of these 1998 Series B Bonds resulted in an economic present value gain of $597 thousand or 3.3% of the refunded bonds. The outstanding balance for the 2008 Series as of June 30, 2012 and June 30, 2011 was $46.825 million and $49.185 million, respectively.

Long-Term Debt Administration – Special Facility

In 2006, RIAC issued $48.765 million Series 2006 First Lien Special Facility Bonds for the InterLink Project (2006 First Lien Bonds) dated June 14, 2006 maturing annually from 2011 through 2036 with interest coupons ranging from 4% to 5%. The balance outstanding for the 2006 First Lien Bonds was $48.195 million and $48.765 million as of June 30, 2012 and 2011, respectively. The InterLink Project involved the construction of an Intermodal Facility, including a parking garage, rental car facility and train station, along with construction of a walkway connecting this new facility with T.F. Green Airport. The 2006 First Lien Bonds are payable from and secured by a pledge of the respective interests of EDC and RIAC in the Trust Estate created under the Indenture.

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

As part of the financing for the InterLink Project, RIAC and the EDC secured additional funds under the USDOT's TIFIA for the payment of eligible project costs of the InterLink up to $42 million at an interest rate of 5.26%. This TIFIA Bond is issued pursuant to the First Supplemental Indenture as a Second Lien Obligation payable from and secured by a pledge of and secondary interest in the Trust Estate under the Indenture, subject to the pledge of the Trust Estate for the security and payment of the 2006 First Lien Bonds. The 2006 TIFIA Bond is also secured by the Second Lien Debt Service Reserve Fund that was funded from CFCs on the Date of Operational Opening in an amount of $3,328,407. As of June 30, 2012 and June 30, 2011 approximately $40.059 million and $23.838 million, respectively had been drawn on the TIFIA loan.

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

The Corporation is authorized to issue its revenue bonds and notes from time to time for any of its corporate purposes. All bonds and notes issued by the Corporation shall be payable solely out of the revenues and receipts derived from the leasing or sale by the Corporation of its projects, or from any other financing arrangement which may be designated in the proceedings of the Corporation under which the bonds or notes shall be authorized to be issued. As of June 30, 2012, the Corporation had an outstanding principal balance of conduit debt of $65,485,403. 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 $19,476,587 as of June 30, 2012. During December 2012, a bond for approximately $2.3 million was paid off, therefore reducing the outstanding obligations to approximately $17.1 million.

In February 2012, the Rhode Island Industrial Recreational Building Authority began paying on an insured mortgage obligation related to a $5.0 million loan made to Capco Steel Corporation. As of June 30, 2012, the outstanding loan guarantee was $4.6 million and the Authority's mortgage loan fund balance as of June 30, 2012 was $1,737,320. If needed, the Authority would seek a state appropriation to fund remaining payments.

Rhode Island Housing and Mortgage Finance Corporation. The Rhode Island Housing and Mortgage Finance Corporation is a public corporation and instrumentality of the State created in 1973 to assist in the construction and financing of low and moderate income housing and health care facilities in the State. In addition to its general powers, the Corporation is authorized to issue revenue bonds, to originate and make mortgage loans to low and moderate income persons and families, to purchase mortgage loans from and make loans to private mortgage lenders in the State in order to increase the amount of mortgage money generally available, to make mortgage loans to contractors and developers of low and moderate single-family and multi-family housing developments and to acquire and operate, both solely and in conjunction with others, housing projects. The total outstanding indebtedness, including unamortized bond premium/discount, of the Corporation at June 30, 2012 was $1,602,788,286 consisting of $1,399,728,286 of long-term bonds and notes and $203,060,000 of short-term or convertible-option bonds and notes. Included in the total outstanding is $227,135,801 in bonds, which are secured in part by capital reserve funds which have aggregated to $42,344,600 on June 30, 2012. 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 select multi-family issues of the Corporation.

Rhode Island Student Loan Authority. The Authority was created in 1981 under Chapter 62, title 16 of the General Laws, for the purpose of increasing the supply of loans made to students and their families to finance the cost of obtaining a post-secondary education. To achieve this purpose, one of the powers of the Authority is the ability to issue bonds and notes. Obligations of the Authority shall not constitute a debt, liability or obligation of the State or any political subdivision thereof, and shall be payable solely from the revenues or assets of the Authority. As of December 31, 2012, the Authority held $484,411,334 in Federal Family Education Loans that were insured by the Rhode Island Higher Education Assistance Authority and other Guarantors. The Authority also held on December 31, 2012, $414,951,030 in state based private education loans. As of December 31, 2012 the Authority had $793,342,475 of bonds outstanding.

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

Rhode Island Water Resources Board Corporate. Pursuant to Chapter 15.1 of title 46 of the Rhode Island General Laws, the Water Resources Board Corporate (WRBC) 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 WRBC 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 WRBC 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 March 1, 1994, the WRBC issued revenue bonds for public drinking water protection in the amount of $11,835,000. On November 15, 2002, the Board issued $11,835,000 of refunding revenue bonds. The proceeds refunded the 1994 series on March 1, 2004 in the amount of $7,847,700. The excess proceeds were used to fund Phase III of public drinking water protection. The amount of the Series 2002 refunding bonds outstanding as of June 30, 2011 was $4,477,563.

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

During the 2011 Session, the General Assembly enacted legislation that transferred all employees, accounts, and properties to the Division of Planning in the Department of Administration. The legal counsel for the Department of Administration has confirmed that although these assets of the WRB and WRBC have been transferred to the Division of Planning, the Board members of the WRB and WRBC retain their existing authority and obligations that comprise their programs under Chapter 46-15 and 46-15.1 through 46-15.8 of the General Laws of Rhode Island.

Rhode Island Health and Educational Building Corporation. The Corporation was organized in 1966 as a Rhode Island non-business corporation with the name Rhode Island Educational Building Corporation. In 1967, the Corporation was constituted as a public body corporate and an agency of the State under Chapter 38.1, title 45 of the General Laws. The Corporation has broad powers to assist colleges and universities in the State with the financing of educational facilities, to assist hospitals in the State with the financing of health care facilities, to assist students and families of students attending institutions for higher education in the State with the financing of the cost or a portion of the cost of higher education, to assist with financing a broad range of non-profit health care projects, to assist with financing non-profit secondary schools, child day care centers, adult day care centers, free standing assisted living facilities, and to assist local educational authorities in the State with financing public school projects. To assist it with 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 funds 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, 2012, the Corporation had $3,005,379,375 of bonds and notes outstanding (excluding series secured by funds held in trust for future redemption).

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

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

The TSFC issued $685,390,000 of its Tobacco Settlement Asset-Backed Bonds, Series 2002A ("TSAC Bonds") in June 2002 to finance the costs of acquisition of the right, title and interest to one-hundred percent (100 percent) of the "state's tobacco receipts" for the years 2004-2043. The TSFC issued an additional $197.0 million of its TSAC Bonds on June 27, 2007, all of which is outstanding. Combined, there is $779,425,742 of principal outstanding, or $846,326,430 including accreted interest at June 30, 2012.

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 the Director of Labor & Training for mediation and conciliation to assist in a voluntary resolution of impasses. If impasses are not resolved, the Conciliator makes written findings of fact and recommendations with a view toward the voluntary settlement of unresolved issues. If mediation and conciliation fail or are not requested, any and all unresolved issues are submitted to arbitration. The decision of the arbitrators is binding on the parties with respect to all issues and matters other than issues which involve wages for all bargaining units other the State Police, E-911 Emergency Telephone, and employees of the Rhode Island Brotherhood of Correctional Officers, for whom an arbitrator's decision involving wages is binding. For all other bargaining units, the arbitrators' decision on issues involving wages is advisory only.

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 February 9, 2013 the State had 14,815 paid employees. This equates to approximately 13,673.9 full-time equivalent positions. Of this amount, 11,231 employees organized in numerous unions represented by various collective bargaining units, the largest of which is the American Federation of State, County and Municipal Employees, Council 94. This union represents approximately 3,838 employees, or 34.0 percent of total organized State employees. Several other major bargaining groups are represented by the Rhode Island Alliance of Social Service Employees, Local 580 (811 employees); the Rhode Island Brotherhood of Correctional Officers (1,052 employees); the American Association of University Professors (682 employees) to name a few. In addition, there are 3,584 non-union employees. Contracts with all but two of the collective bargaining units expire on or prior to October 1, 2012. The State and the Rhode Island Brotherhood of Correctional Officers utilized the interest arbitration process to determine the collective bargaining agreements for 2006 through 2009 and 2009 through 2012. The interest arbitration panel issued their awards on March 31, 2010. The State Police union recently ratified a new contract for the period of May 2010 through April 2013.

The FY 2011 Enacted Budget included new provisions in the pension system for state employees, teachers, and judges who were not eligible for retirement in September 30, 2009 and were not eligible to retire as of the enactment of the proposal. These provisions limited cost of living adjustments to the first $35,000 of the retirement allowance, indexed to inflation but capped at 3 percent, beginning in the third anniversary of the date of retirement or age 65, whichever is later. Savings from this action were estimated at $16.0 million in general revenue expenditure, $5.7 million from state employees and judges, and $10.3 million from teachers ($4.2 million from the state share and $6.1 million from the municipalities). As a result of changes that were enacted, which modified the cost sharing of State employee retiree health benefits effective October 1, 2008, there were a significant number of state employees who retired.

As part of the FY 2012 Enacted Budget, the General Assembly imposed a moratorium on the longevity pay program for state employees. This program provided employees increases in pay based on years of services as follows: 5 percent after 5 years, 10 percent after 11 years, 15 percent after 15 years, 17.5 percent after 20 years and 20 percent after 25 years. The moratorium was effective July 1, 2011 for non-union employees and as of the end of current collective bargaining agreements that include longevity pay provisions for unionized employees, most of which expired June 30, 2012. Employees will maintain any longevity pay they have earned as of these dates, but will not be eligible to receive additional increments. Although many contracts expired June 30, 2012, there was some ambiguity with regards to when longevity pay would end, July 1, 2012 or when the successor contract took effect. To avoid any ambiguity, the State terminated the various collective bargaining agreements, but offered to reinstate them if the respective union acknowledged that the longevity statute controlled this provision as of July 1, 2012. All affected unions, with the exception of the Physicians union as of this time, agreed to this. Most unions have also signed a Memorandum of Settlement (MOS) that extended contract provisions for one additional year, but with no provision for any cost of living adjustment. The Administration is currently in negotiations with these unions for new contracts that would be effective July 1, 2013.

As of February 9, 2013 there were 13,673.9 FTE positions filled, 1,352.4 less than the authorized amount in the FY 2013 Enacted Budget.

STATE RETIREMENT SYSTEMS

(See the Glossary at the end of this section for the definitions of certain capitalized terms used in this section.)

Background Information Regarding the State Retirement Systems

The State, through the Employees' Retirement System of Rhode Island ("ERSRI"), administers and contributes to three defined-benefit retirement plans - the Employees' Retirement System (the "ERS"), the Judicial Retirement Benefits Trust (the "JRBT"), and the State Police Retirement Benefits Trust (the "SPRBT"). The ERS, JRBT and SPRBT are collectively referred to herein as the "Plans". ERSRI acts as a common investment and administrative agent for the Plans. ERSRI is administered by the State of Rhode Island Retirement Board (the "Retirement Board"), which was authorized, created and established in the Office of the General Treasurer as an independent retirement board to hold and administer, in trust, the funds of ERSRI.

On November 18, 2011, the Rhode Island Retirement Security Act of 2011 ("RIRSA") was signed into law. RIRSA, which took effect July 1, 2012, makes significant changes to the state retirement systems administered by the ERSRI. Some of the significant changes are as follows:

- Cost of Living Adjustments are suspended for retired state employees, teachers, judges and state police until an 80% funding level is achieved in the aggregate for ERS, JRBT and SPRBT. After the suspension, future COLAs/benefit adjustments will be applied to the first $25,000 of retirement income (indexed annually) and will be based on market performance of the plan assets determined by subtracting 5.5% from the 5 year average investment return of the aggregate funds with a maximum adjustment of 4% and a minimum adjustment of 0%. During the suspension period, a benefit adjustment, if warranted under the foregoing formula, will be awarded at five-year intervals.

- For state employees and teachers the defined benefit pension plan has been transitioned into a combination defined benefit/defined contribution plan. Benefit accruals under the defined benefit plan have been reduced to an annual accrual rate of 1% multiplied by an employee's highest 5 year average compensation. For all state employees and approximately 50% of teachers (those participating in Social Security), the defined contribution plan requires a 5% employee contribution and 1% employer contribution. For teachers not participating in Social Security, the defined contribution plan requires a 7% employee contribution and 3% employer contribution.

- For state employees and teachers, the retirement age under the defined benefit pension plan is extended to Social Security normal retirement age, with transition rules easing the implementation of the new retirement age for longer service employees.

- For state police, the retirement age is extended to 25 years of service for officers with fewer than twenty (20) years of service on June 30, 2012.

As a result of the RIRSA legislation, the unfunded liability of $6.8 billion for state employees and teachers reported in the June 30, 2010 valuation has been reduced to $4.4 billion as reported in the June 30, 2011 valuation. The projected employer contribution has been reduced from $622 million as reported in the 2010 actuarial valuation report to $380 million as reported in the June 30, 2011 valuation. The GASB funded ratio improved from approximately 48% as of June 30, 2010 to approximately 57.4% as of June 30, 2011. The funded ratio as of June 30, 2012 is approximately 56.3%

As reported in further detail below, a number of unions representing state employees and teachers filed a lawsuit in State Court in May 2010 challenging pension reforms made by the Rhode Island General Assembly in 2009 and 2010. In addition, in June 2012, certain unions, active employees, retired state employees and associations of retired state and municipal employees who maintain they are current beneficiaries of ERSRI commenced five separate lawsuits in State court challenging the Rhode Island Retirement Security Act of 2011 ("RIRSA").

The State continues to face challenges in addressing the unfunded pension liability of ERSRI. This liability is the product of a number of factors, including; (i) investment performance during the last decade that was significantly lower than the actuarial assumed rate of return, (ii) certain demographic actuarial assumptions proving to be inconsistent with actual experience (such as retiree longevity), (iii) improvements in pension benefits to members prior to 1991 without corresponding funding, (iv) key decisions made prior to 2002 by the legislature and Retirement Board (as defined below) which had the effect of lowering contributions to ERSRI, and (v) other overly optimistic actuarial assumptions. The magnitude of the unfunded pension liability together with significant costs related to postemployment healthcare benefits pose a significant financial challenge to the State.

The amounts and percentages set forth in this section relating to ERSRI, including, for example, Actuarial Value of Assets, Actuarial Accrued Liabilities, Unfunded Actuarial Accrued Liability, Funded Ratios, and Annual Required Contribution (or "ARC"), are based upon numerous demographic and economic assumptions, including investment return rates, inflation rates, salary increase rates, cost of living adjustments, postemployment mortality, active member mortality, and rates of retirement. The prospective purchasers of the Bonds are cautioned to review and carefully assess the reasonableness of the assumptions set forth in the documents that are cited as the sources for the information in this section. In addition, the prospective purchasers of the Bonds are cautioned that such sources and the underlying assumptions speak as of their dates, and are subject to change, any one of which could cause a significant change in the Unfunded Actuarial Accrued Liability.

An adverse judgment to the State rendered in the litigation could significantly increase the State's Annual Required Contribution ("ARC"). If there were to be a significant increase in the ARC, the State may be required to (i) raise additional revenue, (ii) reduce State services, (iii) modify benefits provided by each of the Plans, (iv) implement a combination of the foregoing, or (v) take any other measures as necessary.

Employees' Retirement System

The ERS was established under section two of chapter 2334 of the Rhode Island Public Laws of 1936 and placed under the management of the Retirement Board for the purpose of providing retirement allowances for employees of the State under chapters 8 to 10 of title 36 of the State of Rhode Island General Laws (the "RIGL"), and public school teachers under chapters 15 to 17 of title 16 of the RIGL.

The ERS, the largest of the Plans, is a multiple-employer, cost-sharing, public employee retirement plan covering eligible state employees as well as teachers and certain other employees employed by local school districts. The ERS provides retirement, disability and death benefit coverage. Employer contributions for state employees are made only by the State. Employer contributions for teachers are made by both local education agencies ("LEAs") and the State, except that the State does not contribute to the Teachers' Survivors' Plan. For teachers, the State contributes 40% of the employer contribution rate and LEAs contribute 60% (this split is further adjusted to account for the State's repayment of amounts taken from the trust in the early 1990s and in the case of five cities or towns that did not participate in the 1990 early retirement window for teachers). Separate contribution rates are determined for state employees and for teachers. Prior to July 1, 2012, State employees and teachers contributed 8.75% and 9.50% of their salary per year to the ERS, respectively. Under RIRSA, employee contributions to ERS for both state employees and teachers are reduced to 3.75% effective July 1, 2012.

Prior to July 1, 2012, ERS provides a two-tier benefit structure (known as "Schedule A Benefits" and "Schedule B Benefits"). Schedule A Benefits were available to members who possessed ten years or more of contributory service on or before July 1, 2005. Schedule B Benefits were provided to members who had less than ten years of contributory service on or before July 1, 2005. Effective October 1, 2009, Schedule B Benefits became applicable to future service of all active employees except those employees who were eligible to retire as of September 30, 2009. Effective July 1, 2012, all members accrue future benefits at a rate of 1% of high 5 year average compensation.

To fund the future benefits owed to employees in a defined-benefit structure, ERSRI invests money contributed by both the employers and the employees during the employees' employment. Generally, employees contribute a fixed percentage of their annual salary and employers contribute the additional amounts determined by an actuarial process to be necessary, when combined with the projected investment earnings on plan assets, to pay the benefits under the pension plan. Typically, the funds contributed by the employer and employee are invested in a mix of equity investments and fixed income vehicles, such as bonds.

Under Section 36-10-2 of the RIGL, the State is required to make contributions to the Plans, as computed annually by an actuary. Gabriel, Roeder, Smith & Company is the actuary currently employed by the ERSRI (the "Actuary"). The Retirement Board's current policy regarding the actuarial determination of the State's contribution rates is that the contribution rates determined by an Actuarial Valuation become effective two years after the valuation date.

Judicial Retirement Benefits Trust (JRBT)

The JRBT, a single-employer plan, was established under Sections 8-8.2-7, 8-3-16, 8-8-10.1, and 28-30-18.1 of the RIGL and placed under the management of the Retirement Board for the purpose of providing retirement allowances to judges appointed after December 31, 1989. Prior to July 1, 2012, State judges contributed 8.75% of their salary per year to the JRBT. Effective July 1, 2012, the judges' contribution rate increased to 12% of salary per year. It should be noted that the Retirement Board's management is limited to the collection of employee and employer contributions; benefit eligibility is managed by the administrative section of the judiciary. Pensions for 59 judges and their beneficiaries appointed prior to December 31, 1989 are funded by the State on a pay-as-you-go basis and have an annualized cost of $6,118,789 as of fiscal year 2012. Effective July 1, 2012, active judges in the pay-go system will also contribute 12% of their salary except Supreme Court Judges as of June 30, 2012 will contribute 8.75% of their salary.

State Police Retirement Benefits Trust (SPRBT)

The SPRBT, a single-employer plan, was established under Section 42-28-22.1 of the RIGL and placed under the management of the Retirement Board for the purpose of providing retirement allowances, disability and death benefit coverage to State Police officers originally hired after July 1, 1987. State police officers contribute 8.75% of their salary per year to the SPRBT. It should be noted that the Retirement Board's management is limited to the collection of employee and employer contributions; benefit eligibility is managed by the administrative section of the State Police. Pensions for 259 State police officers and their beneficiaries hired prior to July, 31, 1987 are funded by the State on a pay-as-you-go basis and have an annualized cost of $17,369,905 as of fiscal year 2012.

The JRBT and SPRBT are significantly smaller retirement plans than the ERS. Assets for the Plans are held in trust and are commingled with other programs and plans for investment purposes. For further discussion of the State's investment of Plan assets, see "Asset Allocation Policy" and Table R-1 below.

Other Background Information

The State also administers but does not contribute to the Municipal Employees' Retirement System (MERS), an agent multi-employer, defined-benefit pension plan. As part of the new RIRSA legislation, changes were made to the MERS similar to the changes made to the state supported systems. Effective July 1, 2012, MERS will be converted from a defined benefit plan to a combination defined benefit/defined contribution plan with plan features largely identical to the ERS plan. Public safety employees covered by MERS remain in a defined benefit plan with an increased eligible retirement date of age 55 and 25 years of service.

In addition, 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. This retirement program for education employees is a defined contribution plan to which the State contributes 9.5% of employee compensation.

The State also administers post-employment health care plans covering state employees, legislators, judges, State police officers and certain public school teachers. For more details about the State's retiree health plans, see "RETIREE HEALTH CARE BENEFITS" below.

Annual Reports and Audit Reports

The annual reports for ERSRI, issued for each fiscal year, are available at ERSRI's website. The audited financial statements for ERSRI for the fiscal year ended June 30, 2012 are available at the website of the State Auditor General.

As a part of the auditing process, the State's Auditor General made certain management comments which are reflected in the State Auditor General's report for the fiscal year ended June 30, 2011 entitled "Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*" (the "Report"). A copy of the 2011 Report can be found at the website of the State Auditor General. The FY 2012 report is in draft form pending comments from the General Treasurer and the ERSRI.

Asset Allocation Policy

The State Investment Commission (the "Commission") establishes the long-term asset allocation policy (the "Asset Allocation Policy") and monitors investment performance of the Plans' assets. An asset/liability study is conducted periodically as requested by the Commission to identify an optimal diversified investment portfolio that maximizes return within an acceptable level of risk. The Asset Allocation Policy incorporates capital market return expectations, risks and correlations associated with each asset class as well as the unique profile and objectives of the ERSRI. Table R-1 sets forth the asset allocation targets that were in place at June 30, 2012 and the actual percentage and fair value of the assets in the portfolio at June 30, 2012.

TABLE R-1
ASSET ALLOCATION TARGETS, ACTUAL PERCENTAGES AND FAIR VALUES

Type of Investment	Policy Targets for Fiscal Year 2012	Actual Allocation	Valuation (millions)
Global Equity	51.0%	55.1%	$3,990
Private Equity	7.0%	8.5%	616
Fixed Income	20.0%	20.1%	1,457
Real Return	11.0%	10.0%	727
Real Estate	8.0%	3.8%	273
Cash and Money Market	3.0%	2.5%	183

Source: Data provided by General Treasurers Office

The Commission oversees all investments made by the State, including those made for the ERSRI. Section 35-10-11 of the RIGL requires that all investments 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.

In 1994 and 1995, the assets of the SPRBT and JRBT, respectively, were pooled with the assets of the ERS for investment purposes only. The custodian bank holds assets of the ERSRI in a pooled trust and each Plan holds units in the trust. The number of units held by each Plan is a function of each Plans' respective contributions to, or withdrawals from, the trust.

The membership and unfunded liabilities of the JRBT and SPRBT are less than 1% of the membership and unfunded liabilities of the ERS. Therefore, the discussion throughout this section will focus primarily on the ERS.

ERS Membership

Table R-2 shows the current membership and member contributions for each of the Plans as provided by the June 30, 2012 Actuarial Valuation.

TABLE R-2
MEMBERSHIP AND MEMBER CONTRIBUTIONS

	Retirees And Beneficiaries	Active	Inactive	Total By Plan	Member Contributions (As A Percentage Of Salary-*effective 7/1/12*)
ERS State Employees	11,200	11,166	2,675	25,041	3.75%
ERS Teachers	10,622	13,212	2,808	26,642	3.75%
Total By Type	21,822	24,378	5,483	51,683	

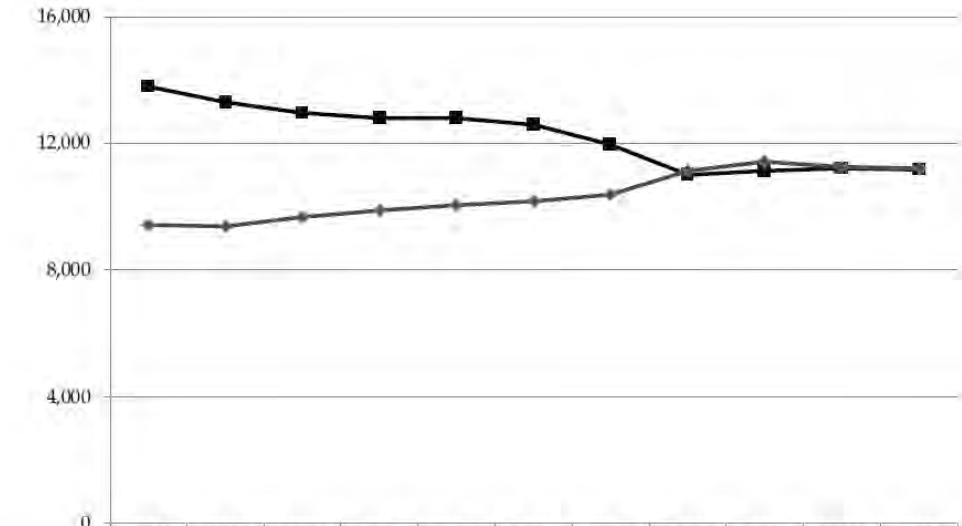
Source: ERSRI Actuarial Valuation Report as of June 30, 2012 (Executive Summary, pages 2-3).

Table R-2 demonstrates a growing concern with respect to state employees and teachers. For state employees, there are now more retirees and beneficiaries than active members. For teachers, there are still more active members than retirees and beneficiaries, but current trends indicate a likelihood that retirees and beneficiaries will outnumber active members in the near future if the active population continues to decline.

Chart R-1 below provides a graphical representation of active membership and retiree and beneficiary data for state employees and teachers from 2002 through 2012.

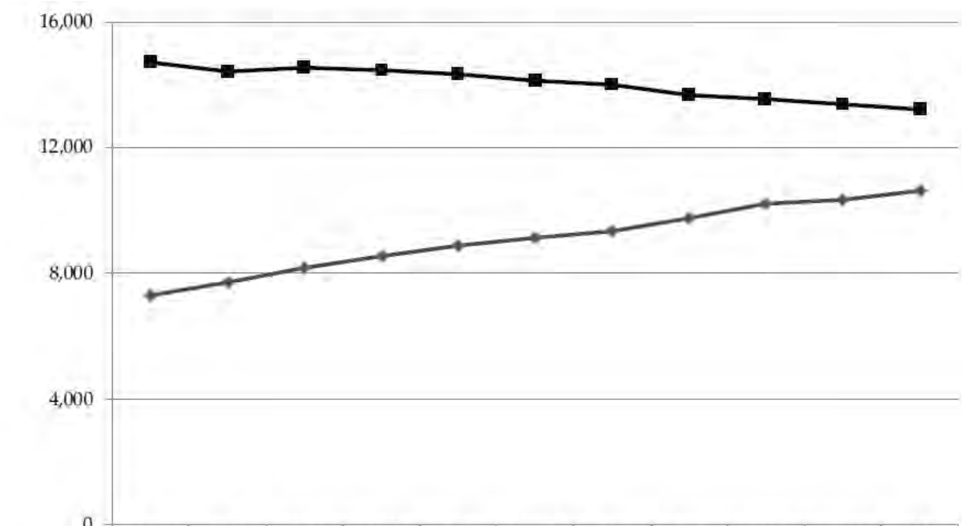
CHART R-1
MEMBERSHIP TRENDS

STATE EMPLOYEES



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Actives	13,795	13,281	12,957	12,789	12,817	12,572	11,970	11,023	11,122	11,233	11,166
Payees	9,426	9,398	9,674	9,893	10,041	10,163	10,396	11,142	11,421	11,271	11,200

TEACHERS



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Actives	14,710	14,410	14,556	14,469	14,343	14,146	13,999	13,689	13,530	13,381	13,212
Payees	7,311	7,704	8,179	8,565	8,873	9,118	9,337	9,749	10,213	10,347	10,622

Source: ERSRI Actuarial Valuations as from June 30, 2002 to June 30, 2012 executive summaries.

The trends expressed by the graphs in Chart R-1 are a concern for the State. For state employees, there are approximately the same number of retirees and beneficiaries. There has been a decrease in active members for state employees over the last ten years. While the downward trend for teachers has been more gradual, it is likely that retirees and beneficiaries will outnumber active members if the active population continues to decline. The decrease in active membership has been the result of reductions in the size of the overall workforce and demographic trends. These developments significantly increase the burden upon contributions from current employees, who are receiving lower salary increases than projected and unpaid furlough days, and from the State and LEAs, where total pension-related contributions for state employees and teachers is approximately 23.3% of salary in fiscal year 2012.

Actuaries and the Actuarial Valuation

Each fiscal year, the Actuary produces a report called the “Actuarial Valuation” in which the Actuary provides the Actuarial Value of Assets and Actuarial Accrued Liability. To determine the Plans’ Actuarial Value of Assets and Actuarial Accrued Liabilities, the Actuary employs methodologies required in part by statute as more fully discussed below under the section entitled “Actuarial Methods”. The Actuary certifies that its work conforms to generally accepted actuarial principles and practices, in accordance with the Actuarial Standards of Practice issued by the Actuarial Standards Board, and complies with the requirements of State law, pertinent sections of the Internal Revenue Code, ERISA, and the Governmental Accounting Standards Board (“GASB”).

The primary purpose of the Actuarial Valuation is to determine how much the State should contribute during the upcoming fiscal year in order to pay current and future benefits due under the Plans. Public employees contribute a fixed percentage of their salaries to the Plans. Annual actuarially determined changes in contribution rates generally affect only the employer contribution.

The amount that the employer is required to contribute in a particular fiscal year to satisfy the Plans’ funding requirements is referred to as the Annual Required Contribution, or ARC. Under Section 36-10-2 of the RIGL, the State is required to make the ARC by annually appropriating an amount equal to a percentage of the covered compensation paid to the active membership, as computed by the Actuary and certified by the Retirement Board. In computing the amount of the ARC, the Actuary determines the value of the contributions made by the Plans’ members, income on ERSRI investments, and other income of the ERSRI. The Actuary then computes the ARC by determining the amount that will be necessary to (i) pay the actuarial estimate of the Normal Cost for the next succeeding fiscal year and (ii) amortize the Unfunded Actuarial Accrued Liability or “UAAL” of the Plans. Under RIRSA, the amortization period was changed from a closed 30 year schedule with 19 years remaining to a closed 25 year schedule. After an initial period of five (5) years, future actuarial gains and losses occurring within a plan year will be amortized over individual new twenty (20) year closed periods. Section 36-10-2.1 of the RIGL requires the Actuary to utilize the entry age normal (“EAN”) actuarial cost method in computing the ARC. The EAN cost method is defined in the amended Accounting Standard No. 27, now No. 68 of the Governmental Accounting Standards Board. The ARC is intended to be sufficient to pay the Normal Cost and to amortize the UAAL in payments representing a level percentage of member compensation over the remaining portion of the fixed amortization period. Under State law, it is intended that by the end of the fixed amortization period there will be no UAAL in the Plans and is discussed further in the section entitled “Determination of Employer’s Contributions & Historical Contribution Rates” below. For more information on the Normal Cost and EAN actuarial cost method, see “Actuarial Methods” below.

The second key purpose of the Actuarial Valuation is to determine a Plan’s funding progress by examining how each Plan’s assets compare with its liabilities. The funding progress can be described as a Funded Ratio, or as the Funded Status. If assets in a defined-benefit plan are greater than liabilities, the Funded Ratio is over 100% the amount of over-funding is called the surplus. If assets are less than liabilities, the Funded Ratio is under 100%, and the amount of under-funding is called the unfunded liability. The Funded Ratio and Funded Status can also be presented based on the market value of assets as opposed to actuarial value of assets in a plan for any given year. The lower the Funded Ratio for the assets in a plan, the greater the unfunded liability is as compared to the value of the assets in the plan.

To determine the ARC and the funding progress of the Plans, the Actuary calculates both the Actuarial Accrued Liability and the Actuarial Value of Assets of the Plans. The Actuarial Accrued Liability is calculated using a variety of demographic and other data (such as employee age, salary and service credits) and actuarial assumptions (such as salary increases, interest rates, turnover, mortality and disability). Periodically, the Actuary performs an experience review to validate the actuarial assumptions used by the Plans as compared to the actual experience of the Plans. Experience studies were performed for the fiscal years ended June 30, 1997, 2000, 2003, and 2006, and for the six-year period ending June 30, 2010. Upon the completion of an experience study, the Actuary delivers a report of its findings and makes certain recommendations regarding the actuarial assumptions to the Retirement Board. The Retirement Board then considers the Actuary's recommendations and determines whether to alter any of the actuarial assumptions. For further discussion on the most recent experience study conducted for the six-year period ending June 30, 2010, see "Actuarial Assumptions - Changes to Actuarial Assumptions and the Effect on UAAL and Normal Cost" below. For a discussion of the methods and assumptions used to calculate the Actuarial Accrued Liability and Actuarial Value of Assets, see the sections entitled "Actuarial Methods" and "Actuarial Assumptions" below.

Actuarial Methods

As described above, the Actuary uses the EAN actuarial cost method to determine the ARC, which is the amount necessary to (i) pay the Normal Cost and (ii) amortize the UAAL over the amortization period. Under the RIRSA legislation, the amortization period was modified to a closed twenty-five (25) year period. After an initial period of five (5) years, future actuarial gains and losses occurring within a plan year will be amortized over individual new twenty (20) year closed periods.

Normal Cost

Under the EAN actuarial cost method, the Normal Cost is the present value of the benefits that ERSRI expects to become payable in the future that are attributable to the current year's employment. For pension systems such as ERSRI with multiple tiers of benefits in which new members (members who will replace the current membership as they retire) have a different benefit structure than a portion of the current population, there are two variations of the method which are used to determine the Normal Cost. Effective with the new RIRSA legislation, ERSRI changed from the Ultimate Normal Cost Method variation of EAN to the Phase-In Method variation. Under the Phase-In–Method the total plan Normal Cost in any given year is a blend of the normal costs computed separately for each individual that are then added together. Under this method, the Normal Cost will shift over time from the Normal Cost under the old benefit structure to the Normal Cost based on the new benefit structure as members under the old structure are replaced. Under the Ultimate Normal Cost Method previously used by ERSRI, the Normal Cost is based on the benefits applicable to new hires under the replacement benefit structure. The Phase-In Method is the recommended variation and using this variation achieves consistency between accounting/reporting and funding.

Actuarial Accrued Liability

Actuarial Accrued Liability is that portion, as determined by a particular actuarial cost method, of the actuarial present value of a Plan's benefits and expenses that is not provided for by future Normal Costs. The actuarial present value of benefits for active employees is determined by discounting the projected benefits for each member back to the valuation date using the assumed investment rate of return as the discount rate. As of the June 30, 2010 valuation, the investment rate of return assumption, also used as the discount rate, was lowered from 8.25% to 7.50% by the Retirement Board. The 7.50% investment rate of return was adopted in accordance with the recommendation of the Actuary. Pension Consulting Alliance, Inc. ("PCA"), the investment consultant to the Commission, advised the Retirement Board that based on PCA's ten-year capital market assumptions the probability of achieving a 7.50% compounded return over the next 10 years was 42.5%. The 7.50% rate first became effective for the June 30, 2010 valuation.

For active members, projected benefits are based on the member's age, service, sex, and compensation. Projected benefits are also based on certain actuarial assumptions such as the member's death, disability, and termination of employment prior to becoming eligible for a retirement benefit. Future salary increases are also taken into consideration. For more information regarding the actuarial assumptions, see "Actuarial Assumptions" and Table R-14 below.

The actuarial present value of expected benefits for all active members is added to the actuarial present value of the expected future payments of retired participants and beneficiaries to obtain the actuarial present value of all expected benefits. The actuarial present value of future normal costs is computed separately for each individual and then added together. In conformity with GASB 25 (as defined and discussed below), liabilities for future members are not included in the calculation of the Actuarial Accrued Liability.

Actuarial Value of Assets

The Actuarial Value of Assets measures the actuarial value of the assets available in the pension plan to pay benefits. The Actuarial Value of Assets in a plan may be higher or lower than the market value of assets at any given time. In calculating the Actuarial Value of Assets, the State uses an asset smoothing method which is based on the market value of the assets with a five-year phase-in of actual investment return in excess of (or less than) expected investment income. For the fiscal year ended June 30, 2012, the State used the assumed investment rate of return of 7.50% and the market value of assets (adjusted for receipts and disbursements during the year) to determine expected investment income. The actual returns, based on the market value of assets, are computed net of administrative and investment expenses.

Table R-4 and R-5 show the calculation of the Actuarial Value of Assets for state employees and teachers as of June 30, 2012 and also show the difference between the market value of assets and the Actuarial Value of Assets.

TABLE R-4
DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS
(STATE EMPLOYEES)

	Year Ending June 30, 2012
1. Market value of assets at beginning of year	$ 2,337,532,264
2. Net new investments	
a. Contributions	$ 213,071,079
b. Benefits paid	(321,344,471)
c. Refunds	(5,259,408)
d. Transfers	683,313
e. Subtotal	(112,849,487)
3. Market value of assets at end of year	$ 2,257,498,009
4. Net earnings (3-1-2) (includes misc revenues)	$ 32,815,232
5. Assumed investment return rate for fiscal year	7.50%
6. Expected return	$ 171,083,064
7. Excess return (4-6)	$ (138,267,832)

8. Development of amounts to be recognized as of June 30, 2012:

Fiscal Year End	Remaining Deferrals of Excess (Shortfall) of Investment Income	Offsetting of Gains/(Losses)	Net Deferrals Remaining	Years Remaining	Recognized for this valuation	Remaining after this valuation
	(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) / (4)	(6) = (3) - (5)
2008	$ (77,697,391)	$ 77,697,391	$ 0	1	$ 0	$ 0
2009	(284,307,548)	178,149,014	(106,158,534)	2	(53,079,267)	(53,079,267)
2010	64,313,147	(64,313,147)	0	3	0	0
2011	191,533,258	(191,533,258)	0	4	0	0
2012	(138,267,832)	0	(138,267,832)	5	(27,653,566)	(110,614,266)
Total	$ (244,426,366)	$ 0	$ (244,426,366)		$ (80,732,833)	$ (163,693,533)

9. Actuarial value of assets as of June 30, 2012 (Item 3 - Item 8)	$ 2,421,191,542
10. Ratio of actuarial value to market value	107.3%

Source: ERSRI Actuarial Valuation Report as of June 30, 2012 (Section C - Table 8A, page 20).

TABLE R-5
DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS
(TEACHERS)

	Year Ending June 30, 2012
1. Market value of assets at beginning of year	$ 3,626,646,745
2. Net new investments	
a. Contributions	$ 298,887,002
b. Benefits paid	(471,318,776)
c. Refunds	(4,537,590)
d. Transfers	(701,072)
e. Subtotal	(177,670,436)
3. Market value of assets at end of year	$ 3,499,847,941
4. Net earnings (3-1-2) (includes misc revenues)	$ 50,871,632
5. Assumed investment return rate for fiscal year	7.50%
6. Expected return	$ 265,335,865
7. Excess return (4-6)	$ (214,464,233)

8. Development of amounts to be recognized as of June 30, 2012:

Fiscal Year End	Remaining Deferrals of Excess (Shortfall) of Investment Income	Offsetting of Gains/(Losses)	Net Deferrals Remaining	Years Remaining	Recognized for this valuation	Remaining after this valuation
	(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) / (4)	(6) = (3) - (5)
2008	$ (116,411,149)	$ 116,411,149	$ 0	1	$ 0	$ 0
2009	(431,309,302)	281,548,213	(149,761,089)	2	(74,880,545)	(74,880,544)
2010	98,897,831	(98,897,831)	0	3	0	0
2011	299,061,531	(299,061,531)	0	4	0	0
2012	(214,464,233)	0	(214,464,233)	5	(42,892,847)	(171,571,386)
Total	$ (364,225,322)	$ 0	$ (364,225,322)		$ (117,773,392)	$ (246,451,930)

9. Actuarial value of assets as of June 30, 2012 (Item 3 - Item 8)	$ 3,746,299,871
10. Ratio of actuarial value to market value	107.0%

Source: ERSRI Actuarial Valuation Report as of June 30, 2012 (Section C - Table 8B, page 21).

Unfunded Actuarial Accrued Liability

The UAAL is the difference between the (i) Actuarial Accrued Liability and (ii) Actuarial Value of Assets. In other words, the UAAL represents the value of benefits accrued under the Plans that are not presently funded by assets in the Plans. One of the key purposes of the Actuarial Valuation is to determine a Plan's funding progress or overall health by examining how the Plan's assets compare with its liabilities. See "Actuaries and the Actuarial Valuation" above. The UAAL and the Funded Ratio are used to measure the financial health of defined-benefit plans. From year to year, if the UAAL decreases and the Funded Ratio increases, a defined-benefit plan's ability to meet future obligations is showing progress. If such progress continues, it should be able to meet its future obligations when due. Conversely, an increasing UAAL and decreasing Funded Ratio indicates that a plan is less healthy and that its assets may be insufficient to meet its future obligations when due.

Tables R-6 and R-7 below show the schedule of funding progress for ERS, SPRBT, and JRBT, as prescribed by Governmental Accounting Standards Board Statement No. 25 - Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans ("GASB 25"). Tables R-6 and R-7 display trend information of funded ratios using both Actuarial Value of Assets and market value of assets.

As set forth in Table R-6, as of June 30, 2012, the UAAL for state employees was $1,876,069,769 and the Actuarial Funded Ratio was 56.3%. As of June 30, 2012, the UAAL for teachers was $2,626,781,473 and the Actuarial Funded Ratio was 58.8%.

Tables R-6 and R-7 indicate that the Plans are currently underfunded. Significant increases in the ARC may be required to reduce the UAAL by the end of the fixed amortization period and there can be no assurances that the State will be able to fund its ARC in the future.

TABLE R-6
SCHEDULES OF FUNDING PROGRESS (ERSRI)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b-a)	Actuarial Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)	Market Value of Assets (d)	Funded Ratio at Market (d / b)
STATE EMPLOYEES								
6/30/2002	$2,353,855,871	$3,284,126,961	$ 930,271,090	71.7%	$585,888,754	158.5%	$1,831,019,880	55.8%
6/30/2003(1)	2,267,673,016	3,517,352,031	1,249,679,015	64.5%	606,102,182	206.2%	1,811,009,063	51.5%
6/30/2004	2,202,900,345	3,694,787,818	1,491,887,473	59.6%	606,087,585	246.2%	2,068,012,733	56.0%
6/30/2005	2,163,391,323	3,843,518,875	1,680,127,552	56.3%	606,474,789	277.0%	2,218,892,001	57.7%
6/30/2006	2,256,979,077	4,131,157,601	1,874,178,524	54.6%	644,980,127	290.6%	2,409,378,699	58.3%
6/30/2007	2,493,428,522	4,332,888,818	1,839,460,296	57.5%	660,044,273	278.7%	2,791,619,718	64.4%
6/30/2008(2)	2,700,368,568	4,331,504,516	1,631,135,948	62.3%	587,500,000	277.6%	2,575,270,868	59.5%
6/30/2009	2,646,081,020	4,482,244,291	1,836,163,271	59.0%	605,872,460	303.1%	1,954,618,465	43.6%
6/30/2010(3)	2,532,090,798	4,651,175,973	2,119,085,175	54.4%	632,503,225	335.0%	2,083,616,670	44.8%
6/30/2010	2,532,090,798	5,232,541,325	2,700,450,527	48.4%	630,246,973	428.5%	2,083,616,670	39.8%
6/30/2010(4)	2,532,090,798	4,234,409,675	1,702,318,877	59.8%	630,246,973	270.1%	2,083,616,670	49.1%
6/30/2011	2,443,690,798	4,255,362,463	1,811,671,665	57.4%	633,146,197	286.1%	2,337,532,264	54.9%
6/30/2012	2,421,191,542	4,297,261,311	1,876,069,769	56.3%	669,477,539	280.2%	2,257,498,009	52.5%
TEACHERS								
6/30/2002	$3,553,823,995	$4,857,003,061	$1,303,179,066	73.2%	$792,015,577	164.5%	$2,754,225,451	56.7%
6/30/2003(1)	3,427,685,554	5,341,627,416	1,913,941,862	64.2%	834,642,391	229.3%	2,729,820,882	51.1%
6/30/2004	3,340,527,073	5,634,195,435	2,293,668,362	59.3%	866,532,598	264.7%	3,131,927,525	55.6%
6/30/2005	3,280,977,321	5,919,156,211	2,638,178,890	55.4%	898,051,154	293.8%	3,364,100,154	56.8%
6/30/2006	3,394,085,565	6,444,693,666	3,050,607,101	52.7%	914,985,746	333.4%	3,623,938,636	56.2%
6/30/2007	3,737,981,686	6,750,125,236	3,012,143,550	55.4%	959,372,837	314.0%	4,185,381,396	62.0%
6/30/2008(2)	4,044,954,378	6,632,016,708	2,587,062,330	61.0%	985,898,174	262.4%	3,857,373,705	58.2%
6/30/2009	4,008,931,337	6,900,963,108	2,892,031,771	58.1%	987,463,633	292.9%	2,962,026,384	42.9%
6/30/2010(3)	3,873,118,262	7,150,987,128	3,277,868,866	54.2%	992,874,301	330.1%	3,196,511,775	44.7%
6/30/2010(4)	3,873,118,262	8,006,313,862	4,133,195,600	48.4%	989,236,951	417.8%	3,196,511,775	39.9%
6/30/2010(5)	3,873,118,262	6,266,400,444	2,393,282,182	61.8%	989,236,951	241.9%	3,196,511,775	51.0%
6/30/2011	3,776,407,834	6,325,941,951	2,549,534,117	59.7%	1,002,656,294	254.3%	3,626,646,745	57.3%
6/30/2012	3,746,299,871	6,373,081,344	2,626,781,473	58.8%	971,904,991	270.3%	3,499,847,941	54.9%

Source: For fiscal years 2003-2010, see ERSRI Actuarial Valuation Report as of June 30, 2010 (Section C – Table 3, page 15). For fiscal year 2002, see Annual Financial Report for the fiscal year ending June 30, 2007 (Required Supplementary Information, Schedules of Funding Progress, page 47). The Market Value of Assets figure is a line item in the Executive Summary of each Actuarial Valuation as of June 30th of the fiscal year then ending. Figures in the final column are calculated by dividing the Market Value of Assets by the Actuarial Accrued Liability.

(1) Restated June 30, 2003 actuarial value after adopting Article 7, Substitute A as amended.
(2) Reflects adoption of the Rhode Island Public Laws, Chapter 23, Article 16 (Bill Number H 7397 Aaa) (2010).
(3) Actuarial value at June 30, 2010 before changes to actuarial assumptions, which are described in "Actuarial Assumptions – Changes to Actuarial Assumptions and the Effect on UAAL and Normal Cost Actuarial Assumptions" below.
(4) Restated June 30, 2010 actuarial value after change to actuarial assumptions but before the Rhode Island Retirement Security Act of 2011
(5) Restated June 30, 2010 actuarial value after reflecting the Rhode Island Retirement Security Act of 2011.

TABLE R-7
SCHEDULES OF FUNDING PROGRESS (SPRBT and JRBT)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b-a)	Actuarial Funded Ratio (a / b)	Covered Payroll ©	UAAL as a Percentage of Covered Payroll (–b - a) / c)	Market Value of Assets (d)	Funded Ratio at Market (d / b)
SPRBT (STATE POLICE)								
6/30/2004	$24,767,014	$32,689,173	$ 7,922,160	75.8%	$11,421,880	69.4%	$24,495,990	74.9%
6/30/2005	29,616,896	37,510,992	7,894,096	79.0%	13,225,400	59.7%	30,457,966	81.2%
6/30/2006	36,314,689	42,216,142	5,901,453	86.0%	13,474,588	43.8%	38,131,989	90.3%
6/30/2007(1)	45,996,910	60,427,947	14,431,037	76.1%	15,836,354	91.1%	50,445,259	83.5%
6/30/2008	54,927,390	69,029,513	14,102,123	79.6%	16,698,764	84.5%	51,883,909	75.2%
6/30/2009	60,232,045	75,480,005	15,247,960	79.8%	17,096,202	89.2%	45,747,494	60.6%
6/30/2010(3)	65,760,284	83,099,931	17,339,647	79.1%	19,715,070	88.0%	56,464,727	67.9%
6/30/2010	65,760,284	94,300,302	28,540,018	69.7%	19,715,070	144.8%	56,464,727	59.9%
6/30/2010(4)	65,760,284	73,048,680	7,288,396	90.0%	19,715,070	37.0%	56,464,727	77.3%
6/30/2011	73,151,768	74,185,705	1,033,937	98.6%	19,711,694	5.2%	72,479,031	97.7%
6/30/2012	84,293,968	94,031,687	9,737,719	89.6%	23,669,619	41.1%	80,472,894	85.6%
JRBT (JUDGES)								
6/30/2004	$16,019,053	$21,845,744	$ 5,826,691	73.3%	$ 5,637,865	103.3%	$15,844,213	72.5%
6/30/2005	19,347,372	22,250,728	2,903,356	87.0%	5,684,585	51.1%	19,892,509	89.4%
6/30/2006	23,873,009	27,504,102	3,631,093	86.8%	6,313,069	57.5%	25,055,824	91.1%
6/30/2007(1)	29,630,637	35,355,326	5,724,689	83.8%	6,451,666	88.7%	32,548,957	92.1%
6/30/2008(2)	34,670,394	38,115,602	3,445,208	91.0%	6,601,889	52.2%	32,783,006	86.0%
6/30/2009	36,839,221	41,738,040	4,898,819	88.3%	6,843,454	71.6%	27,729,085	66.4%
6/30/2010(3)	38,074,287	44,605,741	6,531,454	85.4%	7,461,120	87.5%	32,267,469	72.3%
6/30/2010	38,074,287	48,941,360	10,867,073	77.8%	7,461,120	145.6%	32,267,469	65.9%
6/30/2010(4)	38,074,287	46,641,701	8,567,414	81.6%	7,461,120	114.8%	32,267,469	69.2%
6/30/2011	40,105,919	46,594,407	6,488,488	86.1%	8,474,716	76.6%	39,404,943	84.6%
6/30/2012	43,428,646	52,085,154	8,656,508	83.4%	8,822,823	98.1%	41,202,998	79.1%

Source: For fiscal years 2004-2009, see Audited Financial Statements of ERSRI for the Fiscal Year ended June 30, 2010 (Required Supplementary Information, Schedules of Funding Progress, page 38). For fiscal year 2010, see SPRBT Actuarial Valuation Report as of June 30, 2010 (Schedule of Funding Progress (as required by GASB 25), page 11) and JRBT Actuarial Valuation Report as of June 30, 2010 (Schedule of Funding Progress (as required by GASB 25), page 11). The Market Value of Assets figure is a line item in the Executive Summary of each Actuarial Valuation as of June 30th of the fiscal year then ending. Figures in the final column are calculated by dividing the Market Value of Assets by the Actuarial Accrued Liability.

(1) Restated June 30, 2007 actuarial value after 2008 amendment to the RIGL.

(2) Reflects adoption of the Rhode Island Public Laws, Chapter 23, Article 16 (Bill Number H 7397 Aaa) (2010).

(3) Actuarial value at June 30, 2010 before changes to actuarial assumptions, which are described in "Actuarial Assumptions - Changes to Actuarial Assumptions and the Effect on UAAL and Normal Cost Actuarial Assumptions" below.

(4) Restated after reflecting the Rhode Island Retirement Security Act of 2011.

Determination of Employer's Contributions & Historical Contribution Rates

Accounting requirements for the Plans are set by GASB 25. GASB 25 requires that defined-benefit plans calculate an ARC, and, if actual contributions made by the State to its Plans 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. For purposes of amortizing its UAAL, effective with the June 30, 2012 valuation, the State uses a closed twenty-three (23) year period. After an additional period of three (3) years, future actuarial gains and losses occurring within a plan year will be amortized over individual new twenty (20) year closed periods. The Actuary considers the funding period being used in connection with the Plans to be reasonable and in accordance with GASB 25 as discussed below.

The State computes its required contribution on a level percent of payroll approach. Under this approach, GASB 25 provides that the payroll growth assumption may not anticipate future membership growth. The employer contribution rate determined by the State's Actuarial Valuation is not effective until two years after the valuation date. The determination of the contribution rate reflects this deferral. The UAAL and covered payroll are projected forward for two years, and the Actuary then determines the amortization charge required to amortize the UAAL over the remaining amortization period from that point.

Tables R-8 and R-9 below show the State's calculated contribution rates for state employees and teachers as of June 30, 2012. The payroll growth rate used in the amortization calculations is determined by the Retirement Board and does not include any allowance for membership growth in accordance with GASB 25. See "Actuarial Assumptions" below.

TABLE R-8
DEVELOPMENT OF CONTRIBUTION RATE (STATE EMPLOYEES)

		June 30, 2012 (1)	June 30, 2011 (2)
1.	Compensation		
	(a) Supplied by ERSRI	$ 643,909,132	$ 617,247,186
	(b) Adjusted for one-year's pay increase	669,477,539	633,146,197
2.	Actuarial accrued liability	4,297,261,311	4,255,362,463
3.	Actuarial value of assets	2,421,191,542	2,443,690,798
4.	Unfunded actuarial accrued liability (UAAL) (2 - 3)	1,876,069,769	1,811,671,665
5.	Remaining amortization period at valuation date	23	24
6.	Contribution effective for fiscal year ending:	June 30, 2015	June 30, 2014
7.	Payroll projected for two-year delay	720,629,808	681,522,523
8.	Amortization of UAAL	131,931,581	121,897,481
9.	Normal cost		
	(a) Total normal cost rate	9.27%	9.49%
	(b) Employee contribution rate	4.25%	4.33%
	(c) Employer normal cost rate (a - b)	5.02%	5.16%
10.	Employer contribution rate as percent of payroll		
	(a) Employer normal cost rate	5.02%	5.16%
	(b) Amortization payments (8 / 7)	18.31%	17.89%
	(c) Total (a + b)	23.33%	23.05%
11.	Estimated employer contribution amount (7 * 10(c))	$ 168,122,934	$ 157,090,942

Source: ERSRI Actuarial Valuation Report as of June 30, 2012 (Section C - Table 1A, page 11).

TABLE R-9

DEVELOPMENT OF CONTRIBUTION RATE (TEACHERS)

		June 30, 2012 (1)	June 30, 2011 (2)
1.	Compensation		
	(a) Supplied by ERSRI	$ 961,958,877	$ 965,764,287
	(b) Adjusted for one-year's pay increase	971,904,991	1,002,656,294
2.	Actuarial accrued liability	6,373,081,344	6,325,941,951
3.	Actuarial value of assets	3,746,299,871	3,776,407,834
4.	Unfunded actuarial accrued liability (UAAL) (2 - 3)	2,626,781,473	2,549,534,117
5.	Remaining amortization period at valuation date	23	24
6.	Contribution effective for fiscal year ending:	June 30, 2015	June 30, 2014
7.	Payroll projected for two-year delay	1,046,164,607	1,079,265,501
8.	Amortization of UAAL	186,583,018	169,062,513
9.	Normal cost		
	(a) Total normal cost rate	8.52%	8.77%
	(b) Employee contribution rate	3.75%	3.75%
	(c) Employer normal cost rate (a - b)	4.77%	5.02%
10.	Employer contribution rate as percent of payroll		
	(a) Employer normal cost rate	4.77%	5.02%
	(b) Amortization payments (8 / 7)	17.83%	15.66%
	(c) Total (a + b)	22.60%	20.68%
11.	Estimated employer contribution amount (7 * 10(c))	$ 236,433,201	$ 223,192,106

Source: ERSRI Actuarial Valuation Report as of June 30, 2012 (Section C - Table 1B, page 12).

Pursuant to Section 36-10-2 of the RIGL, the State makes its ARC based upon the Actuarial Valuation. The method for determining the ARC, as set forth in Section 36-10-2 of the RIGL, conforms to the requirements of GASB 25. The State has made 100% of its ARC to the Plans for each of the past fifteen years. However, the Plans remain severely underfunded (as evidenced by the Plans' UAAL). See Tables R-6 and R-7. It is important to note that while the State has made 100% of its ARC payments in each of the last fifteen years, several factors over the course of those fifteen years, and in many years prior to that period, have contributed to the Plans' UAAL. Over the course of many years, key decisions were made by the legislature and Retirement Board that resulted in lower contributions to ERSRI. There were also certain improvements made to the Plans' benefits without providing sufficient funding to pay for such improvements. Certain demographic actuarial assumptions, such as retiree longevity, and other actuarial assumptions, including an assumed investment rate of return, have also played significant roles in contributing to the Plans' UAAL. The principal factors contributing to the growth of the UAAL are (i) investment experience, (ii) interest owed on the UAAL, (iii) liability experience, (iv) changes to actuarial assumptions, and (v) legislative changes prior to 1991.

TABLE R-10
SCHEDULES OF CONTRIBUTIONS FROM THE EMPLOYERS AND OTHER CONTRIBUTING ENTITY

ERS

Fiscal	State Employees		Teachers (State)		Teachers (LEAs)	
Year Ended June 30	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2002	$31,801,645	100%	$30,763,337	100%	$44,391,050	100%
2003	45,141,250	100%	38,242,690	100%	55,504,739	100%
2004	55,699,588	100%	45,039,279	100%	70,666,221	100%
2005	66,087,984	100%	48,834,755	100%	73,006,173	100%
2006	91,254,063	100%	54,537,733	100%	83,794,372	100%
2007	118,300,522	100%	70,531,472	100%	109,415,227	100%
2008	131,560,248	100%	82,455,777	100%	122,906,860	100%
2009	126,297,706	100%	73,600,069	100%	115,234,100	100%
2010	123,547,738	100%	68,542,956	100%	109,566,352	100%
2011	126,560,644	100%	70,286,262	100%	113,422,000	100%
2012	153,448,309	100%	80,385,930	100%	126,395,672	100%

Source: For fiscal years 2005-2012, see Audited Financial Statements of ERSRI for the Fiscal Year ended June 30, 2012 (Required Supplementary Information, Schedules of Contributions from the Employers and Other Contributing Entity, page 41). For fiscal years 2002-2004, see Annual Financial Report for the fiscal year ending June 30, 2006 (Required Supplementary Information, Schedules of Contributions from the Employers and Other Contributing Entity, page 35).

TABLE R-11
HISTORY OF EMPLOYER CONTRIBUTION RATES

Valuation Date as of June 30,	Fiscal Year Ending June 30,	Employer Contribution Rate
(1)	(2)	(3)
State Employees		
1999	2002	5.59%
2000	2003	7.68%
2001	2004	9.60%
2002	2005	11.51%
2003	2006	14.84%
2004	2007	18.40%
2005	2008	20.77%
2006	2009	21.64% [1]
2007	2010	20.78% [2]
2008	2011	20.78%
2009	2012	22.98%
2010	2013	21.18% [3]
2011	2014	23.05%
2012	2015	23.33%
Teachers		
1999	2002	9.95%
2000	2003	11.97%
2001	2004	13.72%
2002	2005	14.84%
2003	2006	16.47%
2004	2007	19.64%
2005	2008	22.01%
2006	2009	20.07% [1]
2007	2010	19.01% [2]
2008	2011	19.01%
2009	2012	22.32%
2010	2013	19.29% [3]
2011	2014	20.68%
2012	2015	22.60%

Source: ERSRI Actuarial Valuation Report as of June 30, 2012 (Section C - Table 11B, page 25).

(1) Reflects restatement after adoption of Rhode Island Public Laws, Chapter 68, Article 7 (Bill Number H 5983 Aaa) (2009).
(2) Reflects restatement after adoption of Rhode Island Public Laws, Chapter 23, Article 16 (Bill Number H 7397 Aaa) (2010).
(3) Reflects restatement after adoption of the Rhode Island Retirement Security Act of 2011

The following table provides an analysis of the change in the employer ARC from the June 30, 2011 Actuarial Valuation to the June 30, 2012 Actuarial Valuation:

TABLE R-12
ANALYSIS OF CHANGE IN EMPLOYER COST

Basis	State Employees	Teachers
(1)	(2)	(3)
1. Employer contribution rates from prior valuation	23.05%	20.68%
2. Impact of changes, gains and losses		
a. Non-salary liability experience (gain)/loss	-0.58%	0.02%
b. Salary (gain)/loss	0.27%	-0.34%
c. Total payroll growth (gain)/loss	-0.38%	1.25%
d. Investment experience (gain)/loss	0.97%	0.99%
e. Changes in assumptions/methods	0.00%	0.00%
f. Changes in plan provisions	0.00%	0.00%
g. Total	0.28%	1.92%
3. Employer contribution rates from current valuation	23.33%	22.60%

Source: ERSRI Actuarial Valuation Report as of June 30, 2012 (Section C - Table 11A, page 24).

(1) The employer contribution rate is a percentage of payroll.

TABLE R-13
PROSPECTIVE FUNDING STATUS (ERS)[1]

Actuarial Valuation Date	Actuarial Value of Assets (in Millions $) (a)	Actuarial Accrued Liability (AAL) (in Millions $) (b)	Unfunded AAL (UAAL) (in Millions$) (b-a)	Actuarial Funded Ratio (a / b)	Annual Required Contribution (ARC) (in Millions $)	Market Value of Assets (in Millions $) (d)	Funded Ratio at Market Value (d / b)
STATE EMPLOYEES							
6/30/2012	$ 2,421.2	$ 4,297.4	$1,876.2	56.3%	$ 141.8	$2,257.5	52.5%
6/30/2013	2,336.7	4,333.6	1,996.9	53.9%	160.1	2,253.8	52.0%
6/30/2014	2,320.1	4,367.4	2,047.3	53.1%	168.1	2,264.8	51.9%
6/30/2015	2,310.7	4,401.3	2,090.6	52.5%	178.6	2,283.0	51.9%
6/30/2016	2,311.6	4,435.2	2,123.6	52.1%	183.9	2,311.6	52.1%
6/30/2017	2,345.6	4,469.1	2,123.5	52.5%	189.9	2,345.6	52.5%
6/30/2018	2,386.6	4,503.5	2,116.9	53.0%	197.7	2,386.6	53.0%
6/30/2019	2,433.9	4,535.5	2,101.6	53.7%	204.5	2,433.9	53.7%
6/30/2020	2,488.6	4,566.1	2,077.5	54.5%	211.2	2,488.6	54.5%
6/30/2021	2,551.2	4,595.6	2,044.4	55.5%	217.6	2,551.2	55.5%
TEACHERS							
6/30/2012	3,746.3	6,370.4	2,624.1	58.8%	187.5	3,499.8	54.9%
6/30/2013	3,613.6	6,425.0	2,811.4	56.2%	208.5	3,484.9	54.2%
6/30/2014	3,560.5	6,484.3	2,923.8	54.9%	236.2	3,491.8	53.9%
6/30/2015	3,562.9	6,548.1	2,985.2	54.4%	252.8	3,528.6	53.9%
6/30/2016	3,585.1	6,615.9	3,030.8	54.2%	263.2	3,585.1	54.2%
6/30/2017	3,655.9	6,687.7	3,031.8	54.7%	271.8	3,655.9	54.7%
6/30/2018	3,740.2	6,764.3	3,024.1	55.3%	282.7	3,740.2	55.3%
6/30/2019	3,836.9	6,840.9	3,004.0	56.1%	292.7	3,836.9	56.1%
6/30/2020	3,948.4	6,919.8	2,971.4	57.1%	302.1	3,948.4	57.1%
6/30/2021	4,074.3	7,000.5	2,926.2	58.2%	310.9	4,074.3	58.2%

Source: The figures in Table 13 were calculated for ERSRI by the Actuary.

(1) The ERS is projected to be 100% funded as of June 30, 2035. These figures assume the accuracy of all actuarial calculations and that the State continues to contribute 100% of the ARC

Actuarial Assumptions

General

The Actuarial Valuations use actuarial assumptions to calculate the Actuarial Accrued Liability and the Actuarial Value of Assets. Although the majority of the assumptions are the same across all of ERSRI, the Retirement Board separately determines certain assumptions for state employees and teachers unless a specific assumption is required by the RIGL. The actuarial cost method and the amortization period are set by the RIGL. The remaining assumptions are determined by the Retirement Board with the advice of the Actuary. While experience studies are performed regularly, no assurance can be given that any of the assumptions underlying the Actuarial Valuations will reflect the actual results experienced by the Plans, or that the assumptions will not be changed from time to time. Actual results can and almost certainly will differ as the actual experience deviates from the assumptions. Even seemingly minor deviations from the assumptions used to determine the value of a Plan's assets and liabilities can materially change the liabilities and contribution rates. Assumptions used can significantly impact the Actuarial Accrued Liability and the Actuarial Value of Assets reported. Certain of the assumptions used by ERSRI are summarized in Table R-14 below. For additional information on these assumptions, please refer to the Actuarial Valuations of the Plans which are public documents and are available at ERSRI's website.

TABLE R-14
CERTAIN ACTUARIAL ASSUMPTIONS AND METHODS USED BY ERSRI

Item	State Employees	Teachers
Valuation date	June 30, 2012	June 30, 2012
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percentage, closed	Level percentage, closed
Remaining amortization period	23 years	23 years
Asset valuation method	5-Year Smoothed Market	5-Year Smoothed Market
Actuarial assumptions:		
Investment rate of return*	7.50%(1)	7.50%(1)
Projected salary increase*	4.00% to 7.00%	4.00% to 12.75%
*Includes inflation at:	2.75%	2.75%
Cost of living adjustments (COLAs)(2):	2.00%	2.00%

Source: ERSRI Actuarial Valuation Report as of June 30, 2012 (Notes to Required Supplementary Information (as required by GASB 25), Section C - Table 5, page 17).

(1) As of June 30, 2010, the assumed investment rate of return assumption, also used as the discount rate, was lowered from 8.25% to 7.50% by the Retirement Board. The 7.50% rate will become effective for determining plan contribution rates two years after the valuation date, i.e., as of July 1, 2012.

(2) COLAs are currently suspended for all state employees, teachers, judges and state police until the aggregate funding level of their plans exceeds 80%. It is assumed that the COLAs will be suspended for approximatley 20 years due to the current funding level of the plans; however, an interim COLA may be granted under certain circumstances in five-year intervals while the COLA is suspended.

Assumed Investment Rate of Return

The Actuarial Valuations of the Plans assume an investment rate of return on the assets in the Plans. For the fiscal year ending June 30, 2012, the Actuary used an assumed investment rate of return of 7.50% in connection with the valuation of the Plans' assets. (As of June 30, 2010, the assumed investment rate of return assumption, also used as the discount rate, was lowered from 8.25% to 7.50% by the Retirement Board. The 7.50% rate will become effective for determining plan contribution rates two years after the valuation date, i.e., as of July 1, 2012.) The assumed investment rate of return is the same number used to discount the Plans' future liabilities (benefits owed) to a present value. Due to the volatility of the United States' and international financial markets, the actual rate of return earned by the Plans on their assets may be higher or lower than the assumed rate. Changes in the Plans' assets as a result of market performance will lead to an increase or decrease in the UAAL and the Funded Ratio. As a result of the State's adoption of the five-year asset smoothing method, however, only a portion of these increases or decreases will be recognized in the current year, with the remaining gain or loss spread over the remaining four years. See "Actuarial Methods - Actuarial Value of Assets" above.

Changes to Actuarial Assumptions and the Effect on UAAL and Normal Cost

The ERSRI assumptions were last changed as the result of an experience study conducted by the Actuary for the six-year period ending June 30, 2010 and approved by the Retirement Board on April 13, 2011 (the "Experience Study"). The purpose of the Experience Study, as is done periodically, was to determine the adequacy of the actuarial assumptions used in determining liabilities and contribution rates for the Plans. These actuarial assumptions include retirement rates, mortality rates, turnover rates, disability rates, investment rate of return, salary increase rates, and inflation rate.

Based upon the results of the most recent Experience Study, the Retirement Board approved revisions to the actuarial assumptions used in determining liabilities and contribution rates for the Plans, including lowering the assumed inflation rate from 3.00% to 2.75%, decreasing the assumed net real investment return rate from 5.25% to 4.75% and increasing the life expectancy of retirees. The reduction in the assumed inflation rate and assumed net real investment return rate changes the assumed investment rate of return from 8.25% to 7.50%.

In light of the Retirement Board's decision to decrease the Plans' assumed investment rate of return to 7.50%, it is important to understand the long-term implications of this lower rate of return. The investment rate of return assumption is one of the principal assumptions in the Actuarial Valuation and is among the various assumptions used to determine the State's ARC. Any change to the assumed investment rate of return can produce significant changes to the Normal Cost and UAAL for the Plans. The significance of changing the assumed investment rate of return is demonstrated in the following two bullets dealing with UAAL and Normal Cost, respectively. While the data in these bullets are derived from the June 30, 2009 valuation, these bullets are illustrative of the impact of different assumed investment rate of returns.

- The UAAL based on calculations using data derived from the June 30, 2009 Actuarial Valuation and using assumed investment rates of return of 8.25% (the current rate), 6.25% (the FASB Rate), and 4.40% (ERSRI's 10-year historical return rate through February 28, 2011) would be \$4.7 billion, \$9.0 billion, and \$11.4 billion, respectively.

- The Normal Cost based on calculations using data derived from the June 30, 2009 Actuarial Valuation and assumed investment rates of return of 8.25% (the current rate), 6.25% (the FASB Rate), and 4.40% (ERSRI's 10-year historical return rate through February 28, 2011) would be (i) 10.0% (for teachers) and 9.3% (for state employees), (ii) 14.8% (for teachers) and 14.4% (for state employees), and (iii) 25.6% (for teachers) and 22.2% (for state employees), respectively.

As demonstrated by the foregoing bullets, the UAAL and Normal Cost increase as the assumed investment rate of return is lowered. Reducing the assumed investment rate of return to a lower, but more realistic, level will increase the State's ARC, but result in a greater likelihood that the Plans' UAAL will be sufficiently reduced over the course of the fixed amortization period. It is critical to the fiscal health of the Plans to have a realistic assumed investment rate of return and to choose such rate with some precision. If the assumed investment rate of return is too optimistic, then the State's ARC will be lower and insufficient to reduce the Plans' UAAL by the end of the amortization period.

History of Investment Return Rates

A history of the market investment return rates and the actuarial investment return rates, as well as average return rates for the most recent five-year and ten-year periods, for assets of each of the Plans are set forth in Table R-15.

TABLE R-15
HISTORY OF INVESTMENT RETURN RATES

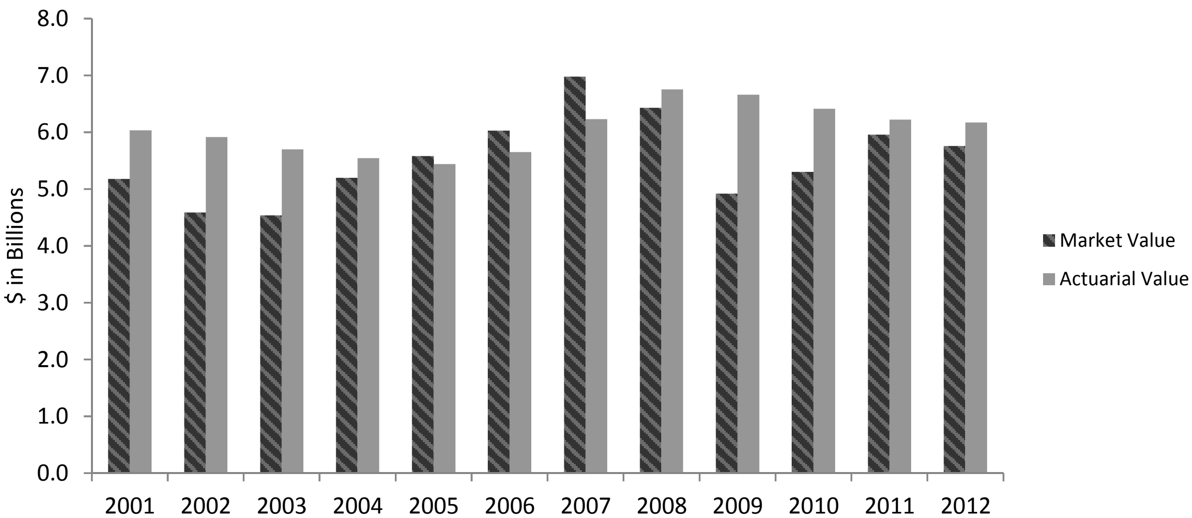
Year Ending June 30 of	Market	Actuarial[1]
(1)	(2)	(3)
1995	17.0%	10.2%
1996	13.7%	13.7%
1997	19.1%	19.1%
1998	16.1%	16.5%
1999	10.1%	14.7%
2000	9.1%	8.8%
2001	-11.0%	4.9%
2002	-8.4%	0.9%
2003	2.6%	-0.8%
2004	18.7%	0.4%
2005	11.4%	1.8%
2006	11.6%	7.4%
2007	18.2%	13.0%
2008	-5.8%	10.7%
2009	-20.1%	2.4%
2010	14.0%	0.8%
2011	19.5%	2.1%
2012	1.4%	3.9%
Average Returns:		
Last 5 Years	0.8%	3.9%
Last 10 Years	6.4%	4.1%
Since 1995	7.0%	7.1%

Source: ERSRI Actuarial Valuation Report as of June 30, 2012 (page 23 Section C - Table 10).
(1) The investment return rates in this column were calculated using the State's five-year asset smoothing method.

Most public pension funds do not immediately recognize large market gains or losses when valuing their assets. Instead, they recognize gains and losses over a period of years. For the State's plans, the impact of the smoothing methodology is shown in the column entitled "Actuarial Return" in Table R-15 above. One can see that using the five-year asset smoothing method results in less drastic changes in the returns which in turn cause the State's ARC to be less volatile. The State uses an asset smoothing method which is based on the market value of the assets with a five-year phase-in of actual investment return in excess of (or less than) expected investment income. See "Actuarial Methods - Actuarial Value of Assets" and Table R-14. Because the valuation of assets is part of the calculation of the State's ARC, asset smoothing protects the State from sudden demands for large cash infusions in the event of losses in the financial markets. While asset smoothing allows for more consistent and predictable budgeting, it can also distort the gravity of the Plans' UAAL.

The following chart shows the fluctuation between ERSRI's Actuarial Value of Assets using asset smoothing and market value of the assets from 2001 through 2012.

CHART R-2
MARKET VALUE OF ASSETS VS. ACTUARIAL VALUE OF ASSETS



Source: Data From Actuarial Valuations as of June 30 2001 through 2012.

Chart R-2 demonstrates how asset smoothing provides a more consistent value of assets, which in turn provides for a smoother and more predictable ARC for the State. However, there can be a wide spread between the market value of assets and the actuarial value of assets at any specific point in time. For example, as of June 30, 2012, the Actuarial Value of Assets was approximately $6.17 billion, but the market value of the assets was approximately $5.76 billion (a difference of $.41 billion). If the market value of assets is consistently less than the Actuarial Value of Assets, the distortion of the UAAL caused by asset smoothing can become problematic and cause the UAAL to grow. It is important to note that eventually the two values will converge with either the market value increasing to the actuarial value or the actuarial value decreasing to the market value if the market value does not recover.

As can be seen in Table R-15 and Chart R-2, volatile market conditions resulted in significant adverse investment returns on the Plans' assets in fiscal years 2008 and 2009. While fiscal years 2010 and 2011 produced gains in the market value of assets, the market remains unstable. No assurances can be given that adverse market conditions will not return in future fiscal years, leading to a continued increase in the UAAL. In the event that such adverse market conditions return in future fiscal years, lower than expected investment performance could result in a significant reduction in the Funded Ratio and a corresponding increase in the UAAL and the State's ARC.

Other Recent Pension-Related Events

Pre-RIRSA Pension Reform

In the last several years, the State has modified the pension benefit structure and reduced benefits in order to increase the stability and security of the Plans. In addition to the RIRSA pension reform described above, the reforms enacted in 2005, 2009 and 2010 as described below are reflected in the June 30, 2012 Actuarial Valuation.

The 2005 reform legislation provided for major changes in the retirement age, accrual of benefits, and COLAs for non-vested (less than ten years of service) state employees and teachers effective July 1, 2005.

The 2009 pension reform legislation made additional changes for all active state employees and teachers not eligible to retire as of September 30, 2009 including (i) extending the retirement age to 62 (including proportional adjustments), (ii) extending the lower benefit accrual method implemented in the 2005 reform to all active employees, (iii) utilizing final average compensation for the five highest consecutive years versus three under prior law for pension calculation purposes, (iv) reducing COLAs, and (v) introducing a new tier of disability benefits.

The 2010 pension reform legislation became effective June 12, 2010 and modified the COLA for all active employees not yet eligible to retire. Such modifications provided that (i) the COLA begins at a member's third anniversary of retirement or age 65, whichever is later, and (ii) the COLA applies to the first $35,000 of retirement income indexed annually.

Although the RIRSA and other pension reforms summarized above have contributed to a reduction in the ARC and UAAL, these pension reforms are already fully reflected in the June 30, 2012 valuation and therefore are not expected to materially reduce either the ARC or the UAAL going forward.

Pension Litigation

Challenges to the 2009 and 2010 Pension Reform

A number of unions representing state employees and teachers filed a lawsuit in State court in May 2010 initially challenging and attempting to block the 2009 pension reforms enacted by the General Assembly and later amended the suit to include 2010 reforms. The 2005 reforms were not challenged. The State intends to vigorously contest the lawsuit. The defendant State officials filed a Motion for Summary Judgment on the claims set forth in the Amended Complaint, which was heard on July 18, 2011. Prior to the hearing, the parties stipulated that the only issue that would be presented to the Court during the hearing on the Motion would concern whether the statute created a contract between the state and its participants. The parties agreed that in the event that the Court concluded that the statute did create a contract, the remaining issues of whether the contract had been impaired and whether any such impairment was legally justified would be briefed and argued at a later date. On September 13, 2011, the Superior Court issued its decision in which it ruled that pension plan participants have a contractual right based on an implied-in-fact contract theory. Consistent with the parties' stipulation, the Court did not decide whether that contract had been impaired or whether any such impairment was legally justified. The defendants State officials believe the Superior Court's ruling was legally wrong. On October 3, 2011, Defendants filed a Petition for Issuance of a Writ of Certiorari and Supporting Memorandum of Law with the Rhode Island Supreme Court. Defendants also filed a motion through which they requested that the Supreme Court expedite its review of the Petition for Issuance of a Writ of Certiorari. On November 22, 2011, the Supreme Court denied the petition for Writ of Certiorari. On January 2, 2013, the Court ordered the parties to participate in mediation, which is ongoing. The parties are scheduled to report back to the Court on March 25, 2013.

The total savings from the 2009 and 2010 pension reforms is approximately $75 million annually (approximately 5% of employee eligible compensation), including State savings of $46.3 million annually and local government savings of $28.4 million annually. The pending lawsuit could impact some or all of the annual savings related to the 2009 and 2010 pension reforms, resulting in future increases in the Plans' unfunded liabilities and the State's ARC. If there were an unfavorable outcome for the State in connection with this pending litigation, the

State's ARC could increase significantly. This could have an adverse effect on the Plans if sufficient funding for such increased costs were not available.

Challenges to the 2011 Pension Reform

In June 2012, certain unions, active employees retired state employees and associations of retired state and municipal employees who maintain they are current beneficiaries of ERSRI commenced five separate lawsuits in State court challenging the Rhode Island Retirement Security Act of 2011 ("RIRSA") enacted by the General Assembly. The five cases are: *Rhode Island Public Employees' Retirement Coalition v. Chafee,* C.A. No. 12-3166; *Bristol/Warren Regional School Employees, Local 581, AFSCME, Council 94 v. Chafee*, C.A. No. 12-3167; *Rhode Island Council 94, AFSCME, AFL-CIO, et al v. Chafee*, C.A. No. 12-3168; *City of Cranston Police Officers, International Brotherhood of Police Officers, Local 301, AFL, CIO v. Chafee*, C.A. No. 12-3169 and *Woonsocket Fire Fighters, IAFF Local 732, AFL-CIO v. Chafee*, C.A. No. 12-3579. In each of the five cases, the plaintiffs alleged that RIRSA violates the Contract Clause, the Takings Clause and the Due Process Clause of the Rhode Island Constitution. In addition, in the *Rhode Island Public Employees' Retirement Coalition v. Chafee,* C.A. No. 12-3166 case, the plaintiffs also allege counts for promissory estoppel and breach of contract. The State intends to vigorously contest the lawsuits.

On August 17, 2012, the defendants filed a motion to dismiss the *Rhode Island Public Employees' Retirement Coalition v. Chafee,* C.A. No. 12-3166 case on the ground that Rhode Island's pension legislation does not create a contract with ERSRI participants and that general contract principles, such as implied contracts, cannot be used to determine whether a state statute creates a contract. In the remaining four cases, the defendants filed motions for more definite statements in which they argued that it is not clear from the plaintiffs' pleadings what purported contract or contract(s) plaintiffs allege have been impaired. The defendants also moved in the alternative and asked the Court to dismiss the remaining four cases if the Court concluded that the plaintiffs' purported contracts derive from Rhode Island's pension legislation. A hearing on defendants' motions was held in December 2012. The parties anticipate receiving a decision on those motions during the first quarter of 2013. On January 2, 2013, the Court ordered the parties to participate in mediation which is ongoing. The parties are scheduled to report back to the Court on March 25, 2013.

Loss to the State and ERSRI as a whole cannot be estimated if such a legal challenge to the 2011 pension reform were successful. Future contribution rates for the Plans and the unfunded actuarial accrued liability would be negatively impacted. It should be noted, however, that as a result of the RIRSA legislation, the unfunded liability of $6.8 billion for state employees and teachers in the June 30, 2010 valuation for ERSRI has been reduced to $4.4 billion as reported in the June 30, 2011 valuation. Also, the projected employer contribution has been reduced from $622 million as reported in the 2010 actual valuation report to $380 million as reported in the June 30, 2011 valuation.

An adverse judgment to the State rendered in the pension litigation could significantly increase both the unfunded liability under the ERSRI and the State's Annual required Contribution ("ARC") based upon the impact that the RIRSA has had in reducing the unfunded liability and ARC as reflected above. If there were to be significant increases in the ARC, the State may be required to (i) raise additional revenue, (ii) reduce State services, (iii) modify benefits provided by each of the Plans, (iv) implement a combination of the foregoing, or (v) take any other measures as necessary.

SEC Investigation

The Securities and Exchange Commission (the "SEC") has opened a non-public formal investigation into the disclosures by the State regarding ERSRI. The State is fully cooperating with the investigation.

New GASB Pension Accounting and Financial Reporting Standards

On June 25, 2012, GASB adopted two new standards to improve the accounting and financial reporting of public employee pensions by state and local governments that replace GASB Statements 25, 27, and 50, which are the accounting and financial reporting standards for pensions on the basis of which much of the information included in this section of the Information Statement is derived.

The State's reporting on its pension system would be affected by some of the changes addressed in the two new standards (GASB Statements 67 and 68) which include, among other changes, (i) the separation of accounting and financial reporting requirements from funding approaches, (ii) a requirement to report "net pension liability" (defined as total pension liability minus a pension plan's net assets) on the State's balance sheet, (iii) the modification of a pension plan's discount rate into a blended rate reflecting both the assumed investment rate of return (for projected benefits to be paid from current and expected future plan net assets) and a rate of return based on a high-quality municipal bond index (for projected benefit payments that are expected to be made after plan net assets are projected to be fully depleted), (iv) the immediate recognition of differences between expected and actual changes in economic and demographic factors, and (v) the deferred recognition over a five-year, closed period of differences between actual and projected earnings on plan investments. The provisions of GASB Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions of GASB Statement 68 are effective for fiscal years beginning after June 15, 2014.

GLOSSARY

Actuarial Accrued Liability:	That portion, as determined by a particular actuarial cost method, of the actuarial present value of a Plan's benefits and expenses that is not provided for by future Normal Costs.
Actuarial Valuation:	The annual actuarial determination delivered by the Actuary comparing the Plans' assets and liabilities.
Actuarial Value of Assets:	The value of cash, investments, and other property belonging to the Plans, as used by the Actuary for purposes of the Actuarial Valuation. The Actuarial Value of Assets (in contrast to the current market value of assets) attempts to smooth annual investment return performance over multiple years to reduce annual return volatility.
Actuary:	Gabriel, Roeder, Smith & Company
Alternative 1:	The Phase-In Method under which the total plan Normal Cost in any given year is a blend of the normal costs computed separately for each individual and then added together. The Normal Cost will shift over time from the Normal Cost under the old benefit structure to the Normal Cost based on the new benefit structure as members under the old structure are replaced.
Alternative 2:	The Ultimate Normal Cost Method under which the Normal Cost is based on the benefits applicable to new hires under the replacement benefit structure. In short, the method assumes, for purposes of determining the Normal Cost of the Plan, the more limited benefits resulting from the pension reforms are applicable to all current employees. Under this method, any additional benefits above the levels provided to current new employees are recognized in the UAAL and amortized over the remaining amortization period.
ARC:	Actuarial Required Contribution. The aggregate in a particular year of (i) the Normal Cost and (ii) payments made to amortize the UAAL.
Asset Allocation Policy:	The long-term asset allocation policy of ERSRI's investments as established by the Commission.
COLA:	Cost of living adjustment
Commission:	The State Investment Commission
EAN:	The entry age normal actuarial cost method, which is designed to fund a Plan member's total benefits over the course the member's career. This method is designed to produce stable ARCs that increase at the same rate as the State's payroll (i.e., a level percentage of payroll).
ERS:	The Employees' Retirement System, the largest of the three Plans covering eligible state employees as well as teachers and certain other employees employed by local school districts.
ERSRI:	Employees' Retirement System of Rhode Island, the common investment and administrative agent of the Plans, administered by the Retirement Board.
Experience Study:	The most recent actuarial experience study conducted by the Actuary for the six-year period ending June 30, 2010.

FASB Rate:	The assumed investment rate of return as dictated by the Financial Accounting Standards Board, which sets the accounting rules for private pension plans and requires such plans to use an assumed investment rate of return consistent with the yields on high quality corporate bonds rated AA or better.
Funded Ratio:	The ratio of (A) the Actuarial Value of Assets (or market value of assets) to (B) Actuarial Accrued Liabilities. Such valuation can be on an actuarial or a market value basis. If a plan has a funded ratio of less than 100%, then the plan has a UAAL.
Funded Status:	A value determined by subtracting (A) the Actuarial Accrued Liabilities from (B) Actuarial Value of Assets. Such valuation can be on an actuarial or a market value basis.
GASB:	Governmental Accounting Standards Board
GASB 25:	Governmental Accounting Standards Board Statement No. 25 - Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans
JRBT:	The Judicial Retirement Benefits Trust
LEAs:	Local education agencies, such as municipalities, who contribute as employers to the ERS with respect to teachers.
Normal Cost:	The present value of the benefits that ERSRI expects to become payable in the future that are attributable to the current year's employment.
Plans:	The ERS, JRBT and SPRBT, collectively
Report:	The State Auditor General's report for the fiscal year ended June 30, 2011 entitled "Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*."
Retirement Board:	The State of Rhode Island Retirement Board
RIGL:	The State of Rhode Island General Laws
SEC:	The United States Securities and Exchange Commission
SPRBT:	The State Police Retirement Benefits Trust
UAAL:	Unfunded Actuarial Accrued Liability, which is the difference between (A) the Actuarial Value of Assets (or market value of assets) and (B) the Actuarial Accrued Liability. Such valuation can be on an actuarial or a market value basis.

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 by the State under this program are made by annual appropriation of actual benefit costs incurred rather than a percentage of payroll.

RETIREE HEATH CARE BENEFITS

During the 2008 session of the General Assembly, in order to begin funding the unfunded liability for retiree health care, legislation was enacted which required the State to fund retiree healthcare benefits on an actuarial basis and which also authorized creation of a trust for retiree healthcare benefit assets. During the 2009 session of the General Assembly, these requirements were delayed until FY2011 due to budget constraints.

The Trust was established in December 2010, and all contributions to the Trust for fiscal year 2011 and FY 2012 were made and for fiscal year 2013 are being made on an actuarially determined basis in accordance with the law.

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

Pursuant to GASB Statement 45, *"Other Post Employment Benefits"* and Rhode Island law the State has obtained an updated actuarial valuation of the unfunded liability relating to retiree health care benefits. The unfunded liability as of June 30, 2011, the date of the latest valuation, was determined to be approximately $866.3 million, including $774.7 million for State employees, $80.3 million for State Police, $0 for Legislators, $1.8 million for Judges, and $9.5 million for the State's share for teachers. This was calculated using an assumed investment rate of return of 5.0% due to the fact that for fiscal year ending June 30, 2011, a Trust was established and the plan was funded on an actuarially determined basis. The annual required contribution as a percentage of payroll for fiscal year 2013 is 6.86%, 33.18%, 0% and 7.19% (no rate for teachers), respectively.

There have been changes in actuarial assumptions since the prior valuation. These changes include reflecting new assumptions adopted by the Employees Retirement System of Rhode Island (ERSRI), and the State Police Retirement Benefits Trust of Rhode Island (SPRBT), changes to the OPEB specific assumptions, and changes to reflect the potential excise tax under the Patient Protection and Affordable Care Act.

Changes from the ERSRI and SPRB experience studies include changes to the retirement and disability rates for ERSRI and changes to salary expectations and mortality for both ERSRI and SPRBT.

The new mortality assumptions used by ERSRI and SPRBT include a provision for future mortality improvement by using generational mortality. Generational mortality assumes continued future improvements in mortality rates. The intent is to keep ahead of future mortality improvements in order to avoid future losses as retirees live longer. The generational mortality approach is generally more conservative and has a material impact on this valuation.

Changes to the OPEB specific assumptions include a change in the medical trend assumption of 9% decreasing to 4.5% in 8 years to 9% decreasing to 4.0% in 10 years, a change in the Medicare election rate for Legislators from 75% electing Medicare to 100% electing Medicare and the addition of the assumption that current retired Teachers over age 65 in the Early Retiree plan are assumed to not be eligible for Medicare.

The Patient Protection and Affordable Care Act includes an excise tax on high cost (Cadillac) health plans beginning in 2018. The excise tax is 40% of costs above a threshold. Under the valuation assumptions, it is anticipated that the Active and Early Retiree Plans will be subject to the excise tax as early as 2018 and the liability has been increased to reflect the anticipated tax.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. These future revisions in actuarial assumptions could have a material effect on the unfunded actuarial accrued liability or actuarially required contribution in the future. In the event of material changes in the unfunded actuarial accrued liability with respect to retiree healthcare, there is no assurance that the State will be able to fund its actuarially required contributions in the future. In the event that the State is not able to fund such contributions, the State may be required to raise additional revenue, to reduce State services, to modify benefits, to implement a combination of the foregoing or take other necessary measures.

The total contributions made by the State and the other participating employees for retiree health care benefits were $47.7 million in FY 2011 and $47.0 million in FY 2012.

For further information about retiree health care benefits, see Note 14 Other Post Employment Benefits to the State's audited financial statements for the fiscal year ending June 30, 2012 which are attached hereto in Exhibit A.

LITIGATION

The State, its officers and employees are defendants in numerous lawsuits. With respect to any such litigation, State officials are of the opinion that the lawsuits are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position. It should be noted, however, in the event an adverse judgment to the State is rendered in the pension litigation described below challenging pension reform, such judgment could materially affect the State's financial position, depending upon the extent to which such judgment impacts the reductions in unfunded liability and employer contributions achieved by the pension reform.

Furthermore, the following pending litigations, the potential exposure for which is greater than $5,000,000, should be noted.

Pension Litigation

Challenges to the 2009 and 2010 Pension Reform

A number of unions representing state employees and teachers filed a lawsuit in State court in May 2010 initially challenging and attempting to block the 2009 pension reforms enacted by the General Assembly and later amended the suit to include 2010 reforms. The 2005 reforms were not challenged. The State intends to vigorously contest the lawsuit. The defendant State officials filed a Motion for Summary Judgment on the claims set forth in the

Amended Complaint, which was heard on July 18, 2011. Prior to the hearing, the parties stipulated that the only issue that would be presented to the Court during the hearing on the Motion would concern whether the statute created a contract between the state and its participants. The parties agreed that in the event that the Court concluded that the statute did create a contract, the remaining issues of whether the contract had been impaired and whether any such impairment was legally justified would be briefed and argued at a later date. On September 13, 2011, the Superior Court issued its decision in which it ruled that pension plan participants have a contractual right based on an implied-in-fact contract theory. Consistent with the parties' stipulation, the Court did not decide whether that contract had been impaired or whether any such impairment was legally justified. The defendants State officials believe the Superior Court's ruling was legally wrong. On October 3, 2011, Defendants filed a Petition for Issuance of a Writ of Certiorari and Supporting Memorandum of Law with the Rhode Island Supreme Court. Defendants also filed a motion through which they requested that the Supreme Court expedite its review of the Petition for Issuance of a Writ of Certiorari. On November 22, 2011, the Supreme Court denied the petition for Writ of Certiorari. On January 2, 2013, the Court ordered the parties to participate in mediation, which is ongoing. The parties are scheduled to report back to the Court on February 28, 2013.

The total savings from the 2009 and 2010 pension reforms is approximately $75 million annually (approximately 5% of employee eligible compensation), including State savings of $46.3 million annually and local government savings of $28.4 million annually. The pending lawsuit could impact some or all of the annual savings related to the 2009 and 2010 pension reforms, resulting in future increases in the Plans' unfunded liabilities and the State's ARC. If there were an unfavorable outcome for the State in connection with this pending litigation, the State's ARC could increase significantly. This could have an adverse effect on the Plans if sufficient funding for such increased costs were not available.

Challenges to the 2011 Pension Reform

In June 2012, certain retired state employees and associations of retired state and municipal employees who maintain they are current beneficiaries of ERSRI commenced five separate lawsuits in State court challenging the Rhode Island Retirement Security Act of 2011 ("RIRSA") enacted by the General Assembly. The five cases are: *Rhode Island Public Employees' Retirement Coalition v. Chafee,* C.A. No. 12-3166; *Bristol/Warren Regional School Employees, Local 581, AFSCME, Council 94 v. Chafee*, C.A. No. 12-3167; *Rhode Island Council 94, AFSCME, AFL-CIO, et al v. Chafee*, C.A. No. 12-3168; *City of Cranston Police Officers, International Brotherhood of Police Officers, Local 301, AFL, CIO v. Chafee*, C.A. No. 12-3169 and *Woonsocket Fire Fighters, IAFF Local 732, AFL-CIO v. Chafee*, C.A. No. 12-3579. In each of the five cases, the plaintiffs alleged that RIRSA violates the Contract Clause, the Takings Clause and the Due Process Clause of the Rhode Island Constitution. In addition, in the *Rhode Island Public Employees' Retirement Coalition v. Chafee,* C.A. No. 12-3166 case, the plaintiffs also allege counts for promissory estoppel and breach of contract. The State intends to vigorously contest the lawsuits.

On August 17, 2012, the defendants filed a motion to dismiss the *Rhode Island Public Employees' Retirement Coalition v. Chafee,* C.A. No. 12-3166 case on the ground that Rhode Island's pension legislation does not create a contract with ERSRI participants and that general contract principles, such as implied contracts, cannot be used to determine whether a state statute creates a contract. In the remaining four cases, the defendants filed motions for more definite statements in which they argued that it is not clear from the plaintiffs' pleadings what purported contract or contract(s) plaintiffs allege have been impaired. The defendants also moved in the alternative and asked the Court to dismiss the remaining four cases if the Court concluded that the plaintiffs' purported contracts derive from Rhode Island's pension legislation. A hearing on defendants' motions was held in December 2012. The parties anticipate receiving a decision on those motions during the first quarter of 2013.

On January 2, 2013, the Court ordered the parties to participate in mediation, which is ongoing. The parties are scheduled to report back to the Court on March 25, 2013.

Loss to the State and ERSRI as a whole cannot be estimated if such a legal challenge to the 2011 pension reform were successful. Future contribution rates for the Plans and the unfunded actuarial accrued liability would be negatively impacted. It should be noted, however, that as a result of the RIRSA legislation, the unfunded liability of $6.8 billion for state employees and teachers in the June 30, 2011 valuation for ERSRI has been reduced to $4.4 billion as reported in the June 30, 2011 valuation. Also, the projected employer contribution has been reduced from

$622 million as reported in the 2010 actual valuation report to $380 million as reported in the June 30, 2011 valuation.

An adverse judgment to the State rendered in the pension litigation could significantly increase both the unfunded liability under the ERSRI and the State's Annual Required Contribution ("ARC") based upon the impact that the RIRSA has had in reducing the unfunded liability and ARC as reflected above. If there were to be significant increases in the ARC, the State may be required to (i) raise additional revenue, (ii) reduce State services, (iii) modify benefits provided by each of the Plans, (iv) implement a combination of the foregoing, or (v) take any other measures as necessary.

Other Litigation

Separate claims have been made against the Rhode Island Department of Education by the Cranston School Department and the Chariho Regional School Committee alleging that they are owed reimbursement for certain expenses incurred by them in the operation of their respective area vocational-technical career centers. The Cranston School Department claims it is owed $7,166,656 for the amounts it paid for salaries of directors and guidance counselors from 1990 to the present and for the costs of building repairs from 1999 to the present at the Cranston Area Vocational Technical Center. The Chariho Regional School Committee claims it is owed $4,142,893 for amounts it paid for salaries of directors and guidance counselors from 1990 to the present at the Chariho Career and Technical Center. None of the other six (6) school districts that operate regional vocational technical centers in the state have raised similar claims to date. The claims were assigned to a hearing officer at the Department of Education. On August 26, 2009 counsel for the Department filed a preliminary motion to dismiss on several legal grounds. That motion was granted and both claims were dismissed by the Commissioner on January 21, 2010. Both parties appealed to the Board of Regents. Cranston and Chariho filed their briefs with the Board of Regents on February 17, 2010. The Department submitted a reply brief, and the Board of Regents affirmed the dismissal. Cranston and Chariho have both filed Administrative Procedures Act appeals in Superior Court which are currently pending. Both Cranston and Chariho have also filed Petitions for Writs of Certiorari in connection with their Petitions for Writs of Mandamus which were previously denied. Though a tentative settlement agreement had been reached and was subject to final approval from the Department of Administration (the terms of the agreement being that Cranston would receive $258,866 in FY 2012). However, because a supplemental appropriation was not approved for payment of the settlement amount, the Superior Court and Supreme Court actions shall proceed. It is to be noted that along with Cranston's claim, the aggregate sums demanded by the school districts is approximately $22 million dollars.

The State was sued by Simcha Berman, who fell while walking along the Newport Cliff Walk and became a quadriplegic. The State won a jury trial and the plaintiff was not successful in obtaining a new trial on the claims. An appeal is currently pending. Plaintiff's special damages exceed $8,000,000. The State intends to contest this case.

The State was sued by Brett Roy, who became a quadriplegic after diving into a pond at Veterans Memorial Park in Woonsocket. After the trial, a verdict was rendered for the State and a motion for a new trial is currently pending. During the trial, the Plaintiff asserted damages in excess of $70,000,000, including over $2,000,000 in past medical expenses and approximately $9,000,000 in future expenses. The State intends to continue to contest this case.

The Rhode Island General Assembly enacted legislation that called for analysis of competitive casino gaming operations and a statewide referendum (November 2012) to allow casino style gaming at Twin River. Subsequently, the constitutionality of that legislation is being challenged by the Narragansett Indian Tribe. The Superior Court refused to enjoin the State and the Narragansett Indian Tribe filed a notice of appeal to the Supreme Court where the matter presently stands. The State does not believe that the Tribe's law suit seeking a declaratory judgment will be successful.

The State of Rhode Island is engaged in litigation regarding the liability of costs for the lead paint litigation. The trial court ordered the State to reimburse the Defendants the costs of appointment of co-examiners, which is approximately $250,000. The Defendants also sought from the State the reimbursement or payment of the Defendants' litigation costs throughout the 10 years of litigation. While no dollar amount has ever been placed on this expense, a fair estimate may place this amount in the $10 million range. The trial court denied the request for litigation costs in its entirety, and thus ordered the State re-pay only the approximately $250,000 in co-examiner fees. Both the State and the Defendants appealed to the Rhode Island Supreme Court the respective issues and the Supreme Court heard arguments on February 5, 2013.

Certain litigation involving quasi-agencies or authorities may be identified in the State Agencies and Authorities section.

FINANCIAL STATEMENTS

Attached are the financial statements and notes of the State for fiscal year ended June 30, 2012, and the report thereon by the Auditor General, a certified public accountant appointed by the Joint Committee on Legislative Services.

EXHIBIT A

TO THE

INFORMATION STATEMENT OF THE STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

DATED: March 14, 2013

Office of the Auditor General
State of Rhode Island and Providence Plantations - General Assembly
Dennis E. Hoyle, CPA - Auditor General
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INDEPENDENT AUDITOR'S REPORT

Finance Committee of the House of Representatives
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, 2012, 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:

- a component unit which represents 1% of the assets and 1% of the revenues of the governmental activities and 1% of the assets and 4% of the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which also represents 64% of the assets and 2% of the revenues of the business-type activities;
- the external investment trust – Ocean State Investment Pool which represents less than 1% of the assets and revenues of the aggregate remaining fund information; and
- component units which represent 100% of the assets and 100% of the revenues of the aggregate discretely presented component units.

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

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

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 6(J), the State has borrowed $225 million from the federal Unemployment Insurance Trust Fund to fund benefits paid from the Employment Security Fund, a major fund, to eligible unemployed individuals. The Employment Security Fund had a deficit net asset balance of $152 million at June 30, 2012.

As disclosed in Note 12, various lawsuits have been filed challenging pension reforms legislatively enacted in 2009 and 2010 as well as the more recent pension reforms enacted on November 18, 2011. An adverse judgment to the State resulting from these challenges could significantly increase both the unfunded liability of the plans included within the pension trust funds and the State's actuarially determined annual required contribution.

In accordance with *Government Auditing Standards*, we will issue our report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages Exhibit A-4 through A-22, the Budgetary Comparison Schedules on pages Exhibit A-105 through A-108, and the Schedules of Funding Progress on pages Exhibit A-109 through A-110 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Dennis E. Hoyle, CPA
Auditor General

December 20, 2012

State of Rhode Island

Fiscal Year Ended June 30, 2012

Management's Discussion and Analysis

Management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of the State of Rhode Island (State) for the fiscal year ended June 30, 2012. The MD&A is intended to serve as an introduction to the State's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A is designed to (a) assist the reader in focusing on significant financial matters, (b) provide an overview of the State's financial activities, (c) identify any material changes from the original budget, and (d) highlight individual fund matters. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the State's financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

Financial Highlights – Primary Government

Government-wide Financial Statements

- **Net Assets:** The total assets of the State exceeded total liabilities on June 30, 2012 by $1,205.9 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, ($1,523.9) million was reported as unrestricted net assets (deficit), $562.2 million as restricted net assets, and $2,167.6 million as invested in capital assets, net of related debt.

- **Changes in Net Assets:** In the Statement of Activities, the State's total net assets increased by $279.0 million in fiscal year 2012. Net assets of governmental activities increased by $280.1 million, primarily because of significant increases in tax revenue due to the gradually improving economy and careful management of expenditures. In addition, operating grants and contributions declined significantly. This is primarily attributable to a decline in Federal funding resulting from the winding down of funding from the American Recovery and Reinvestment Act. Net assets of the business-type activities decreased by $1.1 million due primarily to the operating losses of the R.I. Convention Center and the Employment Security Fund. The latter fund continues to be adversely impacted by the higher than normal unemployment rate in the State.

Fund Financial Statements

<u>Governmental Funds</u>

- The State's governmental funds reported a combined ending fund balance of $966.9 million, an increase of $170.9 million in comparison with the previous fiscal year. This is primarily a result of the increase in the fund balance of the General Fund which is attributable to better than expected revenue and careful management of expenditures. In addition, the fund balance of the Bond Capital Fund increased due to a new bond issue and the fund balance of the R.I. Capital Fund increased as a result of constitutionally mandated transfers to this fund.

- As of June 30, 2012, the State's General Fund reported an ending fund balance of $373.2 million, an increase of $102.3 million as compared to the prior year. This change resulted from increases in general revenue, primarily taxes, in fiscal year 2012 and the implementation of a number of measures to further enhance controls over expenditures which resulted in general revenue expenditures being less than appropriations by $29.0 million.

- As of June 30, 2012, the State's Intermodal Surface Transportation Fund reported an ending fund balance of $108.7 million, a decrease of $23.1 million as compared to the prior year. The decrease was primarily due to expenditures of bond proceeds recorded in prior years as well as a slight decline in gasoline tax revenue.

Proprietary Funds

- The Rhode Island State Lottery transferred $377.7 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of $22.8 million in comparison with the previous fiscal year. This was primarily due to an increase in revenue from video lottery games.

- The Employment Security Fund ended the fiscal year with a fund deficit of ($151.5) million, as compared with a fund deficit of ($153.1) million at the end of fiscal year 2011. This change was primarily attributable to the level of unemployment benefits paid as a result of the continuing high unemployment rate in the State.

- The R.I. Convention Center Authority ended the fiscal year with a net asset deficiency of ($54.2) million, a deficit increase of $3.3 million compared with the prior year. The Authority has historically had a net asset deficiency as the amount of debt related to capital assets has exceeded the net book value of the capital assets because the repayment term for the debt generally is longer than the depreciable life of the assets.

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
3. Notes to the financial statements

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

Government-wide Financial Statements

The government-wide financial statements provide a broad view of the State's finances. The statements provide both short-term and long-term information about the State's financial position, which assist 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 activities:

- **Governmental Activities:** The activities in this section represent most of the State's basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the State include general government, human services, education, public safety, natural resources, and transportation. The net assets and change in net assets of the internal service funds are also included in this column.

- **Business-type Activities:** These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include the operations of the Rhode Island Lottery, Rhode Island Convention Center Authority and the Employment Security Trust Fund.

- **Discretely Presented Component Units:** Component units are entities that are legally separate from the State, but for which the State is financially accountable. These entities are listed in Note 1. The financial information for these entities is presented separately from the financial information presented for the primary government.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on the individual parts of 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, special revenue, capital projects and permanent funds. The State has several governmental funds, of which GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* defines the general fund as a major fund. The criteria for determining if any of the other governmental funds are major funds are detailed in Note 1(C). 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. Similar to the government-wide statements, proprietary funds use the accrual basis of accounting. The State has three enterprise funds, the Lottery Fund, Convention Center Authority (RICCA) and the Employment Security Fund. These funds are each presented in separate columns on the basic proprietary fund financial statements. The State's internal service funds are reported as governmental activities on the government-wide statements, because the services they provide predominantly benefit governmental activities. The State's internal service funds are reported on the basic proprietary fund financial statements in a single combined column. Individual fund data for these funds is provided in the form of combining statements and can be found in the supplementary information section of the State's CAFR.

- **Fiduciary funds:** These funds are used to account for resources held for the benefit of parties outside the State government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the State's programs. These funds, which include the pension and other post-employment benefits trusts, an external investment trust, a 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.

Discretely Presented Component Units

Discretely presented component units 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. The State distinguishes between major and nonmajor component units. The criteria for distinguishing between major and nonmajor component units are detailed in Note 1 (B).

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 and other post-employment 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 enacted 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, internal service funds and fiduciary funds.

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 $1,205.9 million at the end of fiscal year 2012, compared to $926.9 million at the end of the prior fiscal year. Governmental activities reported unrestricted net assets (deficit) of ($1,366.5) million.

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

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

State of Rhode Island's Net Assets as of June 30, 2012
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	$ 1,831,030	$ 1,608,885	$ 126,097	$ 116,487	$ 1,957,127	$ 1,725,372
Capital assets	3,254,026	3,130,020	177,461	187,120	3,431,487	3,317,140
Total assets	5,085,056	4,738,905	303,558	303,607	5,388,614	5,042,512
Long-term liabilities outstanding	2,671,882	2,683,490	464,090	470,452	3,135,972	3,153,942
Other liabilities	994,679	916,985	52,048	44,663	1,046,727	961,648
Total liabilities	3,666,561	3,600,475	516,138	515,115	4,182,699	4,115,590
Net assets:						
Invested in capital assets, net of related debt	2,232,121	2,115,001	(64,492)	(63,156)	2,167,629	2,051,845
Restricted	552,863	462,751	9,308	11,036	562,171	473,787
Unrestricted	(1,366,489)	(1,439,322)	(157,396)	(159,388)	(1,523,885)	(1,598,710)
Total net assets	$ 1,418,495	$ 1,138,430	$ (212,580)	$ (211,508)	$ 1,205,915	$ 926,922

As indicated above, the State reported a balance in unrestricted net assets (deficit) of ($1,523.9) million as of June 30, 2012 in the Statement of Net Assets. This deficit results in part from the State's use of general obligation bond proceeds (which are reported as debt of the primary government) for other than the primary government's direct capital purposes. In these instances, proceeds are transferred to municipalities, discretely presented component units, and non-profit organizations within the State to fund specific projects. As of June 30, 2012 approximately $599.0 million of general obligation bonds related to such projects were outstanding.

Examples of these uses of general obligation bond proceeds include, but are not limited to, the following:

- Certain transportation projects funded with bond proceeds that do not meet the State's criteria for capitalization as infrastructure;
- Construction of facilities at the State's university and colleges, which are reflected in the financial statements as discretely presented component units;
- Water resources projects including the acquisition of sites for future water supply resources, various water resources planning initiatives, and funding to upgrade local water treatment facilities;
- Environmental programs to acquire, develop, and rehabilitate local recreational facilities and ensure that open space is preserved;
- Historical preservation initiatives designed to protect and preserve historical buildings as well as to provide funding for cultural facilities.

Other debt that is not for the State's acquisition of capital assets is as follows:

- Tobacco Settlement Asset-Backed Bonds and Accreted Interest - The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued $882.4 million of Tobacco Asset-Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent Decree and Final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof, and the State has no obligation to satisfy any deficiency or default of any payment of the bonds. As of June 30, 2012 approximately $779.0 million of principal and $67.0 million of accreted interest are included in the State's debt.

- Historic Tax Credit Bonds - In fiscal year 2009 the R.I. Economic Development Corporation (RIEDC), on behalf of the State, issued $150.0 million of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The State is obligated under a Payment Agreement to make payments to the trustee. This obligation is subject to annual appropriation by the General Assembly. The proceeds of the bonds are being used to provide funds for redemption of Historic Structures Tax Credits. As of June 30, 2012, approximately $106.0 million is outstanding.

- The State has entered into certain capital lease agreements, Certificates of Participation (COPS), the proceeds of which are to be used by the State's university and colleges for energy conservation projects or by local school districts to increase electronic communication on a state-wide basis. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly. As of June 30, 2012, approximately $32.0 million is outstanding relating to these projects.

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

Changes in Net Assets

The State's net assets increased by $279.0 million during the current fiscal year. Total revenues of $7,212.5 million were more than expenses of $6,933.6 million. Approximately 39.2% of the State's total revenue came from taxes, while 37.2% resulted from grants and contributions (including federal financial aid). Charges for various goods and services provided 21.7% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services, 42.8%, and education, 19.2%. In fiscal year 2012, governmental activity expenses exceeded program revenues by $3,011.5 million, with excess expenses being funded through general revenues. Net program revenues from business-type activities in fiscal year 2012 exceeded expenses by $326.7 million.

State of Rhode Island's Changes in Net Assets
For the Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011 *	2012	2011 *
Revenues:						
Program revenues:						
Charges for services	$ 508,140	$ 482,652	$ 1,056,285	$ 985,556	$ 1,564,425	$ 1,468,208
Operating grants and contributions	2,194,892	2,387,540	278,671	358,932	2,473,563	2,746,472
Capital grants and contributions	210,720	162,032			210,720	162,032
General revenues:						
Taxes	2,824,368	2,665,169			2,824,368	2,665,169
Interest and investment earnings	4,304	5,561	94	79	4,398	5,640
Miscellaneous	118,506	102,478	16,564	25,439	135,070	127,917
Total revenues	5,860,930	5,805,432	1,351,614	1,370,006	7,212,544	7,175,438
Program expenses:						
General government	653,003	644,194			653,003	644,194
Human services	2,970,269	3,013,081			2,970,269	3,013,081
Education	1,334,355	1,332,453			1,334,355	1,332,453
Public safety	468,098	436,940			468,098	436,940
Natural resources	85,039	80,360			85,039	80,360
Transportation	268,523	300,366			268,523	300,366
Interest	145,964	148,850			145,964	148,850
Lottery			399,421	368,870	399,421	368,870
Convention Center			49,439	48,780	49,439	48,780
Employment insurance			559,440	661,078	559,440	661,078
Total expenses	5,925,251	5,956,244	1,008,300	1,078,728	6,933,551	7,034,972
Excess (deficiency) before transfers	(64,321)	(150,812)	343,314	291,278	278,993	140,466
Transfers	344,386	331,186	(344,386)	(331,186)		
Change in net assets	280,065	180,374	(1,072)	(39,908)	278,993	140,466
Net assets - Beginning	1,138,430	972,714	(211,508)	(171,600)	926,922	801,114
Cumulative effect of prior period adjustments		(14,658)				(14,658)
Net assets - Beginning, as restated	1,138,430	958,056	(211,508)	(171,600)	926,922	786,456
Net assets - Ending	$ 1,418,495	$ 1,138,430	$ (212,580)	$ (211,508)	$ 1,205,915	$ 926,922

***** Certain fiscal year 2011 amounts have been reclassified to conform to the current year presentation.

Chart 1 depicts the State's sources of revenues from Governmental Activities for the fiscal year ended June 30, 2012.

Chart 1 - Revenues and Transfers - Governmental Activities

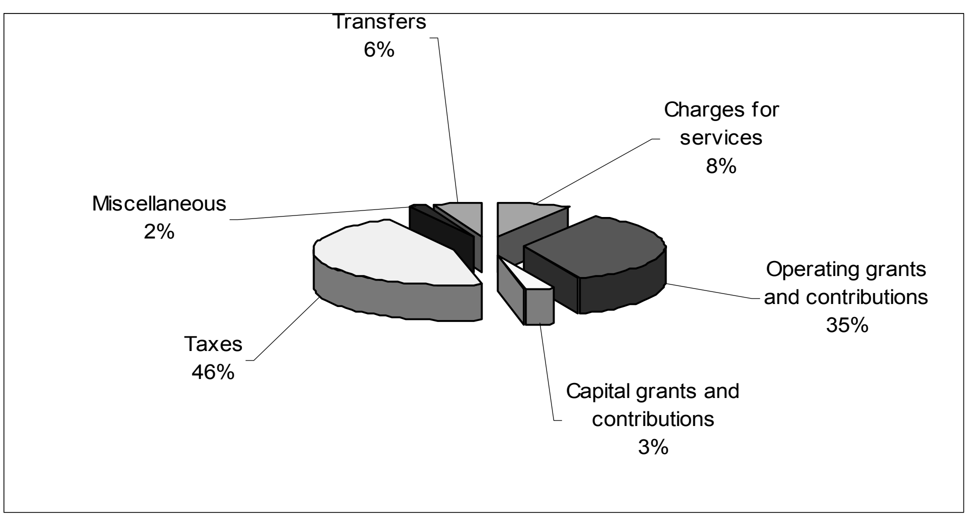
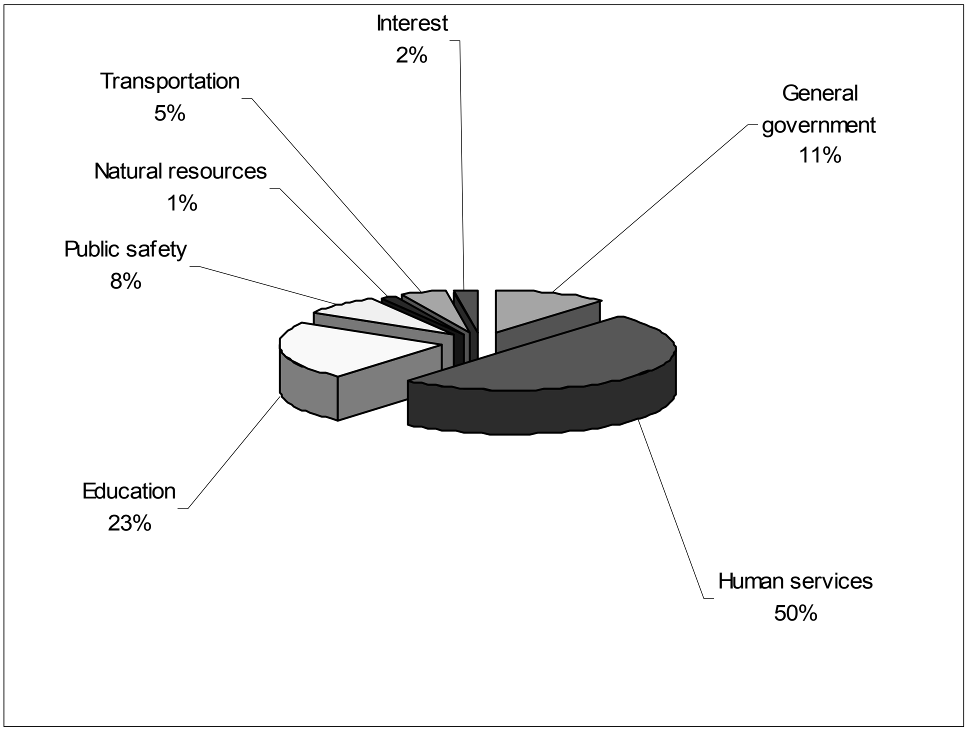


Chart 2 depicts the purposes that program expenses related to Governmental Activities were expended for during the fiscal year ended June 30, 2012.

Chart 2 - Program Expenses - Governmental Activities



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. At the end of the current fiscal year, the State's governmental funds reported a combined ending fund balance of $966.9 million, an increase of $170.9 million from June 30, 2011. A breakdown of the components follows (expressed in thousands):

	2012	2011	Change	Percent
Governmental Funds				
Nonspendable	$ 174	$ 53,527	$ (53,353)	-99.67%
Restricted	828,623	726,136	102,487	14.11%
Unrestricted				
Committed	24,535	7,404	17,131	231.37%
Assigned	97,957	8,709	89,248	1024.78%
Unassigned	15,657	238	15,419	6478.57%
Total	$ 966,946	$ 796,014	$ 170,932	21.47%

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned primarily based on the extent to which the State is bound to honor constraints on how specific amounts can be spent. More information about each category is presented below:

- Nonspendable fund balance – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by constitutional provisions, as is the case for the Budget Reserve and Cash Stabilization Account, or by law through enabling legislation enacted by the General Assembly.
- Committed fund balance – amounts that can only be used for specific purposes determined by the enactment of legislation by the General Assembly, and that remain binding unless removed in the same manner. The underlying action that imposed the limitation must occur no later than the close of the fiscal year and must be binding unless repealed by the General Assembly.
- Assigned fund balance – amounts that are constrained by the State's intent to be used for specific purposes. The intent is generally established by legislation enacted by the General Assembly and is implemented at the direction of the Governor. This is also the classification for residual funds in the State's special revenue funds.
- Unassigned fund balance – the residual classification for the State's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

Significant changes in fund balance are discussed below:

- The reduction in the nonspendable fund balance resulted from improved management of the timing of payment of certain prepaid expenses in fiscal year 2012.
- The increase in restricted fund balance is primarily a result of new debt issues in fiscal year 2012 reflected in certain capital projects funds.
- The increase in the assigned portion of the unrestricted fund balance is primarily attributable to the general fund surplus that has been earmarked as a resource in the fiscal year 2013 budget.

The major governmental funds of the primary government are:

General Fund

The General Fund is the chief operating fund of the State. The fund balance of the General Fund consisted of the following (expressed in thousands):

	2012	2011	Change	Percent
Nonspendable	$	$ 53,353	$ (53,353)	-100.00%
Restricted	232,348	197,885	34,463	17.42%
Unrestricted				
Committed	22,793	5,956	16,837	282.69%
Assigned	97,639	8,425	89,214	1058.92%
Unassigned	20,374	5,281	15,093	285.80%
Total	$ 373,154	$ 270,900	$ 102,254	37.75%

Revenues and transfers of the General Fund totaled $5,650.5 million in fiscal year 2012, an increase of $12.5 million or 0.22%, from the previous year. The revenues from various sources and the change from the previous year are shown in the following tabulation (expressed in thousands):

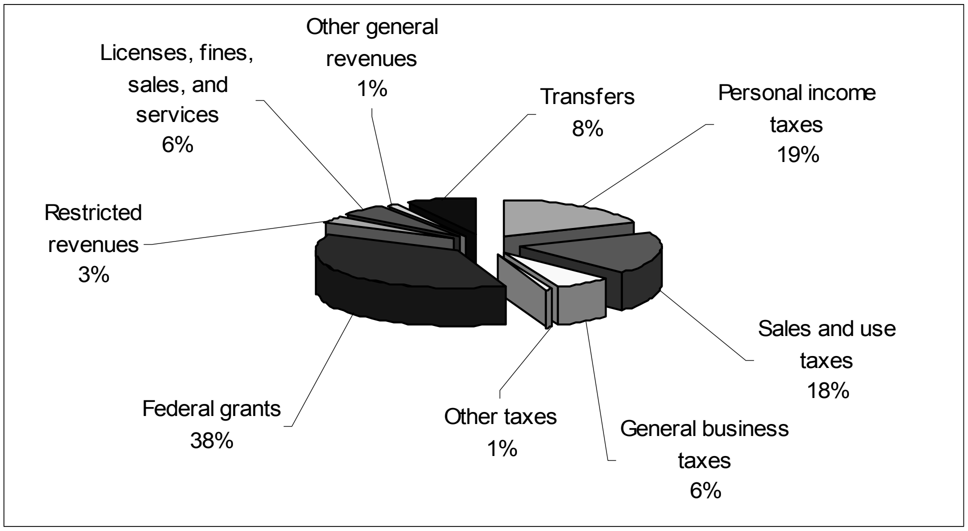
			Increase (decrease) from 2011	
	2012	2011 *	Amount	Percent
Taxes:				
Personal income	$ 1,059,119	$ 1,014,617	$ 44,502	4.39%
Sales and use	1,043,141	1,007,460	35,681	3.54%
General business	355,457	286,564	68,893	24.04%
Other	54,174	54,551	(377)	-0.69%
Subtotal	2,511,891	2,363,192	148,699	6.29%
Federal grants	2,119,476	2,314,100	(194,624)	-8.41%
Restricted revenues	192,642	174,192	18,450	10.59%
Licenses, fines, sales, and services	313,455	309,687	3,768	1.22%
Other general revenues	71,059	52,113	18,946	36.36%
Subtotal	2,696,632	2,850,092	(153,460)	-5.38%
Total revenues	5,208,523	5,213,284	(4,761)	-0.09%
Transfers	441,953	424,654	17,299	4.07%
Total revenue and transfers	$ 5,650,476	$ 5,637,938	$ 12,538	0.22%

* Certain fiscal year 2011 amounts have been reclassified to conform to the current year presentation.

Personal income taxes increased robustly between fiscal year 2011 and fiscal year 2012 due to a sharp increase in estimated payments of 12.0 percent and increased withholding tax payments of 4.5 percent. These increases were offset by an increase in refunds paid of 2.6 percent and a modest decrease in final payments received of 4.3 percent. The increase in refunds paid and the decrease in final payments received are likely attributable in part to the fact that the 2010 General Assembly enacted an overhaul of the State's personal income tax system effective January 1, 2011. The increase in refunds paid and the decrease in final payments were due in part to the change in the withholding tables issued by the Division of Taxation effective on January 1, 2011 which resulted in lower and moderate income taxpayers having more withheld from their wages and salaries then their final tax liabilities warranted. The increase in withholding tax payments in fiscal year 2012 compared to fiscal year 2011 is due to the State's improving economy which saw a decline in the State's unemployment rate from 11.4 percent to 11.1 percent.

Chart 3 depicts the General Fund's revenues and other sources for the fiscal year ended June 30, 2012.

Chart 3 – Revenues and Other Sources – General Fund



Expenditures and other uses totaled $5,548.2 million in fiscal year 2012, a decrease of $4.3 million, or -0.08%, from the previous year. Changes in expenditures and other uses by function from the previous year are shown in the following tabulation (expressed in thousands):

	2012	2011	Increase (decrease) from 2011 Amount	Percent
General government	$ 474,135	$ 458,222	$ 15,913	3.47%
Human services	2,969,166	3,009,097	(39,931)	-1.33%
Education	1,281,879	1,287,549	(5,670)	-0.44%
Public safety	459,114	428,687	30,427	7.10%
Natural resources	75,141	71,812	3,329	4.64%
Debt Service:				
Principal	111,711	106,961	4,750	4.44%
Interest	73,249	75,634	(2,385)	-3.15%
Total expenditures	5,444,395	5,437,962	6,433	0.12%
Other uses	103,827	114,526	(10,699)	-9.34%
Total expenditures and other uses	$ 5,548,222	$ 5,552,488	$ (4,266)	-0.08%

The increase from the prior year in the General Government function is attributable to three main items. First, there was an increase of approximately $10.8 million in the transfer from Unclaimed Property to the General Fund. Second, there was a net increase in state aid to municipalities of approximately $8.8 million, $5.5 million for the Payment in Lieu of Taxes program and $2.8 million associated with the bankruptcy in the City of Central Falls. These increases were offset by the transfer of the Sheriffs program from the Department of Administration to the Department of Public Safety accounting for a decrease in the General Government function of approximately $16.5 million.

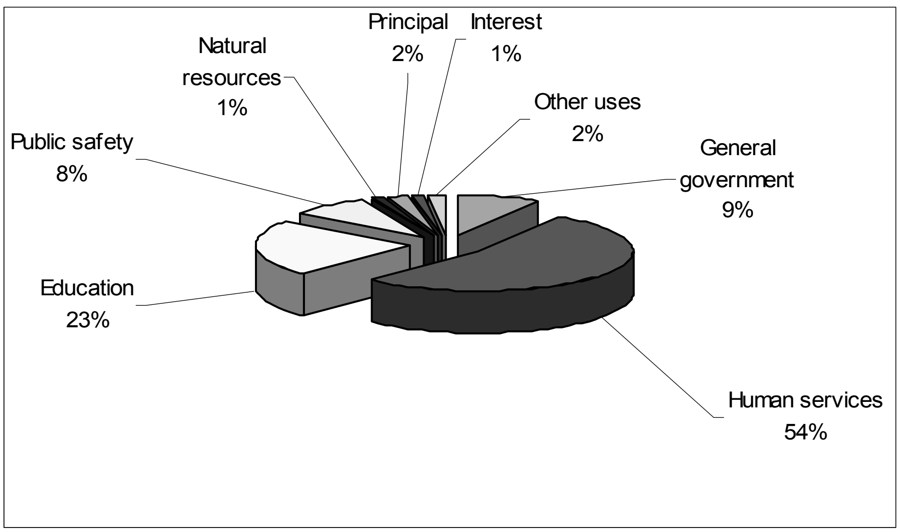
The decrease in the Human Services function expenditures is primarily attributable to the loss of federal funds under the American Recovery and Reinvestment Act (ARRA) in the Departments of Children, Youth and Families and Behavioral Healthcare, Developmental Disabilities and Hospitals. The Department of Human Services saw a significant decrease in federal funds under the Medicaid program due to the end of the enhanced matching rate authorized under the ARRA legislation. However, most of this loss of federal funds was offset by a commensurate increase in general revenue funds to continue funding the Medicaid programs.

The decrease in the Education function expenditures was also attributable to the loss of ARRA funds ($50.6 million), offset by increases in state aid to education ($9.3 million), the State share of Teachers' Retirement costs ($10.1 million), Race to the Top federal funds ($16.0 million), and additional State support for Higher Education ($3.3 million).

The increase in the Public Safety function is primarily attributable to the transfer of the Sheriffs ($16.5 million) from the Department of Administration, as referenced above under the General Government function. Other increases include additional payroll costs at the Department of Corrections due to prior year contract negotiations with the Rhode Island Brotherhood of Correctional Officers and in the Department of Public Safety for State Police Troopers' compensation.

Chart 4 depicts the General Fund's Expenditures and Other Uses for the fiscal year ended June 30, 2012.

Chart 4 – Expenditures and Other Uses – General Fund



Intermodal Surface Transportation Fund

The Intermodal Surface Transportation Fund (IST) is a special revenue fund that accounts for the collection of gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system. It also accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds and related expenditures. The components of fund balance of the IST fund are as follows (expressed in thousands):

	2012	2011	Change	Percent
Restricted	$ 111,537	$ 135,310	$ (23,773)	-17.57%
Unrestricted				
Committed	1,742	1,448	294	20.30%
Assigned	117	85	32	37.65%
Unassigned (deficit)	(4,717)	(5,043)	326	6.46%
Total	$ 108,679	$ 131,800	$ (23,121)	-17.54%

General Fund Budgetary Highlights – General Revenue Sources

Prior to fiscal year 2009, according to the State's Constitution, general revenue appropriations in the general fund could not exceed 98% of available general revenue sources. These sources consist of the current fiscal year's budgeted general revenue plus the general fund undesignated fund balance from the prior fiscal year. Excess revenue was transferred to the State Budget Reserve Account. If the balance in the Reserve exceeded three percent of the total general revenues and opening surplus, the excess was transferred to the R.I. Capital Plan Fund to be used for capital projects. In fiscal year 2009, the spending cap decreased by .2% and Reserve limitation increased by .4%. For fiscal year 2011 and subsequent years the spending cap decreases by .2% and the reserve limitation increases by .4% each year until fiscal year 2013, when the spending cap will be 97% of the total general revenues and opening surplus, and the Reserve will be five percent of the total general revenues and opening surplus. The budgets for the components of the current fiscal year's general revenue estimates are established by the State's revenue estimating conference. If actual general revenue is less than the projection, appropriations have to be reduced or additional revenue sources must be identified. Certain agencies have federal programs that are entitlements, which continue to require State funds to match the federal funds. Agencies may get additional appropriations provided a need is established.

The RI General Laws require that all general revenues received in the fiscal year (net of the transfer to the State budget reserve and cash stabilization account) in excess of the amount in the final enacted budget should be paid to State Employees' Retirement System upon issuance of the audited financial statements. The amount of the revenue excess is $12.9 million based on the audited fiscal year 2012 financial statements and it is expected to be transferred in fiscal year 2013.

Adjustments to general revenue receipt estimates resulted in an increase of $81.4 million between the original budget and the final budget. General revenue appropriations decreased from the original budget by $3.2 million. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations (expressed in thousands) are listed below.

General Fund Budgetary Highlights
General Revenue Sources

	Original Budget	Final Budget	Actual	Final Budget vs. Actual Variance
Revenues and sources:				
Taxes:				
Personal income	$ 1,010,021	$ 1,046,200	$ 1,060,482	$ 14,282
General business	367,052	365,100	360,654	(4,446)
Sales and use	1,044,813	1,040,300	1,043,140	2,840
Other taxes	37,000	52,000	54,172	2,172
Departmental revenue	343,543	344,500	339,895	(4,605)
Other sources:				
Miscellaneous	6,325	16,800	20,110	3,310
Lottery transfer	361,042	378,500	377,706	(794)
Unclaimed property	6,200	14,000	14,556	556
Total revenues and other sources	3,175,996	3,257,400	3,270,715	13,315
Expenditures and other uses:				
General government	411,139	420,266	411,578	8,688
Human services	1,258,451	1,238,360	1,224,516	13,844
Education	1,040,454	1,041,276	1,037,221	4,055
Public safety	394,837	401,559	398,985	2,574
Natural resources	37,620	37,825	37,942	(117)
Total expenditures and other uses	3,142,501	3,139,286	3,110,242	29,044
Excess of revenues and other sources over expenditures and other uses	$ 33,495	$ 118,114	$ 160,473	$ 42,359

The positive variance from the fiscal year 2012 Original and Final Budgets to the fiscal year 2012 Actual for Personal Income Taxes is due to income tax refunds paid coming in 5.0 percent below the fiscal year 2012 Final Budget estimate and an increase in withholding tax payments received of 2.9 percent above the fiscal year 2012 Original Budget amount. The downward trend in refunds paid was based on actual collections in fiscal year 2011 which were nearly $50.0 million less than the fiscal year 2011 Original Budget and $6.7 million less than the fiscal year 2011 Final Budget. The increase in withholding tax payments received was due to the improved State and regional economies between June 2011 and June 2012 and the fact that two winning Powerball jackpot tickets were sold in Rhode Island in the spring of 2012 resulting in nearly $15.0 million of unexpected withholding tax payments. The increase in Sales and Use Taxes between the fiscal year 2012 Actual and Final Budget is primarily due to the expansion of the sales tax base that took effect on October 1, 2011. Particularly strong sales of software downloaded electronically, which includes applications used on mobile devices, helped drive sales and use tax revenues in the late spring period.

The positive variance in the General Government function of approximately $8.7 million for expenditures was primarily in two agencies, Administration and the Legislature. Within Administration, the majority of the positive variance was in the Facilities Management program due to lower electricity and natural gas rates and/or usage, as well as lower costs for sewer and water charges. In the Legislature's budget, the positive variance was primarily in the grants category. The entire surplus for the Legislature is re-appropriated to fiscal year 2013.

The positive variance in the Human Services function of approximately $13.8 million for expenditures was due to a positive variance in the Department of Human Services (DHS) of $16.7 million, offset by negative variances in the Department of Children, Youth and Families (DCYF) of $2.4 million and the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH) of $3.8 million. The DHS positive variance was primarily in the Medicaid program due to final caseloads being lower than estimated by the Caseload Estimating Conference in May 2012. The DCYF negative variance was primarily attributable to lower federal reimbursement for certain services. The BHDDH negative variance was primarily in the Developmental Disabilities program and is mainly attributable to additional overtime resulting from higher than expected staff vacancy rates.

The positive variance in the Education function of approximately $4.1 million is almost entirely in the Department of Elementary and Secondary Education and is attributable to lower than projected state share for the teachers' retirement contribution.

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, 2012, amounts to $3,431.5 million, net of accumulated depreciation of $2,171.6 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 approximately 3.4% of net book value. This increase is primarily caused by the construction and rehabilitation of highways and other infrastructure as well as a number of significant building projects, as discussed in the second paragraph below.

Actual expenditures to purchase or construct capital assets were $256.5 million for the year. Of this amount, $202.6 million was used to construct or reconstruct highways. Depreciation charges for the year totaled $153.2 million.

State of Rhode Island's Capital Assets as of June 30, 2012
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Capital assets not being depreciated or amortized						
Land	$ 358,968	$ 351,873	$ 45,558	$ 45,558	$ 404,526	$ 397,431
Works of Art	1,414	1,283			1,414	1,283
Intangibles	159,093	155,206			159,093	155,206
Construction in progress	446,720	427,459	24	154	446,744	427,613
Total capital assets not being depreciated or amortized	966,195	935,821	45,582	45,712	1,011,777	981,533
Capital assets being depreciated or amortized						
Land improvements	3,700	3,700			3,700	3,700
Buildings	684,233	644,386	234,384	234,130	918,617	878,516
Building improvements	268,975	260,066			268,975	260,066
Equipment	244,977	242,348	25,647	24,956	270,624	267,304
Intangibles	14,049	14,049			14,049	14,049
Infrastructure	3,115,389	2,949,715			3,115,389	2,949,715
	4,331,323	4,114,264	260,031	259,086	4,591,354	4,373,350
Less: Accumulated depreciation or amortization	2,043,492	1,920,065	128,152	117,678	2,171,644	2,037,743
Total capital assets being depreciated or amortized	2,287,831	2,194,199	131,879	141,408	2,419,710	2,335,607
Total capital assets (net)	$ 3,254,026	$ 3,130,020	$ 177,461	$ 187,120	$ 3,431,487	$ 3,317,140

In fiscal year 2012, the State completed a number of significant capital projects, including the Wickford Commuter Rail Station and a new pavilion at East Matunuck State Beach. Also, the State is investing in new technology to significantly enhance the operations of the Division of Motor Vehicles. In addition, a number of significant highway and bridge improvement projects were ongoing in fiscal year 2012, including construction of a new Sakonnet River Bridge in Tiverton (opened in early fiscal year 2013) and a new Blackstone River Bridge on Route I-95 in Pawtucket, a portion of which was opened in fiscal year 2012. Finally, the State has made a significant investment in commuter rail service by expanding service from Warwick's T.F. Green Airport to the new Wickford Station in Washington County.

Additional information on the State's capital assets can be found in Note 5 to the financial statements of this report.

Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of $50,000 without the consent of the people (voters), except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. At the end of the current fiscal year, the State's governmental activities had total bonded debt outstanding of $2,409.1 million, of which $1,110.6 million is general obligation debt, $519.1 million is special obligation debt and $779.4 million is debt of the blended component units. Additionally, accreted interest of $15.2 million has been recognized for debt of one blended component unit, which will not be paid until 2052. On an overall basis the State's total bonded debt decreased by $2.7 million during fiscal year 2012. This decrease consists of a $61.2 million increase in general obligation debt, a decrease of $48.1 million in special obligation debt, and a decrease of $15.8 million in the blended component units' debt. The general obligation debt is supported by the full faith and credit of the State. Other obligations subject to annual appropriation by the R.I. General Assembly totaled $418.3 million and are discussed in Note 6.

The State's assigned general obligation bond ratings at June 30, 2012 were as follows: AA by Standard & Poor's Ratings Services (S&P), Aa2 (with a negative outlook) by Moody's Investor Service, Inc. and AA by Fitch Ratings. 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 $117.0 million; other obligations that are authorized but unissued totaled $396.2 million and are described in Note 6. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

Conditions Expected to Affect Future Operations

Fiscal Year 2013 Budget

The first quarter report for fiscal year 2013 prepared by the State Budget Office contains estimates of annual expenditures based upon analysis of expenditures through the first quarter of fiscal year 2013, as well as caseload and medical assistance expenditure estimates and revenue estimates adopted at the November 2012 Caseload and Revenue Estimating Conferences. The fiscal year 2013 balance, based upon these assumptions, is estimated to reflect a $48.2 million surplus in the General Fund.

The Budget Office continues to review department and agency fiscal year 2013 expenditure plans in conjunction with the fiscal year 2014 budget process. Any changes recommended by the Governor to the fiscal year 2013 enacted appropriations, or adopted revenues, will be incorporated in the supplemental appropriations bill, which under current law must be submitted to the General Assembly in January 2013.

The November Revenue Estimating Conference's estimates reflect recent revenue trends and expected collections based upon the current economic forecast. On the revenue side, general revenue receipts are expected to be $7.5 million more than enacted for fiscal year 2013. Taxes are expected to exceed enacted estimates by $5.2 million, while departmental revenues and other sources, including lottery revenues, are also expected to exceed enacted estimates by $2.3 million. The November Revenue Estimating Conference estimates that revenues will be $3,328.4 million as compared with the enacted estimate of $3,320.9 million for fiscal year 2013.

Lottery Revenue

The General Fund derives more than 11% of general revenue from the Rhode Island Lottery.

Competition among gaming venues has increased, resulting in more promotional allowances, player reward incentives being offered and increased marketing efforts. The Lottery's video lottery operations currently compete with casinos in nearby Connecticut. In addition, Massachusetts in November 2011 enacted legislation to allow three casinos and one slot parlor in that state. It is anticipated that there could be an adverse effect on the amount of revenue derived from video lottery facilities in Rhode Island. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

A statewide ballot referendum was approved in November 2012 to allow the expansion of gaming at the Twin River facility located in Lincoln, RI. The expansion allows the facility to offer casino style gaming (i.e., table games) to the public subject to the operational control by the Lottery and/or Department of Business Regulation. It is expected that the expanded gaming will go into operation by July 2013.

Pension Benefits

During fiscal year 2012, the General Treasurer and Governor undertook a comprehensive pension reform initiative with the goal of improving the funded status of the plans within the Employees' Retirement System, reducing required employer contributions, and ensuring the long-term viability of the System. The General Assembly convened a special legislative session to address pension reform measures which were enacted on November 18, 2011.

The pension reform measures make significant changes to member benefit provisions including retirement eligibility age and service credit accrual factors. Additionally, cost of living allowances are generally suspended until the funded status of the plans improves and is now linked to performance of the System's investments. A defined contribution plan has been implemented for most active employees to supplement the reduced benefits provided through the defined benefit plans. The restated unfunded liability of the plans is being reamortized over a 25 year period.

See Note 12 for information about litigation that has been filed relating to these reforms.

Other Postemployment Benefits (OPEB)

Pursuant to legislation enacted by the General Assembly, the State established a trust in fiscal year 2011 to accumulate assets and pay benefits and other costs associated with its OPEB plans. In addition, effective in fiscal year 2011, all participating employers are required by law to fully fund the actuarially determined annual required contribution.

In accordance with GASB Statement No. 45, the State began accounting for retiree health care benefits on an actuarial basis in fiscal year 2008. The most recent actuarial study completed as of June 30, 2011 has determined the State's unfunded actuarial liability for all six plans included in the Rhode Island State Employees' and Electing Teachers OPEB System to be $916.8 million. Based on a discount rate of 5.0%, the State and other participating employers' annual required contribution was $56.8 million. For fiscal year 2012, the State funded the retiree health care program in accordance with law by contributing the actuarially determined contribution.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Future changes in healthcare costs, as well as investment returns and other assumptions, could significantly affect the level of contributions required of the State.

Federal Debt Limit and Potential Federal Spending Cuts

On August 2, 2011, the President signed a bill into law raising the national debt limit and providing for substantial reductions in federal spending over the next decade, if no agreement on deficit reduction could be reached with Congress by January 1, 2013. According to a report issued by the federal Office of Management and Budget, if this "sequestration" process goes into effect on January 2, 2013, non-exempt non-defense discretionary programs will be reduced by 8.2 percent and non-exempt defense discretionary programs will be reduced by 9.4 percent. The sequestration will also impose reductions of 2.0 percent to Medicare, 7.6 percent to other non-exempt non-defense mandatory programs and 10.0 percent to non-exempt defense mandatory programs. Certain mandatory programs, such as Medicaid, TANF, foster care and adoption assistance, are exempt from the sequester and thus will not have any reductions imposed.

The sequester reduction for federal fiscal year 2013 would be taken against the annual appropriation authorized for the respective grants in place as of January 2, 2013. However, since the sequester will be implemented one-quarter into the federal fiscal year, it will claim a larger percentage share of funds remaining for the balance of the fiscal year, to account for the fact that some funds have already been awarded and spent.

The Rhode Island programs that receive the most federal funds are those that are exempt from the sequester (i.e. Medicaid). However, the state does receive significant federal resources under discretionary grant programs that will be impacted by the planned reductions. Total federal funding included in the fiscal year 2013 enacted budget under the programs expected to be impacted by the sequester is $374.5 million. If this entire sum were reduced by 8.2 percent, the state would lose a total of $30.7 million in federal funding as of January 2013. The impact of such reductions on the various state and federal programs has not been determined, but could be significant. The State has not made any provisions in its fiscal year 2013 enacted budget to offset lost federal funds with State resources. However, the budget and financial health of the State could be adversely affected by any material disruption or change in the flow of anticipated federal assistance.

Transportation Funding Initiatives

The Blue Ribbon Panel for Transportation Funding released its report in December 2008. The Blue Ribbon Panel projected that the State would need to spend approximately $639 million per year during the next 10 years to maintain the State's highway system in a state of good operation and repair, but that state and federal funding only provides approximately $338.9 million in fiscal year 2012. The Blue Ribbon panel suggested various funding strategies that could possibly be implemented to meet, in whole or in part, the $285 million funding gap each year. Such recommended funding strategies included levying a $3 toll on all cars and $6 on all trucks entering the State, imposing tolls on all bridges between Aquidneck Island and the mainland, raising passenger-vehicle registration fees, raising the State gasoline tax by as much as 15 cents per gallon, creation of a petroleum product gross receipts tax and a vehicle miles traveled fee. The various revenue strategies outlined would require legislation for implementation. Despite the temporary relief provided through America Recovery and Reinvestment Act (ARRA) funding, transportation infrastructure funding will continue to present challenges and the Blue Ribbon Panel funding strategies may be revisited.

Unemployment Insurance Program

The State has borrowed from the Federal Unemployment Trust Fund to continue to pay benefits to unemployed individuals. Outstanding borrowings through June 30, 2012 totaled $224.7 million and the State anticipates needing to continue borrowing in fiscal 2013 in order to fund unemployment benefit payments. The General Assembly passed legislation effective in fiscal years 2012 and 2013 increasing the taxable wage base for employers and reducing the maximum weekly benefit amounts to unemployed individuals. The Department of Labor and Training currently estimates that the combination of benefit adjustments and increased federal and state taxes could enable the State to repay its federal loans from the Federal Unemployment Trust Fund as soon as 2015. This estimate is based on the department's projections of employment and unemployment levels assuming a gradual economic recovery and therefore is uncertain and subject to change.

Local Government Financial Matters

A number of local governments in the State continue to experience financial difficulties involving cumulative deficits, budgetary imbalances, unfunded pension and OPEB obligations, and rating agency downgrades. Most notably, the City of Central Falls was under the control of a State appointed receiver at June 30, 2011 and subsequently filed for federal bankruptcy protection in August 2011. The Fourth Amended Plan of Debt Adjustment became effective on October 25, 2012 and allowed the City of Central Falls to emerge from bankruptcy. Under the plan, the City will have court-ordered balanced budgets for Fiscal Years 2013, 2014, 2015, 2016 and 2017 and will impose a 4 percent property tax increase in each of the next five years. Also, as a result of the agreement with the retirees, the City's five-year budget plan contains affordable pay as you go pension and retiree health insurance costs based upon the restructured plans.

The State has certain oversight responsibilities with respect to municipalities which are outlined in the General Laws and carried out by the Department of Revenue – Division of Municipal Finance and the Office of the Auditor General. The General Laws give the State, acting through the Department of Revenue, the power to effect three levels of oversight and control: fiscal overseer, budget commission, and state receiver. A State fiscal overseer was appointed for the City of East Providence in November 2011. Subsequently, a budget commission was appointed in December 2011. In addition, a budget commission was appointed for the City of Woonsocket in May 2012.

Many of the locally-administered pension plans are poorly funded with a collective unfunded liability of more than $2 billion and funded ratio of approximately 40%. Additionally, locally-administered OPEB plans have a collective unfunded liability of $3.5 billion and funded ratio of just 1%. Efforts to improve the funded status of those plans, while recognizing the inherent resource limitations of the sponsoring municipalities, are underway.

The State is continually monitoring the financial status of all municipalities to forestall the need for more intensive intervention.

Requests for Information

This report is designed to provide a general overview of the State's finances and accountability for all of the State's citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be sent to Peter.Keenan@doa.ri.gov. The State's Comprehensive Annual Financial Report may be found on the State Controller's home page, http://controller.admin.ri.gov/index.php. Requests for additional information related to component units should be addressed to the entities as listed in Note 1 of the financial statements.

State of Rhode Island

Fiscal Year Ended June 30, 2012

Basic Financial Statements

State of Rhode Island and Providence Plantations
Statement of Net Assets
June 30, 2012
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	**Business - Type Activities**	**Totals**	**Component Units**
Assets				
Current assets:				
Cash and cash equivalents	$ 733,975	$ 26,073	$ 760,048	$ 319,706
Funds on deposit with fiscal agent	136,722	1,415	138,137	
Investments				27,481
Receivables (net)	569,447	79,216	648,663	164,814
Restricted assets:				
Cash and cash equivalents		9,309	9,309	483,262
Investments	69,668		69,668	188,038
Other assets				100,916
Due from primary government				17,024
Due from component units	1,915		1,915	47,033
Internal balances	(3,389)	3,389		
Due from other governments and agencies	213,402	1,858	215,260	3,732
Inventories	1,712	815	2,527	10,652
Other assets	27,988	378	28,366	40,216
Total current assets	1,751,440	122,453	1,873,893	1,402,874
Noncurrent assets:				
Investments				161,408
Receivables (net)	25,938		25,938	867,190
Due from other governments and agencies	2,680		2,680	
Restricted assets:				
Cash and cash equivalents				107,821
Investments				278,533
Other assets				2,677,857
Due from component units	32,155		32,155	2,636
Capital assets - nondepreciable	966,195	45,582	1,011,777	588,211
Capital assets - depreciable (net)	2,287,831	131,879	2,419,710	1,932,257
Other assets	18,817	3,644	22,461	190,672
Total noncurrent assets	3,333,616	181,105	3,514,721	6,806,585
Total assets	5,085,056	303,558	5,388,614	8,209,459
Liabilities				
Current Liabilities:				
Accounts payable	545,832	18,074	563,906	130,456
Due to primary government				1,915
Due to component units	17,024		17,024	47,033
Due to other governments and agencies		8,208	8,208	
Funds held for others				3,837
Accrued expenses		4,024	4,024	2,709
Deferred revenue	80,998	192	81,190	
Other current liabilities	105,925	2,866	108,791	300,749
Current portion of long-term debt	244,900	10,555	255,455	407,841
Obligation for unpaid prize awards		8,129	8,129	
Total current liabilities	994,679	52,048	1,046,727	894,540
Noncurrent Liabilities:				
Due to primary government				32,155
Due to other governments and agencies		224,646	224,646	267,464
Net OPEB obligation	13,385		13,385	40,114
Deferred revenue		7,020	7,020	18,912
Due to component units				2,636
Notes payable	6,675	231	6,906	10,043
Loans payable				361,916
Obligations under capital leases	214,629		214,629	9,005
Compensated absences	13,281	228	13,509	24,081
Bonds payable	2,380,633	231,965	2,612,598	3,466,141
Other liabilities	43,279		43,279	270,612
Total noncurrent liabilities	2,671,882	464,090	3,135,972	4,503,079
Total liabilities	3,666,561	516,138	4,182,699	5,397,619
Net Assets				
Invested in capital assets, net of related debt	2,232,121	(64,492)	2,167,629	1,382,718
Restricted for:				
Budget reserve	153,408		153,408	
Transportation	1,429		1,429	
Debt	86,491	9,308	95,799	366,145
Assistance to other entities	71,936		71,936	
Temporary disability insurance program	153,696		153,696	
Other	85,729		85,729	577,342
Nonexpendable	174		174	97,374
Unrestricted	(1,366,489)	(157,396)	(1,523,885)	388,261
Total net assets	$ 1,418,495	$ (212,580)	$ 1,205,915	$ 2,811,840

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 Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating grants and contributions**	**Capital grants and contributions**	**Governmental activities**	**Business-type activities**	**Totals**	**Component Units**
Primary government:								
Governmental activities:								
General government	$ 653,003	$ 212,750	$ 116,732	$ 472	$ (323,049)	$	$ (323,049)	$
Human services	2,970,269	204,287	1,691,575	596	(1,073,811)		(1,073,811)	
Education	1,334,355	26,044	238,374	939	(1,068,998)		(1,068,998)	
Public safety	468,098	37,339	43,322	2,239	(385,198)		(385,198)	
Natural resources	85,039	26,060	20,987	5,805	(32,187)		(32,187)	
Transportation	268,523	1,660	83,902	200,669	17,708		17,708	
Interest and other charges	145,964				(145,964)		(145,964)	
Total governmental activities	5,925,251	508,140	2,194,892	210,720	(3,011,499)		(3,011,499)	
Business-type activities:								
State lottery	399,421	776,806				377,385	377,385	
Convention center	49,439	23,035				(26,404)	(26,404)	
Employment security	559,440	256,444	278,671			(24,325)	(24,325)	
Total business-type activities	1,008,300	1,056,285	278,671			326,656	326,656	
Total primary government	$ 6,933,551	$ 1,564,425	$ 2,473,563	$ 210,720	(3,011,499)	326,656	(2,684,843)	
Component units:	$ 1,316,096	$ 1,114,140	$ 244,821	$ 76,573				119,438
General Revenues:								
Taxes:								
Personal income					1,060,605		1,060,605	
General business					361,769		361,769	
Sales and use					1,045,135		1,045,135	
Gasoline					136,646		136,646	
Other					220,213		220,213	
Interest and investment earnings					4,304	94	4,398	2,960
Miscellaneous revenue					118,506	16,564	135,070	28,465
Transfers (net)					344,386	(344,386)		
Total general revenues and transfers					3,291,564	(327,728)	2,963,836	31,425
Change in net assets					280,065	(1,072)	278,993	150,863
Net assets - beginning as restated					1,138,430	(211,508)	926,922	2,660,977
Net assets - ending					$ 1,418,495	$ (212,580)	$ 1,205,915	$ 2,811,840

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

Major Funds

Governmental

General Fund – is the operating fund of the State and is used to account for all financial transactions except those required to be accounted for in another fund.

Special Revenue Funds - account for the proceeds of specific revenue sources that are legally restricted.

Intermodal Surface Transportation 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. It also accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, and related expenditures.

Proprietary

Enterprise Funds - account for operations where management has decided that periodic determination of revenues earned, expenses incurred (including depreciation), and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

State Lottery Fund - operates lottery games for the purpose of generating resources for the State's General Fund.

Rhode Island Convention Center Authority - created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veteran's Memorial Auditorium Arts and Cultural Center located in Providence.

Employment Security Fund – accounts for the State's unemployment compensation benefits. Revenues consist of taxes assessed on employers and federal grants to pay benefits to qualified unemployed persons.

State of Rhode Island and Providence Plantations
Balance Sheet
Governmental Funds
June 30, 2012
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 318,779	$ 21,789	$ 362,730	$ 703,298
Funds on deposit with fiscal agent		85,886	50,836	136,722
Restricted investments			69,668	69,668
Receivables (net)	535,525	14,084	41,668	591,277
Due from other funds	4,479	956	259	5,694
Due from component units	107			107
Due from other governments and agencies	152,920	59,977		212,897
Loans to other funds	9,469			9,469
Other assets	22,162			22,162
Total assets	$ 1,043,441	$ 182,692	$ 525,161	$ 1,751,294
Liabilities and Fund Balances				
Liabilities				
Accounts payable	477,451	30,211	22,596	530,258
Due to other funds			7,650	7,650
Due to component units	5,460	9,362	2,201	17,023
Loans from other funds			6,809	6,809
Deferred revenue	106,760	20,337		127,097
Other liabilities	80,616	14,103	792	95,511
Total liabilities	670,287	74,013	40,048	784,348
Fund Balances				
Nonspendable			174	174
Restricted	232,348	111,537	484,738	828,623
Unrestricted				
Committed	22,793	1,742		24,535
Assigned	97,639	117	201	97,957
Unassigned	20,374	(4,717)		15,657
Total fund balances	373,154	108,679	485,113	966,946
Total liabilities and fund balances	$ 1,043,441	$ 182,692	$ 525,161	$ 1,751,294

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 the Statement of Net Assets
June 30, 2012
(Expressed in Thousands)

Fund balance - total governmental funds		$	966,946
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds.			
Capital assets	5,291,123		
Accumulated depreciation	(2,039,565)		
			3,251,558
Bonds, notes, certificates of participation, accrued interest and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds.			
Compensated absences	(77,726)		
Bonds payable	(2,475,972)		
Net premium/discount	(59,870)		
Refunding costs	16,839		
Costs of issuance	11,642		
Obligations under capital leases	(233,800)		
Premium	(4,622)		
Refunding costs	958		
Costs of issuance	2,071		
Interest payable	(24,787)		
Other liabilities	(64,878)		
			(2,910,145)
Other long-term assets and deferred revenue are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
Receivables	3,184		
Due from component units	33,963		
Other assets	5,104		
Deferred revenue	46,101		
			88,352
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.			21,784
Net assets - total governmental activities		$	1,418,495

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 Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	$ 2,511,891	$ 136,646	$ 165,794	$ 2,814,331
Licenses, fines, sales, and services	313,455		269	313,724
Departmental restricted revenue	192,642	1,637		194,279
Federal grants	2,119,476	291,786		2,411,262
Income from investments	101	527	3,652	4,280
Other revenues	70,958	1,213	49,031	121,202
Total revenues	5,208,523	431,809	218,746	5,859,078
Expenditures:				
Current:				
General government	474,135		161,419	635,554
Human services	2,969,166			2,969,166
Education	1,281,879		184	1,282,063
Public safety	459,114			459,114
Natural resources	75,141		15	75,156
Transportation		397,615	1,897	399,512
Capital outlays			111,044	111,044
Debt service:				
Principal	111,711	35,214	17,320	164,245
Interest and other charges	73,249	22,374	40,183	135,806
Total expenditures	5,444,395	455,203	332,062	6,231,660
Excess (deficiency) of revenues over (under) expenditures	(235,872)	(23,394)	(113,316)	(372,582)
Other financing sources (uses):				
Bonds and notes issued			145,035	145,035
Refunding bonds issued			146,730	146,730
Proceeds from the sale of Certificates of Participation			31,980	31,980
Premium and accrued interest			45,437	45,437
Transfers in	441,953	52,841	86,885	581,679
Payment to refunded bonds escrow agent			(172,094)	(172,094)
Transfers out	(103,827)	(52,568)	(78,858)	(235,253)
Total other financing sources (uses)	338,126	273	205,115	543,514
Net change in fund balances	102,254	(23,121)	91,799	170,932
Fund balances - beginning	270,900	131,800	393,314	796,014
Fund balances - ending	$ 373,154	$ 108,679	$ 485,113	$ 966,946

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 the Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

Net change in fund balances - total governmental funds			$ 170,932
Amounts reported for governmental activities in the Statement of Activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Current year acquisitions are therefore deducted from expenses on the Statement of Activities, less current year depreciation expense and revenue resulting from current year disposals.			
	Capital outlay	264,770	
	Depreciation expense	(142,229)	
			122,541
Bond, note, and certificate 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.			
	Principal paid on debt	164,245	
	Debt defeased in refunding	157,350	
	Accrued interest and other charges	(15,608)	
	Proceeds from sale of debt	(323,745)	
	Deferral of premium/discount	(45,420)	
	Amortization of premium/discount	8,214	
	Deferral of issuance costs	2,584	
	Amortization of issuance costs	(1,869)	
	Deferral of refunding costs	11,455	
	Amortization of refunding costs	(1,602)	
			(44,396)
Revenues (expenses) in the Statement of Activities that do not provide (use) current financial resources are not reported as revenues (expenditures) in the governmental funds.			
	Compensated absences	9,585	
	Program expenses	29,831	
	Program revenue	137	
	Capital grant revenue	(5,650)	
	General revenue - taxes	10,037	
	General revenue-miscellaneous	(3,632)	
			40,308
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.			(9,320)
Change in net assets - total governmental activities			$ 280,065

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, 2012
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Assets					
Current assets:					
Cash and cash equivalents	$ 21,027	$ 3,468	$ 1,578	$ 26,073	$ 30,677
Restricted cash and cash equivalents		9,309		9,309	
Funds on deposit with fiscal agent			1,415	1,415	
Receivables (net)	7,570	1,101	70,545	79,216	4,107
Due from other funds		314	5,950	6,264	393
Due from other governments and agencies			1,858	1,858	
Inventories	815			815	1,712
Other assets	4	374		378	5,825
Total current assets	29,416	14,566	81,346	125,328	42,714
Noncurrent assets:					
Capital assets - nondepreciable		45,582		45,582	
Capital assets - depreciable (net)	267	131,612		131,879	2,468
Other assets		3,644		3,644	
Total noncurrent assets	267	180,838		181,105	2,468
Total assets	29,683	195,404	81,346	306,433	45,182
Liabilities					
Current Liabilities:					
Accounts payable	14,063	4,011		18,074	15,576
Due to other funds	2,875			2,875	1,826
Due to other governments and agencies			8,208	8,208	
Loans from other funds					2,660
Accrued expenses	4,024			4,024	
Deferred revenue	192			192	
Other current liabilities	625	2,866		3,491	3,336
Notes payable		188		188	
Bonds payable		9,570		9,570	
Compensated absences	172			172	
Obligation for unpaid prize awards	8,129			8,129	
Total current liabilities	30,080	16,635	8,208	54,923	23,398
Noncurrent Liabilities:					
Due to other governments and agencies			224,646	224,646	
Deferred revenue	6,250	770		7,020	
Notes payable		231		231	
Bonds payable		231,965		231,965	
Compensated absences	228			228	
Total noncurrent liabilities	6,478	232,966	224,646	464,090	
Total liabilities	36,558	249,601	232,854	519,013	23,398
Net Assets					
Invested in capital assets, net of related debt	267	(64,759)		(64,492)	2,468
Restricted for:					
Debt		9,308		9,308	
Unrestricted	(7,142)	1,254	(151,508)	(157,396)	19,316
Total net assets	$ (6,875)	$ (54,197)	$ (151,508)	$ (212,580)	$ 21,784

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 Fiscal Year Ended June 30, 2012
(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	$	$ 22,623	$ 256,444	$ 279,067	$ 273,848
Lottery sales	249,483			249,483	
Video lottery, net	527,323			527,323	
Federal grants			278,671	278,671	
Miscellaneous		412		412	
Total operating revenues	776,806	23,035	535,115	1,334,956	273,848
Operating expenses:					
Personal services	5,179	14,025		19,204	12,017
Supplies, materials, and services	241,533	9,773		251,306	268,930
Prize awards, net of prize recoveries	152,488			152,488	
Depreciation and amortization	221	10,469		10,690	220
Benefits paid			540,656	540,656	
Total operating expenses	399,421	34,267	540,656	974,344	281,167
Operating income (loss)	377,385	(11,232)	(5,541)	360,612	(7,319)
Nonoperating revenues (expenses):					
Interest revenue	92	2		94	25
Other nonoperating revenue	854		15,710	16,564	14
Interest expense		(15,172)	(8,238)	(23,410)	
Other nonoperating expenses			(10,546)	(10,546)	
Total nonoperating revenue (expenses)	946	(15,170)	(3,074)	(17,298)	39
Income (loss) before transfers	378,331	(26,402)	(8,615)	343,314	(7,280)
Transfers in		23,140	10,277	33,417	
Transfers out	(377,706)		(97)	(377,803)	(2,040)
Change in net assets	625	(3,262)	1,565	(1,072)	(9,320)
Total net assets - beginning	(7,500)	(50,935)	(153,073)	(211,508)	31,104
Total net assets - ending	$ (6,875)	$ (54,197)	$ (151,508)	$ (212,580)	$ 21,784

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 Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Cash flows from operating activities:					
Cash received from customers	$ 246,312	$ 23,382	$ 253,293	$ 522,987	$ 274,771
Cash received from video lottery operations, net	525,124			525,124	
Cash received from MUSL for grand prize winners	249,359			249,359	
Cash received from grants			278,671	278,671	
Cash payments to suppliers for goods and services	(4,592)	(9,484)		(14,076)	(270,927)
Cash payments to employees	(5,214)	(13,825)		(19,039)	(10,639)
Cash payments to prize winners	(398,677)			(398,677)	
Cash payments for commissions	(231,682)			(231,682)	
Cash payments for benefits			(540,656)	(540,656)	
Other operating revenue (expense)					14
Net cash provided by (used for) operating activities	380,630	73	(8,692)	372,011	(6,781)
Cash flows from noncapital financing activities:					
Loan from federal government			221,069	221,069	
Payment of interest on loan from federal government			(7,140)	(7,140)	
Loans from other funds					2,474
Loans to other funds					(394)
Repayment of loans to other funds					1,786
Repayment of loans from other funds					(2,986)
Transfers in		23,050	9,048	32,098	
Transfers out	(377,905)		(1,846)	(379,751)	(2,040)
Net transfers from (to) fiscal agent			(214,162)	(214,162)	
Net cash provided by (used for) noncapital financing activities	(377,905)	23,050	6,969	(347,886)	(1,160)
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(9,298)		(9,298)	
Interest paid on capital obligations		(14,101)		(14,101)	
Acquisition of capital assets	(18)	(1,015)		(1,033)	(123)
Net cash provided by (used for) capital and related financing activities	(18)	(24,414)		(24,432)	(123)
Cash flows from investing activities:					
Interest on investments	91	2		93	25
Net cash provided by investing activities	91	2		93	25
Net increase (decrease) in cash and cash equivalents	2,798	(1,289)	(1,723)	(214)	(8,039)
Cash and cash equivalents, July 1	18,229	14,066	3,301	35,596	38,716
Cash and cash equivalents, June 30	$ 21,027	$ 12,777	$ 1,578	$ 35,382	$ 30,677
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	377,385	(11,232)	(5,541)	360,612	(7,319)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	221	10,469		10,690	220
Other revenue (expense) and operating transfer in (out)	229			229	14
Net changes in assets and liabilities:					
Receivables, net	(3,444)	(496)	(3,151)	(7,091)	(249)
Inventory	177			177	7
Prepaid items		134		134	22
Other assets	47			47	
Due to / due from transactions	6			6	
Accounts and other payables	2,112	356		2,468	(856)
Accrued expenses	760			760	1,380
Deferred revenue	(34)	842		808	
Prize awards payable	3,171			3,171	
Total adjustments	3,245	11,305	(3,151)	11,399	538
Net cash provided by (used for) operating activities	$ 380,630	$ 73	$ (8,692)	$ 372,011	$ (6,781)

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

Fiduciary Funds

Fiduciary Funds – used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the State's own programs.

Pension and Other Postemployment Benefits Trusts – used to report resources that are required to be held in trust for the members and beneficiaries of the State sponsored defined benefit pension plans and other postemployment benefit plans.

External Investment Pool – Ocean State Investment Pool (OSIP) – Accounts for the share of the Ocean State Investment Pool that is external to the reporting entity.

Private-Purpose Trust – used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

Touro Jewish Synagogue – accounts for the earnings on monies bequeathed to the State for the purpose of maintaining the Touro Jewish Synagogue.

Agency Funds – used to report resources held by the State in a purely custodial capacity (assets equal liabilities).

State of Rhode Island and Providence Plantations
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012
(Expressed in Thousands)

	Pension and Other Postemployment Benefits Trusts	External Investment Trust Ocean State Investment Pool	Private Purpose Touro Jewish Synagogue	Agency
Assets				
Cash and cash equivalents	$ 7,944	$	$	$ 17,268
Deposits held as security for entities doing business in the State				86,273
Advance held by claims processing agent	1,171			
Receivables				
Contributions	41,433			
Due from state for teachers	16,350			
Miscellaneous	2,903			1,631
Total receivables	60,686			1,631
Investments, at fair value				
Equity in Pooled Trusts	7,266,169	2,280		
Other investments			2,102	
Total investments	7,266,169	2,280	2,102	
Property and equipment, at cost, net of accumulated depreciation	472			
Total assets	7,336,442	2,280	2,102	$ 105,172
Liabilities				
Accounts payable	6,181			2,520
Incurred but not reported claims	2,859			
Deferred revenue	6,065			
Deposits held for others				102,652
Total liabilities	15,105			$ 105,172
Net assets				
Held in trust for:				
Pension benefits	7,284,475			
Other postemployment benefits	36,862			
Other		2,280	2,102	
Total net assets	$ 7,321,337	$ 2,280	$ 2,102	

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

State of Rhode Island and Providence Plantations
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	Pension and Other Postemployment Benefits Trusts	External Investment Trust Ocean State Investment Pool	Private Purpose Touro Jewish Synagogue
Additions			
Contributions			
Member contributions	$ 195,045	$	$
Employer contributions	382,479		
State contributions for teachers	80,386		
Interest on service credits purchased	974		
From participants		2,280	
Total contributions	658,884	2,280	
Other income	1,958		
Investment income			
Net appreciation in fair value of investments	24,381		42
Interest	79,661		
Dividends	1,290		41
Other investment income	25,221		
	130,553		83
Less investment expense	12,712		
Net income from investing activities	117,841		83
Total additions	778,683	2,280	83
Deductions			
Benefits			
Retirement benefits	655,847		
Cost of living adjustment	197,183		
SRA Plus Option	23,634		
Supplemental benefits	1,061		
Death benefits	3,411		
OPEB benefits	58,266		
Total benefits	939,402		
Refund of contributions	12,937		
Administrative expense	8,847		
Distribution			95
Total deductions	961,186		95
Change in net assets held in trust for:			
Pension benefits	(204,428)		
Other postemployment benefits	21,925		
Other		2,280	(12)
Net assets - beginning	7,503,840		2,114
Net assets - ending	$ 7,321,337	$ 2,280	$ 2,102

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

State of Rhode Island and Providence Plantations
Combining Statement of Net Assets
Component Units
June 30, 2012
(Expressed in Thousands)

	RIHMFC	RIEDC	RIRRC	RIPTA
Assets				
Current Assets:				
Cash and cash equivalents	$ 1,467	$ 54,532	$ 25,630	$ 3,390
Investments				1,985
Receivables (net)	1,704	6,970	6,462	3,144
Restricted assets:				
Cash and cash equivalents	215,050	34,651		1,354
Investments	19,363	12,413		
Other assets	38,090	3,783		
Due from primary government		6,564		6,685
Due from other governments		2,926		
Due from other component units		131		
Inventories			3,509	2,984
Other assets	2,521	1,971	1,271	190
Total current assets	278,195	123,941	36,872	19,732
Noncurrent Assets:				
Investments				277
Receivables (net)	10,583	6,931		
Restricted assets:				
Cash and cash equivalents		44,045	822	
Investments	251,402	9,822	1,646	2,650
Other assets	1,557,105	29,268	83,608	
Capital assets - nondepreciable		124,557	11,490	8,422
Capital assets - depreciable (net)		557,375	32,853	139,244
Due from other component units		697		
Other assets, net of amortization	146,641	4,830	11,580	
Total noncurrent assets	1,965,731	777,525	141,999	150,593
Total assets	2,243,926	901,466	178,871	170,325
Liabilities				
Current liabilities:				
Accounts payable	203	18,345	11,763	6,456
Due to primary government				965
Due to other component units				
Accrued liabilities				
Funds held for others				
Other liabilities	164,746			5,861
Current portion of long-term debt	202,573	37,045	7,284	268
Total current liabilities	367,522	55,390	19,047	13,550
Noncurrent liabilities:				
Due to primary government		5,225		11,408
Due to other governments				
Due to other component units				
Deferred revenue	6,924	1,205		
Notes payable	6,791	1,820		
Loans payable		40,059		
Obligations under capital leases				
Net OPEB obligation	3,091	1,648	421	29,958
Other liabilities	168,462	3,096	70,036	8,073
Compensated absences	1,282			
Bonds payable	1,392,937	320,924	10,987	
Total noncurrent liabilities	1,579,487	373,977	81,444	49,439
Total liabilities	1,947,009	429,367	100,491	62,989
Net assets				
Invested in capital assets, net of related debt	8,624	354,989	39,890	135,293
Restricted for:				
Debt	233,738			
Other	2,141	54,216	12,424	
Other nonexpendable				
Unrestricted	52,414	62,894	26,066	(27,957)
Total net assets	$ 296,917	$ 472,099	$ 78,380	$ 107,336

(Continued)

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

State of Rhode Island and Providence Plantations
Combining Statement of Net Assets
Component Units
June 30, 2012
(Expressed in Thousands)

	URI	RIC	CCRI	Other Component Units	Totals
Assets					
Current Assets:					
Cash and cash equivalents	$ 114,819	$ 23,193	$ 25,327	$ 71,348	$ 319,706
Investments				25,496	27,481
Receivables (net)	30,940	5,091	3,679	106,824	164,814
Restricted assets:					
Cash and cash equivalents				232,207	483,262
Investments				156,262	188,038
Other assets				59,043	100,916
Due from primary government		1,281		2,494	17,024
Due from other governments				806	3,732
Due from other component units				46,902	47,033
Inventories	2,817	574	670	98	10,652
Other assets	692		148	33,423	40,216
Total current assets	149,268	30,139	29,824	734,903	1,402,874
Noncurrent Assets:					
Investments	118,981	20,833	2,322	18,995	161,408
Receivables (net)	16,346	5,051	110	828,169	867,190
Restricted assets:					
Cash and cash equivalents	222	441	3,863	58,428	107,821
Investments				13,013	278,533
Other assets	40,215	2,310	784	964,567	2,677,857
Capital assets - nondepreciable	115,094	5,823	25,631	297,194	588,211
Capital assets - depreciable (net)	449,237	110,575	38,507	604,466	1,932,257
Due from other component units				1,939	2,636
Other assets, net of amortization	10,142	16		17,463	190,672
Total noncurrent assets	750,237	145,049	71,217	2,804,234	6,806,585
Total assets	899,505	175,188	101,041	3,539,137	8,209,459
Liabilities					
Current liabilities:					
Accounts payable	39,682	9,988	7,186	36,833	130,456
Due to primary government		843		107	1,915
Due to other component units				47,033	47,033
Accrued liabilities		620		2,089	2,709
Funds held for others	1,204	1,258	1,375		3,837
Other liabilities				130,142	300,749
Current portion of long-term debt	25,813	7,098	7,346	120,414	407,841
Total current liabilities	66,699	19,807	15,907	336,618	894,540
Noncurrent liabilities:					
Due to primary government		15,522			32,155
Due to other governments				267,464	267,464
Due to other component units				2,636	2,636
Deferred revenue				10,783	18,912
Notes payable		1,432			10,043
Loans payable	1,070			320,787	361,916
Obligations under capital leases	7,520		1,334	151	9,005
Net OPEB obligation				4,996	40,114
Other liabilities	12,719	3,834	23	4,369	270,612
Compensated absences	18,370	1,977	987	1,465	24,081
Bonds payable	238,143	18,954	7,359	1,476,837	3,466,141
Total noncurrent liabilities	277,822	41,719	9,703	2,089,488	4,503,079
Total liabilities	344,521	61,526	25,610	2,426,106	5,397,619
Net assets					
Invested in capital assets, net of related debt	349,092	78,906	51,911	364,013	1,382,718
Restricted for:					
Debt				132,407	366,145
Other	41,270	3,799	3,195	460,297	577,342
Other nonexpendable	81,650	15,724			97,374
Unrestricted	82,972	15,233	20,325	156,314	388,261
Total net assets	$ 554,984	$ 113,662	$ 75,431	$ 1,113,031	$ 2,811,840

(Concluded)

State of Rhode Island and Providence Plantations
Combining Statement of Activities
Component Units
For the Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	RIHMFC	RIEDC	RIRRC	RIPTA	URI	RIC	CCRI	Other Component Units	Totals
Expenses	$ 99,213	$ 92,116	$ 42,060	$ 119,412	$ 472,249	$ 138,094	$ 117,289	$ 235,663	$ 1,316,096
Program revenues:									
Charges for services	105,787	69,879	45,928	54,033	406,342	103,751	79,676	248,744	1,114,140
Operating grants and contributions		16,192		40,945	58,485	38,240	44,483	46,476	244,821
Capital grants and contributions		26,704		4,904	34,854	6,300	2,167	1,644	76,573
Total program revenues	105,787	112,775	45,928	99,882	499,681	148,291	126,326	296,864	1,435,534
Net (Expenses) Revenues	6,574	20,659	3,868	(19,530)	27,432	10,197	9,037	61,201	119,438
General revenues:									
Interest and investment earnings		2,970	870	33	(2,583)	125	85	1,460	2,960
Miscellaneous revenue			5,601	3,317	12,339	1,203	385	5,620	28,465
Total general revenue		2,970	6,471	3,350	9,756	1,328	470	7,080	31,425
Change in net assets	6,574	23,629	10,339	(16,180)	37,188	11,525	9,507	68,281	150,863
Total net assets - beginning as restated	290,343	448,470	68,041	123,516	517,796	102,137	65,924	1,044,750	2,660,977
Total net assets - ending	$ 296,917	$ 472,099	$ 78,380	$ 107,336	$ 554,984	$ 113,662	$ 75,431	$ 1,113,031	$ 2,811,840

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

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Reporting Entity

The accompanying financial statements include all funds of the State and its component units. GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, defines component units as a) legally separate entities for which a primary government (such as the State) is financially accountable, or b) legally separate entities for which a primary government is not financially accountable but whose exclusion from the State's financial statements would cause said 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 either a) the ability of the State to impose its will on that entity or b) the potential for the entity to provide specific financial benefits to, or to 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 to be potential component units. Audited financial statements of the individual component units can be obtained from their respective administrative offices. Those entities that were deemed to be component units were included as such because of the fact that the State appoints a voting majority of the entity's governing body or because of the entity's potential to provide specific financial benefits to, or to impose specific financial burdens on, the State.

Blended Component Units

These component units are entities which are legally separate from the State but are so intertwined with the State that they are, in substance, the same as the State. They provide services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefit the primary government. These component units are reported as part of the primary government in both the fund and government-wide financial statements.

Rhode Island Convention Center Authority (RICCA)

The RICCA was established by State law as a single purpose building authority to finance the development of convention and other event facilities in Providence, RI. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veteran's Memorial Auditorium Arts and Cultural Center located in Providence. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One LaSalle Square, 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.

Rhode Island Public Rail Corporation (RIPRC)

This corporation was created and established for the purpose of enhancing and preserving the viability of commuter rail operations in the State. Currently its primary purpose, as outlined in the State's General Laws, is to provide indemnity for rail service operating within the State. The State is fully responsible for reimbursing the RIPRC for all costs associated with the purchase of such coverage. Separately issued financial statements are not available for the RIPRC.

Discretely Presented Component Units

Discretely presented component units are reported in a separate column in the government-wide 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. For each discretely presented component unit the potential exists for a financial burden or benefit to be imposed on the State as a result of the existence of the component unit. For the discretely presented component units (DPCU's) included in the State's CAFR, the State, generally acting through the Governor, appoints a voting majority of the component units' governing boards. These discretely presented component units primarily serve or benefit those outside of the primary government.

The State distinguishes between major and nonmajor component units based upon several quantitative and qualitative factors including the total assets, net assets and revenues of each component unit as well as the significance of transactions between the component unit and the primary government. Discretely presented component units, grouped by major and nonmajor categories, are as follows:

Major Component Units

University and Colleges

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

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, or at www.rhodeislandhousing.org.

Rhode Island Public Transit Authority (RIPTA)

This authority was established in 1964 to acquire any mass motor bus transportation system that has filed a petition to discontinue its service, provided that the Authority has determined it to be in the public interest to continue such service. Revenues of RIPTA include passenger revenue and operating assistance grants from the State and federal governments. For more detailed information, a copy of the financial statements can be obtained by writing to the Finance Department, R.I. Public Transit Authority, 265 Melrose Street, Providence, RI 02907, or at www.ripta.com.

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, so as to promote economic development. It has the power to issue tax-exempt bonds to accomplish its corporate purpose. The RIEDC has four subsidiary corporations. The R.I. Airport Corporation manages the State's six airports. The Quonset Development Corporation oversees the Quonset Point/Davisville Industrial Park. In addition, the RIEDC operates the Small Business Loan Fund Corporation which was created for the purpose of granting secured and unsecured loans to Rhode Island's small business and the I-195 Commission which was created for the purpose of redeveloping the land reclaimed from the I-195 relocation project and the Washington Bridge project. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Economic Development Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.riedc.com.

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, or at www.rirrc.org.

Nonmajor Component Units

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, or at www.risla.com.

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, or at www.ritba.org.

Narragansett Bay Commission (NBC)

This commission was created for the purposes of acquiring, planning, constructing, extending, improving, operating and maintaining publicly owned wastewater treatment facilities. For more detailed information, a copy of the financial statements can be obtained by writing to the Narragansett Bay Commission, 1 Service Road, Providence, RI 02905, or at www.narrabay.com.

Central Falls School District

The Central Falls School District (“District”) is governed by a seven member board of trustees that is appointed by the State’s Board of Regents for Elementary and Secondary Education (“Board”). In addition, the Commissioner of Education and the Board have authority over the development and approval of the District’s operating budget and for other significant operating decisions and contracts. The District, which provides elementary and secondary education to residents of the City of Central Falls, is funded primarily through State appropriations and federal grant funds. For more detailed information, a copy of the financial statements can be obtained by writing to the Central Falls School District, 949 Dexter Street – Lower level, Central Falls, RI 02863-1715.

Rhode Island Health and Educational Building Corporation (RIHEBC)

This corporation has the following purposes: (1) to assist in providing financing for education facilities 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 that are payable from revenues derived from the projects financed or other monies 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 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, or at www.riheaa.org.

Rhode Island Industrial Facilities Corporation (RIIFC)

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

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, or at www.ricwfa.com.

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. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial-Recreational Building Authority, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.riedc.com.

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 to 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, 1 Capitol Hill, Providence, RI 02908.

Rhode Island Public Telecommunications Authority (RIPTCA)

This authority owns and operates a non-commercial educational television station in the State. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Public Telecommunications Authority, 50 Park Lane, Providence, RI 02907-3124, or at www.ripbs.org.

The College Crusade of Rhode Island (TCCRI)

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

C. Financial Statement Presentation

Government-wide 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 the amount of outstanding bonds and other debt attributable to the acquisition, construction or improvement of those assets.
>
> **Restricted net assets** – This category represents the portion of net assets whose use is subject to constraints that are either a) imposed externally by creditors, grantors or contributors, or b) 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. The use of unrestricted net assets is often subject to constraints imposed by management, but such 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 specifically associated with a service, program, or department and, thus, are clearly identifiable to a particular function. The State includes certain centralized services charged through internal service funds as direct expenses by charging these amounts directly to departments and programs. The State does not allocate indirect costs amongst the functional expenditure categories.

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.

Fund Financial Statements

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.

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 resources 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 medical benefits, State fleet management, unemployment and workers' compensation for State employees, prison industry operations, surplus property, telecommunications and other utilities, and records maintenance.

Enterprise Funds **-** These funds may be used to report any activity for which a fee is charged to external users for goods and services.

Fiduciary Fund Types

Pension and Other Post Employment Benefit Trust Funds

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

Other Post Employment Benefit (OPEB) Trust Funds - These funds account for the activities of the Rhode Island State Employees' and Electing Teachers OPEB System, which accumulate resources for other post employment benefit payments to qualified employees.

External Investment Trust – This fund accounts for the share of the Ocean State Investment Pool that is owned by participants external to the reporting entity.

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, assets pledged to the State as required by statute, and health insurance for certain employees and retirees of a component unit.

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.

Major Funds

Governmental 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. It also accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds and related expenditures.

Proprietary funds:

State Lottery Fund

The State Lottery Fund, a division of the Department of Revenue, operates games of chance for the purpose of generating resources for the State's General Fund. For more detailed information, a copy of the financial statements can be obtained by writing to the Rhode Island Lottery, 1425 Pontiac Avenue, Cranston, RI 02920, or at www.rilot.com.

Rhode Island Convention Center Authority (RICCA)

The RICCA was established by State law as a single purpose building authority to finance the development of convention and other event facilities in Providence, RI. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veteran's Memorial Auditorium Arts and Cultural Center located in Providence.

Employment Security Fund

This fund accounts for the State's unemployment compensation program. Revenues consist of taxes assessed on employers to pay benefits to qualified unemployed persons. Funds are also provided by the federal government, interest income, and loans from the Federal Unemployment Trust Fund.

D. Measurement Focus and Basis of Accounting

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. Revenues are considered to be available when they are collectible within the current period (i.e., earned and collected within the next 12 months) or soon enough thereafter to pay liabilities of the current period. Significant sources of tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and business corporation taxes), as sales are made (sales and use taxes) and as other taxable events occur (miscellaneous taxes), net of estimated tax refunds. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures for principal and interest on long-term debt and compensated absences are recorded when payments come due. Expenditures and liabilities relating to other claims and judgments are recorded to the extent that such amounts are expected to be paid within the current period.

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 these definitions are reported as nonoperating revenues and expenses.

The State's enacted budget designates the source of funds for expenditures. When a type of expenditure is allocable to multiple funding sources, generally the State uses restricted resources first, then unrestricted resources as they are needed.

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. Cash equivalents are stated at cost, which approximates fair value except for those of the Ocean State Investment Pool which are stated at amortized cost, which approximates fair value.

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

F. Funds on Deposit with Fiscal Agent

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

G. Investments

Investments have a maturity of more than three months and 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, as opposed to a forced or liquidation sale.

H. Receivables

Receivables are stated net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience. Within governmental funds, an allowance for unavailable (amounts not expected to be collected in the next twelve months) amounts is also reflected.

I. Due From Other Governments and Agencies

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

J. Interfund Activity

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

The Due From/To Other Funds are reported at the net amount on the fund financial statements. Transfers between governmental and business-type activities are reported at the net amount on the government-wide financial statements.

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

K. Inventories

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

L. Capital Assets

Capital assets, which include land, intangible assets not being amortized, construction in progress, land improvements, buildings, building improvements, furniture and equipment (which also includes subcategories for vehicles and computer systems), depreciable intangibles (computer software), and infrastructure (e.g., roads, bridges, dams, piers) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Intangible assets not being amortized consist mostly of perpetual land rights such as conservation, recreational, and agricultural easements.

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

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

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

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

Depreciation and amortization are recorded in the government-wide financial statements, proprietary funds, fiduciary funds and component unit financial statements. Capital assets of the primary government are depreciated using the straight-line method over the assets' estimated useful life.

The State has recorded its investment in intangible assets, which includes certain land rights such as conservation and agricultural easements as well as certain rights of way obtained by the State. These easements tend to be of a perpetual nature and thus are not amortized. Intangible assets also include the State's capitalization of internally developed or substantially customized computer software, which is amortized over a 5-year period. The State has included its investment in intangible assets within Note 5, Capital Assets.

Discretely presented component units have adopted estimated useful lives for their capital assets as well as capitalization thresholds. These entities depreciate capital assets using the straight-line method.

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. In the government-wide financial statements bond discounts, premiums, issuance costs and deferred amounts on refundings are deferred and amortized over the term of the bonds using the outstanding principal method.

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

N. Obligations under Capital Leases

The construction and acquisition of certain office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds and notes issued by a trustee pursuant to a lease/purchase agreement with the State (See Note 6(E)).

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. Also, an additional category of leave obligation has been established as a result of pay reductions taken by certain classes of employees. For governmental fund types, such obligations are recognized when paid. For the government-wide financial statements and proprietary fund types, they are recorded as fund liabilities when earned.

P. Other Assets and Liabilities

Other assets reported within the primary government include provider advances and deposits required by contract with the State's healthcare claims administrator.

Other liabilities include 1) escrow deposits, accrued salary and fringe benefits for the governmental fund types; 2) accrued interest payable, accrued salaries, accrued vacation and sick leave for the proprietary fund types; and 3) escrow deposits, landfill closure costs, accrued expenses, and arbitrage and interest payable for the component units.

Q. Fund Balances

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the State is bound to honor constraints on how specific amounts can be spent. More information about each category is presented below:

- Nonspendable – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

- Restricted – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by constitutional provisions, as is the case for the Budget Reserve and Cash Stabilization Fund, or (c) by law through enabling legislation enacted by the General Assembly.

- Committed – amounts that can only be used for specific purposes as established through the enactment of legislation by the General Assembly, and that remain binding unless modified or rescinded through subsequent legislative action. The underlying action that imposed the limitation must occur no later than the close of the fiscal year and must be binding unless repealed by the General Assembly.

- Assigned – amounts that are constrained by the State's intent that they be used for specific purposes. The intent is generally established by legislation enacted by the General Assembly and is implemented at the direction of the Governor. This is also the classification for residual funds in the State's special revenue funds.

- Unassigned – the residual classification for the State's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, followed by unrestricted resources. Unrestricted resources, when available for a particular use, are used in the following order: committed, assigned, and unassigned.

R. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2012, the State adopted the following new accounting standards issued by GASB:

GASB Statement No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* certain provisions were effective for the State's fiscal year ending June 30, 2012.

GASB Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, effective for the State's fiscal year ending June 30, 2012.

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

GASB Statement No. 60 – *Accounting and Financial Reporting for Service Concession Arrangements*, effective for the State's fiscal year ending June 30, 2013.

GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, effective for the State's fiscal year ending June 30, 2013.

GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for the State's fiscal year ending June 30, 2013.

GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for the State's fiscal year ending June 30, 2013.

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*, effective for the State's fiscal year ending June 30, 2013.

GASB Statement No. 66 – *Technical Corrections – 2012 – an amendment to GASB No. 10 and No. 62*, effective for the State's fiscal year ending June 30, 2013.

GASB Statement No. 67 – *Financial Reporting for Pension Plans – an amendment to GASB Statement No. 25*, effective for the State's fiscal year ending June 30, 2014.

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions - an amendment to GASB Statement No. 27*, effective for the State's fiscal year ending June 30, 2015.

The State is determining the impact of these new pronouncements on future financial statements.

GASB Statements 63, 65, 67, and 68, in particular, could impact the State's recognition and timing of assets and liabilities in government-wide and/or fund financial statements. The requirements of these statements may require the restatement of beginning net assets and fund balances in future periods. The State is currently not planning to early implement these statements, and has made no estimation of the effect these statements will have on the financial statements.

S. Change in Presentation

The classification of the Central Falls School District was changed from a related organization to a discretely presented component unit of the State for fiscal 2012. For fiscal 2011 the District was considered legally part of the City of Central Falls and was included in the City's financial statements for that fiscal year. A subsequent court decision in March 2012 clarified that the School District had a separate legal existence and was not a department of the City.

Note 2. Cash, Cash Equivalents, Investments, and Funds in Trust

A. Primary Government-Governmental and Business-Type Activities

Cash Deposits

Cash deposits include demand deposit accounts, interest-bearing deposit accounts, and certificates of deposit. Deposits are exposed to custodial credit risk if they are not covered by federal 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 State's name.

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, 2012 pursuant to this statutory provision. However, the Office of the General Treasurer has instituted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the balance of uninsured deposits. Additionally, consistent with State Investment Commission guidelines, certain interest-bearing deposit accounts used as short-term investments are required to be collateralized at 102% of the outstanding balance.

Effective December 31, 2010, federal depository insurance provisions were amended to provide 100% insurance coverage to noninterest-bearing transaction accounts through December 31, 2012.

As of June 30, 2012 all of the bank balances were either covered by federal depository insurance or collateralized by securities held by an independent third party in the State's name.

Cash Equivalent Investments and 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."

The Ocean State Investment Pool Cash Portfolio (the Cash Portfolio) is a portfolio of the Ocean State Investment Pool Trust (OSIP or the Trust), which is an investment pool established by the General Treasurer of the State of Rhode Island under Declaration of Trust, dated January 25, 2012 under the Rhode Island Local Government Investment Pool Act, G.L. 35-10.2 of the Rhode Island General Laws as amended, for the purpose of investing funds of, and funds under custody of, agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State of Rhode Island. The Cash Portfolio, which began operations on March 6, 2012, is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940 (Rule 2a-7).

The Cash Portfolio may invest in securities that would constitute an "Eligible Security" under and as defined in Rule 2a-7 which may include certain U.S. government and government agency obligations, U.S. dollar-denominated money market securities of domestic and foreign issuers such as short-term certificates of deposit, commercial paper, corporate bonds and notes, time deposits, municipal securities, asset-backed securities and repurchase agreements.

Government Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", establishes standards for accounting for investments held by government entities. The Cash Portfolio operates as a Rule 2a-7-like pool and thus reports all investments at amortized cost rather than fair value.

A copy of the annual report for the Ocean State Investment Pool can be obtained by writing to the Office of the General Treasurer, 50 Service Avenue, Warwick, RI 02886.

Other short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. 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.

The State's cash equivalents and investments (expressed in thousands) at June 30, 2012 are as follows:

Pooled cash equivalents (at amortized cost)	
Financial company commercial paper	$ 156,461
Other commercial paper	7,999
Asset backed commercial paper	55,105
Government agency repurchase agreement	3,132
Other repurchase agreements	38,000
Treasury debt	35,251
Certificates of deposit	10,000
Government agency debt	2,999
Other notes	18,000
Variable rate demand notes	5,060
Plus: other assets in excess of other liabilities	42
Total investment pool	332,049
Funds held by fiduciary funds and discretely presented component units	
Less: Other trust and agency funds	6,925
Less: Discretely presented component units	9,710
Primary government pooled cash equivalents	315,414
Other primary government cash equivalents and investments	
Repurchase agreements	1,612
Financial company commercial paper	52,559
Government agency debt	17,109
Money Market Mutual Funds	11,676
Total primary government cash equivalents and investments	$ 398,370
Cash equivalents and investments	398,370
Cash	440,655
Total cash, cash equivalents and investments	$ 839,025
Statement of Net Assets	
Cash and cash equivalents	760,048
Restricted cash and cash equivalents	9,309
Restricted investments	69,668
Total cash, cash equivalents and investments	$ 839,025

The State’s restricted investments, equaling $69,668,000, are held by the Tobacco Settlement Financing Corporation, a nonmajor governmental fund.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the State will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either: a. the counterparty, or b. the counterparty’s trust department or agent but not in the government’s name. Pursuant to guidelines established by the SIC, securities purchased or underlying collateral are required to be delivered to an independent third party custodian.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Based on SIC policy, the State’s short-term investment portfolio is structured to minimize interest rate risk by matching the maturities of investments with the requirements for funds disbursement.

As of June 30, 2012, information about the State's exposure to interest rate risk for cash equivalents and investments (expressed in thousands) is as follows:

Pooled Cash Equivalents:

Investment Type	At Fair Value	Investment Maturities (in days) (At Amortized Cost) 0-30	31-90	91-180	181-397
Financial Company Commercial Paper	$ 156,468	$ 30,998	$ 90,496	$ 34,967	$ --
Other Commercial Paper	7,998	4,999	3,000	--	--
Asset Backed Commercial Paper	55,107	45,072	8,036	1,998	--
Gov't Agency Repurchase Agreements	3,132	3,132	–	--	--
Other Repurchase Agreements	38,000	38,000	–	--	--
Treasury Debt	35,250	--	–	26,161	9,089
Certificates of Deposit	10,000	10,000	–	--	--
Government Agency Debt	2,999	--	–	--	2,999
Other Notes	18,003	--	–	--	18,000
Variable Rate Demand Notes	5,060	5,060	–	--	--
Grand Total	**$** 332,017	$ 137,261	$ 101,532	$ 63,126	$ 30,088

Non-pooled Cash Equivalents and Investments:

Investment Type	Fair Value	Investment Maturities (in Years) Less Than 1	1-5	6-10	More Than 10
Repurchase agreements	$ 1,612	$ 1,612	$ 0	$ 0	$ 0
Commercial paper	52,559	52,559	0	0	0
Government agency debt	17,109	17,109	0	0	0
Money market mutual funds	11,676	11,676	0	0	0
	$ 82,956	$ 82,956	$ 0	$ 0	$ 0

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 requirements, and the fact that maximum participation by any one issuer is limited to 35% of the total portfolio. Credit risk policies have been developed for investments in commercial paper.

As of June 30, 2012, information about the State's exposure to credit risk for cash equivalents and investments (expressed in thousands) is as follows:

Pooled Cash Equivalents:

Investment Type	At Fair Value	Quality Ratings (1) (At Amortized Cost) A-1+	A-1	A-2	A-3
Financial Company Commercial Paper	$ 156,468	$ 47,960	$ 98,505	$ 9,996	$ --
Other Commercial Paper	7,998	--	–	6,999	1,000
Asset Backed Commercial Paper	55,107	--	55,105	--	--
Gov't Agency Repurchase Agreements	3,132	3,132	–	--	--
Other Repurchase Agreements	38,000	--	38,000	--	--
Treasury Debt	35,250	35,251	–	--	--
Certificates of Deposit	10,000	--	10,000	--	--
Government Agency Debt	2,999	2,999	–	--	--
Other Notes	18,003	18,000	–	--	--
Variable Rate Demand Notes	5,060	4,660	400	--	--
Grand Total	**$** 332,017	$ 112,002	$ 202,010	$ 16,995	$ 1,000

1- Moody's Investor Service, except where not available Standard & Poor's ratings are used.

The Ocean State Investment Pool itself has not been assigned credit quality ratings by rating agencies.

Non-pooled Cash Equivalents and Investments:

Issuer		Fair Value	Type of Investment	Moody's Rating	Average Maturities in Days
Government Agencies					
Federal Home Loan Mortgage Corporation	$	17,109		P-1	
Money market mutual funds					
Fidelity Institutional Money Market Gvt. Port Class III		10,118	Money Market	AAA-mf	58
Goldman Sachs Treasury Investments		2	Money Market	AAA-mf	53
Wells Fargo Advantage 100% Treasury Money Market Fund		1,556	Money Market	Aaa-mf	55
Commercial Paper					
Prudential PLC		52,559	Commercial Paper	P-1	
	$	81,344			

Funds on Deposit with Fiscal Agent

Investments within the category – Funds on deposit with fiscal agent – are governed by specific trust agreements entered into at the time of the issuance of the debt. The trust agreements outline the specific permitted investments, including any limitations on credit quality and concentrations of credit risk.

The State's funds on deposit with fiscal agent reported in the governmental funds (expressed in thousands) at June 30, 2012 and the breakdown by maturity are as follows:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Government Agency Securities	$ 0	$ 0	$ 0	$ 0	$ 0
Money Market Mutual Funds	115,394	115,394	0	0	0
Investment Contracts	5,277	5,277	0	0	0
Investments	120,671	$ 120,671	$ 0	$ 0	$ 0
Cash (fully insured)	16,051				
Funds in trust with fiscal agent	$ 136,722				

The above investments with fiscal agent (expressed in thousands) consist of the following:

Issuer	Fair Value	Moody's Rating	Average Maturities in Days
Money Market Funds			
Dreyfus Treasury Prime Cash Management Fund	6,666	Aaa-mf	52
Federated Govt. Obligation Tax Managed Fund	18,371	Aaa-mf	43
Fidelity Institutional Money Market Gvt. Port Class III	88,477	AAA-mf	58
JP Morgan US Govt. Money Market Fund Agency Class	1,101	Aaa-mf	54
Wells Fargo Advantage 100% Treasury Money Market Fund	779	Aaa-mf	55
Investment Contracts			
FSA Capital Management GIC	5,277		
	$ 120,671		

Funds on deposit with fiscal agent also include $1,415,000 held by the Federal Unemployment Insurance Trust Fund.

B. Concentration of Credit Risk

The SIC has adopted limitations as to the maximum percentages of the State's total short-term investment portfolio that may be invested in a specific investment type or with any one issuer of securities. The combined portfolio concentrations for cash equivalents, investments and funds in trust by issuer (expressed in thousands) that are greater than 5% are as follows:

Type	Issuer	Amount	Percentage
Money Market Funds	Fidelity Institutional Money Market Gvt. Port Class III	$ 98,595	19.05%
Commercial Paper	Prudential PLC	52,559	10.16%

C. Pension Trusts

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

Cash Deposits and Cash Equivalents

At June 30, 2012, the carrying amount of the ERS cash deposits was $3,093,000 and the bank balance was $3,794,000. The bank and book balances represent the plans' deposits in short-term trust accounts which include demand deposit accounts and interest-bearing, collateralized bank deposit accounts. Of the bank balance, $2,177,000 is covered by federal depository insurance and the remainder representing interest-bearing collateralized bank deposits totaling $1,617,000 is collateralized (102%) with U.S. Treasury and agencies held by a third party custodian.

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 System's deposits were required to be collateralized at June 30, 2012 (excluding the collateralized interest-bearing deposits). However, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the deposit amounts that are not insured by federal depository insurance.

Investments

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

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

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

The following table presents the fair value of investments by type that are held within the Pooled Trust at June 30, 2012 (expressed in thousands):

Investment Type		Fair Value
Cash Deposits	$	15,561
Money Market Mutual Fund		148,466
U.S. Government Securities		399,497
U.S. Government Agency Securities		420,119
Collateralized Mortgage Obligations		26,499
Corporate Bonds		866,258
Domestic Equity Securities		140,764
International Equity Securities		7,703
Commingled Funds - Domestic Equity		2,186,538
Commingled Funds - International Equity		1,137,589
Hedge Funds		1,011,174
Private Equity		611,643
Real Estate		
Limited Partnership		117,565
Commingled Funds		102,731
Real Estate Investment Trusts		48,673
	$	7,240,780
Net investment receivable (payable)		(13,747)
Payable to broker		(2,007)
Total	$	7,225,026

Consistent with a target asset allocation model adopted by the State Investment Commission, the ERS directs its investment managers to maintain well diversified portfolios by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

Specific manager performance objectives are outlined and generally stated in relation to a benchmark or relevant index. These guidelines also include prohibited investments, limitations on maximum exposure to a single industry or single issuer, a minimum number of holdings within the manager’s portfolio and, for fixed income.

Interest Rate Risk

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

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

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

At June 30, 2012, no fixed income manager was outside of the policy guidelines.

The following table shows the ERS's fixed income investments by type, fair value and the effective duration at June 30, 2012 (expressed in thousands):

Investment Type	Fair Value	Effective Duration
U.S. Government Securities	$ 420,119	2.21
U.S. Government Agency Securities	399,497	5.77
Collateralized Mortgage Obligations	26,499	3.47
Corporate Bonds	866,258	5.73
Total Fixed Income	$ 1,712,373	4.86

The ERS also invested in a short-term money market mutual fund (State Street Bank Institutional Liquid Reserves) that held investments with a weighted average maturity of 25 days.

The ERS invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMO), interest-only and principal-only (PO) strips. They are reported in U.S. Government Agency Securities and Collateralized Mortgage Obligations in the table above. CMO's are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or tranches in accordance with the CMO's established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates while others are significantly sensitive to interest rate fluctuations.

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

Credit Risk

The ERS manages exposure to credit risk generally by instructing fixed income managers to adhere to an overall target weighted average credit quality for the portfolio and by establishing limits on the percentage of the portfolio that is invested in non-investment grade securities. The ERS's exposure to credit risk as of June 30, 2012 is as follows (expressed in thousands):

Quality Rating (1)	Collateralized Mortgage Obligations	U.S. Government Agency Obligations	Corporate Bonds
Aaa	$ 19,163	$ 420,119	$ 67,173
Aa	6,015		94,453
A			161,602
Baa	525		331,775
Ba	58		62,444
B	36		93,250
Caa			23,891
Not rated	702		31,670
Fair Value	$ 26,499	$ 420,119	$ 866,258

(1) Moody's Investors Service

During Fiscal 2012, Standard & Poors Investors Service downgraded the rating assigned to direct obligations of the United States government from AAA to AA+. Direct United States government obligations held within the ERS's Pooled Investment Trust, which totaled approximately $399 million at June 30, 2012, are not included in the above credit risk table based on Moody's ratings.

The ERS's investment in a short-term money market mutual fund (State Street Bank Institutional Liquid Reserves) was rated AAAm by Standard & Poors Investors Service.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the 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.

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, 2012 all securities were registered in the name of the ERS (or in the nominee name of its custodial agent) and were held in the possession of the ERS's custodial bank, State Street Bank and Trust.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Portfolios are diversified to limit foreign currency and security risk. The ERS may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. The ERS's exposure to foreign currency risk at June 30, 2012 is as follows (expressed in thousands):

Currency	Commingled Fund	Foreign Cash	Foreign Currency Forward Contracts	Equities	Private Equity	Total
Australian Dollar	$ 66,140	$ (85)	$ 165	$	$	$ 66,220
Brazilian Real	35,301			889		36,190
Canadian Dollar	90,715	(414)	54	396	12,711	103,462
Chilean Peso	5,239					5,239
Colombian Peso	3,476					3,476
Czech Koruna	749					749
Danish Krone	9,008					9,008
Egyptian Pound	801					801
Euro Currency	204,788	(821)	228	1,181	84,854	290,230
Hong Kong Dollar	69,871	(17)		1,791		71,645
Hungarian Forint	775					775
Indian Rupee	17,482					17,482
Indonesian Rupiah	7,365					7,365
Israeli Shekel	4,564					4,564
Japanese Yen	165,040	(376)	(87)			164,577
Malaysian Ringgit	9,660					9,660
Mexican Peso	13,422					13,422
Moroccan Dirham	254					254
New Taiwan Dollar	29,458					29,458
New Zealand Dollar	910					910
Norwegian Krone	7,099					7,099
Peruvian Nuevo Sol	173					173
Philippine Peso	2,569					2,569
Polish Zloty	3,883					3,883
Pound Sterling	177,544	(289)	102	3,446		180,803
Singapore Dollar	13,980					13,980
South African Rand	21,314					21,314
South Korean Won	40,411					40,411
Swedish Krona	23,575	(5)	36		95	23,701
Swiss Franc	64,515					64,515
Thailand Baht	5,954					5,954
Turkish Lira	4,528					4,528
Total	$ 1,100,563	$ (2,007)	$ 498	$ 7,703	$ 97,660	$ 1,204,417
US Dollar	37,026					
Commingled Fund	$ 1,137,589					

In addition to the foreign currency exposure highlighted in the foregoing table, certain hedge fund investments also have foreign currency exposure.

Derivatives and Other Similar Investments

Certain of the ERS's investment managers are allowed to invest in derivative type transactions consistent with the terms and limitations governing their investment objective and related contract specifications. Derivatives and other similar investments are financial contracts whose value depends on one or more underlying assets, reference rates, or financial indices.

The ERS's derivative investments include forward foreign currency transactions, futures contracts, options, rights and warrants. The ERS enters into these transactions to enhance performance, rebalance the portfolio consistent with overall asset allocation targets, gain or reduce exposure to a specific market, or mitigate specific risks.

Forward foreign currency contracts – The ERS enters into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. A currency forward is a contractual agreement to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. These contracts involve risk in excess of the amount reflected in the ERS's Statements of Fiduciary Net Assets. The face or contract amount in U.S. dollars reflects the total exposure the System has in currency contracts. The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

Futures contracts – The ERS uses futures to manage its exposure to the domestic and international equity, money market, and bond markets and the fluctuations in interest rates and currency values. Futures are also used to obtain target market exposures in a cost effective manner and to narrow the gap between the ERS's actual physical exposures and the target policy exposures. Using futures contracts in this fashion is designed to reduce (or hedge) the risk of the actual plan portfolio deviating from the policy portfolio more efficiently than by using physical securities. The program is only used to manage intended exposures and asset allocation rebalancing.

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 and if there is an illiquid secondary market for the contracts.

Through commingled funds, the ERS also indirectly holds derivative type instruments, primarily equity index futures.

The ERS invests in mortgage-backed securities, which are included in the categories described as collateralized mortgage obligations and U.S. Government Agency Securities. These securities are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the value of these securities.

The ERS may sell a security in anticipation of a decline in the fair value of that security or to lessen the portfolio allocation of an asset class. Short sales may increase the risk of loss to the System when the price of a security underlying the short sale increases and the ERS is obligated to deliver the security in order to cover the position.

The following summarizes the ERS's exposure to specific derivative investments at June 30, 2012 (expressed in thousands):

Investment Derivative Instruments	Change in fair value included in investment income	Fair value at June 30, 2012		Notional amount
Fixed income futures - long	$ 9,837	$		$
Fixed income futures - short	(207)			(22,846)
Foreign currency forward contracts	(924)	498	(a)	76,397
Index futures - long	13,894			83,925
Index futures - short	1,828			(28,281)
Warrants	(26)	6		325
	$ 24,402	$ 504		

(a) - Foreign Currency Forward Contracts

Pending receivable	$ 584
Pending payable	(86)
Foreign currency forward contract asset (liability)	$ 498

The ERS is exposed to credit risk on derivative instruments that are in asset positions. The aggregate fair value of derivative instruments in asset positions at June 30, 2012 was $591,000. This represents the maximum loss that would be recognized if all counterparties failed to perform as contracted. Risk is mitigated by using a continuous linked settlement process.

The System executes (through its investment managers) derivative instruments with various counterparties. The credit ratings of these counterparties were Baa1 (Moody's) or better, one counterparty not rated by Moody's but is rated A+ by Fitch.

D. OPEB Trust Funds

The Rhode Island State Employees' and Electing Teachers OPEB System (OPEB System), which accumulates resources for other post employment benefit payments to qualified employees, consists of six plans: State employees, Teachers, Judges, State police, Legislators and Board of Governors.

Cash Deposits and Cash Equivalents

At June 30, 2012, the carrying amount of the OPEB System's cash deposits and cash equivalents was $205,637 and the bank balance was $139,613. The bank and book balances represent the OPEB System's deposits in short-term trust accounts, which include fully insured demand deposit accounts and interest-bearing, collateralized bank deposit accounts.

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. In addition, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the uninsured deposit amounts. At June 30, 2012, the System's cash deposits were either federally insured or collateralized.

At June 30, 2012, the System had cash equivalent investments consisting of $4,644,856 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The System's investment accounted for 1.4% of the total investment in OSIP at June 30, 2012. Funds of agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State are eligible to invest in OSIP. OSIP operates in a manner consistent with a SEC Rule 2a-7 like pool and thus, reports all investments at amortized cost rather than fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2nd Floor, Warwick, RI 02886.

Investments

The State Investment Commission oversees all investments made by the State of Rhode Island, including those made for the OPEB System. 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.

The assets of each of the plans are pooled for investment purposes only, and units are assigned to the plans based on their respective share of market value. The custodian bank holds assets of the OPEB System in a Pooled Account and each plan holds units in the account. The number of units held by each plan is a function of each plan's respective contributions to, or withdrawals from, the account.

Investment expense is allocated to each plan based on the plan's units in the pooled trust at the end of each month.

The following table presents the fair value of investments by type that are held within the pooled trust at June 30, 2012 (expressed in thousands):

Investment Type	Fair Value
US Government Securities	$ 6,237
US Government Agency Securities	1,736
Collateralized Mortgage Obligations	859
Corporate Bonds	15,397
Money Market Mutual Fund	3,245
Commingled Funds - Domestic Equity	14,241
	41,715
Net investment receivable (payable)	(572)
Total Investments at Fair Value	$ 41,143

Consistent with a target asset allocation model adopted by the State Investment Commission, the OPEB System maintains a diversified portfolio by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

Interest Rate Risk

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

The following table shows the OPEB System's fixed income investments by type, fair value and the effective duration at June 30, 2012 (expressed in thousands):

Investment Type		Fair Value	Effective Duration
US Government Agency Securities	$	1,736	2.11
US Government Securities		6,237	5.27
Collateralized Mortgage Obligations		859	3.40
Corporate Bonds		15,397	5.05
Total Fixed Income	$	24,229	4.85

The OPEB System's investments in State Street Institutional Liquid Reserves, a money market mutual fund, had an average maturity of 25 days at June 30, 2012.

Credit Risk

The OPEB System generally manages exposure to credit risk by adhering to an overall target weighted average credit quality for the portfolio. At June 30, 2012, all debt securities were U.S. Government Obligations and corporate bonds.

The OPEB System's exposure to credit risk on corporate bonds as of June 30, 2012 is as follows (expressed in thousands):

Rating (1)		Collateralized Mortgage Obligations		US Government Agency Obligations		Corporate Bonds
Aaa	$	737	$	1,736	$	3,300
Aa		122				2,299
A						3,344
Baa						5,450
Ba						286
Not Rated						718
Fair Value	$	859	$	1,736	$	15,397

(1) Moody's Investor Service

The OPEB System's investment in a short-term money market mutual fund (State Street Institutional Liquid Reserves) was rated AAAm by Standard & Poor's Investors Service.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the OPEB System's investments in a single issuer. There is no single issuer exposure within the OPEB System's portfolio that comprises more than 5% of the overall portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the OPEB System 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, 2012, all securities were registered in the name of the OPEB

System (or in the nominee name of its custodial agent) and were held in the possession of its custodial bank, State Street Bank and Trust Co.

Derivatives and other similar investments

Through its commingled fund, the OPEB System indirectly holds derivative type instruments, primarily equity index futures.

E. Private Purpose Trust

The private purpose trust (Touro Jewish Synagogue) had investments of $2,102,000 in the Fidelity Balanced Fund.

F. Agency Funds

As of June 30, 2012, all of the bank balances of Agency Funds were either covered by federal depository insurance or collateralized by securities held by an independent third party in the State's name.

Note 3. Receivables

Receivables at June 30, 2012 (expressed in thousands) consist of the following:

Primary Government	Taxes Receivable	Accounts Receivable	Notes and Loans Receivable	Total Receivables, Net	Due from Other Governments and Agencies	Due from Component Units
Governmental receivables	$ 443,944	$ 360,897	$ 1,000	$ 805,841	$ 216,082	$ 34,070
Less: Allowance for Uncollectibles	99,489	110,967		210,456		
Governmental receivables, net	344,455	249,930	1,000	595,385	216,082	34,070
Business-type receivables	70,940	32,626		103,566	1,858	
Less: Allowance for Uncollectibles	4,369	19,981		24,350		
Business-type receivables, net	66,571	12,645		79,216	1,858	
Receivables, Net of Allowance for Uncollectibles	411,026	262,575	1,000	674,601	217,940	34,070
Less: Current Portion						
Governmental receivables	333,319	235,128	1,000	569,447	213,402	1,915
Business-type receivables	66,571	12,645		79,216	1,858	
Noncurrent Receivables, Net	$ 11,136	$ 14,802	$	$ 25,938	$ 2,680	$ 32,155

Note 4. Intra-Entity Receivables and Payables

Intra-entity receivables and payables as of June 30, 2012 are the result of ongoing operations and are expected to be reimbursed within the subsequent fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable	Description
Governmental Funds			
Major Funds			
General	$ 4,479	$	Reimbursement for operating expenses
Intermodal Surface Transportation	956		Transportation funding
Non-Major Funds			
RI Temporary Disability Insurance		320	Debt service and administrative costs
Bond Capital		7,242	State match for transportation
RI Capital Plan		88	Excess transfer owed to General Fund
RI Historic Tax Credit	32		Tax credit fees owed to fund
Certificates of Participation	227		Fees restricted for COPS debt service
Total Non-Major Funds	259	7,650	
Total Governmental	5,694	7,650	
Proprietary Funds			
Enterprise			
RI Lottery		2,875	Net income owed to General Fund
RI Convention Center Authority	314		Project funding
Employment Security Trust	5,950		Benefit reimbursements
Total Enterprise	6,264	2,875	
Internal Service	393	1,826	Settlement of services rendered
Total primary government	$ 12,351	$ 12,351	

Note 5. Capital Assets

The capital asset activity of the reporting entity for the year ended June 30, 2012 consists of the following (expressed in thousands):

Primary Government

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land	$ 351,873	$ 7,305	$ (210)	$ 358,968
Works of Art	1,283	131		1,414
Intangibles	155,206	3,887		159,093
Construction in progress	427,459	244,838	(225,577)	446,720
Total capital assets not being depreciated or amortized	935,821	256,161	(225,787)	966,195
Capital assets being depreciated or amortized:				
Land improvements	3,700			3,700
Buildings	644,386	40,379	(532)	684,233
Building Improvements	260,066	9,427	(518)	268,975
Furniture and equipment	242,348	9,717	(7,088)	244,977
Intangibles	14,049			14,049
Infrastructure	2,949,715	176,558	(10,884)	3,115,389
Total capital assets being depreciated or amortized	4,114,264	236,081	(19,022)	4,331,323
Less accumulated depreciation or amortization for:				
Land improvements	3,328	61		3,389
Buildings	200,160	14,925	(532)	214,553
Building Improvements	168,047	7,083	(518)	174,612
Furniture and equipment	211,641	12,845	(7,088)	217,398
Intangibles	10,835	1,435		12,270
Infrastructure	1,326,054	106,100	(10,884)	1,421,270
Total accumulated depreciation or amortization	1,920,065	142,449	(19,022)	2,043,492
Total capital assets being depreciated or amortized, net	2,194,199	93,632		2,287,831
Governmental activities capital assets, net	$ 3,130,020	$ 349,793	$ (225,787)	$ 3,254,026

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

General government	$ 8,871
Human services	6,861
Education	3,436
Public safety	11,101
Natural resources	5,794
Transportation	106,386
Total depreciation or amortization expense - governmental activities	$ 142,449

Business-type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 45,558	$	$	$ 45,558
Construction in progress	154	407	(537)	24
Total capital assets not being depreciated	45,712	407	(537)	45,582
Capital assets being depreciated:				
Buildings	234,130	288	(34)	234,384
Machinery and equipment	24,956	873	(182)	25,647
Total capital assets being depreciated	259,086	1,161	(216)	260,031
Less accumulated depreciation for:				
Buildings	100,816	8,447	(34)	109,229
Machinery and equipment	16,862	2,243	(182)	18,923
Total accumulated depreciation	117,678	10,690	(216)	128,152
Total capital assets being depreciated, net	141,408	(9,529)		131,879
Business-type activities capital assets, net	$ 187,120	$ (9,122)	$ (537)	$ 177,461

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land *	$ 112,684	$ 1,429	$ (2,244)	$ 111,869
Construction in progress *	329,844	234,442	(88,194)	476,092
Other	250			250
Total capital assets not being depreciated or amortized	442,778	235,871	(90,438)	588,211
Capital assets being depreciated or amortized:				
Buildings *	1,742,287	69,542	(1,463)	1,810,366
Land improvements *	176,680	18,084	(527)	194,237
Machinery and equipment *	362,632	35,391	(15,463)	382,560
Intangibles	4,100		(4,100)	
Infrastructure *	666,510	32,034		698,544
Total capital assets being depreciated or amortized	2,952,209	155,051	(21,553)	3,085,707
Less accumulated depreciation or amortization for:				
Buildings *	647,076	58,682	(1,269)	704,489
Land improvements	104,528	4,821		109,349
Machinery and equipment *	198,968	25,006	(14,865)	209,109
Intangibles	4,100		(4,100)	
Infrastructure *	116,284	14,219		130,503
Total accumulated depreciation or amortization	1,070,956	102,728	(20,234)	1,153,450
Total capital assets being depreciated or amortized, net	1,881,253	52,323	(1,319)	1,932,257
Total capital assets, net	$ 2,324,031	$ 288,194	$ (91,757)	$ 2,520,468

* Beginning balances have been restated.

Note 6. Long-Term Liabilities

A. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2012 are presented in the following table:

Long-term Liabilities
(Expressed in Thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental Activities						
Bonds Payable						
General obligation bonds (see section B)	$ 1,049,400	$ 291,765	$ (230,580)	$ 1,110,585	$ 88,040	$ 1,022,545
RIEDC Grant Anticipation Revenue Bonds	372,310		(29,590)	342,720	31,075	311,645
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds	74,060		(3,710)	70,350	3,840	66,510
Tobacco Settlement Asset-Backed Bonds	795,161		(15,735)	779,426		779,426
Accreted interest on TSFC bonds	51,710	15,191		66,901		66,901
RIEDC Historic Tax Credit Bonds	120,820		(14,830)	105,990	15,415	90,575
Net unamortized premium/discount	22,235	44,903	(7,268)	59,870		59,870
Deferred amount on refunding	(6,744)	(11,455)	1,360	(16,839)		(16,839)
Bonds Payable, net	2,478,952	340,404	(300,353)	2,519,003	138,370	2,380,633
Obligation under capital leases (see section E)	224,045	31,980	(22,225)	233,800	22,835	210,965
Net unamortized premium/discount	5,051	517	(946)	4,622		4,622
Deferred amount on refunding	(1,200)		242	(958)		(958)
Obligation under capital leases, net	227,896	32,497	(22,929)	237,464	22,835	214,629
Compensated absences	89,269	63,030	(71,236)	81,063	67,782	13,281
Net OPEB Obligation (see note 14 C)	13,257	128		13,385		13,385
Special obligation notes	13,100		(4,925)	8,175	1,500	6,675
Other Long-term Liabilities						
Pollution remediation	20,222	6,193	(14,900)	11,515	3,025	8,490
Other	57,493	8,771	(20,087)	46,177	11,388	34,789
Total Governmental Long-term Liabilities	$ 2,900,189	$ 451,023	$ (434,430)	$ 2,916,782	$ 244,900	$ 2,671,882
Business-type Activities						
Revenue bonds (see section B)	$ 259,620	$	$ (9,110)	$ 250,510	$ 9,570	$ 240,940
Net unamortized premium/discount	963		(138)	825		825
Deferred amount on refunding	(10,914)		1,114	(9,800)		(9,800)
Revenue bonds, net	249,669		(8,134)	241,535	9,570	231,965
Notes payable	607		(188)	419	188	231
Deferred Revenue	7,500	770	(625)	7,645	625	7,020
Compensated absences	434	232	(266)	400	172	228
Due to Other Governments and Agencies (see Section J)	222,352	2,294		224,646		224,646
Total Business-type Long-term Liabilities	$ 480,562	$ 3,296	$ (9,213)	$ 474,645	$ 10,555	$ 464,090
Component Units						
Bonds payable (see section B)	$ 3,769,666	$ 235,820	$ (388,704)	$ 3,616,782	$ 188,174	$ 3,428,608
Net unamortized premium/discount	41,841	9,025	(2,329)	48,537	105	48,432
Deferred amount on refunding	(12,137)		1,238	(10,899)		(10,899)
Bonds Payable, net	3,799,370	244,845	(389,795)	3,654,420	188,279	3,466,141
Notes payable (see section C)	82,994	251,467	(236,674)	97,787	87,744	10,043
Loans payable (see section D)	359,678	41,617	(18,931)	382,364	20,448	361,916
Obligations under capital leases	12,028	130	(1,785)	10,373	1,368	9,005
Net OPEB obligation	32,876	7,369	(131)	40,114		40,114
Compensated absences	34,287	1,356	(1,560)	34,083	10,002	24,081
Due to primary government	37,596	107	(3,633)	34,070	1,915	32,155
Due to Other Governments and Agencies	364,995	88	(62,076)	303,007	35,543	267,464
Deferred Revenue	48,169	8,957	(499)	56,627	37,715	18,912
Due to Component Units	3,064	49,034	(2,429)	49,669	47,033	2,636
Other Long-term liabilities						
Arbitrage rebate	14,827	5,863	(4,163)	16,527	11,019	5,508
Pollution remediation	31,221		(5,721)	25,500	1,245	24,255
Other liabilities	230,405	36,547	(11,625)	255,327	14,478	240,849
Total Component Units Long-term Liabilities	$ 5,051,510	$ 647,380	$ (739,022)	$ 4,959,868	$ 456,789	$ 4,503,079

Certain beginning balances of the component units have been reclassified to conform with the financial statement presentation.

B. Bonds Payable

At June 30, 2012, 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
2013	$ 138,370	$ 113,161	$ 9,570	$ 13,565	$ 188,174	$ 139,088
2014	126,830	108,793	10,060	13,075	116,755	134,512
2015	138,215	102,750	10,550	12,535	114,201	129,946
2016	144,165	96,083	11,095	11,983	117,252	125,197
2017	151,700	88,749	11,645	11,424	117,654	120,342
2018 - 2022	548,725	345,997	67,655	47,604	687,290	513,911
2023 - 2027	320,820	234,338	87,150	27,907	659,561	365,037
2028 - 2032	103,280	179,728	24,345	10,185	621,150	223,071
2033 - 2037	168,260	116,156	18,440	2,279	497,670	110,936
2038 - 2042	371,700	116,156			345,595	38,323
2043 - 2047					66,020	13,824
2048 - 2052	197,006	2,637,174 *			85,460	2,388
	$ 2,409,071	$ 4,139,085	$ 250,510	$ 150,557	$ 3,616,782	$ 1,916,575

* Accreted interest on capital appreciation bonds of the Tobacco Settlement Financing Corporation.

Primary Government - *Governmental Activities*

General obligation bonds of the State are serial bonds with interest payable semi-annually. During the year ended June 30, 2012 the State issued the following general obligation bonds:

- $145,035,000 Consolidated Capital Development Loan of 2011, Series A, with interest rates ranging from 0.00% to 5.50%, maturing from 2013 through 2032.

- $23,780,000 Consolidated Capital Development Loan of 2011, Refunding Series B, with interest rates ranging from 2.00% to 5.00%, maturing from 2013 through 2016. The proceeds were used to effect an advance refunding of $25,535,000 of general obligation bonds. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. The refunding decreases total debt service payments over the next 4 years by $2,253,000 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $2,191,000.

- $122,950,000 Consolidated Capital Development Loan of 2012, Refunding Series A, with interest rates ranging from 3.00% to 5.00%, maturing from 2016 through 2028. The proceeds were used to effect an advance refunding of $131,815,000 of general obligation bonds. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. The refunding decreases total debt service payments over the next 16 years by $6,479,000 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $7,302,000.

At June 30, 2012, general obligation bonds authorized by the voters and unissued amounted to $117,000,000. 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.

In addition to the debt authorized by the voters for which the full faith and credit is pledged, the General Assembly has authorized the issuance of other debt that is subject to annual appropriation. The following authorizations have been enacted and the State plans to issue the debt over the next several years: (1) Energy Conservation Certificates of Participation - $52,720,000, (2) Economic Development Corporation –

Fund to Grow Rhode Island Companies - $44,500,000, (3) Economic Development Corporation – 195 Land Sales - $42,000,000 and Information Technology Improvements Certificates of Participation - $45,300,000.

RIEDC Grant Anticipation Bonds and Rhode Island Motor Fuel Tax Revenue Bonds - The R.I. Economic Development Corporation (RIEDC), on behalf of the State, issues special obligation debt. Grant Anticipation Revenue Vehicle Bonds are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects. Rhode Island Motor Fuel Tax Revenue Bonds are payable solely from certain pledged revenues derived from two cents ($.02) per gallon of the thirty-two cents ($.32) per gallon Motor Fuel Tax. The bonds provide the State matching funds for the Grant Anticipation Revenue Vehicle Bonds. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RIEDC has no taxing power. The obligation of the State to make payments to the trustee of future federal aid revenues and future pledged motor fuel taxes is subject to annual appropriation by the General Assembly. Pledged revenues were sufficient to fund fiscal 2012 debt service payments for Grant Anticipation and Motor Fuel Tax Revenue Bonds. These revenues have been pledged for the term of the Grant Anticipation and Motor Fuel Tax Revenue Bonds through fiscal 2021 and 2027, respectively.

Tobacco Settlement Asset-Backed Bonds and Accreted Interest - The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued $882,395,742 of Tobacco Asset-Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent Decree and Final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof, and the State has no obligation or intention to satisfy any deficiency or default of any payment of the bonds. The TSFC has no taxing power. Certain of the TSFC bonds are capital appreciation bonds on which no periodic interest payments are made, but which are issued at a deep discount from par and accrete to full value at maturity in the year 2052. The bond indenture contains "Turbo Maturity" provisions, whereby the corporation is required to apply 100% of all collections that are in excess of the current funding requirements of the indenture to the early redemption of the bonds. During the year ended June 30, 2012, TSFC utilized $15,735,000 of excess collections to early redeem an equal amount of outstanding bonds. Pledged tobacco revenues were sufficient to fund fiscal 2012 debt service payments for Tobacco Settlement Asset-Backed bonds. These revenues have been pledged for the term of the underlying debt through fiscal 2052.

Historic Tax Credit Bonds - In FY2009 the RIEDC, on behalf of the State, issued $150,000,000 of revenue bonds under the Historic Structures Tax Credit Financing Program. 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 State is obligated under a Payment Agreement to make payments to the trustee. This obligation is subject to annual appropriation by the General Assembly. The proceeds of the bonds are being used to provide funds for redemption of Historic Structures Tax Credits. There is remaining authorization to issue up to $206,200,000 of Historic Tax Credit Bonds.

Primary Government - *Business-Type Activities*

R.I. Convention Center Authority

The R.I. Convention Center Authority (RICCA) is limited to the issuance of bonds or notes in an aggregate principal amount of $305,000,000. At June 30, 2012, outstanding bond and note indebtedness totaled $250,929,000.

Revenue bonds of RICCA were issued to (a) refund bonds and notes, (b) pay construction costs, (c) pay operating expenses, (d) pay interest on revenue bonds prior to completion of construction, (e) fund a debt service reserve, (f) pay costs of issuance and (g) acquire and renovate the Dunkin Donuts Center. The revenue bonds are secured by all rents receivable, if any, under a lease agreement between the RICCA and the State covering all property purchased by the RICCA. The agreement also covers a mortgage on facilities and land financed by the proceeds of the revenue bonds and amounts held in various accounts into which bond proceeds were deposited. Minimum annual lease payments by the State are equal to the gross debt service of RICCA. In the event of an operating deficit (excluding depreciation), annual lease payments may be increased by the amount of the deficit. The obligation of the State to pay such rentals is subject to and dependent upon annual appropriations of such payments being made by the Rhode Island General Assembly for such purpose. Those appropriations are made in connection with the State's annual budgetary process and are therefore dependent upon the State's general financial resources and factors affecting such resources. In addition, outstanding indebtedness is insured under certain financial guaranty insurance policies.

All outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required for certain bonds over various years through 2027 at the principal amount of the bonds. Certain bonds may be redeemed early, at the option of RICCA, at amounts ranging from 100% to 102% of the principal balance.

Each of the RICCA's Bond Resolutions contains certain restrictive covenants. During fiscal year 2012, the RICCA was unable to fund the Operating Reserve and Debt Service Reserve requirements.

Discretely Presented Component Units

University of Rhode Island, Rhode Island College and the Community College of Rhode Island

The University of Rhode Island (URI), Rhode Island College (RIC), and the Community College of Rhode Island (CCRI) have issued a number of series of revenue bonds to finance housing, student union (including bookstores) and dining facilities. 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 loan and trust agreements between the R.I. Health and Educational Building Corporation (RIHEBC) and the Board of Governors for Higher Education acting for URI, RIC, and CCRI. The agreements provide for RIHEBC's issuance of the bonds with a loan of the proceeds to the university and colleges and the payment by the university and colleges to RIHEBC of loan payments that are at least equal to debt service on the bonds. The bonds are secured by a pledge of revenues of the respective institutions.

R.I. Housing and Mortgage Finance Corporation

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.

R.I. Economic Development Corporation

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.

Per its Master Indenture of Trust and Supplemental Indentures, the R.I. Airport Corporation (RIAC) has pledged net revenues derived from the operation by RIAC of the Airport and certain outlying airports to repay $252,590,000 in airport revenue bonds. Proceeds from the bonds were used for various airport improvement projects. The amount available to pay debt service per the Master Indenture, including pledged passenger facility charges, was approximately $38,098,000 for the year ended June 30, 2012. Principal and interest payments for the year ended June 30, 2012 were approximately $22,528,000.

RIAC has pledged facility revenues related to the InterLink Facility, net of specified operating expenses, to repay $48,195,000 in First Lien Special Facility Bonds. Proceeds from the bonds were used for the construction of the InterLink Facility. Facility revenues, including interest income, were $7,646,000 for the year ended June 30, 2012. Principal and interest paid for the year ended June 30, 2012 was approximately $2,977,000. Principal payments commenced on July 1, 2011. The InterLink Facility includes consolidated facilities for Airport rental car operations; a train platform to provide access for commuter rail service south to Wickford, Rhode Island and north to both Providence and Boston; and a parking garage for rental car operators and rail commuters.

In June 2006, the R.I. Airport Corporation (RIAC), RIEDC and the R.I. Department of Transportation (RIDOT) executed a Secured Loan Agreement (Agreement) which provides for borrowings of up to $42,000,000 with the United States Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998. The purpose of the Agreement is to reimburse RIEDC and RIDOT and to provide funding to RIAC for a portion of eligible project costs related to the InterLink Facility Project. RIAC is permitted under the Agreement to make requisitions of funds for eligible project costs, and it is anticipated that such requisitions will occur through fiscal year 2013. Upon completion of the project, RIAC began making monthly payments of principal and interest, with interest at a rate of 5.26%. Payments are made on behalf of RIEDC (the borrower per the Agreement), and debt service payments commenced in fiscal year 2012 with a final maturity in fiscal year 2042. Such repayments are payable solely from the net revenues derived from the InterLink Facility. As of June 30, 2012, RIAC had $40,059,000 in borrowings under this agreement.

The RI Economic Development Corporation is authorized to issue bonds or other obligations not to exceed $42,000,000 to finance the acquisition by the I-195 Redevelopment Commission of the surplus land from the State. These bonds will be repaid by the Redevelopment Commission from the proceeds of the sale of land and are also to be secured by a capital reserve fund. Any deficiency in the capital reserve fund is subject to annual appropriation by the General Assembly. No bonds have been issued as of June 30, 2012. See Note 17 B – Related Party Transactions.

R.I. Industrial-Recreational Building Authority

The $60,000,000 of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority (RIIRBA) are limited by mortgage balances that it has insured which are guaranteed by the State. See Note 11 for details of specific commitments relating to a defaulted project guaranteed by RIIRBA.

Other Component Units

Other nonmajor component units have various bonds outstanding. These revenue bonds were generally issued to fulfill the component unit's corporate purpose. Additional information on each nonmajor component unit's debt obligations is available in their audited financial statements.

C. Notes Payable

Primary Government

Special Obligation Notes (expressed in thousands) at June 30, 2012 are as follows:

Note payable to a financial institution - to finance the design, development and implementation of a motor vehicles information management system for the Division of Motor Vehicles – the note is payable with interest of 4.2137% due semi-annually and principal due April 1, 2013-2017	$	8,175

The special obligation note is subject to annual appropriation by the General Assembly. The note payable to a financial institution will be repaid from a $1.50 surcharge on every transaction processed at the Division of Motor Vehicles. This surcharge is pledged to fund debt service on the note. Pledged revenues were sufficient to fund fiscal 2012 debt service payments for this special obligation note. These revenues have been pledged for the term of the note through fiscal 2017.

Discretely Presented Component Units

Notes payable (expressed in thousands) at June 30, 2012 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.	$ 1,525
R.I. Housing and Mortgage Finance Corporation bank notes and lines of credit, 1.29% to 6.25% interest, payable through 2030.	93,886
R.I. Economic Development Corporation (Quonset Development Corporation) monthly payments of principal and interest through FY 2016 bearing interest at 5.00%.	2,026
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 4.15% interest, payable through 2015	350
	97,787
Less: current portion	(87,744)
	$ 10,043

D. Loans Payable

Discretely Presented Component Units

Loans payable include liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) of $340,979,944.

E. Obligations Under Capital Leases

Primary Government

The State has entered into capital lease agreements, Certificates of Participation (COPS), with financial institutions. These financing arrangements have been used by the State to acquire, construct or renovate facilities and acquire other capital assets. The State's obligation under capital leases at June 30, 2012 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.

In July 2011 the State issued $31,980,000 of Lease Participation Certificates with interest rates from 2.00% to 4.50%. The proceeds will be used for a number of energy conservation projects at State facilities. The certificates mature in 2012 through 2026.

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, 2012:

Fiscal Year Ending June 30	COPS
2013	$ 33,225
2014	31,608
2015	30,949
2016	30,514
2017	27,401
2018 - 2022	100,037
2023 - 2027	42,869
2028 - 2032	4,964
Total future minimum lease payments	301,567
Amount representing interest	(67,767)
Present value of future minimum lease payments	$ 233,800

F. Defeased Debt

In prior years, the State and its component units defeased certain general obligation bonds and revenue bonds by placing the proceeds of the new bonds or other sources in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2012, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	$ 176,150
R.I. Convention Center Authority	25,800
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	168,125
R.I. Economic Development Corporation	13,060
R.I. Turnpike and Bridge Authority	32,300
R.I. Clean Water Finance Agency	53,410

G. 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, 2012 was $65,500,000, $3,005,229,000 and $1,063,000,000 respectively, for these component units. Certain issues of conduit debt are moral obligations of the State, and the current amounts outstanding are disclosed in Note 12.

H. Short-Term Borrowing

The table below summarizes General Fund short-term borrowing (expressed in thousands) for the fiscal year ended June 30, 2012:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
General Obligation Tax Anticipation Notes	$ 0	$ 200,000	$ 200,000	$ 0
Total Short-Term Borrowing	$ 0	$ 200,000	$ 200,000	$ 0

The borrowings were used to provide short-term working capital.

In addition, R.I. Housing & Mortgage Corporation had outstanding balances of $68,000,000 on two lines of credit that are payable on demand and accrue interest at rates ranging from 1.29% to 1.70%.

I. Pollution Remediation Liabilities

GASB Statement No. 49 establishes guidance to estimate and report potential costs which may be incurred for pollution remediation liabilities. GASB 49 requires the reporting entity to reasonably estimate and report a remediation liability when one of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the reporting entity is compelled to take action.
- The reporting entity is in violation of a pollution related permit or license.
- The reporting entity is named or has evidence it will be named as a responsible party by a regulator.

- The reporting entity is named or has evidence it will be named in a lawsuit to enforce a cleanup.
- The reporting entity commences or legally obligates itself to conduct remediation activities.

The State and certain component units have remediation activities underway, and these are in stages including site investigation, planning and design, clean up and site monitoring. Several agencies within State government have as part of their mission the responsibility to investigate possible pollution sites and oversee the remediation of those sites. These agencies have the expertise to estimate the remediation obligations presented herein based on prior experience in identifying and funding similar remediation activities. The remediation liabilities reported have been calculated using the expected cash flow technique. Situations posing potential liabilities, for which a reasonable estimate could not be made, have not been included.

The remediation obligation estimates presented are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes in laws or regulations, and other factors that could result in revision to the estimates. Recoveries from responsible parties may reduce the State's obligation. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

J. Due to Other Governments and Agencies

The State had borrowed $224,646,000 at June 30, 2012 from the federal government (Unemployment Insurance Trust Fund) to fund employment insurance benefits paid from the Employment Security Fund to eligible unemployed individuals. Interest accrued beginning January 1, 2011 and is payable on October 1 of each year.

The interest due on federal loans cannot be paid from employer taxes and federal revenue received by the State to pay unemployment benefits. In recent years, the General Assembly passed legislation increasing the Job Development Fund Assessment on employers by 0.3%, dedicating the additional assessment to pay the principal and interest on the federal loans. Other legislative changes, effective in fiscal year 2012 and 2013, included adjusting the unemployment insurance taxable wage base and reducing individual unemployment benefit amounts. Estimated savings from these changes are designed to reduce the amount owed to the federal government in future years.

The State projects that it will need to continue to borrow in fiscal year 2013 as authorized by Federal law in order to meet its cash flow needs to finance the cost of unemployment benefit payments.

K. Compensated Absences

State employees and those of certain component units are granted vacation and sick leave in varying amounts based upon years of service. Additionally, the State has deferred payment of certain compensation to employees. A liability has been calculated for all earned vacation credits subject to certain limitations and vested sick leave credits that are payable at retirement subject to certain limitations. Payment is calculated at their current rate of pay.

L. Arbitrage Rebate

A liability accrues for income on the investment of debt proceeds determined to be arbitrage earnings in accordance with federal regulations. These amounts are generally payable to the federal government five years after the issuance date of the bonds.

M. Due to the Primary Government

This consists of the repayment of general obligation debt that was issued by the State on behalf of certain component units.

N. Other Long-Term Liabilities

Governmental Activities - the liabilities consist primarily of:

- *Retainage related to infrastructure construction projects* - these amounts are considered long-term liabilities since the related construction projects are not expected to be completed in the subsequent fiscal period.
- *Tax refunds payable* – these amounts are tax carry-forward credits for taxpayers that are not expected to be paid in the subsequent fiscal period.

In addition, certain other long-term payables are included in this category. Historically, long-term liabilities, other than debt, will be paid through certain funds as follows:

- Compensated Absences – Assessed Fringe Benefits Fund, an internal service fund and the respective fund to which the underlying employee's wages and benefits are charged.
- Net OPEB Obligation – General Fund.
- Pollution remediation – General, RI Capital Plan, and Intermodal Surface Transportation Funds.
- Other long-term liabilities – General and Intermodal Surface Transportation Funds.

Component Units – the liabilities consist primarily of landfill closure and post-closure costs and grants refundable.

Note 7. Net Assets/Fund Balances

Governmental Activities

Restricted Net Assets

The Statement of Net Assets reflects $552,863,000 of restricted net assets, of which $232,636,000 is restricted by enabling legislation. The restricted net assets that are restricted by enabling legislation are included in the Temporary Disability Insurance Program and Other categories on the Statement of Net Assets. The principal components of the remaining balance of the restricted net assets relate to the Budget Reserve and Cash Stabilization Account and unexpended bond proceeds.

Governmental Funds – Fund Balances

Governmental fund balance categories are detailed below (expressed in thousands):

	Major Funds			
	General Fund	IST Fund	Other Funds	Total
Fund Balances:				
Nonspendable:				
Permanent Fund Principal	$	$	$ 174	$ 174
Restricted for:				
Budget Reserve and Cash Stabilization	153,408			153,408
Purposes specified by enabling legislation	78,940			78,940
Debt Service		13,722	71,077	84,799
Capital Projects			234,253	234,253
Temporary Disability Insurance			153,696	153,696
Historic Tax Credit Redemption			23,490	23,490
Transportation		97,815		97,815
Education			1,841	1,841
Other			381	381
Committed to:				
Appropriations Carried Forward by Statute:				
Judiciary	136			136
Legislature	6,337			6,337
Transportation		1,742		1,742
Employees' Retirement System Transfer	12,944			12,944
Other	3,376			3,376
Assigned to:				
Subsequent Years Expenditures	97,393			97,393
Other	246	117	201	564
Unassigned:	20,374	(4,717)		15,657
Totals	$ 373,154	$ 108,679	$ 485,113	$ 966,946

Article IX of the State Constitution requires the maintenance of a State Budget Reserve and Cash Stabilization Account ("Reserve") within the State's General Fund. Section 35-3 of the General Laws specifically establishes the annual minimum balance requirements for the account. For fiscal year 2012, 2.80% of total general revenues and opening surplus are transferred to the Reserve. Amounts in excess of 4.60% of total general revenues and opening surplus are transferred to the RI Capital Plan Fund to be used for capital projects. The Reserve, 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 year. Such appropriations must be approved by a majority of each chamber of the General Assembly.

The State has not adopted any minimum fund balance requirements for any funds beyond the State Budget Reserve and Cash Stabilization Account within the General Fund.

Pursuant to the General Laws upon issuance of the audited financial statements, the State Controller is required to transfer all general revenues received in the fiscal year (net of the transfer to the State Budget Reserve and Cash Stabilization Account) in excess of those estimates adopted for that fiscal year as contained in the final enacted budget, to the Employees' Retirement System. The amount of such transfer is $12,944,000 which is reflected in the committed category of fund balance in the table above. It is anticipated the transfer will be made in fiscal year 2013 upon issuance of the audited financial statements.

Note 8. Taxes

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

	Governmental Funds	Statement of Activities
General Fund		
Personal Income	$ 1,059,119	$ 1,060,605
General Business Taxes:		
Business Corporations	122,140	121,668
Public Utilities Gross Earnings	100,631	100,683
Financial Institutions	3,558	10,246
Insurance Companies	85,205	85,253
Bank Deposits	2,001	2,001
Health Care Provider Assessment	41,922	41,918
Sub-total - General Business Taxes	355,457	361,769
Sales and Use Taxes:		
Sales and Use	851,056	853,081
Motor Vehicle	48,392	48,392
Motor Fuel	733	745
Cigarettes	131,086	131,043
Alcoholic	11,874	11,874
Sub-total - Sales and Use Taxes	1,043,141	1,045,135
Other Taxes:		
Inheritance and Gift	46,412	46,657
Racing and Athletics	1,327	1,327
Realty Transfer	6,435	6,435
Sub-total - Other Taxes	54,174	54,419
Total - General Fund	2,511,891	2,521,928
Intermodal Surface Transportation Fund		
Gasoline	136,646	136,646
Other Governmental Funds	165,794	165,794
Total Taxes	$ 2,814,331	$ 2,824,368

Note 9. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2012 are presented below (expressed in thousands):

	Transfers	Description
Governmental Activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	$ 50,686	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,811	Administrative cost reimbursement
Historic Tax Credit	6,558	Reimbursement for tax credits claimed
Bond Capital	5,091	Interest earnings transfer
RI Capital Plan	3	Reimbursement for capital expenditures
Business-Type Activities		
Lottery	377,706	Net income transfer
Employment Security	97	Administrative cost reimbursement
Intermodal Surface Transportation		
Bond Capital	52,841	Infrastructure funding
Nonmajor Funds		
COPs		
General	2,186	Debt service
RI Capital Plan		
General	70,264	Transfer statutory excess in budget reserve
Bond Capital	12,554	Premium on new bonds
RI Public Rail Corporation		
Intermodal Surface Transportation	1,882	Operating assistance
Total Governmental Activities	581,679	
Business-Type Activities		
Convention Center		
General	23,140	Debt service
Employment Security		
General	8,237	Administrative cost reimbursement
Assessed Fringe Benefits	2,040	Reimbursement for State employees' unemployment compensation
Total operating transfers primary government	$ 615,096	

Note 10. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately $10,871,000 for the fiscal year ended June 30, 2012.

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, 2012:

Fiscal Year Ending June 30	
2013	$ 9,813
2014	9,307
2015	9,100
2016	6,999
2017	2,840
2018 - 2022	7,226
Total	$ 45,285

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

Note 11. Commitments

Primary Government

Commitments arising from encumbrances are listed below (expressed in thousands):

Major funds		
General	$	7,106
IST		463,271
Total major funds		470,377
Other governmental funds		2,744
Total encumbrances outstanding	$	473,121

The primary government is committed at June 30, 2012 under various contractual obligations for infrastructure construction and other capital projects, which will be principally financed with debt proceeds and federal grants. Encumbrances within the General Fund will be principally financed through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years. The primary government is also committed at June 30, 2012 under contractual obligations with various service providers, which will be funded through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years.

Performance-based Agreements

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, entered into several agreements with the developer of the Providence Place Mall. The agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements. 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 through fiscal year 2021 of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) $3,680,000 in the first five years and $3,560,000 in years 6 through 20. In the year ended June 30, 2012, $3,560,000 was paid to the developer.

The RIEDC has issued 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 paid $2,829,000 of the debt on the related economic development revenue bonds in fiscal year 2012. The State has commitments relating to this debt through fiscal year 2027.

Rhode Island Lottery – Master Contract Agreements

Gaming Systems Provider - GTECH

The Lottery in May 2003 entered into a 20-year master contract with its gaming systems provider, GTECH, granting it 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 it amends all previous agreements between the parties. As consideration for this exclusive right, the gaming systems provider paid the Lottery $12.5 million. In the event that the contract term is not fulfilled, the Lottery will be obligated to refund a pro-rata share of this amount to the gaming systems provider. Additionally, GTECH was obligated to invest $100 million in connection with the construction of a new corporate headquarters and expansion of its manufacturing operations in the State. The gaming system contractor is also required to employ no less than 1,000 full time active employees during the term of the agreement.

Video Lottery Facilities – UTGR, Inc.

During fiscal year 2006, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with UTGR, Inc., the owners of Twin River, to manage one of the State's licensed video lottery facilities. The contract entitles UTGR, Inc. to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. UTGR and the Lottery extended the contract and signed the first five-year extension term commencing on July 18, 2010. The second term would commence on July 18, 2015. Certain extensions are contingent on UTGR's compliance with full-time employment mandates.

The Master Contract has been amended in recent years to reflect the statutory authorization of the operation of a promotional points program at Twin River. In fiscal year 2012, Twin River was authorized and issued approximately $18.7 million in promotional points to facility patrons. Recently enacted legislation has authorized an additional expansion of Twin River's promotional play program effective July 1, 2012.

The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse UTGR for allowable marketing expenses at an amount not to exceed $6 million multiplied by the Lottery's percentage of net terminal income (61.16% for fiscal year 2012). The reimbursement of marketing expenses by the Lottery occurs only after UTGR has incurred $4 million in qualified marketing expenses (with marketing expenses defined by the Lottery).

Video Lottery Facilities – Newport Grand

On November 23, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand to continue to manage one of the State's licensed video lottery facilities.

Newport Grand and the Lottery extended the contract and signed the first five-year extension term of the contract commencing on November 23, 2010. The second term, which would commence on November 23, 2015, is contingent on Newport Grand's compliance with full-time employment mandates specified in the 2010 law. The contract, as amended, entitles Newport Grand to compensation equal in percentage of net terminal income to that of Twin River.

The Master Contract has been amended in recent years to reflect the statutory authorization of the operation of a promotional points program at Newport Grand. In fiscal year 2012, Newport Grand was authorized and issued approximately $2.9 million in promotional points to facility patrons. Recently enacted legislation has authorized an additional expansion of Newport Grand's promotional play program effective July 1, 2012.

The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse Newport Grand for allowable marketing expenses at an amount not to exceed $840,000 multiplied by the Lottery's percentage of net terminal income (61.76% for fiscal year 2012). The reimbursement of marketing expenses by the State occurs only after Newport Grand has incurred $560,000 in qualified marketing expenses (with marketing expenses to be defined by the Lottery).

R. I. Public Rail Corporation

The R. I. Public Rail Corporation (RIPRC), a blended component unit, has obtained a letter of credit in the amount of $7,500,000 in favor of AMTRAK to secure the RIPRC's performance of its obligations arising under any South County Rail Service agreements. RIPRC has been designated as the entity responsible for securing and maintaining liability insurance coverage to provide funds to pay all or a portion of the liabilities of the State and AMTRAK for property damage, personal injury, bodily injury or death arising out of the South County Commuter Rail Service with policy limits of $200 million subject to a self-insured retention of $7.5 million.

Discretely Presented Component Units

R.I. Airport Corporation

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 $3,485,000, which are expected to be funded from current available resources and future operations. As of June 30, 2012, RIAC was also obligated for the completion of certain projects related to the InterLink facility of approximately $7,270,000.

R.I. Resource Recovery Corporation

Landfill closure and post-closure:

The EPA established closure and post-closure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. The landfill operated by the Corporation has been segregated into five distinct phases. Phases I, II and III were closed by the Corporation in prior years. While Phase IV reached capacity during fiscal year 2012, portions of Phase IV have been capped, with final capping expected during fiscal year 2013. In 2005, the Corporation began landfilling in Phase V. As of June 30, 2012 the Corporation has not begun landfilling in phase VI.

A liability for closure and post-closure care of $50,460,559 as of June 30, 2012 has been recorded in the accompanying statement of net assets, as summarized by Phases below:

	Year ended June 30, 2012
Phase I	$ 8,158,778
Phase II and III	4,790,035
Phase IV	9,759,537
Phase V	27,752,209
	$ 50,460,559

The Corporation has received site approval for Phase VI from the State Planning Council and has been licensed by RIDEM.

As of June 30, 2012, the remaining total estimated current cost to be recognized in the future as landfill closure and post-closure care expense, the estimated percent of landfill capacity used and the estimated remaining years for accepting waste are as follows:

	Estimated remaining costs to be recognized	Estimated capacity used	Estimated remaining years for accepting waste
Phase V	$ 9,754,258	74.0%	3 years

As of June 30, 2012 the Corporation revised its estimate for future pollution remediation and landfill closure and post-closure care costs. The revised estimate resulted in a $12,471,204 reduction of the corresponding liability from $88,433,606 at June 30, 2011 to $75,962,402 at June 30, 2012. This reduction was primarily attributable to the transfer of responsibility for gas collection system costs from the Corporation to a private third party.

Amounts provided for closure and post-closure care are based on current costs. These costs may be adjusted each year due to changes in the closure and post-closure 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 held in trust in the accompanying statements of net assets as of June 30, 2012 is $41,376,909 placed in trust to meet the financial requirements of closure and post-closure care related to Phases II, III, IV and V. The Corporation plans to make additional trust fund contributions each year to enable it to satisfy these and future costs.

Pollution remediation obligations:

Amounts provided for pollution remediation obligations are based on current costs. These costs may be adjusted each year due to changes in the remediation 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.

The pollution remediation obligation for the year ended June 30, 2012 is as follows:

Balance, June 30, 2011	Additions	Reductions	Balance, June 30, 2012	Current Portion
$ 31,222,407	$ 0	$ (5,720,564)	$ 25,501,843	$ 1,245,398

Superfund site:

In prior years, the EPA issued administrative orders requiring the Corporation to conduct environmental studies of the Central Landfill and undertake various plans of action. Additionally, in 1986, the Central Landfill was named to the EPA's Superfund National Priorities List.

During 1996, the Corporation entered into a Consent Decree with the EPA concerning remedial actions taken by the Corporation for groundwater contamination. The Consent Decree, which was approved by the U.S. District Court on October 2, 1996, required the establishment of a trust fund in the amount of $27,000,000 for remedial purposes. The balance of the trust fund totaled $42,230,754 as of June 30, 2012 and has been included in restricted assets held in trust in the accompanying statement of net assets.

In 2004, the Corporation began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. The Corporation has recorded a liability for future remediation costs of approximately $25,327,000 as of June 30, 2012.

Other pollution remediation obligations:

The Corporation is the owner of several properties adjacent to its landfill operations. The Corporation is obligated to remediate one of these parcels. The Corporation has recorded a liability for future remediation costs of approximately $175,000 as of June 30, 2012.

Environmental concerns:

In August 1996, the Corporation entered into a Consent Agreement (the Agreement) with RIDEM concerning action to be taken by the Corporation regarding the restoration of certain wetlands. Projects included the relocation of Cedar Swamp Brook, creation of a three acre wetland, and the implementation of a soil and erosion plan. The Agreement also called for the establishment of an escrow account for wetlands replacement. Annual deposits of $100,000 were made by the Corporation during fiscal years 1997 through 2002, as required by RIDEM. During 2004, RIDEM released from the escrow approximately $543,000 to the Corporation. As of June 30, 2012 the escrow account totaled approximately $156,000.

The Corporation submitted a comprehensive plan to RIDEM which was approved by RIDEM in April 1998. The Corporation had until 2001 to complete the restoration. Phase I of the Cedar Swamp Brook relocation was substantially completed by November 1998. The wetlands restoration work was completed in the spring of 1999 and is awaiting RIDEM approval.

R.I. Public Transit Authority

The R.I. Public Transit Authority is committed under construction contracts in the amount of $33,964,170 at June 30, 2012.

R.I. Industrial-Recreational Building Authority

At June 30, 2012, the Authority had insured contractual principal and interest payments required under first mortgages and first security agreements principally for land and buildings of manufacturing and distribution entities located throughout Rhode Island. Principal balances outstanding under first mortgages and first security agreements insured by the Authority at June 30, 2012 are $19,467,587.

The Authority insured a bond issued by Rhode Island Industrial Facilities Corporation (RIIFC) on behalf of a private sector entity. During the year ended June 30, 2012 the private sector entity was in default on its payments to the bond holder and the Authority has assumed responsibility for making the debt payments. These payments will be made by first exhausting insurance funds held by the Authority. The Authority must then request appropriations from the Rhode Island General Assembly for any loss in excess of the insured amount. The Authority has determined that it is likely that it will incur a loss under the insured commitment. Although the Authority is unable to estimate the exact amount of the loss, the Authority has accrued an insured commitment payable of $1,962,682 equal to the minimum estimated loss at June 30, 2012. The current portion of the insured commitments payable was calculated by estimating the monthly payments due within one year on this bond.

Other Component Units

Other component units have various commitments arising from the normal course of their operations. These commitments are not significant, overall, to the State's financial statements.

Note 12. Contingencies

Primary Government

The State, its officers and employees are defendants in numerous lawsuits. For those cases in which it is probable that a loss has or will occur and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid, the State has recognized a liability within its financial statements. Specific litigation matters are discussed below.

Challenges to the 2009 and 2010 Pension Reform - A number of unions representing state employees and teachers filed a lawsuit in State court in May 2010 initially challenging and attempting to block the 2009 pension reforms enacted by the General Assembly and later amended the suit to include 2010 reforms. The 2005 reforms were not challenged. The State intends to vigorously contest the lawsuit. The defendant State officials filed a Motion for Summary Judgment on the claims set forth in the Amended Complaint, which was heard on July 18, 2011. Prior to the hearing, the parties stipulated that the only issue that would be presented to the Court during the hearing on the Motion would concern whether the statute created a contract between the state and its participants. The parties agreed that in the event that the Court concluded that the statute did create a contract, the remaining issues of whether the contract had been impaired and whether any such impairment was legally justified would be briefed and argued at a later date. On September 13, 2011, the Superior Court issued its decision in which it ruled that pension plan participants have a contractual right based on an implied-in-fact contract theory. Consistent with the parties' stipulation, the Court did not decide whether that contract had been impaired or whether any such impairment was legally justified. The defendant State officials believe the Superior Court's ruling was legally wrong. On October 3, 2011, Defendants filed a Petition for Issuance of a Writ of Certiorari and Supporting Memorandum of Law with the Rhode Island Supreme Court. Defendants also filed a motion through which they requested that the Supreme Court expedite its review of the Petition for Issuance of a Writ of Certiorari. On November 22, 2011, the Supreme Court denied the petition for Writ of Certiorari. The litigation is proceeding through discovery at this time.

Challenges to the 2011 Pension Reform - In June 2012, certain retiree groups and unions representing state and municipal employees who maintain they are current beneficiaries of ERSRI commenced five separate lawsuits in State court challenging the Rhode Island Retirement Security Act of 2011 ("RIRSA") enacted by the General Assembly. In each of the five cases, the plaintiffs alleged that RIRSA violates the Contract Clause, the Takings Clause and the Due Process Clause of the Rhode Island Constitution. In addition, in the Rhode Island Public Employees' Retirement Coalition v. Chafee, C.A. No. 12-3166 case, the plaintiffs also allege counts for promissory estoppel and breach of contract. The State intends to vigorously contest the lawsuit.

On August 17, 2012, the defendants filed a motion to dismiss the Rhode Island Public Employees' Retirement Coalition v. Chafee, C.A. No. 12-3166 case on the ground that Rhode Island's pension legislation does not create a contract with ERSRI participants and that general contract principles, such as implied contracts, cannot be used to determine whether a state statute creates a contract. In the remaining four cases, the defendants filed motions for more definite statements in which they argued that it is not clear from the plaintiffs' pleadings what purported contract or contract(s) plaintiffs allege have been impaired. The defendants also moved in the alternative and asked the Court to dismiss the remaining four cases if the Court concluded that the plaintiffs' purported contracts derive from Rhode Island's pension legislation.

On December 18, 2012, the Superior Court judge presiding over the cases involving challenges to enacted pension reforms ordered the parties to participate in mediation in an attempt to reach a settlement before the case moves to trial.

An adverse judgment to the State rendered in the pension litigation could significantly increase both the unfunded liability under the plans within the ERSRI and the State's actuarially determined annual required contribution.

Other

Separate claims have been made against the Rhode Island Department of Education (RIDE) by the Cranston School Department and the Chariho Regional School Committee alleging that they are owed reimbursement for certain expenses incurred by them in the operation of their respective area vocational-technical career centers. None of the other six school districts that operate regional vocational technical centers in the State have raised similar claims to date. The claims were assigned to a hearing officer at the Department of Education. On August 26, 2009, counsel for the Department filed a preliminary motion to dismiss on several legal grounds. That motion was granted and both claims were dismissed by the Commissioner on January 21, 2010. Both parties appealed to the Board of Regents. The Board of Regents affirmed the dismissal. An Administrative Procedures Act appeal and a Petition for Writ of Mandamus in the Superior Court have been filed on the basis of these claims. The mandamus action was dismissed on the motion of RIDE's counsel, whereupon an appeal was filed by Petition for Writ of Certiorari to the Supreme Court. Said petition was granted and the matter is pending before the Supreme Court. Accordingly, both court actions are proceeding with the mediation process continuing for the Supreme Court action. The aggregate sums demanded by the school districts approximate $22 million; however, tentative mediated settlements (for significantly lesser amounts) are pending between the RIDE and both school departments and, if finalized, will result in the dismissal of both the Superior Court and Supreme Court cases. However, settlement amounts require appropriation by the General Assembly in order to be finalized.

With respect to other 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.

The Securities and Exchange Commission has opened a non-public formal investigation into the disclosures by the State regarding ERSRI. The State is fully cooperating with the investigation.

Tobacco Settlement Financing Corporation

According to the Master Settlement Agreement ("MSA"), for any year in which the Participating Manufacturers ("PMs") suffer a loss of market share of more than two percent as compared to their collective market share in 1997, there is the potential of a Non-Participating Manufacturer Adjustment ("NPM Adjustment"), which would permit the tobacco manufacturers to reduce their MSA payments for that year. Whether such an adjustment is applicable depends on whether: (1) an economic firm jointly selected by the Settling States and the PMs determines that the disadvantages experienced by the PMs as a result of the provisions of the MSA were a "significant factor" contributing to the market share loss ("Significant factor proceeding"); and (2) the State is found to not have diligently enforced its escrow statute. For calendar years 2003, 2004, 2005 and 2006, there have been four Significant Factor Proceedings in which the firm found in favor of the PMs. There will not be a Significant Factor Proceedings for calendar years 2007, 2008, 2009, 2010, 2011 and 2012.

From April 2005 through April 2012, many of the tobacco manufacturers participating in the MSA either withheld all or portions of their payments due or remitted their payments to an escrow account, disputing the calculations of amounts due under the agreement. These manufacturers assert that the calculations of the amounts due failed to apply the NPM Adjustment. The Corporation's share of these disputed payments is approximately $27.4 million.

Currently, the Settling States and the PMs are engaged in arbitration proceedings in connection with the issue of Diligent Enforcement for the calendar year 2003. However, Rhode Island's Diligent Enforcement is no longer being challenged for 2003. Future NPM Adjustments could be as large as or exceed the reported potential $1.2 billion calendar year 2003 NPM adjustment. The resolution of the substance of such disputes could take years. Moreover, there is no assurance that these funds will be collected by the Corporation in the future. Due to these uncertainties regarding the ultimate realization of the remaining amount of these disputed payments, they have not been recognized as revenue in the accompanying financial statements. The Corporation and the other affected parties are taking actions prescribed in the MSA to arrive at a resolution of these matters.

In addition to NPM Adjustment arbitration, litigation has been filed alleging, among other claims, that the MSA violates provisions of the U.S. Constitution, state constitutions, federal antitrust and civil rights laws, and state consumer protection laws. These actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek to prevent the states from collecting any monies under the MSA, and/or a determination that prevents the tobacco manufacturers from collecting MSA payments through price increases to cigarette consumers. 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.

Lottery

The Lottery's master contracts with its video lottery facility operators contain revenue protection provisions in the event that existing video lottery facility operators incur revenue losses caused by new gaming ventures within the State.

The Lottery's video lottery operations could be adversely impacted by enacted legislation in Massachusetts allowing three casinos and one slot parlor in that State. Massachusetts has developed a two-phase application process for potential operators and developers. The Massachusetts Gaming Commission could award casino licenses during fiscal 2014 based on their current timeline. Depending on the resulting location of the facilities within Massachusetts, video lottery revenues in Rhode Island could decrease.

In response to the above, the Rhode Island General Assembly enacted legislation that called for a statewide referendum in November 2012 to allow casino-style gaming at Twin River and Newport Grand. For casino-style gaming to be allowed at Twin River and Newport Grand, the referenda had to pass both statewide and locally in the communities that currently host Twin River (Town of Lincoln) and/or Newport Grand (City of Newport). While the referendum passed statewide for both facilities and in the Town of Lincoln for Twin River, the referendum to allow table gaming in the City of Newport did not pass in Newport. Thus, table games will be allowed at Twin River but not at Newport Grand. As required, by March 31, 2013 the Lottery will promulgate rules and regulations related to state-operated table gaming at Twin River. It is anticipated that the table gaming will commence at Twin River on or about July 1, 2013.

While the Narragansett Indian Tribe filed a complaint against the State of Rhode Island in the Superior Court on or about September 28, 2011, inter alia, challenging the constitutionality of the casino gaming act on the grounds that it would not be "state-operated" and the act "delegates unconstitutional authority to a private corporation", on or about June 29, 2012, the Superior Court found that the Narragansett Indian Tribe had not sustained their burden of proof that the act violates the State or United States constitution. The Narragansett Indian Tribe filed a notice of appeal of that decision. The State also filed an appeal on the issue of the Narragansett Indian Tribe's standing in the litigation. The prebriefs are due in that matter on December 21, 2012. The remaining issues in the case which are still pending in the Superior Court relate to whether the state "operates" Twin River and Newport Grand.

Federal Grants

The State receives significant amounts of federal financial assistance under grant agreements which specify the purpose of the grant and conditions under which the funds may be used. Generally, these grants are subject to audit.

The Single Audit for the State of Rhode Island for the fiscal year ended June 30, 2011 was issued in March 2012. That report identified approximately $13.7 million in questioned costs relating to the primary government. In addition, a number of findings had potentially significant but unknown or unquantifiable questioned costs. The ultimate disposition of these findings rests with the federal grantor agencies, and, in most cases, resolution is still in progress. Adjustments are made to the financial statements when costs have been specifically disallowed by the federal government or sanctions have been imposed upon the State and the issue is not being appealed or the right of appeal has been exhausted. The fiscal 2012 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit. The State's management believes that any disallowances of federal funding received by the State will not have a material impact on the State's financial statements.

Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Monies in a 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, 2012, the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had $227,135,801 and $110,169,052, respectively, in "moral obligation" bonds outstanding.

The Job Creation Guaranty Program (JCGP) created by the General Assembly in 2010, authorizes the RIEDC to provide credit enhancements up to $125 million on bonds or loans privately placed with capital providers and banks. In November 2010, RIEDC issued $75 million of taxable revenue bonds to provide a loan in the amount of $75 million to 38 Studios LLC (38 Studios) under the Job Creation Guarantee Program (JCGP). The State used its "moral obligation" authority to guarantee debt service payments to the bondholders. The original loan proceeds were segregated as follows:

Capital Reserve Account held by trustee	$ 12,750,000
Capitalized Interest Account held by trustee	10,600,000
Amount available for the 38 Studios Project and bond issuance costs	51,650,000
Total	$ 75,000,000

On June 7, 2012, 38 Studios filed for bankruptcy under Chapter 7 in Delaware listing $151 million in liabilities and $21.7 million in assets. On August 8, 2012 a federal judge allowed the assets to be liquidated through the state court in Rhode Island.

As of June 30, 2012, all project funds have been completely expended. Amounts available at June 30, 2012 in the Capitalized Interest Account totaling approximately $2.65 million have been expended for debt service due November 1, 2012. Amounts available in the Capital Reserve Account totaling approximately $12.75 million are expected to be used to pay debt service due in May and November 2013.

In accordance with the enabling legislation and an agreement between the RIEDC, the trustee, and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, the RIEDC had agreed to present the Governor with a certificate stating the amounts required to restore any shortfall and the Governor is required to include such amounts in a budget request for appropriation to the General Assembly. RIEDC presented a certificate to the Governor dated October 23, 2012 requesting $12,750,000 to restore the Capital Reserve Fund to the minimum requirement for fiscal 2014. The General Assembly may, but is not required to, appropriate such amounts.

It is estimated that the total debt service on the bonds after exhausting any existing reserves with the trustee approximates $89 million. The maturity dates on the bonds range from 2015 to 2020 with required sinking fund payments commencing in November 2013. Maximum annual debt service is approximately $12,750,000.

In November 2012, RIEDC sued various individuals and entities involved with the loan to 38 Studios including principals of 38 Studios, former employees of RIEDC and various advisors to RIEDC alleging fraud, negligence, breach of fiduciary duty and other charges. The suit seeks recovery of compensatory and punitive damages associated with the various counts identified in the lawsuit.

No loss contingency has been accrued by the RIEDC or the State at June 30, 2012 for any amounts potentially required to pay the debt service on the bonds issued by the RIEDC pursuant to the JCGP. Amounts to be recovered from the sale of remaining assets of 38 Studios (e.g., intellectual property) or from the lawsuit previously described which may be used to pay the debt service on the bonds cannot be reasonably estimated. The General Assembly will consider the request to fund the anticipated shortfall in the minimum Capital Reserve Fund requirement as part of its consideration of the Governor's Fiscal 2014 budget submission.

Component Units

R.I. Higher Education Assistance Authority (RIHEAA) and R.I. Student Loan Authority (RISLA)

On March 30, 2010, the President of the United States signed into law the Health Care and Education Reconciliation Act of 2010 (the Act), which included the Student Aid and Fiscal Responsibility Act (SAFRA). The Act made sweeping changes in student financial assistance programs, including a provision which eliminated loan originations under the Federal Family Education Loan (FFEL) Program effective July 1, 2010. As a result, new guaranteed student loans now originate under the Federal Direct Loan Program. RIHEAA's role as a guaranty agency in the FFEL Program constituted its single largest activity, and approximately 80% of the Authority's employees are allocated to the guaranty agency functions. The elimination of new loan originations has had a significant impact on the Authority's ongoing operations.

RIHEAA management and its Board continue to evaluate the impact of the Act and the options for future operations. The Authority will continue to provide services for loans currently in its portfolio, including claims payments and reinsurance transactions, default prevention and aversion activities, and collections of defaulted student loans. RIHEAA will also continue to promote awareness of and access to post-secondary education opportunities and programs. It is difficult, however, to predict the time period over which such services would be required, to what extent they would constitute a substantive activity, and for how long they might be financially viable. RIHEAA currently anticipates that the time period would be in the range of three to five years.

In June 2012, the Rhode Island General Assembly passed and the Governor signed into law added language to RIHEAA's enabling legislation, titled – Reserve Funds: "To assure continued solvency of the authority, the authority's operating fund shall be used solely for the ordinary operating expenses of the authority. Furthermore, it is the intent of the general assembly that these funds eventually be used to increase financial assistance to Rhode Island students in the form of scholarships and grants." The RIHEAA Board has had discussions about the new legislative language and is in the process of developing proposals and programs that are consistent with the legislature's intent.

In fiscal year 2012, the Rhode Island Student Loan Authority (RISLA) entered into a line-of-credit agreement with RIHEAA to purchase FFELP loans that are over 240 days delinquent from the Asset-Backed Commercial Paper Conduit program that was established by the DOE with funds advanced from RIHEAA. All claim and borrower payments of principal and interest received by RISLA are remitted to RIHEAA to reduce the outstanding balance of the line-of-credit. The maximum amount of the line-of credit is $6.5 million. The outstanding balance at June 30, 2012 was $5,782,532.

R.I. Housing and Mortgage Finance Corporation

As of June 30, 2012, the Corporation may borrow up to a maximum of $40,000,000 under one revolving loan agreement expiring in November 2013, up to a maximum of $15,000,000 under a revolving loan agreement expiring in January 2013 and up to a maximum of $20,000,000 under a revolving loan agreement expiring in May 2013.

The Corporation is a party to financial instruments with off-balance sheet risk in connection with its commitments to provide financing. Such commitments expose the Corporation to credit risk in excess of the amounts recognized in the accompanying balance sheets. The Corporation's exposure to credit loss in the event of nonperformance by the borrowers is represented by the contractual amount of such instruments. Total credit exposure as a result of loan commitments at June 30, 2012 is $40,483,841.

Rhode Island Public Transit Authority

The Authority currently has a projected $7.8 million operating deficit based on the Board of Director's approved budget for Fiscal Year 2013 and current management projections. The Authority is funded primarily by state gasoline tax revenue and to a lesser degree, certain federal funds. Total gasoline tax revenue, and the Authority's share of such revenue is expected to decrease from the previous fiscal year. Other Authority operating costs have increased, notably; fuel and the employee wage and benefit costs. Management is developing contingency plans to address the continued availability of transportation services to the public. These plans include a review of all estimated expenditure activity to determine only those expenditures that are of a critical nature as well as proposals to freeze other non-critical expenditure requests. In addition, management plans to propose and request additional funding sources from the State of Rhode Island which would require appropriation from the General Assembly. It should be noted that some of the contingency plans require action by external parties that may or may not occur. Absent an alternate source of funding, including funding sources requested from the State of Rhode Island or as a result of any savings achieved pursuant to the implementation of the contingency plans above, it is questionable whether the Authority will have sufficient funds for operations beyond the fourth quarter of Fiscal Year 2013.

Other Component Units

Other component units have various contingent liabilities that have arisen in the normal course of their operations. These contingencies are not significant to the State's financial statements.

Note 13. Employer Pension Plans

Plan Descriptions

The State, through the Employees' Retirement System (ERS), administers four defined benefit pension plans. Three of these plans - the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan, and the Judicial Retirement Benefits Trust (JRBT) and the State Police Retirement Benefits Trust (SPRBT), which are single-employer defined benefit pension plans, cover most State employees. The State does not contribute to the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The ERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to State employees and teachers, which is subject to amendment by the general assembly, is established by Chapter 36-10 of the General Laws. The ERS 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, 50 Service Ave., Warwick, RI 02886.

Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the ERS are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the wages, subject to required contributions, are earned for the performance of duties for covered employment. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Dividend income is recorded on the ex-dividend date. Investment transactions are recorded on a trade date basis. The gains or losses on foreign currency exchange contracts are included in income consistent with changes in the underlying exchange rates.

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.

Short-term investments are generally carried at cost, which approximates fair value.

The fair value of fixed income securities and domestic and international equity securities is generally based on published market prices and quotations from national security exchanges and securities pricing services.

Commingled funds consist of institutional domestic equity index, international equity index, and real estate funds. The fair value of the commingled funds is based on the reported net asset value (NAV) of the respective fund based upon the fair value of the underlying securities or assets held in the commingled fund.

Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded.

The ERS also trades in foreign exchange contracts to manage exposure to foreign currency risks. Such contracts are used to purchase and sell foreign currency at a guaranteed future price. The change in the estimated fair value of these contracts, which reflects current foreign exchange rates, is included in the determination of the fair value of the ERS investments.

Other investments that are not traded on a national security exchange (primarily private equity and real estate investments) are generally valued based on audited December 31 net asset values adjusted for (1) cash flows for the period January 1 to June 30 (which principally include additional investments and partnership distributions), and (2) significant changes in fair value as determined or estimated by the general partners as of June 30. The general partners estimate the fair value of the underlying investments held by the partnership periodically. Publicly traded investments held by the partnerships are valued based on quoted market prices. If not publicly traded, the fair value is determined by the general partner. Financial Accounting Standards Board, ASC Topic 820, *Fair Value Measurements and Disclosures,* requires private equity and real estate limited partnership general partners to value non-publicly traded assets at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information. ERS management considers the fair values reported by the general partners at June 30 in addition to the audited net asset values at December 31 adjusted for cash flows for the period January 1 to June 30 in determining the fair value of private equity and real estate investments on the financial statements of ERS.

Private equity and real estate investments represented 8.5% and 3.7%, respectively, of the total reported fair value of all ERS investments at June 30, 2012. Of the underlying holdings within private equity investments, approximately 15% were valued based on quoted market prices. The remaining underlying assets were valued generally following the objectives outlined above. Because these fair values were not determined based on quoted market prices, the fair values may differ from the values that would have been determined had a ready market for these investments existed.

Hedge funds are valued based on information provided by the fund manager and as verified by their respective third party administrator. Of the underlying holdings within the hedge funds approximately 63% were valued based on Tier 1 inputs (unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted investments) and 31% as Tier 2 inputs (other significant inputs, either directly or indirectly, at the measurement date such as a) quoted prices for similar assets or liabilities in active markets; b) quoted prices for identical or similar assets and liabilities in markets that are not active; c) observable inputs, other than quoted prices, for assets and liabilities; or d) inputs that are derived from or corroborated by observable market data by correlation or other means. The remaining underlying holdings within the hedge funds approximating 6% were valued based on Tier 3 inputs (unobservable inputs which are developed based on the best information available in the circumstances which might include the fund's own data).

Investment management expenses are presented separately as a component of net investment income and include investment consultants, custodial fees and direct investment expenses allocated by managers. In some instances (hedge funds, private equity and real estate investments), investment related costs are not readily separable from investment income and consequently investment income is recorded net of related expenses.

Funding Policy and Annual Pension Cost

The actuarial assumptions and methods employed in the valuation of the plans performed as of June 30, 2009 (used to determine contribution rates for fiscal 2012) differ from those employed in the June 30, 2011 valuation (the most recent valuation performed of the plans). The notes to the required supplementary information describe changes to actuarial methods and assumptions. A summary of the State's annual pension cost (expressed in thousands) for the fiscal year ended June 30, 2012 and the actuarial assumptions used in the June 30, 2009 valuations of the plans is provided in the table below:

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rates:			
State	22.98%	25.39%	18.69%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	8.64% and 9.09%		
Annual pension cost	$233,834	$5,333	$1,718
Contributions made - state employees	$153,448	$5,333	$1,718
Contributions made - teachers	$80,386		
Actuarial valuation date	June 30, 2009	June 30, 2009	June 30, 2009
Actuarial cost method	Entry Age Normal-Ultimate Normal Cost Method	Entry Age Normal-Ultimate Normal Cost Method	Entry Age Normal-Ultimate Normal Cost Method
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed
Equivalent Single Remaining Amortization Period	20 years	20 years	20 years
Asset valuation method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions:			
Investment rate of return	8.25%	8.25%	8.25%
Projected salary increases	4.50% to 9.00%	4.50% to 12.50%	4.50%
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	Schedule A Members eligible at 9/30/09 - 3.0% compounded Members not eligible at 9/30/09 - 2.5% compounded Schedule B members 2.5% compounded	$1,500 per annum	3.0%
Level of benefits established by:			
General Law(s)	36-8 to 10 16-15 to 17	42-28-22.1	8-3-16, 8-8-10.1, 8-8.2-7 and 28-30-18.1

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation
Employees' Retirement System	6/30/10	192,091	100%	0
	6/30/11	196,847	100%	0
	6/30/12	233,834	100%	0
State Police Retirement Benefits Trust	6/30/10	3,591	100%	0
	6/30/11	3,787	100%	0
	6/30/12	5,333	100%	0
Judicial Retirement Benefits Trust	6/30/10	1,181	100%	0
	6/30/11	1,298	100%	0
	6/30/12	1,718	100%	0

Funded Status and Funding Progress

The table below displays the funded status of each plan for the fiscal year ended June 30, 2011, the most recent actuarial valuation date:

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
ERS						
State Employees	$ 2,443,690,798	$ 4,255,362,463	$ 1,811,671,665	57.40%	$ 633,146,197	286.10%
Teachers	3,776,407,834	6,325,941,951	2,549,534,117	59.70%	1,002,656,294	254.30%
SPRBT	73,151,768	74,185,705	1,033,937	98.60%	19,711,694	5.20%
JRBT	40,105,919	46,594,407	6,488,488	86.10%	8,474,716	76.60%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liabilities (AAL) for benefits.

Additional information as of the June 30, 2011 actuarial valuation follows:

	ERS			
	State Employees	Teachers	SPRBT	JRBT
Valuation Date	6/30/2011	6/30/2011	6/30/2011	6/30/2011
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Payroll-Closed	Level Percent of Payroll-Closed	Level Percent of Payroll-Closed	Level Percent of Payroll-Closed
Equivalent Single Remaining Amortization Period	24 years	24 years	24 years	24 years
Asset Valuation Method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions Investment Rate of Return	7.50%	7.50%	7.50%	7.50%
Projected Salary Increases	4.00% to 7.00%	4.00% to 12.75%	4.00% to 12.00%	4.00%
Inflation	2.75%	2.75%	2.75%	2.75%
Cost of Living Adjustments	COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to be applied to the first $25,000 of benefits, indexed over time (see note 2 below). COLA is delayed until the later of Social Security eligibility age or 3 years after retirement except for State Police for which the COLA is delayed until the later of age 55 or 3 years after retirement.			

Note 1. Within the Entry Age Normal Actuarial Cost Method, the Individual Entry Age Cost Methodology is used.

Note 2. Cost of Living Adjustments (COLA) in member benefit provisions prior to the enactment of pension reform legislation on November 18, 2011 will remain in effect through June 30, 2012.

A COLA of 2% is assumed only every five years until the plans achieve an 80% collective funded status in accordance with the law. It is assumed that the plans will not achieve the targeted 80% funded status for 19 years.

Pension Reform – Provisions effective July 1, 2012

In November 2011, the Rhode Island General Assembly enacted comprehensive pension reform legislation titled the Rhode Island Retirement Security Act of 2011 (RIRSA). The enacted reforms are effective beginning July 1, 2012. The objectives of the legislation include improving the funded status of the plans within the System and stabilizing the projected increase in required employer contributions.

The pension reform measures include:

- For General State and Municipal Employees and Teachers: changing the structure of the retirement program to a hybrid plan designed with a smaller defined benefit plan and a supplemental defined contribution plan.

- Changing the automatic cost of living adjustments (COLA) from a stated amount or CPI-based COLA to a formula contingent on the actual investment performance over time.

- Suspending COLA when the funded ratio is lower than 80%. The ERS, Judicial and State Police Plans will be aggregated to determine if the 80% funded ratio has been met. When the COLA is suspended based on funded status, potential periodic COLA are provided every five years.

- Reamortizing the unfunded actuarial accrued liability to 25 years from the previous 19 year schedule.

- Preserving accumulated benefits earned by members (service credit multiplier) as of June 30, 2012.

- Aligning retirement eligibility ages to those for Social Security with a phased approach for those members who are vested (five years) as of June 30, 2012.

Other

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan. Eligible employees who have reached the age of 30, and who have two (2) years of service are required to participate in either the Teachers Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. Eligible employees must contribute at least 5% of their gross biweekly earnings. The University and Colleges contribute 9% of the employees' gross biweekly earnings. Total expenses by the institutions for such annuity contracts amounted to approximately $16,040,000 during the year ended June 30, 2012.

The Rhode Island Public Transit Authority has a defined benefit pension plan for all employees, for which eligibility to participate begins immediately upon employment. Benefits vest upon completion of ten years of service. Authority employees are eligible to retire upon attainment of age 62 and 10 years of continuous service. Retired employees are entitled to a monthly benefit for life as stipulated in the plan provisions. The plan also provides death and disability benefits. Employees are required to contribute 3% of their base salary to the plan. The remaining contributions to the plan are made by the Authority. Employer contributions paid in fiscal year 2012 totaled $7,670,118. At January 1, 2012, the most recent valuation date, the total actuarial accrued liability was $109,160,786 and the actuarial value of assets was $72,301,088. The Authority contributed 100.00% of its annual pension cost for fiscal year 2012 and had a net pension obligation of $1,741,566 at June 30, 2012.

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

Note 14. Other Post-Employment Benefits

A. Plan Descriptions

The Rhode Island State Employees' and Electing Teachers OPEB System (the "System") acts as a common investment and administrative agent for other post employment benefits provided for the six groups/plans listed below:

- Certain state employees and employees of the following component units: Narragansett Bay Commission, RI Airport Corporation and RI Economic Development Corporation.
- Certain certified public school teachers
- Judges
- State police officers
- Legislators
- Certain employees of the Board of Governors for Higher Education (BOG)

Members of the System must meet the eligibility and services requirements set forth in the RI General Laws or other governing documents.

Although the assets of the six plans are commingled for investment purposes, each plan's assets are accounted for separately and may be used only for the payment of benefits to the members of that plan, in accordance with the terms of that plan.

The System's financial statements are included as Trust Funds within the Fiduciary Funds. The System is administered by the State of Rhode Island OPEB Board and was authorized, created and established under Chapter 36-12.1 of the RI General Laws. The Board was established under Chapter 36-12.1 as an independent board to hold and administer, in trust, the funds of the OPEB system. The Board began operations and the Trust was established effective July 1, 2010.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans and a description of the benefit structures. The report may be obtained by writing to the State Controller's Office, 1 Capitol Hill, Providence, RI 02903.

A summary of the principal provisions of the plans follow:

	State Employees and Teachers	Judicial	State Police	Legislators	BOG Plan
Plan type	Cost Sharing Multiple Employer	Single employer	Single employer	Single employer	Cost Sharing Multiple Employer
Eligibility	Members of ERS meeting eligibility criteria.	Retired judges.	Retired members of the State Police.	Retired legislators.	Members of the BOG Alternative Retirement Plan as defined in RI G.L. 16-17.1-1 and 2 meeting eligibility criteria.
Plan benefits	Retiree plan for members and dependents until Medicare eligible; subsequently eligible for Medicare supplement.	May purchase active employee plan for member and dependents until age 65. At 65 must enroll in Medicare supplement.	Active employee plan for member and dependents until age 65; at that age coverage ceases if Medicare eligible.	May purchase active employee plan for member and dependents until age 65. At 65 must enroll in Medicare supplement.	For employees retiring after June 21, 1998 the Board pays a portion of the post 65 Tier II benefits depending on the years of service and the retiree's age. Those employees who retired previously have different benefits which are discussed below.
Other	Retired teachers can purchase coverage for themselves and dependents at active or early retirement rate, as applicable until age 65. At 65 must enroll in Medicare supplement.				

RIGL Sections 16-17.1-1 and 2, 36-10-2, 36-12.1, 36-12-2.2 and 36-12-4 govern the provisions of the System, and they may be amended in the future by action of the General Assembly.

B. Funding Policy, Funding Status and Funding Progress

The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly.
In fiscal year 2012 the State and other participating employers were required by law to fund the plans on an actuarially determined basis. For the fiscal year ended June 30, 2012, the State and other participating employers paid $56,846,593 into the plans.

C. Annual OPEB Cost and Net OPEB Obligation

As required by GASB Statement 45, the participating employers recognized an expense equal to a) the annual required contribution of the employer (ARC), which was actuarially determined, plus b) interest on the net OPEB obligation at the beginning of the fiscal year, where applicable, less c) the ARC adjustment, where applicable (discounted present value of the OPEB liability at the beginning of the fiscal year). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The annual OPEB cost for the year, the amount actually paid on behalf of the plans and the changes in the net OPEB obligation are as follows (dollar amounts expressed in thousands):

	State Employees	Teachers	Judicial	State Police	Legislators	BOG
Date of Actuarial Valuation	06/30/09	06/30/09	06/30/09	06/30/09	06/30/09	06/30/09
Annual required contribution as a percent of payroll	6.86%	N/A	7.19%	33.18%	46.35%	2.69%
Annual required contribution	$ 44,235	$ 2,321	$ 782	$ 5,841	$ 778	$ 2,884
Plus: Interest on net OPEB obligation at beginning of year	0	N/A	141	411	106	0
Less: Adjustment to ARC	0	N/A	113	332	85	0
Annual OPEB cost	44,235	2,321	810	5,920	799	2,884
Participating State and/or other employer contributions	44,235	2,321	782	5,841	778	2,884
Increase in OPEB obligation	0	0	28	79	21	0
Net OPEB obligation at beginning of year	0	0	2,839	8,302	2,116	0
Net OPEB obligation at end of year	$ 0	$ 0	$ 2,867	$ 8,381	$ 2,137	$ 0

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation were as follows (dollar amounts expressed in thousands):

Plan	Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State Employees	2010	$ 45,852	73.07%	$ -
	2011	41,120	100.00%	-
	2012	44,235	100.00%	-
Teachers	2010	2,345	100.00%	-
	2011	2,333	100.00%	-
	2012	2,321	100.00%	-
Judicial	2010	1,131	15.33%	2,811
	2011	1,014	97.23%	2,839
	2012	810	96.53%	2,867
State Police	2010	4,640	48.88%	8,222
	2011	4,295	98.13%	8,302
	2012	5,920	98.66%	8,381
Legislators	2010	1,861	7.72%	2,095
	2011	1,541	98.62%	2,116
	2012	799	97.34%	2,137
BOG	2010	1,665	53.20%	-
	2011	2,869	100.00%	-
	2012	2,884	100.00%	-

The Net OPEB Obligation for the State Employees and BOG plans has been restated for 2010 due to the change in the plans' type from an agent multi-employer to cost sharing multi-employer plan.

The table below displays the funded status of each plan at June 30, 2011, the most recent actuarial valuation date (dollar amounts expressed in thousands):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
State Employees	$ 11,545	$ 786,293	$ 774,748	1.5%	$ 600,273	129.1%
Teachers	2,040	11,512	9,472	17.7%	n/a	n/a
Judicial	841	2,610	1,769	32.2%	10,813	16.4%
State Police	1,488	81,759	80,271	1.8%	17,384	461.8%
Legislators	1,442	1,443	1	99.9%	1,615	0.1%
BOG	3,189	53,751	50,562	5.9%	125,340	40.3%

Covered payroll and the UAAL as a percentage of covered payroll are not presented for teachers since the required contribution by the State is for the Tier I subsidy for teachers who have elected to participate in the State's Retiree Health Care Benefit Plan.

D. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in the actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plans by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not exceeding thirty years.

The Annual Required Contributions for fiscal year 2012 were determined based on the June 30, 2009 valuations for all plans.

As of the June 30, 2009 actuarial valuation, the Unfunded Actuarial Accrued Liability (UAAL) was amortized by a level (principal and interest combined) percent of payroll contribution for each component unit employer. The UAAL was determined using the actuarial value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL for all plans, except teachers, is being amortized over the remainder of a closed 30-year (or shorter) period from June 30, 2006. The remaining amortization period at June 30, 2009 is 27 years. The UAAL for teachers is being amortized as a level dollar amount over an 8-year period from June 30, 2007.

For the June 30, 2009 valuation the actuarial assumptions include a 5.0% discount rate, a health care cost trend assumption of 9% progressively declining to 4.5% after 10 years, and salary growth assumption rates ranging between 4.5% and 13.25%. Other assumptions, including those relating to rates of termination, rates of retirement, percent married, and retiree health care election rates, were based on the most recent experience study for the Employees' Retirement System of Rhode Island as well as on anticipated experience changes in conjunction with the adopted retirement plan changes enacted through legislation.

The most recent actuarial valuations of the plans were performed as of June 30, 2011.

A number of changes in OPEB specific actuarial assumptions were made between the June 30, 2009 and June 30, 2011 valuations. These changes include reflecting new assumptions adopted by the Employees Retirement System of Rhode Island (ERSRI), and the State Police Retirement Benefits Trust of Rhode Island (SPRBT), changes to the OPEB specific assumptions, and changes to reflect the potential excise tax under the Patient Protection and Affordable Care Act.

Changes from the ERSRI and SPRBT experience studies include changes to the retirement and disability rates for ERSRI and changes to salary expectations and mortality for both ERSRI and SPRBT.

Changes to the OPEB specific assumptions include a change in the medical trend assumption of 9% decreasing to 4.5% in 8 years to 9% decreasing to 4.0% in 10 years, a change in the Medicare election rate for Legislators from 75% electing Medicare to 100% electing Medicare and the addition of the assumption that current retired Teachers over age 65 in the Early Retiree Plan are assumed to not be eligible for Medicare.

The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2018. The excise tax is 40% of costs above a threshold. The actuarial assumptions used in the most recent valuation assume that the plans will be subject to the excise tax as early as 2018.

The following table summarizes the actuarial methods and assumptions used in the most recent actuarial valuation:

Summary of Actuarial Methods and Assumptions as of June 30, 2011 valuation						
	Plan					
	State Employees	Teachers	Judicial	State Police	Legislators	Board of Governors
Valuation Date	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011
Plan Type	Cost sharing multiple employer	Single Employer (1)	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
Actuarial Cost Method	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age
Amortization Method	Level Percent of Payroll – Closed	Level Dollar	Level Dollar	Level Percent of Payroll – Closed	Level Dollar	Level Percent of Payroll – Closed
Equivalent Single Remaining Amortization Period	25 years	4 years	25 years	25 years	25 years	25 years
Asset Valuation Method	Four year smoothed market	Four year smoothed market	Four year smoothed market	Four year smoothed market	Four year smoothed market	Four year smoothed market
Actuarial Assumptions						
Investment Rate of Return	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Projected Salary Increases	4.00% to 7.0%	N/A	4.00%	4.00% to 12.0%	4.25% to 8.50%	4.00% to 7.00%
Valuation Health Care Cost Trend Rate	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021

Note 1 – The Teachers plan accounts for the Tier I subsidy funded by the State for Teachers electing to participate and retiring before October 1, 2008.

Note 2 – The actuarial assumptions do not include a separate general inflation rate assumption.

Certain other component units have other post employment benefit plans. For information regarding these plans, please refer to the component units' separately issued financial reports.

Note 15. Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 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. Plan distributions are normally available to employees at the later of age 59 or retirement and mandatory distributions must commence once the individual reaches age 70½. The plan also allows for distributions for qualifying events such as termination, death or "unforeseeable emergency".

Current Internal Revenue Service regulations require that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors. The plan assets also may be held in annuity contracts or custodial accounts, which are treated as trusts.

The State does not serve in a trustee capacity. Accordingly, the plan assets are not included in the State's financial statements.

Note 16. Risk Management

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

The State has entered into agreements with commercial insurance companies for comprehensive insurance coverage on State property to protect the State against loss from fire and other risks. Furthermore, the State is required by the General Laws to provide insurance coverage on all motor vehicles owned by the State and operated by State employees in the sum of $100,000 per person and $300,000 per accident for personal injury and $20,000 for property damage. During Fiscal 2012, and the two preceding fiscal years, no settlements exceeded insured coverage limits.

The State also has a contract with an insurance company to provide health care benefits to active and retired employees. For coverage provided to active employees, the State retains the risk of loss. Retirees that are Medicare eligible may choose Medicare supplement coverage that is either premium based (State retains no risk of loss) or a self-insured plan option. Except for the premium based coverage provided to certain Medicare eligible retirees, the State reimburses the company for the costs of all claims paid plus administrative fees. The estimated liability for incurred but not reported (IBNR) claims at June 30, 2012 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	Liability at July 1	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30
Health Insurance Funds				
Unpaid claims	$ 16,071	$ 203,563	$ 205,854	$ 13,780

The State is self-insured for risks of loss related to torts. Tort claims are defended by the State's Attorney General and, when necessary, appropriations are provided to pay claims.

The State is self-insured for various risks of loss related to work related injuries of State employees. The State maintains the Assessed Fringe Benefits Fund, an internal service fund that services, among other things, workers' compensation claims. Funding is provided through a fringe benefit rate applied to State payrolls on a pay-as-you-go basis.

Note 17. Other Information

A. Elimination Entries

When the governmental fund statements and the internal service fund statements are combined into one column for governmental activity on the government-wide financial statements, interfund balances and activity should be eliminated. The following are the eliminations (expressed in thousands) that were made:

	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 5,694	$ 393	$ 6,087	$ (9,476)	$ (3,389)
Loans to other funds	9,469		9,469	(9,469)	
Total assets	$ 15,163	$ 393	$ 15,556	$ (18,945)	$ (3,389)
Liabilities					
Due to other funds	$ 7,650	$ 1,826	$ 9,476	$ (9,476)	$
Loans from other funds	6,809	2,660	9,469	(9,469)	
Total liabilities	$ 14,459	$ 4,486	$ 18,945	$ (18,945)	$
Program revenue					
General government	$	$ 263,825	$ 263,825	$ (263,825)	
Public safety		10,023	10,023	(10,023)	
Expenses					
General government		(263,770)	(263,770)	263,770	
Public safety		(10,078)	(10,078)	10,078	
Net revenue (expenses)	$	$	$	$	$
Transfers					
Operating transfers in	$ 581,679	$	$ 581,679	$ (237,293)	$ 344,386
Operating transfers out	(235,253)	(2,040)	(237,293)	237,293	
Net transfers	$ 346,426	$ (2,040)	$ 344,386	$	$ 344,386

	Total Business-type Activities		Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 6,264	$	$ 6,264	$ (2,875)	$ 3,389
Total assets	$ 6,264	$	$ 6,264	$ (2,875)	$ 3,389
Liabilities					
Due to other funds	$ 2,875	$	$ 2,875	$ (2,875)	$
Total liabilities	$ 2,875	$	$ 2,875	$ (2,875)	$
Transfers					
Operating transfers in	$ 33,417	$	$ 33,417	$ (33,417)	$
Operating transfers out	(377,803)		(377,803)	33,417	(344,386)
Net transfers	$ (344,386)	$	$ (344,386)	$	$ (344,386)

B. Related Party Transactions

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

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC), a subsidiary of the R.I. Economic Development Corporation, whereby the State has agreed to lease various assets to RIAC. The agreement requires RIAC to reimburse the State for principal and interest payments for certain airport related General Obligation Bonds. The term of the agreement is 30 years beginning July 1, 1993, with annual rent of $1.00. In the event RIAC does not have sufficient funds to make the required lease payments when due, the amount is payable in the next succeeding fiscal year and remains an obligation of RIAC until paid in full. The State has no rights to terminate the agreement as long as there are bonds and subordinate indebtedness outstanding.

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

Transactions between RISLA and RIHEAA as of and during the year ended June 30, 2012 were as follows:

Guaranteed loans outstanding at June 30, 2012	$	502,286,000
Guarantee claims paid during the year		18,011,000
Balance on line of credit		5,783,000
FFELP Rehabilitation loan balance		1,390,000
Loan repayment due from RIHEAA		17,000

In November 2004, the voters of Rhode Island authorized the issuance of $30 million in general obligation debt for the construction of a new residence hall at Rhode Island College (RIC). Of this amount, $20 million will be repaid to the State. The residence hall was finished and in service by September 2007, at which time RIC began collecting revenues to pay for its share of the debt service. Debt service obligation is to be split two-thirds to RIC and one-third to the State for all payments after September 2007. RIC will repay the State for the debt service paid on its behalf on a straight-line basis amortized over the remaining life of the bonds, which carry rates ranging from 3-5% and a life of nineteen years beginning in fiscal year 2009.

The Narragansett Bay Commission has approximately $341,000,000 of loans payable to the R.I. Clean Water Finance Agency.

In July 2011 the Governor signed into law an Act authorizing the sale of surplus property (real estate) created by the relocation of Interstate 195. The Act also creates the I-195 Redevelopment District Commission (the “Redevelopment Commission”), a component unit of the Rhode Island Economic Development Corporation. The seven-member commission is authorized to plan, implement, administer and oversee the redevelopment of the Interstate 195 surplus properties. Also included in this legislation was authorization for RI Economic Development Corporation to issue bonds or other obligations not to exceed $42,000,000 to finance the acquisition by the Redevelopment Commission of the surplus land from the State. This financing, in combination with residual funds from the motor fuel proceeds, is expected to be sufficient to fund completion of the Interstate 195 relocation project and certain activities of the Redevelopment Commission. To the extent these resources are not sufficient to complete the project, other State and federal Transportation funds would be made available, which would impact the progress of other contemplated projects. No bonds have been issued as of June 30, 2012.

C. Budgeting, Budgetary Control, and Legal Compliance

Budget Preparation

An annual budget is adopted on a basis consistent with generally accepted accounting principles. The budget encompasses the General, Intermodal Surface Transportation and Temporary Disability Insurance Funds as well as selective portions of certain other funds. Preparation and submission of the budget is governed by the State Constitution and the Rhode Island General Laws. The budget, as enacted, contains a complete plan of proposed expenditures from all sources of funds (general, federal, restricted, and transfers in). Revenues upon which the budget plan is based are determined as part of the State’s Revenue Estimating Conference. The Conference, held twice each year, results in a consensus estimate of revenues for the next fiscal year and an update of prior revenue estimates for the current fiscal year.

As required by the Constitution and the Rhode Island General Laws, annual appropriations are limited to 97.2 percent of estimated general revenues. The remaining 2.8 percent is contributed to the Budget Reserve Account until such account equals 4.6 percent of total general revenues and opening surplus. Excess contributions to the Budget Reserve Account are transferred to the Rhode Island Capital Plan Fund to be used for capital projects.

The annual budget is adopted on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the “actual” column that have no corresponding budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

Budgetary Controls

The legal level of budgetary control, i.e., the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch.

Budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations, accounting system controls to limit expenditures in excess of authorized amounts, and budgetary monitoring controls.

D. Significant Transactions with Component Units

The significant transactions with the discretely presented component units are presented (expressed in thousands) below:

Significant transactions between primary government and component units

	(Revenue) Expense	Description
Governmental activities		
General		
R.I. Higher Education Assistance Authority	$ 5,911	Operating assistance
R.I. Economic Development Corporation	16,659	Operating and capital assistance
University of Rhode Island	58,581	Operating assistance
Rhode Island College	38,395	Operating assistance
Community College of Rhode Island	44,862	Operating assistance
Central Falls School District	49,999	Operating assistance
R.I. Public Transit Authority	7,106	Operating assistance
IST		
R.I. Public Transit Authority	40,939	Operating assistance
Bond Capital		
University of Rhode Island	18,689	Construction, improvement or purchase of assets
Certificates of Participation		
Community College of Rhode Island	6,223	Construction, improvement or purchase of assets
R. I. Capital Plan		
University of Rhode Island	11,328	Construction, improvement or purchase of assets
Rhode Island College	5,150	Construction, improvement or purchase of assets
Total Governmental Activities	$ 303,842	

E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2012:

- Assessed Fringe Benefits ($1,673,000)
- Central Utilities ($250,000)
- State Telecommunications ($188,000)
- Records Center ($116,000)

The deficits will be eliminated through charges for services in fiscal year 2013.

F. Restatements – Net Assets and Fund Balances

The beginning net assets of the discretely presented component units were restated by $4,157,000. Rhode Island College (RIC) holds certain funds for various student organizations, agencies and others affiliated with RIC. RIC has determined that certain funds collected were not on behalf of others and should have been classified as revenue to RIC upon receipt. Accordingly, RIC restated its beginning net assets by $3,519,000. The classification of the Central Falls School District (CFSD) was changed from a related organization to a discretely presented component unit of the State for fiscal year 2012. For fiscal year 2011 the CFSD was considered legally part of the City of Central Falls and was included in the City's financial statements for that fiscal year. A subsequent court decision in March 2012 clarified that the CFSD had a separate legal existence and was not a department of the City. The CFSD had beginning net assets of $638,000.

Note 18. Subsequent Events

Primary Government

In June 2012, the General Assembly enacted a law requiring the transfer of the Sakonnet River and Jamestown Verranzano bridges from the Rhode Island Department of Transportation to the Rhode Island Turnpike and Bridge Authority. The transfer process will begin during the fiscal year ending June 30, 2013.

In October 2012 the State issued $81,400,000 of General Obligation Bonds. The bonds mature in 2014 through 2033 and will be used for a variety of purposes including higher education facilities and transportation infrastructure projects.

In November 2012, the voters of the State approved the issuance of general obligation bonds for (1) Higher Education Facilities - $50,000,000, (2) Veterans' Home - $94,000,000, (3) Clean Water Finance Agency - $20,000,000, (4) Environmental Management - $20,000,000, and (5) Affordable Housing - $25,000,000.

Component Units

On June 25, 2012, the Rhode Island Public Telecommunications Authority Board voted to authorize management of WSBE-TV/DT to petition the Federal Communications Commission (FCC) to transfer the licenses held by the Authority to the Rhode Island PBS Foundation. On August 1, 2012, the Board of the Rhode Island PBS Foundation voted to acquire all licenses, permits, rights and assets of the Authority used or related to the operation of non-commercial television station WSBE-TV/DT. On August 12, 2012, the Authority applied to the FCC to assign the broadcasting license to the Foundation. The FCC approved the proposal on September 24, 2012, and the Authority and the Foundation consummated the assignment of the broadcasting license to the Foundation effective October 10, 2012. As of that date, the Authority no longer has responsibility for operating WSBE-TV/DT.

In July and August 2012, the Rhode Island Student Loan Authority (RISLA) retired $126,750,000 of bonds for various Student Loan Programs. These transactions resulted in a gain in the amount of $8,332,500.

On August 30, 2012, RISLA issued $111,000,000 in taxable LIBOR floating rate notes. Proceeds from this issuance were used to refinance FFLEP loans that were previously pledged to secure other debt obligations of the RISLA and to provide funds to retire those obligations. RISLA also issued $78,000,000 in taxable bonds on August 30, 2012. These proceeds were used to retire bonds from the 2008 B 1-4 Series bonds.

In November 2012, RISLA issued $260,000,000 in Taxable LIBOR Floating Rate Notes (FFELP Loan Backed Bonds, Series 2012-2). The funds from the issuance were used to extinguish a Note Payable in the amount of $276,330,959 due to the US Department of Education for funds advanced as part the Asset Backed Commercial Paper Straight A Conduit Program.

Subsequent to June 30, 2012, the Rhode Island Housing and Mortgage Finance Corporation issued and redeemed or refunded various series of Homeownership Opportunity Bonds.

On November 8, 2012, Rhode Island Clean Water Finance Agency issued $65,860,000 of Water Pollution Refunding Revenue Bonds.

In July 2012, the Rhode Island Public Transit Authority's (RIPTA) management ordered a third-party investigation regarding a potential security breach involving a security camera in the fare box pulling location. Subsequently, the Governor appointed a resource team to assume day-to-day managerial control of RIPTA. The resources team is investigating and identifying operational and administrative inefficiencies, if any, and other management concerns with RIPTA. The resources team is expected to make, and if approved by RIPTA, to implement, recommendations to address those inefficiencies and management concerns. The Rhode Island State Police is also conducting a criminal investigation related to the above security breach in the fare box pulling location. Management is currently unable to predict the outcome of the resources team's efforts or the criminal investigation being conducted by the State Police.

On November 28, 2012, Narragansett Bay Commission issued Wastewater Systems Revenue Bond Anticipation Notes, 2012 Series 1, in the amount $40,000,000 with an interest rate of .50% with a maturity date of May 23, 2013.

Subsequent to June 30, 2012, Quonset Development Corporation entered into a loan agreement to borrow $7,500,000 to support the Davisville Dredging project.

State of Rhode Island

Fiscal Year Ended June 30, 2012

Required Supplementary Information

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, 2012
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
General Revenues:				
Personal Income Tax	$ 1,010,021	$ 1,046,200	$ 1,060,482	$ 14,282
General Business Taxes:				
Business Corporations	121,225	131,600	123,054	(8,546)
Public Utilities Gross Earnings	99,400	98,300	100,631	2,331
Financial Institutions	500	2,500	3,558	1,058
Insurance Companies	102,600	89,000	89,488	488
Bank Deposits	2,000	2,100	2,001	(99)
Health Care Provider Assessment	41,327	41,600	41,922	322
Sales and Use Taxes:				
Sales and Use	846,513	846,000	851,056	5,056
Motor Vehicle	51,600	47,700	48,392	692
Motor Fuel	1,100	1,000	733	(267)
Cigarettes	133,500	133,600	131,086	(2,514)
Alcohol	12,100	12,000	11,874	(126)
Other Taxes:				
Inheritance and Gift	29,300	44,800	46,412	1,612
Racing and Athletics	1,200	1,300	1,327	27
Realty Transfer Tax	6,500	5,900	6,435	535
Total Taxes *(1)*	2,458,886	2,503,600	2,518,451	14,851
Departmental Revenue	343,543	344,500	339,895	(4,605)
Total Taxes and Departmental Revenue	2,802,429	2,848,100	2,858,346	10,246
Other Sources:				
Other Miscellaneous	6,325	16,800	20,110	3,310
Lottery	361,042	378,500	377,706	(794)
Unclaimed Property	6,200	14,000	14,556	556
Total Other Sources	373,567	409,300	412,372	3,072
Total General Revenues	3,175,996	3,257,400	3,270,718	13,318
Federal Revenues	2,232,560	2,296,461	2,119,476	(176,985)
Restricted Revenues	187,698	225,865	192,642	(33,223)
Other Revenues	76,339	75,001	67,640	(7,361)
Total Revenues *(2)*	5,672,593	5,854,727	5,650,476	(204,251)
Expenditures *(4)*:				
General government	682,832	756,766	668,592	88,174
Human services	3,086,250	3,062,175	2,969,166	93,009
Education	1,316,394	1,332,215	1,305,922	26,293
Public safety	457,376	480,377	459,137	21,240
Natural resources	96,246	105,078	75,141	29,937
Total Expenditures *(2)*	5,639,098	5,736,611	5,477,958	$ 258,653
Transfer of Excess Budget Reserve to RI Capital Fund			70,264	
Total Expenditures	$ 5,639,098	$ 5,736,611	5,548,222	
Change in Fund Balance			102,254	
Fund balance - beginning			270,900	
Fund balance - ending			$ 373,154	

(continued)

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, 2012
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Expenditures by Source:				
General Revenues	$ 3,142,501	$ 3,139,286	$ 3,110,242	$ 29,044
Federal Funds	2,232,559	2,296,461	2,121,017	175,444
Restricted Receipts	187,699	225,863	180,842	45,021
Other Funds	76,339	75,001	65,857	9,144
	$ 5,639,098	$ 5,736,611	$ 5,477,958	$ 258,653

General Fund - Reconciliation of Budget Results to Changes in Fund Balance:

Budgeted Surplus:		
Total Revenue - Final Budget	$ 5,854,727	
Total Expenditures - Final Budget	5,736,611	
Final Budget - Projected Surplus (3)		$ 118,116
Final Budget and Actual - Results		
Total Revenues - Variance (Actual Revenue less than Budget)	$ (204,251)	
Total Expenditures - Variance (Actual Expenditures less than Budget)	258,653	
Surplus resulting from operations compared to final budget		$ 54,402
Total General Fund Surplus - Fiscal Year Ended June 30, 2012		$ 172,518
Less:Transfer of Excess Budget Reserve to RICAP Fund		(70,264)
Net Change in General Fund - Fund Balance		$ 102,254
Fund Balance, Beginning		270,900
Fund Balance, Ending		$ 373,154

Notes:

(1) Transfers from the Historic Tax Credit Special Revenue Fund reported as "Other Financing Sources" on the General Fund have been allocated to General Revenue Tax Categories on this schedule to align with the State's legally adopted budget format.

(2) Certain revenue and expenditure amounts classified as "Other Financing Sources (Uses)" have been reclassified within the budgetary comparison schedule to align with the State's legally adopted budgetary format.

(3) RI General Law section 35-3-20.1, titled "Limitation on state spending", mandates that expenditure appropriations shall not be greater than 97.2% of estimated general revenue for the fiscal year ending June 30, 2012.

(4) Debt service expenditures are included in the above respective categories:

General government	$ 160,894
Education	24,043
Public safety	23
	$ 184,960

(continued)

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, 2012
(Expressed in Thousands)

Reconciliation of Fund Balance - Financial Reporting Perspective to Budgetary Perspective

			Budgetary Perspective		
	Fund Balance Reported in the Financial Statements	Fund Balance Not Available for Appropriation in Fiscal 2013		Fund Balance Available for Appropriation in Fiscal 2013	
Restricted	$ 232,348	$ 232,348		$	
Committed	22,793	22,793			
Assigned	97,639	2,826	*(a)*	94,813	*(b)*
Unassigned	20,374			20,374	*(c)*
Total Fund Balance	$ 373,154	$ 257,967		$ 115,187	

(a) Assigned fund balance not available for appropriation in fiscal 2013 includes (1) centralized cost allocation surplus that requires offset through fiscal 2013 centralized charges and (2) general revenue appropriations carried forward by the Governor.

(b) Assigned fund balance available for appropriation in fiscal 2013 includes fiscal 2012 ending surplus amounts of $93.9 million appropriated as resources in the 2013 enacted budget, and fund balance amounts encumbered at June 30, 2012.

(c) Remaining fund balance available for appropriation.

(concluded)

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, 2012
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Taxes	$ 136,853	$ 137,363	$ 136,646	$ (717)
Departmental restricted revenue	1,000	2,699	1,637	(1,062)
Federal grants	309,996	338,457	291,786	(46,671)
Other revenues	16,713	5,086	1,235	(3,851)
Total revenues	464,562	483,605	431,304	(52,301)
Other financing sources:				
Operating transfers in			52,841	52,841
Total revenues and other financing sources	464,562	483,605	484,145	540
Expenditures:				
Central Management				
Gasoline Tax	1,109	1,282	1,333	(51)
Federal Funds	11,394	9,515	6,450	3,065
Total - Central Management	12,503	10,797	7,783	3,014
Management and Budget				
Gasoline Tax	1,177	1,511	852	659
Total - Management and Budget	1,177	1,511	852	659
Infrastructure - Engineering				
Gasoline Tax	52,274	53,797	54,128	(331)
Land Sale Revenue	16,603	1,995	1,242	753
GARVEE Residual Revenue		2,981		2,981
Federal Funds	298,601	328,942	285,069	43,873
Restricted Receipts	1,000	2,699	2,518	181
Subtotal - Infrastructure - Engineering	368,478	390,414	342,957	47,457
State Match - FHWA			49,811	(49,811)
Total - Infrastructure - Engineering	368,478	390,414	392,768	(2,354)
Infrastructure - Maintenance				
Gasoline Tax	41,452	35,832	33,909	1,923
Outdoor Advertising	100	100		100
Nonland Surplus	10	10		10
Total - Infrastructure - Maintenance	41,562	35,942	33,909	2,033
Total Expenditures	423,720	438,664	435,312	3,352
Other financing uses:				
Transfers to other funds				
Gas tax			46,129	
Other			18	
Total expenditures and other financing uses			481,459	
Net change in fund balance			2,686	
Fund balance - beginning			31,928	
Fund balance - ending (excluding GARVEE)			$ 34,614	

For financial statement presentation the GARVEE fund has been merged into the IST fund. Only the IST fund is budgeted.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
Pension Trusts
June 30, 2012
(Expressed in Thousands)

Employees' Retirement System

Actuarial Valuation Date		Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011		$ 6,220,099	$ 10,581,304	$ 4,361,206	58.8%	$ 1,635,802	266.6%
06/30/2010	**	6,405,209	10,499,318	4,094,109	61.0%	1,619,484	252.8%
06/30/2009		6,655,012	11,383,207	4,728,195	58.5%	1,593,336	296.7%

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)
06/30/2011		$ 73,152	$ 74,186	$ 1,034	98.6%	$ 19,712	5.2%
06/30/2010	**	65,760	73,049	7,288	90.0%	19,715	37.0%
06/30/2009		60,232	75,480	15,248	79.8%	17,096	89.2%

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)
06/30/2011		$ 40,106	$ 46,594	$ 6,488	86.1%	$ 8,475	76.6%
06/30/2010	**	38,074	46,642	8,567	81.6%	7,461	114.8%
06/30/2009		36,839	41,738	4,899	88.3%	6,843	71.6%

** Restated to reflect pension reform legislation enacted on November 18, 2011

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
Other Postemployment Benefits
June 30, 2012
(Expressed in Thousands)

State Employees Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	$ 11,545	$ 786,293	$ 774,748	1.5%	$ 600,273	129.1%
06/30/2009	0	673,640	673,640	0.0%	574,569	117.2%
06/30/2007	0	679,538	679,538	0.0%	626,145	108.5%

Teachers Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	$ 2,040	$ 11,512	$ 9,472	17.7%	NA	NA
06/30/2009	0	13,529	13,529	0.0%	NA	NA
06/30/2007	0	10,243	10,243	0.0%	NA	NA

Judicial Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	$ 841	$ 2,610	$ 1,769	32.2%	$ 10,813	16.4%
06/30/2009	0	8,665	8,665	0.0%	9,395	92.2%
06/30/2007	0	14,024	14,024	0.0%	9,888	141.8%

State Police Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	$ 1,488	$ 81,759	$ 80,271	1.8%	$ 17,384	461.8%
06/30/2009	0	67,079	67,079	0.0%	16,725	401.1%
06/30/2007	0	54,620	54,620	0.0%	15,977	341.9%

Legislators Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	$ 1,442	$ 1,443	$ 1	99.9%	$ 1,615	0.1%
06/30/2009	0	11,752	11,752	0.0%	1,612	729.0%
06/30/2007	0	29,764	29,764	0.0%	1,592	1869.6%

Board of Governors for Higher Education Health Care Insurance Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	$ 3,189	$ 53,751	$ 50,562	5.9%	$ 125,340	40.3%
06/30/2009	0	47,704	47,704	0.0%	112,884	42.3%
06/30/2007	0	57,881	57,881	0.0%	110,092	52.6%

Budget and Actual

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund and certain special revenue funds. The annual budget is prepared on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding original or final budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

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

A more detailed budgetary comparison schedule for the General Fund is available on the State Controller's website, http://controller.admin.ri.gov/index.php.

Schedules of Funding Progress - Pensions

1. Actuarial Assumptions and Methods

The information presented in the required supplementary information schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation, June 30, 2011 follows:

Summary of Actuarial Assumptions Used in the June 30, 2011 Valuation

	ERS		MERS	SPRBT	JRBT
	State Employees	*Teachers*			
Actuarial Cost Method	Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.				
Amortization Method	Level Percent of Payroll – Closed				
Equivalent Single Remaining Amortization Period	24 years	24 years	24 years	24 years	24 years
Asset Valuation Method	5 Year Smoothed Market				
Actuarial Assumptions					
Investment Rate of Return	7.50%	7.50%	7.50%	7.50%	7.50%
Projected Salary Increases	4.00% to 7.00%	4.00% to 12.75%	General Employees 4.00% to 8.00% Police & Fire Employees 4.25% to 14.25%	4.00% to 12.00%	4.00%
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%
Cost of Living Adjustments [1]	COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to be applied to the first $25,000 of benefits, indexed over time. COLA is delayed until the later of Social Security eligibility age or 3 years after retirement except for State Police and MERS Police and Fire for which the COLA is delayed until the later of age 55 or 3 years after retirement.				

Note 1 – Cost of Living Adjustments (COLA) in member benefit provisions prior to the enactment of pension reform legislation on November 18, 2011 will remain in effect through June 30, 2012.

For the MERS plan, a 2% COLA is assumed after July 1, 2012. For all other plans, a COLA of 2% is assumed only every five years until the plans achieve a 80% collective funded status in accordance with the law. It is assumed that the plans will not achieve the targeted 80% funded status for 16 years.

2. Schedules of Funding Progress

Changes affecting the June 30, 2011 actuarial valuation:

The retirement rates were modified to be consistent with the retirement eligibility changes instituted by the Rhode Island Retirement Security Act of 2011. Members that were assumed to retire prior to the Act, but before the earliest allowable age under the Act, are assumed to retire once eligible.

For future cost of living benefit adjustments, the benefit adjustments are assumed to be suspended for approximately 16 years, except for the intermittent adjustment every fifth year.

Changes affecting the June 30, 2010 actuarial valuation** (as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011)**:

The June 30, 2010 valuations (as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011) reflect comprehensive changes to plan member benefit provisions which are effective beginning July 1, 2012. The June 30, 2010 valuations also reflect material changes to certain actuarial assumptions.

The revised member benefit provisions become effective on July 1, 2012. These include changes in service period accrual rates, retirement eligibility age, and future cost of living adjustments. Additionally, the unfunded accrued liability is now amortized over a twenty-five year period from June 30, 2010 compared to the 30 year period from June 30, 1999 employed in prior actuarial valuations.

The Individual Entry Age Cost Method is used in the June 30, 2010 actuarial valuations. Prior valuations utilized the Ultimate Normal Cost methodology where normal cost was determined based on the benefits applicable to new hires under the replacement benefit structure resulting from prior pension reform measures. The annual investment rate of return was lowered from 8.25% to 7.5%.

The post-termination mortality rates for non-disabled state employees and members of the MERS, State Police and Judicial plans were previously based on the 1994 Group Annuity Mortality Tables. New mortality tables have been constructed and adopted with adjustments for these employees using the RP-2000 Combined Healthy for Males and Females with White Collar adjustments, projected with Scale AA from 2000 for non-disabled individuals.

The post-termination mortality rates used for non-disabled teachers in the June 30, 2009 and June 30, 2010 valuations were both based on tables developed by ERSRI's actuary based on teacher experience. The rates used in the June 30, 2010 valuation for male teachers were lowered to 97% of the rates in these tables based on male teacher experience, projected with Scale AA from 2000 from 100% of the actuary's table based on male teacher experience used in the June 30, 2009 valuation. The rates used in the June 30, 2010 valuation for female teachers were lowered to 92% of the rates used in the actuary's tables based on female teacher experience, projected with Scale AA from 2000 from 95% of the actuary's table based on female teacher experience used in the June 30, 2009 valuation.

The post-termination mortality rates for disabled members of all ERSRI plans are based on the PBGC table Va for males and table VIa for females. The rates used in the June 30, 2010 valuation for disabled males eligible for social security disability benefits were lowered to 60% of PBGC table Va from 65% of this table in the June 30, 2009 valuation. The rates used in the June 30, 2010 valuation for disabled females eligible for social security disability benefits were lowered to 60% of PBGC table VIa from 100% of this table in the June 30, 2009 valuation.

The pre-retirement mortality rates for all members of the ERSRI plans were previously based on the 1994 Group Annuity Mortality Tables. The rates used in the June 30, 2010 valuation for these employees were based on the RP-2000 Combined Tables with white collar adjustment for males and females. The tables were adjusted for each individual plan.

The inflation assumption rate was decreased from 3% to 2.75% and the projected salary increase assumptions were also decreased compared to the prior valuation. The assumption for cost of living adjustments subject to the Consumer Price Index (for those not eligible to retire on September 30, 2009) was decreased from 2.5% to 2.35%.

Changes affecting the June 30, 2009 actuarial valuation:

The June 30, 2009 valuation for the Employees' Retirement System and the Judicial Retirement Benefit Trust reflects the enactment of Article 16 of Chapter 23 of the 2010 Public Laws which amended the laws governing benefits for state employees, teachers and judges not eligible to retire by June 12, 2010.

The changes enacted as a result of Article 16 of Chapter 23 of the 2010 Public Laws governing benefit provisions for the Employees' Retirement System and the Judicial Retirement Benefit Trust are reflected and were applied in determining the contributions rates for the fiscal years ended June 30, 2010 and June 30, 2011.

Schedules of Funding Progress - Other Postemployment Benefits

1. Actuarial Assumptions and Methods

The information presented in the required supplementary information schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation, June 30, 2011, follows:

Summary of Actuarial Methods and Assumptions as of June 30, 2011 Valuations

	Plan					
	State Employees	**Teachers**	**Judicial**	**State Police**	**Legislators**	**Board of Governors**
Valuation Date	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011
Plan Type	Cost sharing multiple employer	Single Employer (1)	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
Actuarial Cost Method	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age
Amortization Method	Level Percent of Payroll – Closed	Level Dollar	Level Dollar	Level Percent of Payroll – Closed	Level Dollar	Level Percent of Payroll – Closed
Equivalent Single Remaining Amortization Period	25 years	4 years	25 years	25 years	25 years	25 years
Asset Valuation Method	4 Year Smoothed Market	4 Year Smoothed Market	4 Year Smoothed Market	4 Year Smoothed Market	4 Year Smoothed Market	4 Year Smoothed Market
Actuarial Assumptions						
Investment Rate of Return	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Projected Salary Increases	4.00% To 7.00%	N/A	4.00%	4.00% To 12.00%	4.25% To 8.50%	4.00% To 7.00%
Valuation Health Care Cost Trend Rate	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021

Note 1 – The Teachers plan accounts for the Tier I subsidy funded by the State for Teachers electing to participate and retiring before October 1, 2008.

2. Schedules of Funding Progress

Changes affecting the June 30, 2011 Actuarial Valuation:

A number of changes in actuarial assumptions were made between the June 30, 2009 and June 30, 2011 valuations. These changes include reflecting new assumptions adopted by the Employees Retirement System of Rhode Island (ERSRI) and the State Police Retirement Benefits Trust of Rhode Island (SPRBT), changes to the OPEB specific assumptions as well as the provisions of the Retirement Security Act, which was enacted on November 18, 2011 and included comprehensive pension reform measures. The June 30, 2011 valuation also reflects the potential excise tax under the Patient Protection and Affordable Care Act.

Changes from the ERSRI and SPRBT experience studies include changes to the retirement and disability rates and salary expectations. In addition, new mortality assumptions were adopted for all plans which provide for future mortality improvement by using generational mortality.

The significant decrease in the unfunded actuarial accrued liability for the Judicial and Legislator plans is primarily due to retirement eligibility changes resulting from enactment of the Retirement Security Act and an increase in the Medicare election rate.

Changes to the OPEB specific assumptions include a change in the medical trend assumption of 9% decreasing to 4.5% in 8 years to 9% decreasing to 4.0% in 10 years, a change in the Medicare election rate for Legislators from 75% electing Medicare to 100% electing Medicare and the addition of the assumption that current retired Teachers over age 65 in the Early Retiree Plan are assumed to not be eligible for Medicare.

The June 30, 2011 actuarial valuation employs a four-year smoothed market methodology for the determination of the actuarial value of assets. In addition, the Judicial and Legislator plans changed from a level percent of payroll amortization method to the level dollar method.

The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2018. The excise tax is 40% of costs above a threshold. The actuarial assumptions used in the most recent valuation assume that the plans will be subject to the excise tax as early as 2018.

Changes affecting the June 30, 2009 Actuarial Valuation:

With the creation of the trust effective July 1, 2010, the State Employees and Board of Governors plans met the requirements of cost-sharing multiple employer plans. These plans were previously considered agent multiple-employer plans absent the creation of the trust.

The following changes in actuarial assumptions were made between the June 30, 2007 and June 30, 2009 valuations. These changes include an increase in the investment return assumption from 3.566% to 5.00%, a change in the medical trend assumption from 10% decreasing to 4.5% in 7 years to 9% decreasing to 4.5% in 9 years. In addition, the wage inflation assumption was changed to 0% for two years before reverting to 4.5% to reflect the current economic environment.

EXHIBIT B

TO THE

INFORMATION STATEMENT OF THE STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

DATED: March 14, 2013

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 a population increase of 1.9 percent between 1998 and 2012. The U.S. Census Bureau estimated that Rhode Island's population decreased by less than 0.1 percent in 2012 as compared to 2011. The 2012 United States census estimate for Rhode Island was 1,050,292 or 1.5 percent less than the 1,066,034 estimated in 2002. In contrast, the total United States population is expected to experience a population increase of 9.1 percent between 2002 and 2012.

Personal Income and Poverty. Per capita personal income levels in Rhode Island had been consistent with those in the United States for the 1997 to 2000 period. Rhode Island per capita personal income in 2011 was $43,902 versus U.S. per capita personal income of $41,563. In addition, Rhode Island has maintained a poverty rate below the national average. Over the 2004 – 2011 period Rhode Island's average poverty rate was 12.1 percent versus the U.S. average poverty rate of 13.5 percent.

Employment. According to the U.S. Department of Labor Bureau of Labor Statistics, total Rhode Island nonfarm employment fell at a rate of 4.4 percent in 2009, 0.3 percent in 2010 but increased by 0.2 percent in 2011 before slipping by 0.5 percent in 2012. The average annual growth rate for Rhode Island nonfarm employment for the 1998 to 2012 period was 0.1 percent.

Economic Base and Performance. Rhode Island has a diversified economic base that includes traditional manufacturing, high technology, and service industries. A substantial portion of products produced by these and other sectors is exported. Like most other historically industrial states, Rhode Island has seen a shift in employment from labor-intensive manufacturing industries to technology and service-based industries, particularly Education and Health Services.

Human Resources. Skilled human capital is the foundation of economic strength in Rhode Island. It provides the basis for a technologically dynamic and industrially diverse regional economy. The Rhode Island population is well educated with 30.6 percent of its residents over the age of 25 having received a Bachelor's degree or a Graduate or Professional degree according to the U.S. Department of Commerce Census Bureau (2007 - 2011 American Community Survey 5-Year Estimates). In addition, per pupil spending on public elementary and secondary education in Rhode Island has been significantly higher than the national average since the 1994 - 1995 academic year. For 2009 - 2010 Rhode Island spent 40.4 percent more per pupil than the national average.

Population Characteristics

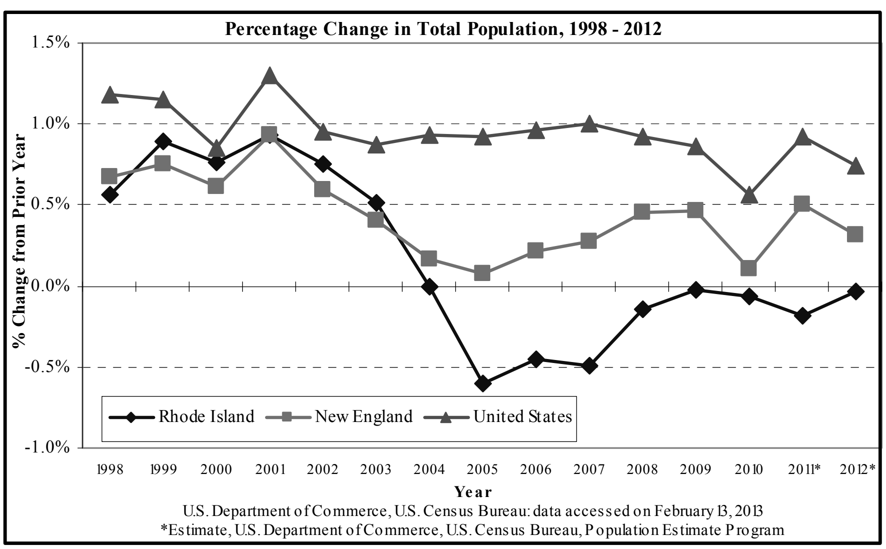
Between 2002 and 2012 Rhode Island's population decreased by 1.5 percent, compared to a 3.0 percent increase for the New England region, and a 9.1 percent increase for the United States. As the following chart indicates, the percentage change in Rhode Island's population in 1998 lagged that of the New England region. The growth rate of Rhode Island's population was 0.6 percent for that period compared to New England's growth rate of 0.7 percent. From 1999 through 2004, however, Rhode Island's population growth rate was higher than that of the New England region, at 3.0 percent compared to 2.7 percent for New England as a whole. The 2010 U.S. Census indicates that Rhode Island's population grew at a rate -0.1 percent from 2009, which 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 2002 to 2012 period, the United States' population average growth rate was 0.9 percent. The 2011 and 2012 estimated population for Rhode Island continued on a downward trend and is estimated to have decreased by 0.2 percent in 2011 and decrease by less than 0.1 percent in 2012. New England and the United States 2011 and 2012 estimated population growth rates are increasing but at a decreasing rate. New England's 2011 and 2012 estimate population growth are projected at 0.5 percent 0.3 percent respectively. While the United States estimated population growth is 0.9 percent and 0.7 percent for the same time frame.

Population, 1998 - 2012
(in thousands)

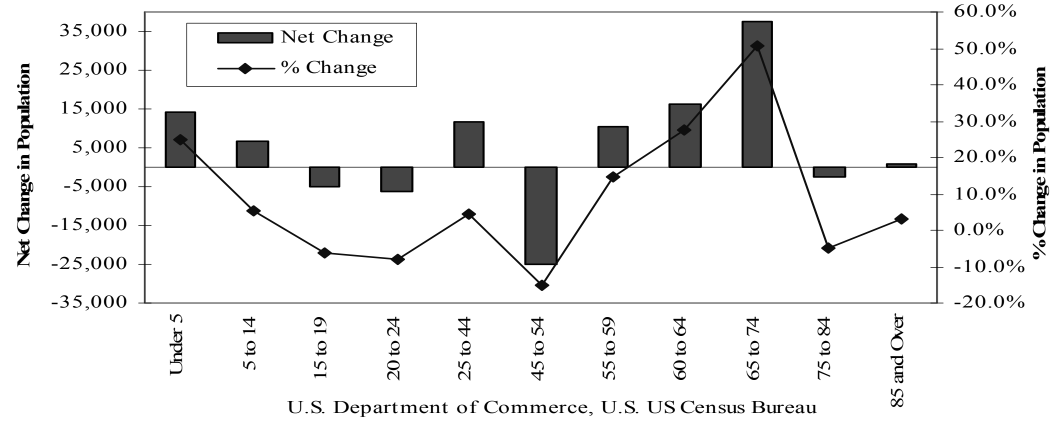
	Rhode Island		New England		United States	
Year	**Total**	**% Change**	**Total**	**% Change**	**Total**	**% Change**
1998	1,031	0.6%	13,734	0.7%	275,854	1.2%
1999	1,040	0.9%	13,838	0.8%	279,040	1.2%
2000	1,048	0.8%	13,923	0.6%	281,422	0.9%
2001	1,058	0.9%	14,052	0.9%	285,082	1.3%
2002	1,066	0.8%	14,135	0.6%	287,804	1.0%
2003	1,072	0.5%	14,192	0.4%	290,326	0.9%
2004	1,071	0.0%	14,216	0.2%	293,046	0.9%
2005	1,065	-0.6%	14,227	0.1%	295,753	0.9%
2006	1,060	-0.5%	14,259	0.2%	298,593	1.0%
2007	1,055	-0.5%	14,298	0.3%	301,580	1.0%
2008	1,054	-0.1%	14,363	0.5%	304,375	0.9%
2009	1,053	0.0%	14,430	0.5%	307,007	0.9%
2010	1,053	-0.1%	14,445	0.1%	308,746	0.6%
2011	1,051	-0.2%	14,517	0.5%	311,588	0.9%
2012	1,050	0.0%	14,563	0.3%	313,914	0.7%

U.S. Department of Commerce, U.S. Census Bureau, Population Estimate Program:
data accessed on February 13, 2013

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



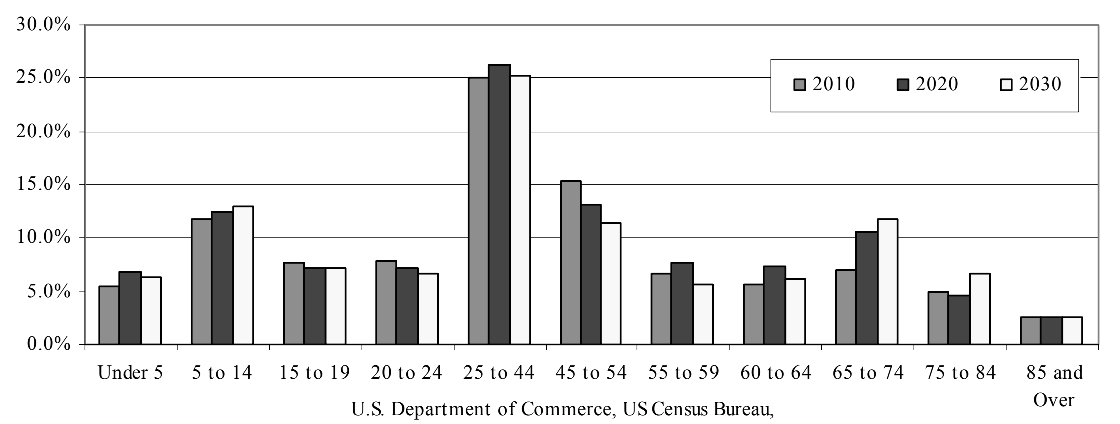
The following chart shows the projected net change in Rhode Island's population between 2010 and 2020 by age group. Note that, like the rest of the country, Rhode Island has seen a sharp change in the age distribution of its population in accordance with the chronological advancement of the "baby boom" generation. The upswing in Rhode Islanders in the "55 to 74" age group is a reflection of this.



U.S. Department of Commerce, U.S. US Census Bureau
^Projections: R.I. Statewide Planning, "Statewide Planning Program Technical Paper: Number 154; August 2004

From 2010 to 2020 Rhode Island is expected to see substantial changes to the state's age distribution. As the "baby boom" generation continues to age, the state will see a sizeable increase in its older population (i.e., 55 to 74). In addition, the state is expected to experience a decline in its young adult population (i.e., 15 to 24). Rhode Island, however, is projected to have an increase in its youth population (i.e., under 5 to 14) and its young adult to middle age population (i.e. 25 to 44).

The chart below shows the projected population for Rhode Island in 2030. In 2030, Rhode Island Statewide Planning projects the population to be distributed more heavily in the "65 – 84" age group while the percentage of people in the "15 – 64" age group declines from 2020 levels. In addition, the percentage of the population 85 and over is expected to remain higher than 2010 levels. The median age for Rhode Islanders in 2010 was 39.4 years. In 2020, the median age for Rhode Islanders is projected to decrease to 39.2 years but increase to 39.7 years by 2030 based on the U.S. Census Bureau's projections from the 2000 Census.



U.S. Department of Commerce, US Census Bureau,
Projections: R.I. Statewide Planning, "Statewide Planning Program Technical Paper: Number 154; August 2004

Personal Income, Consumer Prices, and Poverty

Personal Income. The table below shows nominal and real per capita personal income for Rhode Island, New England, and the United States. Rhode Island's per capita nominal personal income exceeded that of the United States in 2011. Rhode Island per capita nominal personal income was $2,341 more than United States per capita nominal personal income for 2011. Note that Rhode Island per capita nominal personal income has trailed that of the New England region from 1997 through 2011 by an average of $6,425. In fact, the gap between Rhode Island per capita nominal personal income and New England nominal personal income has narrowed between 2000 and 2010. In 2010, the gap was $7,086 which is slightly less than the gap of $7,129 that existed in 2000. However, in 2011 the gap increased relative to 2000. Rhode Island nominal personal income was $7,284 less than that of New England in 2011.

From 1998 – 2000, Rhode Island per capita real income growth trailed that of the United States. From 2001-2003 Rhode Island per capita real income growth exceeded that of the United States and New England. For 2004 and 2005 Rhode Island per capita real income growth trailed that of the United States and New England. Rhode Island per capita real income growth reached 3.1 percent in 2006 before declining to 2.7 percent and 0.3 percent in 2007 and 2008 respectively. In 2009, Rhode Island saw negative per capita real income growth but not as severe as either New England or the United States. For 2010 and 2011, Rhode Island's per capita real personal income growth reached 1.8 percent and 2.0 percent respectively surpassing the 1.3 percent and 1.8 percent growth of the United States in 2010 and 2011 respectively. New England saw personal income growth of 1.9 percent in 2010 and 1.8 percent in 2011.

Per Capita Personal Income, 1997 - 2011

	Nominal Income* (in current dollars)				Real Income (in 2005 dollars)			Percentage Change in Real Income		
Year	R.I.	N.E.	U.S.	PCE Deflator^	R.I.	N.E.	U.S.	R.I.	N.E.	U.S.
1997	25,621	30,087	25,654	85.4%	29,990	35,218	30,028	3.5%	3.6%	3.0%
1998	26,945	32,128	27,258	86.2%	31,242	37,252	31,605	4.2%	5.8%	5.3%
1999	27,741	33,581	28,333	87.6%	31,654	38,318	32,331	1.3%	2.9%	2.3%
2000	29,552	36,682	30,399	89.8%	32,902	40,840	33,845	3.9%	6.6%	4.7%
2001	31,170	37,966	31,145	91.5%	34,055	41,479	34,027	3.5%	1.6%	0.5%
2002	32,159	38,096	31,461	92.8%	34,662	41,062	33,910	1.8%	-1.0%	-0.3%
2003	33,472	38,771	32,271	94.7%	35,361	40,959	34,092	2.0%	-0.2%	0.5%
2004	35,079	40,809	33,881	97.1%	36,119	42,019	34,886	2.1%	2.6%	2.3%
2005	36,217	42,345	35,424	100.0%	36,217	42,345	35,424	0.3%	0.8%	1.5%
2006	38,355	45,585	37,698	102.7%	37,339	44,377	36,699	3.1%	4.8%	3.6%
2007	40,437	48,159	39,461	105.5%	38,329	45,649	37,404	2.7%	2.9%	1.9%
2008	41,882	49,648	40,909	108.9%	38,444	45,572	37,551	0.3%	-0.2%	0.4%
2009	40,477	47,258	38,607	109.0%	37,134	43,354	35,418	-3.4%	-4.9%	-5.7%
2010	41,999	49,086	39,866	111.1%	37,808	44,187	35,887	1.8%	1.9%	1.3%
2011	43,902	51,186	41,561	113.8%	38,582	44,983	36,524	2.0%	1.8%	1.8%

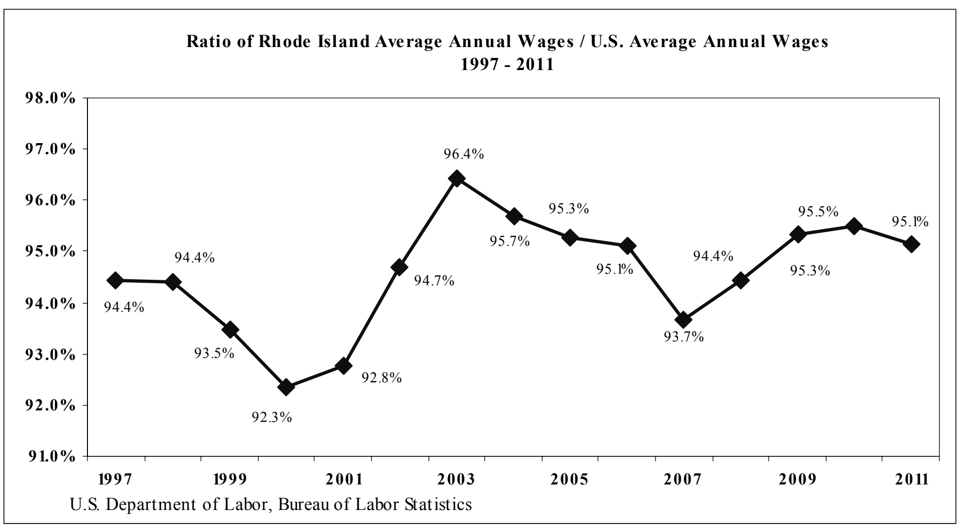
*U.S. Department of Commerce, Bureau of Economic Analysis, U.S. Department of Commerce, U.S. Census Bureau
Per Capita Personal Income is calculated by taking Personal Income/Total Population
^ U.S. Department of Commerce Bureau of Economic Analysis, Table 2.3.4 Price Indexes for Personal Consumption Expenditure by Major Type of Product [Index number, 2005=100]

Average Annual Pay. Average annual pay has grown steadily in Rhode Island over the past fifteen 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 fifteen years, the ratio of pay levels in Rhode Island to the United States has been on a downward trend since 2003 rebounding for the first time in 2008. In 1997, average annual pay in Rhode Island was 94.4 percent of the national average. By 2000, the ratio had fallen to 92.3 percent. For 2002, average annual pay in Rhode Island rebounded to 94.7 percent of U.S. average annual pay. This was followed by a further increase to 96.4 percent in 2003 at $36,415 for Rhode Island versus $37,765 for the United States as a whole. From 2004 - 2007 average annual pay in Rhode Island again fell as a percentage of average annual pay in the U.S.; however, from 2008-2010 Rhode Island has actually seen greater increases in average annual pay than the United States. In

2011 Rhode Island again slightly decreased as a percentage of average annual pay in the U.S. In 2011 Rhode Island average annual pay increased by 2.4 percent from 2010 compared to the U.S. which increased by 2.8 percent. The relationship between Rhode Island and U.S. average annual pay is shown in the table below.

Average Annual Pay, 1997 - 2011 (in current dollars)					
	Annual Pay			Percentage Change	
Year	R.I.	U.S.	R.I. / U.S.	R.I.	U.S.
1997	28,662	30,353	94.4%	5.4%	4.9%
1998	30,156	31,945	94.4%	5.2%	5.2%
1999	31,169	33,340	93.5%	3.4%	4.4%
2000	32,615	35,320	92.3%	4.6%	5.9%
2001	33,603	36,219	92.8%	3.0%	2.5%
2002	34,810	36,764	94.7%	3.6%	1.5%
2003	36,415	37,765	96.4%	4.6%	2.7%
2004	37,651	39,354	95.7%	3.4%	4.2%
2005	38,751	40,677	95.3%	2.9%	3.4%
2006	40,454	42,535	95.1%	4.4%	4.6%
2007	41,646	44,458	93.7%	2.9%	4.5%
2008	43,029	45,563	94.4%	3.3%	2.5%
2009	43,439	45,559	95.3%	1.0%	0.0%
2010	44,645	46,751	95.5%	2.8%	2.6%
2011	45,705	48,043	95.1%	2.4%	2.8%
U.S. Department of Labor, Bureau of Labor Statistics; Quarterly Census of Employment and Wages					

The chart below plots the ratio of Rhode Island average annual wages to U.S. average annual wages over 1997 – 2011.



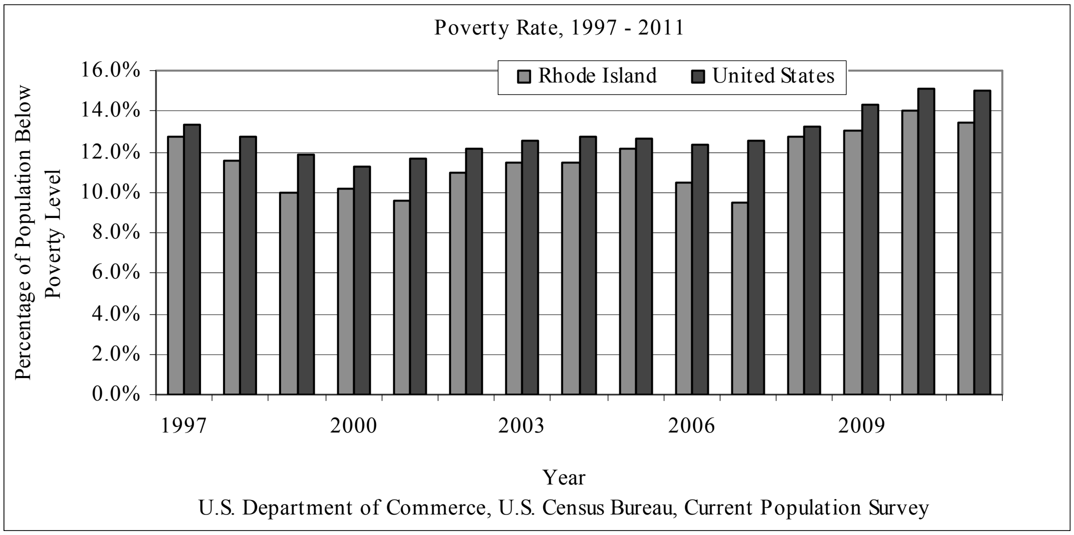
Consumer Prices. The following table presents consumer price index trends for the Northeast region and the United States for the period between 1998 and 2012. The data for each year is the Consumer Price Index for all urban consumers (CPI-U) within the designated area and the percentage change in the CPI-U from the previous year. From 1998 to 2012, the consumer price inflation in the Northeast generally exceeded that for the United States. During this period, the percent change in consumer price inflation in the Northeast region has been less than for the United States in each of the following years 1998, 1999, 2007, 2011, and 2012. In 2000 and 2001 the consumer price inflation rate in the Northeast region was equal to that of the United States. In 2002 - 2006, the consumer price inflation rate in the Northeast region exceeded that of the United States by 0.5 percent, 0.5 percent, 0.8 percent, 0.2 percent, and 0.4 percent respectively. In 2008 – 2010 the rate averaged 0.3 percent above the United States. In 2011 the rate was 0.1 percent below the United States.

Consumer Price Index for All Urban Consumers (CPI-U), 1998 - 2012					
	CPI-U		Ratio	Pct. Change	
Year	Northeast	U.S.	Northeast/U.S.	Northeast	U.S.
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	106.3%	3.6%	3.4%
2006	215.0	201.6	106.7%	3.6%	3.2%
2007	220.5	207.3	106.4%	2.6%	2.9%
2008	229.3	215.3	106.5%	4.0%	3.8%
2009	229.3	214.6	106.9%	0.0%	-0.3%
2010	233.9	218.1	107.2%	2.0%	1.6%
2011	241.0	224.9	107.1%	3.0%	3.1%
2012	245.7	229.6	107.0%	2.0%	2.1%
U.S. Department of Labor, Bureau of Labor Statistics					

Poverty. From 1997 – 2011 Rhode Island's 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's Current Population Survey. Between 1997 and 2011, the percentage of the Rhode Island population below the federal poverty line has varied from a low of 9.5 percent in 2007 to a high of 14.0 percent in 2010. During the same time period, the national poverty rate varied from a low of 11.3 percent in 2000 to a high of 15.1 percent in 2010. Interestingly, in the 2002, 2003, 2005, 2008 and 2010 periods, although Rhode Island's poverty rate had remained below that of the United States, the percentage change in Rhode Island's poverty rate had 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 1997 through 2011.

Poverty Rate, 1996 - 2011					
			Ratio	Percentage Change	
Year	R.I.	U.S.	R.I./U.S.	R.I.	U.S.
1997	12.7	13.3	95.5%	15.5%	-2.9%
1998	11.6	12.7	91.3%	-8.7%	-4.5%
1999	10.0	11.9	84.0%	-13.8%	-6.3%
2000	10.2	11.3	90.3%	2.0%	-5.0%
2001	9.6	11.7	82.1%	-5.9%	3.5%
2002	11.0	12.1	90.9%	14.6%	3.4%
2003	11.5	12.5	92.0%	4.5%	3.3%
2004	11.5	12.7	90.6%	0.0%	1.6%
2005	12.1	12.6	96.0%	5.2%	-0.8%
2006	10.5	12.3	85.4%	-13.2%	-2.4%
2007	9.5	12.5	76.0%	-9.5%	1.6%
2008	12.7	13.2	96.2%	33.7%	5.6%
2009	13.0	14.3	90.9%	2.4%	8.3%
2010	14.0	15.1	92.7%	7.7%	5.6%
2011	13.4	15.0	89.3%	-4.3%	-0.7%
U.S. Department of Commerce, U.S. Census Bureau, Current Population Survey					

The bar chart below plots the data from the above table and demonstrates the poverty level of Rhode Island and the United States from 1997 – 2011. It also illustrates the downward trend in the United States poverty rate from 1997 – 2000.



Employment

The table below shows Rhode Island Nonfarm Employment for the 1998 to 2012 period. The table reflects the new North American Industrial Classification System (NAICS) composition of employment.

Rhode Island Nonfarm Employment by Industry, 1998 - 2012

Not Seasonally Adjusted

	Construction, Natural Resources & Mining		Manufacturing		Trade, Transportation & Utilities		Information, Financial Activities, & Business Services		Educational & Health Services		Leisure, Hospitality & Other Services		Government		Nonfarm Employment	
Year	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change
1998	16,183	9.3%	74,875	-1.7%	74,683	2.4%	86,733	5.1%	81,625	1.1%	60,975	2.3%	62,933	-0.4%	**458,008**	**1.8%**
1999	18,000	11.2%	72,175	-3.6%	75,658	1.3%	89,950	3.7%	82,317	0.8%	64,042	5.0%	63,383	0.7%	**465,525**	**1.6%**
2000	18,367	2.0%	71,192	-1.4%	79,600	5.2%	92,908	3.3%	83,233	1.1%	67,025	4.7%	64,392	1.6%	**476,717**	**2.4%**
2001	19,242	4.8%	67,767	-4.8%	79,300	-0.4%	93,958	1.1%	84,925	2.0%	68,008	1.5%	65,208	1.3%	**478,408**	**0.4%**
2002	19,625	2.0%	62,267	-8.1%	80,475	1.5%	92,967	-1.1%	88,008	3.6%	69,958	2.9%	66,083	1.3%	**479,383**	**0.2%**
2003	20,942	6.7%	58,658	-5.8%	80,767	0.4%	94,658	1.8%	90,975	3.4%	72,042	3.0%	66,208	0.2%	**484,250**	**1.0%**
2004	21,200	1.2%	56,983	-2.9%	80,225	-0.7%	98,433	4.0%	92,933	2.2%	73,208	1.6%	65,533	-1.0%	**488,517**	**0.9%**
2005	22,058	4.0%	54,908	-3.6%	80,100	-0.2%	100,200	1.8%	95,317	2.6%	73,517	0.4%	64,925	-0.9%	**491,025**	**0.5%**
2006	23,092	4.7%	52,692	-4.0%	79,750	-0.4%	102,467	2.3%	97,108	1.9%	73,225	-0.4%	64,942	0.0%	**493,275**	**0.5%**
2007	22,417	-2.9%	50,733	-3.7%	79,750	0.0%	101,442	-1.0%	99,225	2.2%	74,600	1.9%	64,433	-0.8%	**492,600**	**-0.1%**
2008	20,675	-7.8%	47,942	-5.5%	77,383	-3.0%	98,617	-2.8%	100,050	0.8%	73,767	-1.1%	63,475	-1.5%	**481,908**	**-2.2%**
2009	17,383	-15.9%	41,767	-12.9%	73,267	-5.3%	93,883	-4.8%	100,992	0.9%	71,125	-3.6%	62,092	-2.2%	**460,508**	**-4.4%**
2010	16,117	-7.3%	40,350	-3.4%	72,700	-0.8%	94,100	0.2%	102,500	1.5%	71,583	0.6%	61,717	-0.6%	**459,067**	**-0.3%**
2011	15,842	-1.7%	40,683	0.8%	73,125	0.6%	95,092	1.1%	103,542	1.0%	71,275	-0.4%	60,608	-1.8%	**460,167**	**0.2%**
2012*	16,017	1.1%	40,983	0.7%	72,200	-1.3%	95,142	0.1%	102,942	-0.6%	70,742	-0.7%	59,667	-1.6%	**457,692**	**-0.5%**

*2012 numbers are preliminary and are subject to revision.
Data reflects twelve month average of nonseasonaly adjusted data.
U.S. Department of Labor, Bureau of Labor Statistics; State and Area Employment, Hours, and Earnings

Between 1998 and 2012, total nonfarm employment in Rhode Island decreased by 0.1 percent. During this time all sectors experienced overall decreases, with the exception of Information, Financial Activities and Business, Educational and Health Services, and Leisure Hospitality and Other Services which increased by 9.7 percent, 26.1 percent and 16.0 percent respectively. Total nonfarm employment growth from 1998 to 2000 averaged 1.9 percent. In 2001, Rhode Island employment growth saw a minimal increase 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 grew by a rate of 1.0 percent and then began decreasing at rates of 0.9 percent, 0.5 percent and 0.5 percent for 2004, 2005, and 2006 respectively. The first negative growth in nonfarm employment came in the 2007 and continued through 2010 with decreases of 0.1 percent, 2.2 percent, 4.4 percent and 0.3 percent. In 2011 Rhode Island employment growth was 0.2 percent, the first positive growth in nonfarm employment since 2006. However, in 2012 preliminary numbers suggest that Rhode Island nonfarm employment contracted by 0.5 percent.

Non-farm Employment by Industry. The following table summarizes the changes in Rhode Island employment by sector from 2002 to 2012. Total nonfarm employment decreased by 4.5 percent during this period, and the composition of total employment changed markedly. Employment declined by 17.3 percent in Manufacturing, Construction, Natural Resources and Mining, Trade, Transportation and Utilities and Government during this time period. Meanwhile, average employment growth for all other sectors increased 6.8 percent. The sector which saw the largest gain during this period was Educational & Health Services, which grew by 17.0 percent. Clearly, the Rhode Island economy underwent a significant restructuring during the 2002 to 2012 period, transforming from a manufacturing and construction based economy to service based economy.

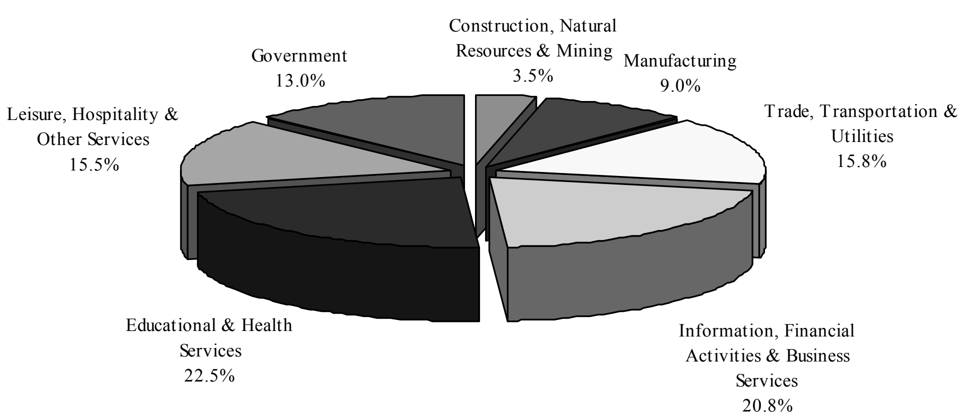
Rhode Island Nonfarm Employment by Industry, 2002 & 2012

Employment Sector	2002	% of Total	2012*	% of Total	% Change 2002-2012
Construction, Natural Resources & Mining	19,625	4.1%	16,017	3.5%	-18.4%
Manufacturing	62,267	13.0%	40,983	9.0%	-34.2%
Trade, Transportation & Utilities	80,475	16.8%	72,200	15.8%	-10.3%
Information, Financial Activities & Business Services	92,967	19.4%	95,142	20.8%	2.3%
Educational & Health Services	88,008	18.4%	102,942	22.5%	17.0%
Leisure, Hospitality & Other Services	69,958	14.6%	70,742	15.5%	1.1%
Government	66,083	13.8%	59,667	13.0%	-9.7%
Total Employment	479,383	100.0%	457,692	100.0%	-4.5%

*2012 numbers are preliminary and are subject to revision.
Data reflects twelve month average of nonseasonaly adjusted data
U.S. Department of Labor, Bureau of Labor Statistics; State and Area Employment, Hours, and Earnings

The pie chart illustrates the composition of Rhode Island employment after the restructuring of the State's economy. The Educational and Health Services sector, with 22.5 percent of the nonfarm work force in 2012, is the largest employment sector in the Rhode Island economy, followed by Information, Financial Activities and Business Services (20.8 percent), Trade, Transportation and Utilities (15.8 percent), Leisure, Hospitality and Other Services employment (15.5 percent), Government (13.0 percent), Manufacturing (9.0 percent), and Construction, Natural Resources and Mining (3.5 percent).

Rhode Island Nonfarm Employment by Industry, 2012
U.S. Department of Labor, Bureau of Labor Statistics
Preliminary 2012



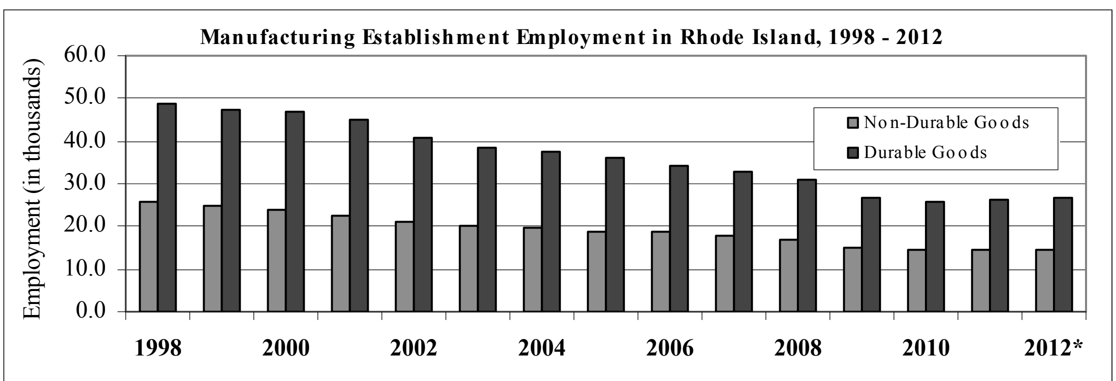
Manufacturing Employment. Like many industrial states, Rhode Island has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined between 1998 and 2010, falling by 46.1 percent. In 2011 and 2012 total manufacturing employment increased by 0.8 percent and 0.7 percent respectively. From 1998 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 4.6 percent in 2001. This rate of decline accelerated further in 2002 to 8.2 percent. Since that time, the rate of decline has again decelerated to 2.9 percent in 2004, 3.6 percent in 2005, 4.0 percent in 2006, 3.7 percent in 2007, and 5.5 percent in 2008. However, consistent with the overall contraction in the national economy, the rate of decline increased to 12.9 percent in 2009 before decelerating to 3.4 percent in 2010. In 2011, Rhode Island saw its first year of positive growth in manufacturing employment over the fifteen year period. Manufacturing employment increased by 333 jobs in 2011 with increased employment in both non-durable goods and durable goods manufacturing. Preliminary 2012 employment figures indicate that manufacturing employment recorded a second consecutive year of increased employment adding 300 jobs to the economy. Unlike 2011, the non-durable goods manufacturing experienced decreases from 2011 levels while the durable goods manufacturing realized large enough employment gains to offset any loses in non-durable goods manufacturing.

Manufacturing Establishment Employment in Rhode Island, 1998 - 2012
(In Thousands)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Non-Durable Goods	25.9	24.8	24.0	22.6	21.3	20.2	19.5	19.0	18.6	17.9	16.8	14.9	14.5	14.6	14.4
Percentage Change	-1.9%	-4.2%	-3.2%	-5.8%	-5.9%	-5.1%	-3.4%	-2.8%	-1.8%	-3.9%	-6.0%	-11.5%	-2.6%	0.4%	-1.0%
Durable Goods	49.0	47.3	47.1	45.2	41.0	38.5	37.5	36.0	34.1	32.8	31.1	26.9	25.9	26.1	26.6
Percentage Change	-1.7%	-3.4%	-0.4%	-4.0%	-9.3%	-6.2%	-2.6%	-4.1%	-5.2%	-3.6%	-5.2%	-13.6%	-3.8%	1.1%	1.7%
Total Manufacturing Employment	74.9	72.1	71.1	67.8	62.3	58.7	57.0	54.9	52.7	50.7	47.9	41.8	40.4	40.7	41.0
Percentage Change	-1.7%	-3.7%	-1.4%	-4.6%	-8.2%	-5.8%	-2.9%	-3.6%	-4.0%	-3.7%	-5.5%	-12.9%	-3.4%	0.8%	0.7%

U.S. Department of Labor, Bureau of Labor Statistics; State and Area Employment, Hours, and Earnings

Employment in the manufacture of non-durable goods declined in every year except 2011 when it grew at a rate of 0.4 percent. Despite a decline in employment, the manufacturing sector continues to be a significant component in Gross State Product, as evidenced by its production in terms of dollars. (See "Economic Base and Performance" below.)



U.S. Department of Labor, Bureau of Labor Statistics
*2012 numbers are preliminary

Unemployment. From 1998 to 2000, the Rhode Island unemployment rate was higher than the national unemployment rate with the exception of 1999. This pattern was reversed from 2001 to 2004 when Rhode Island's unemployment rate was lower than that of the United States. From 2006 to 2012, Rhode Island's unemployment rate again rose above the United States. 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 1998 and 2012.

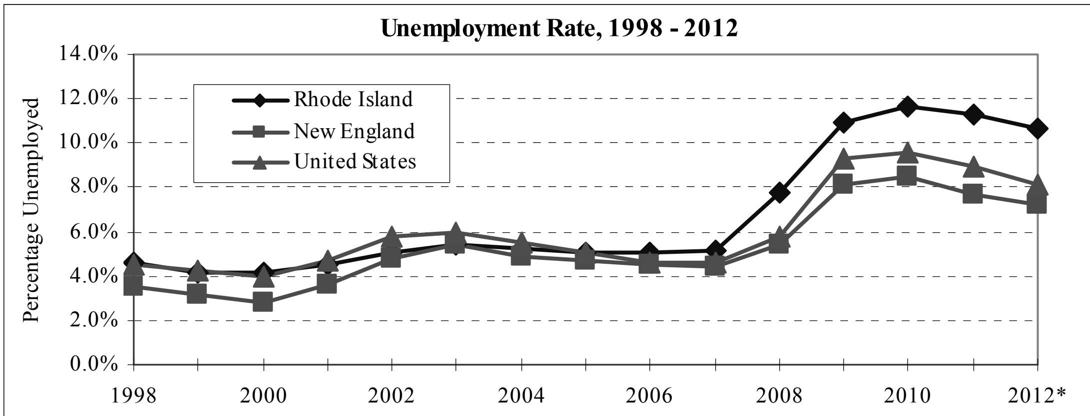
Annual Average Civilian Labor Force and Unemployment, 1998 - 2012
(in thousands)

	Civilian Labor Force			Unemployed			Unemployment Rate			R.I. Rate as a %
Year	**R.I.**	**N.E.**	**U.S.**	**R.I.**	**N.E.**	**U.S.**	**R.I.**	**N.E.**	**U.S.**	**of U.S.**
1998	534	7,257	137,673	24	253	6,210	4.6%	3.5%	4.5%	101.7%
1999	541	7,327	139,368	23	234	5,880	4.2%	3.2%	4.2%	99.4%
2000	543	7,348	142,583	23	204	5,692	4.2%	2.8%	4.0%	105.0%
2001	545	7,424	143,734	25	266	6,801	4.5%	3.6%	4.7%	95.2%
2002	554	7,496	144,863	28	363	8,378	5.1%	4.8%	5.8%	87.9%
2003	564	7,508	146,510	30	407	8,774	5.4%	5.4%	6.0%	90.0%
2004	555	7,476	147,401	29	366	8,149	5.2%	4.9%	5.5%	94.5%
2005	561	7,516	149,320	28	353	7,591	5.1%	4.7%	5.1%	100.0%
2006	573	7,607	151,428	29	344	7,001	5.1%	4.5%	4.6%	110.9%
2007(G)	574	7,646	153,124	30	342	7,078	5.2%	4.5%	4.6%	112.9%
2008(G)	571	7,711	154,287	44	418	8,924	7.7%	5.4%	5.8%	133.3%
2009(G)	565	7,732	154,142	62	629	14,265	10.9%	8.1%	9.3%	117.2%
2010(D)	570	7,756	153,889	67	659	14,825	11.7%	8.5%	9.6%	121.8%
2011(D)	563	7,740	153,617	63	599	13,747	11.3%	7.7%	8.9%	126.4%
2012(D)*	559	7,728	154,975	60	553	12,506	10.7%	7.2%	8.1%	132.1%

*2012 numbers are preliminary and are subject to revision.
U.S. Department of Labor, Bureau of Labor Statistics; Current Population Survey Database
U.S. Department of Labor, Bureau of Labor Statistics; Local Area Unemployment Statistics Database,
Data reflects twelve month average of nonseasonaly adjusted data.
(G) Reflects model reestimation. (D) Reflects data affected by changes in population controls.

In 2012, the State's unemployment rate was 10.7 percent and New England's unemployment rate was 7.2 percent.

The chart below graphs the unemployment rates for Rhode Island, New England, and the United States over the 1998 - 2012 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 since the onset of the recession.



U.S. Department of Labor, Bureau of Labor Statistics
Local Area Unemployment Statistics Database
*2012 numbers are preliminary and are subject to revision.

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

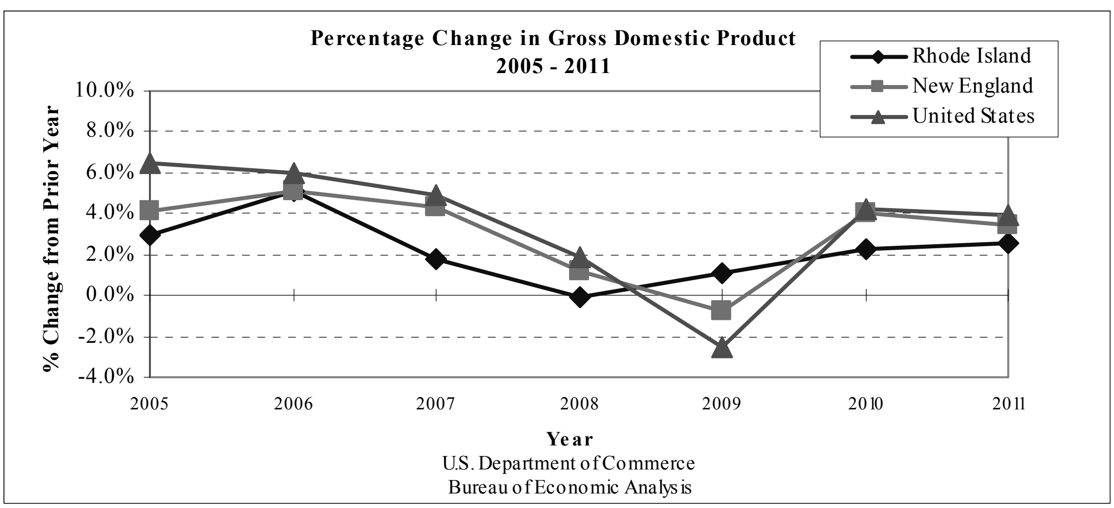
From 2005 – 2011, growth in the Rhode Island Gross Domestic Product (GDP) was less than GDP growth in the United States except for 2009. Rhode Island GDP grew in 2009, although only slightly at 1.1 percent, which was greater than the negative 0.7 percent GDP growth in New England and the negative 2.5 percent GDP growth in the United States. The table below gives Gross Domestic Product and the annual growth rates for Rhode Island, New England and the Unites States from 2005 – 2011.

Gross Domestic Product, 2005 - 2011
(millions of current dollars)

	Rhode Island		New England		United States	
Year	**GDP**	**Change**	**GDP**	**Change**	**GDP**	**Change**
2005	44,189	2.9%	685,766	4.2%	12,539,116	6.5%
2006	46,450	5.1%	720,729	5.1%	13,289,235	6.0%
2007	47,293	1.8%	751,779	4.3%	13,936,199	4.9%
2008	47,231	-0.1%	760,815	1.2%	14,193,120	1.8%
2009	47,738	1.1%	755,221	-0.7%	13,834,700	-2.5%
2010	48,840	2.3%	785,607	4.0%	14,416,601	4.2%
2011	50,091	2.6%	812,997	3.5%	14,981,020	3.9%

U.S. Department of Commerce. Bureau of Economic Analysis; Gross Domestic Product by State - All industry total

The graph below plots the percentage change in GDP for Rhode Island, New England and the United States from 2005 - 2011. As indicated by the graph Rhode Island GDP growth was substantially lower than that of New England and the United States during the onset of the recession until 2009 when Rhode Island's GDP growth was greater than both the U.S. and New England. Rhode Island, however, was not able to maintain this momentum into 2010 and 2011 when GDP growth again fell below that of New England and the United States.



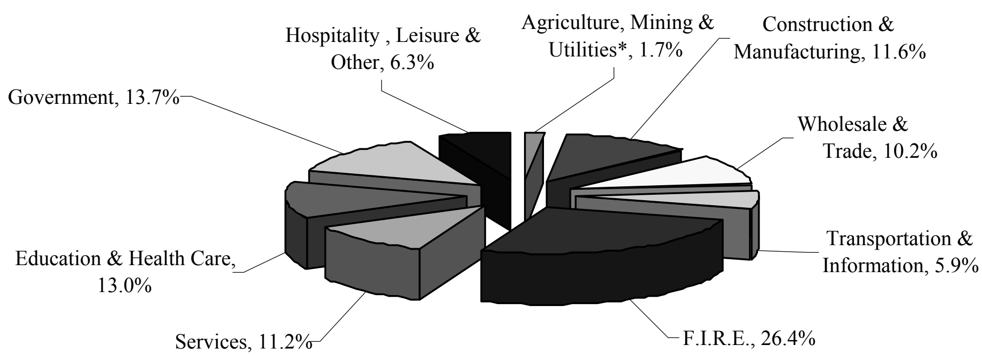
Economic Base and Performance -- Sector Detail. The economy of Rhode Island is well diversified. The table below shows the contribution to the Rhode Island Gross Domestic Product (GDP) of several industrial and non-industrial sectors. As is apparent, Rhode Island has experienced positive growth in most sectors from 2005 to 2011.

Gross Domestic Product by Industry in Rhode Island, 2005 - 2011 (millions of current dollars)							
Industrial Sector	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Agriculture, forestry, fishing and hunting	82	89	85	81	74	69	(D)
Mining	24	22	22	29	30	20	(D)
Utilities	625	755	739	790	765	778	749
Construction	2,263	2,381	2,337	2,157	1,990	1,867	1,875
Manufacturing	4,051	4,517	4,202	4,065	3,453	3,737	3,946
Wholesale Trade	2,241	2,282	2,407	2,344	2,241	2,343	2,433
Retail Trade	2,746	2,746	2,805	2,620	2,565	2,713	2,673
Transportation and warehousing, excluding postal service	681	715	706	745	719	708	752
Information	1,869	1,849	1,770	1,924	2,016	2,027	2,194
Finance and insurance	5,090	5,468	5,553	4,951	6,290	6,199	6,310
Real estate, rental and leasing	6,565	6,680	6,936	7,165	7,415	7,032	6,936
Professional and technical services	2,321	2,624	2,668	2,766	2,581	2,735	2,836
Management of companies and enterprises	1,109	1,249	1,330	1,415	1,265	1,384	1,513
Administrative and waste services	1,093	1,107	1,166	1,175	1,136	1,214	1,252
Educational services	1,037	1,112	1,187	1,264	1,317	1,357	1,365
Health care and social assistance	4,087	4,282	4,397	4,616	4,816	5,033	5,165
Government	5,472	5,672	5,963	6,188	6,216	6,597	6,854
Hospitality , Leisure & Other	2,833	2,898	3,020	2,936	2,850	3,028	3,150
Total GDP*	**44,189**	**46,450**	**47,293**	**47,231**	**47,738**	**48,840**	**50,091**

U.S. Department of Commerce, Bureau of Economic Analysis; Gross Domestic Product by State
* Differences are attributed to rounding for 2006, 2009 and 2010
(D) Not shown in order to avoid the disclosure of confidential information; estimates are included in higher level totals.

The pie chart below shows the share of total Rhode Island Gross Domestic Product in 2011 attributable to each of the industry sectors noted above.

GDP by Industry in Rhode Island, 2011
U.S. Department of Commerce, Bureau of Economic Analysis



*Includes $88 million the total difference between Total GDP reported by the BEA and the sum across each Industrial Sector. It is assumed any difference is a direct result of non-disclosure for confidentiality purposes.

Finance, Insurance and Real Estate. This is the second largest sector of Rhode Island's economy in terms of number of dollars. F.I.R.E. contributed 26.4 percent of GDP in 2011. In 2011, F.I.R.E. accounted for $13.2 billion of the $50.1 billion total gross domestic product. For the period 2005 - 2011 this sector expanded by a respectable 13.7 percent.

Construction and Manufacturing. In 2011, Construction and Manufacturing was the fourth largest sector of Rhode Island's economy at $5.8 billion, or 11.6 percent of the total Gross Domestic Product. This sector decreased by -7.8 percent from the 2005 level and in its percent contribution to GDP. In 2005, Construction and Manufacturing comprised a larger piece of GDP at 14.3 percent of the total.

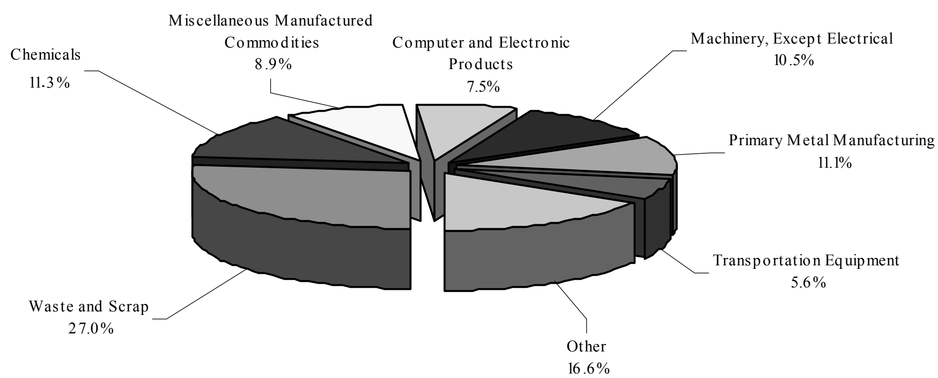
Government. At 13.7 percent of GDP in 2011, the Government sector has grown slowly and steadily since 2005. Yet, due to the gains in other sectors, particularly F.I.R.E., Government contributes only slightly more as a percentage of GDP in 2011 than it did in 2005. In 2004, the Government sector accounted for 12.4 percent of GDP. This sector grew by 3.7 percent in 2006, 5.1 percent in 2007, 3.8 percent in 2008, 0.5 percent in 2009, 6.1 percent in 2010 and 3.9 percent in 2011. In 2011, the Government sector contributed $6.9 billion of total gross state product.

Services. Services consists of professional and technical services, management services, administrative and waste services, educational, health care and social assistance, as well as other non-government services. Since 2005, Services have remained an important sector accounting for 30.5 percent, the largest portion of Rhode Island's GDP in 2011. From 2005 to 2011, Services have grown by 22.4 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 2009 was $1.50 billion. This represented 3.1 percent of Rhode Island Gross Domestic Product of $47.7 billion. In 2012, Rhode Island's exports increased to $2.38 billion, an increase of 58.9 percent over 2009 levels.

Composition of Rhode Island Exports by Industry Group 2012
U.S. Census Bureau, Foreign Trade Division
(WISER) - World Institute for Strategic Economic Research



The most important exports, as shown in the chart above, were waste and scrap, 27.0 percent; chemicals, 12.8 percent; primary metal manufacturing, 11.1 percent; machinery, except electrical, 10.5 percent; miscellaneous manufactured commodities, 8.9 percent; computers and electronic products, 7.5 percent; transportation equipment, 5.6 percent; and all other exports, 16.6 percent.

The table below provides greater detail of Rhode Island exports by industry (in thousands of dollars) for 2009-2012.

Rhode Island Exports by Industry, 2009 - 2012 (in thousands of dollars)	2009	2010	2011	2012
Total All Industries	1,495,522	1,949,146	2,282,413	2,376,107
Waste and Scrap	385,309	528,760	694,876	640,925
Chemicals	125,365	222,274	257,379	305,218
Primary Metal Manufacturing	66,483	161,024	289,878	263,919
Machinery, Except Electrical	135,858	165,942	170,706	249,292
Miscellaneous Manufactured Commodities	178,292	216,698	217,355	211,647
Computer and Electronic Products	184,433	172,552	150,957	177,058
Transportation Equipment	106,132	129,811	130,811	134,134
Plastics and Rubber Products	94,582	95,173	90,743	86,401
Electrical Equipment, Appliances and Component	45,787	64,670	68,245	71,575
Textiles and Fabrics	21,445	34,340	49,338	59,943
Fabricated Metal Products, NESOI	46,788	37,388	38,087	39,370
Fish - Fresh, Chilled or Frozen & Other Marine Products	29,392	27,916	28,515	25,966
Special Classification Provisions, Nesoi	4,164	9,996	7,652	18,321
Food and Kindred Products	8,398	6,593	14,856	18,035
Paper	12,778	17,237	19,886	15,640
Textile Mill Products	6,972	8,144	10,353	11,669
Printing, Publishing and Similar Products	10,351	11,840	11,047	11,669
Nonmetallic Mineral Products	5,704	5,188	6,856	9,550
Minerals and Ores	11,664	14,975	6,933	8,580
Furniture and Fixtures	4,193	6,002	4,613	5,107
Apparel and Accessories	3,743	4,528	4,591	3,662
Leather and Allied Products	2,635	1,130	2,436	2,889
Petroleum and Coal Products	292	2,001	2,272	2,110
Used or Second-Hand Merchandise	2,401	3,003	2,385	1,884
Wood Products	793	773	568	953
Beverages and Tobacco Products	73	43	28	204
Agricultural Products	51	12	127	138
Forestry Products, Nesoi	414	580	502	133
Livestock and Livestock Products	581	395	324	49
Goods Returned to Canada (Exports Only); U.S. Goods	337	15	32	43
Oil and Gas	0	21	26	16
Prepackaged Software	112	122	40	5
(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 2000 the number of housing permits authorized in Rhode Island decreased by 18.1 percent. In 2011, the number of housing permits authorized decreased by 20.3 percent in Rhode Island, compared to a decrease of 18.1 percent for New England and an increase of 3.3 percent for the United States. In 2012, the number of housing permits authorized increased by 7.1 percent in Rhode Island, compared to an increase of 37.5 percent for New England and an increase of 28.2 percent for the United States.

Housing Permits Authorized, 1998 - 2012 (seasonally adjusted)						
	Rhode Island		New England		United States	
Year	Total Permits	Percent Change	Total Permits	Percent Change	Total Permits	Percent Change
1998	2,653	-2.7%	47,906	13.3%	1,619,000	12.3%
1999	3,239	22.1%	47,372	-1.1%	1,662,000	2.7%
2000	2,654	-18.1%	43,755	-7.6%	1,600,000	-3.7%
2001	2,402	-9.5%	42,927	-1.9%	1,639,000	2.4%
2002	2,602	8.3%	47,297	10.2%	1,750,000	6.8%
2003	2,446	-6.0%	48,424	2.4%	1,889,000	7.9%
2004	2,512	2.7%	56,135	15.9%	2,058,000	8.9%
2005	2,940	17.0%	56,801	1.2%	2,162,000	5.1%
2006	2,266	-22.9%	48,247	-15.1%	1,846,000	-14.6%
2007	1,924	-15.1%	36,524	-24.3%	1,391,000	-24.6%
2008	1,173	-39.0%	24,027	-34.2%	896,000	-35.6%
2009	912	-22.3%	17,428	-27.5%	582,000	-35.0%
2010	935	2.5%	20,534	17.8%	604,000	3.8%
2011	745	-20.3%	16,824	-18.1%	624,000	3.3%
2012	798	7.1%	23,139	37.5%	800,000	28.2%
Federal Reserve Bank of Boston, Regional Data New England Economic Indicators: Source: U.S. Census Bureau.						

From 1996 – 1999 one of the strongest sectors of the state's economy had been housing. Over this period, existing home sales in Rhode Island grew at a minimum annual rate of 7.7 percent. In 1998 alone, they shot up 20.0 percent. Following this period of rapid growth, existing home sales decreased by 5.5 percent in 2000. Since then, existing home sales have been erratic. On a seasonally adjusted annual basis, existing home sales for Rhode Island, New England and the United States appear in the table below, data is not available for the New England Region from 2005-2007 due to the fact that the National Association of Realtors (NAR) did not report home sales for New Hampshire and Vermont because of sampling issues with some of the surveys.

Existing Home Sales, 1996 - 2010 (seasonally adjusted at annual rates, in thousands)						
	Rhode Island		New England		United States	
Year	Sales	Percent Change	Sales	Percent Change	Sales	Percent Change
1996	12.8	10.6%	216.7	9.2%	4,162.8	8.2%
1997	14.0	9.4%	238.2	9.9%	4,364.3	4.8%
1998	16.8	20.0%	267.8	12.4%	4,962.8	13.7%
1999	18.1	7.7%	270.7	1.1%	5,171.7	4.2%
2000	17.1	-5.5%	259.3	-4.2%	5,187.5	0.3%
2001	18.1	5.8%	261.5	0.8%	5,326.7	2.7%
2002	17.2	-5.0%	261.8	0.1%	5,656.7	6.2%
2003	16.8	-2.3%	265.8	1.5%	6,175.9	9.2%
2004	19.0	13.1%	307.4	15.7%	6,721.7	8.8%
2005	19.8	4.2%	-	-	7,064.0	5.1%
2006	18.5	-6.6%	-	-	6,510.0	-7.8%
2007	16.6	-10.3%	-	-	5,671.8	-12.9%
2008	13.1	-21.1%	214.8	-	4,893.5	-13.7%
2009	15.1	15.3%	219.8	2.3%	5,160.0	5.4%
2010	13.6	-9.9%	218.1	-0.8%	4,919.0	-4.7%
Federal Reserve Bank of Boston; Source: National Association of Realtors						

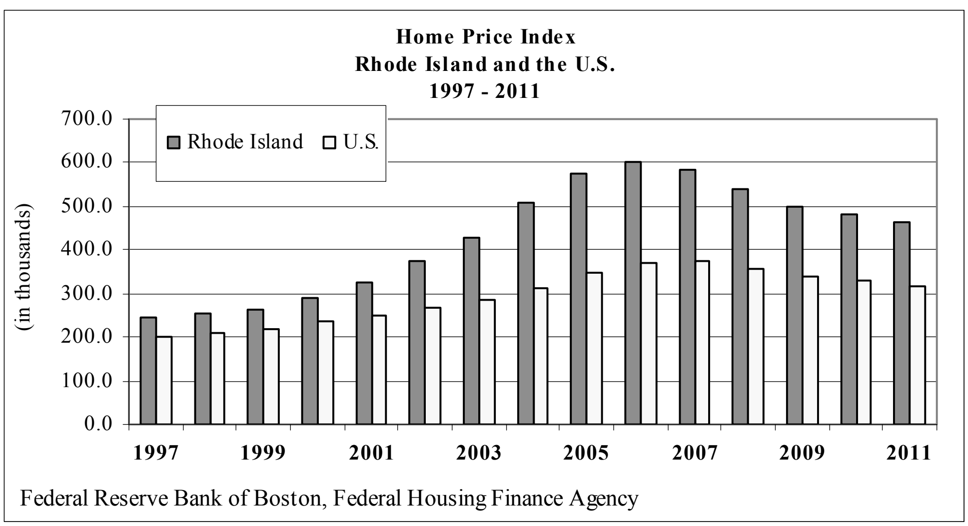
The NAR discontinued their quarterly existing home sales by state series as of February 9, 2012. The NAR will continue to provide existing-home sales series for the four major regions and for the nation. The reporting will align with new-home sales releases by the U.S. Census Bureau and U.S. Department of Housing and Urban Development. As a result, the last full year of data reported by NAR is 2010.

Home Price Index
Rhode Island and the U.S, 1997 - 2011
(not seasonally adjusted, in thousands)

Year	R.I.	U.S.	R.I. Home Prices as a Percentage of the U.S.
1997	243.4	199.7	121.9%
1998	252.7	210.0	120.4%
1999	263.5	220.3	119.6%
2000	291.0	234.4	124.2%
2001	323.7	251.9	128.5%
2002	373.7	267.8	139.5%
2003	428.3	284.4	150.6%
2004	507.6	310.9	163.3%
2005	576.4	346.0	166.6%
2006	600.5	371.2	161.8%
2007	585.6	376.0	155.8%
2008	541.7	358.8	151.0%
2009	501.2	340.8	147.0%
2010	481.1	328.2	146.6%
2011	462.3	316.7	145.9%

Federal Reserve Bank of Boston, Source: Federal Housing Finance Agency

The home price index for Rhode Island and the United States (not seasonally adjusted) appears in the chart below and table above. While the Rhode Island home price index was 121.9 percent of the U.S. average in 1997, by 1999 it had fallen to 119.6 percent of the U.S. average. Since 1999, the Rhode Island home price index has climbed relative to the U.S. average, hitting a peak of 166.6 percent in 2005. Since then, the Rhode Island index has stayed well above the U.S. average and in 2011 stands at 145.9 percent of the U.S. level.



Military Contracts

Following a peak in the value of Department of Defense contracts awarded to Rhode Island firms in 1990 of $554 million, defense related contracts declined 29.6 percent by 1993 to $390 million. By 1994, the value of defense related contracts had rebounded to $422 million, up 8.2 percent from 1993. From 1995 to 1998, contracts again declined as the country cashed in the "peace dividend" from the end of the Cold War. In 2003 contracts had risen again to $499 million, up 36.7 percent from the previous year and in 2004 contracts declined again by 16.2 percent to $418 million. In 2005 contracts awarded to Rhode Island companies remained flat at $418 million. By 2008, however, contracts awarded to Rhode Island companies had increased to $682 million or an increase of 33.5 percent from 2007. In 2009 the dollar amount of contracts awarded to Rhode Island companies decreased by 2.9 percent but was well above the average of $375 million from 1995-2007 at $662 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 2009. Since 1990, Rhode Island's share of New England contract awards has decreased from 4.1 percent to 2.3 percent of such awards in 2009.

Department of Defense Contract Awards, 1995 - 2009
(in thousands)

Fiscal Year	R.I.	N.E.	U.S.	R.I. Percentage of New England	R.I. Percentage of U.S.
1990	554	14,271	121,254	3.9%	0.5%
1991	413	13,889	124,119	3.0%	0.3%
1992	455	11,033	112,285	4.1%	0.4%
1993	390	10,789	114,145	3.6%	0.3%
1994	422	9,329	110,316	4.5%	0.4%
1995	388	9,374	109,004	4.1%	0.4%
1996	334	9,237	109,408	3.6%	0.3%
1997	275	9,152	106,561	3.0%	0.3%
1998	217	9,284	109,386	2.3%	0.2%
1999	312	9,456	114,875	3.3%	0.3%
2000	418	8,745	123,295	4.8%	0.3%
2001	283	11,094	135,225	2.6%	0.2%
2002	365	13,029	158,737	2.8%	0.2%
2003	499	17,544	191,222	2.8%	0.3%
2004	418	19,062	203,389	2.2%	0.2%
2005	418	20,699	236,987	2.0%	0.2%
2006	431	20,243	257,456	2.1%	0.2%
2007	511	23,239	297,363	2.2%	0.2%
2008	682	26,996	349,557	2.5%	0.2%
2009	662	29,351	327,462	2.3%	0.2%

Department of Defense; Personnel and Military Causalty Statistics: Statistical Information Analysis Division

Travel and Tourism

According to the Rhode Island Economic Development Corporation's Tourism Division, the 2009 Tourism Satellite Account produced by IHS Global Insight and published in November 2010, travel and tourism sales in Rhode Island were $4.99 billion. This generated 42,160 jobs or 9.2 percent of total state employment, and $1.28 billion in employee compensation. Visitation to Rhode Island fell 6.3 percent in 2009 to 16.18 million travelers. Leisure visitation fell by 2.2 percent while business travel experienced a 27.0 percent decline during 2009.

Business spending made up just over 23.0 percent of total expenditures in 2009, compared to just below 13.0 percent of total visits. Business expenditures were down 13.0 percent in 2009, mainly due to a high concentration in accommodations and transportation (the lowest performing statewide category) and a low concentration in shopping (the best performing statewide category).

Leisure spending fell over 8.5 percent in 2009, which is a faster rate of decline than leisure visitation, with leisure visitors cutting back on spending in categories like shopping and entertainment. Looking forward, IHS Global Insight forecasts total U.S. leisure travel to rebound quicker and more significantly than business travel, which should benefit R.I. as the concentration of leisure visitors is higher here than in the entire U.S.

Travel and tourism industry expenditures decreased in 2009 by 5.5 percent. The entertainment sector had the least percentage decrease in 2009 to 1.7 percent. Accommodation sales decreased by 7.4 percent, while transportation decreased by 8.3 percent. The food sector also had a decrease of 2.3 percent. The shopping sector had the only increase in 2009 to 5.9 percent. Travel and tourism annual salary grew by 0.1 percent to an average of $25,400/year. While tourism is responsible for 5.0 percent of Rhode Island GSP; it contributed 8.9 percent of all state government revenue in 2009.

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 1994. The ratio of Rhode Island spending to the national average has varied from 128.8 percent in 1994-95 to a high of 144.4 percent in 2008-09. For the 2009-10 academic year Rhode Island spent 40.4 percent more on public elementary and secondary education than the United States average: $16,073 per student compared to a national average of $11,445 per student. The following table shows expenditures per pupil for Rhode Island and the United States since the 1994-95 academic year. It should be noted that data for the 2009-10 school year is preliminary and the most recent available at this time from the National Center for Education Statistics.

Current Expenditure per Pupil in Public Elementary and Secondary Schools
Academic Years 1994-95 - 2009-10
(Based on Average Daily Attendance)

Academic Year	Rhode Island	United States	Ratio (R.I./U.S.)
1994-95	7,715	5,989	128.8%
1995-96	7,936	6,147	129.1%
1996-97	8,307	6,393	129.9%
1997-98	8,627	6,676	129.2%
1998-99	9,049	7,013	129.0%
1999-00	9,646	7,394	130.5%
2000-01	10,116	7,904	128.0%
2001-02	10,552	8,259	127.8%
2002-03	11,377	8,610	132.1%
2003-04	12,279	8,900	138.0%
2004-05	12,685	9,316	136.2%
2005-06	13,917	9,778	142.3%
2006-07	14,674	10,336	142.0%
2007-08	15,843	10,982	144.3%
2008-09	16,211	11,231	144.4%
2009-10*	16,073	11,445	140.4%

U.S. Department of Education, National Center for Education Statistics; Unadjusted Dollars
* Preliminary

For the 2009-10 academic year, Rhode Island per pupil expenditures was the eighth 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 2009-10 Preliminary (Based on Average Daily Attendance)					
Ranking	**State**	**Expenditure**	**Ranking**	**State**	**Expenditure**
	United States	**11,445**			
1	District of Columbia	21,283	27	North Dakota	10,976
2	New York	19,965	28	Iowa	10,524
3	New Jersey	18,060	29	Oregon	10,476
4	Alaska	17,350	30	Missouri	10,468
5	Vermont	16,946	31	Kentucky	10,376
6	Wyoming	16,535	32	Washington	10,242
7	Connecticut	16,133	33	Arkansas	10,237
8	**Rhode Island**	**16,073**	34	Indiana	10,160
9	Massachusetts	15,411	35	South Carolina	9,887
10	Maryland	14,937	36	Georgia	9,855
11	Maine	14,008	37	Colorado	9,747
12	Pennsylvania	13,678	38	New Mexico	9,716
13	New Hampshire	13,424	39	South Dakota	9,683
14	Illinois	13,083	40	California	9,680
15	Delaware	12,928	41	Alabama	9,554
16	Hawaii	12,734	42	Texas	9,528
17	West Virginia	12,332	43	Florida	9,363
18	Ohio	12,307	44	North Carolina	8,930
19	Wisconsin	12,136	45	Nevada	8,869
20	Nebraska	12,048	46	Arizona	8,865
21	Michigan	11,661	47	Tennessee	8,810
22	Louisiana	11,492	48	Mississippi	8,670
23	Montana	11,463	49	Oklahoma	8,511
24	Virginia	11,383	50	Idaho	7,481
25	Minnesota	11,366	51	Utah	6,877
26	Kansas	11,045			
U.S. Department of Education, National Center for Education Statistics; Unadjusted Dollars					

According to the Rhode Island Office of Higher Education, in fall 2012 (for public institutions) and fall 2011 (for private institutions, latest data available), the total enrollment of part-time and full-time students in Rhode Island institutions of higher education was 93,330. Enrollment in the public sector for fall 2012 totaled 43,204 or 46.3 percent of the total enrollment. The independent sector enrolled 50,126 students for fall 2011, or 53.7 percent of the total enrollment. In 2012, Rhode Island institutions of higher education conferred 18,374 degrees and certificates. Rhode Island public institutions awarded 6,778 degrees or 36.9 percent of the total while the private institutions granted 11,596 degrees or 63.1 percent of the total degrees conferred.

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Table of 2004 Series A Certificates, 2005 Series A Certificates and 2005 B Certificates

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
2004 A Certificates of Participation					
	10/1/2013	3.750%	2,145,000		
	10/1/2014	5.250%	1,600,000		
	10/1/2015	5.000%	2,525,000	10/1/2014	100.000
	10/1/2016	5.000%	1,735,000	10/1/2014	100.000
	10/1/2017	5.000%	2,910,000	10/1/2014	100.000
	10/1/2018	5.000%	3,480,000	10/1/2014	100.000
	10/1/2019	5.000%	3,610,000	10/1/2014	100.000
	10/1/2020	5.000%	3,775,000	10/1/2014	100.000
	10/1/2021	5.000%	4,100,000	10/1/2014	100.000
	10/1/2022	5.000%	3,910,000	10/1/2014	100.000
	10/1/2023	4.500%	4,515,000	10/1/2014	100.000
	10/1/2013	3.650%	655,000		
	10/1/2014	3.750%	1,320,000		
	10/1/2015	3.850%	535,000	10/1/2014	100.000
	10/1/2016	4.000%	1,470,000	10/1/2014	100.000
	10/1/2017	4.050%	450,000	10/1/2014	100.000
	10/1/2018	4.100%	50,000	10/1/2014	100.000
	10/1/2019	4.200%	100,000	10/1/2014	100.000
	10/1/2020	4.250%	125,000	10/1/2014	100.000
	10/1/2022	4.500%	400,000	10/1/2014	100.000
Total			39,410,000		

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
2005 A Certificates of Participation					
	10/1/2013	5.000%	2,370,000		
	10/1/2014	5.000%	2,495,000		
	10/1/2015	5.000%	2,620,000		
	10/1/2016	5.000%	2,755,000	10/1/2015	100.000
	10/1/2017	5.000%	2,900,000	10/1/2015	100.000
	10/1/2018	5.000%	3,045,000	10/1/2015	100.000
	10/1/2019	5.000%	3,200,000	10/1/2015	100.000
	10/1/2020	5.000%	3,365,000	10/1/2015	100.000
	10/1/2021	5.000%	3,540,000	10/1/2015	100.000
	10/1/2022	5.000%	3,720,000	10/1/2015	100.000
	10/1/2023	5.000%	3,910,000	10/1/2015	100.000
	10/1/2024	5.000%	4,110,000	10/1/2015	100.000
Total			38,030,000		

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
2005 B Certificatesof Participation					
	10/1/2013	3.600%	1,000,000.00		
	10/1/2014	4.000%	325,000.00		
	10/1/2015	4.000%	625,000.00		
	10/1/2018	4.000%	1,235,000.00	10/1/2015	100.000
	10/1/2019	5.000%	1,000,000.00	10/1/2015	100.000
	10/1/2020	5.000%	1,000,000.00	10/1/2015	100.000
	10/1/2021	5.000%	1,000,000.00	10/1/2015	100.000
	10/1/2022	5.000%	1,000,000.00	10/1/2015	100.000
	10/1/2023	5.000%	1,000,000.00	10/1/2015	100.000
	10/1/2024	5.000%	1,000,000.00	10/1/2015	100.000
	10/1/2014	3.625%	710,000.00		
	10/1/2015	3.700%	450,000.00		
	10/1/2016	3.900%	50,000.00	10/1/2015	100.000
	10/1/2017	3.950%	100,000.00	10/1/2015	100.000
	10/1/2019	4.000%	290,000.00	10/1/2015	100.000
	10/1/2020	4.125%	355,000.00	10/1/2015	100.000
	10/1/2021	4.125%	420,000.00	10/1/2015	100.000
	10/1/2022	4.200%	490,000.00	10/1/2015	100.000
	10/1/2023	4.250%	565,000.00	10/1/2015	100.000
	10/1/2024	4.250%	640,000.00	10/1/2015	100.000
	10/1/2016	5.000%	1,075,000.00	10/1/2015	100.000
	10/1/2017	5.000%	1,085,000.00	10/1/2015	100.000
Total			15,415,000.00		

APPENDIX C

Date of Delivery

State of Rhode Island and Providence Plantations
State House
82 Smith Street
Providence, Rhode Island 02903

Re: $36,310,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Kent County Courthouse Project – 2013 Refunding Series A) (the "Certificates")

Ladies and Gentlemen:

We have acted as Bond Counsel to the State of Rhode Island and Providence Plantations (the "State") in connection with the issuance of the Certificates and the related execution of a Sublease Agreement dated as of April 1, 2013 (the "Sublease") by and between The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee (hereinafter defined) as lessor (the "Lessor") and the State, as lessee (the "Lessee"), and a Lease Agreement dated as of April 1, 2013 by and between the State, as lessor, and The Bank of New York Mellon Trust Company, N.A. 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 April 1, 2013 (the "Declaration of Trust") wherein The Bank of New York Mellon Trust Company, N.A., 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 "Certificate Owners") of the Certificates issued pursuant to the Declaration of Trust.

In such capacity, we have examined the Declaration of Trust, the Sublease, the Lease, the Official Statement dated April 11, 2013, relating to the sale of the Certificates (the "Official Statement"), and such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

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

Based upon the foregoing, 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, and 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 Certificate Owners for federal income tax purposes under Section 103 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. However, the portion of the Lease Payments designated as Interest on the Certificates will 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 opinions set forth in this paragraph are subject to the condition that the State comply with all requirements of the Code that must be satisfied subsequent to the issuance described herein in order that the Interest be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Such requirements include, but may not be limited to, 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 by the State to comply with certain of such requirements may cause the Interest to be come included in gross income for federal tax purposes retroactive to the date of issuance. We express no opinion regarding any other federal tax consequences arising with respect to the issuance. 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. However, such amounts may be included in the measure of Rhode Island estate taxes and certain corporate and business taxes. We express no opinion regarding any other Rhode Island tax consequences arising with respect to the issuance or any tax consequences arising with respect to the issuance under the laws of any state other than Rhode Island.

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 might 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.

This opinion is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreement, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion letter to reflect any future actions, facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretation thereof, that may hereafter occur, or for any reason whatsoever.

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

Very truly yours,

Date of Delivery

State of Rhode Island and Providence Plantations
State House
82 Smith Street
Providence, Rhode Island 02903

Re: $36,575,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Training School Project – 2013 Refunding Series B) (the "Certificates")

Ladies and Gentlemen:

We have acted as Bond Counsel to the State of Rhode Island and Providence Plantations (the "State") in connection with the issuance of the Certificates and the related execution of a Sublease Agreement dated as of April 1, 2013 (the "Sublease") by and between The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee (hereinafter defined) as lessor (the "Lessor") and the State, as lessee (the "Lessee"), and a Lease Agreement dated as of April 1, 2013 by and between the State, as lessor, and The Bank of New York Mellon Trust Company, N.A. 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 April 1, 2013 (the "Declaration of Trust") wherein The Bank of New York Mellon Trust Company, N.A., 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 "Certificate Owners") of the Certificates issued pursuant to the Declaration of Trust.

In such capacity, we have examined the Declaration of Trust, the Sublease, the Lease, the Official Statement dated April 11, 2013, relating to the sale of the Certificates (the "Official Statement"), and such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

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

Based upon the foregoing, 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, and 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 Certificate Owners for federal income tax purposes under Section 103 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. However, the portion of the Lease Payments designated as Interest on the Certificates will 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 opinions set forth in this paragraph are subject to the condition that the State comply with all requirements of the Code that must be satisfied subsequent to the issuance described herein in order that the Interest be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Such requirements include, but may not be limited to, 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 by the State to comply with certain of such requirements may cause the Interest to be come included in gross income for federal tax purposes retroactive to the date of issuance. We express no opinion regarding any other federal tax consequences arising with respect to the issuance. 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. However, such amounts may be included in the measure of Rhode Island estate taxes and certain corporate and business taxes. We express no opinion regarding any other Rhode Island tax consequences arising with respect to the issuance or any tax consequences arising with respect to the issuance under the laws of any state other than Rhode Island.

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 might 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.

This opinion is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreement, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion letter to reflect any future actions, facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretation thereof, that may hereafter occur, or for any reason whatsoever.

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

Very truly yours,

Date of Delivery

State of Rhode Island and Providence Plantations
State House
82 Smith Street
Providence, Rhode Island 02903

Re: $17,520,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Energy Conservation Project – 2013 Series C) (the "Certificates")

Ladies and Gentlemen:

We have acted as Bond Counsel to the State of Rhode Island and Providence Plantations (the "State") in connection with the issuance of the Certificates and the related execution of a Sublease Agreement dated as of April 1, 2013 (the "Sublease") by and between The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee (hereinafter defined) as lessor (the "Lessor") and the State, as lessee (the "Lessee"), and a Lease Agreement dated as of April 1, 2013 by and between the State, as lessor, and The Bank of New York Mellon Trust Company, N.A. 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 April 1, 2013 (the "Declaration of Trust") wherein The Bank of New York Mellon Trust Company, N.A., 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 "Certificate Owners") of the Certificates issued pursuant to the Declaration of Trust.

In such capacity, we have examined the Declaration of Trust, the Sublease, the Lease, the Official Statement dated April 11, 2013, relating to the sale of the Certificates (the "Official Statement"), and such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

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

Based upon the foregoing, 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, and 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 Certificate Owners for federal income tax purposes under Section 103 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. However, the portion of the Lease Payments designated as Interest on the Certificates will 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 opinions set forth in this paragraph are subject to the condition that the State comply with all requirements of the Code that must be satisfied subsequent to the issuance described herein in order that the Interest be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Such requirements include, but may not be limited to, 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 by the State to comply with certain of such requirements may cause the Interest to be come included in gross income for federal tax purposes retroactive to the date of issuance. We express no opinion regarding any other federal tax consequences arising with respect to the issuance. 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. However, such amounts may be included in the measure of Rhode Island estate taxes and certain corporate and business taxes. We express no opinion regarding any other Rhode Island tax consequences arising with respect to the issuance or any tax consequences arising with respect to the issuance under the laws of any state other than Rhode Island.

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 might 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.

This opinion is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreement, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion letter to reflect any future actions, facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretation thereof, that may hereafter occur, or for any reason whatsoever.

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

Very truly yours,

Date of Delivery

State of Rhode Island and Providence Plantations
State House
82 Smith Street
Providence, Rhode Island 02903

Re: $9,170,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Information Technology Project – 2013 Series D) (the "Certificates")

Ladies and Gentlemen:

We have acted as Bond Counsel to the State of Rhode Island and Providence Plantations (the "State") in connection with the issuance of the Certificates and the related execution of a Sublease Agreement dated as of April 1, 2013 (the "Sublease") by and between The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee (hereinafter defined) as lessor (the "Lessor") and the State, as lessee (the "Lessee"), and a Lease Agreement dated as of April 1, 2013 by and between the State, as lessor, and The Bank of New York Mellon Trust Company, N.A. 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 April 1, 2013 (the "Declaration of Trust") wherein The Bank of New York Mellon Trust Company, N.A., 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 "Certificate Owners") of the Certificates issued pursuant to the Declaration of Trust.

In such capacity, we have examined the Declaration of Trust, the Sublease, the Lease, the Official Statement dated April 11, 2013, relating to the sale of the Certificates (the "Official Statement"), and such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

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

Based upon the foregoing, 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, and 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 Certificate Owners for federal income tax purposes under Section 103 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. However, the portion of the Lease Payments designated as Interest on the Certificates will 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 opinions set forth in this paragraph are subject to the condition that the State comply with all requirements of the Code that must be satisfied subsequent to the issuance described herein in order that the Interest be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Such requirements include, but may not be limited to, 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 by the State to comply with certain of such requirements may cause the Interest to be come included in gross income for federal tax purposes retroactive to the date of issuance. We express no opinion regarding any other federal tax consequences arising with respect to the issuance. 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. However, such amounts may be included in the measure of Rhode Island estate taxes and certain corporate and business taxes. We express no opinion regarding any other Rhode Island tax consequences arising with respect to the issuance or any tax consequences arising with respect to the issuance under the laws of any state other than Rhode Island.

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 might 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.

This opinion is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreement, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion letter to reflect any future actions, facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretation thereof, that may hereafter occur, or for any reason whatsoever.

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

Very truly yours,

Date of Delivery

State of Rhode Island and Providence Plantations
State House
82 Smith Street
Providence, Rhode Island 02903

Re: $15,290,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Traffic Tribunal Project – 2013 Refunding Series E) (the "Certificates")

Ladies and Gentlemen:

We have acted as Bond Counsel to the State of Rhode Island and Providence Plantations (the "State") in connection with the issuance of the Certificates and the related execution of a Sublease Agreement dated as of April 1, 2013 (the "Sublease") by and between The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee (hereinafter defined) as lessor (the "Lessor") and the State, as lessee (the "Lessee"), and a Lease Agreement dated as of April 1, 2013 by and between the State, as lessor, and The Bank of New York Mellon Trust Company, N.A. 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 April 1, 2013 (the "Declaration of Trust") wherein The Bank of New York Mellon Trust Company, N.A., 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 "Certificate Owners") of the Certificates issued pursuant to the Declaration of Trust.

In such capacity, we have examined the Declaration of Trust, the Sublease, the Lease, the Official Statement dated April 11, 2013, relating to the sale of the Certificates (the "Official Statement"), and such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

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

Based upon the foregoing, 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, and 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 Certificate Owners for federal income tax purposes under Section 103 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. However, the portion of the Lease Payments designated as Interest on the Certificates will 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 opinions set forth in this paragraph are subject to the condition that the State comply with all requirements of the Code that must be satisfied subsequent to the issuance described herein in order that the Interest be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Such requirements include, but may not be limited to, 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 by the State to comply with certain of such requirements may cause the Interest to be come included in gross income for federal tax purposes retroactive to the date of issuance. We express no opinion regarding any other federal tax consequences arising with respect to the issuance. 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. However, such amounts may be included in the measure of Rhode Island estate taxes and certain corporate and business taxes. We express no opinion regarding any other Rhode Island tax consequences arising with respect to the issuance or any tax consequences arising with respect to the issuance under the laws of any state other than Rhode Island.

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 might 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.

This opinion is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreement, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion letter to reflect any future actions, facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretation thereof, that may hereafter occur, or for any reason whatsoever.

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

Very truly yours,

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS • Lease Participation Certificates, Kent County Courthouse Project - 2013 Refunding Series A, Training School Project - 2013 Refunding Series B, Energy Conservation Project - 2013 Series C, Information Technology Project - 2013 Series D and Traffic Tribunal Project - 2013 Refunding Series E

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