OFFICIAL STATEMENT

NEW ISSUE

Ratings: *Moody's: "Aa2"*
Standard & Poor's: "AAA"
Fitch: "AA"
(See "Ratings" herein) (Insured)

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 2009 Series A Lease Payments, the 2009 Series B Lease Payments and the 2009 Series C Lease Payments (collectively the "Lease Payments") distributable respectively to Owners of the 2009 Series A Certificates, the 2009 Series B Certificates, and the 2009 Series C 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, and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. 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. Special counsel expresses no other opinion or any other tax consequences related to the acquisition, ownership or disposition of the Certificates. See "TAX STATUS" and "APPENDIX B — Proposed Forms of Legal Opinion" herein.

$12,380,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
Lease Participation Certificates (Information Technology Project – 2009 Series A)
$11,805,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
Lease Participation Certificates (Energy Conservation Project – 2009 Series B)
$30,425,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
Lease Participation Certificates (School for the Deaf Project – 2009 Series C)

Dated: Date of Delivery **Due:** April 1, 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 upon termination of any of the Subleases 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 each Series of Certificates is payable on April 1 as set forth on the inside cover hereof and interest thereon is payable on October 1 and April 1 of each year commencing October 1, 2009. 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 2009 Series B Certificates and the 2009 Series C Certificates are subject to optional redemption and mandatory sinking fund redemption as more fully described herein. (See "DESCRIPTION OF THE CERTIFICATES – Optional Redemption of 2009 Series B Certificates and 2009 Series C Certificates and Mandatory Sinking Fund Redemption of the 2009 Series B Certificates and the 2009 Series C Certificates" herein). The 2009 Series A 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 scheduled payment of principal and interest portions of each series of the Certificates when due will be guaranteed under financial guaranty insurance policies to be issued concurrently with the delivery of the Certificates by Assured Guaranty Corp. ("Assured Guaranty") (See "FINANCIAL GUARANTY INSURANCE" herein)

ASSURED GUARANTY®

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 by the Legal Counsel to the Board of Regents for Elementary and Secondary Education and for the Underwriters by their counsel Partridge Snow & Hahn LLP, Providence, Rhode Island. Certain matters will be passed upon for the State by Adler Pollock & Sheehan P.C., Providence, Rhode Island, as disclosure counsel. 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 June 25, 2009.

Janney Montgomery Scott **Barclays Capital**

Merrill Lynch & Co. **Ramirez & Co., Inc.** **Roosevelt & Cross, Inc.**

June 17, 2009

MATURITY SCHEDULE

Maturities, Amounts, Interest Rates, Yields and CUSIPs

$12,380,000 Lease Participation Certificates
(Information Technology Project – 2009 Series A)

Maturity Date April 1	Principal Amount	Interest Rate	Yield	CUSIP†
2010	$1,695,000	4.000%	1.230%	76222WDK4
2011	1,665,000	2.000	2.050	76222WDL2
2012	1,700,000	2.500	2.600	76222WDM0
2013	1,740,000	3.000	3.130	76222WDN8
2014	1,795,000	3.500	3.550	76222WDP3
2015	1,860,000	3.750	3.850	76222WDQ1
2016	1,925,000	4.000	4.080	76222WDR9

$11,805,000 Lease Participation Certificates
(Energy Conservation Project – 2009 Series B)

Maturity Date April 1	Principal Amount	Interest Rate	Yield	CUSIP†
2010	$240,000	2.000%	1.250%	76222WDS7
2011	700,000	2.000	2.050	76222WDT5
2012	750,000	2.500	2.600	76222WDU2
2013	805,000	3.000	3.130	76222WDV0
2014	870,000	3.500	3.550	76222WDW8
2015	940,000	3.750	3.850	76222WDX6
2016	1,015,000	4.000	4.080	76222WDY4
2017	1,100,000	4.250	4.400	76222WDZ1
2018	1,190,000	4.500	4.580	76222WEA5
2019	1,290,000	4.625	4.800	76222WEB3

$2,905,000 5.00% Term Certificate due April 1, 2021 - Yield 5.05% CUSIP† No. 76222WEC1

$30,425,000 Lease Participation Certificates
(School for the Deaf Project – 2009 Series C)

Maturity Date April 1	Principal Amount	Interest Rate	Yield	CUSIP†
2010	$925,000	2.000%	1.250%	76222WED9
2011	1,030,000	3.000	2.050	76222WEE7
2012	1,060,000	3.000	2.600	76222WEF4
2013	1,090,000	4.000	3.130	76222WEG2
2014	1,135,000	4.000	3.550	76222WEH0
2017	1,280,000	4.250	4.400	76222WEJ6
2018	1,330,000	4.500	4.580	76222WEK3
2019	1,390,000	4.625	4.800	76222WEL1
2022	1,640,000	5.000	5.090	76222WEM9
2023	1,720,000	5.000	5.150	76222WEN7
2024	1,810,000	5.250	5.350	76222WEP2
2027	2,115,000	5.500	5.570	76222WEQ0
2028	2,230,000	5.375	5.600	76222WER8
2029	2,350,000	5.625	5.660	76222WES6

$2,410,000 4.000% Term Certificate due April 1, 2016 - Yield 4.08% CUSIP† No.76222WET4
$3,000,000 6.125% Term Certificate due April 1, 2021 - Yield 5.00% CUSIP† No. 76222WEU1
$3,910,000 5.375% Term Certificate due April 1, 2026 - Yield 5.50% CUSIP† No. 76222WEV9

† 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 nor the State is responsible for the selection or use of the CUSIP numbers, and no representation is made as to their correctness on the Certificates or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Certificates as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as to the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Certificates.

No dealer, broker, salesperson or other person has been authorized by the State or the Underwriters 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.

Assured Guaranty makes no representation regarding the Certificates or the advisability of investing in the Certificates. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading set forth in "FINANCIAL GUARANTY INSURANCE" and APPENDIX C – "Specimen Financial Guaranty Insurance Policy."

THE STATE HAS NOT MADE ANY INDEPENDENT INVESTIGATION OF ASSURED GUARANTY OR FINANCIAL GUARANTY INSURANCE.

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

APPOINTED OFFICIALS

Director of Administration	Gary S. Sasse
Budget Officer	Rosemary Booth Gallogly
State Controller	Marc A. Leonetti
Auditor General	Ernest A. Almonte

SPECIAL COUNSEL

Hinckley, Allen & Snyder LLP
Providence, Rhode Island

DISCLOSURE COUNSEL

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

FINANCIAL ADVISOR

First Southwest Company
Lincoln, Rhode Island

OFFICIAL STATEMENT
of the
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Relating to
$12,380,000 Lease Participation Certificates
(Information Technology Project – 2009 Series A)

$11,805,000 Lease Participation Certificates
(Energy Conservation Project – 2009 Series B)

$30,425,000 Lease Participation Certificates
(School for the Deaf Project – 2009 Series C)

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 $12,380,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Information Technology Project – 2009 Series A) (the "2009 Series A Certificates"), the $11,805,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Energy Conservation Project – 2009 Series B) (the "2009 Series B Certificates") and the $30,425,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (School for the Deaf Project – 2009 Series C) (the "2009 Series C Certificates") (the 2009 Series A Certificates, the 2009 Series B Certificates and the 2009 Series C Certificates are collectively referred to herein as the "Certificates.")

The 2009 Series A Certificates

The 2009 Series A Certificates represent the proportionate interest of the registered owners thereof in lease payments ("2009 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 purchase and rental of certain information technology equipment and systems and related improvements to real property to accommodate such information technology infrastructure (the "2009 Series A Project"). Certain portions of the 2009 Series A Project were financed in part by the issuance of the State's $23,490,000 Lease Participation Certificates (Information Technology Project – 2007 Series A) (the "2007 Series A Certificates). The State did not issue additional certificates pursuant to the 2007 Series A Declaration of Trust notwithstanding is authority to do so pursuant to the 2007 Series A Declaration of Trust. (See "THE PROJECTS – The IT Projects" herein.)

The 2009 Series A Project will be leased to the State pursuant to a Sublease dated as of June 1, 2009 as the same may be amended from time to time (the "2009 Series A Sublease") by and between the State and Wells Fargo Bank, N.A., in its capacity as Trustee for the benefit of the 2009 Series A Certificate Owners pursuant to the 2009 Series A Declaration of Trust (as herein defined), as lessor (the "Lessor"). Under the 2009 Series A Declaration of Trust dated as of June 1, 2009 as the same may be amended from time to time (the "2009 Series A Declaration of Trust"), all right to the 2009 Series A Lease Payments under the 2009 Series A Sublease is set aside, granted and assigned to a grantor trust (the "2009 Series A Trust"). Wells Fargo Bank, N.A. will act as trustee (the "2009 Series A Trustee") under the 2009 Series A Declaration of Trust, Lessor under the 2009 Series A Sublease and lessee under the 2009 Series A Lease (as herein defined).

The 2009 Series A Project is being leased to the Lessor by the State pursuant to a lease (the "2009 Series A Lease") dated as of June 1, 2009. Assuming annual renewals, the 2009 Series A Lease expires on April 1, 2016. The Trustee's leasehold interest under the 2009 Series A Lease is subleased to the State under the 2009 Series A Sublease, and all right to the 2009 Series A Lease Payments under the 2009 Series A Sublease is set aside, granted and assigned to the 2009 Series A Trust.

The 2009 Series A Certificates will be issued pursuant to the 2009 Series A Declaration of Trust. The proceeds of the sale of the 2009 Series A Certificates will be deposited in the 2009 Series A Trust. The proceeds of the 2009 Series A Certificates in the 2009 Series A Trust will be distributed into a 2009 Series A Project Account and a 2009 Series A Lease Payment Account established by the 2009 Series A Declaration of Trust. Amounts held in the 2009 Series A Project Account will be disbursed by the Trustee to the State from the 2009 Series A Project Account to finance the 2009 Series A Project and to pay related costs of issuance. (See "THE PROJECTS – The IT Projects" herein.)

No Additional 2009 Series A Certificates

The 2009 Series A Sublease and the 2009 Series A Declaration of Trust will not provide for the ability to issue additional certificates with the 2009 Series A Certificates.

The 2009 Series B Certificates

The 2009 Series B Certificates represent the proportionate interest of the registered owners thereof in lease payments ("2009 Series B 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 "2009 Series B Project"). Certain portions of the 2009 Series B Project were financed in part by the issuance of the State's $12,735,000 Lease Participation Certificates (Energy Conservation Project – 2007 Series B) (the "2007 Series B Certificates). The State did not issue additional certificates pursuant to the 2007 Series B Declaration of Trust notwithstanding its authority to do so pursuant to the 2007 Series B Declaration of Trust. (See "THE PROJECTS – The Energy Conservation Projects" herein.)

The 2009 Series B Project will be leased to the State pursuant to a Sublease dated as of June 1, 2009 as the same may be amended from time to time (the "2009 Series B Sublease") by and between the State and Wells Fargo Bank, N.A., in its capacity as Trustee for the benefit of the 2009 Series B Certificate Owners pursuant to the 2009 Series B Declaration of Trust (as herein defined), as lessor (the "Lessor"). Under the 2009 Series B Declaration of Trust dated as of June 1, 2009 as the same may be amended from time to time (the "2009 Series B Declaration of Trust"), all right to the 2009 Series B Lease Payments under the 2009 Series B Sublease is set aside, granted and assigned to a grantor trust (the "2009 Series B Trust"). Wells Fargo Bank, N.A. will act as trustee (the "2009 Series B Trustee") under the 2009 Series B Declaration of

Trust, Lessor under the 2009 Series B Sublease and lessee under the 2009 Series B Lease (as herein defined).

The 2009 Series B Project is being leased to the Lessor by the State pursuant to a lease (the "2009 Series B Lease") dated as of June 1, 2009. Assuming annual renewals, the 2009 Series B Lease expires on April 1, 2021. The Trustee's leasehold interest under the 2009 Series B Lease is subleased to the State under the 2009 Series B Sublease, and all right to the 2009 Series B Lease Payments under the 2009 Series B Sublease is set aside, granted and assigned to the 2009 Series B Trust.

The 2009 Series B Certificates will be issued pursuant to the 2009 Series B Declaration of Trust. The proceeds of the sale of the 2009 Series B Certificates will be deposited in the 2009 Series B Trust. The proceeds of the 2009 Series B Certificates in the 2009 Series B Trust will be distributed into a 2009 Series B Project Account and a 2009 Series B Lease Payment Account established by the 2009 Series B Declaration of Trust. Amounts held in the 2009 Series B Project Account will be disbursed by the Trustee to the State from the 2009 Series B Project Account to finance the 2009 Series B Project and to pay related costs of issuance. (See "THE PROJECTS – The Energy Conservation Projects" herein.)

Additional 2009 Series B Certificates

The 2009 Series B Sublease and the 2009 Series B Declaration of Trust provide for the issuance of additional certificates to (i) provide monies needed to acquire additional energy conservation equipment and systems and related improvements to real property to accommodate such energy conservation infrastructure and (ii) pay costs of issuance related to such additional certificates. Such additional certificates may be issued on a parity with and may be equally and ratably secured with the Lessee's then outstanding 2009 Series B Certificates under the 2009 Series B 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 2009 Series B Sublease and the 2009 Series B Declaration of Trust, and such amendments shall grant to the Trustee additional 2009 Series B Lease Payments to be made by the 2009 Series B Lessee. Such an amendment to the 2009 Series B Sublease shall provide for additional 2009 Series B Base Rent (as defined in the 2009 Series B Sublease) sufficient to pay the principal and interest portions of such additional certificates. The maximum principal amount of such additional Certificates which may be issued on a parity with the 2009 Series B Certificates is $60,600,000. See "THE PROJECTS – The Energy Conservation Projects" herein.

The 2009 Series C Certificates

The 2009 Series C Certificates represent the proportionate interest of the registered owners thereof in lease payments ("2009 Series C Lease Payments") to be made by the State Board of Regents for Elementary and Secondary Education (the "Board of Regents") and the State of Rhode Island and Providence Plantations acting by and through its Department of Administration (the "State" and together with the Board of Regents, the "2009 Series C Lessee") for the construction and equipping of a new School for the Deaf on land located in the City of Providence, Rhode Island owned by the Board of Regents in trust for the State (the "2009 Series C Project"). The 2009 Series C Project will be leased to the 2009 Series C Lessee pursuant to a Sublease dated as of June 1, 2009 as the same may be amended from time to time (the "2009

Series C Sublease") by and among the 2009 Series C Lessee, as lessee, and Wells Fargo Bank, N.A., in its capacity as Trustee for the benefit of the 2009 Series C Certificate Owners pursuant to the 2009 Series C Declaration of Trust (as herein defined), as lessor (the "Lessor"). Under the 2009 Series C Declaration of Trust dated as of June 1, 2009 as the same may be amended from time to time (the "2009 Series C Declaration of Trust"), all right to the 2009 Series C Lease Payments under the 2009 Series C Sublease is set aside, granted and assigned to a grantor trust (the "2009 Series C Trust"). Wells Fargo Bank, N.A. will act as trustee (the "2009 Series C Trustee") under the 2009 Series C Declaration of Trust, Lessor under the 2009 Series C Sublease and lessee under the 2009 Series C Lease (as herein defined).

The 2009 Series C Project is being leased to the Lessor by the 2009 Series C Lessee (the "2009 Series C Lease") dated as of June 1, 2009. Assuming annual renewals, the 2009 Series C Lease expires on April 1, 2029. The Trustee's leasehold interest under the 2009 Series C Lease is subleased to the 2009 Series C Lessee under the 2009 Series C Sublease, and all right to the 2009 Series C Lease Payments under the 2009 Series C Sublease is set aside, granted and assigned to the 2009 Series C Trust.

The 2009 Series C Certificates will be issued pursuant to the 2009 Series C Declaration of Trust. The proceeds of the sale of the 2009 Series C Certificates will be deposited in the 2009 Series C Trust. The proceeds of the 2009 Series C Certificates in the 2009 Series C Trust will be distributed into a 2009 Series C Project Account and a 2009 Series C Lease Payment Account established by the 2009 Series C Declaration of Trust. Amounts held in the 2009 Series C Project Account will be disbursed by the Trustee to the 2009 Series C Lessee from the 2009 Series C Project Account to finance the 2009 Series C Project and to pay related costs of issuance. (See "THE PROJECTS – The School for the Deaf Project" herein.)

Additional 2009 Series C Certificates

The 2009 Series C Sublease and the 2009 Series C Declaration of Trust provide for the issuance of additional certificates to (i) provide monies needed to complete the 2009 Series C Project, and (ii) pay costs of issuance related to such additional certificates. Such additional certificates may be issued on a parity with and may be equally and ratably secured with the Lessee's then outstanding 2009 Series C Certificates under the 2009 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 2009 Series C Sublease and the 2009 Series C Declaration of Trust, and such amendments shall grant to the Trustee additional 2009 Series C Lease Payments to be made by the 2009 Series C Lessee. Such an amendment to the 2009 Series C Sublease shall provide for additional 2009 Series C Base Rent (as defined in the 2009 Series C Sublease) sufficient to pay the principal and interest portions of such additional certificates. The additional Certificates may be issued on a parity with the 2009 Series C Certificates in a maximum amount up to the amount authorized by the State through legislation adopted by the State. The State has not adopted legislation which authorizes additional financing and the State does not anticipate the issuance of additional financing for the 2009 Series C Project. See "THE PROJECTS – The School for the Deaf Project" herein.

SECURITY FOR THE CERTIFICATES

The 2009 Series A Certificates

The 2009 Series A Certificates are payable from (i) 2009 Series A Lease Payments received by the Trustee from the State with respect to the 2009 Series A Certificates; (ii) certain amounts on deposit from time to time in the 2009 Series A Trust established with respect thereto, including any remaining proceeds of the sale of the 2009 Series A Certificates and investment earnings on amounts on deposit in the 2009 Series A Trust; and (iii) proceeds from the disposition of the 2009 Series A Project upon the occurrence of an Event of Default under the 2009 Series A Sublease or upon termination of the 2009 Series A Sublease pursuant to non-appropriation of funds by the State. The 2009 Series A Sublease provides for 2009 Series A Lease Payments payable at times and in amounts equal to the principal of and interest on the 2009 Series A Certificates. The 2009 Series A Lease Payments will be made directly to the Trustee.

The State covenants in the 2009 Series A Sublease to do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which 2009 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 2009 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 2009 Series A Sublease provides an initial term commencing June 1, 2009 and terminating June 30, 2010, with annual renewals on July 1 of each year, commencing July 1, 2010, with a final 2009 Series A Sublease term commencing July 1, 2015 and terminating April 1, 2016 (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 2009 Series A Lease Payments due during the next succeeding Renewal Period.

If during the initial 2009 Series A Sublease term or any 2009 Series A Sublease term thereafter, there are lawfully appropriated funds enabling payment of all 2009 Series A Lease Payments due within the next six-month period, the 2009 Series A Sublease shall be deemed renewed with respect to the 2009 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 2009 Series A Lease Payments for such six-month period.

If a 2009 Series A Sublease term terminates without a renewal of the 2009 Series A Sublease for a succeeding 2009 Series A Sublease term and if within sixty days after such date of termination there are lawfully appropriated funds which would have caused the 2009 Series A Sublease to be renewed if the appropriation had occurred prior to the termination of the 2009 Series A Sublease then the 2009 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 2009 Series A Lease Payment Date (April 1 and October 1) between the date of termination and the date of reinstatement of the 2009 Series A Sublease, the 2009 Series A Lease Payment which would have been due on such date if the 2009 Series A Sublease had not been terminated shall become immediately due and payable on the date if the 2009 Series A Sublease is reinstated.

In the event the 2009 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 2009 Series A Project. Under such circumstances, the State shall deliver the 2009 Series A Project to the Trustee and the Trustee has the right to lease the 2009 Series A Project and apply the net proceeds thereof to payment of the principal and interest portions of the 2009 Series A Certificates. **UPON ANY SUCH OTHER SUBLEASE OF THE 2009 SERIES A PROJECT THERE MAY BE INSUFFICIENT MONIES HELD BY THE TRUSTEE UNDER THE 2009 SERIES A DECLARATION OF TRUST TO MAKE PAYMENT IN FULL OF THE PRINCIPAL AND INTEREST PORTIONS OF THE 2009 SERIES A CERTIFICATES. THE 2009 SERIES A PROJECT IS OF LIMITED VALUE FOR USE BY ANYONE OTHER THAN A DEPARTMENT OF STATE GOVERNMENT.**

The 2009 Series B Certificates

The 2009 Series B Certificates are payable from (i) 2009 Series B Lease Payments received by the Trustee from the State with respect to the 2009 Series B Certificates; (ii) certain amounts on deposit from time to time in the 2009 Series B Trust established with respect thereto, including any remaining proceeds of the sale of the 2009 Series B Certificates and investment earnings on amounts on deposit in the 2009 Series B Trust; and (iii) proceeds from the disposition of the 2009 Series B Project upon the occurrence of an Event of Default under the 2009 Series B Sublease or upon termination of the 2009 Series B Sublease pursuant to non-appropriation of funds by the State. The 2009 Series B Sublease provides for 2009 Series B Lease Payments payable at times and in amounts equal to the principal of and interest on the 2009 Series B Certificates. The 2009 Series B Lease Payments will be made directly to the Trustee.

The State covenants in the 2009 Series B Sublease to do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which 2009 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 2009 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 2009 Series B Sublease provides an initial term commencing June 1, 2009 and terminating June 30, 2010, with annual renewals on July 1 of each year, commencing July 1, 2010, with a final 2009 Series B Sublease term commencing July 1, 2020 and terminating April 1, 2021 (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 2009 Series B Lease Payments due during the next succeeding Renewal Period.

If during the initial 2009 Series B Sublease term or any 2009 Series B Sublease term thereafter, there are lawfully appropriated funds enabling payment of all 2009 Series B Lease Payments due within the next six-month period, the 2009 Series B Sublease shall be deemed renewed with respect to the 2009 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 2009 Series B Lease Payments for such six-month period.

If a 2009 Series B Sublease term terminates without a renewal of the 2009 Series B Sublease for a succeeding 2009 Series B Sublease term and if within sixty days after such date of termination there are lawfully appropriated funds which would have caused the 2009 Series B Sublease to be renewed if the appropriation had occurred prior to the termination of the 2009 Series B Sublease then the 2009 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 2009 Series B Lease Payment Date (April 1 and October 1) between the date of termination and the date of reinstatement of the 2009 Series B Sublease, the 2009 Series B Lease Payment which would have been due on such date if the 2009 Series B Sublease had not been terminated shall become immediately due and payable on the date if the 2009 Series B Sublease is reinstated.

In the event the 2009 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 2009 Series B Project. Under such circumstances, the State shall deliver the 2009 Series B Project to the Trustee and the Trustee has the right to lease the 2009 Series B Project and apply the net proceeds thereof to payment of the principal and interest portions of the 2009 Series B Certificates. **UPON ANY SUCH OTHER SUBLEASE OF THE 2009 SERIES B PROJECT THERE MAY BE INSUFFICIENT MONIES HELD BY THE TRUSTEE UNDER THE 2009 SERIES B DECLARATION OF TRUST TO MAKE PAYMENT IN FULL OF THE PRINCIPAL AND INTEREST PORTIONS OF THE 2009 SERIES B CERTIFICATES. THE 2009 SERIES B PROJECT IS OF LIMITED VALUE FOR USE BY ANYONE OTHER THAN A DEPARTMENT OF STATE GOVERNMENT.**

The 2009 Series C Certificates

The 2009 Series C Certificates are payable from (i) 2009 Series C Lease Payments received by the Trustee from the 2009 Series C Lessee with respect to the 2009 Series C Certificates; (ii) certain amounts on deposit from time to time in the 2009 Series C Trust established with respect thereto, including any remaining proceeds of the sale of the 2009 Series C Certificates and investment earnings on amounts on deposit in the 2009 Series C Trust; and (iii) proceeds from the disposition of the 2009 Series C Project upon the occurrence of an Event of Default under the 2009 Series C Sublease or upon termination of the 2009 Series C Sublease pursuant to non-appropriation of funds by the State. The 2009 Series C Sublease provides for 2009 Series C Lease Payments payable at times and in amounts equal to the principal of and interest on the 2009 Series C Certificates. The 2009 Series C Lease Payments will be made directly to the Trustee.

The State covenants in the 2009 Series C Sublease to do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which 2009 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 2009 SERIES C LESSEE'S OBLIGATION TO MAKE 2009 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 2009 Series C Sublease provides an initial term commencing June 1, 2009 and terminating June 30, 2010, with annual renewals on July 1 of each year, commencing July 1, 2010, with a final 2009 Series C Sublease term commencing July 1, 2028 and terminating April 1, 2029 (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 2009 Series C Lease Payments due during the next succeeding Renewal Period.

If during the initial 2009 Series C Sublease term or any 2009 Series C Sublease term thereafter, there are lawfully appropriated funds enabling payment of all 2009 Series C Lease Payments due within the next six-month period, the 2009 Series C Sublease shall be deemed renewed with respect to the 2009 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 2009 Series C Lease Payments for such six-month period.

If a 2009 Series C Sublease term terminates without a renewal of the 2009 Series C Sublease for a succeeding 2009 Series C Sublease term and if within sixty days after such date of termination there are lawfully appropriated funds which would have caused the 2009 Series C Sublease to be renewed if the appropriation had occurred prior to the termination of the 2009 Series C Sublease then the 2009 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 2009 Series C Lease Payment Date (April 1 and October 1) between the date of termination and the date of reinstatement of the 2009 Series C Sublease, the 2009 Series C Lease Payment which would have been due on such date if the 2009 Series C Sublease had not been terminated shall become immediately due and payable on the date if the 2009 Series C Sublease is reinstated.

In the event the 2009 Series C Sublease is terminated due to non-appropriation by the State, neither the Board of Regents nor the State is under any obligation to make any further payment with respect to the 2009 Series C Project. Under such circumstances, the Board of Regents on behalf of the State shall deliver the 2009 Series C Project to the Trustee and the Trustee has the right to lease the 2009 Series C Project and apply the net proceeds thereof to payment of the principal and interest portions of the 2009 Series C Certificates. **UPON ANY SUCH OTHER SUBLEASE OF THE 2009 SERIES C PROJECT THERE MAY BE INSUFFICIENT MONIES HELD BY THE TRUSTEE UNDER THE 2009 SERIES C DECLARATION OF TRUST TO MAKE PAYMENT IN FULL OF THE PRINCIPAL AND INTEREST PORTIONS OF THE 2009 SERIES C CERTIFICATES. THE 2009 SERIES C PROJECT IS OF LIMITED VALUE FOR USE BY ANYONE OTHER THAN A DEPARTMENT OF STATE GOVERNMENT.**

THE PROJECTS

General

The proceeds from the Certificates of Participation will be utilized for the installation of various systems of information technology (IT), the implementation of several energy conservation projects in the State, and the construction of a new School for the Deaf.

Across many areas of responsibility spanning several agencies within state government, critical information technology upgrades have become necessary due to obsolescence and resulting inefficiencies. Furthermore, several of the IT projects are designed to modernize technologies used in educational data collection, post-secondary teacher training, and innovative elementary and secondary pedagogical practice. Other projects will support the overhaul of the administrative IT infrastructure used by the Judicial Department. All IT investments described herein are driven by the need for core state agencies to remain technologically current and nimble, thereby enabling the most efficient delivery of government services to the citizens of the State. The 2009 Series A Certificates will finance the State's IT projects described herein.

Energy conservation projects pursued via "Energy Performance Contracts" (EPCs), will also be financed by the proceeds of the certificates. 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 2009 Series B Certificates will finance the execution of EPCs at the University of Rhode Island.

Due to the deteriorating condition of the existing facility, the State will construct a new School for the Deaf in Providence, Rhode Island. The new facility will incorporate the latest advances in special-needs design, thus providing the entire student population with an educational environment ideally suited to its special requirements. The 2009 Series C Certificates will finance the design, construction and equipping of the new school.

The IT Projects

Integrated eLicensing and Consolidation

The Integrated eLicensing and Consolidation project creates a new licensing model for the Department of Business Regulation that can be used across multiple agencies and licensing programs, enabling the state to unify interfaces for all licensing, license renewal services, and status checks for the citizens of the State. Integrating and enhancing the current eLicensing system, the project will proceed in a phased, process-centric approach that will also consist of the development of an image capture system to electronically store all paper licenses and allow for on-line credit card payment for professional licenses, registrations, and permits. Ultimately, over 20 separate licensing and permitting systems spread throughout various state agencies will be consolidated into this shared system. A total of $1,010,234 has been authorized for this project, of which $794,248 was utilized for the project through the issuance of the 2007 Series A Certificates. The 2009 Series A Certificates will provide the balance to complete the project.

Enterprise Infrastructure Upgrades

The Enterprise Infrastructure Upgrades project provides for the modernization of Rhode Island's information technology infrastructure. The funding would be used for technologies such as email, desktop computers, and network security. There are five major infrastructure areas that will be improved: cyber-security, WAN infrastructure, executive branch e-mail platforms and supporting infrastructure, server consolidation, and centralized service desk operations. Cyber security consists of seven security initiatives: security compliance, centralized configuration management, secure access to the state network, intrusion prevention technologies, network access control, email encryption, and authentication and identity management. WAN infrastructure upgrades will provide redundancy at three critical points in the state's internal network, a secondary internet connection, and improve the security and reliability of the network. A standardized executive branch email platform with supporting infrastructure will unify the executive branch's two competing email platforms into a cost-efficient whole, eliminating the need for excess hardware and software. Server consolidation entails the rationalizing and simplifying the use of hardware, software, services, and systems management. Lastly, the implementation of a centralized service desk through the use of HP Open View Service Desk software technology will enable automation of key service support processes. A total of $3,900,000 has been authorized for this project, of which $2,892,247 was utilized for the project through the issuance of the 2007 Series A Certificates. The 2009 Series A Certificates will provide the balance to complete the project.

Judicial Department - IT Improvements

The Judicial Department – IT Improvements project supports the acquisition and maintenance of technological equipment utilized within the Justice Link Program, as well as various technology initiatives throughout the Judiciary. Justice Link is an integrated and comprehensive statewide database designed to enhance the safety of police officers, victims, and the citizens of the State. The system allows for the immediate exchange of critical offender data and criminal records between the State and local agencies comprising the Rhode Island justice system. All J-Link related sites, including the various Courts, Attorney General, Public Defender, Corrections, DCYF, State Police, and municipal police departments, operate on a common system utilizing a relational database management system. The system contains criminal history identification information, data on wanted persons, and stolen automobiles and property. Other technological improvements are also financed herein, including upgrades to the Justice Information System and the Judicial Technology Center. A total of $13,900,000 has been authorized for this project, of which $7,576,079 was utilized for the project through the issuance of the 2007 Series A Certificates. The 2009 Series A Certificates will provide the balance to complete the project.

STEM Center/SMART Classrooms

The STEM Center/Smart Classrooms project encompasses the design and construction of a Science and Technology Education in Mathematics (STEM) Center at Rhode Island College linked to the University of Rhode Island and Community College of Rhode Island and open to all Rhode Island colleges and universities, SMART classrooms at the Rhode Island College, University of Rhode Island and one on each of the Community College of Rhode Island's campuses, and initial training across institutions to support the use of technology. Projects that would qualify could support teacher professional development, innovative techniques, and teacher preparation programs supporting K-12, post secondary and adult education, and upgrades to existing science laboratories in our public education institutions. A total of $11,750,000 has been authorized for this project, of which $7,695,421 was utilized for the project through the issuance of the 2007 Series A Certificates. The 2009 Series A Certificates will provide the balance to complete the project.

Comprehensive Education Information System (CEIS)

The Comprehensive Education Information System project involves a rather complex integration of both state and district-level data systems within a web-based Enterprise Portal Gateway Website infrastructure, and is an ongoing priority of the Department of Elementary and Secondary Education. A major component of the CEIS, the Centralized Student Information System (CSIS), has been implemented in most school districts. The remaining components of CEIS will be addressed by this project, namely the establishment of the Adult Education Information System, the acquisition of software to support the Data Warehouse, the development of an Assessment and Accountability Gateway, InSite financial tracking system upgrades, the design of the Uniform Chart of Accounts, a CEIS State directory, software maintenance, and CEIS training. Once complete, CEIS will provide the Department of Elementary and Secondary Education with the capability of meeting all data collection requirements under state and federal law (including No Child Left Behind). Moreover, school districts will have access to a multitude of information on student achievement over a variety of dimensions, enabling them to focus resources in critical areas. A total of $3,000,000 has been authorized for this project, of which $2,431,841 was utilized for the project through the issuance of the 2007 Series A Certificates. The 2009 Series A Certificates will provide the balance to complete the project.

The Energy Conservation Projects

Energy Conservation- University of Rhode Island

The Series B Certificates proceeds will finance the cost of capital improvements pursuant to an EPC with an ESCO resulting in energy-saving improvements in physical plant infrastructure throughout the University of Rhode Island system. This includes improvements to and replacement of existing equipment, with a contractual guarantee of energy cost savings over a twelve year period. A total of $18,100,000 has been authorized for this project, of which $6,735,000 was funded through the issuance of the 2007 Series B Certificates. The 2009 Series B Certificates will provide the balance of $11,365,000 for project costs.

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 Foster, 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. The State anticipates financing all or a portion of these energy conservation capital projects through the issuance of additional certificates of participation in FY2010.

Energy Conservation - Rhode Island College

The State has authorized up to $7,500,000 to support an EPC with an ESCO for Rhode Island College to provide energy-saving improvements in physical plant infrastructure throughout the Rhode Island College system. This includes improvements to and replacement of existing equipment, with a contractual guarantee of energy cost savings. The State anticipates financing all or a portion of this energy conservation capital project through the issuance of additional certificates of participation in FY2010.

The School for the Deaf Project

This project involves the design, construction and furnishing of a 73,500 square foot facility comprising a new single story 61,100 square foot masonry building and a 12,400 square foot renovation to an existing gymnasium to house the Rhode Island School for the Deaf at One Corliss Park in Providence, Rhode Island (the "Facility"). Title to the property upon which the existing Rhode Island School for the Deaf is built and the new Facility will be built vests in the Board of Regents for Elementary and Secondary Education, on behalf of the State. Title was transferred to the Board of Regents from the Providence Redevelopment Agency in 1992 for the operation of the Rhode Island School for the Deaf. Upon completion of the Facility, the existing building that houses the School for the Deaf, also located at One Corliss Park, shall be demolished. During construction, the operation of the existing School for the Deaf will move to and be housed at a temporary location in Warwick, Rhode Island for the 2009-2010 school year pursuant to a written lease with the City of Warwick. A total of $33,290,000 has been authorized by the State for this project.

The Rhode Island School for the Deaf was established in 1876 and is a comprehensive educational center serving a diverse community of deaf and hard of hearing individuals. Its mission is to provide a challenging educational program and state of the art resources so that students become contributing and productive citizens with a positive sense of self, both personally and as a deaf or hard of hearing person. When completed, the Facility has a capacity to house 168 students from pre-school through 12th grade.

The Facility will include 23 classrooms, science labs, cafeteria, kitchen, administrative offices, an audiology suite, library, computer labs, and community spaces for each school "level", art rooms, teacher resource rooms, occupational therapy, physical therapy and speech therapy treatment rooms, conference and individualized education plan meeting rooms.

The Facility was designed to meet U.S. Green Building Council LEED Silver Level Certification and designed to use 27% less energy than code requirements. It is anticipated that the ventilation systems coupled with low VOC materials will increase air quality beyond educational standards, and the Facility is expected to reduce water consumption by 30%.

The Facility was designed by the Robinson Green Beretta Corporation. The State entered into a stipulated construction contract with Bacon Construction Company on December 12, 2008 providing for subtotal hard construction costs of $23,925,700. A building permit was issued by the Rhode Island Board of Standards and Appeals on December 22, 2008, and construction commenced on or about January, 2009. The property is located in a residential zone and the Rhode Island School for the Deaf is a nonconforming use that has been in operation on the premises since 1974. The project involves expansion of the nonconforming use by the State. There have been no appeals filed or objections made to the issuance of the building permit. The balance of the 2009 Series C Certificate proceeds will be used for design fees, project management, temporary leasing fees, moving costs, and furniture, fixtures and equipment and costs of issuance. It is anticipated that the total cost of this project (inclusive of demolition, temporary lease costs, contingency and construction) will be approximately $31,160,000 of which $1,250,000 was previously allocated by the State RICAP allocation and used for design and permitting costs. The balance will be funded through the issuance of the 2009 Series C Certificates and, if needed, from other sources on hand. It is anticipated that substantial completion will be completed on or before December, 2010.

ESTIMATED SOURCES AND USES OF CERTIFICATE PROCEEDS

The 2009 Series A Certificates

Sources:	
Principal Amount of Certificates	$12,380,000.00
Original Issue Discount (Net)	(1,124.45)
Total	$12,378,875.55
Uses:	
Project Account Deposit[(1)]	$12,174,992.23
Cost of Issuance[(2)]	152,152.56
Underwriters' Discount	51,730.76
Total	$12,378,875.55

(1) Exclusive of costs of issuance.

(2) Includes insurance premium, legal fees, printing costs, etc.

The 2009 Series B Certificates

Sources:	
Principal Amount of Certificates	$11,805,000.00
Original Issue Discount (Net)	(64,850.80)
Total	$11,740,149.20
Uses:	
Project Account Deposit[1]	$11,513,373.23
Cost of Issuance[2]	161,097.05
Underwriters' Discount	65,678.92
Total	$11,740,149.20

(1) Includes $146,352.01 for capitalized interest; exclusive of costs of issuance.
(2) Includes insurance premium, legal fees, printing costs, etc.

The 2009 Series C Certificates

Sources:	
Principal Amount of Certificates	$30,425,000.00
Original Issue Premium (Net)	100,392.95
Total	$30,525,392.95
Uses:	
Project Account Deposit[1]	$29,912,797.45
Cost of Issuance[2]	420,599.63
Underwriters' Discount	191,995.87
Total	$30,525,392.95

(1) Exclusive of costs of issuance.
(2) Includes insurance premium, legal fees, printing costs, etc.

DESCRIPTION OF THE STATE

See "APPENDIX A -- Information Statement of the State of Rhode Island and Providence Plantations", dated June 3, 2009 for a description of the State, its budgetary process and financial profile.

DESCRIPTION OF THE CERTIFICATES

The 2009 Series A Certificates represent an undivided interest in the 2009 Series A Lease Payments to be made by the State to the Trustee under the 2009 Series A Sublease. The 2009

Series B Certificates represent an undivided interest in the 2009 Series B Lease Payments to be made by the State to the Trustee under the 2009 Series B Sublease. The 2009 Series C Certificates represent an undivided interest in the 2009 Series C Lease Payments to be made by the State to the Trustee under the 2009 Series C 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 "BOOK-ENTRY-ONLY SYSTEM" herein.)

The principal portions of the Certificates are payable on 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 October 1 and April 1 of each year commencing October 1, 2009 (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 the 2009 Series B Certificates and 2009 Series C Certificates

The 2009 Series B Certificates and the 2009 Series C Certificates maturing on or before April 1, 2019 are not subject to redemption prior to their date of maturity. The 2009 Series B Certificates and the 2009 Series C Certificates maturing on and after April 1, 2020 are subject to optional redemption as a whole or in part at anytime on and after April 1, 2019 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 2009 Series B Sublease and the 2009 Series C Sublease, as the case may be, in such order of maturity and in such amounts as directed by the Lessee or the 2009 Series C Lessee, as the case may be, at a redemption price equal to the principal amount of such Certificates to be redeemed plus accrued interest thereon to the redemption date.

Mandatory Sinking Fund Redemption of the 2009 Series B Certificates and the 2009 Series C Certificates

The 2009 Series B Certificates maturing April 1, 2021 shall be redeemed prior to maturity from sinking fund installments, at their principal amounts, without premium, plus accrued interest to the redemption date, on April 1, 2020 and April 1, 2021 in the principal amounts of $1,395,000 and $1,510,000 respectively.

The 2009 Series C Certificates maturing April 1, 2016 shall be redeemed prior to maturity from sinking fund installments, at their principal amounts, without premium, plus accrued interest to the redemption date, on April 1, 2015 and April 1, 2016 in the principal amounts of $1,180,000 and $1,230,000 respectively. In addition, the 2009 Series C Certificates maturing April 1, 2021 shall be redeemed prior to maturity from sinking fund installments, at their principal amounts, without premium, plus accrued interest to the redemption date, on April 1, 2020 and April 1, 2021 in the principal amounts of $1,455,000 and $1,545,000 respectively. Furthermore, the 2009 Series C Certificates maturing April 1, 2026 shall be redeemed prior to maturity from sinking fund installments, at their principal amounts, without premium, plus accrued interest to the redemption date, on April 1, 2025 and April 1, 2026 in the principal amounts of $1,905,000 and $2,005,000 respectively.

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; (ii) the proceeds of the 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; and (iii) any amounts transferred from the Project Account to the Redemption Account under the applicable Declaration of Trust upon completion of the applicable Project.

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 under this heading has been furnished by The Depository Trust Company ("DTC"), New York, New York. Neither the State nor the Underwriters make any representations as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

DTC will act as securities depository for the 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, each in the aggregate principal amount of such series and maturity and will be deposited with DTC.

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

Purchases of the 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 ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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. Beneficial Owners of Certificates may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State or the Paying Agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and 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 State or Paying Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the State or Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE 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, the Underwriters, the Trustee nor the Paying Agent shall have any responsibility or obligation with respect to: (i) the accuracy of the records of DTC or any Participant with respect to any beneficial ownership interest of the Certificates; (ii) the delivery to any Participant, Beneficial Owner of the Certificates or other person, other than DTC, of any notice with respect to the Certificates; (iii) the payment to any Participant, Beneficial Owner of the Certificates or other person, other than DTC of any amount with respect to the principal of, premium, if any, or interest on, the Certificates; (iv) any consent given by DTC as registered owner; or (v) the selection by DTC or any Participant of any Beneficial Owners to receive payment if the Certificates are redeemed in part.

SCHEDULED LEASE PAYMENTS

Scheduled 2009 Series A Lease Payments

The following is a schedule of 2009 Series A Lease Payments of Base Rent (as hereinafter defined) due under the 2009 Series A Sublease in each fiscal year, and attributed to the 2009 Series A Certificates, assuming that the 2009 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
2010	$1,695,000.00	$310,787.50	$ 2,005,787.50
2011	1,665,000.00	337,575.00	2,002,575.00
2012	1,700,000.00	304,275.00	2,004,275.00
2013	1,740,000.00	261,775.00	2,001,775.00
2014	1,795,000.00	209,575.00	2,004,575.00
2015	1,860,000.00	146,750.00	2,006,750.00
2016	1,925,000.00	77,000.00	2,002,000.00
Total	$12,380,000.00	$1,647,737.50	$14,027,737.50

Scheduled 2009 Series B Lease Payments

The following is a schedule of 2009 Series B Lease Payments of Base Rent (as hereinafter defined) due under the 2009 Series B Sublease in each fiscal year, and attributed to the 2009 Series B Certificates, assuming that the 2009 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
2010	$240,000.00	$362,796.25	$602,796.25
2011	700,000.00	468,412.50	1,168,412.50
2012	750,000.00	454,412.50	1,204,412.50
2013	805,000.00	435,662,50	1,240,662.50
2014	870,000.00	411,512.50	1,281,512.50
2015	940,000.00	381,062.50	1,321,062.50
2016	1,015,000.00	345,812.50	1,360,812.50
2017	1,100,000.00	305,212.50	1,405,212.50
2018	1,190,000.00	258,462.50	1,448,462.50
2019	1,290,000.00	204,912.50	1,494,912.50
2020	1,395,000.00	145,250.00	1,540,250.00
2021	1,510,000.00	75,500.00	1,585,500.00
Total	$11,805,000.00	$3,849,008.75	$15,654,008.75

Scheduled 2009 Series C Lease Payments

The following is a schedule of 2009 Series C Lease Payments of Base Rent (as hereinafter defined) due under the 2009 Series C Sublease in each fiscal year, and attributed to the 2009 Series C Certificates, assuming that the 2009 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
2010	$925,000.00	$1,127,345.00	$2,052,345.00
2011	1,030,000.00	1,451,950.00	2,481,950.00
2012	1,060,000.00	1,421,050.00	2,481,050.00
2013	1,090,000.00	1,389,250.00	2,479,250.00
2014	1,135,000.00	1,345,650.00	2,480,650.00
2015	1,180,000.00	1,300,250.00	2,480,250.00
2016	1,230,000.00	1,253,050.00	2,483,050.00
2017	1,280,000.00	1,203,850.00	2,483,850.00
2018	1,330,000.00	1,149,450.00	2,479,450.00
2019	1,390,000.00	1,089,600.00	2,479,600.00
2020	1,455,000.00	1,025,312.50	2,480,312.50
2021	1,545,000.00	936,193.76	2,481,193.76
2022	1,640,000.00	841,562.50	2,481,562.50
2023	1,720,000.00	759,562.50	2,479,562.50
2024	1,810,000.00	673,562.50	2,483,562.50
2025	1,905,000.00	578,537.50	2,483,537.50
2026	2,005,000.00	476,143.76	2,481,143.76
2027	2,115,000.00	368,375.00	2,483,375.00
2028	2,230,000.00	252,050.00	2,482,050.00
2029	2,350,000.00	132,187.50	2,482,187.50
Total	$30,425,000.00	$18,774,932.52	$49,199,932.52

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.

Termination of Subleases Related to 2007 Series A Certificates and 2007 Series B Certificates

In certain respects, portions of the 2009 Series A Project and the 2009 Series B Project were funded by the 2007 Series A Certificates and the 2007 Series B Certificates. (See "THE PROJECTS – The IT Projects" and "THE PROJECTS – The Energy Conservation Projects" herein.) In the event the sublease related to the 2007 Series A Certificates or the sublease related to the 2007 Series B Certificates terminates and the trustee with respect to the 2007 Series A Certificates and the 2007 Series B Certificates exercises its rights to foreclose on the projects funded with the proceeds of the 2007 Series A Certificates and the 2007 Series B Certificates, the value of the 2009 Series A Project and the 2009 Series B Project, as the case may be, could be substantially diminished.

Special Mandatory, Mandatory Sinking Fund and Optional Redemption or Acceleration Prior to Maturity

The Certificates are subject to special mandatory redemption or acceleration prior to maturity. In addition, the 2009 Series B Certificates and the 2009 Series C Certificates are subject to mandatory sinking fund redemption at the dates set forth above and optional redemption on and after April 1, 2019. (See "DESCRIPTION OF THE CERTIFICATES – *Optional Redemption of the 2009 Series B Certificates and 2009 Series C Certificates*, – *Mandatory Sinking Fund Redemption of the 2009 Series B Certificates and the 2009 Series C Certificates* and – *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.

Zoning Matters Relating to the 2009 Series C Project

The property on which the Rhode Island School for the Deaf currently operates and where the new Facility will be constructed is One Corliss Park in Providence, Rhode Island ("Corliss Park"), which is zoned as "residential" under the zoning ordinance of the City of Providence, Rhode Island. The Rhode Island School for the Deaf has conducted its operations in its current facility at Corliss Park since 1974 as a nonconforming use. The Board of Regents, on behalf of the State, has owned and operated the Rhode Island School for the Deaf at Corliss Park since the transfer of the property in 1992 by the Providence Redevelopment Agency to the Board of Regents. A building permit was issued by the Rhode Island Board of Standards and Appeals on December 22, 2008, for the construction of the new facility, which expands the nonconforming use at Corliss Park by the State, and such construction commenced in January 2009. There have been no appeals filed or objections made to the issuance of the building permit. Notwithstanding all of the foregoing, there is no assurance that objections will not be raised to the construction of the new Facility and/or the use of Corliss Park as a school in the future based upon such nonconforming use under the zoning ordinance of the City of Providence. If the Rhode Island School for the Deaf was required to cease or modify its operations at Corliss Park as a result of any action taken by the City of Providence under its zoning ordinance with respect to such nonconforming use, such an action may impact the decision of the State as to whether to continue to renew the 2009 Series C Sublease for each Renewal Period thereafter and appropriating sufficient funds to enable the payment of all Lease

Payments for each such Renewal Period under the 2009 Series C Sublease (See "CERTIFICATE OWNERS' RISKS – Risk of Non-Appropriation and Non-Renewal" herein).

Value of Projects

The Trustee's leasehold interests in the applicable Project, which constitute part of the security for the applicable Certificates, are leasehold interests in the leased property which are of limited value to anyone other than a state governmental department. Moreover, significant portions of the 2009 Series A Project consist of related IT consulting and training costs and software which do not result in acquired physical assets available to the 2009 Series A Trustee to be re-let in the event of non-appropriation by the State. Additionally, significant portions of the 2009 Series A Project consist of improvements to real estate to accommodate the new IT infrastructure. Such assets incorporated into the real estate would not be available to the Series 2009 A Trustee to re-let in the event of non-appropriation by the State. Significant portions of the 2009 Series B Project also consist of improvements to real estate. Such assets incorporated into the real estate would not be available to the 2009 Series B Trustee to re-let in the event of non-appropriation by the State. Those aspects of the 2009 Series A Project related to the University of Rhode Island, Rhode Island College and the Community College of Rhode Island and the 2009 Series B Project will be located on real property owned by the Board of Governors for Higher Education (the "BOG"), which holds all of its properties in trust for the State. The 2009 Series C Project will be located on real property owned by the Board of Regents which holds the property in trust for the State, which property is zoned residential. The Trustee, in exercising its rights to take possession of the 2009 Series C Project upon an Event of Default under the 2009 Series C Sublease, may be restricted in its ability to use or lease the 2009 Series C Project due to the existence of such zoning.

Risk of Non-Appropriation and Non-Renewal

Each of the Subleases is for an initial period ending June 30, 2010, 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, and the Board of Regents under the 2009 Series C Lease and 2009 Series C Sublease, may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws or by equitable principles affecting the enforcement of creditors' rights generally.

Tax-Exempt Status; Continuing Legal Requirements

As described hereinafter under the caption "TAX STATUS," the failure of the State or the Trustee to comply with certain legal requirements may cause the interest portion of the Certificates to become subject to federal income taxation retroactive to the date of issuance. 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 2009 Series A Sublease, the 2009 Series B Sublease and the 2009 Series C Sublease are substantially similar (except as otherwise differentiated in this summary). In this summary and herein, the terms "Sublease," "Project," "Declaration of Trust" and "Lease Payments" should be read as referring to the documents related to the 2009 Series A Certificates, the Series 2009 Series B Certificates or the 2009 Series C Certificates, as applicable. Reference is hereby made to the actual documents for a complete recital of their terms.

Term and Renewals

The Sublease is effective as of June 1, 2009 and will terminate on June 30, 2010. 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 under the 2009 Series A Sublease and 2009 Series B Sublease, and the 2009 Series C Lessee under the 2009 Series C Sublease, agree 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 and the 2009 Series C Lessee's obligation to pay all or any portion of the Base Rent is subject to the availability of lawful appropriations therefor.

The State under the 2009 Series A Sublease and 2009 Series B Sublease, and the 2009 Series C Lessee under the 2009 Series C Sublease, agree 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 and the Series 2009 C Lessee's obligation to pay all or any portion of the Additional Rent is subject to the availability of lawful appropriations by the State 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 and the 2009 Series C Lessee, as applicable, 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 or the Series 2009 Series C Lessee, as applicable, are 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 and the 2009 Series C Lessee's intent to make payments under the Sublease, as applicable to each, for all terms of the Sublease if funds are legally available therefor and the State with respect to the 2009 Series A Project and the 2009 Series B Project, and the 2009 Series C Lessee with respect to the 2009 Series C Project, represent that the uses of such Projects are essential to their 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, or the 2009 Series C Lessee with respect to the 2009 Series C Sublease, 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, and the 2009 Series C Lessee with respect to the 2009 Series C Project, agree immediately to peaceably surrender possession of the Project to the Trustee on the date of such Event of Non appropriation.

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

Title

The State will continue to possess title to the 2009 Series A Project and the 2009 Series B Project, and the Board of Regents will continue to possess title to the 2009 Series C Project in trust for the State. 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, and the Board of Regents along with the State under the 2009 Series C Sublease, are required at all times during the term of the Sublease to maintain comprehensive property and public liability insurance or self-insurance consistent with prevailing standards for comparable public bodies of similar size in the region. The proceeds of insurance (other than self-insurance) recovered on portions of the Project lost, stolen, destroyed or damaged shall be applied to the repair or replacement of the Project. In the event of self-insurance, proceeds of self-insurance shall be applied to repair or replace the Project to the extent proceeds are lawfully appropriated therefore.

Rent Prepayment Option for 2009 Series B Certificates and 2009 Series C Certificates

On and after April 1, 2019 pursuant to the 2009 Series B Sublease, upon sixty (60) days prior written notice from the State to the 2009 Series B Trustee, and provided that there is not then existing an Event of Default, or a default which with notice or lapse of time, or both, could become an Event of Default, the State will have the right to prepay payments under the 2009 Series B Sublease, in whole or in part at any time by paying to the 2009 Series B Trustee, on such date, the payments then due under the 2009 Series B Sublease, together with the Rent Prepayment Price being paid on such date along with instructions to the 2009 Series B Trustee as to how such Rent Prepayment Price shall be applied by the 2009 Series B Trustee in its capacity as 2009 Series B Trustee for the Owners of 2009 Series B Certificates. Upon satisfaction by the State of payment of the entire Rent Prepayment Price, the 2009 Series B Trustee will transfer any and all of its right, title and interest in the 2009 Series B Project, as is, to the State, without warranty, express or implied, except that the 2009 Series B Trustee will warrant to the State that the Project is free and clear of any liens created by the 2009 Series B Trustee.

On and after April 1, 2019 pursuant to the 2009 Series C Sublease, upon sixty (60) days prior written notice from the 2009 Series C Lessee to the 2009 Series C Trustee, and provided that there is not then existing an Event of Default, or a default which with notice or lapse of time, or both, could become an Event of Default, the 2009 Series C Lessee will have the right to prepay payments under the 2009 Series C Sublease, in whole or in part at any time by paying to the 2009 Series C Trustee, on such date, the payments then due under the 2009 Series C Sublease, together with the Rent Prepayment Price being paid on such date along with instructions to the 2009 Series C Trustee as to how such Rent Prepayment Price shall be applied by the 2009 Series C Trustee in its capacity as 2009 Series C Trustee for the Owners of 2009 Series C Certificates. Upon satisfaction by the 2009 Series C Lessee of payment of the entire Rent Prepayment Price, the 2009 Series C Trustee will transfer any and all of its right, title and interest in the 2009 Series C Project, as is, to the 2009 Series C Lessee, without warranty, express or implied, except that the 2009 Series C Trustee will warrant to the 2009 Series C Lessee that the Project is free and clear of any liens created by the 2009 Series C 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 or 2009 Series C Lessee, as applicable, fails to make any Lease Payment as it becomes due in accordance with the terms of the Sublease; or

(b) The State or 2009 Series C Lessee, as applicable, 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 or the 2009 Series C Lessee, as applicable request the State or the 2009 Series C Lessee to (and the State and the 2009 Series C Lessee agree that it will to the fullest possible extent), relinquish possession of all of the equipment and related software or real property and fixtures constituting the Project, as applicable, and deliver the same to the Trustee;

(b) By written notice to the State or the 2009 Series C Lessee, as applicable, 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 relinquished property comprising the Project for the account of the State or the 2009 Series C Lessee, as applicable, 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 or the 2009 Series C Lessee pursuant to such lease and the amounts payable by the State or the 2009 Series C Lessee 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.

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 and the 2009 Series C Lessee, as applicable, 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 or the 2009 Series C Lessee is in default of the Sublease or any amendment thereto.

FINANCIAL GUARANTY INSURANCE

The following information is not complete and reference is made to Appendix C for a specimen of the financial guaranty insurance policies (collectively, the "Policy") of Assured Guaranty Corp. ("Assured Guaranty" or the "Insurer").

The Insurance Policy

Assured Guaranty has made a commitment to issue the Policy relating to the Certificates, effective as of the date of issuance of such Certificates. Under the terms of the Policy, Assured Guaranty will unconditionally and irrevocably guarantee to pay that portion of principal of and interest on the Certificates that becomes Due for Payment but shall be unpaid by reason of Nonpayment (the "Insured Payments"). Insured Payments shall not include any additional amounts owing by the State solely as a result of the failure by the Trustee to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee by reason of such failure. The Policy is non-cancelable for any reason, including without limitation the non-payment of premium.

"Due for Payment" means, when referring to the principal of the Certificates, the stated maturity date thereof, or the date on which such Certificates shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and, when referring to interest on such Certificates, means the stated dates for payment of interest.

"Nonpayment" means the failure of the State to have provided sufficient funds to the Trustee for payment in full of all principal and interest Due for Payment on the Certificates. It is further understood that the term Nonpayment in respect of a Certificate also includes any amount previously distributed to the Holder (as such term is defined in the Policy) of such Certificate in respect of any Insured Payment by or on behalf of the State, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. Nonpayment does not include nonpayment of principal or interest caused by the failure of the Trustee to pay such amount when due and payable.

Assured Guaranty will pay each portion of an Insured Payment that is Due for Payment and unpaid by reason of Nonpayment, on the later to occur of (i) the date such principal or interest becomes Due for Payment, or (ii) the business day next following the day on which Assured Guaranty shall have received a completed notice of Nonpayment therefor in accordance with the terms of the Policy.

Assured Guaranty shall be fully subrogated to the rights of the Holders of the Certificates to receive payments in respect of the Insured Payments to the extent of any payment by Assured Guaranty under the Policy.

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

The Insurer

Assured Guaranty Corp. ("Assured Guaranty") is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. Assured Guaranty commenced operations in 1988. Assured Guaranty is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of Assured Guaranty or any claims under any insurance policy issued by Assured Guaranty.

Assured Guaranty is subject to insurance laws and regulations in Maryland and in New York (and in other jurisdictions in which it is licensed) that, among other things, (i) limit Assured Guaranty's business to financial guaranty insurance and related lines, (ii) prescribe minimum solvency requirements, including capital and surplus requirements, (iii) limit classes and concentrations of investments, (iv) regulate the amount of both the aggregate and individual risks that may be insured, (v) limit the payment of dividends by Assured Guaranty, (vi) require the maintenance of contingency reserves, and (vii) govern changes in control and transactions among affiliates. Certain state laws to which Assured Guaranty is subject also require the approval of policy rates and forms.

Assured Guaranty's financial strength is rated "AAA" (stable) by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P"), "Aa2" (on review for possible downgrade) by Moody's Investors Service, Inc. ("Moody's") and "AA" (evolving) by Fitch, Inc. ("Fitch"). Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

Recent Developments

Ratings

On May 20, 2009, Moody's issued a press release stating that it had placed the "Aa2" insurance financial strength rating of Assured Guaranty on review for possible downgrade.

Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody's comments.

In a press release dated May 4, 2009, Fitch announced that it had downgraded the insurer financial strength rating of Assured Guaranty to "AA" from "AAA" and placed such rating on Rating Watch Evolving. Reference is made to the press release, a copy of which is available at www.fitchratings.com, for the complete text of Fitch's comments.

There can be no assurance as to the outcome of Moody's review or the timing of when such review may be completed, as to the further action that Fitch may take with respect to Assured Guaranty, or as to any action that S&P may take in the future with respect to Assured Guaranty's financial strength and financial enhancement ratings.

For more information regarding Assured Guaranty's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which was filed by AGL with the Securities and Exchange Commission ("SEC") on February 26, 2009, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009, which was filed by AGL with the SEC on May 11, 2009.

Agreement to Purchase FSA

On November 14, 2008, AGL announced that it had entered into a definitive agreement to purchase Financial Security Assurance Holdings Ltd. ("FSA"), the parent of financial guaranty insurance company Financial Security Assurance, Inc. For more information regarding the proposed acquisition by AGL of FSA, see the Annual Report on Form 10-K filed by AGL with the SEC on February 26, 2009.

Capitalization of Assured Guaranty Corp.

As of March 31, 2009, Assured Guaranty had total admitted assets of $1,926,329,505 (unaudited), total liabilities of $1,570,615,119 (unaudited), total surplus of $355,714,386 (unaudited) and total statutory capital (surplus plus contingency reserves) of $1,109,717,908 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2008, Assured Guaranty had total admitted assets of $1,749,484,210 (audited), total liabilities of $1,371,350,859 (audited), total surplus of $378,133,351 (audited) and total statutory capital (surplus plus contingency reserves) of $1,090,288,113 (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. The Maryland Insurance Administration recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Maryland Insurance Code, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the Maryland Insurance Administration to financial statements prepared in accordance with accounting principles generally accepted in the United States in making such determinations.

Incorporation of Certain Documents by Reference

The portions of the following documents relating to Assured Guaranty are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- The Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2008 (which was filed by AGL with the SEC on February 26, 2009);

- The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009 (which was filed by AGL with the SEC on May 11, 2009); and

- The Current Reports on Form 8-K filed by AGL with the SEC, as they relate to Assured Guaranty.

All consolidated financial statements of Assured Guaranty and all other information relating to Assured Guaranty included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the Certificates shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading "FINANCIAL GUARANTY INSURANCE – The Insurer" shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of Assured Guaranty incorporated by reference herein and of the statutory financial statements filed by Assured Guaranty with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at 1325 Avenue of the Americas, New York, New York 10019 or by calling Assured Guaranty at (212) 974-0100. In addition, the information regarding Assured Guaranty that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC is available to the public over the Internet at the SEC's web site at *http://www.sec.gov* and at AGL's web site at *http://www.assuredguaranty.com*, from the SEC's Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Assured Guaranty makes no representation regarding the Certificates or the advisability of investing in the Certificates. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "FINANCIAL GUARANTY INSURANCE."

SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATIONS OF TRUST

The following is a summary of certain provisions of the Declaration of Trust. The 2009 Series A Declaration of Trust, the 2009 Series B Declaration of Trust, and the 2009 Series C Declaration of Trust are substantially similar (except as otherwise differentiated in this summary). In this summary and herein, the terms "Sublease," "Project," "Declaration of Trust," and "Lease Payments" should be read as referring to the documents relating to the 2009 Series A Certificates, the 2009 Series B Certificates and the 2009 Series C 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 2009 Series A Sublease and 2009 Series B Sublease, and the State and the 2009 Series C Lessee under the 2009 Series C Sublease. The Trustee may, upon written direction from the State or the 2009 Series C Lessee, as the case may be, from time to time while the Certificates are outstanding, execute and deliver additional series of Certificates payable from payments under the Sublease, except with respect to the 2009 Series A Certificates.

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 2009 Series B Certificates and the 2009 Series C Certificates are also subject to mandatory sinking fund redemption and optional redemption as described in "DESCRIPTION OF CERTIFICATES – *Optional Redemption of 2009 Series B Certificates and 2009 Series C Certificates* and – *Mandatory Sinking Fund Redemption of the 2009 Series B Certificates and the 2009 Series C 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.

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

Establishment and Application of Lease Payment Account

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

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

The Trustee shall withdraw first from the Base Rent Subaccount and second from the Additional Rent Subaccount, on each Payment Date an amount equal to the amount of any interest or principal portion of the Certificates then due with respect to the Certificates on such interest, sinking fund installment or principal payment date, and shall cause the same to be applied to the payment of the principal and interest portions due with respect to the Certificates.

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

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

Establishment and Application of Rebate Account

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

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

Establishment and Application of Redemption Account

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

Moneys shall be deposited in the Redemption Account in the event of a special mandatory redemption, sinking fund redemption, optional 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. <u>Federal Home Loan Bank System</u>

   Senior debt obligations (Consolidated debt obligations)

2. <u>Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")</u>

   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 "Aam" 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 Trust Agreement, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to this Indenture may at times duplicate those provided to such funds by the Trustee or its affiliates;

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

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

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

(h) Commercial paper (having original maturities of not more than 270 days) rated "Prime - 1" by Moody's and "A-1+" or better by S&P.

(i) 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.

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

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

(l) 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.

(m) 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.

Repos must satisfy the following criteria:

1. Repos must be between the Lessee and a dealer bank or securities firm

    a. Primary dealers on the Federal Reserve reporting dealer list which fall under the jurisdiction of the SIPC and which are rated A or better by S&P and Moody’s, or

    b. Banks rated “A” or above by S&P and Moody’s

2. The written Repo contract must include the following:

    a. Securities which are acceptable for transfer are:

        i. Direct U.S. governments, or

        ii. Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)

    b. The term of the Repo may be up to 30 days

    c. The collateral must be delivered to the Trustee (if the Trustee is not supplying the collateral) or third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

    d. The Trustee has a perfected first priority security interest in the collateral.

    e. Collateral is free and clear of third-party liens and in the case of SIPC broker was not acquired pursuant to a repo or reverse repo.

    f. Failure to maintain the requisite collateral percentage, after a two day restoration period, will require the Trustee to liquidate collateral.

g. Valuation of Collateral. Investments shall be valued as follows:

i. The securities must be valued weekly, marked-to-market at current market price plus accrued interest

ii. The value of collateral must be equal to 104% of the amount of cash transferred by the Trustee to the dealer bank or security firm under the Repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the Trustee, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

3. <u>Legal opinion which must be delivered to the Trustee</u>:

Repo meets guidelines under state law for legal investment of public funds.

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

1. the municipal obligations are (a) not subject to redemption prior to maturity or (b) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

2. the municipal obligations are secured by cash or U.S. Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

3. the principal of and interest on the U.S. Treasury Obligations (plus an cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest and premium, if any, due and to become due on the municipal obligations ("Verification Report");

4. the cash or U.S. Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of municipal obligations;

5. no substitution of a U.S. Treasury Obligation shall be permitted except with another U.S. Treasury Obligation and upon delivery of a new Verification Report; and

6. the cash or U.S. Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

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 or the 2009 Series C Lessee, as applicable, 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 or the 2009 Series C Lessee, as applicable, fails to perform or observe any other covenant, condition or agreement to be performed or observed by it under the Sublease and such failure is not cured within thirty (30) days after written notice thereof from the Trustee; or

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

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

Acceleration

Upon the occurrence of any Event of Default involving non-appropriation, or the State's or the 2009 Series C Lessee'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 or the 2009 Series C Lessee'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 and the 2009 Series C Lessee, as applicable, 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. Any acceleration shall require the written consent of the Insurer.

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

Remedies

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

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

If an Event of Default shall have occurred, and if requested to do so 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.

Rights of Insurer to Direct Proceedings

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

Appointment of Receivers

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

Rights and Remedies of Certificate Owners

No Owner of any Certificate shall have any right to institute any suit, action or proceeding for the enforcement of the Declaration of Trust, for the execution of any trust thereof or any other remedy thereunder, unless (i) an Event of Default has occurred; (ii) the Owners of a majority of the aggregate principal amount of the Certificates then Outstanding thereunder shall have made written request to the Trustee and shall have offered the Trustee reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (iii) such Owners have offered the Trustee indemnification in a manner satisfactory to it for any liability and expense it might incur in carrying out the aforementioned request; and (iv) the Trustee shall thereafter fail or refuse to exercise the powers hereinbefore granted, or to institute such action, suit or proceeding in its, his or their own name or names. Such request and offer of indemnity are 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.

Rights of the Insurer

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

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

Waivers of Events of Default

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.

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

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 2009 Series B Declaration of Trust and the 2009 Series C 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 2009 Series B Declaration of Trust and the 2009 Series C 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. Any amendment to the Declaration of Trust requiring consent of the Certificate Owners may not be made without first obtaining consent of the Insurer.

Defeasance of 2009 Series B Certificates and 2009 Series C Certificates

If and when any 2009 Series B Certificates issued under the 2009 Series B Declaration of Trust or any 2009 Series C Certificates under the 2009 Series C 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 2009 Series B Certificates or 2009 Series C 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 2009 Series B Certificates or 2009 Series C Certificates shall have been paid or provided for, then and in that case, the right, title and interest of the 2009 Series B Trustee under the 2009 Series B Declaration of Trust or the 2009 Series C Trustee under the 2009 Series C Declaration of Trust, as the case may be, and the applicable supplemental amendment relating to such 2009 Series B Certificates or 2009 Series C Certificates shall thereupon cease, terminate and become void, and the 2009 Series B Trustee or the 2009 Series C Trustee, as the case may be, shall assign and transfer to the State or the 2009 Series C Lessee, as applicable, all property (in excess of the amounts required for the foregoing) then held by the 2009 Series B Trustee or the 2009 Series C Trustee as to such series of 2009 Series B Certificates or 2009 Series C Certificates and shall execute such documents as may be reasonably required by the State or the 2009 Series C Lessee, as the case may be, in this regard.

LITIGATION

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

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

LEGAL MATTERS

The Attorney General of the State has reviewed and approved all the documentation related to the Sublease and the Lease and will render an opinion to the effect that the State possesses the authority necessary to enter into the Sublease and the Lease and that the Sublease and the Lease constitute legal, valid, binding and enforceable obligations of the State subject to the limitations set forth therein. The Legal Counsel to the Board of Regents has reviewed and approved all documentation related to the 2009 Series C Lease and 2009 Series C Sublease and will render an opinion to the effect that the Board of Regents possesses the necessary authority to enter into the 2009 Series C Lease and the 2009 Series C Sublease and that the 2009 Series C Lease and 2009 Series C Sublease constitute legal, valid, binding and enforceable obligations of the Board of Regents 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 Adler Pollock & Sheehan P.C., Providence, Rhode Island, disclosure counsel to the State. Certain legal matters will be passed upon for the Underwriters by their counsel, Partridge Snow & Hahn LLP, Providence, Rhode Island. Certain other legal matters will be passed upon for the Board of Regents by the Legal Counsel to the Board of Regents.

TAX STATUS

Hinckley, Allen & Snyder LLP is of the opinion that, under existing statues and court decisions and assuming 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(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Such portion of the Lease Payments distributable as Interest is excludable from State of Rhode Island personal income taxation to the extent such interest is excludable from gross income for federal income tax purposes. (See "APPENDIX B - Proposed 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 and is not 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 statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Hinckley, Allen & Snyder LLP expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of that portion of the Lease Payments designated as Interest, or under state or local tax law.

Original Issue Discount

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

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

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 Janney Montgomery Scott LLC, as representative of the Underwriters listed on the cover page hereof (the “Underwriters”). The aggregate offering price of the Series A Certificates to the public is $12,378,875.55 and the Underwriters have agreed, subject to certain conditions, to purchase the Series A Certificates at a purchase price of $12,327,144.79 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 $11,740,149.20 and the Underwriters have agreed, subject to certain conditions, to purchase the Series B Certificates at a purchase price of $11,674,470.28 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 $30,525,392.95 and the Underwriters have agreed, subject to certain conditions, to purchase the Series C Certificates at a purchase price of $30,333,397.08 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 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.

FINANCIAL ADVISOR

The State has retained First Southwest Company (the "Financial Advisor") to serve as its financial advisor in connection with the issuance of the Certificates. The Financial Advisor'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 are expected to be 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"). The ratings expected to be assigned by Moody's, S&P and Fitch are "Aa2", "AAA" and "AA" respectively, with the understanding that upon delivery of the Certificates, policies guaranteeing the payment when due of principal of and interest on the Certificates will be issued by Assured Guaranty.

Moody's, S&P, and Fitch have assigned underlying ratings of "A1", "AA-" and "A+" 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 may not purchase or sell municipal securities unless the issuer of the municipal securities undertakes to provide continuing disclosure with respect to those securities, subject to certain exemptions. The State will covenant, at the time of the delivery of the Certificates, to provide continuing disclosure consistent with the terms of the Rule, as provided in a Continuing Disclosure Certificate to be dated as of the date of delivery of the Certificates and incorporated by reference therein.

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

1. The State will provide to each nationally recognized municipal securities information repository ("NRMSIR") and the appropriate state information depository for the State ("SID"), if any: (a) on or before the end of each calendar year, commencing December 31, 2009, financial information and operating data relating to the State for the preceding fiscal year of the type presented in Appendix A of the Official Statement prepared in connection with the Certificates regarding (i) revenues and expenditures relating to operating budgets, (ii) capital expenditures, (iii) fund balances, (iv) tax information, (v) outstanding direct and indirect indebtedness, (vi) pension obligations and (vii) such other financial information and operating data as may be required to comply with the Rule; and (b) promptly upon their public release, the audited financial statements of the State for the most recently ended fiscal year, to the extent such statements have been commissioned, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by Rhode Island law. The State reserves the right to modify from time to time the specific types of information provided under clause (a) above or the format of the presentation of such information, provided that any such modification will be done in a manner consistent with the Rule.

2. The State will provide in a timely manner to each NRMSIR or the Municipal Securities Rulemaking Board and the SID, if any, notice of the occurrence of any of the following events with respect to the Certificates, if material: (a) principal and interest portion payment delinquencies; (b) nonpayment related defaults; (c) unscheduled draws on debt service reserves reflecting financial difficulties; (d) unscheduled draws on credit enhancements reflecting financial difficulties; (e) substitution of credit or liquidity providers or their failure to perform; (f) adverse tax opinions or events affecting the tax-exempt status of the Certificates; (g) modifications to rights of beneficial owners of the Certificates; (h) Certificate calls; (i) defeasances; (j) release, substitution or sale of property securing repayment of the Certificates; or (k) rating changes to the Certificates by any nationally recognized credit agency which has rated the Certificates at the request of the State. The State from time to time may choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the State, such other event is material with respect to the Certificates, but the State does not undertake to commit to provide any such notice of the occurrence of any material event except those listed above.

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

The provisions of the Continuing Disclosure Certificate may be amended by the State without the consent of, or notice to, any owners of the Certificates, (a) to comply with or conform to the provisions of the Rule or any amendments to the Rule or authoritative interpretations thereto by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make necessary or desirable provisions with respect thereto, (c) to add to the covenants of the State for the benefit of the owners of the Certificates, (d) to modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of state legislation establishing a SID or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) and (e), (i) the undertaking, as amended, would have complied with the requirements of the

Rule at the time of the offering of the Certificates, after taking into account any amendments or authoritative interpretations of the Rule, as well as any changes in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Certificates, as determined either by a party unaffiliated with the State (such as special counsel), or by a vote or consent of owners of a majority in outstanding principal amount of the Certificates affected thereby at or prior to the time of such amendment. The Continuing Disclosure Certificate will also state that to the extent the Rule no longer requires issuers such as the State to provide continuing disclosure with respect to securities such as the Certificates, the State's obligation to provide continuing disclosure shall terminate immediately.

The purpose of the State's undertaking is to conform to the requirements of the Rule and, except for creating the right on the part of the Owners of the Certificates from time to time, to specifically enforce the State's obligations hereunder, not to create new contractual or other rights for the original purchasers of the Certificates, any registered owner or beneficial owner of the Certificates, any municipal securities broker or dealer, any potential purchaser of the Certificates, the Securities and Exchange Commission or any other person. The sole remedy in the event of any actual or alleged failure by the State to comply with any covenant of the Continuing Disclosure Certificate shall be an action for the specific performance of the State's obligations thereunder and not for money damages in any amount. Any failure by the State to comply with any provision of such undertaking shall not constitute an Event of Default with respect to the Certificates.

Except as noted below, the State has never failed to comply, in all material respects, with any previous undertakings to provide annual reports or notices of material events in accordance with the Rule. In February 2005 the State submitted its annual disclosure related to Motor Fuel Tax Revenue Bonds and GARVEE Bonds approximately seventeen days late. Due to an administrative oversight, the State failed to cause the Rhode Island Refunding Bond Authority, a component unit of the State for financial reporting purposes, to file on a timely basis the audited financial statements of the Rhode Island Refunding Bond Authority for the fiscal year ending June 30, 2007 pursuant to certain undertakings of the State relating solely to the bonds of the Rhode Island Refunding Bond Authority. The State has implemented procedures to ensure timely filing in the future.

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

As a consequence of certain amendments to the Rule adopted by the Securities and Exchange Commission on December 5, 2008 (the "2008 Amendments"), effective July 1, 2009, the continuing disclosure currently required to be furnished to each NRMSIR and SID shall be furnished instead to the Municipal Securities Rule Making Board ("MSRB"), accompanied by identifying information prescribed by the MSRB. The 2008 Amendments become effective July 1, 2009 and will be applied retroactively to continuing disclosure undertakings entered into prior to July 1, 2009.

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 June 3, 2009 and the General Purpose Financial Statements of the State, as of and for the year ended June 30, 2008. Also included as part of the State's Information Statement is a compilation of certain of the State's leading economic indicators. All of the information contained in the State's Information Statement has been prepared and furnished by the State.

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

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

STATE OF RHODE ISLAND AND
PROVIDENCE PLANTATIONS

By: *__/s/ Frank T. Caprio__*
General Treasurer

By: *__/s/ Gary S. Sasse__*
Director of Administration

June 17, 2009

APPENDIX A

Information Statement of the State of Rhode Island and Providence Plantations

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APPENDIX A

INFORMATION STATEMENT OF THE STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

DATED: June 3, 2009

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STATE GOVERNMENT ORGANIZATION AND FINANCES

General Information

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

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

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

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

Municipalities

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

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

During the 2006 session of the General Assembly, significant amendments to 44-5-2 were enacted. The amendments progressively reduce the maximum property tax levy from a 5.5% increase over the prior year levy to 4% in the year 2013 while expanding and clarifying exemptions from the property tax cap. The previous property tax limitation applied a 5.5% cap on the tax rate or the levy. In those municipalities where a city or town council has final tax levy approval, a four fifths vote would be required to exceed the applicable cap. In the case of a city or town having a financial town meeting, the majority of the electors present and voting at the town financial meeting shall also approve the excess levy. The act also capped the amount of funds requested by a school committee of a city or town at the same rate of increase as the maximum tax levy increase. The act also broadened the definition of State mandates on municipalities and restricted the flexibility of the Governor or Legislature to forego reimbursement of State mandates. Lastly, the bill required the "Office of Municipal Affairs" to complete a study by November 15, 2006 of tax treaties, exemptions and freezes currently applying in municipalities throughout the State. The study has been completed.

The State Auditor General completed a review in 2007 of the fiscal health of the various locally administered defined benefit pension plans covering Rhode Island municipal employees. Twenty-five Rhode Island communities have created 37 pension plans, which they administer for their employees. The State Auditor General identified 21 pension plans administered by 15 Rhode Island municipalities as underfunded. Of these 21 plans, 7 were considered most at risk because the plans were significantly underfunded and annual contributions were significantly less than annual required amounts. Total assets collectively held by these 37 pension plans were reported by the State Auditor General as being approximately $1.3 billion as of June 30, 2006. The collective unfunded actuarial liability for future benefits under these locally administered plans was approximately $1.6 billion as of the actuarial valuation referenced in their June 30, 2006 financial statements. The State Auditor General made a number of recommendations in its July 2007 report to improve the funded status of these plans and also recommended that new employees participate in the State administered Municipal Employee's Retirement System.

Local Tax Relief

In 1998, the General Assembly enacted measures designed to phase out, over a number of years, two separate components of the local property tax levy. One is the local levy on inventories. The phase out period will span ten years and will progressively eliminate ten percent of the tax levy each year until it is totally phased-out by fiscal year 2009. This phase-out was completed as scheduled. Local communities were to be reimbursed for lost revenues from the inventory tax through the State's General Revenue Sharing program, which was scheduled to increase from 1.0 percent of tax revenues in FY 1998 to 4.7 percent in FY 2009. The planned phase-out was delayed by one year as part of the FY 2003 budget, and further delayed in subsequent budgets. Despite these delays and proposed freezes, the local reduction in the levy on inventories continued on the original schedule.

The other local property tax levy to be reduced or eliminated is the local levy on motor vehicles and trailers. This tax may be phased out subject to annual review and appropriation by the General Assembly by providing increasing exemptions against the assessed value of all motor vehicles. Local communities are reimbursed on the value of the exempted amounts and assumed cumulative growth in the tax rate equal to the Consumer Price Index (CPI). Beginning in FY 2004, however, there is no longer a CPI adjustment for an assumed growth in municipal tax rates. For FY 2008 and as enacted for FY 2009, the first $6,000 in value of a vehicle is exempted from taxation and municipalities are prohibited from applying an excise tax rate higher than the rate applied in 1998. Municipalities are being reimbursed for the lost revenue resulting from the exemption. Beginning in FY 2008, municipalities are being reimbursed for 98% of the tax value of the exemption. During the 2005 Session of the General Assembly, additional video lottery terminals were authorized which were expected to yield additional lottery revenues to the State, a portion of which was to be dedicated to local governments.

State Aid to Local Communities

The largest category of State aid to cities and towns is assistance programs for school operations and school construction. The general school aid program disburses funding to communities on the basis of a number of factors including wealth of the community and the number of children eligible for free or reduced price meals. A number of legislative, executive, or collaborative efforts have been made to refine the commitment and strategy for financing local education into the future. Thus far, there has been no strategy confirmed by a statutory scheme specifying a precise method of determining entitlements in future years. Midway through FY 2009, the General Assembly enacted a $42.6 million reduction from the originally enacted budget of $691.4 million in school operations aid. This includes a reduction of $38.3 million of general aid which is offset by $38.3 million of federal funds to be received by local governments through the "State Stabilization Fund" under the American Recovery and Reinvestment Act of 2009. It also includes a $5.3 million reduction in Professional Development Funds, and a $4.3 million reduction associated with revenues generated from video lottery operations dedicated to the Permanent School Fund, a fund which is established by the Constitution to benefit schools but previously had relatively small annual resources. Local governments are also expected to receive $16.2 million of Title I funds and $19.4 of IDEA funds through the American Recovery Reinvestment Act in FY 2009.

In addition to reimbursement of school operations costs, State school construction aid is provided at levels ranging from 30 percent to 88 percent of the construction cost of new facilities. The level is based upon the relationship between student enrollment and community wealth, and takes into consideration the relative weight of school debt in the particular city or town to its total debt. Beginning in FY 1997, the definition of reimbursable expenditures was expanded to include capital expenditures made through a capital lease or lease revenue bonds or from a municipality's capital reserve account. In FY 1997, disbursements to local school districts totaled $18.1 million. The FY 2009 enacted Supplemental Budget provides $54.1 million for this category of aid. A related program will provide approximately $2.6 million in FY 2009 to cities and towns to provide aid in the construction of libraries.

Other local aid programs include the motor vehicle excise tax reimbursement, general revenue sharing and payment-in-lieu of taxes (PILOT) program. Beginning in 1987 a variety of general State aid programs were consolidated into one general revenue sharing program which incorporated a distribution formula based upon relative population, tax effort for municipal services and personal income of each city and town. The general revenue sharing program now also incorporates additional funding to compensate municipalities for the phased loss of the inventory tax as described above. The FY 2008 supplemental budget included a $10.0 million reduction in the general revenue sharing funds distributed to local governments. The FY 2008 final Budget included $55.1 million for this program and this lower level was continued in FY 2009. Midway through FY 2009, the General Assembly enacted a reduction of $30.1 million from the $55.1 million enacted level. The Motor Vehicle Excise Tax Reimbursement program is funded at $135.3 million in the FY 2009 Supplemental Budget. Enacted as part of the FY 2008 revised budget, local governments will be reimbursed at a rate of 98 percent in FY 2008 and thereafter.

The PILOT program authorizes the General Assembly to appropriate and distribute to communities amounts not to exceed 27 percent of the property taxes that would have been collected on tax exempt properties. Properties included in this program are non-profit educational institutions, non-profit or State-owned hospitals, veterans' residential facility, and correctional facilities. The FY 2009 Enacted Budget includes $27.6 million for this program. Also, the State makes payments to communities identified as distressed based upon four different criteria. Appropriations of $10.4 million are included in the FY 2009 Enacted Budget to fund entitlements for seven communities. Of these seven communities, Central Falls was determined to be especially distressed in 1991 and in FY 1993 the State assumed full responsibility for funding education in Central Falls. Finally, Rhode Island distributes to communities the proceeds of a statewide tax imposed on the tangible personal property of telephone, telegraph, cable, express and telecommunications companies. This aid is estimated at $9.2 million for FY 2009.

Principal Governmental Services

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

General Government

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

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

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

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

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

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

Human Services

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

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

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

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

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

Education

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

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

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

Public Safety

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

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

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

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

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

Natural Resources

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

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

Transportation

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

The Intermodal Surface Transportation Fund is supported by the State's 30 cents per gallon motor fuel tax. These receipts fund operating and debt service expenditures of the Department of Transportation, as well as specific portions of transportation-related expenditures of the Rhode Island Public Transit Authority (RIPTA) and the Department of Elderly Affairs. The 30 cents per gallon motor fuel tax is allocated as follows: 18.75 cents to the Department of Transportation; 2.0 cents to an indenture trustee to support debt service on motor fuel tax bonds; 7.25 cents to RIPTA; 1.0 cent to the Department of Elderly Affairs; and 1.0 cents to the General Fund.

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

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

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

State Fund Structure – Accounting Basis

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

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

Budget Procedures

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

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

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

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

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

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

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

A budget reserve and cash stabilization account was created by statute in 1990. In 1992, the Rhode Island Constitution was amended specifying that the reserves created could only be called upon in an emergency involving the health, safety, or welfare of the State or in the event of an unanticipated deficit caused by a shortfall in general revenue receipts. Such reserve account is capped at 3 percent of General Fund revenues. The reserve account is funded by limiting annual appropriations to 98 percent of estimated revenues. When the Budget Reserve Account has reached its maximum, the excess contribution flows to the Rhode Island Capital Fund. The FY 2007 budget reserve account balance was approximately $78.6 million. This reflects an appropriation by the General Assembly to a transfer of $19.4 million to the General Fund surplus due to actual revenue collections for FY 2007 being less than enacted, potentially causing a deficit in the General Fund. The Budget Reserve Fund 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 Governor's FY 2008 revised budget provided for an appropriation of $19.4 million to repay the transfer made in 2007 and the actual balance of the Budget Reserve Fund at the end of FY 2008 was $103.1 million reflecting full funding. For FY 2008, the Governor requested a $42.9 million appropriation, the amount of the FY 2008 deficit. The General Assembly has not made an appropriation to cover the deficit and the State closed FY 2008 with a deficit of $42.9 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 Fund solely for capital projects. Previously, the fund could be used for debt reduction, payment of debt service, and capital projects. Also, the constitutional amendment will, beginning on July 1, 2012, increase the budget reserve account by limiting annual appropriations to ninety-seven (97%) percent of estimated revenues and increasing the cap on the budget reserve account to five (5%) percent of estimated revenues. During the 2007 Session of the General Assembly, a statutory schedule was enacted to provide for incremental decreases of 0.2 percent to gradually move spending from 98 percent of revenues to 97 percent of revenues. Additionally, the budget reserve account maximum balance would be gradually increased by 0.4 percent to gradually move from 3.0 percent to 5.0 percent of resources. In FY 2009, the spending would be limited to 97.8 percent of revenues and the budget reserve fund is capped at 3.4 percent of resources.

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

Financial Controls

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

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

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

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

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

The State's cash equivalent type investments include funds invested with The Reserve – U.S. Government Fund, which is a money market mutual fund. The Reserve petitioned the Securities and Exchange Commission (SEC) and was granted permission on September 22, 2008 to suspend redemptions from the U.S. Government Fund.

There were three State funds that were invested in The Reserve – U.S. Government Fund. The date redemptions were suspended, the Lottery had approximately $21.6 million invested, the Temporary Disability Insurance Fund had $34.1 million invested, and the General Fund had $6.8 million. All of the approximately $62.5 million of State funds invested with The Reserve – U.S. Government Fund have been recovered by the State, and there was no negative impact on the Lottery operations or the operations of any other State agency.

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

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

GENERAL FUND REVENUES AND EXPENDITURES

The State draws nearly all of its revenue from a series of non-property related taxes and excises, principally the personal income tax and the sales and use tax, from federal assistance payments and grants-in aid, and from earnings and receipts from certain State-operated programs and facilities. The State additionally derives revenue from a variety of special purpose fees and charges that must be used for specific purposes as required by State law. The amounts discussed as revenues for FY 2008 and FY 2007 reflect audited revenues. It is important to note that tax changes that were enacted in the 2009 Session of the General Assembly are not reflected in either the FY 2008 or the FY 2007 revenues.

Major Sources of State Revenue

Tax Revenues: Approximately 66.8 percent of all taxes and departmental receipts in FY 2008 revenues were derived from the Rhode Island personal income tax and the sales and use tax. These revenue sources constituted 55.9 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 base upon which appropriations are made.

A nonresident's Rhode Island taxable income is equal to the nonresident's Rhode Island income less deductions (including such taxpayer's share of the income and deductions of any partnership, trust, estate, electing small business corporations, or domestic international sales 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 then Governor Almond's proposal to lower Rhode Island personal income tax rates over a five-year period beginning with the 1998 tax year. Thus, on January 1, 1998, the personal income tax rate was reduced from 27.5 percent of federal tax liability to 27.0 percent of the same. Effective January 1, 1999 the personal income tax rate was lowered to 26.5 percent of federal tax liability. On January 1, 2000, it was lowered to 26.0 percent of federal tax liability and effective January 1, 2001 the personal income tax rate was reduced to 25.5 percent of the same. In tax year 2002, Rhode Island's personal income tax rate was lowered to 25.0 percent and applied to Rhode Island taxable income rather than federal tax liability. Under the new tax structure, Rhode Island income tax rates range from 3.75 percent to 9.9 percent depending on income bracket.

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

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

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

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

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

In the 2005 Session, the General Assembly increased the percentage of the federal refundable earned income tax credit that would be refunded by the State of Rhode Island from 5.0 percent to 10.0 percent. In addition, the General Assembly concurred with Governor Carcieri's proposed repeal of the ISO certification tax credit for tax years 2005 and beyond. In the 2004 session, the General Assembly passed legislation limiting the Governor's initial repeal of the ISO certification tax credit to the 2004 tax year. Finally, the General Assembly passed legislation to index the federal alternative minimum income tax threshold for purposes of calculating state income tax liability effective for the 2005 tax year and beyond. 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 liability 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 available. The only credits available are for taxes paid to other states, for personal income tax withheld, for credit payments of estimated tax, for overpayment of taxes and for the amount of taxes remitted by a limited liability company on behalf of a nonresident member. The alternative flat tax rate will continue to decrease until the tax rate reaches 5.5 percent; in tax year 2007 the rate will be 7.5 percent, in tax year 2008 the rate will be 7.0 percent, in tax year 2009 the rate will be 6.5 percent, in tax year 2010 the rate will be 6.0 percent and in tax year 2011 and thereafter the rate will be 5.5 percent. If a taxpayer does not elect the flat tax, then the regular State tax rules apply to determine an individual's State income tax liability.

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

In the 2007 Session, the General Assembly extended a credit created in the 2006 Session for corporations' contributions to qualified scholarship organizations. Personal income tax payers, specifically subchapter S corporations, limited liability partnerships, and limited liability corporations may utilize the credit. 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 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"). The Economic Development Corporation bonds are expected to be issued in June 2009, and they will be 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, estimated at $7.7 million, shall be deposited in a restricted receipt account and shall also be dedicated to the reimbursement of the historic tax credits taken. The May 2009 Revenue Estimating Conference estimate of personal income tax collections for FY 2009 and FY 2010, therefore, do not reflect a reduction for historic structure tax credits as any credits redeemed will be reimbursed from the funds authorized by the General Assembly.

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

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

Rhode Island personal income tax collections surpassed the billion dollar mark in a fiscal year for the first time in FY 2007. Personal income taxes totaled $1.074 billion, or 31.3 percent, of the State's FY 2008 total general revenues. FY 2008 personal income tax collections rose in dollar amount and decreased in the share of total general revenues from FY 2007.

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

The State sales and use tax rate is 7.0 percent and is imposed upon retailers' gross receipts from taxable sales. From the beginning of FY 1992 until August 2000, the State had dedicated six tenths of one cent of the sales tax to pay the debt service on the bonds issued by the Rhode Island Depositors Economic Protection Corporation (DEPCO). The bond proceeds were used to pay off uninsured depositors of the State's failed credit unions. Effective August 1, 2000, DEPCO defeased its outstanding debt. As a result, since August 1, 2000, the State's General Fund has received all of the State sales and use tax revenues collected from the imposition of the 7.0 percent sales and use tax.

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

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

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

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

The sales and use tax accounted for approximately $844.2 million, or 24.6 percent, of the State's FY 2008 total general revenues. FY 2008 final sales and use tax collections decreased in dollar terms and fell in share of total general revenues from FY 2007.

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

In the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit, 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 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 Innovative 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, the May 2009 Revenue Estimating Conference estimate of business corporations tax collections for FY 2009 and FY 2010 do not reflect a reduction for historic structure tax credits as any credits redeemed will be reimbursed from the funds authorized by the General Assembly.

In addition, the 2008 General Assembly amended the 2006 Innovative 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.

The business corporation tax totaled approximately $150.5 million, or 4.4 percent, of the State's FY 2008 total general revenues. FY 2008 final business corporations tax collections increased in dollar terms but decreased in the share of total general revenues from FY 2007.

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

The State also levies tax on the gross revenues of nursing homes. In 2003, the gross revenue tax on nursing homes was increased from 4.75 percent to 6.0 percent. In addition, a 1.50 percent tax on gross revenues from freestanding Medicaid facilities not associated with hospitals is levied. In 2008, the Governor recommended reducing the nursing homes labor costs principal payment by $5.0 million in FY 2009, which lowers their payments of the 5.5 percent provider tax. The Assembly adopted the Governor's recommendation to decrease total payments to nursing homes by $57.6 million further decreasing payments generated from the 5.5 percent provider tax. In 2009, the Governor recommended a series of expenditure reductions to nursing homes that will lower the state tax revenues. The 2009 General Assembly adopted the Governor's recommendation resulting in a decline in revenue of $(467,290) in FY 2009. 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. This decline in general revenue is accounted for in the May 2009 Revenue Estimating Conference's estimate of the FY 2010 health care provider assessment.

The health care provider assessment accounted for approximately $53.4 million, or 1.6 percent, of the State's FY 2008 total general revenues. The dollar amount increased for the health care provider assessment between FY 2008 and FY 2007. Over the same period, the health care provider assessment increased in the share of total general revenues.

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

In 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, the May 2009 Revenue Estimating Conference estimate of public utilities gross earnings tax collections for FY 2009 and FY 2010 do not reflect a reduction for historic structure tax credits as any credits redeemed will be reimbursed from the funds authorized by the General Assembly.

The public service corporation tax accounted for approximately $99.4 million, or 2.9 percent, of the State's FY 2008 total general revenues. Both the dollar amount and the share of total general revenues decreased for the public utilities gross earnings tax between FY 2008 and FY 2007.

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. Insurance and surety companies are exempt from the business corporations tax and annual franchise tax, but they are subject to provisions concerning any estimated taxes that may be due.

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

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

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

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

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

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

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

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

Due to the 2008 General Assembly's passage of the enabling legislation that created the Historic Preservation Tax Credit Fund, the May 2009 Revenue Estimating Conference estimate of insurance companies gross premiums tax collections for FY 2009 and FY 2010 do not reflect a reduction for historic structure tax credits as any credits redeemed will be reimbursed from the funds authorized by the General Assembly.

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

The insurance companies' gross premiums tax accounted for approximately $68.0 million, or 2.0 percent, of the State's FY 2008 total general revenues. Both the dollar amount and the share of total general revenues increased between FY 2008 and FY 2007.

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 were subject to the tax, as of January 1, 1998.

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

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

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

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, the May 2009 Revenue Estimating Conference estimate of financial institutions tax collections for FY 2009 and FY 2010 do not reflect a reduction for historic structure tax credits as any credits redeemed will be reimbursed from the funds authorized by the General Assembly.

The financial institutions tax accounted for approximately $1.8 million, or 0.1 percent, of the State's FY 2008 total general revenues. Both the dollar amount of collections and the share of total general revenues for the financial institutions excise tax decreased between FY 2008 and FY 2007.

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

The bank deposits tax accounted for approximately $1.7 million, or 0.1 percent, of the State's FY 2008 total general revenues. The dollar amount of bank deposits taxes remained approximately the same and the share of total general revenues decreased from FY 2008 versus FY 2007.

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.

The estate tax accounted for approximately $35.3 million, or 1.0 percent, of the State's FY 2008 total general revenues. The dollar amount of estate taxes increased and the share of total general revenues decreased in FY 2008 from FY 2007.

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

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

In the 2009 Session, the General Assembly accepted the Governor's proposal to increase the cigarette stamp tax rate from $2.46 per pack of 20 cigarettes to $3.46 per pack. The effective date of the act was April 10, 2009 and the May 2009 Revenue Estimating Conference estimates for FY 2009 and FY 2010 cigarettes tax collections include the impact of this change in the excise tax rate.

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 of the same. On July 1, 2005, it was increased again from 30.0 percent to 40.0 percent of the wholesale price of other tobacco products. On July 1, 2006, the tax on cigars was limited to a maximum of 50 cents per cigar and the tax on snuff was changed to $1.00 per ounce with a minimum tax of $1.20.

In the 2009 Session, the General Assembly raised the tax on the wholesale price of other tobacco products from 40.0 percent to 80.0 percent effective April 10, 2009. This increase in the wholesale price tax did not affect the maximum tax on cigars or the minimum tax on snuff. The May 2009 Revenue Estimating Conference estimates for FY 2009 and FY 2010 cigarettes tax collections include the impact of this change in the tax on the wholesale price of other tobacco products

The cigarette tax accounted for approximately $114.7 million, or 3.3 percent, of the State's FY 2008 total general revenues. Both the dollar amount and the share of total general revenues decreased for the cigarette tax between FY 2008 and FY 2007.

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

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

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

The transfer of the motor fuel tax to the General Fund accounted for approximately $4.5 million, or 0.1 percent, of the State's FY 2008 total general revenues. The dollar amount of the motor fuel tax transfer decreased while its share of total general revenues remained constant between FY 2008 and FY 2007.

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

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

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

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

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

Other taxes accounted for approximately $73.8 million, or 2.2 percent, of the State's FY 2008 total general revenues. FY 2008 other tax collections decreased in dollar terms and in share of total general revenues from FY 2007.

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

The hospital licensing fee was first enacted in 1994 and yielded $77.3 million in FY 1995. The FY 1998, FY 1999, and FY 2000 Appropriations Acts each extended the fee for one year and changed the base year upon which the fee would be applied. In each fiscal year, the hospital licensing fee was assessed at the rate of 2.0 percent of gross patient service receipts in the hospitals' 1995 base year. These changes yielded revenues of $37.4 million annually for FY 1998, FY 1999 and FY 2000.

The FY 2001 Appropriations Act extended the fee for FY 2001 at the rate of 4.0 percent of net patient service receipts in the hospitals' 1999 base year and retroactively increased the fee to 2.65 percent for FY 2000. The retroactive increase for FY 2000 was assessed as a one-time 0.65 percent surcharge on gross patient service receipts in the hospitals' 1995 base year. The total impact of these changes was a revenue yield of $65.7 million in FY 2001.

The FY 2002 Appropriations Act extended the fee for FY 2002 at the rate of 4.25 percent of net patient service revenues in the hospitals' 1999 base year, yielding $56.2 million. The FY 2003 Appropriations Act extended the fee for FY 2003 at the rate of 4.35 percent of net patient service receipts in the hospitals' 2000 base year. For FY 2004 the rate was set at 4.0 percent of net patient service revenues applicable to the 2001 base year. 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 will be placed into a restricted receipt account.

In the 2009 Session, the General Assembly concurred with the Governor's proposal to increase a number of motor vehicle registration and operator license reinstatement fees and certificates of title fees effective April 1, 2009 and enacted legislation for that purpose. The May 2009 Revenue Estimating Conference estimates for FY 2009 and FY 2010 departmental license and fees collections include the impact of these changes in the fees for license and registration reinstatements and certificates of title.

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

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

Lastly, the miscellaneous departmental revenues category includes revenues from investment earnings on General Fund balances as well as Child Support payments. In the 2009 Session, the General Assembly concurred with the Governor's proposal to increase miscellaneous departmental revenues by including $124,802 from the National Council on Aging's (NCA) Choices for Self-Care Challenge grant and $10,000 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 May 2009 Revenue Estimating Conference estimates for FY 2009 and FY 2010 miscellaneous departmental revenues include the monies generated by these two grants.

Departmental Receipts were approximately $356.5 million, or 10.4 percent, of the State's total general revenue in FY 2008. FY 2008 departmental receipts increased on both a nominal basis and as a share of total general revenues when compared to FY 2007.

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

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

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

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

In the 2005 Session, the General Assembly passed legislation that allowed the Director of State Lotteries to enter into long-term contracts with the owners of the State's two licensed video lottery retailers. These master contracts allow for the addition of 2,550 video lottery terminals between the two facilities (1,750 at Twin River and 800 at Newport Grand), provided that the facilities invest $145.0 million in structural and operational upgrades and expansions within the next three years ($125.0 million at Twin River and $20.0 million at Newport Grand). The master contract for Twin River freezes the share of video lottery terminals at 28.85% and from additional video lottery terminals at 26% (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%.

Lottery transfers to the General Fund totaled $354.3 million, which accounted for 10.3 percent of the State's total general revenues in FY 2008. The dollar amount of the lottery transfers to the General Fund increased between FY 2008 and FY 2007 as did the lottery transfers as a share of total general revenues.

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

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

The total amount of Other Miscellaneous monies received in FY 2008 was approximately $181.8 million, which accounted for 5.3 percent of the State's FY 2008 total general revenues. For FY 2007, these amounts were $67.5 million and 2.1 percent respectively.

Also included in the Other Sources category is the motor fuel tax transfer from the Intermodal Surface Transportation Fund. Gasoline tax receipts not dedicated for use by transportation agencies become available to the General Fund. As noted above this amount was $4.5 million in FY 2008.

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

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

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

Unclaimed property transfers totaled $15.4 million in FY 2008 and accounted for 0.4 percent of the State's total general revenues for FY 2008. The dollar amount of the unclaimed property transfer increased and its share of total general revenues remained the same between FY 2008 and FY 2007.

Restricted Receipts. In FY 2008, the State expended $136.0 million that was received in restricted receipts, excluding transfers into the General Fund. These expenditures reflect various dedicated fees and charges, interest on certain funds and accounts maintained by the State and private contributions and grants to certain State programs. Such receipts are restricted under law to offset State expenditures for the program under which such receipts are derived.

Federal Receipts: In FY 2008, the State expended $1.939 billion of revenues from the federal government, representing grants-in-aid and reimbursements to the State for expenditures for various health, welfare and educational programs and distribution of various restricted or categorical grants-in-aid.

Federal grants-in-aid reimbursements are normally conditioned to some degree, depending on the particular program being funded, on matching resources by the State ranging from a 50 percent matching expenditure to in-kind contributions. The largest categories of federal grants and reimbursements are made for medical assistance payments for the indigent (Title XIX), a block grant; Temporary Assistance to Needy Families (TANF). The federal participatory rate for Titles XIX is recalculated annually, and the major determinant in the rate calculation is the relative wealth of the State. Effective October 1, 2008 to September 30, 2009, the unenhanced rate was 52.59 percent. The rate for the prior year was 52.5 percent. The provisions of the American Recovery Act and Reinvestment (ARRA) include a temporary increase in the FMAP rate from 52.62 percent to 63.92 through December 31, 2010.

ECONOMIC FORECAST

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

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

On May 7, 2009, the Conferees heard updated economic forecasts for the nation and the state, as presented by Moody's Economy.com. The Rhode Island Department of Labor and Training (DLT) also presented current employment and labor force trends. The Conferees adopted the following revised economic forecast for the United States and Rhode Island based upon the information presented.

Moody's Economy.com derives its Rhode Island forecasts from its national models. These models incorporate $789 billion for the federal economic stimulus package to be spent in the 2009-2012 period, in an effort to provide relief to states and individuals, create jobs, and lift spending. The May 2009 Revenue Estimating Conference adopted the economic forecast shown below through a consensus process informed by the testimony of Moody's Economy.com.

As reported at the May 2009 Revenue Estimating Conference, Rhode Island's labor market began to feel the effects of recession as early as January of 2007. The Rhode Island Department of Labor and Training reported that the unemployment rate leveled off at 10.5 percent in February and March of CY 2009 following January's 10.3 percent rate — the first time it had not shown a monthly increase since May and June of CY 2007. Rhode Island's unemployment rate of 10.5 percent was the sixth highest in the nation, lagging the U.S. unemployment rate of 8.5 percent. There was a year-over-year increase of 20,800 unemployed Rhode Islanders in March. The sector breakdown of these job losses were as follows: Manufacturing, ─4,900; Trade, Transportation and Utilities, ─4,700; Financial Activities, ─1,300; Construction, ─3,700; Professional and Business Services, ─3,400; Government, ─2,000; Leisure and Hospitality, ─600; Health Care and Social Assistance, ─400, and Information, ─700. Education & Health Services was the only sector that remained stable from March 2008 to March 2009. The sector breakdown of these job losses indicates that most major sectors will continue to shed jobs as the recession runs its full course.

The State unemployment rate for April 2009 was 11.1%. This compares to an 8.9% national rate. Rhode Island has the fourth highest rate in the country (See Appendix B for other economic data).

While there is no official measurement and dating of recessions at the state level, employment is usually used to gauge the cyclical status of the state economy. FY 2009 is expected to show the sharpest contraction in non-farm employment with a ─3.6 percent rate of growth. FY 2010 is expected to mimic FY 2009, albeit with a slight improvement, as non-farm employment shrinks at a -3.2 percent rate. Non-farm employment growth rates are expected to increase beginning in FY 2011. Increases in total non-farm employment generally indicate that businesses are hiring as a result of expansion. It should be noted that the adopted growth rates suggest a more optimistic trend from FY 2011 through FY 2013, than those levels adopted at the November 2008 Conference.

Rhode Island's unemployment rate is expected to peak at 12 percent in FY 2010. As recovery takes hold, Rhode Island's unemployment rate is projected to steadily decline to 11.5 percent in FY 2011, to 9.0 percent in FY 2012, to 6.9 percent in FY 2013 and to 6.2 percent in FY 2014. Even at this lower rate, Rhode Island's unemployment rate will be significantly higher than the rates achieved in the early 2000s.

The May 2009 Revenue Estimating Conference estimates for personal income growth suggest a downward revision in FY 2009 from the November 2008 Revenue Estimating Conference estimates. The adopted personal income growth rate is projected to increase slightly in FY 2010 before approaching more normal growth rates through FY 2013, averaging 3.1 percent growth from FY 2010 through FY 2013. Likewise, estimates of dividend, interest and rental income are trending downward in FY 2009 before bouncing back in FY 2010 through FY 2014. In terms of wage and salary income growth, it is projected to be negative in both FY 2009 and FY 2010, hitting bottom at a ─2.2 percent rate of growth in FY 2010, before improving slightly in FY 2011. Beginning in FY 2012, wage and salary income growth rebounds before accelerating sharply in FY 2013. A slight decline of 0.4 percentage points is anticipated in FY 2014.

The CPI-U decreased to 1.3 percent in FY 2009 from 3.7 percent in FY 2008. The projected decrease was mainly due to declines in fuel oil and natural gas prices. The CPI-U is forecasted to drop to zero percent in FY 2010 before rising to 2.1 percent in FY 2011. In FY 2012 through FY 2014, inflation is expected to be 2.0 percent annually.

From FY 2009 through FY 2011, the interest rate on three-month Treasury bills is expected to remain below 1.0 percent before rising to 2.5 percent in FY 2012 and approximately 3.5 percent in FY 2012 through FY 2014. The interest rate on ten year Treasury notes is expected to rise within a much narrower band than three month Treasury bills. Thus, for FY 2009 the interest rate on ten year Treasury notes are expected to be 3.2 percent rising to 5.1 percent in FY 2012 before falling to 4.8 percent in FY 2013 and FY 2014.

The consensus economic forecast reflects the immediate adverse impacts of the global economic crisis on employment, income, and other coincidental economic indicators. The forecast further suggests that self-sustainable economic recovery can be expected beginning in FY 2011. The May 2009 forecast revisions to the November 2008 economic forecast are largely negative, reflecting a somewhat more pessimistic outlook in spite of a larger federal stimulus than contemplated in November. This will negatively impact current revenue estimates through FY 2012. The Consensus Economic Forecast for the fiscal years 2009 through 2014 agreed upon by the conferees at the May 2009 Revenue Estimating Conference is shown in the following table.

The May 2009 Consensus Economic Forecast						
Rates of Growth	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**
Non-farm Employment	−3.6	−3.2	0.8	3.4	3.3	2.1
Personal Income	0.9	1.2	2.7	3.6	4.7	4.7
Wage and Salary Income	−0.9	−2.2	0.2	3.2	5.1	4.7
Dividends, Interest and Rent	−2.6	2.6	5.1	2.9	5.1	5.8
Nominal Rates						
U.S. CPI-U	1.3	0.0	2.1	2.0	2.0	2.0
Unemployment Rate	9.7	12.0	11.5	9.0	6.9	6.2
Ten Year Treasury Notes	3.2	3.5	4.9	5.1	4.8	4.8
Three Month Treasury Bills	0.6	0.2	1.0	2.5	3.4	3.5

According to the May 2009 forecast of Moody's Economy.com, the decline in Rhode Island's house prices will reach bottom beginning in the second quarter of FY 2010. As of April 2009, median existing house prices in Rhode Island have dropped by 23.3 percent from their peak in the first quarter of 2007. The Federal Housing Finance Administration repeat-purchase price index has dropped by 11.2 percent since peaking in the first quarter of 2007. According to Moody's Economy.com, the housing price correction for Rhode Island will be larger than the U.S. average, but smaller than the hardest hit metro areas in southern California and Florida. Moody's Economy.com estimates that housing starts for the state topped out at around 3,500 units in the first quarter of 2006. As of February, the number of starts was at a fifth of that level, at around 600 units. According to the Rhode Island Real Estate Association, single-family home sales have fallen from 2,900 units in the third quarter of 2005 to 1,570 units in the fourth quarter of 2008.

The Moody's Economy.com forecast notes that mortgage credit quality continues to deteriorate in Rhode Island at a rapid rate and this poses a risk to its economy. The delinquency rate surged again during 2008, and had reached over 7.6 percent of the dollar volume of all first mortgages outstanding in the State by the first quarter of 2009, according to data from CreditForecast.com. This rate remains higher than that of any other New England state, and is expected to remain so throughout the housing correction period. The finances of foreclosed homeowners will take a considerable time to repair, especially if the federal government does not provide more relief for homeowners unable to service or refinance their existing mortgages.

The Mortgage Bankers' Association data indicate that the increases in delinquencies are concentrated in adjustable rate mortgages (ARMs), particularly subprime ARMs. In recent years, an overpriced housing market pushed more than one-third of the State's homebuyers to use ARMs; many of them of the interest-only variety. Although practically all of these ARMs have reset from their initial teaser rates, they are still subject to smaller resets throughout the terms of the loans. As resets impact on many of the ARMs, homeowners have been hard pressed to keep current on their loans and are thus forced to sell their homes at a time when housing demand is slowing. In fact, the Rhode Island dollar-weighted default rates on first mortgages are the highest in New England. Not surprisingly, mortgage credit has been difficult to come by in the last two years – purchasing power is likely to be hindered by a shortage of credit in the coming two years as well. The Warren Group, a publisher of real estate and finance information in New England, reported in February 2009 on the fifty top foreclosure rates in Connecticut, Massachusetts, and Rhode Island. Rhode Island had three communities in the top ten and two in the next forty. All five communities were in the urban core.

REVENUE ESTIMATES

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

The General Assembly enacted the FY 2009 Supplemental Budget in April 2009. The General Assembly's supplemental FY 2009 budget was based on estimated general revenues of $3.142 billion. Annual estimated general revenue growth for supplemental FY 2009 was ─8.4 percent over audited FY 2008 collections. The revenue estimates contained in the General Assembly's supplemental FY 2009 budget were predicated upon the revenue estimates adopted at the November 2008 Revenue Estimating Conference and the General Assembly's changes to the adopted general revenue estimates.

The General Assembly enacted the supplemental FY 2009 budget, 2009-H 5019, Substitute A as amended, prior to the May 2009 Revenue Estimating Conference. The revenue estimates underlying the FY 2009 Supplemental Budget are supplanted by the estimates adopted at the May 2009 Consensus Revenue Estimating Conference (the "Revised FY 2009 Revenue Estimates"). The estimates adopted at the May 2009 Revenue Estimating Conference were based on collection trends and the revised economic forecast. The adopted revenue estimates revised the Supplemental FY 2009 budget estimate down by $70.0 million. Estimated deposits of $66.6 million from current revenues will be made to the Budget Reserve and Cash Stabilization Fund during FY 2009 as a result of the constitutional funding formula which calculates annual contributions. The contributions to the Budget Reserve and Cash Stabilization Fund are funded by limiting annual appropriations to 97.8 percent of estimated revenues in FY 2009 and 97.6 percent of estimated revenues in FY 2010.

Revised FY 2009 General Revenues

The General Assembly's Supplemental FY 2009 Budget estimated general revenues of $3.142 billion, a decrease of -8.4 percent from the audited FY 2008 level. The General Assembly's Supplemental FY 2009 budget is comprised of $3.113 billion of revenue estimated at the November 2008 Revenue Estimating Conference and $29.2 million of changes to these adopted estimates. The FY 2009 estimated general revenue has been further revised downward to $3.072 billion, reflecting ─2.2 percent decline from the supplemental FY 2009 budget estimate. Much of this decrease can be found in Personal Income Taxes, $(40.4) million, Departmental Receipts, $(19.8) million; Lottery Receipts, $(11.0) million; Insurance Companies, $(9.4 million); and Sales and Use Taxes, $(8.9) million. The Revised FY 2009 Revenue Estimate is 10.4 percent less than FY 2008 audited revenues.

The supplemental FY 2009 revenue estimate, as well as those adopted at the May 2009 Revenue Estimating Conference, presumes that the State's general revenues regain tax revenues in FY 2009 that previously were lost from several taxes due to the historic structures tax credit which will be paid from the Historic Preservation Tax Credit Fund with proceeds from bonds to be 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 bonds to be issued to fund the Historic Preservation Tax Credit Fund.

The largest source of revised FY 2009 general revenues is the Personal Income Tax, with estimated receipts of $970.6 million. This represents a decrease of $40.4 million over the level estimated at the November 2008 Revenue Estimating Conference. No change to personal income tax revenues were adopted by the General Assembly when it enacted the FY 2009 Supplemental Budget, making the November estimates and the final enacted estimate equal. The decrease from November is mainly due to much lower projected final and estimated personal income tax payments; $50.5 million and $20.1 million less than November's estimates, respectively. Personal Income Taxes are expected to comprise 31.6 percent of total general revenues in FY 2009. Relative to audited FY 2008 collections, the Revised FY 2009 Revenue Estimate for Personal Income Taxes are $103.0 million less, yielding a growth rate of -9.6 percent. The Revised FY 2009 Revenue Estimate for Personal Income Taxes 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 personal income taxes. Through April 2009, these redemptions have totaled $40.2 million.

Sales and Use Tax collections are estimated at a total $823.2 million in the Revised FY 2009 Revenue Estimates, a decrease of $8.9 million from the level estimated in the Supplemental FY 2009 Budget and $7.8 million below the November 2008 REC adopted estimate. The FY 2009 Supplemental Budget included $1.1 million of increased collections over the estimate adopted at the November 2008 Conference reflecting increased sales tax collections from the higher retail price of cigarettes. The higher retail price of cigarettes is due to the increase in the State's cigarette excise tax from $2.46 to $3.46 per pack of 20 cigarettes. Under Rhode Island law all federal and State cigarette excise taxes must be included in the base price of cigarettes prior to the application of wholesale and retail minimum price markups. The State's sales tax is then applied to this marked up cost of cigarettes which results in the final retail price of cigarettes. The Revised FY 2009 Revenue Estimate for Sales and Use Taxes signifies negative growth of -2.5 percent over final FY 2008 collections. Sales and Use Taxes are anticipated to contribute 26.8 percent to total general revenues in FY 2009.

Motor Vehicle Operator License and Vehicle Registration Fees were revised to $50.8 million, an increase of $2.8 million over the Supplemental FY 2009 budget estimate. The General Assembly did not adopt any changes to Motor Vehicle licenses and registration fees in the FY 2009 Supplemental Budget thereby making the November 2008 adopted estimate the relevant benchmark. Relative to audited FY 2008 collections, the Revised FY 2009 Revenue Estimate for Motor Vehicle licenses and fees is 4.5 percent more and is projected to comprise 1.7 percent of all general revenues in FY 2009.

Motor Carrier Fuel Use Taxes are projected at $1.0 million for FY 2009 an increase of $70,000 over the Supplemental FY 2009 Budget estimate and $8,527 more than audited FY 2008 collections. The General Assembly did not adopt any changes to Motor Carrier Fuel Use taxes in the FY 2009 Supplemental Budget from the November 2008 adopted estimate.

Cigarettes 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 $131.0 million in FY 2009. Relative to the FY 2009 Supplemental Budget the adopted estimate is $933,333 less whereas relative to the November 2008 estimate, the May 2009 adopted estimate is $11.4 million more. In the FY 2009 Supplemental Budget, the General Assembly increased the state's cigarette excise tax from $2.46 to $3.46 per pack of 20 cigarettes and increased the tax on the wholesale price of other tobacco products from 40.0 percent to 80.0 percent. Compared to FY 2008 audited cigarettes taxes collections, the adopted estimate represents an increase of $16.3 million, or 14.2 percent.

Alcohol Taxes are projected at $10.8 million for FY 2009, a decrease of 3.1 percent from audited FY 2008 collections and 2.7 percent over the levels adopted at the November 2008 Revenue Estimating Conference. No change to alcohol tax revenues were adopted by the General Assembly when it enacted the FY 2009 Supplemental Budget, making the November estimates and the final enacted estimate equal.

General Business Taxes are projected to comprise 11.8 percent of total general revenue collections in FY 2009. Business Corporations Tax revenues are projected to yield $112.0 million, a $4.0-million increase over the levels adopted at the November 2008 Revenue Estimating Conference and the Supplemental FY 2009 Budget. Business Corporations Tax collections are estimated to be 25.6 percent lower than audited FY 2008 collections. Business Corporations Taxes are expected to constitute 3.4 percent of total general revenues in FY 2009. The supplemental FY 2009 Business Corporations Tax estimate, as well as those adopted in the May 2009 Revenue Estimating Conference, 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 April 2009, these redemptions have totaled $1.2 million.

Health Care Provider Assessments are estimated to be $600,000 lower than the levels estimated in the Supplemental FY 2009 Budget. This decrease is a result of the reduction in Medicaid reimbursement rates to nursing facilities by 5 percent and the reduction in the direct labor cost center ceiling from 112 percent to 110 percent of the statewide median. These initiatives decrease total payments to nursing homes by $6.5 million and $2.0 million, respectively, thereby lowering the gross revenue base upon which the 5.5 percent nursing home provider tax is applied. Compared to FY 2008 audited health care provider assessment collections, the adopted estimate represents a decrease of -9.3 percent.

Insurance Companies Gross Premiums Taxes are estimated at a total of $80.4 million for FY 2009 as adopted by the May 2009 Revenue Estimating Conference and are forecasted to be 18.2 percent higher than audited FY 2008 collections. The Revised FY 2009 Revenue Estimate is $9.4 million less than the estimate included in the FY 2009 Supplemental Budget but $3.4 million more than the estimate adopted at the November 2008 Conference. The difference between the supplemental FY 2009 estimate and the November 2008 adopted estimate was due to the General Assembly's acceptance of the Governor's proposals to increase the gross premiums tax rate for health maintenance organizations, non-profit hospital and medical service corporations, and non-profit dental service corporations from 1.75 percent to 2.0 percent and to remove the exemption from the Insurance Companies Gross Premiums tax for managed care plans organized pursuant to Title XIX of the Social Security Act effective January 1, 2009. The supplemental FY 2009 Insurance Companies Gross Premiums Tax estimate, as well as that adopted at the May 2009 Revenue Estimating Conference, 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 April 2009, these redemptions have totaled $6.5 million. Insurance Premiums Taxes are projected to comprise 1.6 percent of total general revenues in FY 2009.

The May 2009 Conference increased the Supplemental FY 2009 Financial Institution Taxes estimate to $4.1 million, reflecting 106.5 percent growth. At a total of $4.1 million, Financial Institutions Taxes represent 0.1 percent of total revised general revenues in FY 2009. Relative to audited FY 2008 collections, the Revised FY 2009 Revenue Estimate for Financial Institutions Taxes is 125.6 percent more. The supplemental FY 2009 Financial Institutions Tax estimate, as well as the level adopted at the May 2009 Revenue Estimating Conference, 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 April 2009, these redemptions have totaled $3.0 million.

FY 2009 Bank Deposits Taxes are projected at the level adopted at the November 2008 Conference and in the Supplemental FY 2009 budget, a total of $1.7 million. The FY 2009 level of Bank Deposits Taxes yields a growth rate of –0.6 percent when compared to audited FY 2008 collections.

FY 2009 Public Utilities Gross Earnings Taxes are $10.5 million more than the levels adopted at the November 2008 Conference and incorporated in the Supplemental FY 2009 Budget. The Revised FY 2009 estimate is projected at $115.0 million and comprises 3.7 percent of total general revenues in FY 2009. The revised estimate represents an increase of 15.7 percent over audited FY 2008 Public Utilities Gross Earnings tax collections.

Inheritance and Gift Taxes are estimated at $30.2 million, reflecting 7.9 percent growth over the levels adopted at the November 2008 Revenue Estimating Conference and incorporated into the FY 2009 Supplemental Budget. At this level, the Revised FY 2009 Revenue Estimate for Inheritance and Gift Taxes are expected to constitute 1.0 percent of total general revenues. The Revised FY 2009 Revenue Estimate for Inheritance and Gift Taxes is 14.5 percent less than audited FY 2008 collections. The Revised FY 2009 Revenue Estimates for Realty Transfer Taxes are projected at 3.8 percent lower than the levels adopted at the November 2008 Conference. Thus, the Revised FY 2009 Revenue Estimates for Realty Transfer Taxes are $7.5 million, which represents negative growth of -26.6 percent from audited FY 2008 levels. Racing and Athletics Taxes are estimated at the level adopted at the November 2008 Conference. This estimate represents a decline of $312,860, or –11.1 percent, from audited FY 2008 collections. Total Racing and Athletics Taxes are expected at $2.5 million. The adopted total of all Other Taxes is 1.3 percent of total general revenues in FY 2009. No change to Other Taxes were adopted by the General Assembly when it enacted the FY 2009 Supplemental Budget, making the November 2008 estimates and the final enacted estimate equal.

Revised FY 2009 departmental receipts are estimated to generate $19.8 million less than the level projected in the Supplemental FY 2009 Budget. The FY 2009 departmental receipts estimate adopted at the May 2009 Revenue Estimating Conference was $314.0 million including all changes made by the General Assembly in the FY 2009 Supplemental Budget. Revised FY 2009 departmental receipts comprise 10.2 percent of estimated total general revenues. Relative to audited FY 2008 departmental receipt collections, the Revised FY 2009 Revenue Estimate for departmental receipts yields a growth rate of –11.9 percent. In the licenses and fees category of departmental receipts, $111.4 million is expected as a result of the re-institution of the hospital licensing fee at 4.78 percent of 2007 net patient revenues for FY 2009.

The Revised FY 2009 Revenue Estimates for departmental revenues includes an enacted increase in the reinstatement fee for a suspended motor vehicle registration from $50 to $250 and an increase in the fee for the issuance of a certificate of title from $25 to $50. The General Assembly also increased the fee for the reinstatement of a suspended operator's license from $50 to $150 for all non-Driving-Under-the-Influence (DUI) license suspensions and to $350 for DUI related license suspensions. The revised departmental revenue estimates also includes the following other initiatives that reflect a change from the estimates adopted at the November 2008 Conference for departmental receipts:

- $78,929 from increasing the entry fee for Small and Consumer Claims Mediation from $30.00 to $50.00 with one-half of the $20.00 increase to be deposited as general revenue;
- $10,000 from a grant provided by the American Cancer Society to further women cancer screening activities;
- $124,802 from the National Council on Aging to expand a chronic disease self-management program for adults aged 60 and over.

The Other Sources component total of $369.1 million in the Revised FY 2009 Revenue Estimate represents a decrease of ─33.6 percent, or $186.9 million, compared to audited FY 2008 Other Sources collections. Revised Other Sources revenues are expected to comprise 12.0 percent of total general revenues for FY 2009. The Revised FY 2009 estimate of Other Sources revenues is $11.5 million less than the level estimated in Supplemental FY 2009 budget due primarily to an $11.0 million drop in the Lottery Transfer.

The Revised FY 2009 Revenue Estimate for Other Miscellaneous Revenues is $163.4 million lower than the audited FY 2008 level, a decrease of 89.9 percent. This decrease is due in large part to the inclusion of tobacco securitization proceeds worth $124.0 million in FY 2008 that do not repeat in FY 2009. Other Miscellaneous Revenues are projected at $18.4 million in Revised FY 2009, amounting to 0.6 percent of all general revenues.

Within the Gas Tax Transfer component, the Revised FY 2009 Revenue Estimate shows a $75,000 decrease from the FY 2009 level adopted at the November 2008 Conference. The Gas Tax Transfer is estimated at $4.4 million, comprising 0.1 percent of total general revenues in FY 2009. Relative to the audited FY 2008 transfer, the revised FY 2009 gas tax transfer is less by ─2.5 percent. No change to Gas Tax collections were adopted by the General Assembly when it enacted the FY 2009 Supplemental Budget, making the November 2008 estimates and the same as the final enacted estimate.

Within the Lottery category, the Revised FY 2009 Revenue Estimate is $16.2 million less than the audited FY 2008 transfer, a decrease of ─4.6 percent. The Revised FY 2009 Revenue Estimate is also $11.0 million lower than the level adopted at the November 2008 Revenue Estimating Conference and comprises 11.0 percent of the total general revenues in FY 2009. The General Assembly adopted no changes from the November 2008 Conference estimate for the Lottery Transfer, making the November 2008 estimates and the final enacted estimate comparable.

In March 2008, UGTR, 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 million loan package to UGTR, Inc. and its parent companies to buy and expand the Twin River facility. As a result of defaulting on loan payments, UTGR entered into a forbearance agreement with its lenders. In September 2008, both Standard & Poor's and Moody's Investors Service downgraded their rating of the company that owns Twin River, and Moody's issued a statement warning of a "high probability of bankruptcy". The forbearance agreement expired on January 31, 2009 and has not been formally extended. Neither the lenders nor any other party in interest has instituted any proceedings to take action as a result of the expiration of the agreement. At the present time, all parties in interest have been engaged in negotiations aimed at continuous operation of the facility. If UTGR, Inc. files for bankruptcy or is placed in bankruptcy by its lenders, it is uncertain as to what, if any, impact such a bankruptcy would have with respect to the lottery revenues the State expects to receive from the operations of Twin River, which is estimated to total $237.5 million in FY 2009. The Department of Revenue and the Division of Lotteries continue to closely monitor the situation and will need to approve any buyer of the Twin River facility. In addition, the possible opening of new gaming sites in Massachusetts may significantly reduce revenues of Twin River since such sites are likely to reduce the number of out-of-state patrons visiting Twin River.

The final category of general revenue receipts is the Unclaimed Property transfer. This transfer is expected to decrease by $7.2 million or ─46.7 percent, from the audited FY 2008 transfer. The source of this decrease is primarily due to the non-recurrence of the demutualization proceeds that were received in FY 2008. The Revised FY 2009 Revenue Estimate for Unclaimed Property transfer is projected to be $8.2 million compared to $9.3 million adopted at the November 2008 Conference and incorporated into the FY 2009 Supplemental Budget. The Unclaimed Property transfer is expected to comprise 0.3 percent of all general revenues in FY 2009.

FY 2010 Proposed Revenues

The estimates from the May 2009 Revenue Estimating Conference, as adjusted by changes to estimates proposed by the Governor in his recommended FY 2010 Budget (the "Governor's Revised FY 2010 Estimate"), reflects general revenues of $3.016 billion, a decrease of -1.8 percent from the Revised FY 2009 Revenue Estimate. The Governor's Revised FY 2010 Estimate is comprised of $2.915 billion of revenue estimated at the May 2009 Revenue Estimating Conference and $101.4 million of changes as proposed by the Governor to the May 2009 adopted estimates.

The largest source of FY 2010 general revenues is the Personal Income Tax, with estimated receipts of $939.6 million, the same amount as the May 2009 Revenue Estimating Conference estimate for FY 2010. The Governor's Revised FY 2010 Estimate signifies growth of -3.2 percent over the Revised FY 2009 Revenue Estimate. Personal Income Taxes are anticipated to contribute 31.2 percent of total general revenues in FY 2010.

Sales and Use Tax collections are expected to yield $815.0 million in FY 2010, the same level as adopted at the May 2009 Revenue Estimating Conference for FY 2010. The Governor's Revised FY 2010 Estimate signifies growth of -1.0 percent over the Revised FY 2009 Revenue Estimate. Sales and Use Taxes are anticipated to contribute 27.0 percent to total general revenues in FY 2010.

Motor Vehicle operator license and vehicle registration fees are forecasted to equal $50.4 million in FY 2010, the same amount as was adopted at the May 2009 Revenue Estimating Conference. The Governor's Revised FY 2010 Estimate signifies growth of -0.8 percent over the Revised FY 2009 Revenue Estimate. Motor Vehicle operator license and vehicle registration fees are estimated to make-up 1.7 percent of all general revenues in FY 2010.

Motor Carrier Fuel Use Taxes are estimated to reach $920,000 in FY 2010, the same as the May 2009 Revenue Estimating Conference adopted estimate. Motor Carrier Fuel Use Taxes are expected to grow at a rate of -8.0 percent over the Revised FY 2009 Revenue Estimate.

Cigarette tax revenues are expected to total $148.0 million in FY 2010, equal to adopted estimate agreed upon at the May 2009 Revenue Estimating Conference. Cigarette tax revenues are projected to grow 13.0 percent from the Revised FY 2009 Revenue Estimate and comprise 4.9 percent of total general revenues in FY 2010.

Alcohol Tax revenues are projected to increase by $100,000 or 0.9 percent in FY 2010 from the Revised FY 2009 Revenue Estimate.

General Business taxes represent 3.3 percent of total general revenue collections in the Governor's Revised FY 2010 Estimate. Business Corporation Tax revenues are expected to yield $98.5 million, a decrease of $14.5 million from the FY 2010 estimate agreed to at the May 2009 Revenue Estimating Conference. This decrease is the result of the Governor's proposal to begin to phase out the Business Corporation tax over a five year period beginning on January 1, 2010. For FY 2010, the Governor's proposed tax rate decrease is to 7.5 percent, which is 1.5 percentage-points lower than the current business corporation tax.

Insurance Companies Gross Premiums taxes are projected to reach $81.9 million in FY 2010. This amount is the same as the estimate adopted at the May 2009 Revenue Estimating Conference. Health Care Provider

Assessments taxes are estimated to decrease by -25.4 percent, or $12.3 million, over the Revised FY 2009 Revenue Estimate. This reduction is due to the repeal of the group home provider tax and the rebasing of the nursing home provider tax as a result of the implementation of the Global Medicaid Waiver. Health Care Provider Assessments will comprise 1.2 percent of total general revenues in FY 2010.

All the other components of general business taxes excluding Business Corporations and Health Care Provider Assessments taxes are estimated at the levels adopted at the May 2009 Revenue Estimating Conference. Public Utilities Gross Earnings Taxes are estimated to reach $115.0 million and comprise 3.8 percent of general revenues. Financial Institution taxes are estimated to reach $3.75 million in FY 2010, the same as the Revised FY 2009 Revenue Estimate. In FY 2010, Bank Deposit taxes are estimated to be $30,000 more than as the Revised FY 2009 Revenue Estimate.

Inheritance and Gift Taxes are projected to decline by $1.5 million from the $30.2 million adopted at the May 2009 Revenue Estimating Conference. The source of this decrease is due to the Governor's proposal to increase the estate tax exemption amount to $1.0 million from its current level of $675,000. Realty Transfer Taxes are estimated at the same level adopted at the May 2009 Revenue Estimating Conference with anticipated collections of $7.2 million. Racing and Athletics Taxes are also estimated at the level adopted at the May 2009 Revenue Estimating Conference. This estimate represents a decline of $400,000, or -16.0 percent, from the revised FY 2009 estimate. Total Racing and Athletics Taxes projected in FY 2010 is $2.1 million. Other taxes will comprise 1.3 percent of total general revenues in FY 2010.

FY 2010 departmental receipts are expected to generate $2.0 million more than the revised FY 2009 budget. Inclusive of the Governor's proposed changes to departmental receipts, total departmental revenues are expected to be $316.0 million in FY 2010, or 10.5 percent of total general revenues. In the licenses and fees category, $112.5 million is expected due primarily to the Governor's proposal to reinstate the Hospital Licensing fee for one year using the current rate of assessment of 4.78 percent and the current base of FY 2007 net patient revenues. The FY 2010 recommended departmental revenues figure includes the following proposals:

- $111.4 million from reinstituting the Hospital Licensing Fee;
- $894,100 resulting from the increased fee of $20.00 for Bureau of Criminal Identification background checks;
- $25,000 from imposing a penalty for Late Renewal of Office of Food Protection Licenses;

The other sources component total of $360.5 million in FY 2010 represents a decrease of $8.6 million, or -2.3 percent, compared to the Revised FY 2009 Revenue Estimate. The change in other sources of revenue affects the Gas Tax Transfer and the Other Miscellaneous Revenues category.

The Governor's Revised FY 2010 Estimate for Other Miscellaneous Revenues is $900,000 lower than the Revised FY 2009 Revenue Estimate, a decrease of 4.9 percent. Other Miscellaneous Revenues are anticipated to generate $17.5 million in FY 2010 an increase of $11.0 million from the level adopted at the May 2009 Revenue Estimating Conference. The source of this increase primarily comes from the sales of two state-owned properties, the Aime Forand Building and the Pastore Parcel.

Within the Gas Tax Transfer component, the Governor's Revised FY 2010 Estimate shows a hundred percent change from the Revised FY 2009 Revenue Estimate. The Governor proposes the transfer of the $0.01 of the Gas Tax allocation from the General Fund to the Department of Transportation, which totals $4.4 million.

Within the Lottery category, the Governor's Revised FY 2010 Estimate is $100,000 below the Revised FY 2009 Revenue Estimate, or zero growth. The Governor recommends no changes from the May 2009 Revenue Estimating Conference estimate for Lottery. In FY 2010, the Lottery Transfer is expected to be $338.0 million and comprise 11.2 percent of total general revenues.

The final category of general revenue receipts is the Unclaimed Property transfer. In FY 2010, this transfer is expected to decrease by $3.2 million or -39.0 percent, from the Revised FY 2009 Revenue Estimate. The Unclaimed Property transfer is projected to be $5.0 million in FY 2010, and comprises 0.2 percent of all general revenues.

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES

The following tables set forth comparative summaries for all State General Revenues for fiscal years 2007 through 2010 and expenditures for the fiscal years 2007 through 2010. General Fund data on expenditures for FY 2007 and FY 2008 is derived from the State's Comprehensive Annual Financial Report prepared by the State Controller for such fiscal years, and post audited by the Auditor General. Expenditures for Enacted FY 2009 reflect the budget enacted by the General Assembly in June 2008. Expenditures for Revised FY 2009 reflect the supplemental budget enacted by the General Assembly in April 2009. Pension reform savings described under "Free Surplus" is not reflected in the FY 2009 revised expenditure data and, if enacted, would provide savings which are not accounted for in the budget. The Governor's FY 2010 proposed expenditures includes pension reform savings. The FY 2010 recommended expenditures shown in the tables are those contained in the Governor's Recommended Budget submitted on March 10, 2009 and includes a $42,950,000 repayment which he expected would be required under this budget proposal. That appropriation is not required under the legislative plan adopted in April 2009 and, therefore, would not be included in the FY 2010 expenditure levels when enacted. The FY 2010 budget requires adjustments of $130.5 million in order to be balanced, or $97.6 million after adjusting for the $42.9 million aforementioned appropriation. 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 2007 and FY 2008 reflect the audited actual revenues as reported by the State Controller. FY 2009 Enacted Revenues reflect those estimated at the May 2008 Revenue Estimating Conference adjusted by changes enacted by the 2008 General Assembly in the 2009 Budget. FY 2009 May Revenue Estimating Conference (REC) revenues reflect the budget enacted by the General Assembly in June 2008 adjusted by changes in revenue estimates adopted at the November 2008 Revenue Estimating Conference, as a result of legislative changes contained in the April 2009 Supplemental Budget, and further revised by the Conferees at the May 2009 Revenue Estimating Conference. The May 2009 Revenue Estimating Conference revenues for FY 2010 reflect those adopted by the Conferees at the May 2009 Conference, excluding any changes proposed but not yet enacted. The FY 2010 recommended revenues reflects the May 2009 Revenue Estimating Conference estimates adjusted by changes proposed by the Governor. These estimates are explained under the section above entitled *Revenue Estimates* and the subheading below entitled *Free Surplus*.

General Revenues Receipts

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 May 2009 REC[1]	FY 2010 May 2009 REC[1]	FY 2010 Recommend [2]
Personal Income Tax	$1,065,367,487	$1,073,616,875	$1,124,235,000	$970,600,000	$939,600,000	$939,600,000
General Business Taxes						
Business Corporations	148,149,226	150,468,827	161,000,000	112,000,000	113,000,000	98,500,000
Public Utilities Gross Earnings	102,109,351	99,436,915	100,000,000	115,000,000	115,000,000	115,000,000
Financial Institutions	4,423,263	1,830,270	1,100,000	4,130,000	3,750,000	3,750,000
Insurance Companies	56,624,296	67,997,274	77,823,696	80,400,000	81,900,000	81,900,000
Bank Deposits	1,673,925	1,710,050	1,700,000	1,700,000	1,730,000	1,730,000
Health Care Provider Assessment	47,969,855	53,356,431	47,432,000	48,400,000	37,700,000	36,126,589
Sales and Use Taxes						
Sales and Use	873,203,817	844,197,089	863,100,000	823,200,000	815,000,000	815,000,000
Motor Vehicle	46,878,903	48,610,020	45,667,548	50,800,000	50,400,000	50,400,000
Motor Fuel	1,311,762	991,473	1,200,000	1,000,000	920,000	920,000
Cigarettes	120,480,817	114,674,498	114,500,000	131,000,000	148,000,000	148,000,000
Alcohol	10,705,751	11,140,941	11,100,000	10,800,000	10,900,000	10,900,000
Other Taxes						
Inheritance and Gift	34,683,979	35,333,925	38,000,000	30,200,000	30,200,000	28,712,020
Racing and Athletics	2,921,166	2,812,860	2,600,000	2,500,000	2,100,000	2,100,000
Realty Transfer	12,737,438	10,223,094	10,900,000	7,500,000	7,200,000	7,200,000
Total Taxes	**2,529,241,036**	**2,516,400,542**	**2,600,358,244**	**2,389,230,000**	**2,357,400,000**	**2,339,838,609**
Departmental Receipts	**277,790,450**	**356,546,075**	**347,627,559**	**314,000,000**	**203,700,000**	**316,022,557**
Taxes and Departmentals	**2,807,031,486**	**2,872,946,617**	**2,947,985,803**	**2,703,230,000**	**2,561,100,000**	**2,655,861,166**
Other Sources						
Gas Tax Transfer	4,704,602	4,513,745	4,630,000	4,400,000	4,400,000	0
Other Miscellaneous	67,471,487	181,810,134	19,400,000	18,400,000	6,500,000	17,500,000
Lottery	320,989,832	354,321,087	365,500,000	338,100,000	338,000,000	338,000,000
Unclaimed Property	11,456,513	15,387,030	9,200,000	8,200,000	5,000,000	5,000,000
Other Sources	**404,622,434**	**556,031,996**	**398,730,000**	**369,100,000**	**353,900,000**	**360,500,000**
Total General Revenues	**$3,211,653,920**	**$3,428,978,613**	**$3,346,715,803**	**$3,072,330,000**	**$2,915,000,000**	**$3,016,361,166**

(1) Reflects estimated revenues adopted at the May 2009 Revenue Estimating Conference.

(2) Reflects May Revenue Estimating Conference revenue estimates adjusted by changes proposed by the Governor in his FY 2010 Budget presented in March 2009, which have not yet been considered by the General Assembly.

Expenditures from All Funds

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 Revised	FY 2010 Recommend
General Government					
Administration(1)	$596,272,093	$617,461,725	$560,884,005	$613,839,288	$685,057,084
Business Regulation	11,619,330	11,812,170	11,663,704	11,102,841	12,445,442
Labor and Training	446,997,207	499,662,135	484,805,942	648,282,362	726,084,649
Revenue(1)	233,997,809	254,603,213	249,139,675	231,739,728	227,920,497
Legislature	32,350,516	33,829,223	35,615,553	34,959,668	36,468,724
Lieutenant Governor	874,724	850,412	901,418	860,771	973,262
Secretary of State	7,397,017	6,819,947	7,403,864	7,097,652	6,440,579
General Treasurer	24,775,355	39,662,095	31,489,283	28,249,066	31,161,135
Board of Elections	4,392,090	1,926,493	2,175,218	2,047,960	1,850,141
Rhode Island Ethics Commission	1,222,289	1,343,029	1,405,309	1,409,450	1,437,730
Governor's Office	4,738,217	4,957,880	5,158,611	4,698,679	5,836,754
Commission for Human Rights	1,247,126	1,340,711	1,382,968	1,404,873	1,424,747
Public Utilities Commission	5,473,869	5,433,284	6,869,214	6,848,694	7,012,531
Rhode Island Commission on Women	98,629	105,953	107,208	108,377	109,462
Subtotal - General Government	**$1,371,456,271**	**$1,479,808,270**	**$1,399,001,972**	**$1,592,649,409**	**$1,744,222,737**
Human Services					
Office of Health & Human Services	640,980	3,848,200	14,787,081	8,833,660	9,277,812
Children, Youth, and Families	311,770,978	226,983,230	209,941,252	249,502,568	247,814,655
Elderly Affairs	35,951,870	34,383,268	33,579,723	34,235,830	33,169,875
Health	104,636,983	126,552,009	126,077,776	133,924,145	134,056,949
Human Services	1,574,255,610	1,847,633,989	1,775,182,036	1,778,224,489	1,875,872,580
Mental Health, Retardation, & Hospitals	481,493,543	489,441,696	457,490,509	466,970,947	470,632,735
Governor's Commission on Disabilities	845,947	541,108	911,985	701,391	926,400
Commission On Deaf and Hard of Hearing	306,372	288,790	368,807	371,300	380,146
State Council on Developmental Disabilities	421,932	395,288	450,543	-	-
Office of the Child Advocate	551,198	485,449	558,800	554,997	588,148
Office of the Mental Health Advocate	385,295	419,127	431,171	440,483	448,423
Subtotal - Human Services	**$2,511,260,708**	**$2,730,972,154**	**$2,619,779,683**	**$2,673,759,810**	**$2,773,167,723**
Education					
Elementary and Secondary	1,067,364,090	1,092,600,521	1,145,530,047	1,169,022,307	1,155,007,685
Higher Education - Board of Governors	734,735,310	784,746,691	819,589,009	834,935,839	878,398,870
RI Council on the Arts	2,922,282	2,934,389	3,275,655	3,226,450	3,474,826
RI Atomic Energy Commission	1,087,486	1,474,561	1,532,900	1,183,832	1,140,115
Higher Education Assistance Authority	23,939,108	25,921,954	26,649,807	32,959,393	28,631,338
Historical Preservation and Heritage Comm.	2,209,943	2,195,180	2,323,114	2,660,991	2,626,768
Public Telecommunications Authority	2,395,158	2,114,570	2,132,366	2,016,569	1,908,358
Subtotal - Education	**$1,834,653,377**	**$1,911,987,866**	**$2,001,032,898**	**$2,046,005,381**	**$2,071,187,960**

Expenditures from All Funds

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 Revised	FY 2010 Recommend
Public Safety					
Attorney General	21,914,608	22,873,248	23,731,514	24,309,863	24,182,213
Corrections	170,117,176	198,729,607	186,497,239	184,714,118	190,005,506
Judicial(2)	91,679,516	94,506,571	97,349,720	96,536,952	95,984,801
Military Staff	32,572,998	23,773,234	28,419,792	43,344,407	30,685,749
Public Safety(3)	71,170,055	73,150,505	87,825,459	93,536,124	95,980,961
Office Of Public Defender	8,778,424	9,302,799	9,716,729	9,643,638	9,809,087
Subtotal - Public Safety	**$396,232,777**	**$422,335,964**	**$433,540,453**	**$452,085,102**	**$446,648,317**
Natural Resources					
Environmental Management	76,027,147	70,373,524	88,958,152	87,168,403	89,537,646
Coastal Resources Management Council	3,897,901	5,474,935	5,236,662	4,088,463	5,541,521
Water Resources Board	1,792,983	1,635,666	1,478,002	1,561,863	1,480,485
Subtotal - Natural Resources	**$81,718,031**	**$77,484,125**	**$95,672,816**	**$92,818,729**	**$96,559,652**
Transportation					
Transportation	368,686,783	305,436,562	370,026,380	392,964,982	483,283,224
Subtotal - Transportation	**$368,686,783**	**$305,436,562**	**$370,026,380**	**$392,964,982**	**$483,283,224**
Total	**$6,564,007,947**	**$6,928,024,941**	**$6,919,054,202**	**$7,250,283,413**	**$7,615,069,613**

(1) Department of Administration history adjusted for Taxation and Division of Motor Vehicles transferred in FY2007 to new Department of Revenue. In FY 2009 Fire Code Board was moved to Department of Adminsitration.

(2) Judicial includes Judicial Tenure and Discipline.

(3) Agencies merged with Department of Public Safety include State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy,Capitol Police, and the Governor's Justice Commission.

Expenditures from General Revenues

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 Revised	FY 2010 Recommend
General Government					
Administration(1)	$464,765,390	$520,058,764	$461,660,272	$455,684,253	$498,875,056
Business Regulation	$10,859,698	10,333,679	10,118,066	9,307,245	9,577,234
Labor and Training	$7,146,778	6,377,174	6,513,092	6,696,080	6,667,994
Revenue(1)	$34,528,687	35,086,502	37,849,916	33,254,816	36,368,064
Legislature	$30,941,664	32,377,685	34,099,202	33,451,335	34,912,012
Lieutenant Governor	$874,724	850,412	901,418	860,771	973,262
Secretary of State	$6,150,445	5,488,114	6,307,144	6,407,527	5,966,241
General Treasurer	$2,636,773	2,668,892	2,563,767	2,465,934	2,500,299
Board of Elections	3,625,842	1,315,331	1,512,874	1,552,690	1,850,141
Rhode Island Ethics Commission	$1,222,289	1,343,029	1,405,309	1,409,450	1,437,730
Governor's Office	$4,672,436	4,957,880	5,158,611	4,698,679	5,836,754
Commission for Human Rights	$987,833	951,872	991,659	932,418	1,016,242
Public Utilities Commission	$499,163	475,034	-	-	-
Rhode Island Commission on Women	$98,629	105,953	107,208	108,377	109,462
Subtotal - General Government	**$569,010,351**	**$622,390,321**	**$569,188,538**	**$556,829,575**	**$606,090,491**
Human Services					
Office of Health & Human Services	$250,294	363,333	5,223,297	3,836,576	3,448,389
Children, Youth, and Families	$189,391,302	151,491,614	137,133,720	162,051,787	158,722,427
Elderly Affairs	$18,809,664	16,969,063	16,071,786	13,957,794	11,687,598
Health	$31,490,514	29,985,420	32,281,674	30,753,976	30,596,230
Human Services	$703,752,922	815,777,935	767,224,135	651,883,148	642,064,842
Mental Health, Retardation, & Hospitals	$238,316,374	241,952,595	219,361,864	182,926,530	168,779,509
Governor's Commission on Disabilities	$518,631	350,480	413,651	387,862	366,450
Commission On Deaf and Hard of Hearing	$301,850	289,412	368,807	371,300	380,146
State Council on Developmental Disabilities	-	0	0	0	0
Office of the Child Advocate	$513,524	445,443	519,657	514,442	547,048
Office of the Mental Health Advocate	$385,295	419,127	431,171	440,483	448,423
Subtotal - Human Services	**$1,183,730,370**	**$1,258,044,422**	**$1,179,029,762**	**$1,047,123,898**	**$1,017,041,062**
Education					
Elementary and Secondary	$888,448,123	908,826,348	931,218,471	875,390,470	861,797,078
Higher Education - Board of Governors	$189,489,620	189,982,771	179,856,018	172,860,842	174,885,270
RI Council on the Arts	$2,112,363	2,111,963	2,094,847	1,905,796	1,983,986
RI Atomic Energy Commission	$827,654	834,101	824,470	786,847	775,346
Higher Education Assistance Authority	$6,708,495	10,219,792	7,323,051	7,292,984	7,305,741
Historical Preservation and Heritage Comm.	$1,615,594	1,494,562	1,348,825	1,297,516	1,298,364
Public Telecommunications Authority	$1,312,264	1,316,196	1,365,306	1,249,509	1,142,702
Subtotal - Education	**$1,090,514,113**	**$1,114,785,733**	**$1,124,030,988**	**$1,060,783,964**	**$1,049,188,487**

Expenditures from General Revenues

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 Revised	FY 2010 Recommend
Public Safety					
Attorney General	$19,799,874	20,550,412	21,212,039	21,134,410	21,774,743
Corrections	$155,796,271	193,138,298	178,623,504	178,682,061	182,390,562
Judicial(2)	$82,039,511	82,799,851	85,000,000	82,797,231	83,907,229
Military Staff	$2,533,905	2,320,832	3,739,948	3,575,260	3,529,979
Public Safety(3)	$63,975,375	62,946,519	66,828,094	34,656,938	66,518,758
Office Of Public Defender	$8,564,734	9,030,938	9,468,259	9,318,047	9,583,189
Subtotal - Public Safety	**$332,709,670**	**$370,786,850**	**$364,871,844**	**$330,163,947**	**$367,704,460**
Natural Resources					
Environmental Management	$38,071,852	36,032,812	35,779,384	34,011,362	35,651,578
Coastal Resources Management Council	$2,076,370	1,985,139	1,877,703	2,034,354	2,027,574
Water Resources Board	$1,648,213	1,226,089	1,378,002	1,352,046	1,370,485
Subtotal - Natural Resources	**$41,796,435**	**$39,244,040**	**$39,035,089**	**$37,397,762**	**$39,049,637**
Transportation					
Transportation	-	-	-	-	-
Subtotal - Transportation	-	-	-	-	-
Total	**$3,217,760,939**	**$3,405,251,366**	**$3,276,156,221**	**$3,032,299,146**	**$3,079,074,137**

(1) Department of Administration history adjusted for Taxation and Division of Motor Vehicles transferred in FY2007 to new Department of Revenue. In FY 2009 Fire Code Board was moved to Department of Adminsitration.

(2) Judicial includes Judicial Tenure and Discipline.

(3) Agencies merged with Department of Public Safety include State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy,Capitol Police, and the Governor's Justice Commission.

Expenditures from Federal Funds

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 Revised	FY 2010 Recommend
General Government					
Administration(1)	$46,562,576	$39,828,801	$33,952,039	$71,317,579	$91,347,447
Business Regulation	43,291	114,130	-	87,641	-
Labor and Training	29,931,444	28,883,497	35,594,755	56,577,194	92,322,826
Revenue(1)	1,147,680	1,470,903	1,894,095	2,698,597	1,943,239
Legislature	-	-	-	-	-
Lieutenant Governor	-	-	-	-	-
Secretary of State	976,109	911,443	541,139	296,287	-
General Treasurer	476,081	799,601	1,170,081	1,100,489	1,293,540
Board of Elections	766,248	611,162	662,344	495,270	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	-	-	-	-
Commission for Human Rights	259,293	388,839	391,309	472,455	408,505
Public Utilities Commission	92,650	70,662	100,547	102,659	103,600
Rhode Island Commission on Women	-	-	-	-	-
Subtotal - General Government	**$80,255,372**	**$73,079,038**	**$74,306,309**	**$133,148,171**	**$187,419,157**
Human Services					
Office of Health & Human Services	93,852	3,168,914	7,593,011	4,324,922	4,544,633
Children, Youth, and Families	120,424,524	72,217,463	69,839,591	84,523,990	85,504,945
Elderly Affairs	12,057,604	11,980,485	12,257,937	14,678,036	16,460,162
Health	60,912,005	80,827,914	68,180,665	78,221,330	78,444,370
Human Services	867,561,431	1,024,128,776	999,808,193	1,118,173,379	1,225,366,325
Mental Health, Retardation, & Hospitals	240,445,805	241,728,740	222,757,014	272,720,673	284,303,513
Governor's Commission on Disabilities	162,175	77,450	189,769	135,851	174,949
Commission On Deaf and Hard of Hearing	4,522	(622)	-	-	-
State Council on Developmental Disabilities	421,932	395,288	450,543	-	-
Office of the Child Advocate	37,674	40,006	39,143	40,555	41,100
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	**$1,302,121,524**	**$1,434,564,414**	**$1,381,115,866**	**$1,572,818,736**	**$1,694,839,997**
Education					
Elementary and Secondary	**174,313,591**	**175,708,363**	**191,008,411**	**270,833,422**	**278,150,906**
Higher Education - Board of Governors	2,871,077	4,924,539	3,646,277	4,488,591	11,997,554
RI Council on the Arts	653,685	612,251	741,355	801,429	1,055,840
RI Atomic Energy Commission	101,942	352,771	407,277	103,116	30,000
Higher Education Assistance Authority	8,846,030	8,610,378	12,550,536	18,766,778	14,575,320
Historical Preservation and Heritage Comm.	508,937	509,240	479,640	845,462	819,367
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	**$187,295,262**	**$190,717,542**	**$208,833,496**	**$295,838,798**	**$306,628,987**

Expenditures from Federal Funds

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 Revised	FY 2010 Recommend
Public Safety					
Attorney General	1,274,491	1,298,123	1,263,609	1,313,294	1,274,540
Corrections	9,252,612	2,688,836	2,712,735	3,280,874	2,196,668
Judicial(2)	1,412,645	1,872,594	1,939,312	2,706,941	1,445,452
Military Staff	27,561,826	19,515,282	22,949,023	36,786,928	25,018,046
Public Safety(3)	1,999,004	5,957,636	6,232,120	44,397,613	10,232,874
Office Of Public Defender	213,690	271,861	248,470	325,591	225,898
Subtotal - Public Safety	**$41,714,268**	**$31,604,332**	**$35,345,269**	**$88,811,241**	**$40,393,478**
Natural Resources					
Environmental Management	21,320,143	18,024,013	33,435,438	34,508,404	32,067,164
Coastal Resources Management Council	1,659,031	1,779,206	1,453,450	1,659,109	1,608,438
Water Resources Board	64,170	-	-	-	-
Subtotal - Natural Resources	**$23,043,344**	**$19,803,219**	**$34,888,888**	**$36,167,513**	**$33,675,602**
Transportation					
Transportation	231,342,605	189,355,117	263,437,353	286,069,476	381,348,383
Subtotal - Transportation	**$231,342,605**	**$189,355,117**	**$263,437,353**	**$286,069,476**	**$381,348,383**
Total	**$1,865,772,375**	**$1,939,123,662**	**$1,997,927,181**	**$2,412,853,935**	**$2,644,305,604**

(1) Department of Administration history adjusted for Taxation and Division of Motor Vehicles transferred in FY2007 to new Department of Revenue. In FY 2009 Fire Code Board was moved to Department of Adminsitration.

(2) Judicial includes Judicial Tenure and Discipline.

(3) Agencies merged with Department of Public Safety include State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy,Capitol Police, and the Governor's Justice Commission.

Expenditures from Restricted Receipts

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 Revised	FY 2010 Recommend
General Government					
Administration(1)	$6,784,583	$9,973,069	$8,876,034	$15,419,816	$17,387,399
Business Regulation	716,341	1,364,361	1,545,638	1,707,955	2,868,208
Labor and Training	15,552,019	20,098,434	24,905,914	24,701,721	25,314,950
Revenue(1)	705,160	789,994	925,663	799,483	845,292
Legislature	1,408,852	1,451,538	1,516,351	1,508,333	1,556,712
Lieutenant Governor	-	-	-	-	-
Secretary of State	270,463	420,390	555,581	393,838	474,338
General Treasurer	21,474,117	35,987,392	27,502,060	24,486,449	27,165,006
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	(3,617)	-	-	-	-
Commission for Human Rights	-	-	-	-	-
Public Utilities Commission	4,882,056	4,887,588	6,768,667	6,746,035	6,908,931
Rhode Island Commission on Women	-	-	-	-	-
Subtotal - General Government	**$51,789,974**	**$74,972,766**	**$72,595,908**	**$75,763,630**	**$82,520,836**
Human Services					
Office of Health & Human Services	296,834	315,953	1,970,773	672,162	1,284,790
Children, Youth, and Families	1,767,022	2,731,750	1,757,941	2,284,059	2,203,059
Elderly Affairs	741,000	956,578	620,000	970,000	392,115
Health	12,204,993	15,692,703	25,486,027	24,717,414	24,784,937
Human Services	2,941,257	7,027,278	8,024,708	7,940,462	8,316,413
Mental Health, Retardation, & Hospitals	183,295	2,587,327	4,590,000	5,258,101	5,203,044
Governor's Commission on Disabilities	1,692	13,178	8,565	11,127	10,001
Commission On Deaf and Hard of Hearing	-	-	-	-	-
State Council on Developmental Disabilities	-	-	-	-	-
Office of the Child Advocate	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	**$18,136,093**	**$29,324,767**	**$42,458,014**	**$41,853,325**	**$42,194,359**
Education					
Elementary and Secondary	4,432,359	6,507,062	7,363,165	7,250,840	7,501,077
Higher Education - Board of Governors	1,074,589	715,937	1,041,526	666,433	667,543
RI Council on the Arts	-	-	-	94,225	-
RI Atomic Energy Commission	-	-	-	-	-
Higher Education Assistance Authority	-	-	-	-	-
Historical Preservation and Heritage Comm.	85,412	191,378	494,649	518,013	509,037
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	**$5,592,360**	**$7,414,377**	**$8,899,340**	**$8,529,511**	**$8,677,657**

Expenditures from Restricted Receipts

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 Revised	FY 2010 Recommend
Public Safety					
Attorney General	678,356	867,559	980,866	1,114,433	932,930
Corrections	-	(61)	-	-	-
Judicial(2)	7,272,677	8,395,390	8,710,408	9,324,149	9,807,120
Military Staff	242,449	158,275	315,321	346,833	337,449
Public Safety(3)	1,905,648	1,103,585	434,000	835,000	609,000
Office Of Public Defender	-	-	-	-	-
Subtotal - Public Safety	**$10,099,130**	**$10,524,748**	**$10,440,595**	**$11,620,415**	**$11,686,499**
Natural Resources					
Environmental Management	15,257,111	13,483,302	16,411,875	13,514,137	15,246,049
Coastal Resources Management Council	162,500	120,000	250,000	395,000	250,000
Water Resources Board	-	327,378	-	109,817	-
Subtotal - Natural Resources	**$15,419,611**	**$13,930,680**	**$16,661,875**	**$14,018,954**	**$15,496,049**
Transportation					
Transportation	1,451,818	(160,669)	1,447,246	1,450,000	1,500,000
Subtotal - Transportation	**$1,451,818**	**($160,669)**	**$1,447,246**	**$1,450,000**	**$1,500,000**
Total	**$102,488,986**	**$136,006,669**	**$152,502,978**	**$153,235,835**	**$162,075,400**

(1) Department of Administration history adjusted for Taxation and Division of Motor Vehicles transferred in FY2007 to new Department of Revenue. In FY 2009 Fire Code Board was moved to Department of Adminsitration.

(2) Judicial includes Judicial Tenure and Discipline.

(3) Agencies merged with Department of Public Safety include State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy,Capitol Police, and the Governor's Justice Commission.

Expenditures from Other Funds

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 Revised	FY 2010 Recommend
General Government					
Administration(1)	$78,159,544	$47,601,091	$56,395,660	$71,417,640	$77,447,182
Business Regulation	-	-	-	-	-
Labor and Training	394,366,966	444,303,030	417,792,181	560,307,367	601,778,879
Revenue(1)	197,616,282	217,255,814	208,470,001	194,986,832	188,763,902
Legislature	-	-	-	-	-
Lieutenant Governor	-	-	-	-	-
Secretary of State	-	-	-	-	-
General Treasurer	188,384	206,210	253,375	196,194	202,290
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	69,398	-	-	-	-
Commission for Human Rights	-	-	-	-	-
Public Utilities Commission	-	-	-	-	-
Rhode Island Commission on Women	-	-	-	-	-
Subtotal - General Government	**$670,400,574**	**$709,366,145**	**$682,911,217**	**$826,908,033**	**$868,192,253**
Human Services					
Office of Health & Human Services	-	-	-	-	-
Children, Youth, and Families	188,130	542,403	1,210,000	642,732	1,384,224
Elderly Affairs	4,343,602	4,477,142	4,630,000	4,630,000	4,630,000
Health	29,471	45,972	129,410	231,425	231,412
Human Services	-	700,000	125,000	227,500	125,000
Mental Health, Retardation, & Hospitals	2,548,069	3,173,034	10,781,631	6,065,643	12,346,669
Governor's Commission on Disabilities	163,449	100,000	300,000	166,551	375,000
Commission On Deaf and Hard of Hearing	-	-	-	-	-
State Council on Developmental Disabilities	-	-	-	-	-
Office of the Child Advocate	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	**$7,272,721**	**$9,038,551**	**$17,176,041**	**$11,963,851**	**$19,092,305**
Education					
Elementary and Secondary	170,017	1,558,748	15,940,000	15,547,575	7,558,624
Higher Education - Board of Governors	541,300,024	589,123,444	635,045,188	656,919,973	690,848,503
RI Council on the Arts	156,234	210,175	439,453	425,000	435,000
RI Atomic Energy Commission	157,890	287,689	301,153	293,869	334,769
Higher Education Assistance Authority	8,384,583	7,091,784	6,776,220	6,899,631	6,750,277
Historical Preservation and Heritage Comm.	-	-	-	-	-
Public Telecommunications Authority	1,082,894	798,374	767,060	767,060	765,656
Subtotal - Education	**$551,251,642**	**$599,070,214**	**$659,269,074**	**$680,853,108**	**$706,692,829**

Expenditures from Other Funds

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 Revised	FY 2010 Recommend
Public Safety					
Attorney General	161,887	157,154	275,000	747,726	200,000
Corrections	5,068,293	2,902,534	5,161,000	2,751,183	5,418,276
Judicial(2)	954,683	1,438,736	1,700,000	1,708,631	825,000
Military Staff	2,234,818	1,778,845	1,415,500	2,635,386	1,800,275
Public Safety(3)	3,290,028	3,142,765	14,331,245	13,646,573	18,620,329
Office Of Public Defender	-	-	-	-	-
Subtotal - Public Safety	**$11,709,709**	**$9,420,034**	**$22,882,745**	**$21,489,499**	**$26,863,880**
Natural Resources					
Environmental Management	1,378,041	2,833,397	3,331,455	5,134,500	6,572,855
Coastal Resources Management Council	-	1,590,590	1,655,509	-	1,655,509
Water Resources Board	80,600	82,199	100,000	100,000	110,000
Subtotal - Natural Resources	**$1,458,641**	**$4,506,186**	**$5,086,964**	**$5,234,500**	**$8,338,364**
Transportation					
Transportation	135,892,360	116,242,114	105,141,781	105,445,506	100,434,841
Subtotal - Transportation	**$135,892,360**	**$116,242,114**	**$105,141,781**	**$105,445,506**	**$100,434,841**
Total	**$1,377,985,647**	**$1,447,643,244**	**$1,492,467,822**	**$1,651,894,497**	**$1,729,614,472**

(1) Department of Administration history adjusted for Taxation and Division of Motor Vehicles transferred in FY2007 to new Department of Revenue. In FY 2009 Fire Code Board was moved to Department of Adminsitration.

(2) Judicial includes Judicial Tenure and Discipline.

(3) Agencies merged with Department of Public Safety include State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy,Capitol Police, and the Governor's Justice Commission.

Free Surplus

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

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

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

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

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

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

The State's Annual Comprehensive Financial Report for FY 2008 reveals a deficit of $42.95 million for the fiscal year ended June 30, 2008. This is a result of revenues falling below enacted estimates by $7.1 million and expenditures exceeding appropriations by $37.4 million. Additionally, the Governor is required by law to reappropriate unexpended balances from FY 2008 for the General Assembly amounting to $1.7 million. The Governor sought appropriation from the Budget Reserve and Cash Stabilization Account, which was fully funded at $102.8 million at the end of FY 2008. The General Assembly did not make an appropriation to resolve the FY 2008 $42.95 million deficit. The deficit of $42.95 million, when combined with the $102.8 million reserve fund, results in approximately $60 million of combined balances. The FY 2009 Enacted Budget reflects the budget which was enacted by the General Assembly in June 2008. 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 2009 Supplemental Budget of expenditures of $3.032 billion from general revenues, $243.9 million less than originally enacted, and $372.9 million less than FY 2008 actual expenditures. The reduction in general revenue spending is the result of both reductions in real expenditures and shifts from state general revenue sources to one-time federal fund sources. Much of this shifting is the result of the American Recovery and Reinvestment Act of 2009.

In hopes of combating the worst economic crisis confronting the nation since the Great Depression, the United States Congress passed in February 2009 the American Recovery and Reinvestment Act, a $789 billion stimulus package consisting of various spending and tax cut measures. Current estimates place Rhode Island's spending share of the Federal stimulus package in a range from $825 million to over $1 billion (not including unemployment benefits, supplemental nutrition assistance programs, Pell grants, or child support enforcement). This includes approximately $451.5 million over 27 months for Rhode Island's Medicaid programs, approximately $137 million for highway and bridge construction and repairs, approximately $75.4 million for other infrastructure work, approximately $91 million for aid to schools serving low-income students and special education programs for children with learning disabilities, and approximately $165 million of fiscal stabilization funds to be used primarily as education aid. While formula based funds have been included in the enacted FY 2009 Supplemental budget, the full impact of such stimulus funds may be greater than that reflected in the enacted FY 2009 Supplemental Budget and the Governor's recommended FY 2010 Budget as there are also competitive grant funds which will be available. In the FY2009 Supplemental Budget Act, the General Assembly included $131.3 million in additional Medicaid matching funds, and $1.3 million in enhanced Title IVE funds thereby reducing general revenue expenditures by the same amount based on the federal act that raised the federal Medicaid match percentage by 11.3 points retroactive to October 1, 2008.

The FY 2009 Supplemental Budget also maximized use of state fiscal stabilization funds for state budget relief by utilizing $38.3 million of federal education funds to relieve state general revenue support to local governments. Additionally, there was $30 million of federal state fiscal stabilization funds included in the FY 2009 enacted supplement budget which relieved general revenue expenditures in the Department of Public Safety. However, the actual amount now determined to be available for FY 2009 is $20.9 million, and it is expected that the 2009 Budget will be further amended to shift $10 million from FY 2009 to FY 2010.

The FY 2009 Supplemental Budget has relied upon approximately $200 million of one-time federal stimulus funds to offset expenditures in FY 2009, which funds are not likely to be available for budget purposes after FY 2011. As a result, the State will face the challenge of addressing the loss of such funds in future budget years if revenues remain depressed due to the economic downturn.

The following table sets forth a comparative statement of General Fund free surplus for fiscal years 2008 through 2010. FY 2008 data is derived from the State's Comprehensive Annual Financial Report prepared by the Office of the State Controller and post audited by the Auditor General. The FY 2009 Enacted Budget reflects the budget which was enacted by the General Assembly in June 2008. Due to downward revenue revisions of $233.0 million by the November 2008 Revenue Estimating Conference, spending increases, and carry over deficit of $42.9 million from FY 2008, the State was facing a $362 million deficit for FY 2009. The FY 2009 Supplemental Budget reflects the FY 2009 supplemental budget enacted by the General Assembly in April 2009 to bring the budget into balance. The FY 2009 Third Quarter Report estimates reflect the results of the May Revenue Estimating Conference, which lowered revenue estimates by an additional $70 million, and the May Caseload Estimating Conference which lowered costs by $5.6 million, and an estimated increase in other expenditures of $11.3 million. The net result is a deficit of $73.5 million to the Enacted FY 2009 Supplemental Budget. The FY 2010 data is derived from the Governor's recommended FY 2010 budget submitted to the General Assembly in March 2009, adjusted to reflect no opening surplus and lower revenues as projected by the May 2009 Revenue Estimating Conference. There is a $130 million deficit projected by the May 2009 Revenue Estimating Conference compared to the Governor's submission for FY 2010.

General Revenue Budget Surplus Statement

		FY2008 Actual (1)		FY2009 Enacted Budget(2)		FY2009 Enacted Supplemental(3)		FY2009 Third Quarter Report(4)		FY2010 Governor's Recommendation(5)
Surplus										
Opening Surplus	$	-	$	3,199,106	$	(42,950,480)	$	(42,950,480)	$	-
Adjustment										
Reappropriated Surplus		3,640,364		-		1,738,518		1,738,518		
Subtotal		**3,640,364**		**3,199,106**		**(41,211,962)**		**(41,211,962)**		**-**
General Taxes		2,516,400,542		2,600,358,244		2,600,358,244		2,600,358,244		2,417,090,000
Revenue estimators' revision		-				(198,228,244)		(198,228,244)		(59,690,000)
Changes to the Adopted Estimates		-				27,845,838		(10,792,087)		(17,561,391)
Subtotal		**2,516,400,542**		**2,600,358,244**		**2,429,975,838**		**2,391,337,913**		**2,339,838,609**
Departmental Revenues		356,546,075		347,627,559		347,627,559		347,627,559		222,500,000
Revenue estimators' revision		-				(16,127,559)		(16,127,559)		(18,800,000)
Changes to the Adopted Estimates		-				213,731		(19,607,913)		112,322,557
Subtotal		**356,546,075**		**347,627,559**		**331,713,731**		**311,892,087**		**316,022,557**
Other Sources										
Gas Tax Transfers		4,513,745		4,630,000		4,630,000		4,630,000		4,475,000
Revenue estimators' revision		-				(155,000)		(230,000)		(75,000)
Changes to the Adopted Estimates										(4,400,000)
Other Miscellaneous		181,810,134		19,400,000		19,400,000		19,400,000		9,819,836
Rev Estimators' revision-Miscellaneous		-				(2,802,960)		(2,133,246)		(3,319,836)
Changes to the Adopted Estimates		-				1,133,246		1,133,246		11,000,000
Lottery		354,321,087		365,500,000		365,500,000		365,500,000		349,400,000
Revenue Estimators' revision-Lottery		-				(16,400,000)		(27,400,000)		(11,400,000)
Unclaimed Property		15,387,030		9,200,000		9,200,000		9,200,000		5,600,000
Revenue Est revision-Unclaimed Property		-				100,000		(1,000,000)		(600,000)
Subtotal		**556,031,996**	**$**	**398,730,000**	**$**	**380,605,286**	**$**	**369,100,000**	**$**	**360,500,000**
Total Revenues	**$**	**3,428,978,613**	**$**	**3,346,715,803**	**$**	**3,142,294,855**	**$**	**3,072,330,000**	**$**	**3,016,361,166**
Transfer to Budget Reserve		**(68,579,573)**		**(73,698,128)**		**(68,185,576)**		**(66,646,349)**		**(72,392,668)**
Transfer from Budget Reserve				-		-		-		-
Total Available	**$**	**3,364,039,404**	**$**	**3,276,216,781**	**$**	**3,032,897,316**	**$**	**2,964,471,688**	**$**	**2,943,968,498**
Actual/Enacted Expenditures	**$**	**3,405,251,366**		**3,276,156,221**		**3,276,156,221**		**3,276,156,221**		**3,079,074,137**
Enacted changes in expenditure						(245,595,593)		(245,595,593)		
Caseload Estimating Conference Expenditure Change								(5,589,061)		(4,655,179)
Other projected expenditure change								11,307,748		
Reappropriations		-		-		1,738,518		1,738,518		
Total Expenditures	**$**	**3,405,251,366**	**$**	**3,276,156,221**	**$**	**3,032,299,146**	**$**	**3,038,017,833**	**$**	**3,074,418,958**
Free Surplus	**$**	**(42,950,480)**	**$**	**60,560**	**$**	**598,170**	**$**	**0**	**$**	**0**
Budget Balancing Plan Required							**$**	**73,546,145**	**$**	**130,450,460**
Reappropriations		(1,738,518)		-		-		-		-
Total Ending Balances	**$**	**(41,211,962)**	**$**	**60,560**	**$**	**598,170**	**$**	**(73,546,145)**	**$**	**(130,450,460)**
Budget Reserve and Cash Stabilization Account(6)	**$**	**102,869,358**	**$**	**113,897,107**	**$**	**105,377,709**	**$**	**102,998,904**	**$**	**114,621,724**

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

(2) Reflects the FY 2009 budget enacted by the General Assembly in June 2008, and amended by modifications to revenue estimates by the May 2008 Revenue Estimating Conference.

(3) Reflects the FY 2009 supplemental budget enacted by the General Assembly in April 2009.

(4) Reflects the FY 2009 supplemental budget enacted by the General Assembly in April 2009, the results of the May 2009 Revenue and Caseload Estimating Conference, and actual expenditures and projected agency spending to the end of the year.

(5) Assumes zero opening surplus for FY2010 pending resolution of the FY2009 deficit. The Governor's proposed FY2009 supplemental budget resulted in a surplus of $9.7 million at the close of FY2009 which would have been available in FY2010. The Governor's recommended FY2010 budget assumed a $1.4 million balance. Revenues reflect the May Revenue Estimating Conference, as adjusted by changes proposed by the Governor, which require legislative action not yet taken. The Governor's FY 2010 Budget included an appropriation of $42.950 million to repay the Budget Reserve Fund which is no longer needed.

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

CERTAIN MATTERS RELATING TO AUDITED FINANCIAL REPORTS

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

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

STATE INDEBTEDNESS

Authorization and Debt Limits

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

Public Finance Management Board

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

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

Sinking Fund Commission

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

Development Corporation. The Commission executed a defeasance transaction on June 15, 2000 which reduced the State's general obligation debt by an estimated $4.415 million.

Tax Anticipation Notes

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

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

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

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

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 May 1, 2009, authorized but unissued direct debt totaled $269,326,822 and there was no authorized but unissued guaranteed debt.

Net Tax Supported Debt Ratios
(in thousands)

	Debt Outstanding June 30, 2005	Debt Outstanding June 30, 2006	Debt Outstanding June 30, 2007	Debt Outstanding June, 30, 2008[3]
Direct Debt:				
Variable Rate General Obligations	$ 22,665	$ 19,665	$ 16,365	$ 14,165
Various Purpose Bonds Outstanding	778,250	822,881	897,119	982,923
Subtotal	**$ 800,915**	**$ 842,546**	**$913,483**	**$997,088**
Other Debt Subject to Annual Appropriation:				
RI Refunding Bond Authority Lease Rental Bonds	74,615	60,320	42,710	24,235
Convention Center Authority Outstanding [1]	202,855	287,185	279,935	270,960
Economic Development Corporation – Transportation	42,255	79,920	76,290	72,560
Certificates of Participation – Master Equipment Lease	9,505	13,580	19,790	14,395
Certificates of Participation – Intake Center	13,025	10,655	8,160	5,535
Certificates of Participation – Attorney General	2,795	2,795	2,575	2,230
Certificates of Participation – DLT Howard Complex	18,275	17,150	15,970	13,375
Certificates of Participation – Shepards Building	25,080	23,655	22,135	20,980
Certificates of Participation – Pastore Steam Plant	23,440	23,440	22,360	22,160
Certificates of Participation – Kent County Courthouse	58,910	56,685	54,405	52,075
Certificates of Participation – Traffic Tribunal Court Complex	21,565	21,565	20,765	19,940
Certificates of Participation – Training School	51,985	51,985	50,205	48,370
Certificates of Participation – Technology Initiative	-	-	23,490	21,000
Certificates of Participation – DOA Energy Conservation	-	-	6,000	6,000
Certificates of Participation – URI Energy Conservation	-	-	6,735	6,735
Rhode Island Housing/Traveler's Aid/NOP Program	13,060	18,754	15,502	18,152
Economic Development – Masonic Temple	-	-	14,280	9,775
Economic Development – Dow Chemical Corporation	24,542	-	-	-
Economic Development – URI Power Plant	13,514	12,869	12,194	11,494
Economic Development – McCoy Stadium	6,180	5,245	4,275	3,265
Subtotal	**601,601**	**685,803**	**697,776**	**643,236**
Performance Based Agreements [2]				
Economic Development – Fidelity Building I	21,847	21,154	20,402	19,592
Economic Development – Fidelity Building II	10,000	10,000	10,000	9,766
Economic Development – Fleet Bank Lease	10,015	9,830	9,630	9,412
Subtotal	**41,862**	**40,984**	**40,032**	**38,772**
Gross Debt	1,444,379	1,569,333	1,651,292	1,679,096
Less: Adjustments for Agency Payments:	(54,976)	(29,662)	(28,848)	(27,766)
Net Tax Supported Debt	**$1,389,403**	**$1,539,672**	**$1,622,444**	**$1,651,331**
Debt Ratios				
Personal Income	**$37,627,250**	**$38,839,898**	**$41,170,292**	**42,708,653**
Debt as a Percent of Personal Income	**3.69%**	**3.96%**	**3.94%**	**3.87%**

(1) Convention Center Authority defeased debt using proceeds from the sale of the Westin Hotel. Also, excludes the impact of the issuance by the Convention Center Authority of $70,735,000 Rhode Island Convention Center Authority Refunding Revenue Bonds, 2009 Series A and $485,000 Rhode Island Convention Center Authority Refunding Revenue Bonds, 2009 Series B (Federally Taxable) on March 25, 2009 and the redemption by the Convention Center Authority of its outstanding Variable Rate Refunding Bonds 2001, Series A in the principal amount of $59,210,000.

(2) Excludes contract for Providence Place Mall described under "Major Sources of State Revenues – Sales and Use Tax".

(3) Excludes the impact of the State's issuance of $86,875,000 General Obligation Bonds Consolidated Capital Development Loan of 2008, Series B, $8,500,000 General Obligation Capital Development Loan of 2008, Series C (Federally Taxable) and $12,445,000 General Obligation Bonds Consolidated Capital Development Loan of 2008, Refunding Series D issued on December 18, 2008. Excludes the impact of the redemption on January 2, 2009 of the State's outstanding Multi-Modal General Obligation Bonds consolidated Capital Development Loan of 2000, Series B in the principal amount of $12,565,000. Also, it excludes the impact of approximately $150 million of Historic Structures Tax Credit bonds being issued by the Economic Development Corporation in June 2009, which bonds will be secured by payment obligations of the State subject to annual appropriation by the General Assembly.

Direct debt is authorized by the voters as general obligation bonds and notes. Current interest bonds require the State to make annual payments of principal and semi-annual payments of interest on bonds outstanding, and the capital appreciation bonds of the State require the payment of principal and interest at maturity. As of June 30, 2008, the State had $997.1 million of general obligation tax supported bonds outstanding. On December 18, 2008, however, the State issued $86,875,000 General Obligation Bonds Capital Development Loan of 2008, Series B, $8,500,000 General Obligation Bonds Capital Development Loan of 2008, Series C (Federally Taxable) and $12,445,000 General Obligation Bonds Consolidated Capital Development Loan of 2008, Refunding Series D. Also, on January 2, 2009, the State redeemed its outstanding Multi-Modal General Obligation Bonds Consolidated Capital Development Loan of 2000, Series B in the principal amount of $12,565,000.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 2009 through FY 2028.

Debt Service Schedule for General Obligation Debt Issued for FY 2009-2028*

Fiscal Year	Principal	Interest	Total Debt Service
2009	54,553,740	45,828,472	100,382,212
2010	63,494,000	49,449,450	112,943,450
2011	64,695,000	45,954,662	110,649,662
2012	77,275,000	42,706,242	119,981,242
2013	85,535,000	38,607,265	124,142,265
2014	79,155,000	34,620,118	113,775,118
2015	75,480,000	30,754,639	106,234,639
2016	71,410,000	27,174,351	98,584,351
2017	71,435,000	23,633,711	95,068,711
2018	63,830,000	20,350,663	84,180,663
2019	59,800,000	17,278,276	77,078,276
2020	53,925,000	14,616,231	68,541,231
2021	53,005,000	12,163,514	65,168,514
2022	44,085,000	9,894,753	53,979,753
2023	44,895,000	7,816,116	52,711,116
2024	35,330,000	5,822,179	41,152,179
2025	29,340,000	4,042,125	33,382,125
2026	30,830,000	2,566,283	33,396,283
2027	16,710,000	1,393,626	18,103,626
2028	15,960,000	579,988	16,539,988
Total	$1,090,742,740	$435,252,662	$1,525,995,402

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

In addition, the following table sets forth the amounts, purposes and statutory authorizations of authorized but unissued general obligation direct debt of the State as of May 1, 2009 which has been approved by referenda of the electors.

Authorized but Unissued Direct Debt

Purpose	Statutory Authorization	Authorized but Unissued Debt as of May 1, 2009*
Direct Debt:		
Clean Water Act Environmental Trust Fund	Ch. 289-P.L. of 1986	1,264,627
RI Water Pollution Revolving Loan Fund and Trust Fund	Ch. 238-P.L. of 1988 as amended by Ch. 303-P.L. of 1989, Ch. 434-P.L. of 1990	4,900,000
State Police HQ/Fire Training Academy	Ch. 65-P.L. of 2002**	40,070,000
Preservation, Recreation & Heritage	Ch. 65-P.L. of 2002	1,200,000
Transportation	Ch. 595-P.L. of 2004	950,000
Emergency Water Interconnect	Ch. 595-P.L. of 2004	5,800,000
Open Space Recreation, Bay & Watershed Protection	Ch. 595-P.L. of 2004	29,785,000
Quonset Point/Davisville	Ch. 595-P.L. of 2004	4,500,000
Higher Education	Ch. 246-P.L. of 2006	59,290,000
Transportation	Ch. 246-P.L. of 2006	5,992,195
Roger Williams Park Zoo	Ch. 246-P.L. of 2006	4,200,000
Environmental Management	Ch. 246-P.L. of 2006	3,000,000
Affordable Housing	Ch. 246-P.L. of 2006	25,000,000
Transportation	Ch.100-P.L.of 2008	87,215,000
Open Space and Recreational Development	Ch. 378/469-P.L.of 2008	2,500,000
Total Direct Debt		**$269,326,822**

Source: State Budget Office

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

***The balance of this authorization will extinguish and is not recommended for extension as the remaining balance is for the State Police project which is being funded through other means.*

Guaranteed debt of the State includes bonds and notes issued by, or on behalf of, certain agencies, commissions and authorities created by the General Assembly and charged with enterprise undertakings, for the payment of which debt the full faith and credit of the State are pledged in the event that the revenues of such entities may at any time be insufficient. As of May 1, 2009, there was no outstanding or authorized but unissued guaranteed debt. However, the State has agreed to appropriate or borrow and pay to the Rhode Island Industrial Recreational Building Authority any amounts required up to $20,000,000 to service eligible mortgage loans for industrial and/or recreational projects insured under the Industrial Recreational Building Mortgage Insurance Fund that are in default and for which funds in the Industrial Recreational Building Mortgage Insurance Fund are insufficient (see the discussion regarding the Rhode Island Industrial Recreational Building Authority under the section entitled "State Agencies and Authorities").

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 $26,205,387, 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, 2008, $2,230,000 of these certificates were outstanding.

The State has also entered into a lease agreement with a financial institution that issued $33,000,000 in certificates of participation to finance construction of an Intake Center for the Department of Corrections. These certificates were refunded in January 1997. As of June 30, 2008, $5,535,000 was outstanding.

The State also entered into a lease agreement with a financial institution which issued $24.0 million in the certificates of participation in January 1997 to finance the renovation of a group of buildings at the State-owned John O. Pastore Center, formerly known as Howard Center in Cranston, Rhode Island for use as an office facility for the Department of Labor and Training. 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, 2008, $13,375,000 of such certificates were outstanding.

In November 1994 the State entered into a lease agreement with the Economic Development Corporation which issued $34.07 million in long-term bonds for the renovation of the Shepard Building. During August 1997, the State of Rhode Island issued $34,805,000 Certificates of Participation that were used to defease the Economic Development Corporation bonds. 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, 2008, $21,420,000 in Certificates of Participation were outstanding.

In January 1998, the Economic Development Corporation issued revenue bonds in the amount of $11,825,000 to finance improvements to McCoy Stadium in Pawtucket. These bonds are supported by State lease payments subject to annual appropriations. As of June 30, 2008, $3,265,000 was outstanding.

On June 29, 2000, the State entered into a lease agreement with a financial institution, which issued $9,525,000 of certificates of participation for the purchase and installation of telecommunications equipment, furnishings and vehicles and rolling stock. The State also privately placed $318,000 of taxable certificates at that time. In June 2001, the State financed an additional $3,150,000 of vehicles and rolling stock in this manner. In December 2002, the State financed an additional $3,890,000 of vehicles and rolling stock. In June 2005, the State financed an additional $6,950,000. 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, 2008, $14,395,000 of certificates were outstanding.

In December 2000, Rhode Island entered into a lease agreement with a financial institution that issued $28.18 million in certificates of participation to rehabilitate and upgrade the Central Power Plant at the Pastore Center Complex. $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, 2008, there was $22,160,000 of 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. As of June 30, 2008, there was $18,152,000 outstanding. In FY 2008, the State provided an additional $7.5 million through the loan agreement for FY2007 projects.

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. As of June 30, 2008, $72,560,000 was outstanding. The State issued the third series of Motor Fuel Tax Revenue Bonds through the Economic Development Corporation in the amount of $12,410,000 on April 2, 2009.

In 2005, Rhode Island 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, 2008, there was $52,075,000 outstanding.

In 2005, Rhode Island 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, 2008, there was $19,940,000 outstanding.

In 2005, Rhode Island 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 Facilities and a Juvenile Detection Center. As of June 30, 2008, there was $48,370,000 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. As of June 30, 2008, there was $21,000,000 outstanding.

In 2007, the State entered into a lease agreement with a financial institution that issued certificates of participation for energy conservation projects which will result in cost savings. There was $6.0 million issued for Department of Administration energy projects, and $6.75 million for the University of Rhode Island. As of June 30, 2008, there was $12,735,000 outstanding.

In July 2007, the State entered into a payment agreement with the Rhode Island Economic Development Corporation relating to $14,280,000 of financing obtained to provide funds to extinguish historic structure tax credits for the Masonic Temple project through a long-term loan to the developer. As of June 30, 2008, there was $9,775,000 outstanding.

Authorized But Unissued Obligations Subject to Annual Appropriation.

In addition to the debt authorized by the voters for which the full faith and credit is pledged, the General Assembly has authorized the issuance of debt which is subject to annual appropriation. As of May 1, 2009, the following authorizations have been enacted and the State plans to issue the debt over the next several years:

	Total Authorization
Technology Projects	13,410,000
Energy Conservation	64,465,000
School for the Deaf	33,290,000
Subtotal- Certificates of Participation	**111,165,000**
Registry of Motor Vehicles System	$13,000,000
Economic Development Corporation – Historic Structures Tax Credit Fund	356,200,000
Total Authorized But Unissued Debt Subject to Annual Appropriation	$480,365,000

The State plans to issue approximately $58.1 million of Certificates of Participation in FY 2009 and it is estimated that $53.1 million of the energy conservation project authorization will be issued in FY 2010 or later. The State also anticipates the issuing of up to $13 million to fund the Registry of Motor Vehicles Systems in 2009. In June 2009, it is expected that the Economic Development Corporation will issue approximately $150 million of bonds to reimburse the State each fiscal year for tax credits taken relating to the Historic Structures Tax Credit Program in order to stabilize budget projections and the annual impact of the taking of such tax credits. The actual amount of bonds issued will be dependent upon the compliance by the parties involved with the projects. The debt service on these bonds will be subject to annual appropriation by the General Assembly. There are other debt authorizations approved by quasi-public agencies and the Board of Governors for Higher Education which will be funded from non-general revenue sources.

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 provided for lease payments if certain targeted new job goals are met for the financed project. Currently, it is projected that these job goals will be met. If the job goals are met, the Economic Development Corporation will credit FMR Rhode Island, Inc.'s lease payments and make annual requests to the General Assembly for appropriation which will be used to pay the debt service on this bond issue. In May 2002, an additional $10 million of Phase II bonds with similar provisions were issued. As of June 30, 2008, $29.358 million of Fidelity bonds were outstanding. Job rent credits are expected to result in a State obligation of $2.5 million in 2009, and are expected to reach $2.5 million for Phase I and $522,000 for Phase II annually when maximized.

In November 1997, the Economic Development Corporation entered into a similar agreement with Fleet Bank; bonds issued for that transaction totaled $11.0 million. As of June 30, 2008, $9.412 million of Fleet bonds were outstanding. Under the lease agreement with Fleet, debt service on only $3.4 million of the total debt would be reimbursed through the applications of job rent credits. Job rent credits, if earned, are estimated to result in a State obligation of approximately $300,000 per year.

Borrowing for the Employment Security Fund

The Employment Security Fund is comprised primarily of monies collected from a tax imposed on Rhode Island employers. These funds are used for the sole purpose of paying unemployment insurance benefits to eligible claimants. All funds are deposited in the 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 $104.9 million as of October, 2008. This was a decrease of $72.8 million or 41% from October 2007. The Rhode Island Department of Labor and Training projected that it would need to borrow as authorized by federal law in order to meet the cost of unemployment benefit payments in FY 2009 and FY 2010. The last time a borrowing occurred was when the Rhode Island Employment Security Fund borrowed a total of $129.3 million between February 1975 and April 1980 from the Federal Unemployment Account under Title XII of the Social Security Act. In early November 1984, the Governor of the State of Rhode Island authorized the transfer of $75.8 million from the Employment Security Fund to the Federal Unemployment Account to complete the $129.3 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 the balance as of April 2009. This figure is comprised primarily of a combination of employer contributions and Federal loans (receipts) and employee benefits and loan repayments (disbursements) less any outstanding loan balance.

		Borrowings from Federal Unemployment Account	
Year Ended Dec. 31	Fund Balance (Millions)	Amount Borrowed (Millions)	Amount Repaid (Millions)
1975	$ -40.5	$ 45.8	$ -0-
1976	-53.9	20.0	-0-
1977	-66.6	9.0	3.73
1978	-88.0	31.0	-0-
1979	-96.3	5.0	4.31
1980	-94.5	18.5	.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	61.0	-0-	-0-
1986	133.5	-0-	-0-
1987	211.5	-0-	-0-
1988	270.8	-0-	-0-
1989	295.0	-0-	-0-
1990	255.6	-0-	-0-

Year Ended Dec. 31	Fund Balance (Millions)	Borrowings from Federal Unemployment Account: Amount Borrowed (Millions)	Amount Repaid (Millions)
1991	140.2	-0-	-0-
1992	99.5	-0-	-0-
1993	113.9	-0-	-0-
1994	110.3	-0-	-0-
1995	107.7	-0-	-0-
1996	112.4	-0-	-0-
1997	156.9	-0-	-0-
1998	219.9	-0-	-0-
1999	260.5	-0-	-0-
2000	295.6	-0-	-0-
2001	277.9	-0-	-0-
2002	253.7	-0-	-0-
2003	205.5	-0-	-0-
2004	184.3	-0-	-0-
2005	185.8	-0-	-0-
2006	197.8	-0-	-0-
2007	168.3	-0-	-0-
2008	79.2	-0-	-0-
2009 (as of April 2009)	-57.2	65.1	-0-

In March 2009, the Governor applied for repayable advances to the account of the State of Rhode Island in the Unemployment Trust Fund from the federal unemployment account in accordance with the provisions of Section 1201 of the Social Security Act. The amount of advances needed for FY 2009 was estimated to be no more than $32.0 million, $35.0 million and $10.0 million in March, April and May 2009, respectively. As of April 30, 2009, the amount borrowed totaled $65.1 million. It is expected that the borrowing will be continuous throughout FY 2010, and would reach $226.0 million.

Under the American Recovery and Reinvestment Act of 2009, the loans from the federal account do not bear interest through December 2010. Beginning in 2011, any interest due on federal loans must be paid by October 1st of each year. Failure to pay this interest by the due date would result in a loss of State employer FUTA tax credits and the loss of the State's UI Administrative grant. The interest due on federal loans cannot be paid out of the State's UI Trust fund or by UI Grant funds. If the state is unable to repay federal loans, there are provisions for automatic cuts in federal tax credits that employers receive when state law is in conformity with federal law. Currently, employers pay a federal unemployment tax (FUTA) of 6.2% to the federal government and receive a credit of 5.4%. The net federal tax is, therefore, 0.8%. However, after a couple of years of outstanding loans, the federal government would implement cuts in the federal credit of 0.3% for each additional year that the loans remain outstanding. This money would be applied against the state's federal loan balance.

State Agencies and Authorities

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

Rhode Island Turnpike and Bridge Authority. Originally created by an act of the General Assembly, Chapter 12, title 24, in 1954, the Rhode Island Turnpike and Bridge Authority has rights and obligations under agreements which secure its outstanding bonds. On August 21, 1997 the Authority issued $42,985,000 Refunding Revenue Bonds Series 1997 providing escrowed funds to defease bond issues outstanding totaling $41,355,000, (the original issues in 1965 and 1967 totaled $61,000,000). On July 31, 2003 the Authority issued $35,765,000 Taxable Refunding Bonds and together with other funds paid the outstanding balance Series 1997 of Revenue Refunding Bonds. Accordingly, as of June 30, 2004 the Authority had no obligations related to the defeased Series 1997 bonds. The Authority voted to remove the tolls from the Mt. Hope Bridge on May 1, 1998. The Mt. Hope Bridge will continue to be maintained by the Authority. Tolls on the Claiborne Pell Bridge are the primary source of revenues and together with interest earned on investments are anticipated to be adequate to service debt and maintain the Authority's facilities. The outstanding balance of the 2003A issue of taxable refunding bonds is $25,795,747 at June 30, 2008.

Effective October 1, 1999, token purchases for $10 (11 tokens) and $50 (60 tokens) were authorized to provide savings to commuters as compared to the $1.00 per axle cash fare. In December 2008, the Authority implemented an EZ Pass system. Tokens are no longer accepted from motorists. Users of Rhode Island-issued EX Pass transponders pay $0.83 per trip and users of transponders issued by others pay $1.75 per trip. There is litigation pending in United States District Court challenging the difference in rates. Cash customers continue to pay $1.00 per axle.

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

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

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

As of June 30, 2008, the Authority had outstanding mortgage agreements and other commitments for $14,946,868 mainly in connection with revenue bonds issued by the Rhode Island Industrial Facilities Corporation. In accordance with State law, all premiums received by the Authority and all amounts realized upon foreclosure or other proceeds of defaulted mortgages are payable into the Industrial Recreational Building Mortgage Insurance Fund. All expenses of the Authority and all losses on insured mortgages are chargeable to this Fund. As of June 30, 2008, the Fund had a balance of $2,510,743. The State has agreed to appropriate or borrow and pay to the Authority any amounts required to service insured loans that are in default should the Fund be insufficient.

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

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

The Public Buildings Authority had six series of bonds outstanding as of June 30, 1997, in the amount of $202,750,000, which are payable solely from revenues derived from lease rentals pursuant to lease agreements between the Authority and the State. The State's payment of such lease rentals is subject to and dependent upon annual appropriations being made by the General Assembly. In June 1998, the Refunding Bond Authority refunded portions of four of these series of bonds with the issuance of the 1998 Series A Bond in the amount of $39,875,000. The 1988 Series A Revenue Bonds were redeemed during the fiscal year ended June 30, 2003. In May 2003 the Authority issued $67,625,000 State Public Projects Revenue Bonds, Series 2003 A dated April 1, 2003 to refund the outstanding principal of State Public Projects Revenue Bonds, 1993 Series A originally issued by the Rhode Island Public Buildings Authority. Total net debt outstanding on the 1998 and 2003 issues as of June 30, 2008 totals $24,235,000.

Rhode Island Convention Center Authority. The Authority was created in 1987, under Chapter 99, title 42 of the General Laws of Rhode Island as a public corporation having a distinct legal existence from the State and not constituting a department of State government. The Authority was created for the purpose of acquiring, constructing, managing and operating a convention center, as well as facilities related thereto such as parking lots and garages, connection walkways, hotels and office buildings, including any retail facilities incidental to and located within any of the foregoing and to acquire, by purchase or otherwise, land to construct the complex. Obligations issued by the Authority do not constitute a debt or liability or obligation of the State, but are secured solely from the pledged revenues or assets of the Authority. In November 1991 the Authority sold $225 million in bonds to finance the construction of the convention center and in July 1993 the Authority sold an additional $98 million in bonds to finance the construction of the hotel and parking garage. Market conditions in 1993, 2001 and 2003 enabled the Authority to refund all or portions of its 1991 and 1993 bonds. In addition, during 2005, the Authority sold the Westin Hotel and defeased $90,085,000 in Authority bonds and refunded a portion of its 1993 Series C bonds. The 1993 Series C Bonds were retired in 2008. In March 2009, the Authority issued $71.220 million in bonds to refund the 2001 Series A bonds and terminated an associated SWAP agreement

Currently the Authority has $275,810,000 principal outstanding debt excluding interest consisting of the following issues:

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

The Authority purchased the Dunkin' Donuts Civic Center from the City of Providence in December of 2005 for a purchase price of $28.5 million. The purchase price for the acquisition of the Dunkin Donuts Civic Center, together with funds for the renovation of and ancillary expenditures regarding the Dunkin Donuts Civic

Center, was financed in 2006 through a taxable bond issuance of $92.5 million constituting the 2006 Series A Bonds.

Pursuant to a Lease and Agreement dated as of November 1, 1991, between the Authority, as lessor and the State, as lessee, the Authority leased the Convention Center facilities to the State. Pursuant to a lease and agreement dated as of November 30, 2005, between the Authority, as lessor, and the State, as lessee, the Authority leased the Dunkin Donuts Civic 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 (the Corporation), a quasi-public corporation and instrumentality of the State, was established in 1974 under Chapter 19, title 23 of the General Laws of Rhode Island, for the purpose of assisting municipalities in solving their waste disposal problems and for developing a more suitable alternative approach to the overall solid waste disposal problem through implementation of a resource recovery program. To accomplish its purposes, the Corporation has the power to issue negotiable notes and bonds subject to the provisions of Rhode Island General Law 35-18 and 23-19.

During January 2002, the Corporation issued Resource Recovery System Revenue Bonds, 2002 Series A (the Bonds), in the aggregate principal amount of $19,945,000. The Bond proceeds were used to finance the construction and equipping of a tipping facility to receive and handle commercial and municipal solid waste delivered to the facility. These bonds bear interest at rates that range from 3.5% to 5% and mature in varying installments beginning March 1, 2003 through March 1, 2022. The outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required on bonds over various years beginning in 2018 through 2022 at the principal amount of the bonds. The outstanding balance at June 30, 2008 totals $15,670,000.

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

During 2006, in conjunction with the purchase of several properties held for development, the Corporation issued various note payable agreements, bearing interest at 5% per annum, in the original amount of $4,700,000. The aggregate balance outstanding on these notes at June 30, 2008 and 2007 was $1,250,000 and $1,875,000 respectively. Future minimum debt payments are $625,000 in fiscal year 2008 and $625,000 in fiscal year 2009.

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

Fiscal Year	Amount
1995	$ 6,000,000
1996	15,000,000
1997	0
1998	2,000,000
1999	4,000,000
2000	0
2001	3,115,000
2002	3,000,000
2003	6,000,000
2004	0

2005	4,300,000
2006	7,500,000
2007	3,300,000
2008	5,000,000
	$59,215,000

In FY 1994, the General Assembly approved a municipal tip fee of $32.00 per ton. Annually, the legislature has maintained the municipal tip fee at the FY 1994 level by reauthorizing the Corporation to charge $32.00 per ton for municipal solid waste. A portion of the Corporation's landfill is a designated Superfund site. During 1996, the Corporation entered into a Consent Decree with the United States Environmental Protection Agency (EPA) concerning remedial actions taken by the Corporation for groundwater contamination. The Consent Decree requires the establishment of a trust in the amount of $27,000,000 for remedial purposes. The Central Landfill Remediation Trust Fund Agreement was approved August 22, 1996 by the EPA. In accordance with the terms of the agreement, the Corporation has deposited approximately $33,299,000 into the trust fund and has disbursed approximately $5,348,000 for remediation expenses and trustee management fees through June 30, 2008. Additionally, trust fund earnings, net of changes in market value have totaled approximately $13,828,000 as of June 30, 2008.

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

The Corporation has also established trust funds, in accordance with EPA requirements for a municipal solid waste landfill, for the closure and post closure care costs related to Phases II, III, IV and V. At June 30, 2008, the Corporation has approximately $39,636,000 in the trust funds to meet the financial requirements of closure and post closure care costs related to Phases II, III, IV and Phase V. Future trust fund contributions will be made each year to enable the Corporation to satisfy these closure and post closure care cost. The Corporation's total estimate of future landfill closure and postclosure costs is approximately $140,000,000 as of June 30, 2008. The Corporation has received site approval for Phase VI from the State Planning Council. The Corporation has submitted an application for licensure of Phase VI to RIDEM. The Corporation expects to record an approximately additional $80,000,000 of closure costs based upon current costs over the anticipated life of Phase VI, once it is permitted and begins to accept solid waste.

As a result of concerns raised by the Executive Director of the Corporation regarding possible mismanagement of the Corporation prior to the beginning of his tenure in early 2007, the Governor requested the Bureau of Audits for the State to examine the Corporation in January 2008. The Bureau of Audits released in March 2008 preliminary results of its examination of the Corporation, which raised various issues of concern, including potential conflicts of interests violations in various land purchases, land purchases that exceeded comparable market prices, monies managed by an investment firm associated with a former board member, and charitable contributions from which board members and employees appeared to derive personal benefits. The forensic audit of the Corporation is ongoing. The Corporation has yet to determine the impact of forensic audit or other investigations of the Corporation other than the carrying value of certain assets held for development have been written down in fiscal year 2008.

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

The Agency is empowered to issue revenue bonds and notes, which are not guaranteed by the State. As of June 30, 2008, the Agency has issued bonds in the aggregate amount of $777,115,000 to fund $872,196,309 in low-interest loans for various local wastewater pollution abatement projects, safe drinking water projects and the Cranston Privatization Issue. The outstanding bonded indebtedness of the Agency, as of June 30, 2008 is $453,195,000 in the clean water state revolving fund (CWSRF wastewater projects), $59,485,000 for three conduit financings and $118,660,000 in the drinking water state revolving fund. Also, in years 1997 through 2008, the Agency made a total of $41,130,000 in direct loans (loans issued without bond financing) out of the CWSRF, a total of $27,578,037 in direct loans out of the Drinking Water State Revolving Fund and $58,095,000 in direct loans out of the Rhode Island Water Pollution Control Revolving Fund.

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

The Authority is authorized to issue bonds and notes secured solely by its revenues. The Authority has no bonds or notes outstanding. Also, in order to increase the financial stability of the Authority, (1) the General Assembly authorized dedication of a portion of the State's gasoline tax receipts in support of appropriations to the Authority, and (2) the Authority increased its base fare from 70¢ to 75¢ to 85¢ to $1.00 to $1.50 and then to $1.75 in July 2008. The Authority, in an effort to build ridership, has maintained rates at a level that has necessitated State appropriations assistance to support its operations. In the fiscal year ended June 30, 2008, audited results of operations reveal that State-operating assistance to the Authority totaled $32,724,644, operating revenues totaled $32,643,162, and other revenues totaled $24,566,713.

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

The Authority, as a result of a possible budget deficit that was expected to reach as high as $10 million for FY 2009 as compared to its $100 million budget, had scheduled hearings on service reductions that could have eliminated twenty (20%) percent of its bus service beginning in January 2009. The Governor has appointed a committee of directors from the Department of Revenue, Department of Transportation and the Department of Administration to work with the Authority to identify potential cost savings and operating efficiencies in order to address the Authority’s short-term budget deficit without eliminating any of its current bus service and to provide recommendations and develop a strategic plan for the long-term success of the Authority. As a result of a combination of savings, decrease in fuel costs and receipt of funds from various sources, the Rhode Island Public Transit Authority has reduced its originally projected $10 million budget deficit, to $1.3 million. It is unclear what effect the remaining deficit could have on the Authority’s operations.

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

The Corporation, which changed its name in 1995, was previously known as the Rhode Island Port Authority and Economic Development Corporation, created in 1974 under Chapter 64, title 42 of the General Laws of Rhode Island. The 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, 2008, the Corporation had revenue bonds outstanding of $868,351,949 including conduit debt of $77,220,272 for the former Rhode Island Port Authority and Economic Development Corporation. Certain of the bonds of the Corporation can be secured, in addition to a pledge of revenues, by a capital reserve fund established by the Corporation for the applicable bond issue. In accordance with its enabling legislation, if at any time the balance in such capital reserve fund falls below its requirement, the Corporation is authorized to request the General Assembly to appropriate the amount of the deficiency. The General Assembly may, but is not obligated to, appropriate such amounts.

In February 1993, the Corporation issued $30,000,000 in taxable revenue bonds on behalf of Alpha Beta Technology, Inc. for acquisition, construction and equipping of a new plant facility for the clinical and commercial manufacture of biopharmaceutical products. In January 1999, this issue was placed in default. These bonds were secured by a letter of credit that was secured in part by the Corporation's capital reserve fund. The bondholders were paid in full from a draw on the letter of credit. The 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, Rhode Island to be utilized for Fidelity of Rhode Island, Inc. These bonds are also secured, in part, by the Corporation's capital reserve fund. In addition, pursuant to the lease, the 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. At June 30, 2008, the outstanding balance was $19,591,677. In FY 2009, the State's payment is expected to be $2.5 million.

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, Rhode Island. 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, 2008, the outstanding balance was $9,500,000.

In November 1997, the Corporation issued $11,000,000 in revenue bonds on behalf of Fleet National Bank (which is now part of Bank of America by merger) for development of infrastructure improvements at a site in Lincoln, Rhode Island to be utilized for Fleet National Bank. These bonds are also secured, in part, by the Corporation's capital reserve fund. In addition, the State has provided for credits if certain targeted new job goals are met. No expenditures have been made to date. At June 30, 2008, the outstanding balance was $9,415,000.

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

In January 1998, the Corporation issued revenue bonds in the amount of $11,825,000 to finance improvements to McCoy Stadium in Pawtucket. These bonds are supported by State lease payments subject to annual appropriations. At June 30, 2008, the outstanding balance was $3,265,000.

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

In July 2007, the Rhode Island Economic Development Corporation provided $14 million to an affiliate of Sage Hospitality, the developer of the old Masonic Temple located in Providence, Rhode Island, in the form of a 40 year loan, at an interest rate of ½ of one per cent, in exchange for the extinguishment of no less than $24 million in Rhode Island Historic Preservation Tax Credits that have not yet been issued on the project to redevelop the old Masonic Temple into a Renaissance Hotel. The Corporation borrowed funds for the transaction from Bank of America and the Governor agreed to request the General Assembly to appropriate each fiscal year funds sufficient to repay the obligation of the Corporation during FY 2008 through FY 2010. It is anticipated that the net savings to the State would be approximately $7.0 million over the period of time those tax credits may otherwise have been used.

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

Pursuant to its Articles of Incorporation, the powers of RIAC are vested in its Board of Directors consisting of seven members; one member is appointed by the Mayor of the City of Warwick and the remaining six members are appointed by the Governor of the State. Each of the six directors appointed by the Governor serves a staggered four year term. The director appointed by the Mayor of the City of Warwick serves at the pleasure of the Mayor.

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

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

The powers of RIAC are vested in its Board of Directors consisting of seven members. RIAC does not have the power to issue bonds or notes or borrow money without the approval of the Rhode Island Economic Development Corporation.

RIAC operates T.F. Green Airport, which is Rhode Island's only certified Part 139 commercial carrier. 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. There are five General Aviation Airports operated by RIAC, each of which is managed pursuant to a Management Contract dated as of May 7, 1996, that has been extended to June 30, 2011, by and between RIAC and Piedmont Hawthorne Aviation, LLC (doing business as Landmark Aviation). The contract provides for an additional five-year term beginning July 1, 2011. Each of these airports is briefly described below:

North Central Airport

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

Quonset Airport

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

Westerly Airport

Located in the southwest portion of Rhode Island in Westerly, Westerly Airport is approximately thirty-five miles from the Airport. Westerly is classified as a commercial service airport and enplanes approximately 8,000 commuter passengers annually.

Newport Airport

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

Block Island Airport

Situated on Block Island, just off the southern coast of Rhode Island, Block Island Airport is approximately twenty-five miles from the Airport. Block Island Airport is classified as a commercial service airport and enplanes approximately 8,000 commuter passengers annually.

As of June 2008, and based upon classifications defined by the U.S. Department of Transportation, the Airport has scheduled passenger service provided by fifteen major/national and five commuter airlines. Air Georgian provides international service at the Airport. Three airlines provide all-cargo service.

Airport Use & Lease Agreements

RIAC has entered into Airport Use & Lease Agreements (Airline Agreements) with the following Signatory Airlines as of June 30, 2008:

- American Airlines
- Continental Airlines
- Delta Airlines
- Northwest Airlines

- Southwest Airlines
- United Airlines
- US Airways

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

Historical Enplanement Data

T.F. Green Airport was ranked as the 60th busiest airport in the country for the federal fiscal year 2006 according to the latest published data in the "Terminal Area Forecast Summary" produced by the U.S. Department of Transportation, Federal Aviation Administration. This compares with rankings of 57th busiest in federal fiscal year 2005, 57th in federal fiscal years 2003 and 2004, and 56th, in federal fiscal year 2002.

Actual enplaned passengers for fiscal year 2008 were 45,038 below 2007, resulting in a decrease of 1.8%. The decline in enplanements at the Airport is attributable to the cessation of services by Spirit Airlines in April 2007 and the reduction in available seat capacities as several mainline carriers continue to shift their service to regional jet and commuter affiliates.

Long-Term Debt Administration – General

Under the State Lease Agreement, RIAC has agreed to reimburse the State for State G.O. Bond debt service accruing after July 1, 1993, to the extent of available moneys in the Airport General Purpose Fund which are not required to pay capital improvements at the Airport or general aviation airports' operating expenses. In the event there are not sufficient moneys to reimburse the State currently, such event shall not constitute an event of default. Instead, the unpaid portion shall accrue and be payable in the next succeeding fiscal year and shall remain a payment obligation of RIAC until paid in full. If the unpaid portion is not reimbursed by the end of the following year, such failure could constitute an event of default on the part of RIAC under the State Lease Agreement. RIAC is current in all of its payment obligations to the State. These bonds mature annually through 2023. The balance outstanding at June 30, 2008 and 2007 was $11.678 million and $13.195 million, respectively.

In 1994, RIAC issued $30 million General Airport Revenue Bonds dated May 19, 1994, maturing annually from 1998 through 2014 with interest coupons ranging from 5.25% to 7%. The balance outstanding at June 30, 2008 and 2007 was $6.07 million for both years.

In 1998, RIAC issued $8.035 million Series A and $53.14 million Series B General Airport Revenue Bonds dated June 11, 1998, maturing annually from 2001 through 2028 with interest coupons ranging from 4.2% to 5.25%. The balance outstanding as of June 30, 2008 and 2007 was $35.08 million and $54.46 million, respectively.

In 2000, RIAC issued $8.38 million Series A and $42.165 million Series B Airport Revenue Bonds dated May 11, 2000, maturing annually from 2005 through 2028 with interest coupons ranging from 5.51% to 6.5 %. The balance outstanding as of June 30, 2008 and 2007 was $5.19 million and $6.31 million, respectively.

In 2003, RIAC issued $31.725 million Series A Airport Revenue Refunding Bonds dated October 2, 2003 to enable the defeasance of $31.395 million of 1993 Series A General Airport Revenue Bonds. The refund issue matures annually from 2005 through 2015 with interest coupons ranging from 3.5% to 5%. The balance outstanding as of June 30, 2008 and June 30, 2007 was $23.585 million and $26.415 million, respectively.

In 2004, RIAC issued $52.665 million Series A Airport Revenue Refunding Bonds dated March 12, 2004 to enable the defeasance of $31.915 million and $20.190 million in 1993 Series A General Airport Revenue Bonds (GARB) and 1994 Series A GARBs, respectively. The refunding issue matures annually from 2005 through 2024 with interest coupons from 2% to 5%. The balance outstanding as of June 30, 2008 and June 30, 2007 was $50.06 million and $50.095 million respectively.

In 2005, RIAC issued $43.545 million Series A and $27.245 million Series B Airport Revenue Bonds dated June 28, 2005 maturing annually from 2009 through 2030 with interest coupons ranging from 4.625% to 5%. Also on June 28, 2005, RIAC issued $44.465 million Series C Airport Revenue Refunding Bonds to enable the defeasance of $42.165 million in 2000 Series B General Airport Revenue Bonds. The refunding issue matures annually from 2006 through 2028 with interest coupons ranging from 3% to 5%. RIAC's defeasance of the 2000 Series B Bonds resulted in an economic present value gain of $3.04 million or 7.2% of the refunded bonds. The outstanding balance for the 2005 Series as of June 30, 2008 and 2007 was $114.87 million and $115.075 million, respectively.

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

Long Term Debt Administration – Special Facility

In 2006, RIAC issued $48.765 million Series 2006 First Lien Special Facility Bonds for the Intermodal Facility Project (2006 First Lien Bonds) dated June 14, 2006 maturing annually from 2011 through 2036 with interest coupons ranging from 4% to 5%. The balance outstanding for the 2006 First Lien Bonds was $48.765 million as of June 30, 2008 and June 30, 2007. The principal amount of, redemption premium, if any, and interest on the 2006 First Lien Bonds is payable from and secured by a pledge of the respective interests of EDC and RIAC in the Trust Estate created under the Indenture.

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

As part of the financing for the Intermodal Facility Project, RIAC and the EDC have secured additional funds under the US Department of Transportation's (USDOT's) Transportation Infrastructure Finance and Innovation Act (TIFIA) provisions for the payment of eligible project costs of the Intermodal Facility up to $42 million at an interest rate of 5.26%. This TIFIA Bond is issued pursuant to the First Supplemental Indenture as a Second Lien Obligation payable from and secured by a pledge of and secondary interest in the Trust Estate under the Indenture, subject to the pledge of the Trust Estate for the security and payment of the 2006 First Lien Bonds. The 2006 TIFIA Bond is also secured by the Second Lien Debt Service Reserve Fund to be funded from CFCs on the Date of Operational Opening in an amount equal to the average annual debt service on the 2006 TIFIA Bond calculated as of the date of the closing. As of June 30, 2008 and June 30, 2007 approximately $83 thousand had been drawn on the TIFIA loan, respectively.

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

Recreational Building Authority; and (f) any "recreational project" as described in Chapter 34 of title 42, relating to the loan guarantee program of the Rhode Island Industrial-Recreational Building Authority.

The Corporation is authorized to issue its revenue bonds and notes from time to time for any of its corporate purposes. All bonds and notes issued by the Corporation shall be payable solely out of the revenues and receipts derived from the leasing or sale by the Corporation of its projects, or from any other financing arrangement which may be designated in the proceedings of the Corporation under which the bonds or notes shall be authorized to be issued. As of June 30, 2008, the Corporation had an outstanding principal balance of conduit debt of $86,095,236. 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 $14,946,868 as of June 30, 2008.

Rhode Island Housing and Mortgage Finance Corporation. The Rhode Island Housing and Mortgage Finance Corporation is a public corporation and instrumentality of the State created in 1973 to assist in the construction and financing of low and moderate income housing and health care facilities in the State. In addition to its general powers, the Corporation is authorized to issue revenue bonds and to originate and make mortgage loans to low and moderate income persons and families, to purchase mortgage loans from and 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, 2008 was $1,616,370,000 consisting of $1,493,874,000 of long-term bonds and $122,496,000 of short-term or convertible-option bonds. Included in the total outstanding is $321,813,000 in bonds, which are secured in part by capital reserve funds which have aggregated to $39,001,000 on June 30, 2008. Under provisions similar to those governing the Rhode Island Economic Development Corporation, the General Assembly may, but is not obligated to, provide appropriations for any deficiency in such reserve funds. The Corporation has never been required to request any such appropriations. Such reserve funds relate solely to multi-family issues of the Corporation.

Rhode Island Student Loan Authority. The Authority was created in 1981 under Chapter 62, title 16 of the General Laws, for the purpose of increasing the supply of loans made to students and their families to finance the cost of obtaining a post-secondary education. To achieve this purpose, one of the powers of the Authority is the ability to issue bonds and notes. Obligations of the Authority shall not constitute a debt, liability or obligation of the State or any political subdivision thereof, and shall be payable solely from the revenues or assets of the Authority. As of September 30, 2008, the Authority held $609,252,368 Federal Family Education Loans that were insured by the Rhode Island Higher Education Assistance Authority and other Guarantors. The Authority also held on September 30, 2008, $153,147,816 in Rhode Island Family Education Loans and $241,289,363 in College Bound Loans. As of September 30, 2008, the Authority had $988,590,000 of tax-exempt and taxable bonds outstanding.

Rhode Island Higher Education Assistance Authority. The Authority was created in 1977 under Chapter 57, title 16 of the General Laws as a public corporation of the State having a distinct legal existence from the State and not constituting a department of State government. It was created for the purpose of guaranteeing eligible loans to students and parents of students attending eligible institutions and of administering other programs of post-secondary student financial assistance assigned by law to the Authority (e.g. Rhode Island State Scholarship/Grant Program and College Bound*fund*®, Rhode Island's IRS Section 529 college savings program). Guarantees made by the Authority shall not constitute a pledge of the faith and credit of the State, but shall be payable solely from the revenues and assets of the Authority.

Rhode Island Water Resources Board Corporate. Pursuant to Chapter 15.1 of title 46 of the Rhode Island General Laws, the Water Resources Board Corporate is a body politic and corporate and a public instrumentality of the State having a distinct legal existence from the State. The purpose of the Board is to foster and guide the development of water resources including the establishment of water supply facilities and lease the same to cities, towns, districts and other municipal, quasi-municipal or private corporations or companies engaged in the water supply business in Rhode Island, contract for the use of the same by such parties, or sell to such parties the water derived from, carried by or processed in such facilities. The Board is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water and the water surcharge (.01054). On July 13, 1989, the Board issued bonds for the benefit of the Providence Water Supply Board. On August 7, 1997 the Board issued refunding bonds in the amount of $9,930,000 to advance refund the Providence Project Bonds which were redeemed on September 15, 1999. The amount of the Refunding Bonds outstanding as of June 30, 2008 was $2,000,000.

On March 1, 1994, the Board issued revenue bonds for public drinking water protection in the amount of $11,835,000. On November 15, 2002, the Board issued $11,385,000 of refunding revenue bonds. The proceeds refunded the 1994 series on March 1, 2004 in the amount of $7,847,700. The excess proceeds were used to fund Phase III of public drinking water protection. The amount of the Series 2002 refunding bonds outstanding as of June 30, 2008 was $7,530,000.

Rhode Island Health and Educational Building Corporation. The Corporation was organized in 1966 as a Rhode Island non-business corporation with the name of Rhode Island Educational Building Corporation. In 1967, the Corporation was constituted as a public body corporate and an agency of the State by the Rhode Island General Assembly under Chapter 38.1, title 45 of the General Laws. The Corporation has broad powers to assist in providing educational facilities for colleges and universities operating in the State, to assist hospitals in the State in the financing of health care facilities, to assist students and families of students attending institutions for higher education in the State to finance the cost or a portion of the cost of higher education, to assist in financing a broad range of non-profit health care providers, and to assist in financing non-profit secondary schools; child day care centers; adult day care centers; and free standing assisted living facilities; and to assist it in carrying out its powers, the Corporation may issue bonds and notes which are special obligations of the Corporation payable from revenues derived from the project financed or other monies of the participating educational institution or health care institution available for such purpose. The State is not liable for the payment of the principal, premium, if any, or interest on any bonds or notes of the Corporation, or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever which may be undertaken by the Corporation, and none of the bonds or notes of the Corporation nor any of its agreements or obligations shall be construed to constitute an indebtedness of the State. As of June 30, 2008, the Corporation had $2,420,465,710 of bonds and notes outstanding (excluding series secured by trust funds for future redemption).

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

The TSFC issued $685,390,000 of its Tobacco Settlement Asset-Backed Bonds, Series 2002A ("TSAC Bonds") in June 2002 to finance the costs of acquisition of the right, title and interest to one-hundred percent (100%) of the "state's tobacco receipts", as defined in the Act, after December 2003. As of June 30, 2008, the TSFC had $646,535,000 of bonds outstanding from the June 2002 bond issue. The TSFC issued an additional $197.0 million of its TASC Bonds on June 27, 2007, all of which is outstanding. Combined, there is $843,535,000 of bonds outstanding as of June 30, 2008.

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

EMPLOYEE RELATIONS

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

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

As of May 9, 2009 the State had 14,313 paid employees. This equates to approximately 13,461 full-time equivalent positions. Of this amount, 10,862 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 3,806 employees, or 35.0 percent of total organized State employees. Several other major bargaining groups are represented by the Rhode Island Alliance of Social Service Employees, Local 580 (822 employees); the Rhode Island Brotherhood of Correctional Officers (1,133 employees); the American Association of University Professors (687 employees) to name a few. In addition, there are 3,451 non-union employees. Contracts with all but two of the collective bargaining units expired on or prior to June 30, 2008. During the summer of 2008, the Administration negotiated a four year agreement which required approval of the various union memberships, and which reflected a portion of the savings to the State needed in order to accomplish the proposed $50.2 million general revenue savings in personnel costs to balance originally enacted the FY 2009 Budget. In 2008, the Rhode Island Brotherhood of Correctional Officers were awarded through arbitration, contractual provisions through 2006. The Brotherhood and the State have begun negotiations for the subsequent contract period. The State Police union has a contract which expired on April 20, 2009, and discussions have been started on that contract.

As part of the FY 2009 budget, the Governor recommended, and the General Assembly agreed, that State Government operate with fewer state employees and that several measures be taken to reduce the overall cost of the workforce. The FY 2009 Enacted Budget included targeted reductions of 629.7 FTE positions in certain agencies based upon specific programmatic reductions. It is projected that this reduction will save $41.0 million from all fund sources in FY 2009. The FY 2009 Enacted Budget also includes $60.6 million in savings, of which $33.4 million is general revenues for personnel savings which were to be the result of negotiations with the unions. Additionally, the Governor's recommendation, and the FY 2009 Enacted Budget, assumed $30.5 million in savings from all fund sources ($16 million general revenues) from permanent position eliminations as a result of retirements for FY 2009. The FY 2009 Enacted Budget assumed that 400 non-critical positions will be eliminated upon the incumbent's retirement. Overall, the FY 2009 Enacted Budget provides that state employee full time equivalent positions be reduced from the FY 2008 enacted level of 15,987.3 to 14,958.6 in FY 2009, a reduction of 1,028.7 positions. As a result of changes enacted which modified the cost sharing of State employee retiree health benefits effective October 1, 2008, there have been a significant number of state employees who have retired. As of May 9, 2009, there were 13,461 FTE positions filled, 1,497 less than the authorized amount in the FY 2009 Enacted Budget and 1,014 less than the authorized amount in the FY 2009 Supplemental Budget. As a result of the significant decline in the number of State employees from the levels provided for in the enacted budget for FY 2008, the State will be confronted with the challenge of reorganizing staffing to effectively render services to its residents with fewer employees.

STATE RETIREMENT SYSTEMS

Employees' Retirement System

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

The ERSRI provides retirement, disability and death benefit coverage, as well as health insurance benefits for members retiring on or after July 1, 1989. Pension, disability and death benefits are funded (a) for State employees by contributions from the State and the employees and (b) for public school teachers by contributions from the teachers with employer contributions shared by the local education agencies ("LEA") and the State, except that, benefits under the Teachers' Survivors' Plan are financed by the LEAs and the teachers. Additionally, the State created the Judicial Retirement Benefits Trust ("JRBT") to fund retirement benefits for judges hired after December 31, 1989 and the State Police Retirement Benefits Plan ("SPRBP") to fund retirement benefits for state police officers originally hired after July 1, 1987. These two plans are significantly smaller than the ERSRI for state employees and teachers. As of June 30, 2007, there are 44 active members and five retirees and beneficiaries of the JRBT and 179 active members and three retirees and beneficiaries of the SPRBT. Pensions for state police officers and judges hired prior to the dates reflected above for each of the plans are funded on a pay as you go basis. Retiree health insurance benefits are currently funded on a pay-as-you-go basis and are not paid from any trust fund. The System's Actuary is currently Gabriel, Roeder, Smith & Company.

Financial Objectives and Funding Policy

The actuarial cost method and the amortization periods are set by statute. As of the June 30, 1999 valuation, Rhode Island General Laws 36-10-2 and 36-10-2.1 provide for a funding method of Entry Age Normal ("EAN") and amortization of the Unfunded Actuarial Accrued Liability ("UAAL") over a period not to exceed thirty (30) years as of June 30, 1999. Under this method, the actuarial gains (losses) are reflected as they occur in a decrease (increase) in the UAAL. The contribution rates are intended to be sufficient to pay normal cost and to amortize UAAL in level payments over a fixed period of 22 years (30 years from June 30, 1999). The actuary considers the funding period reasonable.

The State's total contributions (exclusive of contributions by LEA for teachers) to the ERSRI, JRBT and SPRBP were $151.26 million in FY 2006, $195.23 million in FY 2007, and $219.86 million in FY 2008, and are estimated to be $255 million in FY 2009 and $255.8 million for FY 2010 based upon the actuarial report as of June 30, 2007. The State has made 100% of its actuarially determined contributions to the pension system during the past fifteen years. For more detailed information regarding the funding policy and annual pension costs of the State, see Note 13 – Employer Pension Plans to the State's audited financial statements for the fiscal year ending June 30, 2008 attached hereto as Exhibit A.

Progress Toward Realization of Financing Objectives

As of June 30, 2007, the date of the last actuarial valuation, the total UAAL for the pension plans was $4.86 billion, which consists of $1.84 billion for State employees, $3.01 billion for teachers, $5 million for state police and $2.8 million for judges. For further information relating to the funding progress of the ERSRI, the State pension plan in which substantially all of the unfunded actuarial accrued liability resides, see the table later provided entitled "Schedule of Funding Progress".

The funded ratio (the ratio of the actuarial value of assets to the unfunded actuarial accrued liability) is a standard measure of a plan's funded status. In the absence of benefit improvements, it should increase over time, until it reaches 100 percent. For the State employees, the funded ratio increased from 54.6% to 57.5% during the period July 1, 2006 to June 30, 2007, while for teachers the ratio increased from 52.7% to 55.4% over the same period. During the same period, the funded ratio increased from 86.8% to 91.3% for the judges and increased for the state police from 86.0% to 90.2%. These are based on the Entry Age Normal funding method effective June 30, 1999.

The State's unfunded pension liability as reflected in the actuarial valuation as of June 30, 2007, is primarily due to the level of benefits being provided to employees under the plans and the failure of investment returns under the plans to historically meet the annual investment return assumption of 8.25%. The average annual return for the plans based on the market value of assets over the period from July 1, 1997 to June 30, 2007 was 7.37%. The average annual return for the plans based on the actuarial value of assets over the same period was 6.59%.

As a result of the recent decline in the number of State workers employed to contribute to the pension system and the recent increase in State worker retirements, the State pension system is likely to be placed under further financial stress. In addition, subsequent to June 30, 2008, the fair value of the investments held within the pension trust funds have declined significantly, consistent with overall declines in the domestic and international financial markets, which is likely to place even further financial stress on the State's pension system. At March 31, 2009 declines were approximately 25% compared to the fair value of investments at June 30, 2008. However, the State Investment Commission has adopted a long term investment policy for the system's investments, which includes diversification of holdings pursuant to an asset allocation model. Furthermore, the impact of the funded status of the plans and required contributions due to any near term decline in value of the pension trust fund investments will be tempered by the five-year smoothing method employed in the actuarial value of the assets.

In order to address the growing concern with the level of contributions that will be needed to support the current pension system, the Governor's recommended FY 2009 supplemental budget included legislation directed at the growing burden on the State to fund larger and larger annual contributions by changing State employee and teacher pension benefits. The General Assembly did not include the pension changes in the FY 2009 Supplemental Budget enacted, but did provide for the creation of a special fund to set aside contributions from April 2, 2009 to June 30, 2009. In the supplemental budget act the General Assembly expressed its intent to make pension changes that demonstrate the necessary due diligence to ensure they treat employees and taxpayers fairly, address the system's unfunded liability, and produce immediate savings for FY 2009 and FY 2010. Upon enactment of final pension changes, the funds set aside would then be used to fund those changes with any balances returned to the appropriate funds, including local teacher pension shares.

Pension Reform

Article 7 of the Fiscal Year 2006 Appropriations Act (Chapter 117 of the RI Public Laws of 2005) enacted and signed by the Governor on June 30, 2005 provided for major changes in the retirement age, accrual of benefits, and cost of living adjustments for all non-vested (less than 10 years of service) State employees and teachers effective July 1, 2005. Pursuant to State law, State employees contribute 8.75% of salary and teachers contribute 9.5% of salary. These contribution rates were not changed as part of the reform. The pension reform changes affected those employees with less than 10 years of contributory service as of July 1, 2005 and are reflected in the Tier II column below. Tier I members are those members who were vested as of July 1, 2005, and will be eligible to retire under the former provisions.

For State employees and teachers, the 2005 pension reform provided Tier I benefits outlined below for those members who vested as of July 1, 2005, and Tier II benefits for those who were not vested as of that date.

Change in Age Eligibility

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

Change in Benefit Accrual Rates

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

Change in Cost of Living Adjustment

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

Social Security Option

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

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

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

GASB 25 and Funding Progress

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

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

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

Development of Contribution Rates
June 30, 2007

			State Employees	Teachers
1.	Compensation			
	(a)	Supplied by ERSRI	$ 626,192,680	$ 902,193,640
	(b)	Adjusted for one-year's pay increase	660,044,273	959,372,837
2.	Actuarial accrued liability		4,332,888,818	6,750,125,236
3.	Actuarial value of assets		2,493,428,522	3,737,981,686
4.	Unamortized accrued actuarial liability (UAAL) (2 - 3)		1,839,460,296	3,012,143,550
5.	Remaining amortization period at valuation date		22	22
6.	Contribution effective for fiscal year ending:		June 30, 2010	June 30, 2010
7.	Payroll projected for two-year delay		717,340,241	1,042,652,395
8.	Amortization of UAAL		136,637,617	224,654,455
9.	Normal cost			
	(a)	Total normal cost rate	10.39%	11.83%
	(b)	Employee contribution rate	8.75%	9.50%
	(c)	Employer normal cost rate (a - b)	1.64%	2.33%
10.	Employer contribution rate as percent of payroll			
	(a)	Employer normal cost rate	1.64%	2.33%
	(b)	Amortization payments (8 / 7)	19.05%	21.55%
	(c)	Total (a + b)	20.69%	23.88%
11.	Estimated employer contribution amount (7 x 10(c))		$ 148,417,696	$ 248,985,392

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

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

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

Schedules Of Contributions From The Employers And Other Contributing Entity

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

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

Item (1)	State Employees (2)	Teachers (3)
Valuation date	June 30, 2007	June 30, 2007
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent of Payroll - Closed	Level percent of Payroll - Closed
Remaining amortization period	22 years	22 years
Asset valuation method	5-Yr Smoothed Market	5-Yr Smoothed Market
Actuarial assumptions:		
Investment rate of return	8.25%	8.25%
Projected salary increase	4.50% to 9.0%	4.50% to 13.25%
Includes inflation at:	3.00%	3.00%
Cost of Living Adjustment – Schedule A	3.00%	3.00%
Cost of Living Adjustment – Schedule B	2.50%	2.50%

OTHER BENEFITS

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

In order to address the unfunded liability associated with retiree health benefits and reduce the ongoing cost to the taxpayer, as part of his FY 2009 financial plan, the Governor recommended modifying eligibility requirements and co-share percentages for retiree health. The General Assembly adopted his proposal with minor modifications including changing the effective date to October 1, 2008. Employees retiring after October 1, 2008 would be eligible for retiree health coverage through the State if they are age 59 or over with a minimum of 20 years of service. For employees retiring before October 1, 2008, an employee with over 10 years of service as of July 1, 2005 was eligible for retirement with at least 28 years of service at any age, or at least 10 years of service and at least age 60, and was therefore eligible for retiree heath. For those employees with less than 10 years of service prior to July 1, 2005, the employee had to be age 59 with at least 29 years of service, age 65 with ten years of service, or age 55 with 20 years of service. The enacted reform modified the co-share percentage to require a 20 percent co-share on the full cost of the early retiree or post-65 plan in which the retiree is enrolled. For those retiring prior to October 1, 2008, the early retirees pay a co-share based on years of service on the active employee rate. For these employees retiring prior to October 1, 2008, who are over age 60 with at least 28 years of service, the state pays 100 percent of the cost of the plan. Pursuant to GASB Statement 45, *"Other Post Employment Benefits"* the State obtained an updated actuarial valuation of the unfunded liability relating to retiree medical benefits. The unfunded liability as of June 30, 2007 was determined to be approximately $788.2 million, including $679.5 million for State employees, $54.6 million for State Police, $29.7 million for Legislators, and $14 million for Judges, and $10.2 million for the State's share for teachers. This was calculated using an investment rate of return of 3.566% due to the fact for fiscal year ending June 30, 2009, the plan was not funded on an actuarial basis. The annual required contribution as a percentage of payroll would be 7.91%, 29.83%, 116.91% and 11.64% (no rate for teachers), respectively. This unfunded liability related to retiree medical benefits as of June 30, 2007 reflects an increase from such unfunded liability of $657.5 million as of June 30, 2005 (based on a discount rate of 3.566%). The actuarial analysis also included estimates utilizing alternative rates of return. The estimated unfunded liability as of June 30, 2007 utilizing an investment rate of 5.0% was $655.2 million. The total contributions made by the State and the other participating employees for retiree medical benefits were $28.4 million in FY2008, which contributions reflect only a pay–as-you-go amount necessary to provide for current benefits to retirees and administrative costs. The State has not set aside any funds on an actuarial basis to address the unfunded retiree medical benefit liabilities, which continue to grow. During the 2008 session of the General Assembly, in order to begin funding this unfunded liability, legislation was enacted which would require the State to fund on an actuarial basis and authorized creation of a trust fund for retiree medical benefit liabilities. The actuarial valuation report as of June 30, 2007 reflected that the annual required contribution for FY2010 would be $56,917,900 (based on a discount rate of 3.566%). During the 2009 Session of the General Assembly, the actuarial funding requirement was delayed until FY2011 due to budget constraints. For further information on retiree medical benefits, see Note 14 Other Post Employment Benefits to the State's audited financial statements for the fiscal year ending June 30, 2008 attached hereto as Exhibit A.

LITIGATION

The State, its officers and employees are defendants in numerous lawsuits. With respect to any such litigation, State officials are of the opinion that the lawsuits are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position. It should be noted, however, that litigation has been initiated against the State and the State's Fire Marshal arising out of a tragic fire at a nightclub in West Warwick, Rhode Island. The fire resulted in 100 deaths and injuries to approximately 200 people. Numerous suits have been served upon the State and its Fire Marshal. The State has a tentative settlement in the case for $10,000,000, subject to Court approval, plaintiff acceptance and legislative action. No appropriation for this settlement amount is reflected in the FY 2009 Enacted Budget.

In November 2007, the Rhode Island Board of Governors for Higher Education and the Community College of Rhode Island were ordered by an arbitrator to pay a contractor $3.3 million in damages relating to the construction of a new facility. This decision has been appealed to the Rhode Island Superior Court by the Rhode Island Board of Governors for Higher Education and the Community College of Rhode Island, and a decision has not been rendered yet on the matter. There is no specific appropriation made for this judgment.

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

The State has been sued by a contractor via a third party complaint relating to the construction of the I-Way Bridge spanning the Providence River (I-195). A subcontractor was hired by the contractor to, among other things, drill and install twenty-one shafts to allow for placement and erection of the I-Way Bridge. The subcontractor claims that it is entitled to compensation for extra work performed and alleged unforeseen conditions encountered during its work. The subcontractor alleges that it incurred approximately $14.5 million to complete its work on the project. The litigation is still in the discovery phase and the State cannot estimate the likelihood of loss to the State, if any.

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 present and for the costs of building repairs from 1999 to present relating to the Cranston Area Vocational Technical Center. The Chariho Regional School Committee claims it is owed $4,142,893 for the amounts it paid for salaries of directors and guidance counselors from 1990 to present relating to the Chariho Career and Technical Center. Each of the claims has been assigned for administrative hearing within the Department of Education. It is unknown if any of the other six (6) school districts that operate regional vocational-technical career centers in the State will raise similar claims. The Department of Education intends to vigorously contest the claims. If either of the school districts were successful in being granted some or all of the relief requested, it is unknown what impact it would have on future funding to be provided by the State to the school districts with respect to their respective area vocational-technical career centers.

FINANCIAL STATEMENTS

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

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EXHIBIT A

Audited Financial Statements of the State

EXHIBIT A

STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS
GENERAL ASSEMBLY
OFFICE OF THE AUDITOR GENERAL

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

♦ Integrity
♦ Reliability
♦ Independence
♦ Accountability

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

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

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

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

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

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

Ernest A. Almonte

Ernest A. Almonte, CPA, CFF
Auditor General

April 9, 2009

Management's Discussion and Analysis

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

Financial Highlights – Primary Government

Government-wide Financial Statements

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

Fund Financial Statements

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

Overview of the Financial Statements

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

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

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

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

Major Features of the Basic Financial Statements

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

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

Government-Wide Financial Analysis

Net Assets

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

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

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

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

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

- Certain transportation projects funded with bond proceeds that do not meet the State's criteria for capitalization as infrastructure;

- Construction of facilities at the State's university and colleges which are reflected in discretely presented component units;

- Water resources projects including the acquisition of sites for future water supply resources, various water resources planning initiatives, and funding to upgrade local water treatment facilities;

- Environmental programs to acquire, develop, and rehabilitate local recreational facilities and insure that open space is preserved;

- Historical preservation initiatives designed to protect and preserve historical buildings as well as provide funding for cultural facilities and

- Capital improvements for privately-owned and operated group homes for developmentally disabled citizens of the State as well as children who are dependant on the State for care.

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

Changes in Net Assets

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

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

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

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

Financial Analysis of the State's Funds

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

Governmental Funds

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

The major governmental funds of the primary government are:

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

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

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

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

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

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

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

General Fund Budgetary Highlights

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

Management's Discussion and Analysis

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

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

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

Capital Assets and Debt Administration

Capital Assets

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

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

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

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

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

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

Debt Administration

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

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

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

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

Other Post-Employment Benefits

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

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

Conditions Expected to Affect Future Operations

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

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

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

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

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

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

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

Economic Factors

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

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

Requests for Information

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

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

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

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

State of Rhode Island and Providence Plantations

Statement of Activities

For the Year Ended June 30, 2008

(Expressed in Thousands)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Reporting Entity

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

Blended Component Units

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

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

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

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

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

Discretely Presented Component Units

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

C. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

The State reports the following major funds:

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

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

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

The State reports the following major proprietary funds:

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

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

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

Additionally, the State reports the following fund types:

Governmental Fund Types:

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

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

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

Proprietary Fund Types:

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

Fiduciary Fund Types:

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

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

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

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

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

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

E. Cash and Cash Equivalents

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

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

F. Funds on Deposit with Fiscal Agent

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

G. Investments

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

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H. Receivables

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

I. Due From Other Governments and Agencies

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

J. Interfund Activity

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

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

K. Inventories

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

L. Capital Assets

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

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

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

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

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

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

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

M. Bonds Payable

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

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

N. Obligations under Capital Leases

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

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

O. Compensated Absences

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

P. Other Liabilities

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

Q. Fund Balances

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

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

R. Recently Issued Accounting Standards

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

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

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

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

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

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

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

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

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

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

Cash

Primary Government

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

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

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

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

Investments

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

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

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

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

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

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

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

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

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

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

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

Funds on Deposit with Fiscal Agent

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

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

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

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

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

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

<u>Fiduciary Funds</u>

Pension Trusts

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

Cash Deposits and Cash Equivalents

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

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

Investments

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

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

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

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

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

Interest Rate Risk

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

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

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

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

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

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

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

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

Credit Risk

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

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

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

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

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

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

* Moody's bond rating

The ERS's investment in a short-term money market mutual fund was rated AAAm by Standard & Poors Investors Service.

Concentration of Credit Risk

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

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ERS will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2008 all securities were registered in the name of the ERS (or in the nominee name of its custodial agent) and were held in the possession of the ERS's custodial bank, State Street Bank and Trust.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Portfolios are diversified to limit foreign currency and security risk and the ERS's investment asset allocation policy targets non-US equity investments at 20%. The ERS may enter into foreign currency exchange contracts to

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minimize the short-term impact of foreign currency fluctuations on foreign investments. The ERS's exposure to foreign currency risk at June 30, 2008, was as follows (in thousands):

Currency	Currency	Equities	Private Equity	Total
Australian Dollar	$ 560	$ 84,595	$	$ 85,155
Canadian Dollar	728	63,088	8,706	72,522
Danish Krone	188	3,404		3,592
Euro Currency	3,524	430,431	91,405	525,360
Hong Kong Dollar	549	42,729		43,278
Hungarian Forint	21	69		90
Indonesian Rupiah	356	2,361		2,717
Japanese Yen	2,290	256,072		258,362
Malaysian Ringitt	231	6,138		6,369
Mexican Peso	16			16
New Zealand Dollar	201	3,987		4,188
Norwegian Krone	185	3,967		4,152
Pound Sterling	996	212,210		213,206
Singapore Dollar	452	17,643		18,095
South African Rand	279	4,794		5,073
South Korean Won	291	17,142		17,433
Swedish Krona	509	14,968	1,358	16,835
Swiss Franc	963	70,262		71,225
Thailand Baht	143	5,732		5,875
Total	$ 12,482	$ 1,239,592	$ 101,469	$ 1,353,543

The ERS also had exposure to foreign currency risk though its investment in international equity commingled funds which totaled $190,306,000.

Derivatives and Other Similar Investments

Some of the ERS's investment managers are allowed to invest in certain derivative type transactions, including forward foreign currency transactions, futures contracts, and options. Derivatives and other similar investments are financial contracts whose value depends on the values of one or more underlying assets, reference rates, or financial indexes. The ERS enters into these transactions to enhance performance, gain exposure to a specific market, or mitigate specific risks. According to investment policy guidelines, derivative type instruments may be used for hedging purposes and not for leveraging plan assets.

Forward foreign currency contracts – The ERS enters into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. A currency forward is a contractual agreement to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. These contracts involve risk in excess of the amount reflected in the ERS's Statements of Fiduciary Net Assets. The face or contract amount in U.S. dollars reflects the total exposure the ERS has in that particular currency contract. By policy, no more than 25% of actively managed foreign equity securities (at fair value) may be hedged into the base currency (US Dollars). The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

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

Through commingled funds, the ERS also indirectly holds derivative type instruments, primarily equity index futures. Other types of derivative type instruments held by the commingled funds include purchased or written options, forward security contracts, forward foreign currency exchange contracts, interest rate swaps and credit default swaps.

The ERS invests in mortgage-backed securities, which are included in the categories described as collateralized mortgage obligations and U.S. Government Agency Securities. These securities are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the value of these securities. Additional information regarding interest rate risks for these investments is included in *Interest Rate Risk*.

The ERS may sell a security they do not own in anticipation of a decline in the fair value of that security. Short sales may increase the risk of loss to the ERS when the price of a security underlying the short sale increases and the ERS is subject to a higher cost to purchase the security in order to cover the position.

Securities Lending

Policies of the State Investment Commission permit the ERS to enter into securities lending transactions. The ERS has contracted with State Street Bank & Trust Company (SSB) as third party securities lending agent to lend the ERS's debt and equity securities for cash, securities and sovereign debt of foreign countries as collateral at not less than 100% of the market value of the domestic securities on loan and at not less than 100% of the market value of the international securities on loan. In practice, securities on loan are collateralized at 102%. There are no restrictions on the amount of loans that can be made. The contract with the lending agent requires them to indemnify the ERS if the borrowers fail to return the securities. Either the ERS or the borrower can terminate all securities loans on demand. The cash collateral received on security loans was invested in the lending agent's short-term investment pool. At June 30, 2008 the investment pool had a weighted average maturity of 33.36 days and an average final maturity of 77.53 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The ERS is not permitted to pledge

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or sell collateral securities received unless the borrower defaults. There were no losses during the fiscal year resulting from default of the borrowers or lending agent.

At June 30, 2008, management believes the ERS has no credit risk exposure to borrowers because the amounts the ERS owes the borrowers do not exceed the amounts the borrowers owe the ERS. The securities on loan at year-end were $1,141,668,086 (fair value), and the collateral received for those securities on loan was $1,173,504,899 (fair value).

Private Purpose Trust

The private purpose trust had investments of $2,175,000 in the Fidelity Balanced Fund.

Note 3. Receivables

Receivables at June 30, 2008 (expressed in thousands) consist of the following:

	Taxes	Accounts	Accrued Interest	Notes and Loans	Allowance for Uncollectibles	Total Receivables
Governmental Activities:						
General	$ 289,720	$ 216,521	$	$	$ (148,084)	$ 358,157
Intermodal Surface Transportation	15,775	9		1,000	(3,658)	13,126
Other governmental	43,371	868			(1,577)	42,662
Internal Service		2,685				2,685
Total - governmental activities	$ 348,866	$ 220,083	$	$ 1,000	$ (153,319)	$ 416,630
Amounts not expected to be collected in the subsequent year and recorded as deferred revenue						
General	$ 9,979	$ 12,923				
Business-type activities:						
State Lottery	$	$ 4,745	$	$	$ (239)	$ 4,506
Convention Center		1,311			(394)	917
Employment Security	49,449	10,885			(10,481)	49,853
Total - business-type activities	$ 49,449	$ 16,941	$	$	$ (11,114)	$ 55,276
Component Units	$	$ 98,956	$ 33,335	$ 3,312,392	$ (84,385)	$ 3,360,298

Component Units

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

Note 4. Intra-Entity Receivables and Payables

Intra-entity receivables and payables, as of June 30, 2008, are the result of operations and expected to be reimbursed within the fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable
Governmental Funds		
Major Funds		
General Fund	$ 2,676	$
Intermodal Surface Transportation Fund	5,585	
GARVEE		931
Other		
Bond Capital		11,706
RI Temporary Disability Insurance		1,658
COPS	71	
RI Capital Plan	6,860	
Permanent School	1,153	
Total Other	8,084	13,364
Total Governmental	16,345	14,295
Proprietary Funds		
Enterprise		
RI Lottery		1,674
RI Convention Center Authority		1,500
Employment Security Trust Fund		526
Total Enterprise		3,700
Internal Service		
Assessed Fringe Benefits		561
Central Utilities	313	
Energy Revolving		1,339
Central Mail	90	
State Telecommunications		16
Central Pharmacy	1,338	
Central Laundry	175	
Automotive Maintenance		124
Central Warehouse		38
Correctional Industries	237	
Health Insurance Active	39	
Records Center		8
Health Insurance Retiree	1,751	
Vehicle Replacement Revolving Loan		207
Total Internal Service	3,943	2,293
Totals	$ 20,288	$ 20,288

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Note 5. Capital Assets

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

Primary Government

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 338,987	$ 2,949	$ (29)	$ 341,907
Works of Art	135	104		239
Intangibles	111,537	25,099	(126)	136,510
Construction in progress	597,005	193,367	(13,306)	777,066
Total capital assets not being depreciated	1,047,664	221,519	(13,461)	1,255,722
Capital assets being depreciated:				
Land improvements	3,700			3,700
Buildings	520,733	1,936	(5,420)	517,249
Building Improvements	208,342			208,342
Furniture and equipment	220,661	9,980	(5,715)	224,926
Intangibles	8,428			8,428
Infrastructure	2,052,745	11,260		2,064,005
Total capital assets being depreciated	3,014,609	23,176	(11,135)	3,026,650
Less accumulated depreciation for:				
Land improvements	2,707	185		2,892
Buildings	170,983	18,349	(3,406)	185,926
Building Improvements	126,361			126,361
Furniture and equipment	158,485	18,692	(5,159)	172,018
Intangibles	1,603	1,628		3,231
Infrastructure	997,660	68,052		1,065,712
Total accumulated depreciation	1,457,799	106,906	(8,565)	1,556,140
Total capital assets being depreciated, net	1,556,810	(83,730)	(2,570)	1,470,510
Governmental activities capital assets, net	$ 2,604,474	$ 137,789	$ (16,031)	$ 2,726,232

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

General government	$ 8,526
Human services	7,109
Education	2,907
Public safety	12,112
Natural resources	3,801
Transportation	72,451
Total depreciation expense - governmental activities	$ 106,906

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 45,558	$	$	$ 45,558
Construction in progress	25,142	48,862	(72,436)	1,568
Total capital assets not being depreciated	70,700	48,862	(72,436)	47,126
Capital assets being depreciated:				
Buildings	161,266	2,037		163,303
Machinery and equipment	13,059	70,406	(70)	83,395
Total capital assets being depreciated	174,325	72,443	(70)	246,698
Less accumulated depreciation	76,263	9,027	(62)	85,228
Total capital assets being depreciated, net	98,062	63,416	(8)	161,470
Business-type activities capital assets, net	$ 168,762	$ 112,278	$ (72,444)	$ 208,596

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land *	$ 95,016	$ 8,299	$ (954)	$ 102,361
Construction in progress	579,567	221,706	(274,148)	527,125
Total capital assets not being depreciated	674,583	230,005	(275,102)	629,486
Capital assets being depreciated:				
Buildings	1,138,754	205,503	(249)	1,344,008
Land improvements *	154,168	12,419		166,587
Machinery and equipment *	279,212	21,919	(5,961)	295,170
Intangibles		4,100		4,100
Infrastructure	339,906	27,337		367,243
Total capital assets being depreciated	1,912,040	271,278	(6,210)	2,177,108
Less accumulated depreciation for:				
Buildings	437,205	46,242	(760)	482,687
Land improvements *	86,675	8,465		95,140
Machinery and equipment *	170,364	19,624	(5,347)	184,641
Intangibles		615		615
Infrastructure	103,737	6,736		110,473
Total accumulated depreciation	797,981	81,682	(6,107)	873,556
Total capital assets being depreciated, net	1,114,059	189,596	(103)	1,303,552
Total capital assets, net	$ 1,788,642	$ 419,601	$ (275,205)	$ 1,933,038

* Certain beginning balances have been restated, see Note 18, Section C.

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Note 6. Long-Term Obligations

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

A. Bonds Payable

At June 30, 2008, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government: Governmental Activities		Primary Government: Business Type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	$ 104,069	$ 104,672	$ 9,285	$ 13,853	$ 142,153	$ 170,542
2010	93,349	100,064	9,740	13,408	99,132	164,856
2011	88,075	95,691	10,205	12,938	99,555	160,656
2012	101,920	91,243	10,720	12,431	102,399	153,828
2013	111,335	85,838	11,260	11,895	122,316	148,920
2014 - 2018	504,750	352,209	64,255	50,507	592,639	680,816
2019 - 2023	371,255	252,365	81,355	33,183	640,557	529,398
2024 - 2028	111,210	178,337	35,670	16,918	587,847	381,135
2029 - 2033	168,260	152,227	25,820	8,711	597,490	243,937
2034 - 2038		116,156	12,650	1,161	615,245	123,426
2039 - 2043	371,700	92,925			286,645	31,570
2044 - 2048					52,355	7,422
2049 - 2053	197,006	2,637,174			3,705	148
	$ 2,222,929	$ 4,258,901	$ 270,960	$ 175,005	$ 3,942,038	$ 2,796,654

Primary Government

Governmental Activities

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

In July 2007, the State issued $46,570,000 Consolidated Capital Development Loan of 2008, Refunding Series A, with interest rates ranging from 4.00% to 5.00%, maturing from 2009 through 2014. The proceeds were used to advance refund $47,305,000 1998A Refunding Series. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. The refunding decreases total debt service payments over the next 7 years by $1,719,994 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $1,703,927.

Included in the current interest bonds is $14,165,000 of general obligation multi-modal variable rate demand bonds maturing in fiscal year 2020. These bonds were initially issued in the weekly rate mode but can be changed by the issuer (the State) to a daily, commercial paper or term rate mode. The interest rate is determined either weekly or daily based on the mode; interest is paid monthly. The owners of the bonds in a weekly mode can require the State (acting through its remarketing and tender agents) to repurchase the bonds. The remarketing agent is authorized to use its best efforts to resell any purchased bonds by adjusting the interest rate offered. The State has entered into a standby bond purchase agreement (liquidity facility) with the tender agent and a commercial bank (the bank). The remarketing agent is required to offer for sale all bonds properly tendered for purchase. In the event the remarketing agent is unable to remarket tendered bonds, the standby bond purchase agreement provides that the bank agrees to purchase any bonds from time to time in an amount not to exceed the principal amount plus accrued interest up to 37 days at an interest rate not to exceed 12% per annum, subject to the terms and provisions of the liquidity facility. This agreement has been extended through December 15, 2015. The State is required to pay the bank at an interest rate based on its prime lending rate or the federal funds rate plus 1/2 of 1 percent, whichever is higher. The standby bond purchase agreement remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank. These bonds were refunded subsequent to June 30, 2008.

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, issues special obligation debt. Grant Anticipation Revenue Vehicle Bonds are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects. Rhode Island Motor Fuel Tax Revenue Bonds are payable solely from certain pledged revenues derived from two cents ($.02) per gallon of the thirty cents ($.30) per gallon Motor Fuel Tax. The bonds provide the state matching funds for the Grant Anticipation Revenue Vehicle Bonds. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RIEDC has no taxing power. The obligation of the State to make payments to the trustee of future federal aid revenues and future pledged motor fuel taxes is subject to annual appropriation by the General Assembly.

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

The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued $882,395,742 of Tobacco Asset Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent decree and final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof and the State has no obligation or intention to satisfy any deficiency or default of any payment of the bonds. The TSFC has not taxing power. The TSFC 2007 bonds are capital

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appreciation bonds on which no periodic interest payments are made, but which are issued at a deep discount from par and accrete to full value at maturity in the year 2052. The bond indenture contains "Turbo Maturity" provisions, whereby the corporation is required to apply 100% of all collections that are in excess of the then current funding requirements of the indenture to the early redemption of the bonds. During the year ended June 30, 2008, TSFC utilized $16,620,000 of excess collections to early redeem an equal amount of outstanding bonds

At June 30, 2008 general obligation bonds authorized by the voters and unissued amounted to $275,016,000. In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved unless extended by the General Assembly.

Business Type Activities

The R.I. Convention Center Authority (RICCA) is limited to the issuance of bonds or notes in an aggregate principal amount of $305,000,000. At June 30, 2008, outstanding bond and note indebtedness totaled $272,100,000.

Revenue bonds of RICCA were issued to (a) refund bonds and notes, (b) pay construction costs, (c) pay operating expenses, (d) pay interest on revenue bonds prior to completion of construction, (e) fund a debt service reserve, (f) pay costs of issuance and (g) acquire and renovate the Civic Center. The revenue bonds are secured by all rents receivable, if any, under a lease and agreement between the RICCA and the State covering all property purchased by the RICCA. It also covers a mortgage on facilities and land financed by the proceeds of the revenue bonds and amounts held in various accounts into which bond proceeds were deposited. Minimum annual lease payments by the State are equal to the gross debt service of RICCA. In the event of an operating deficit (excluding depreciation), annual lease payments may be increased by the amount of the deficit. The obligation of the State to pay such rentals is subject to and dependent upon annual appropriations of such payments being made by the Rhode Island General Assembly for such purpose. Those appropriations are made in connection with the State's annual budgetary process and are therefore dependent upon the State's general financial resources and factors affecting such resources.

During November 2001, the RICCA issued Refunding Revenue Bonds, 2001 Series A (the bonds), in the aggregate principal amount of $101,315,000. The bonds may bear interest at Daily Rates, Weekly Rates, or Term Rates, as defined in the Bond Resolution adopted by the RICCA on October 18, 2001, for periods selected from time to time by the RICCA and determined by UBS Painewebber, Inc. (UBS), as Remarketing Agent under the Remarketing Agreement (the Agreement) dated November 6, 2001. In addition, the RICCA may convert the bonds to fixed rate bonds. The bonds initially bear interest at the weekly rate as determined by UBS and are payable in monthly installments. Total interest paid to the bondholders for the years ended June 30, 2008 was $2,088,000. The bonds mature in varying installments through May 15, 2027; $59,210,000 of these bonds remain outstanding at June 30, 2008.

Concurrent with the issuance of the 2001 Series A Refunding Revenue Bonds, the RICCA entered into an interest rate swap agreement (the Swap Agreement) with UBSAG, Stamford Branch (UBSAG). Under the terms of the Swap Agreement, the RICCA agrees to pay to UBSAG a fixed interest rate of 3.924% on the outstanding principal amount of the Bonds each May 15th and November 15th through May 15, 2027. In exchange, UBSAG agrees to pay to the RICCA interest at the Weekly Rate on a monthly basis through May 15, 2027. The Swap Agreement contains a barrier option early termination date of November 15, 2006 and every fixed rate payment due date thereafter. In addition, UBSAG has the right, but not the obligation, on providing 30 calendar days notice prior to the early termination date, to terminate the Swap Agreement if the averaged Weekly Rate has exceeded 5.25% per annum within the preceding 180 days. Such termination shall not require the consent of the RICCA and no fees, payments or other amounts shall be payable by either party in respect of this termination. Total interest paid by the RICCA to UBSAG for the years ended June 30, 2008 under the Swap Agreement was $2,403,000. Total interest received by the RICCA from UBSAG for the years ended June 30, 2008 under the Swap Agreement was $1,834,000. By entering into the Swap Agreement, the RICCA converted variable rate bonds to fixed rate bonds to minimize interest rate fluctuation risk. At June 30, 2008, the fair value of RICCA's liability for the interest rate swap was approximately $3,771,000.

Concurrently, the RICCA entered into a standby bond purchase agreement with Dexia Credit Local (Dexia). Under the terms of the standby bond purchase agreement, Dexia agrees from time to time during the commitment period, as defined by the standby bond purchase agreement, to purchase bonds from the RICCA that bear interest at variable rates. The purchase price shall not exceed the aggregate amount of principal and interest outstanding on said bonds at the time of purchase. Under the terms of the standby bond purchase agreement, Dexia agrees to purchase the bonds when notified by U.S. Bank (the Bonds' paying agent).

The termination date of the standby bond purchase agreement is the later of November 1, 2011 or when all principal and interest on any bonds purchased by Dexia have been paid in full. Under the terms of the standby bond purchase agreement, the RICCA is obligated to pay a fee equal to .165% per annum of the outstanding bond principal and interest. Fees paid by the RICCA for the years ended June 30, 2008 totaled $104,000. Subsequent to June 30, 2008, $58,410,000 of the $59,210,000 2001 Series A Refunding Revenue Bonds outstanding as of June 30, 2008 was tendered to Dexia pursuant to the standby purchase agreement.

Outstanding indebtedness on the 2001 Series A Refunding Revenue bonds is insured under a financial guaranty insurance policy with Municipal bond Insurance Association, Inc. (MBIA) In June 2008, MBIA's rating was downgraded by Standard & Poor's and Moody's Investors Service to AA and A2 respectively. In addition, UBS, the Authority's Remarketing Agent, has exited the municipal bond market. The combination of these factors and the current condition of the financial markets caused management to investigate alternative financing options with respect to the 2001 Series A Refunding Revenue Bonds. In July 2008, the authorized the issuance of refunding revenue bonds to refund the 2001 Series A Refunding Revenue bonds and terminate the Swap Agreement.

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In March 2009, the Convention Center Authority issued $71,220,000 of Refunding Revenue bonds for the purpose of refunding the Authority's outstanding Variable Rate Refunding Revenue Bonds 2001 Series A, and to finance an associated swap termination payment, debt service reserve fund and the costs of issuance.

All outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required for certain bonds over various years beginning in 2009 through 2027 at the principal amount of the bonds. Certain bonds may be redeemed early, at the option of RICCA at amounts ranging from 100% to 102% of the principal balance.

Each of the RICCA's Bond Resolutions contains certain restrictive covenants. The RICCA was unable to fund the Renewal and Replacement component to the restrictive covenants pursuant to certain indentures. During the annual budget process, the RICCA requests Renewal and Replacement funding from the State. Such appropriations were not made during FY08.

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

Component Units

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

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

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

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

In June 2006, the R.I. Airport Corporation (RIAC), RIEDC and the R.I. Department of Transportation (RIDOT) executed a Secured Loan Agreement (Agreement) which provides for borrowings of up to $42,000,000 with the United States Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998. The purpose of the Agreement is to reimburse RIEDC and RIDOT and to provide funding to RIAC for a portion of eligible project costs related to the Intermodal Facility Project. RIAC is permitted under the agreement to make requisitions of funds for eligible project costs and it is anticipated that such requisitions will occur through fiscal year 2011. Upon completion of the project, RIAC will begin making monthly payments of principal and interest, with interest at a rate of 5.26%. Payments will be made on behalf of RIEDC (the borrower per the Agreement) and it is anticipated that repayments will commence in fiscal year 2010 with a final maturity of January 2042. Such repayments are payable solely from the net revenues derived from the Intermodal Facility. As of June 30, 2008, RIAC had $83,000 in borrowings under this agreement.

During the year ended June 30, 2008, the Airport Corporation issued $18,030,000 of revenue bonds with an average interest rate of 4.492% to advance refund $18,060,000 of revenue bonds with an average interest rate of 5.081%. The Airport Corporation advance refunded these bonds to reduce its total debt service payments over the next 10 years by approximately $717,000 and obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of approximately $597,000. The reacquisition price exceeded the carrying amount of the old debt by $539,126. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The proceeds of the refunding were used to purchase U.S. Government securities which were deposited into an irrevocable trust with an escrow agent to provide for all future payments on the refunded bonds. As of June 30, 2008, $60,225,000 of outstanding refunding bonds, including prior year refundings, are considered defeased.

In April 2004, the Narragansett Bay Commission (NBC) issued Multi-Modal Revenue Bonds, 2004 Series A in the principal amount of $70,000,000 maturing September 2034. These bonds have been issued in weekly rate mode but can be changed by NBC to a daily, commercial paper or term rate mode. The interest rate is determined weekly or daily based on the mode and interest is paid monthly. The interest rate for the bonds outstanding during fiscal year 2007 ranged from 3.2% to 4.0%. The owners of the bonds in weekly mode can require NBC (acting through its remarketing and lender agents) to repurchase the bonds. The remarketing agent has agreed to use its best efforts to remarket any purchased bonds.

NBC has entered into a standby bond purchase agreement (liquidity facility) with the tender agent and a European bank (the bank). The remarketing agent is required to offer for sale all bonds properly tendered for purchase. In the event the remarketing agent is unable to remarket tendered bonds, the standby bond purchase agreement provides that the bank agrees to purchase any bonds from time to time in an amount not to exceed the principal amount plus accrued interest up to 183 days at an interest rate not to exceed 12% per annum, subject to the terms and provisions of the liquidity facility. NBC is required to pay the bank at an interest rate based on its prime lending rate or the federal funds rate plus ½ of 1 percent, whichever is higher. The standby bond purchase agreement remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank. The standby bond purchase agreement terminates on April 29, 2009 and carries a fee of 0.18% per annum on the amount available.

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

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

The $80,000,000 of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority is limited by mortgage balances that it has insured, $4,000,000 at June 30, 2008 (See Note 18B). The insured mortgages are guaranteed by the State. Subsequent to June 30, 2008 the authorization was reduced to $20,000,000 by the General Assembly.

URI entered into an interest rate swap for its currently outstanding Auxiliary Enterprise Revenue Issue, Series 2004B. The purpose of the swap was to lower the cost of funds. URI pays the bondholders a variable rate set weekly. Based on the swap agreement, URI pays interest at a variable rate based on the bonds and a) a fixed rate on the swap equal to 3.691% and b) in return URI receives the sum of (i) 67.0% of the one month USD-LIBOR-BBA plus (ii) 0.12%. The one month USD-LIBOR-BBA plus 0.12% is a variable rate designed to offset the variable rate paid to the bondholders, thereby establishing a synthetic fixed rate for the bonds. All payments under the swap agreement are netted and paid on a monthly basis each month on the fifteenth (15^{th}), commencing on January 15, 2005. As further defined in the Confirmation to the swap agreement, the Board of Governors of Higher Education is acting for URI. Subject to cash settlement, URI has the right to terminate the agreement, in whole or in part, on the effective date and on any business day thereafter. The swap is scheduled to terminate on September 15, 2034.

Because interest rates have declined and tax-exempt and taxable ratios have remained high since execution of the swap, the swap, if it were to be terminated, had a negative fair market value ($1,397,697) at June 30, 2008. Swaps are not normally valued through exchange-type markets with easily accessible quotation systems and procedures. The fair market value was calculated using the zero coupon method. Information was obtained from generally recognized sources with respect to quotations, reporting specific transactions and market conditions and based on accepted industry standards and methodology.

As the variable rate that URI pays on its bonds, which approximates the Bond Market Association Municipal Swap Index, differs from the variable percent of LIBOR rate received from Merrill Lynch Capital Services (MLCS), the swap exposes URI to basis risk. As of June 30, 2008, the Bond Market Municipal Swap Index was 1.55% whereas 67.0% of the 1 month LIBOR plus 0.12% was 1.65%.

As of June 30, 2008, URI was exposed to credit risk because the swap had a negative fair value. MLCS is unconditionally guaranteed by Merrill Lynch & Co. and has maintained its ratings since inception of AA3, A+ and AA- by Moody's Investors Service, Standard & Poor's and Fitch Ratings, respectively. Additionally URI has obtained swap insurance on this transaction from Ambac Assurance Corporation. To mitigate credit risk, if the counterparty's credit quality falls below a threshold level, the counterparty is obligated, on demand of URI, to provide and maintain collateral (cash or U.S. Government and Agency Securities) having certain values required by the swap in order to provide security for payment of the positive value of the swap, if any, to URI.

In November 2008, URI refunded the Series 2004B bonds and financed the termination of the swap agreement with the proceeds of the Series 2008 A and B bonds (see Note 19 Subsequent Events).

B. Notes Payable

Notes payable (expressed in thousands) at June 30, 2008 are as follows:

Primary Government		
Agricultural Land Preservation Commission 2 installments on or before July 2009	$	2,276
Less: current payable		(1,860)
	$	416
Component Units		
Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024.	$	1,849
R.I. Housing and Mortgage Finance Corporation bank notes, 2.46% to 5.275% interest, payable through 2027.		37,081
R.I. Economic Development Corporation (Masonic Temple Hotel) semi-annual installments of principal and interest through FY 2010 bearing interest at 6.10%.		9,775
R.I. Student Loan Authority note to National Education Loan Network (Nelnet) annual payments of $683,333 plus interest of 8.25% with option to pay off the balance at any time, matures September 27, 2011		3,415
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 4.15% interest, payable through 2015		702
R.I. Resource Recovery Corporation notes due in installments through 2010, 5 % interest.		1,250
		54,072
Less: current payable		(43,292)
	$	10,780

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C. Loans Payable

Component Units

Loans payable include liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) of $269,027,000.

D. Obligations Under Capital Leases

Primary Government

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

The State's obligation under capital leases at June 30, 2008 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds.

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

In December 2007, the State issued $59,183,000 of refunding Certificates of Participation to advance refund $60,435,000 of outstanding capital leases. Interest rates on the new capital leases range from 3.30% to 5.00% with maturities through fiscal year 2021. This in-substance defeasance resulted in an economic gain of approximately $2,429,000 and total debt service requirements were reduced by approximately $2,963,000.

The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2008.

Fiscal Year Ending June 30		COPS
2009	$	32,048
2010		31,291
2011		26,128
2012		24,835
2013		23,743
2014 - 2018		98,043
2019 - 2023		64,196
2024 - 2028		16,400
Total future minimum lease payments		316,684
Amount representing interest		(80,624)
Present value of future minimum lease payments	$	236,060

E. Compensated Absences

State employees are granted vacation and sick leave in varying amounts based upon years of service. At the termination of service, the employee is paid for accumulated unused vacation leave. Also, the employee is entitled to payment of a percentage of accumulated sick leave at retirement. The State calculates the liability for accrued sick leave for only those employees that are eligible for retirement. Payment is calculated at their then-current rate of pay.

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

F. Other Long-Term Liabilities

Items in this category include, but are not limited to, income on invested general obligation bond proceeds, determined to be arbitrage earnings in accordance with federal regulations. These amounts are generally payable to the federal government five years after the bond issuance date. Retainage payable is also included since the related construction projects are not expected to be completed in the subsequent fiscal period. Other long-term liabilities include a tax carry-over credit for a large corporation determined to be a long-term liability and the State's estimated liability for the Station Fire litigation (see Note 12 – Contingencies).

In July 2007, the State entered into a payment agreement with the Rhode Island Economic Development Corporation (EDC) relating to $14,280,000 of financing obtained by EDC to provide funds to extinguish historic structure tax credits for the Masonic Temple hotel project through a long term loan to the developer. With the transaction the State retired approximately $21 million of unused historic tax credit obligations resulting in a net benefit to the State of approximately $7 million. The term of EDC's borrowing is 3 years. The rate on the loan is a function of the 6 month LIBOR. To obtain a fixed rate on the obligation, the EDC entered into a floating to fixed interest rate swap, whereby the counterparty agrees to pay EDC the 6 month LIBOR and EDC agrees to pay the counterparty 6.10%. EDC's note payable is secured by an assignment of a payment agreement between the State and EDC reflecting legislative approval of EDC executing this debt and the State's obligation to appropriate to EDC funds sufficient to repay the debt. The State will provide semi-annual appropriations and payments to EDC through FY 2010 to pay the debt service on the loan.

The State entered into a loan agreement with the Rhode Island Housing and Mortgage Finance Corporation to provide financing for various affordable housing initiatives. At June 30, 2008 there was $18,152,000 outstanding under the loan agreement.

G. Changes in Long-Term Debt

During the fiscal year ended June 30, 2008, the following changes (expressed in thousands) occurred in long-term debt:

Primary Government

	Balance July 1	Additions	Reductions	Balance June 30	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities						
General obligation bonds payable:						
Current interest bonds	$ 913,367	$ 178,325	$ (94,613)	$ 997,079	$ 54,545	$ 942,534
Capital appreciation bonds	118		(109)	9	9	
Accreted interest on capital appreciation bonds	3,046	667	(3,403)	310	310	
Premium and deferred amount on refunding	31,800	3,040	(3,719)	31,121		31,121
	948,331	182,032	(101,844)	1,028,519	54,864	973,655
RIEDC Grant Anticipation Bonds	313,820		(28,315)	285,505	27,475	258,030
Premium	20,799		(3,563)	17,236		17,236
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds	76,290		(3,730)	72,560	3,845	68,715
Premium	1,502		(125)	1,377		1,377
Revenue bonds - RIRBA	42,710		(18,475)	24,235	18,195	6,040
Net premium/discount and deferred amount on refunding	(251)		(35)	(286)		(286)
Tobacco Settlement Asset-Backed Bonds	860,161		(16,620)	843,541		843,541
Accreted interest on TSFC bonds		11,153		11,153		11,153
Net premium/discount	(27,723)		1,394	(26,329)		(26,329)
Bonds payable	2,235,639	193,185	(171,313)	2,257,511	104,379	2,153,132
Certificates of Participation (COP)	256,865	59,185	(79,990)	236,060	21,330	214,730
Premium	6,167	703	(769)	6,101		6,101
Obligations under capital leases	263,032	59,888	(80,759)	242,161	21,330	220,831
Compensated absences	78,108	62,333	(73,005)	67,436	55,226	12,210
Net OPEB Obligation		16,112		16,112		16,112
Notes Payable		2,276		2,276	1,860	416
Other long-term liabilities	56,867	39,478	(13,206)	83,139	9,786	73,353
	$ 2,633,646	$ 373,272	$ (338,283)	$ 2,668,635	$ 192,581	$ 2,476,054
Business type activities						
Revenue bonds	$ 279,935	$	$ (8,975)	$ 270,960	$ 9,285	$ 261,675
Add: bond premium	4,224		(319)	3,905		3,905
Less: issuance discounts	(734)		101	(633)		(633)
Deferred amounts on refunding	(6,586)		679	(5,907)		(5,907)
Bonds payable	276,839		(8,514)	268,325	9,285	259,040
Other long-term liabilities	1,359		(188)	1,171	188	983
	$ 278,198	$	$ (8,702)	$ 269,496	$ 9,473	$ 260,023

H. Defeased Debt

In prior years, the State and its component units defeased certain general obligation bonds and revenue bonds by placing the proceeds of the new bonds or other sources, in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the basic financial statements. On June 30, 2008, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	$ 288,083
Certificates of Participation	21,230
R.I. Convention Center Authority	35,660
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	280,780
R.I. Economic Development Corporation	81,205
R.I. Turnpike and Bridge Authority	32,300

I. Conduit Debt

The R.I. Industrial Facilities Corporation, the R.I. Health and Educational Building Corporation and the R.I. Economic Development Corporation issue revenue bonds, equipment acquisition notes, and construction loan notes to finance various capital expenditures for Rhode Island business entities. The bonds and notes issued by the corporations are not general obligations of the corporations and are payable solely from the revenues derived from the related projects. They neither constitute nor give rise to a pecuniary liability for the corporations nor do they represent a charge against their general credit. Under the terms of the various indentures and related loan and lease agreements, the business entities make loan and lease payments directly to the trustees of the related bond and note issues in amounts equal to interest and principal payments due on the respective issues. The payments are not shown as receipts and disbursements of the corporations, nor are the related assets and obligations included in the financial statements. The amount of conduit debt outstanding on June 30, 2008 was $97,000,000, $2,420,465,710 and $868,000,000 respectively. Certain issues of conduit debt are moral obligations of the State and the current amounts outstanding are disclosed in Note 12.

Note 7. Net Assets/Fund Balances

Governmental Activities

Restricted Net Assets

The Statement of Net Assets reflects $427,588,000 of restricted net assets, of which $181,143,000 is restricted by enabling legislation. The restricted net assets that are restricted by enabling legislation are included in the Employment Insurance Program and Other categories on the Statement of Net Assets.

Unrestricted Net Assets

The detail of the unrestricted net assets of the governmental activities (expressed in thousands), is listed below.

	Governmental Activities	
Deficit	$ (1,427,537)	
General Revenue		
Appropriations carried forward	1,739	General revenues carried forward for original purpose
Internal Service Funds	7,593	Unrestricted balance of all Internal Service Funds
Unrestricted Net Assets	$ (1,418,205)	

The State issues debt for various purposes that does not result in the acquisition of capital assets. Included in the liabilities of the governmental activities on the Statement of Net Assets is $1,376,087,000 of such debt, which causes the above deficit.

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Changes in General Fund Reserved Fund Balances

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

	Reserved Fund Balance July 1	Additions	Reductions	Reserved Fund Balance June 30
State Budget Reserve Account	$ 78,659	$ 68,579	$ (44,369)	$ 102,869
Appropriations carried forward				
General revenue	3,640	1,739	(3,640)	1,739
Departmental restricted revenue	51,777	42,413	(51,777)	42,413
Other	10,090	2,584	(10,090)	2,584
Total	$ 144,166	$ 115,315	$ (109,876)	$ 149,605

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

Note 8. Taxes

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

	Governmental Funds	Statement of Activities
General Fund		
Personal Income	$ 1,073,617	$ 1,073,057
General Business Taxes:		
Business Corporations	150,469	150,892
Public Utilities Gross Earnings	99,437	99,902
Financial Institutions	1,830	1,839
Insurance Companies	67,997	68,243
Bank Deposits	1,710	1,712
Health Care Provider Assessment	53,357	54,888
Sub-total - General Business Taxes	374,800	377,476
Sales and Use Taxes:		
Sales and Use	844,197	844,544
Motor Vehicle	48,610	48,611
Motor Fuel	991	1,008
Cigarettes	114,675	114,679
Alcoholic	11,141	11,141
Sub-total - Sales and Use Taxes	1,019,614	1,019,983
Other Taxes:		
Inheritance and Gift	35,334	35,473
Racing and Athletics	2,813	2,813
Realty Transfer	10,223	10,223
Sub-total - Other Taxes	48,370	48,509
Total - General Fund	2,516,401	2,519,025
Intermodal Surface Transportation Fund		
Gasoline	135,412	135,412
Other Governmental Funds	166,272	166,272
Total Taxes	$ 2,818,085	$ 2,820,709

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Note 9. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2008 are presented below (expressed in thousands):

Fund Financial Statements

	Transfers	Description
Governmental activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	$ 48,637	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,966	Operating assistance
Tobacco Settlement Trust	124,000	Allocation of last year ending balance
Bond Capital	6,950	Debt service and capital projects
RI Refunding Bond Authority	331	Prior year undesignated balance
Certificate of Participation	25	Support of the arts
Business-Type Activities		
Lottery	94	Support of the arts
Lottery	354,321	Net income
Employment Security	2,643	Operating assistance
Internal Service		
Assessed Fringe Benefits	55	Charges for Information Technology Services
Energy Revolving	1,339	Prior year ending balance of dissolved fund
Correctional Industries	1,250	Excess revenue
ISTEA		
Bond Capital	28,198	Infrastructure
GARVEE		
Intermodal Surface Transportation	53,175	Debt Service
Nonmajor Fund		
RI Capital Plan		
General	63,792	Statutory excess in budget reserve
General	7,770	Transfer of remaining appropriations
Bond Capital	4,928	RICAP residual balance
Tobacco Settlement Trust	23,801	Allocation of prior year ending balance
Permanent School		
Lottery	1,153	Support of education
Total Governmental Activities	724,428	
Business-Type Activities		
Convention Center		
General	31,661	Debt service
Employment Security		
Assessed Fringe Benefits	1,622	Reimbursement for State employee's unemployment compensation
Internal Service Funds		
Health Insurance Retirees		
General	1,428	
Vehicle Replacement Revolving Loan		
Tobacco Settlement Trust	6,350	Allocation of prior year ending balance
Total operating transfers	$ 765,489	

Note 10. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately $13,044,000 for the fiscal year ended June 30, 2008.

Most of the operating leases contain an option allowing the State, at the end of the initial lease term, to renew its lease at the then fair rental value. In most cases, it is expected that these leases will be renewed or replaced by other leases.

The following is a summary of material future minimum rental payments (expressed in thousands) required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2008:

Fiscal Year Ending June 30		
2009	$	11,387
2010		10,367
2011		9,149
2012		7,507
2013		6,702
2014 - 2018		22,487
2019 - 2023		2,006
Total	$	69,605

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

Note 11. Commitments

Primary Government

Commitments arising from encumbrances outstanding as of June 30, 2008 are listed below (expressed in thousands).

Major funds		
General	$	11,439
ISTEA		209,822
GARVEE		115,635
Total major funds		336,896
Other governmental funds		20,434
Total encumbrances outstanding	$	357,330

The primary government is committed at June 30, 2008 under various contractual obligations for infrastructure construction and other capital projects, which will be principally financed with bond proceeds and federal grants. Encumbrances within the general fund will be principally financed through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years. The primary government is also committed at June 30, 2008 under contractual obligations with various service providers, which will be funded through appropriations of general revenue, and federal and restricted revenues in succeeding fiscal years.

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, entered into several agreements with Providence Place Group Limited Partnership (PPG). The

agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements developed by PPG. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer, during the first 20 years only, of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) $3,680,000 in the first five years and $3,560,000 in years 6 through 20. In the year ended June 30, 2008, $3,560,000 was paid to PPG.

The R.I. Convention Center Authority (RICCA) completed the renovation of the Dunkin' Donuts Center (DDC) in November 2008. The new Guaranteed Maximum Price for the project through March 2009 totaled $65,368,402 and RICCA's remaining commitment is $886,937. Also, RICCA has entered into management contracts with vendors under which these vendors will provide various services relating to the operation of the convention center and parking garages.

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

During fiscal year 2006, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with UTGR, Inc., the owners of Twin River, to operate one of the State's licensed video lottery facilities. The agreement entitles UTGR, Inc. to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. At the time of the agreement, the Lottery authorized an additional 1,750 video lottery terminals to be installed at Twin River and UTGR, Inc. has agreed to invest no less than $125 million in the construction and development of its gaming facility during the first three (3) years of the agreement. UTGR, Inc. has the right and option to extend the term of the agreement for two (2) successive five (5) year periods by giving notice to the Lottery at least ninety (90) days prior to the expiration of the agreement. The option can be exercised if UTGR, Inc. is not in default of any major term or condition of the agreement and the full-time employee requirement at Twin River has been met.

During fiscal year 2006, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand, to continue to operate one of the State's licensed video lottery facilities. The agreement entitles Newport Grand to 26% of video lottery net terminal income at the facility. At the time of the agreement, the Lottery authorized an additional 800 video lottery terminals to be installed at Newport Grand, which has agreed to invest no less than $20 million in the construction and development of its gaming facility during the first three (3) years of the agreement. Newport Grand has the right and option to extend the term of the agreement for one (1) additional five (5) year period by giving notice to the Lottery at least ninety (90) days prior to the expiration of the agreement. The option can be exercised if Newport Grand is not in default of any major term or condition and the full-time employee requirement at Newport Grand has been met.

Component Units

The R.I. Airport Corporation (RIAC), a subsidiary and component unit of RIEDC, was obligated for completion of certain airport improvements under commitments of approximately $20,121,000 which is expected to be funded from current available resources and future operations. As of June 30, 2008, RIAC was also obligated for completion of the Intermodal Facility under commitments of approximately $7,824,000.

The Narragansett Bay Commission has entered into various engineering and construction contracts for the design and improvement of its facilities as part of a capital improvement program. Commitments under these contracts aggregated approximately $25,016,000 at June 30, 2008.

A portion of the R.I. Resource Recovery Corporation (RIRRC) landfill is a designated Superfund site. During 1996, the RIRRC entered into a Consent Decree with the United States Environmental Protection Agency (EPA) concerning remedial actions taken by RIRRC for groundwater contamination. The Consent Decree requires the establishment of a trust in the amount of $27,000,000 for remedial purposes. The Central Landfill Remediation Trust Fund Agreement was approved August 22, 1996 by the EPA. In accordance with the terms of the agreement, RIRRC has deposited approximately $33,300,000 into the trust fund and has disbursed approximately $5,348,000 for remediation expenses through June 30, 2008. Additionally, trust fund earnings, net of changes in market value have totaled approximately $13,828,000

The cost of future remedial actions may exceed the amount of funds reserved. However, the RIRRC projects that the amount reserved plus cash flow over the next five years will be adequate to fund the Superfund remedy. RIRRC would seek appropriations from the General Assembly to fund any shortfall. The State, virtually every municipality in the State, and numerous businesses within and outside the State are all potentially responsible parties ("PRPs") for the costs of remedial actions at the RIRRC Superfund site. Under federal law, PRPs are jointly and severally liable for all costs of remediation. EPA has agreed not to seek contributions from any other PRP as long as RIRRC is performing the remedy.

The Environmental Protection Agency (EPA) established closure and postclosure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. In 2004, RIRRC reviewed and revised its estimates relating to methane gas monitoring as required by the EPA and leachate pretreatment costs and flows. While Phase IV is still accepting waste, portions of Phase IV have been capped with final capping expected during 2012. In 2005, RIRRC began landfilling in Phase V. RIRRC has further revised its estimates relating to capping, maintenance, leachate flow costs and gas collecting system costs of Phase IV and V. The total estimate of future landfill closure and postclosure care costs was increased to approximately $140,000,000 at June 30, 2008.

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The liability for closure and postclosure care costs at June 30, 2008 of $84,847,000 is recorded in the statements of net assets, as noted below, with $55,200,000 remaining to be recognized at June 30, 2008. The detail of the recorded liability (expressed in thousands) is listed below.

Phase V	$	28,342
Phase IV		14,168
Phases II and III		6,572
Phase I		35,765
	$	84,847

Based on the estimates of RIRRC engineers, approximately 87% and 54% of capacity for Phase IV and Phase V, respectively, has been used to date, and it is expected that full capacity will be reached during fiscal 2012 for Phase V.

RIRRC has received site approval for Phase VI from the State Planning Council. RIRRC has submitted an application for licensure of Phase VI to RIDEM. RIRRC expects to record an approximate additional $80,000,000 of closure and post closure costs based upon current costs over the anticipated life of Phase VI., once it is permitted and begins to accept solid waste.

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

Included in restricted assets on the accompanying statement of net assets is $39,636,409 at June 30, 2008, consisting of amounts placed in trust to meet the financial requirements of closure and postclosure care costs related to Phases II, III, IV, and V. RIRRC plans to make additional trust fund contributions each year to enable it to satisfy these costs.

In 2004, RIRRC began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. The present value of the estimated remaining total expenditures at June 30, 2008 relating to remediation that will be required as a result of the Consent Decree is approximately $12,000,000.

The R.I. Housing and Mortgage Finance Corporation had loan commitments of $47,476,464 under various loan programs at June 30, 2008.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2008 remaining commitments on these contracts approximated $3,540,000, primarily due in one year or less.

The R.I. Public Transit Authority is committed under construction contracts in the amount of $4,646,591 at June 30, 2008

The College Crusade of R.I. has committed $1,069,851 toward scholarships for tuition during the 2008/2009 school year. This represents approximately 314 students for an average award of approximately $3,407 per student. As of June 30, 2008, the estimated value of the potential future scholarship costs through the year 2021 is estimated to be between $1,800,000 and $7,400,000.

The Quonset Development Corporation was obligated for the completion of certain construction contracts under commitments totaling $3,931,621 at June 30, 2008 which are expected to be funded from the receipt of State bond proceeds and internal funding.

The R.I. Industrial Recreational Building Authority has an outstanding commitment as of June 30, 2008 in the amount of $4,000,000 to insure contractual principal and interest payments required under first mortgages and first security agreements issued to private sector entities by financial institutions and R.I. Industrial Facilities Corporation.

The R. I. Student Loan Authority (RISLA) and the National Education Loan Network, Inc. (Nelnet) agreed on September 27, 2007 to terminate the 2004 agreement between the parties which sold and assigned certain assets and rights from RISLA to Nelnet. In the original agreement RISLA assigned to Nelnet all rights associated with the Authority's student loan origination business, including the use of the Authority's name and federal identification number, issued by the U.S. Department of Education, to market and originate federal and alternative student loans for a term of 10 years and sold to Nelnet all fixed assets and the assumption of operating liabilities. Effective September 27, 2007 RISLA hired all the personnel that had previously been employed by Nelnet in the Warwick, RI location. RISLA's June 30, 2008 operating expenses include all salaries and wages, payroll taxes and benefits for the thirty seven new employees for the period September 27, 2007 through June 30, 2008. RISLA also assumed responsibility for all costs associated with the marketing and origination of student loans and all general and administrative costs that prior to the termination date had been paid by Nelnet and reimbursed by RISLA according to the service agreement in place between the two entities.

The September 2007 termination agreement required RISLA to return to Nelnet $4.1 million of $8 million that was paid to RISLA in 2004 for the assigned rights and fixed assets. RISLA received a valuation report from a national investment banking firm which confirmed that the amount paid to Nelnet was within the range of values for the remaining term of the original agreement. RISLA also received a confirmation from a second investment banking firm that the methodology used to calculate the repurchase price of the agreement was appropriate and reasonable. RISLA will amortize the capital asset of $4.1 million over a 5 year period ending in September 2012. The amortization expense for the year ended June 30, 2008 was $615,000.

R.I. Higher Education Assistance Authority

Under an agreement with Alliance Bernstein L.P., the Administrative Fund receives account maintenance, direct commission and other fees from the Program Fund. All the Administrative Fund's operating revenues, totaling $6,277,380, are derived from the Program Fund. In addition, the R.I. Higher Education Assistance Authority (RIHEAA)

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receives $250,000 annually (in quarterly installments) directly from Alliance. During 2002, RIHEAA established two scholarship and grant programs, to be funded with Rhode Island Higher Education Savings Trust (RIHEST) administrative fees, as follows:

Academic Promise Scholarship Program: up to $1,000,000 is invested annually through RIHEAA in the CollegeBoundfund for the benefit of 100 academic and income-qualified students to provide up to $10,000 to each student over a four-year scholarship period. During 2008, $325,000 was transferred to RIHEAA and RIHEAA in turn invested that amount in the CollegeBoundfund on behalf of unnamed beneficiaries. 5 and 10 Matching Grant Program: up to $500,000 may be made available annually by the Authority to invest through RIHEAA into the CollegeBoundfund as matching contribution accounts for individual accounts established for the benefit of income-qualifying individuals.

Student financial assistance transfers from the Operating Fund to the Scholarship and Grant Fund totaled nearly $6,600,000 in fiscal year 2008. These transfers consisted of $325,000 for the Academic Promise Scholarship Program, $600,000 for the Adult Education Grant Program and over $5,600,000 in supplemental funding for the State Scholarship/Grant Program.

Note 12. Contingencies

Primary Government

The State, its officers and employees are defendants in numerous lawsuits. With respect to any such litigation, State officials are of the opinion that the lawsuits are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position.

Litigation has been initiated against the State and the State's Fire Marshal arising out of a tragic fire at a nightclub in West Warwick, Rhode Island. The fire resulted in 100 deaths and injuries to approximately 200 people. Numerous suits have been served upon the State and its Fire Marshal. The State has entered into a tentative settlement in the case for $10,000,000, subject to Court approval, plaintiff acceptance and legislative action. A liability has been accrued on the Statement of Net Assets for this estimated settlement.

The State has been sued by a contractor via a third party complaint relating to the construction of the I-Way Bridge spanning the Providence River (I-195). A subcontractor hired by the contractor to, among other things, drill and install twenty-one shafts to allow for the placement and erection of the I-Way Bridge. The subcontractor claims that it is entitled to compensation for extra work performed and alleged unforeseen conditions encountered during its work. The subcontractor alleges that it incurred approximately $14.5 million to complete its work on the project. The litigation is still in the discovery phase and management cannot estimate the likelihood of loss to the State, if any.

A claim has been made by the Cranston School Committee for reimbursement for sums paid for salaries of the director and guidance counselors and for the costs of building repairs to the

Cranston Area Vocational Technical Center. The School Committee contends that it is owed the amounts it paid for salaries from 1990-present and building repairs it made from 1999-present, a total of $7,166,656. The Department of Elementary and Secondary Education responded, setting forth several legal and equitable defenses on behalf of the State and the Department. The School Committee, joined by the City of Cranston, is proceeding before an administrative hearing officer to present evidence in support of this claim.

Also, a claim has been made by the Chariho Regional School Committee for reimbursement for sums paid by Chariho for salaries of the directors and guidance counselors at the Chariho Career and Technical Center from 1990-present totaling $4,142,893. The claim was received in February 2009 and assigned for an administrative hearing. A full assessment of the likelihood of an unfavorable outcome cannot be made until the matter proceeds further into the administrative hearing process.

The Department of Elementary and Secondary Education issued a final program review determination letter notifying the City of Providence of substantial overpayments in housing aid reimbursements as a result of incorrect or incomplete information provided by the City of Providence at the time that housing aid was being calculated. The alleged overpayment amount in dispute is approximately $9 million. The City of Providence requested a hearing and disputes the findings of the Department. The FY 2009 Supplemental Budget requires a seven year repayment schedule with the first payment in FY 2009.

Tobacco Settlement Financing Corporation

In 2005 and 2006, several states sued Participating Manufacturers (PM's) in their state courts seeking orders that the states diligently enforced the Master Settlement Agreement (MSA) and related statutes. All of the state courts denied the states' actions and ordered those states to arbitrate the 2003 Non-Participating Manufacturers (NPM's) Adjustment, including whether the state diligently enforced the MSA and related statutes.

Although Rhode Island did not sue the PM's, in 2006, the PM's filed in Rhode Island Superior Court a Motion to Compel the State to Arbitrate the 2003 NPM Adjustment, which the State opposed. In 2007, the Court granted the Motion to Compel Arbitration, which the State moved for reconsideration. The Court denied the State's Motion to Reconsider. The State appealed the Court's orders. In 2008, the Supreme Court of Rhode Island remanded the case for the Superior Court to rule on a Motion for a Stay. The Superior Court denied the stay and the case was returned to the Supreme Court of Rhode Island. During the appeal, the PM's and Rhode Island entered into an agreement, whereby Rhode Island would join nationwide arbitration and the PM's would release funds from the disputed account attributable to the 2005 NPM Adjustment. Rhode Island received $3,866,925 on February 26, 2009 which flowed to the TSFC. In addition, the agreement provided for a partial liability reduction for the 2003 NPM Adjustment. Arbitration will commence in the Fall of 2009.

In addition to NPM adjustment litigation, litigation has been filed alleging, among other claims, that the Master Settlement Agreement (MSA) violates provisions of the U.S.

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Constitution, state constitutions, federal antitrust and civil rights laws, and state consumer protection laws. These actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek to prevent the states from collecting any monies under the MSA, and/or a determination that prevents the tobacco manufacturers from collecting MSA payments through price increases to cigarette consumers. Several class action lawsuits have been filed in jurisdictions alleging violations of state Medicaid agreements. To date, no such lawsuits have been successful. The enforcement of the terms of the MSA may continue to be challenged in the future. In the event of an adverse court ruling, the corporation may not have adequate financial resources to service its debt obligations. In April 2005, 2006, 2007, and 2008 many of the tobacco manufacturers participating in the MSA either withheld all or portions of their payments due, or remitted their payments to an escrow account, disputing the calculations of amounts due under the agreement. These manufacturers assert that the calculations of the amounts due failed to recognize a prescribed adjustment for nonparticipating manufacturers. The corporation's share of these disputed payments is approximately $12,100,000. Due to uncertainties regarding the ultimate realization of the remaining amount of these disputed payments, they have not been recognized as revenue in the accompanying financial statements. The Corporation and the other affected parties are taking actions prescribed in the MSA to arrive at a resolution of these matters.

Lottery

The Lottery's master contracts with its video lottery facility operators contain revenue protection provisions in the event that existing video lottery facility operators incur revenue losses caused by new gaming ventures within the State.

As a result of defaulting on loan payments, UTGR, Inc., the owner and operator of Twin River, entered into a forbearance agreement with its lenders. The forbearance agreement expired on January 31, 2009 and has not been formally extended. Neither the lenders nor any other party in interest has instituted any proceedings to take action as a result of the expiration of the agreement. At the present time, all parties in interest have been engaged in negotiations aimed at continuous operation of the facility. The Department of Revenue and the Division of Lotteries are monitoring the situation on a daily basis. The Lottery has been collecting all revenues due the State each day without interruption. Management of the Department of Revenue has contingency plans to ensure continued operation of the Twin River facility.

Federal Grants

The State receives significant amounts of federal financial assistance under grant agreements which specify the purpose of the grant and conditions under which the funds may be used. Generally, these grants are subject to audit.

The Single Audit for the State of Rhode Island for the fiscal year ended June 30, 2007 was issued in May 2008. That report identified approximately $19.0 million in questioned costs relating to the primary government. In addition, a number of findings had potentially significant but unknown or unquantifiable questioned costs. The ultimate disposition of these findings rests with the federal grantor agencies and in most cases, resolution is still in progress. Adjustments are made to the financial statements when costs have been specifically disallowed by the federal government or sanctions have been imposed upon the State and the issue is not being appealed or the right of appeal has been exhausted. The fiscal 2008 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit. The State's management believes that any disallowances of federal funding received by the State will not have a material impact on the State's financial statements.

Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Moneys in the capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bond holder(s). These bonds are considered "moral obligations" of the State when the General Laws require the executive director to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget. At June 30, 2008 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had $321,812,545 and $41,661,677 respectively, in "moral obligation" bonds outstanding. Certain of the RIEDC bonds are economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State anticipates paying approximately $3,355,000 of the debt on the related economic development revenue bonds in fiscal year 2009.

Component Units

R.I. Student Loan Authority

The R.I. Student Loan Authority (RISLA) maintains letters of credit in the original stated amount of $31,940,000 on its January 1995 weekly adjustable interest rate bonds and the originally stated amount of $69,203,000 on its April 1996 Series I, II and III variable rate bonds. The letters of credit obligate the letter of credit provider to pay to the trustee an amount equal to principal and interest on the bonds when the same becomes due and payable (whether by reason of redemption, acceleration, maturity or otherwise) and to pay the purchase price of the bonds tendered or deemed tendered for purchase but not remarketed. The letters of credit will expire on the earliest to occur: a) June 30, 2012, for the January 1995 and April 1996 issue; b) the date the letter of credit is surrendered to the letter of credit provider; c) when an alternative facility is substituted for the letter of credit; d) when the bonds commence bearing interest at a fixed rate; e) when an event of default has occurred or f) when no amount becomes available to the trustee under the letter of credit.

R.I. Public Transit Authority

The R.I. Public Transit Authority has a $2,000,000 line of credit with a financial institution. The line of credit is due on demand with interest payable at a floating rate at the financial institution's base rate or fixed rate options at the financial institution's cost of funds plus 2.00%. No amount was due under this line of credit at June 30, 2008.

The College Crusade of R.I.

The College Crusade of R.I has a $1,200,000 line of credit agreement. Interest is payable monthly at the prime rate less one quarter percent, which was 4.75 % at June 30, 2008. There was an outstanding balance of $390,000 as of June 30, 2008. Total interest expense for the fiscal year ended June 30, 2008 was $15,391.

R.I. Housing and Mortgage Finance Corporation

On March 27, 2006, the Corporation executed a revolving loan agreement with Citizens Bank of Rhode Island, expiring in March 2009, whereby the Corporation may borrow up to a maximum outstanding principal sum of $20,000,000. On July 31, 2006, the Corporation executed a revolving loan agreement with Bank of America N.A., expiring in October, 2008, whereby the Corporation may borrow up to a maximum outstanding principal sum of $50,000,000. Borrowings outstanding under the revolving loans are unsecured. At June 30, 2008, $10,500,000 is outstanding under these revolving loans.

Community College of R.I.

On November 2, 2007, an arbitrator awarded two contractors involved in the construction of the Newport campus a total of $3,321,208 in damages and penalties. The Community College has appealed the arbitration award to the Rhode Island Superior Court and is awaiting a judgment on the case. In the interim, the Community College has recorded a liability and related additions to capital costs for $3,321,208.

Note 13. Employer Pension Plans

Plan Descriptions

The State, through the Employees' Retirement System (ERS), administers four defined benefit pension plans. Three of these plans; the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan and the Judicial Retirement Benefits Trust (JRBT) and the State Police Retirement Benefits Trust (SPRBT), single-employer defined benefit pension plans; cover most State employees. The State does not contribute to the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The ERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to State employees and teachers, which is subject to amendment by the general assembly, is established by the General Laws as listed below. As a result of an amendment to the General Laws effective July 1, 2005, the ERS implemented a two-tiered benefit structure for members of the ERS. Members with 10 years of service as of July 1, 2005 follow the Schedule A benefit structure and all other members follow the Schedule B benefit structure. In addition to the State, there are 48 local public school entities that are members of the ERS. The ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans and a description of the Schedule A and Schedule B benefit structures. The report may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903.

Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the ERS are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the contributions are withheld from payroll. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Dividend income is recorded on the ex-dividend date. Investment transactions are recorded on a trade date basis. The gains or losses on foreign currency exchange contracts are included in income in the period in which the exchange rates change. Gains and losses on contracts which hedge specific foreign currency denominated commitments are deferred and recognized in the period in which the transaction is completed.

Method Used to Value Investments

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale. The fair value of fixed income securities and domestic and international stocks is generally based on published market prices and quotations from national security exchanges and securities pricing services. Other investments that are not traded on a national security exchange (primarily private equity and real estate investments) are generally valued based on audited December 31 net asset values adjusted for cash flows for the period January 1 to June 30 (which principally include additional investments and partnership distributions). Commingled funds consist of institutional domestic and international equity index funds and a short duration fixed income fund. The fair value of the commingled funds is based on the reported share value of the respective fund. Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded. Short-term investments are stated at cost, which approximates fair value.

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Funding Policy and Annual Pension Cost

The State's annual pension cost (expressed in thousands) for the current year and related information for each plan is listed below.

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rates:			
State	20.77%	31.00%	32.07%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	8.52% and 8.97%		
Annual pension cost	$214,016	$3,720	$2,128
Contributions made - state employees	$131,560	$3,720	$2,128
Contributions made - teachers	$82,456		
Actuarial valuation date	June 30, 2005	June 30, 2005	June 30, 2005
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed
Equivalent Single Remaining Amortization Period	24 years	24 years	24 years
Asset valuation method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions:			
Investment rate of return	8.25%	8.25%	8.25%
Projected salary increases	4.50% to 8.25%	5% to 15.00%	5.25%
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	Schd. A 3% compounded Schd. B 2.5% compounded	$1,500 per annum	3%
Level of benefits established by:			
General Law(s)	36-8 to 10 16-15 to 17	42-28-22.1	8-3-16, 8-8-10.1, 8-8.2-7 and 28-30-18.1

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation
Employees' Retirement System	6/30/06	145,792	100%	$ 0
	6/30/07	188,832	100%	0
	6/30/08	214,016	100%	0
State Police Retirement Benefits Trust	6/30/06	3,175	100%	0
	6/30/07	4,039	100%	0
	6/30/08	3,720	100%	0
Judicial Retirement Benefits Trust	6/30/06	2,292	100%	0
	6/30/07	2,363	100%	0
	6/30/08	2,128	100%	0

The table below displays the funded status of each plan for the year ended June 30, 2007, the most recent actuarial valuation date:

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
ERS (*State Employees*)	$ 2,493,428,522	$ 4,332,888,818	$ 1,839,460,296	57.5%	$ 660,044,273	278.7%
ERS (*Teachers*)	$ 3,737,981,686	$ 6,750,125,236	$ 3,012,143,550	55.4%	$ 959,372,837	314.0%
SPRBT	$ 45,996,910	$ 60,427,947	$ 14,431,037	76.1%	$ 15,836,354	91.1%
JRBT	$ 29,630,637	$ 35,355,326	$ 5,724,689	83.8%	$ 6,451,666	88.7%

The schedules of funding progress presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liabilities (AAL) for benefits.

Additional information as of the June 30, 2007 actuarial valuation:

	ERS		SPRBT	JRBT
	State Employees	Teachers		
Valuation Date	6/30/07	6/30/07	6/30/07 *	6/30/07 *
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed
Equivalent Single Remaining Amortization Period	22 years	22 years	22 years	22 years
Asset Valuation Method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions				
Investment Rate of Return	8.25%	8.25%	8.25%	8.25%
Projected Salary Increases	4.50% to 9.00%	4.50% to 13.25%	4.50% to 12.50%	4.50%
Inflation	3.00%	3.00%	3.00%	3.00%
Cost of Living Adjustments	Schedule A members -3.0% compounded Schedule B members – 2.5%	Schedule A members -3.0% compounded Schedule B members – 2.5%	$1,500 per annum	3.0% (see Note1(b)(4)) to the financial statements

* restated June 30, 2007 actuarial valuation

Schedule A - ERS members are those with 10 years or more of contributory service on or before July 1, 2005.

Schedule B - ERS members are those with less than 10 years of contributory service on or before July 1, 2005.

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Other

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan. Eligible employees who have reached the age of 30, and who have two (2) years of service are required to participate in either the Teachers Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. Eligible employees must contribute at least 5% of their gross biweekly earnings. The University and Colleges contribute 9% of the employee’s gross biweekly earnings. Total expenses by the institutions for such annuity contracts amounted to $14,389,235 during the year ended June 30, 2008.

The Rhode Island Public Transit Authority has a funded pension plan for all employees, for which eligibility to participate begins immediately upon employment. Benefits vest upon completion of ten years of service. Authority employees are eligible to retire upon attainment of age 62 and 10 years of continuous service. Retired employees are entitled to a monthly benefit for life as stipulated in the plan provisions. The plan also provides death and disability benefits. Employees are required to contribute 3% of their base salary to the plan. The remaining contributions to the plan are made by the Authority. Employer contributions paid in fiscal year 2008 totaled $5,699,331. At January 1, 2008, the most recent valuation date, the total actuarial accrued liability was $76,525,478 and the actuarial value of assets was $47,327,996. The Authority contributed 100.00% of its annual pension cost for fiscal year 2008 and had a net pension obligation of $1,799,084 at June 30, 2008.

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

Note 14. Other Post-Employment Benefits

Plan Descriptions. The State administers four defined benefit post-employment health care plans collectively known as the Rhode Island Retiree Health Care Benefit Plan (RIRHCBP).

Members of the Employees’ Retirement System (ERS), including State employees, legislators, judges, State Police Officers, certified public school teachers and employees of certain component units, if they meet certain eligibility requirements, are eligible to receive some form of State sponsored retiree health care benefits. A summary of the principal plan provisions follows:

	State Employees and Teachers	Judges	State Police	Legislators
Plan type	Agent Multiple Employer	Sole employer	Sole employer	Sole employer
Eligibility	Members of ERS meeting eligibility criteria	Retired judges	Retired members of the State Police	Retired legislators
Plan benefits	Retiree plan for members until Medicare eligible; subsequently eligible for Medicare supplement	May purchase active employee plan for member and spouse for life	Active employee plan for member, spouse and dependants until age 65; at age 65 coverage ceases if Medicare eligible	May purchase active employee plan for member and spouse for life
Other	Retired teachers can purchase coverage for themselves and dependants at active or early retirement rate, as applicable. Members can purchase coverage for dependants at active or early retirement rate, as applicable.			

RIGL Sections 36-10-2, 36-12.1, 36-12.2.2 and 36-12-4 govern the provisions of the RIRHCBP and they may be amended in the future by action of the General Assembly.

On May 1, 2008 Public Law 2008-09 was enacted. The legislation changes the eligibility requirements for State contributions for health care coverage for those retiring on or after October 1, 2008. For anyone who retires on or after that date and has a minimum of 20 years of service and who is a minimum of 59 years of age, the State will pay 80% of the actual cost of such health care coverage. For members of the ERS who retired on or before September 30, 2008, the State provides two types of subsidies for health care benefits. The Tier I subsidy applies to non-Medicare eligible plans and provides that the State will pay the portion of the cost of post-retirement health care for the retiree and any dependents above the active group rate. The retiree pays the active monthly rate and the State pays the difference between the active group rate and the early retiree rate. This subsidy is not based on years of service and ends at age 65. In addition to the Tier I benefits, the State pays a portion of the cost of post-retirement health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and service of the retiree, which is referred to as the Tier II benefit.

The RIRHCBP is reported in an internal service fund of the State using the accrual basis of accounting. The fund reports all employer and retiree member contributions to the Plans. Contributions are recognized when made. Benefits (health care claims) and refunds are recognized when due and payable in accordance with the terms of the Plans. A liability for incurred but not reported claims is determined based on past claims payment trends and is included in the financial statements. Working premium rates are determined by the State each fiscal year after consultation with an employee benefits consultant and are designed to fund current claims incurred during the fiscal year as well as the costs of administering the Plans. For the year ended June 30, 2008 the Plans operated on a pay as you go basis and no provision has been made to fund future benefits to be provided to RIRHCBP members.

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<u>Funding Policy.</u> The contribution requirements of retiree members, the State and other participating employers are established and may be amended by the General Assembly.

As mentioned above, in fiscal year 2008 non-Medicare retiree members paid the active monthly premium rate and the State paid the difference between the active group rate and the more costly, early retiree rate (the "Tier I" benefit). Pursuant to RIGL Section 36-12-4 the State paid a portion of the cost of post-retirement health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and years of service of the retiree, which is referred to as the Tier II benefit.

The retirees' fiscal 2008 contributions for Tier II benefits were as follows:

Retiree Age	Years of Service	Amount of Cost Paid by Retiree
Below 60: (1)		
	28-34	10%
	35+	0%
Retiree Age from 60 to 65: (2)		
	10 – 15	50%
	16 – 22	30%
	23 – 27	20%
	28+	0%
Retiree Age Greater than 65: (3)		
	10 – 15	50%
	16 – 19	30%
	20 – 27	10%
	28+	0%

(1) The monthly premium rate is $708.94 for the individual plan. The retiree's cost is then calculated based on a maximum of $452.28 (the active plan rate).

(2) The monthly premium rates are the same as indicated above for the Retiree Age Below 60 category.

(3) The monthly premium rate for the Medicare Supplemental plan is $179.77 for the individual plan, and the monthly premium for the Medicare HMO plan was $100.00 for the first six months of fiscal year 2008 and $107 thereafter. Retirees can choose between the two plans. The retiree's cost is then calculated based on the years-of-service subsidy above.

In fiscal year 2008 the State and other participating employers were not required to fund the Plans other than the pay-as-you-go amount necessary to provide current benefits to retirees and administrative costs and they contributed 3.91% of covered payroll. The contributions to the State Police Plan were equal to actual claims and administrative expenses. For the fiscal year ended June 30, 2008 the State and other participating employers paid $28,377,748 into the Plans.

<u>Annual OPEB Cost and Net OPEB Obligation.</u> Annual OPEB cost reflected in the government-wide financial statements is equal to the annual required contribution (ARC). The amount reflected in the governmental fund financial statements is equal to the actual

contributions to the plan. The annual required contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the Plans over a period of 30 years. Amounts "required" but not actually set aside to pay for these benefits are accumulated as part of the Net OPEB obligation. The annual OPEB cost for the year, the amount actually paid on behalf of the Plans the changes in the net OPEB obligation and the percentage of annual OPEB cost contributed to the Plans, are as follows (dollar amounts in thousands):

Date of Actuarial Valuation	State Employees 06/30/05	Teachers 06/30/05	Judges 06/30/07	State Police 06/30/05	Legislators 06/30/05
Annual required contribution as a percent of payroll	6.01%	N/A	11.64%	30.27%	18.63%
Annual required contribution and annual OPEB cost	$ 38,203	$ 1,428	$ 1,382	$ 4,827	$ 285
Participating State and/or other employer contributions	$ 24,854	$ 1,428	$ 464	$ 1,572	$ 60
Increase in OPEB obligation	$ 13,349	$ 0	$ 918	$ 3,255	$ 225
Net OPEB obligation at beginning of year	$ 0	$ 0	$ 0	$ 0	$ 0
Net OPEB obligation at end of year	$ 13,349	$ 0	$ 918	$ 3,255	$ 225
Actuarial accrued liability (AAL) at valuation date	$ 580,041	$ 8,477	$ 14,024	$ 51,037	$ 3,919
Funded OPEB plan assets at valuation date	$ 0	$ 0	$ 0	$ 0	$ 0
Unfunded actuarial accrued liability (UAAL) at valuation date	$ 580,041	$ 8,477	$ 14,024	$ 51,037	$ 3,919
Funded ratio	0%	0%	0%	0%	0%
Covered payroll (in thousands)	$ 575,613	$ NA	$ 9,888	$ 13,821	1,509
UAAL as percentage of covered payroll	100.77%	NA	141.83%	369.27%	259.71%
Percentage of annual OPEB cost paid	65.06%	100.00%	33.57%	32.57%	21.05%

The table below displays the funded status of each plan as of the most recent actuarial valuation date, June 30, 2007, (in thousands):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
RIRHCBP - State Employees	$ -	$ 679,538	$ 679,538	0.0%	$ 626,145	108.5%
RIRHCBP - Teachers	$ -	$ 10,243	$ 10,243	0.0%	n/a	n/a
RIRHCBP - Judges	$ -	$ 14,024	$ 14,024	0.0%	$ 9,888	141.8%
RIRHCBP - State Police	$ -	$ 54,620	$ 54,620	0.0%	$ 15,977	341.9%
RIRHCBP - Legislators	$ -	$ 29,764	$ 29,764	0.0%	$ 1,592	1869.6%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plans and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows

whether the actuarial value of assets of the Plans are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the Plans and include the types of benefits provided at the time of each valuation. The actuarial assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial valuation was performed as of June 30, 2005 with results projected to July 1, 2007 for the fiscal year ended June 30, 2008. The State's annual required contribution was determined using the individual entry age actuarial cost method. The State's unfunded actuarial accrued liability as of the June 30, 2005 transition date is being amortized over a period of 30 years using the level (principal and interest combined) percent of payroll (open) contribution amortization method. For judges, the June 30, 2007 valuation was used to determine the Annual Required Contribution for fiscal year 2008.

The individual entry-age actuarial cost method is used to determine the annual required contribution amounts and the annual net OPEB obligation. The actuarial assumptions include a 3.566% discount rate; an annual healthcare cost trend rate of 12% progressively declining to 4.5% after 10 years; and a salary growth rate ranging from 8.25% in year 1 to 4.75% in year 15 and beyond for State Employees and legislators, ranging from 17% in year 1 to 4.5% in year 15 and beyond for teachers, ranging from 15% in year 1 to 5% in year 15 and beyond for Police, and 5.25% in all years for judges. The discount rate of 3.566% was calculated based upon the average rate of return during the 10 years ended June 30, 2008 for short term investments of the General Fund.

The impact of Public Law 2008-09 on plan provisions and benefits has been factored into the June 30, 2005 actuarial valuation.

There were changes in actuarial assumptions in the June 30, 2007 valuation. These include changes in demographic assumptions adopted in the June 30, 2006 valuations for the Employees' Retirement System of Rhode Island, the State Police Retirement Benefits Trust, and the Judicial Retirement Benefits Trust, based on experience studies performed by the actuary for those systems. The Medicare election assumption for Judges changed from 100% electing Medicare at age 65 to 100% not electing Medicare at age 65 and for Legislators from 100% electing Medicare at age 65 to 75% not electing Medicare at age 65. In addition, in anticipation of the retirements occurring before October 1, 2008, the election percentage for State employees was increased to 90% and the retiree liability was adjusted 110%.

Further, for teachers, the required contribution for teachers is not presented as a percentage of payroll since the required contribution by the State is for the Tier I subsidy for teachers who have elected to participate in the State's Retiree Health Care Benefit Plan. The June 30, 2007 actuarial valuation will be used to determine the annual required contribution for fiscal 2010.

The RIRHCBP does not issue a stand-alone financial report.

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island are covered by the Rhode Island Board of Governors for Higher Education Health Care Insurance Retirement Program. The Program offers a self-insured health care plan for pre-65 and post-65 retirees or a fully insured Medicare HMO plan for post-65 retirees. For the year ended June 30, 2008, the Program operated on a pay as you go basis and no provision has been made to fund future benefits to be provided to plan members. The University and colleges have recognized the annual required contribution (OPEB cost) as determined by an actuarial valuation performed as of June 30, 2006. For fiscal 2008, annual OPEB cost for the university and colleges was $2,975,528 and actual contributions made were $1,897,053. Additional disclosures regarding the Program are detailed in the financial statements for each institution.

Note 15. Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The Department of Administration pursuant to Chapter 36-13 of the General Laws administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Benefit payments are not available to employees earlier than the calendar year in which the participant attains age 70½, termination, retirement, death or "unforeseeable emergency".

Current Internal Revenue Service regulations require that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors. The plan assets also may be held in annuity contracts or custodial accounts, which are treated as trusts.

The State does not serve in a trustee capacity. Accordingly, the plan assets are not included in the State's financial statements.

Note 16. Risk Management

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

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

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The State also has a contract with an insurance company to provide health care benefits to active and retired employees. The State reimburses the company for the costs of all claims paid plus administrative fees. The estimated liability for incurred but not reported (IBNR) claims at June 30, 2008 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	Liability at July 1	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30
Health Insurance Funds Liability for unpaid claims	$ 19,836	$ 234,456	$ 233,642	$ 20,650

The State is self-insured for risks of loss related to torts. Tort claims are defended by the State's Attorney General and, when necessary, appropriations are provided to pay claims.

The State is self-insured for various risks of loss related to work related injuries of State employees. The State maintains the Assessed Fringe Benefits Fund, an internal service fund that services, among other things, workers' compensation claims. Funding is provided through a fringe benefit rate applied to State payrolls on a pay-as-you-go basis.

Note 17. Condensed Financial Statement Information

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

	RIHMFC	RISLA	RITBA	RIEDC	NBC
Condensed statement of net assets:					
Other assets	$ 2,108,233	$ 1,057,517	$ 33,417	$ 284,540	$ 89,326
Capital assets - nondepreciable			2,677	116,099	415,607
Capital assets - depreciable (net)		3,611	83,127	377,584	223,261
Due from primary government				634	
Total assets	2,108,233	1,061,128	119,221	778,857	728,194
Long term debt	1,616,370	950,167	25,796	377,802	427,227
Other liabilities	207,477	33,640	5,391	41,541	14,217
Due to primary government	12,000			11,678	
Total liabilities	1,835,847	983,807	31,187	431,021	441,444
Net assets:					
Invested in capital assets, net of related debt	9,766	196	57,596	224,143	228,385
Restricted					
Debt service	207,217	75,583	6,359		
Other				79,366	190
Other nonexpendable					
Unrestricted	55,403	1,542	24,079	44,327	58,175
Total net assets	272,386	77,321	88,034	347,836	286,750
Condensed statement of activities:					
Program expenses					
Personal services	12,811	2,564	1,918	26,460	17,053
Supplies, materials, and services	9,408	7,259	1,780	17,331	14,522
Interest expense	73,620	39,610			
Depreciation, depletion, and amortization	2,757	969	2,399	17,903	7,464
Other program expenses	7,648	10,554	2,352	39,348	13,199
Total program expenses	106,244	60,956	8,449	101,042	52,238
Program revenue					
Charges for services	93,785	54,315	12,040	63,156	67,078
Operating grants and contributions				10,036	28
Capital grants and contributions				36,617	
Net program (expense) revenue	(12,459)	(6,641)	3,591	8,767	14,868
Interest and investment earnings	20,401	7,952	2,335	7,555	2,196
Miscellaneous			(4)	10,476	70
Payments from primary government	(26,020)			21,327	
Change in net assets	(18,078)	1,311	5,922	48,125	17,134
Beginning net assets as restated	290,464	76,010	82,112	299,711	269,616
Ending net assets	272,386	77,321	88,034	347,836	286,750

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	RIHEBC	RIRRC	RIHEAA	RIPTA	RIIFC
Condensed statement of net assets:					
Other assets	$ 9,915	$ 123,068	$ 27,260	$ 14,622	$ 1,299
Capital assets - nondepreciable		14,835	307	6,557	
Capital assets - depreciable (net)	38	47,484	904	77,078	
Due from primary government				3,547	
Total assets	9,953	185,387	28,471	101,804	1,299
Long term debt		16,639	366	7,221	
Other liabilities	246	98,853	2,018	21,454	826
Due to primary government					
Total liabilities	246	115,492	2,384	28,675	826
Net assets:					
Invested in capital assets, net of related debt	39	46,929	1,211	83,635	
Restricted					
Debt service		2,155			
Other			24,876		
Other nonexpendable					
Unrestricted	9,668	20,811		(10,506)	473
Total net assets	9,707	69,895	26,087	73,129	473
Condensed statement of activities:					
Program expenses					
Personal services	378	14,152	3,220	47,261	62
Supplies, materials, and services	1,473	21,209	6,132	50,050	47
Interest expense					
Depreciation, depletion, and amortization	23	13,776	257	10,633	
Other program expenses		13,419	16,884		
Total program expenses	1,874	62,556	26,493	107,944	109
Program revenue					
Charges for services	2,143	66,993	15,292	32,643	120
Operating grants and contributions			368	20,602	
Capital grants and contributions				4,104	
Net program (expense) revenue	269	4,437	(10,833)	(50,595)	11
Interest and investment earnings	205	1,383	1,150	382	19
Miscellaneous	(1)	(423)		2,838	
Payments from primary government		(5,000)	10,220	32,725	
Change in net assets	473	397	537	(14,650)	30
Beginning net assets as restated	9,234	69,498	25,550	87,779	443
Ending net assets	9,707	69,895	26,087	73,129	473

	RICWFA	RIIRBA	RIWRBC	RIPTCA	TCCRI
Condensed statement of net assets:					
Other assets	$ 1,010,150	$ 3,200	$ 5,734	$ 1,727	$ 6,773
Capital assets - nondepreciable		181		821	
Capital assets - depreciable (net)	46	353		6,027	25
Due from primary government					
Total assets	1,010,196	3,734	5,734	8,575	6,798
Long term debt	648,882		9,427	1,113	
Other liabilities	9,895	774	433	473	1,778
Due to primary government					
Total liabilities	658,777	774	9,860	1,586	1,778
Net assets:					
Invested in capital assets, net of related debt	46	535		5,975	26
Restricted					
Debt service	329,259				
Other			(4,271)	1,168	1,594
Other nonexpendable					
Unrestricted	22,114	2,425	145	(154)	3,400
Total net assets	351,419	2,960	(4,126)	6,989	5,020
Condensed statement of activities:					
Program expenses					
Personal services	501			3,437	2,591
Supplies, materials, and services	2,531	143	35	1,733	564
Interest expense	26,379				15
Depreciation, depletion, and amortization	390	14	107	938	23
Other program expenses			416	61	2,307
Total program expenses	29,801	157	558	6,169	5,500
Program revenue					
Charges for services	21,364	282	1,226	4,967	4,848
Operating grants and contributions	10,904				
Capital grants and contributions					
Net program (expense) revenue	2,467	125	668	(1,202)	(652)
Interest and investment earnings	12,376	76	135	(58)	166
Miscellaneous			3	217	
Payments from primary government				2,292	1,056
Change in net assets	14,843	201	806	1,249	570
Beginning net assets as restated	336,576	2,759	(4,932)	5,740	4,450
Ending net assets	351,419	2,960	(4,126)	6,989	5,020

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	URI	RIC	CCRI	CFSD	Totals
Condensed statement of net assets:					
Other assets	$ 220,877	$ 48,577	$ 23,923	$ 6,519	$ 5,076,677
Capital assets - nondepreciable	63,173	4,310	4,919		629,486
Capital assets - depreciable (net)	354,608	82,937	43,172	3,297	1,303,552
Due from primary government					4,181
Total assets	638,658	135,824	72,014	9,816	7,013,896
Long term debt	212,418	19,171	9,077	1,746	4,323,422
Other liabilities	54,458	19,238	11,043	7,069	530,824
Due to primary government		19,327			43,005
Total liabilities	266,876	57,736	20,120	8,815	4,897,251
Net assets:					
Invested in capital assets, net of related debt	236,957	54,598	40,358	3,103	993,498
Restricted					
Debt service					620,573
Other	26,317	4,387	5,337	116	139,080
Other nonexpendable	76,058	16,152			92,210
Unrestricted	32,450	2,951	6,199	(2,218)	271,284
Total net assets	371,782	78,088	51,894	1,001	2,116,645
Condensed statement of activities:					
Program expenses					
Personal services	260,096	87,742	71,812	54,266	606,324
Supplies, materials, and services	113,025	22,497	24,749	1,548	296,036
Interest expense				15	139,639
Depreciation, depletion, and amortization	20,378	4,713	2,946	276	85,966
Other program expenses	27,019	6,667	2,818		142,692
Total program expenses	420,518	121,619	102,325	56,105	1,270,657
Program revenue					
Charges for services	319,837	72,307	55,354	9,821	897,571
Operating grants and contributions		3,165	1,093		46,196
Capital grants and contributions	56,162	3,833	2,686		103,402
Net program (expense) revenue	(44,519)	(42,314)	(43,192)	(46,284)	(223,488)
Interest and investment earnings	3,839	(202)	416	19	60,345
Miscellaneous	14,941	6		65	28,188
Payments from primary government	75,390	44,347	47,820	44,088	248,245
Change in net assets	49,651	1,837	5,044	(2,112)	113,290
Beginning net assets as restated	322,131	76,251	46,850	3,113	2,003,355
Ending net assets	371,782	78,088	51,894	1,001	2,116,645

Significant transactions between primary government and component units

	(Revenue) Expense	Description
Governmental activities		
General		
R.I. Higher Education Assistance Authority	$ 10,220	Operating assistance
R.I. Economic Development Corporation	10,864	Operating and capital assistance
University of Rhode Island	74,943	Educational assistance
Rhode Island College	44,512	Educational assistance
Community College of Rhode Island	48,182	Educational assistance
Central Falls School District	43,526	Educational assistance
R.I. Public Transit Authority	8,202	Operating assistance
R.I. Housing & Mortgage Finance Corporation	(26,020)	Operating assistance
ISTEA		
R.I. Public Transit Authority	32,882	Operating assistance
Bond Capital		
RI Economic Development Corporation	14,547	Construction, improvement or purchase of assets
University of Rhode Island	41,309	Construction, improvement or purchase of assets
Rhode Island College	5,915	Construction, improvement or purchase of assets
Certificates of Participation		
University of Rhode Island	6,237	Construction, improvement or purchase of assets
R. I. Capital Plan		
University of Rhode Island	9,107	Construction, improvement or purchase of assets
Total Governmental Activities	$ 324,426	

Note 18. Other Information

A. Elimination Entries

When the governmental fund statements and the internal service funds statements are combined into one column for governmental activity on the government-wide financial statements interfund balances and activity should be eliminated. The following are the eliminations (expressed in thousands) that were made.

	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 16,345	$ 3,943	$ 20,288	$ (16,588)	$ 3,700
Loans to other funds	78,829	2,100	80,929	(80,929)	
Total assets	$ 95,174	$ 6,043	$ 101,217	$ (97,517)	$ 3,700
Liabilities					
Due to other funds	$ 14,295	$ 2,293	$ 16,588	$ (16,588)	$
Loans from other funds	71,129	9,800	80,929	(80,929)	
Total liabilities	$ 85,424	$ 12,093	$ 97,517	$ (97,517)	$
Program revenue					
General government	$ 30	$ 291,713	$ 291,743	$ (291,743)	
Human services		8,348	8,348	(8,348)	
Public safety		10,272	10,272	(10,272)	
Expenses					
General government	30	290,813	290,843	(290,843)	
Human services		8,689	8,689	(8,689)	
Public safety		10,831	10,831	(10,831)	
Net revenue (expenses)	$	$	$	$	$
Transfers					
Operating transfers in	$ 724,428	$ 7,778	$ 732,206	$ (407,278)	$ 324,928
Operating transfers out	(403,012)	(4,266)	(407,278)	407,278	
Net transfers	$ 321,416	$ 3,512	$ 324,928	$	$ 324,928

	Total Business-type Activities		Total	Eliminations	Internal Balances
Liabilities					
Due to other funds	$ 3,700	$	$ 3,700	$	$ 3,700
	$ 3,700	$	$ 3,700	$	$ 3,700
Transfers					
Operating transfers in	$ 33,283	$	$ 33,283	$ (33,283)	$
Operating transfers out	(358,211)		(358,211)	33,283	(324,928)
Net transfers	$ (324,928)	$	$ (324,928)	$	$ (324,928)

B. Related Party Transactions

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

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC), a subsidiary of the R.I. Economic Development Corporation, whereby the State has agreed to lease various assets to RIAC. The agreement requires RIAC to reimburse the State for principal and interest payments for certain airport related General Obligation Bonds. The term of the agreement is 30 years beginning July 1, 1993, with annual rent of $1.00. In the event RIAC does not have sufficient funds to make the required lease payments when due, the amount is payable in the next succeeding fiscal year and remains an obligation of RIAC until paid in full. The State has no rights to terminate the agreement as long as there are bonds and subordinate indebtedness outstanding.

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

Transactions between RISLA and RIHEAA as of and during the year ended June 30, 2008 were as follows:

Guaranteed loans outstanding at June 30, 2008	$509,527,000
Loans guaranteed during the year	247,588,000
Guarantee claims paid during the year	21,668,000

The R.I. Housing and Mortgage Finance Corporation (RIHMFC) and the State have entered into a contractual relationship whereby RIHMFC assumed the responsibility for the State Rental Subsidy Program for the period July 1, 1994 through June 30, 1997. In addition, RIHMFC made $3,800,000 in advances on behalf of the State for this program in the fiscal year ended June 30, 1994. As provided in the contractual arrangement, the State agreed to repay the $3,800,000, subject to appropriations, in installments of $950,000 over a four year period beginning in the year ended June 30, 1996, but to date no payments have been made, nor have any payments for transfers totaling $39,485,000 made during the years ended June 30, 1998 through 2008 been made.

In November 2004, the voters of Rhode Island authorized the issuance of $30 million in general obligation debt for the construction of a new residence hall at Rhode Island College (RIC). Of this amount, $20 million will be repaid to the State. The residence hall was finished and in service by September 2007 at which time RIC began collecting revenues to pay for its share of the debt service. Debt service obligation is to be split two-thirds to RIC, one-third to the State for all payments after September 2007. RIC will repay the State for the debt service paid on its behalf on a straight-line basis amortized over the remaining life of the bonds, which carry rates ranging from 3-5% and a life of nineteen years beginning in fiscal year 2009. RIC recognized $20 million as a liability to the State for its two-thirds of the debt service as a result of these issuances. Additionally, RIC has recorded $10 million of contributed capital by the State.

The Narragansett Bay Commission has approximately $269,000,000 of loans payable to the RI Clean Water Finance Agency.

C. Restatements, Reclassifications and Other Changes in Presentation

	Governmental Activities	Discretely Presented Component Units	Governmental Funds
June 30, 2007			
Net assets as previously reported	$ 982,917	$ 2,017,401	
Fund balance as previously reported			$ 921,468
Correction of errors		(14,042)	
Reclassifications	42	(4)	42
June 30, 2007 net assets/fund balance as restated	$ 982,959	$ 2,003,355	$ 921,510

The beginning net assets of Governmental Activities within the government-wide financial statements were increased by $42,000. This increase is the result of the Rhode Island Economic Policy Council, a blended component unit as of June 30, 2007, being merged with the Rhode Island Economic Development Corporation, a discretely presented component unit. This merger also resulted in a reclassification of total net assets of the governmental funds for the same amount at June 30, 2007.

The beginning net assets of certain discretely presented component units decreased by an aggregate amount of approximately $14,000,000 to correct errors in prior periods. The majority of this decrease was attributable to a $13.8 million decrease in net assets for the Rhode Island Resource Recovery Corporation. During 2007, the Corporation ceased development activities of the industrial park and began actively marketing the land for sale. Based upon the sales consummated during 2007, the intent of the Corporation and other information available prior to the issuance of its 2007 financial statements, the land should have been reclassified from land held for development to land held for sale and reduced from its cost basis to net realizable value. As a result, the Corporation's financial statements overstated both total assets and net assets as of June 30, 2007 by the amount necessary to reduce the land to net realizable value. That amount totaled $13,758,679.

The State's fiscal 2008 financial statements include the following new funds:

- Rhode Island Capital Plan Fund - Capital Projects Fund
- Coastal Resources Management Council Dredge Fund – Special Revenue Fund
- Vehicle Replacement Revolving Loan Fund – Internal Service Fund

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The Energy Revolving Internal Service Fund was dissolved and remaining net assets were transferred to the General Fund.

In accordance with GASB Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* a net OPEB obligation has been recorded within the government-wide financial statements and proprietary funds reflecting an actuarially determined annual required contribution for postemployment benefits provided to employees (see Note 14).

D. Budgeting, Budgetary Control, and Legal Compliance

Budget Preparation

An annual budget is adopted on a basis consistent with generally accepted accounting principles. The budget encompasses the General Fund and certain special revenue funds. Preparation and submission of the budget is governed by the State Constitution and the Rhode Island General Laws. The budget, as enacted, contains a complete plan of proposed expenditures from all sources of funds (general, federal, restricted, and transfers in). Revenues upon which the budget plan is based are determined as part of the State's Revenue Estimating Conference. The Conference, held twice each year, results in a consensus estimate of revenues for the next fiscal year and an update of prior revenue estimates for the current fiscal year.

As required by the Constitution and the Rhode Island General Laws, annual appropriations are limited to 98 percent of estimated general revenues. The remaining 2 percent is contributed to the Budget Reserve Account until such account equals 3 percent of total general revenues and opening surplus. Excess contributions to the Budget Reserve Account are transferred to the Rhode Island Capital Plan Fund to be used for capital projects.

The annual budget is adopted on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

Budgetary Controls

The legal level of budgetary control, i.e., the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch.

Budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations, accounting system controls to limit expenditures in excess of authorized amounts, and budgetary monitoring controls.

Budgetary Compliance

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

E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2008:

- Assessed Fringe Benefits Fund ($5,659,000)
- State Telecommunications ($1,347,000)
- Central Laundry ($137,000)
- Records Center ($82,000)

The deficits will be eliminated through charges for services in fiscal year 2009.

Note 19. Subsequent Events

Primary Government

On November 4, 2008 the voters authorized the State to issue $87,215,000 of transportation bonds and $2,500,000 of open space and recreational development bonds.

On December 2, 2008 the State of Rhode Island issued $107,820,000 in General Obligation Bonds with interest rates ranging from 3.00% to 6.60% with maturity dates of August 2009 through August 2024. This issuance included an $86,875,000 Consolidated Capital Development Loan of 2008, Series B, an $8,500,000 Capital Development Loan of 2008, Series C, and a $12,445,000 Consolidated Capital Development Loan of 2008, Refunding Series D.

Subsequent to June 30, 2008, investments held within the pension trust funds have declined significantly in value consistent with overall declines in the domestic and international financial markets. At March 31, 2009, these declines were approximately 25% compared to the fair value of investments at June 30, 2008. The State Investment Commission has adopted a long-term investment policy for the investments held within the pension trust funds, which includes diversification of holdings pursuant to an asset allocation model. Additionally, the impact on the funded status of the plans and required

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contributions due to any near term decline in value of the pension trust fund investments will be tempered by the five-year smoothing employed in the actuarial value of assets.

As of March 31, 2009 the Employees' Retirement System has successfully exited the securities lending program. As a result of this action, all securities on loan were called back, and collateral obligations were returned in whole.

The State's cash equivalent type investments at June 30, 2008 included approximately $83,765,000 invested with The Reserve – U.S. Government Fund which is a money market mutual fund. The Reserve petitioned the Securities and Exchange Commission (SEC) and was granted permission on September 22, 2008 to suspend redemptions from the U.S. Government Fund. The State had approximately $62 million invested in The Reserve - U.S. Government Fund on September 22, 2008, the date redemptions were suspended. The Reserve liquidated the U.S. Government Fund making a partial distribution and then final distribution on January 16, 2009. The Office of the General Treasurer received full redemption of its shares in the Reserve - US Government Fund, plus accrued interest, at a rate above current market levels, without loss in value.

Funds on deposit with fiscal agent at June 30, 2008 as well as certain investments held within the discretely presented component units included guaranteed investment contracts (GIC's) with AIG Matched Funding a subsidiary of American International Group (AIG). Bond proceeds were invested in the GIC's pending disbursement for project costs. The AIG GIC's contained provisions that were triggered by a downgrade in the ratings assigned to the corporate issuer of the GIC's which occurred in September 2008. The credit rating downgrade allowed the State and the Rhode Island Clean Water Finance Agency (a discretely presented component unit) to request return of the invested funds which subsequently occurred.

The State Investment Commission has modified, due to the increased need for security, its short-term investment policy regarding Certificates of Deposits and Commercial Paper. Certificates of Deposits, regardless of duration, shall be fully collateralized, at a percent not to be below 102%. Further, investments in Commercial Paper will cease.

The State sold $350 million of General Obligation Tax Anticipation Notes in October 2008. The notes bear interest at 3.5% and are due June 30, 2009.

In March 2009, the State obtained an interest free $75 million line of credit from the Federal Unemployment Insurance Trust Fund. The line of credit will be used to fund unemployment insurance benefits.

Subsequent to June 30, 2008, in response to instability in the financial markets, the U.S. Treasury instituted a Temporary Guarantee Program for Money Market Funds. The program provides a guarantee to participating money market mutual fund shareholders based on the number of shares invested in the fund at the close of business on September 19, 2008. This program expires on April 30, 2009 unless extended by the U.S. Treasury. The State and its component units had significant amounts invested in money market funds at June 30, 2008. Money market funds must elect to participate in the Temporary

Guarantee Program for Money Market Funds. All the money market funds holding State funds at June 30, 2008 have elected to participate in the guarantee program.

In December 2008, the Board of the Employees' Retirement System approved an increase to the fiscal 2010 employer contribution rates for State employees from 20.69% to 25.03% of covered payroll. The fiscal 2010 contribution rates had previously been established and approved by the Board based on an actuarial valuation performed as of June 30, 2007. An increase in the fiscal 2010 employer contribution rate was recommended by the actuary in response to an expected decrease in covered payroll for fiscal 2010. This is due to a significant increase in the number of state employee retirements prompted largely by changes in retiree medical coverage effective October 1, 2008. The expected decrease in fiscal 2010 covered payroll requires that the amortization of the unfunded actuarial accrued liability be applied to a smaller payroll base thereby causing an increase in the employer contribution rate.

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

On April 2, 2009 the Rhode Island Economic Development Corporation, on behalf of the State issued $169,395,000 of Grant Anticipation Revenue Vehicle Bonds which are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects, and $12,410,000 of Rhode Island Motor Fuel Tax Revenue Bonds which are payable solely from certain pledged revenues derived from two cents ($.02) per gallon of the thirty cents ($.30) per gallon Motor Fuel Tax.

In July 2008, the Rhode Island Convention Center Authority (RICCA) entered into a lease with the State Department of Administration and commenced operations of the Veterans Memorial Auditorium and Cultural Center (VMA). Operation of the VMA is shared by two facilities-management groups: Professional Facilities Management Inc. of Providence (PFM) and Spectacor Management Group (SMG). PFM will manage the marketing, bookings and box office; SMG will manage the physical plant, mechanical operations and security.

In March 2009, the Convention Center Authority issued $71,220,000 of Refunding Revenue bonds for the purpose of refunding the Authority's outstanding Variable Rate Refunding Revenue Bonds 2001 Series A, and to finance an associated swap termination payment, debt service reserve fund and the costs of issuance.

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June 30, 2008

Component Units

Effective July 1, 2008, the General Assembly reduced the amount of debt authorization available to the Rhode Island Industrial Recreational Building Authority from $80,000,000 to $20,000,000.

On August 14, 2008, the Rhode Island Student Loan Authority issued $85 Million in Tax-Exempt Student Loan Program Revenue Bonds (Series B-1, Series B-2, Series B-3 and Series B-4) and $15 Million in Taxable Student Loan Program Revenue Bonds (Series B-5). The Series B-1, Series B-2 and Series B-3 Bonds are to be used to refinance the 1996 Series 1, Series 2 and Series 3 Bonds. The Series B-4 and Series B-5 are for the purpose of financing student loans.

On November 25, 2008, the Rhode Island Student Loan Authority issued $85 Million in Tax-Exempt Student Loan Program Revenue Bonds (Series C-1 and C-2) and $15 Million in Taxable Student Loan Program Revenue Bonds (Series C-3). The Series C-1 and Series C-2 Bonds are to be used to refinance the 1995 Series 1 Bonds.

On July 17, 2008, the Narragansett Bay Commission (NBC) issued the 2008 Series A Wastewater System Revenue Refunding Bonds in the principal amount of $66,360,000 maturing September 1, 2034. The Refunding Bonds were issued to refund the 2004 Series A Revenue Bonds. The 2008 Series A are Multi-Modal and have been issued in weekly rate mode with the interest rate determined weekly and interest paid monthly. The owner of the bonds in a weekly mode can require NBC (acting through its remarketing agent) to repurchase the bonds. The remarketing agent has agreed to use its best efforts to remarket any purchased bonds. NBC has an irrevocable direct pay letter of credit issued by RBS Citizens, National Association. In the event that the remarketing agent is unable to remarket tendered bonds, the letter of credit provides that the bank be obligated to pay to the Trustee, the amount necessary to pay the principal and Purchase Price of and interest on the Bonds of up to 60 days at the maximum Rate of 10% on the Bonds. The letter of credit expires on July 16, 2020.

Subsequent to June 30, 2008 the R.I. Health & Educational Building Corporation, the R.I. Economic Development Corporation and the R.I. Industrial Facilities Corporation issued various conduit debt obligations. These are not obligations of the respective corporations or the State.

On November 20, 2008, the University of Rhode Island issued two series of bonds: $34.1 million Series 2008 A and $3.8 million Series 2008 B bonds (taxable). Proceeds of Series 2008 A bonds were used to refund the University of Rhode Island Series 2004 B bonds while Series 2008 B bonds proceeds were used to finance swap termination payments in connection with the termination of an interest rate swap dated December 22, 2004.

On August 26, 2008, R.I. Housing and Mortgage Finance Corporation (RIHMFC) issued $64,720,000 of Homeownership Opportunity Bonds, Series 60.

Exhibit A-65

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On October 1, 2008 RIHMFC instructed its trustees to redeem the Homeownership Opportunity Bonds in the amount of $12,060,000.

RIHMFC has renewed its line of credit with Bank of America N.A. which expired in October 2008. Terms of the new agreement are as follows: a) Commitment Amount: $30,000,000, b) Maturity Date: 10/30/2009, c) Interest Rate: Variable rate tied to LIBOR.

As a result of a combination of savings, decrease in fuel costs and receipt of funds from various sources, the Rhode Island Public Transit Authority has reduced its originally projected $10 million budget deficit for fiscal year 2009 to $1.3 million. It is unclear what effect the remaining deficit could have on the Authority's operations.

A forensic audit of the R.I. Resource Recovery Corporation is ongoing and has highlighted various matters involving land transactions, the development of an industrial park adjacent to the landfill, and environmental issues. Management has not yet determined the impact of the forensic audit, or other investigations of the corporation, other than the carrying value of certain assets held for development that were written down in fiscal year 2008.

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Revenues:				
General Revenues:				
Personal Income Tax	$ 1,082,857	$ 1,069,100	$ 1,073,617	$ 4,517
General Business Taxes:				
Business Corporations	167,207	156,500	150,469	(6,031)
Public Utilities Gross Earnings	109,300	97,300	99,437	2,137
Financial Institutions	2,003	1,200	1,830	630
Insurance Companies	68,834	63,500	67,997	4,497
Bank Deposits	1,600	1,700	1,710	10
Health Care Provider Assessment	48,900	50,900	53,357	2,457
Sales and Use Taxes:				
Sales and Use	908,724	853,400	844,197	(9,203)
Motor Vehicle	50,235	45,200	48,610	3,410
Motor Fuel	1,100	1,290	991	(299)
Cigarettes	112,500	118,100	114,675	(3,425)
Alcohol	11,100	10,900	11,141	241
Other Taxes:				
Inheritance and Gift	30,100	38,000	35,334	(2,666)
Racing and Athletics	2,600	2,800	2,813	13
Realty Transfer Tax	13,800	10,900	10,223	(677)
Total Taxes	2,610,860	2,520,790	2,516,401	(4,389)
Departmental Revenue	362,870	357,500	356,546	(954)
Total Taxes and Departmental Revenue	2,973,730	2,878,290	2,872,947	(5,343)
Other Sources				
Gas Tax Transfer	4,685	4,535	4,514	(21)
Other Miscellaneous	140,279	180,970	181,810	840
Lottery	339,700	356,800	354,321	(2,479)
Unclaimed Property	14,600	15,500	15,387	(113)
Total Other Sources	499,264	557,805	556,032	(1,773)
Total General Revenues	3,472,994	3,436,095	3,428,979	(7,116)
Federal Revenues	1,723,323	1,780,991	1,740,283	(40,708)
Restricted Revenues	161,974	154,732	126,090	(28,642)
Other Revenues	57,174	55,956	58,639	2,683
Total Revenues	5,415,465	5,427,774	5,353,991	(73,783)
Expenditures:				
Department of Administration				
Central Management				
General Revenue Total	1,550	1,592	1,631	(39)
Federal Fund Total	238	229	234	(5)
** Restricted Receipts Total		119	73	46
Total-Central Management	1,788	1,940	1,938	2

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Schedule of Revenues, Expenditures and Changes in Fund Balance
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General Fund
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	Original Budget	Final Budget	Actual	Variance
Legal Services				
Legal Support/DOT	122	236	142	94
General Revenue Total	1,837	2,255	2,493	(238)
Total-Legal Services	1,959	2,491	2,635	(144)
Accounts & Control				
General Revenue Total	3,253	3,499	3,465	34
Budgeting				
General Revenue Total	2,091	1,997	1,902	95
Purchasing				
General Revenue Total	2,399	2,184	2,178	6
Auditing				
General Revenue Total	1,792	1,690	1,621	69
Other			100	(100)
Total-Auditing	1,792	1,690	1,721	(31)
Human Resources				
Other Fund Total	793	528	1,384	(856)
General Revenue Total	10,067	10,179	9,678	501
Federal Fund Total	2,066	1,974	783	1,191
Restricted Receipts Total	578	484	499	(15)
Total-Human Resources	13,504	13,164	12,345	819
Personnel Appeal Board				
General Revenue Total	97	111	105	6
Facilities Management				
General Revenue Total	36,056	36,576	35,046	1,530
Federal Fund Total	7,214	7,774	1,766	6,008
Restricted Receipts Total	7,488	1,090	1,057	33
Other Fund Total	555	562	5,435	(4,873)
Total-Facilities Management	51,313	46,003	43,304	2,699
Capital Projects & Property Management				
General Revenue Total	3,749	3,334	3,291	43
Information Technology				
General Revenue Total	17,650	18,848	18,623	225
Federal Fund Total	7,390	5,602	5,520	82
Restricted Receipts Total	1,423	1,744	908	836
Other Fund Total	1,403	2,258	1,526	732
Total-Information Technology	27,866	28,452	26,577	1,875

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Schedule of Revenues, Expenditures and Changes in Fund Balance
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General Fund
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	Original Budget	Final Budget	Actual	Variance
Library and Information Services				
General Revenue Total	1,101	986	1,025	(39)
Federal Fund Total	1,084	1,064	1,022	42
Restricted Receipts Total	2	2	1	1
Total-Library and Information Services	2,187	2,051	2,047	4
Statewide Planning				
General Revenue Total	3,793	3,782	3,730	52
Federal Fund Total	9,330	10,454	8,302	2,152
Federal Highway-PL Systems Planning	1,689	2,048	1,875	173
Air Quality Modeling	21	21	8	13
Total-Statewide Planning	14,833	16,304	13,914	2,390
Security Services				
General Revenue Total	19,933	19,689	19,900	(211)
Energy Resources				
General Revenue Total	2,237	2,606	2,350	256
Federal Funds Total	19,688	22,027	21,268	759
Restricted Receipts Total	200	509	70	439
Total-Energy Resources	22,125	25,143	23,689	1,454
General				
Miscellaneous Grants and Payments	661	661	652	9
Torts-Court Awards	400	408	326	82
EDC Airport Impact Aid		1,001	1,001	
State Employees/Teachers Retiree Health	1,442		1,428	(1,428)
Governor's Contingency Fund			128	(128)
Economic Development Corporation Grant	8,699	7,655	7,655	
Slater Centers of Excellence	3,000	2,919	2,919	
Economic Policy Council	300	292	292	
Dunkin Donuts Center Renovations	12,500	8,400	8,400	
Transfer to RICAP Fund		19,423	19,423	
Motor Vehicle Excise Tax Payment	135,500	135,317	135,278	39
Property Valuation	1,100	1,100	1,079	21
General Revenue Sharing Program	65,112	55,112	55,112	
Payment in Lieu of Tax Exempt Properties	27,767	27,767	27,767	
Distressed Communities Relief Program	10,384	10,384	10,384	
Resource Sharing and State Library Aid	8,773	8,773	8,746	27
Library Construction Aid	2,813	2,813	2,673	140
EPScore-EDC	1,500	1,460	1,460	
Police/Fire Incentive Pay	675	675	674	1
Federal Fund Total			4	(4)
Restricted Receipts Total	1,296	1,396	3,781	(2,385)
Total-General	281,922	285,555	289,180	(3,625)
Debt Service Payments				
RIPTA Debt Service	681	675	675	
Transportation Debt Service	35,442	33,569	33,413	156
RIRBA-DLT Temporary Disability Insurance	46	46	46	
COPS-DLT Building-TDI	359	284	277	7

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Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
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(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
COPS-DLT Building-Reed Act	26	7	7	
Investment Receipts-Bond Funds			63	(63)
Debt Service Payments	126,160	131,156	131,003	153
Federal Fund Total	1,178	947	931	16
Restricted Receipts Total	1,542	3,195	3,585	(390)
Total-Debt Service Payments	165,434	169,877	169,999	(122)
Retirement Alternative				
Pay Plan Reserve General Revenue	(9,105)			
Other Fund Total	(2,715)			
Federal Fund Total	(2,607)			
Restricted Receipts Total	(419)			
Total-Retirement Alternative	(14,846)			
Total-Department of Administration	601,399	623,486	618,189	5,297
Department of Business Regulation				
Central Management				
General Revenue Total	1,283	1,278	1,204	74
Banking Regulation				
General Revenue Total	3,083	2,958	2,857	101
Restricted Receipts Total	145	145	65	80
Total-Banking Regulation	3,228	3,103	2,922	181
Commercial Licensing and Racing & Athletics				
General Revenue Total	1,363	1,093	1,132	(39)
Restricted Receipts Total	607	553	436	117
Total-Commercial Licensing and Racing & Athletics	1,970	1,647	1,568	79
Board of Design Professionals				
General Revenue Total	406	392	347	45
Insurance Regulation				
Federal Funds	52	202	114	88
General Revenue Total	5,185	5,024	4,640	384
Restricted Receipts Total	856	969	864	105
Total-Insurance Regulation	6,093	6,194	5,618	576
Board of Accountancy				
General Revenue Total	155	151	153	(2)
Total-Department of Business Regulation	13,136	12,765	11,812	953
Department of Labor and Training				
Central Management				
General Revenue Total	195	183	140	43
Restricted Receipts	484	453	504	(51)
Total-Central Management	679	635	644	(9)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Workforce Development Services				
Reed Act-Woonsocket Network Office Renovations		75	63	12
Reed Act-Rapid Job Entry	799	795	589	206
Reed Act-Workforce Development	5,200	4,188	2,526	1,662
General Revenue Total	3	6		6
Federal Fund Total	13,368	20,279	14,281	5,998
Restricted Receipts Total	14,952	11,664	7,799	3,865
Total-Workforce Development Services	34,322	37,008	25,259	11,749
Workforce Regulation and Safety				
General Revenue Total	2,737	2,480	2,551	(71)
Income Support				
General Revenue Total	3,175	3,322	3,376	(54)
Federal Fund Total	14,757	15,238	14,602	636
Restricted Receipts Total	1,761	1,872	1,834	38
Total-Income Support	19,693	20,433	19,812	621
Injured Workers Services				
Restricted Receipts Total	11,087	11,086	9,961	1,125
Labor Relations Board				
General Revenue Total	473	428	310	118
Total-Department of Labor and Training	68,991	72,069	58,537	13,532
Legislature				
General Revenue Total	36,972	34,116	32,378	1,738
Restricted Receipts Total	1,524	1,452	1,452	
Total-Legislature	38,496	35,568	33,829	1,739
Total-General Assembly	38,496	35,568	33,829	1,739
Office of the Lieutenant Governor				
Lieutenant Governor	925	840	850	(10)
Department of State				
Administration				
General Revenue Total	1,685	1,658	1,757	(99)
Corporations				
General Revenue Total	1,799	1,854	1,914	(60)
State Archives				
General Revenue Total	89		109	(109)
Federal Fund Total	40	38	28	10
Restricted Receipts Total	443	559	420	139
Total-State Archives	573	597	557	40

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State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Elections				
General Revenue Total	583	611	688	(77)
Federal Fund Total	547	534	883	(349)
Total-Elections	1,130	1,146	1,571	(425)
State Library				
General Revenue Total	690	676	713	(37)
Office of Civics Public Information				
General Revenue Total	190	244	308	(64)
Total-Department of State	6,066	6,174	6,820	(646)
Treasury Department				
Treasury				
General Revenue Total	2,590	2,464	2,387	77
Federal Fund Total	291	280	237	43
Restricted Receipts Total	10			
Total-Treasury	2,891	2,744	2,624	120
State Retirement System				
Administrative Expenses-State Retirement System	6,132	6,330	5,688	642
Retirement-Treasury Investment Operations	877	917	833	84
Total-State Retirement System	7,009	7,246	6,520	726
Unclaimed Property				
Restricted Receipts Total	23,095	24,228	28,253	(4,025)
RI Refunding Bond Authority				
General Revenue Total	40	37	36	1
Crime Victim Compensation Program				
General Revenue Total	279	273	246	27
Federal Fund Total	1,625	870	563	307
Restricted Receipts Total	1,658	1,361	1,213	148
Total-Crime Victim Compensation Program	3,561	2,504	2,023	481
Total-Treasury Department	36,597	36,759	39,455	(2,696)
Commission for Human Rights				
General Revenue Total	984	952	952	
Federal Fund Total	405	371	389	(18)
Total-Commission for Human Rights	1,389	1,323	1,341	(18)
Board of Elections				
General Revenue Total	1,437	1,290	1,315	(25)
Federal Fund Total	587	631	611	20
Total-Board of Elections	2,024	1,921	1,926	(5)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Rhode Island Ethics Commission				
General Revenue Total	1,410	1,330	1,343	(13)
Office of Governor				
General Revenue Total	4,922	4,774	4,958	(184)
Public Utilities Commission				
General Revenue Total	661	648	475	173
Federal Fund Total	100	97	71	26
Restricted Receipts Total	6,335	6,194	4,888	1,306
Total-Public Utilities Commission	7,096	6,938	5,433	1,505
Rhode Island Commission on Women				
General Revenue Total	108	106	106	
Department of Revenue				
Director of Revenue				
General Revenue Total	752	432	452	(20)
Office of Revenue Analysis				
General Revenue Total	750	364	31	333
Property Valuation				
General Revenue Total	850	789	775	14
Taxation				
General Revenue Total	17,821	16,037	16,172	(135)
Federal Fund Total	1,235	1,160	1,190	(30)
Restricted Receipts Total	830	877	779	98
Motor Fuel Tax Invasion		129	72	57
Temporary Disability Insurance	910	791	876	(85)
Total Taxation	20,797	18,994	19,088	(94)
Registry of Motor Vehicles				
General Revenue Total	18,404	17,544	17,657	(113)
Federal Fund Total	100	969	281	688
Restricted Receipts Total	15	15	11	4
Total Registry of Motor Vehicles	18,518	18,528	17,949	579
Total-Department of Revenue	41,667	39,107	38,296	811
Office of Health and Human Services				
General Revenue Total	307	387	363	24
Federal Fund Total	5,826	7,159	3,169	3,990
Restricted Revenues Total	446	314	316	(2)
Total-Office of Health and Human Services	6,579	7,860	3,848	4,012

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Department of Children, Youth, and Families				
Central Management				
General Revenue Total	5,903	6,938	7,201	(263)
Federal Fund Total	3,360	2,852	2,867	(15)
Total-Central Management	9,263	9,790	10,068	(278)
Children's Behavioral Health Services				
General Revenue Total	18,806	16,664	15,803	861
Federal Fund Total	13,269	13,165	14,040	(875)
Total-Children's Behavioral Health Services	32,074	29,830	29,843	(13)
Juvenile Correctional Services				
General Revenue Total	29,680	29,520	30,172	(652)
Federal Fund Total	611	617	349	268
Restricted Receipts Total	6	10	23	(13)
Total-Juvenile Correctional Services	30,297	30,147	30,543	(396)
Child Welfare				
General Revenue	88,661	93,104	91,930	1,174
18 to 21 year olds	6,000	5,550	6,186	(636)
Federal Fund	58,427	58,687	48,520	10,167
18 to 21 year olds	4,545	4,383	6,441	(2,058)
Restricted Receipts Total	1,748	2,241	2,709	(468)
Total-Child Welfare	159,381	163,965	155,786	8,179
Higher Education Incentive Grant				
General Revenue Total	200	200	200	
Total-Department of Children, Youth, and Families	231,215	233,932	226,441	7,491
Department of Elderly Affairs				
Intermodal Surface Transportation Fund	4,685	4,535	4,477	58
General Revenue Total	16,522	16,219	15,963	256
Safety and Care of the Elderly	1	1	1	
RIPAE	2,082	1,170	1,005	165
Federal Fund Total	13,057	12,946	11,980	966
Restricted Receipts Total	690	1,330	957	373
Total-Department of Elderly Affairs	37,036	36,200	34,383	1,817
Department of Health				
Central Management				
General Revenue Total	4,901	4,190	4,172	18
Federal Fund Total	4,856	8,366	5,574	2,792
Restricted Receipts Total	3,717	4,489	3,072	1,417
Total-Central Management	13,475	17,046	12,818	4,228
State Medical Examiner				
General Revenue Total	2,157	2,142	2,000	142
Federal Fund Total	142	132	155	(23)
Total-State Medical Examiner	2,299	2,273	2,155	118

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Health Service Regulation				
General Revenue Total	6,523	6,464	5,779	685
Federal Fund Total	4,914	6,784	4,847	1,937
Restricted Receipts Total	437	397	327	70
Total-Health Services Regulation	11,873	13,645	10,953	2,692
Family Health				
General Revenue Total	2,589	2,470	2,454	16
Federal Fund Total	29,851	33,972	47,125	(13,153)
Restricted Receipts Total	18,186	17,372	10,109	7,263
Total-Family Health	50,626	53,814	59,688	(5,874)
Environmental Health				
General Revenue Total	4,000	3,782	3,808	(26)
Federal Fund Total	6,125	5,953	5,180	773
Restricted Receipts Total	3,063	2,908	2,184	724
Other Fund Total		100	15	85
Total-Environmental Health	13,187	12,743	11,187	1,556
Health Laboratories				
General Revenue Total	8,171	6,822	6,567	255
Federal Fund Total	2,064	2,379	1,973	406
Total-Health Laboratories	10,234	9,201	8,540	661
Disease Prevention and Control				
General Revenue Total	6,148	5,301	5,205	96
Federal Fund Total	17,354	19,465	15,974	3,491
Walkable Communities Initiative	29	29	31	(2)
Total-Disease Prevention and Control	23,530	24,795	21,211	3,584
Total-Department of Health	125,224	133,518	126,552	6,966
Department of Human Services				
Central Management				
General Revenue	9,114	9,547	9,434	113
Statewide operating savings		(19,647)		(19,647)
Federal Fund	4,252	4,446	3,739	707
Statewide operating savings		(19,916)		(19,916)
Restricted Receipts Total	1,746	1,995	2,003	(8)
Total-Central Management	15,112	(23,575)	15,176	(38,751)
Child Support Enforcement				
General Revenue Total	3,831	3,236	3,101	135
Federal Fund Total	7,570	7,439	7,195	244
Restricted Receipts Total	50			
Total-Child Support Enforcement	11,450	10,675	10,296	379
Individual and Family Support				
General Revenue Total	24,755	22,809	22,623	186
Federal Fund Total	52,884	56,446	50,007	6,439

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Restricted Receipts Total	134	134	134	
Other funds total			600	(600)
Total-Individual and Family Support	77,772	79,389	73,364	6,025
Veterans' Affairs				
General Revenue Total	17,109	18,180	17,387	793
Federal Fund Total	6,385	9,436	6,596	2,840
Restricted Receipts Total	1,517	2,097	558	1,539
Total-Veterans' Affairs	25,011	29,713	24,542	5,171
Health Care Quality, Financing and Puchasing				
General Revenue Total	23,023	21,011	20,482	529
Federal Fund Total	43,747	41,881	38,446	3,435
Restricted Receipts Total	187	206	32	174
Total-Health Care Quality, Financing and Purchasing	66,957	63,099	58,959	4,140
Medical Benefits				
General Revenue Total				
Managed Care	259,158	258,634	247,455	11,179
Hospital	127,762	133,320	133,212	108
Other	55,381	53,200	80,310	(27,110)
Pharmacy	63,240	61,446	60,544	902
Long Term Care	171,867	171,700	158,177	13,523
Federal Fund Total				
Managed Care	293,563	292,566	293,488	(922)
Hospital	115,823	131,780	133,203	(1,423)
Long Term Care	189,938	189,700	174,663	15,037
Other	60,551	64,353	94,738	(30,385)
Pharmacy	24,000	23,454	22,434	1,020
Special Education	20,733	20,733	16,152	4,581
Restricted Receipts Total	5,590	4,262	4,300	(38)
Total-Medical Benefits	1,387,604	1,405,148	1,418,678	(13,530)
Supplemental Security Income Program				
General Revenue Total	28,456	28,039	28,021	18
Family Independence Program				
TANF/Families Independence Program	15,958	17,705	19,119	(1,414)
Child Care	7,442	10,438	12,689	(2,251)
Federal Fund Total	84,438	84,561	80,864	3,697
Total-Family Independence Program	107,839	112,703	112,672	31
State Funded Programs				
General Public Assistance	4,090	3,393	3,223	170
Federal Fund Total	85,553	93,368	102,603	(9,235)
Total-State Funded Programs	89,644	96,760	105,826	(9,066)
Total-Department of Human Services	1,809,844	1,801,952	1,847,534	(45,582)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Department of Mental Health, Retardation, and Hospital				
Central Management				
Federal Fund Total	67	118		118
General Revenue Total	741	1,817	1,854	(37)
Total-Central Management	808	1,935	1,854	81
Hospital & Community System Support				
General Revenue Total	4,238	3,545	3,385	160
Federal Fund Total	373	413	300	113
Total-Hospital & Community System Support	4,611	3,959	3,686	273
Services for the Developmentally Disabled				
General Revenue Total	120,498	118,660	120,868	(2,208)
Federal Fund Total	136,747	134,506	137,498	(2,992)
Total-Services for the Developmentally Disabled	257,244	253,166	258,366	(5,200)
Integrated Mental Health Services				
General Revenue Total	43,959	42,010	42,716	(706)
Federal Fund Total	38,245	36,228	37,406	(1,178)
Total-Integrated Mental Health Services	82,204	78,238	80,122	(1,884)
Hospital & Community Rehabilitation Svcs				
General Revenue Total	57,020	51,728	56,712	(4,984)
Federal Fund Total	56,699	50,147	53,825	(3,678)
Restricted Receipts	2,950	2,504	2,486	18
Total-Hospital & Community Rehabilitation Svcs	116,669	104,379	113,023	(8,644)
Substance Abuse				
RICAP-Asset Protection				
General Revenue Total	17,005	16,438	16,417	21
Federal Fund Total	11,840	13,491	12,699	792
Restricted Receipts Total	90	90	102	(12)
Total-Substance Abuse	28,934	30,019	29,218	801
Total-Department of Mental Health, Retardation, and Hospital	490,470	471,695	486,269	(14,574)
Office of Child Advocate				
General Revenue Total	521	485	445	40
Federal Fund Total	40	38	40	(2)
Total-Office of Child Advocate	561	522	485	37
Rhode Island Commission of the Deaf and Hard of Hearing				
General Revenue Total	370	327	289	38
Federal Fund Total	18		(1)	1
Total-Rhode Island Commission of the Deaf and Hard of Hearin	388	327	289	38
RI Developmental Disabilities Council				
Federal Fund Total	461	406	395	11

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
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	Original Budget	Final Budget	Actual	Variance
Governor's Commission on Disabilities				
General Revenue Total	536	351	350	1
Federal Fund Total	182	194	77	117
Restricted Receipts Total	51	14	13	1
Total-Governor's Commission on Disabilities	768	559	441	118
Office of Mental Health Advocate				
General Revenue Total	424	406	419	(13)
Department of Elementary and Secondary Education				
Education Aid				
General Fund Total	679,417	679,396	679,308	88
Federal Fund Total	1,119	75	7	68
Restricted Receipts Total	1,460	1,459	1,326	133
Total-Education Aid	681,996	680,931	680,640	291
Housing Aid				
General Revenue Total	52,862	49,653	49,652	1
Teachers' Retirement				
General Revenue Total	78,072	80,225	83,029	(2,804)
RI School for the Deaf				
Other Funds		10		10
Restricted Receipts Total		1		1
General Revenue Total	6,808	6,571	6,551	20
Federal Fund Total	368	271	133	138
Total-RI School for the Deaf	7,176	6,854	6,684	170
Central Falls School District				
General Revenue Total	43,795	43,416	43,416	
Davies Career and Technical School				
General Revenue Total	14,572	14,048	14,243	(195)
Federal Fund Total	1,237	1,425	1,104	321
Total-Davies Career and Technical School	15,809	15,473	15,347	126
Metropolitan Career and Technical School				
General Revenue Total	11,488	11,488	11,488	
Administration of the Comprehensive Education Strategy				
General Revenue Total	21,317	20,573	19,985	588
Statewide Uniform Chart of Accounts	1,100	1,100	1,154	(54)
Federal Fund Total	175,672	187,402	174,465	12,937
Restricted Receipts Total	1,190	1,053	855	198
HRIC Adult Education Grants	4,500	4,617	4,326	291
Total-Administration of the Comprehensive Education Strategy	203,778	214,745	200,786	13,959
Total-Department of Elementary & Secondary Education	1,094,975	1,102,784	1,091,042	11,742

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Board of Governors for Higher Education				
General Revenue Total	8,136	7,908	7,908	
Federal Fund Total	3,526	5,301	4,925	376
Restricted Receipts-BOG	200	453	97	356
General Revenue Total-URI	77,036	74,897	74,897	
General Revenue Total-RIC	45,751	44,347	44,347	
General Revenue Total-CCRI	49,254	47,820	47,820	
Total-Board of Governors for Higher Education	200,488	196,377	195,004	1,373
Rhode Island State Council on the Arts				
Operating Support	1,536	733	743	(10)
Grants	1,241	1,966	1,369	597
Restricted Receipts Total		200		200
Federal Fund Total	706	672	612	60
Art for Public Facilities Fund	3,000	1,000	210	790
Total-Rhode Island Council on the Arts	6,484	4,571	2,934	1,637
Rhode Island Atomic Energy Commission				
URI Sponsored Research	191	240	238	2
General Revenue Total	820	799	834	(35)
Federal Fund Total	421	537	353	184
Total-Rhode Island Atomic Energy Commission	1,431	1,576	1,425	151
R I Higher Education Assistance Authority				
Needs Based Grants and Work Opportunity	10,000	9,244	9,244	
Authority Operations and Other Grants	1,020	976	976	
Total-R I Higher Education Assistance Authority	11,020	10,220	10,220	
Historical Preservation and Heritage Commission				
General Revenue Total	1,578	1,487	1,495	(8)
Federal Fund Total	529	548	509	39
Restricted Receipts Total	496	492	191	301
Total-Historical Preservation and Heritage Commission	2,603	2,527	2,195	332
R I Public Telecommunications Authority				
General Revenue Total	1,364	1,316	1,316	
Department of Attorney General				
Criminal				
General Revenue Total	12,988	13,055	13,107	(52)
Federal Fund Total	1,323	1,275	1,202	73
Restricted Receipts Total	339	332	320	12
Total-Criminal	14,650	14,661	14,629	32

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
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For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Civil				
General Revenue Total	4,897	4,133	4,043	90
Restricted Receipts Total	634	608	548	60
Total-Civil	5,532	4,741	4,591	150
Bureau of Criminal Identification				
General Revenue Total	1,018	965	940	25
Federal Fund Total	57	118	97	21
Total-Bureau of Criminal Identification	1,074	1,083	1,037	46
General				
General Revenue Total	2,432	2,474	2,459	15
Total-Department of Attorney General	23,688	22,960	22,716	244
Department of Corrections				
Central Management				
General Revenue Total	10,466	9,088	8,405	683
Federal Fund Total	359	140	134	6
Total-Central Management	10,826	9,229	8,539	690
Parole Board				
General Revenue Total	1,259	1,214	1,222	(8)
Federal Fund Total	33	71	52	19
Total-Parole Board	1,292	1,285	1,274	11
Institutional Corrections				
General Revenue Total	160,572	159,947	170,207	(10,260)
Federal Fund Total	2,035	2,568	2,049	519
Total-Institutional Corrections	162,606	162,515	172,256	(9,741)
Community Corrections				
General Revenue Total	15,658	14,302	13,304	998
Federal Fund Total	380	804	454	350
Total-Community Corrections	16,038	15,106	13,758	1,348
General Revenue Total-Corrections	187,955	184,551	193,138	(8,587)
Federal Fund Total-Corrections	2,808	3,584	2,689	895
Total-Department of Corrections	190,762	188,135	195,827	(7,692)
Judicial Department				
Supreme Court				
General Revenue Total	26,369	25,792	25,211	581
Judicial Tenure and Discipline	120	116	108	8
Defense of Indigents	3,066	2,983	3,369	(386)
Federal Fund Total	122	365	250	115
Restricted Receipts Total	1,131	1,455	1,190	265
Total-Supreme Court	30,807	30,712	30,127	585

State of Rhode Island and Providence Plantations
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Budget and Actual
General Fund
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(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Superior Court				
Federal Fund Total	535	217	155	62
General Revenue Total	20,700	19,595	19,635	(40)
Total-Superior Court	21,235	19,812	19,790	22
Family Court				
General Revenue Total	17,794	17,657	18,017	(360)
Federal Fund Total	1,407	2,097	1,468	629
Total-Family Court	19,201	19,755	19,485	270
District Court				
General Revenue Total	10,638	9,836	9,626	210
Traffic Tribunal				
General Revenue Total	7,387	6,820	6,835	(15)
Worker's Compensation Court				
Restricted Receipts Total	7,387	7,206	7,206	
Total-Judicial Department	96,656	94,141	93,068	1,073
Militia of the State				
National Guard				
General Revenue Total	1,761	1,755	1,586	169
Federal Fund Total	9,289	9,016	7,468	1,548
Restricted Receipts Total	145	160	31	129
Total-National Guard	11,195	10,931	9,086	1,845
Emergency Management				
General Revenue Total	803	743	734	9
Federal Fund Total	11,306	23,629	12,047	11,582
Restricted Receipts Total	263	142	127	15
Total-Emergency Management	12,371	24,513	12,908	11,605
Total-Militia of the State	23,566	35,445	21,994	13,451
E-911 Uniform Emergency Telephone System				
General Revenue Total	4,733	4,879	4,945	(66)
Federal Fund Total		100	15	85
Restricted Receipts Total	1,297	875	875	
Total- E-911 Uniform Emergency Telephone System	6,030	5,854	5,834	20
State Fire Marshall				
General Revenue Total	2,671	2,355	2,204	151
Federal Fund Total	228	1,038	477	561
Total-State Fire Marshall	2,899	3,393	2,682	711
Fire Safety Code Board of Appeal and Review				
General Revenue Total	303	290	288	2

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
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	Original Budget	Final Budget	Actual	Variance
Rhode Island Justice Commission				
General Revenue Total	161	232	232	
Federal Fund Total	4,152	4,510	4,145	365
Restricted Receipts Total	30	133	11	122
Total-Rhode Island Justice Commission	4,342	4,875	4,387	488
Municipal Police Training Academy				
General Revenue Total	429	428	434	(6)
Federal Fund Total	50	66	23	43
Total-Municipal Police Training Academy	479	494	456	38
Rhode Island State Police				
Airport Corporation	144	138	140	(2)
Traffic Enforcement-Municipal Training	379	342	253	89
Lottery Commission Assistance	142	137	141	(4)
Road Construction Reimbursement	2,367	2,356	1,957	399
General Revenue Total	52,058	50,689	51,467	(778)
Federal Fund Total	1,092	2,368	1,298	1,070
Restricted Receipts Total	312	461	218	243
Total-Rhode Island State Police	56,494	56,491	55,474	1,017
Office of Public Defender				
General Revenue Total	9,325	9,016	9,031	(15)
Federal Fund Total	422	359	272	87
Total-Office of Public Defender	9,747	9,375	9,303	72
Department of Environmental Management				
Office of Director				
DOT Recreational Projects			(22)	22
General Revenue Total	6,043	5,768	5,789	(21)
Federal Fund Total	556	422	73	349
Restricted Receipts Total	2,505	2,508	2,169	339
Total-Office of Director	9,104	8,698	8,009	689
Natural Resources				
Blackstone Bikepath Design	788	788	236	552
DOT Recreational Projects	118	70	54	16
General Revenue Total	18,318	17,901	19,001	(1,100)
Federal Fund Total	17,159	17,910	8,684	9,226
Restricted Receipts Total	3,830	3,530	3,069	461
Total-Natural Resources	40,213	40,200	31,044	9,156

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
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	Original Budget	Final Budget	Actual	Variance
Environmental Protection				
General Revenue Total	12,052	10,544	11,243	(699)
Federal Fund Total	10,438	12,525	9,267	3,258
Restricted Receipts Total	10,611	10,033	8,246	1,787
Total-Environmental Protection	33,101	33,103	28,755	4,348
Total-Department of Environmental Management	82,418	82,001	67,809	14,192
Coastal Resources Management Council				
General Revenue Total	1,880	1,941	1,985	(44)
Federal Fund Total	1,607	1,770	1,779	(9)
Restricted Receipts Total	1,022	395	120	275
Total-Coastal Resources Management Council	4,509	4,106	3,884	222
Water Resources Board				
General Revenue Total	1,893	1,629	1,226	403
Restricted Receipts Total	400	400	327	73
Total-Water Resources Board	2,293	2,029	1,553	476
Total Departmental Expenditures	5,349,750	5,359,493	5,339,363	20,130
Transfer of Appropriations at June 30, 2007 to RI Capital Fund			7,770	(7,770)
Transfer of Excess Budget Reserve to RI Capital Fund			44,369	(44,369)
Total Expenditures	5,349,750	5,359,493	5,391,502	(32,009)
Change in Fund Balance	$ 5,415,465	$ 68,281	(37,511)	$ (105,792)
Fund balance - beginning			144,166	
Fund balance - ending			$ 106,655	
General Revenue Total	$ 3,407,278	$ 3,367,814	$ 3,405,251	$ (37,437)
Federal Fund Total	1,723,323	1,780,991	1,741,158	39,833
Restricted Receipts Total	161,974	154,732	135,546	19,186
Other Fund Total	57,174	55,956	57,408	(1,452)
	$ 5,349,749	$ 5,359,493	$ 5,339,363	$ 20,130

General Fund - General Revenue Summary

General Revenue - Variance - Final Budget compared to Actual	$ (7,116)
General Revenue Expenditures - Variance - Final Budget compared to actual	$ (37,437)
Change in General Revenue Reappropriations Fiscal 2007 - Fiscal 2008	1,902
Other Adjustments	(299)
	$ (35,834)
Unreserved General Fund (General Revenue) Deficit - June 30, 2008	$ (42,950)

** Certain totals may not add due to rounding.

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Intermodal Surface Transportation Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	$ 140,550	$ 136,050	$ 135,412	$ (638)
Departmental restricted revenue	662	1,445	(207)	(1,652)
Federal grants	274,707	239,425	196,327	(43,098)
Other revenues	3,019	11,192	5,386	(5,806)
Total revenues	418,938	388,112	336,918	(51,194)
Other financing sources:				
Operating transfers in			28,198	28,198
Payments from component units			52	52
Total revenues and other financing sources	418,938	388,112	365,168	(22,944)
Expenditures:				
Central Management				
Gasoline Tax	3,712	1,558	1,673	(115)
Federal Funds	17,167	17,788	7,298	10,490
Total - Central Management	20,879	19,346	8,971	10,375
Management and Budget				
Gasoline Tax	3,010	2,295	760	1,535
Total - Management and Budget	3,010	2,295	760	1,535
Infrastructure - Engineering				
Gasoline Tax	46,094	46,695	46,317	378
RICAP - RIPTA Land and Buildings				
Train Station				
State Infrastructure Bank	1,000	1,344		1,344
Land Sale Revenue	2,000	9,346	1,226	8,120
Federal Funds	257,540	221,637	181,123	40,514
Restricted Receipts	662	1,445	(161)	1,606
Subtotal - Infrastructure - Engineering	307,296	280,467	228,505	51,962
State Match - FHWA			28,198	(28,198)
Total - Infrastructure - Engineering	307,296	280,467	256,703	23,764
Infrastructure - Maintenance				
Gasoline Tax	39,479	38,822	37,761	1,061
Outdoor Advertising	19	503		503
Radio System Upgrade		335		335
Nonland Surplus	288	336	270	66
Total - Infrastructure - Maintenance	39,786	39,996	38,031	1,965
Total Expenditures	370,971	342,104	304,465	37,639
Other financing uses:				
Transfers to other funds				
Gas tax			44,239	
Other			852	
Total expenditures and other financing uses			349,556	
Net change in fund balance			15,612	
Fund balance - beginning			32,819	
Fund balance - ending			$ 48,431	

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
June 30, 2008
(Expressed in thousands)

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	6,231,410	11,083,014	4,851,604	56.2%	1,619,417	299.6%
06/30/2006	5,651,066	10,575,851	4,924,786	53.4%	1,559,966	315.7%
06/30/2005	5,444,369	9,762,675	4,318,306	55.8%	1,504,526	287.0%

State Police Retirement Benefits Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	45,997	60,428	14,431	76.1%	15,836	91.1%
06/30/2006	36,315	42,216	5,901	86.0%	13,475	43.8%
06/30/2005	29,617	37,511	7,894	79.0%	13,225	59.7%

Judicial Retirement Benefits Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	29,631	35,355	5,725	83.8%	6,452	88.7%
06/30/2006	23,873	27,504	3,631	86.8%	6,313	57.4%
06/30/2005	19,347	22,251	2,904	86.9%	5,685	51.0%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
June 30, 2008
(Expressed in thousands)

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-State Employees

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	679,538	679,538	0%	626,145	108.5%
06/30/2005	0	580,041	580,041	0%	575,613	100.8%

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-Teachers

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	10,243	10,243	0%	NA	NA
06/30/2005	0	8,477	8,477	0%	NA	NA

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-Judges

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	14,024	14,024	0%	9,888	141.8%
06/30/2005	0	76	76	0%	5,685	1.3%

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-State Police

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	54,620	54,620	0%	15,977	341.9%
06/30/2005	0	51,037	51,037	0%	13,821	369.3%

State of Rhode Island and Providence Plantations
Required Supplementary Information
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June 30, 2008
(Expressed in thousands)

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-Legislators

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	29,764	29,764	0%	1,592	1869.6%
06/30/2005	0	3,919	3,919	0%	1,509	259.7%

Budget and Actual

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

The annual budget is adopted on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding original or final budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

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

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

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

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

Schedules of Funding Progress-Other Postemployment Benefits

The June 30, 2005 actuarial valuation for the Rhode Island Retiree Health Care Benefits Plans was restated to reflect the changes in the plan provision due to the enactment of

State of Rhode Island and Providence Plantations
Notes to Required Supplementary Information
June 30, 2008

Public Law 2008-09. Those changes in plan provisions became effective for employees retiring on or after October 1, 2008.

The June 30, 2007 actuarial valuation reflects clarification of employees eligible for retiree health care within the judges and legislators plans as well as the benefits received upon attainment of Medicare eligibility. Further for teachers, the required contribution for teachers is not presented as a percentage of payroll since the required contribution by the State is for the Tier I subsidy for teachers who have elected to participate in the State's Retiree Health Care Benefit Plan.

EXHIBIT B

State Economic Information

Economic Information

The information contained herein was developed from reports provided by Federal and State agencies, which is believed to be reliable and may be relevant in evaluating the economic and financial condition and prospects of the State of Rhode Island. The demographic information and statistical data, which have been obtained from the sources indicated, do not necessarily present all factors that may have a bearing on the State's fiscal and economic affairs. All information is presented on a calendar-year basis unless otherwise indicated. Sources of information are indicated in the text or immediately following the charts and tables. Although the State considers the sources to be reliable, the State has made no independent verification of the information presented herein and does not warrant its accuracy.

Overview

Population Characteristics. Rhode Island experienced an average annual population increase of 0.2 percent between 1994 and 2008. The U.S. Census Bureau estimated that Rhode Island's population declined by 0.2 percent in 2008. The 2000 United States census count for Rhode Island was 1,048,319 or 4.5 percent more than the 1,003,464 counted in 1990. In contrast, the total United States population increased by 13.1 percent between 1990 and 2000. The U.S. Census Bureau estimates that Rhode Island's population has increased by 2,469 to 1,050,788 as of December 2008.

Personal Income and Poverty. Per capita personal income levels in Rhode Island had been consistent with those in the United States for the 1994 to 2001 period. Since 2002, Rhode Island per capita personal income growth has accelerated relative to U.S. per capita personal income growth to the point where, in 2008, Rhode Island per capita personal income was $41,008 versus U.S. per capita personal income of $39,751. In addition, Rhode Island has maintained a poverty rate below the national average. Over the 2003 – 2007 period, Rhode Island's average poverty rate was 11.0 percent versus the U.S. average poverty rate of 12.5 percent.

Employment. According to the Rhode Island Department of Labor and Training, total Rhode Island nonfarm employment grew at a rate of 0.5 percent in 2006, 1.0 percent in 2007 and decreased 3.4 percent in 2008. The average annual growth rate for Rhode Island nonfarm employment for the 1994 – 2008 period was 0.8 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 30.9 percent of its residents over the age of 25 having received a Bachelor's degree or a Graduate or Professional degree according to the Current Population Report of March 2007 from the Bureau of the Census. In addition, per pupil spending on public elementary and secondary education in Rhode Island has been significantly higher than the national average since the 1992-93 academic year. For 2006-07 Rhode Island spent 42.0 percent more per pupil than the national average.

Population Characteristics

Rhode Island is the second most densely populated state in the country, exceeded only by New Jersey. The population density of Rhode Island increased from 960.3 persons per square mile in 1990 to 1,003.2 persons in 2000. The density factor for the United States also increased during the last decade, from 70.3 persons per square mile in 1990 to 79.6 persons in 2000. Rhode Island's major metropolitan communities are located within Providence County. Recording an increase in population over the 1990 – 2000 census period, residents of Providence County also represent a larger percentage of the state's total population, from 58.0 percent in 1990 to 59.3 percent in 2000. The Capital City of Providence experienced an 8.0 percent increase in population over the last decade of the twentieth century, significantly higher than the 4.5 percent increase recorded statewide.

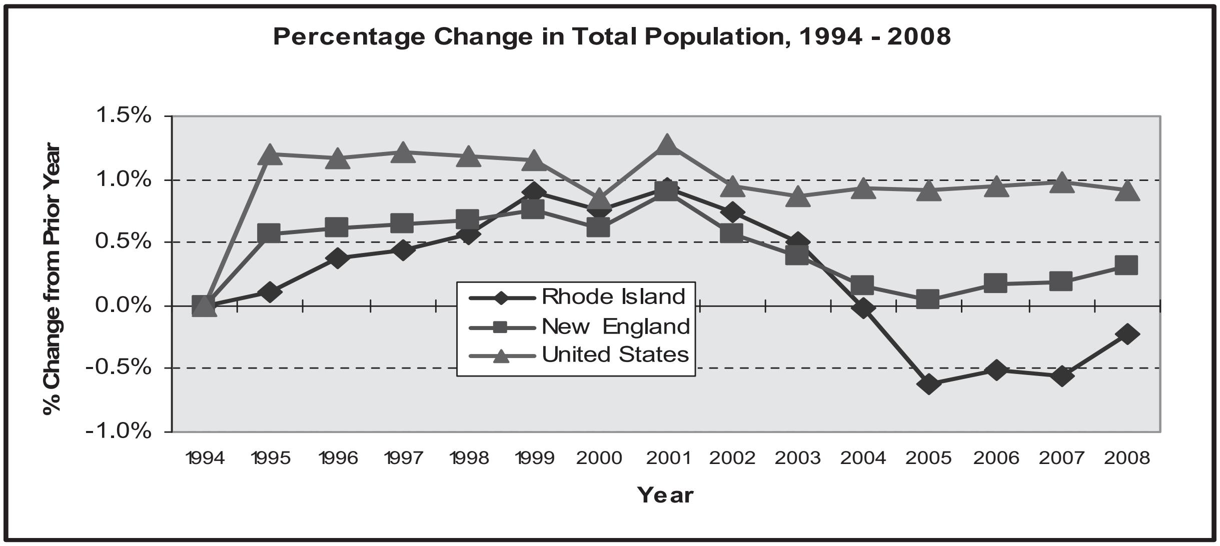
Between 1998 and 2008 Rhode Island's population increased by 1.9 percent, compared to a 4.2 percent increase for the New England region, and a 10.2 percent increase for the United States. As the following chart indicates, the percentage change in Rhode Island's population from 1994 to 1998 has lagged that of the New England region. The growth rate of Rhode Island's population was 1.5 percent for that period compared to New England's growth rate of 2.5 percent. From 1999 through 2003, however, Rhode Island's population growth rate was higher than that of the New England region, at 3.0 percent compared to 2.5 percent for New England as a whole. The 2008 population estimates indicate that Rhode Island's population growth rate, at –0.2 percent over 2007, is again lower than that of New England's growth rate of 0.3 percent. With respect to the United States, Rhode Island's population growth has been both lower and more erratic. Over the 1998 to 2008 period, the United States' average annual population growth rate was 1.0 percent.

Population, 1994 - 2008
(in thousands)

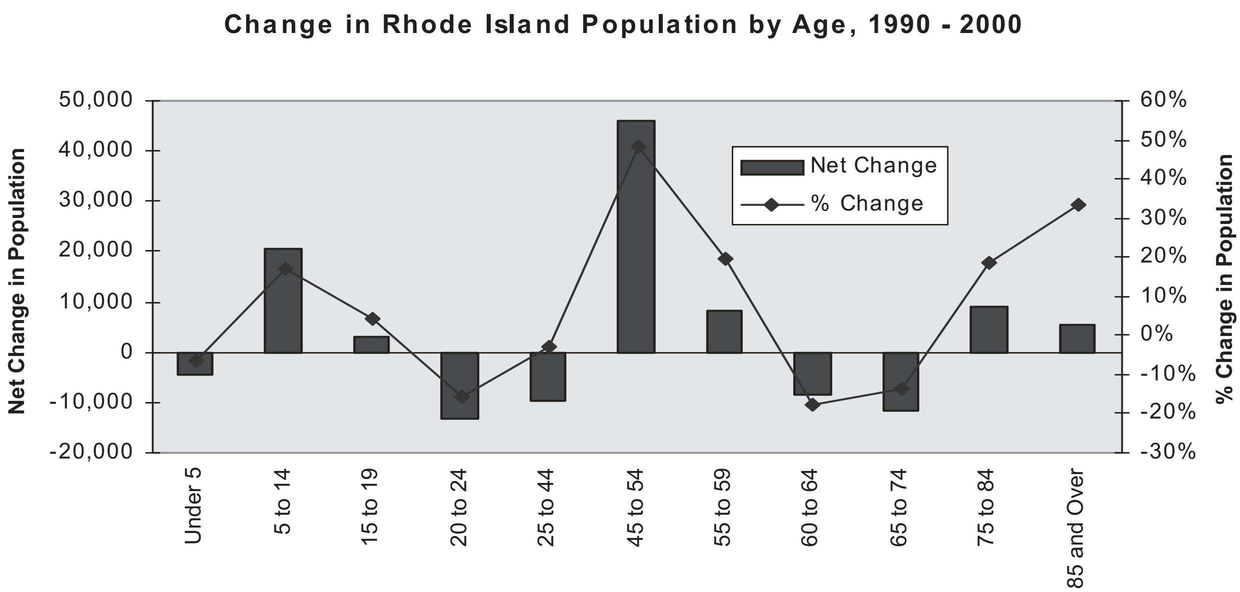
	Rhode Island		New England		United States	
Year	**Total**	**% Change**	**Total**	**% Change**	**Total**	**% Change**
1994	1,016	-	13,396	-	263,126	-
1995	1,017	0.1%	13,473	0.6%	266,278	1.2%
1996	1,021	0.4%	13,555	0.6%	269,394	1.2%
1997	1,025	0.4%	13,642	0.6%	272,647	1.2%
1998	1,031	0.6%	13,734	0.7%	275,854	1.2%
1999	1,040	0.9%	13,838	0.8%	279,040	1.2%
2000	1,048	0.8%	13,923	0.6%	281,422	0.9%
2001	1,058	0.9%	14,047	0.9%	285,040	1.3%
2002	1,066	0.7%	14,127	0.6%	287,727	0.9%
2003	1,071	0.5%	14,181	0.4%	290,211	0.9%
2004	1,071	0.0%	14,202	0.1%	292,892	0.9%
2005	1,064	-0.6%	14,208	0.0%	295,561	0.9%
2006	1,059	-0.5%	14,233	0.2%	298,363	0.9%
2007	1,053	-0.6%	14,259	0.2%	301,290	1.0%
2008	1,051	-0.2%	14,304	0.3%	304,060	0.9%

U.S. Census Bureau
U.S. Department of Commerce

The chart below displays the growth rate changes shown in the table above. Note the volatility in the population growth rate for Rhode Island as compared to the New England region and the United States.



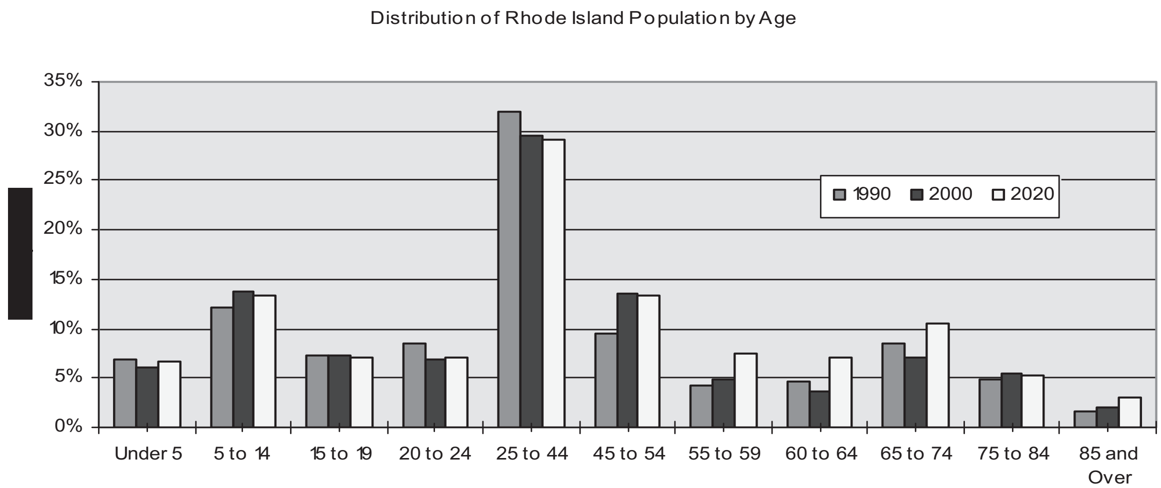
The following chart shows the net change in Rhode Island's population between 1990 and 2000 by age group. Note that, like the rest of the country, Rhode Island has seen a sharp change in the age distribution of its population in accordance with the chronological advancement of the "baby boom" generation. The upswing in Rhode Islanders in the "5 to 14" age group is a reflection of the "baby boom echo" generation.



Rhode Island Economic Development Corporation. Research Division.

The U.S. Census Bureau projects that as the "baby boom" generation continues to age, the state should see a sizeable increase in its middle aged to older population (i.e., 45 to 64). In addition, the state should experience a decline in its young adult population (i.e., 20 to 44) and stability in its youth population (i.e., under 5 to 19).

The chart below shows the projected graying of the Rhode Island population in 2015. In 2015, Rhode Island's population is projected to be distributed more heavily in the "45 – 54" age group. At the same time, the percentage of people in the "15 – 44" age group declines. In addition, the percentage of the population 85 and over is expected to rise. The median age for Rhode Islanders in 1990 was 33.8 years and rose to 36.7 years in 2000. By 2015, the median age for Rhode Islanders is projected to rise to 38.2.



U.S. Census Bureau

Personal Income, Consumer Prices, and Poverty

Personal Income. The table below shows nominal and real per capita personal income for Rhode Island, New England, and the United States. Rhode Island's per capita nominal personal income exceeded that of the United States from 2001 to 2008. Over this period, Rhode Island per capita nominal personal income averaged $936 more than United States per capita nominal personal income. From 1998 to 2000 this relationship was reversed with United States per capita nominal personal income exceeding that of Rhode Island by an average of $442. Note that Rhode Island per capita nominal personal income has trailed that of the New England region throughout the entire period 1994 – 2008 by an average of $5,651. In fact, the gap between Rhode Island per capita nominal personal income and New England per capita nominal personal income has grown sharply over this time period peaking at $7,707 in 2008. Since 1994, the gap in nominal per capita personal income between Rhode Island and New England as a whole has more than doubled, increasing by 114.7 percent.

From 1994 to 1998, the relationship between per capita real income growth in Rhode Island alternately trailed and exceeded that of the United States. From 1998 – 2000, Rhode Island per capita real income growth once again trailed that of the United States. However, from 2001 – 2003, this pattern reversed itself again with Rhode Island real personal income per capita growth exceeding that of the United States. For the 2004 to 2006 period, United States real per capita income growth once again exceeded that of Rhode Island. The growth rate in real per capita personal income in the United States and Rhode Island converged in 2008. With respect to New England, Rhode Island per capita real income growth has generally lagged that of the region. Over the fifteen year period from 1994 to 2008, Rhode Island per capita real income growth has exceeded that of New England as a whole on four occasions, 1995 and 2001 – 2003.

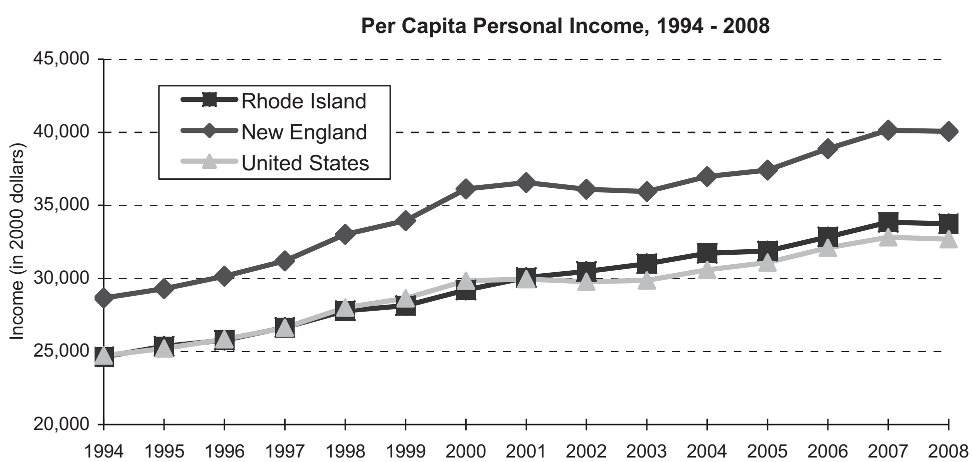
Per Capita Personal Income, 1994 - 2008

	Nominal Income (in current dollars)				Real Income (in 2000 dollars)			Percentage Change in Real Income		
Year	**R.I.**	**N.E.**	**U.S.**	**2000 Deflator**	**R.I.**	**N.E.**	**U.S.**	**R.I.**	**N.E.**	**U.S.**
1994	22,097	25,687	22,172	**89.65%**	24,647	28,651	24,731	-	-	-
1995	23,225	26,832	23,076	**91.58%**	25,361	29,300	25,199	2.9%	2.3%	1.9%
1996	24,106	28,194	24,175	**93.55%**	25,769	30,139	25,843	1.6%	2.9%	2.6%
1997	25,341	29,687	25,334	**95.12%**	26,640	31,209	26,633	3.4%	3.5%	3.1%
1998	26,670	31,677	26,883	**95.98%**	27,787	33,004	28,009	4.3%	5.8%	5.2%
1999	27,459	33,126	27,939	**97.58%**	28,141	33,949	28,633	1.3%	2.9%	2.2%
2000	29,215	36,120	29,847	**100.00%**	29,215	36,120	29,847	3.8%	6.4%	4.2%
2001	30,696	37,332	30,582	**102.09%**	30,066	36,566	29,955	2.9%	1.2%	0.4%
2002	31,555	37,378	30,838	**103.54%**	30,476	36,099	29,783	1.4%	-1.3%	-0.6%
2003	32,737	37,966	31,530	**105.60%**	31,002	35,954	29,859	1.7%	-0.4%	0.3%
2004	34,375	40,081	33,157	**108.39%**	31,714	36,978	30,590	2.3%	2.8%	2.4%
2005	35,575	41,736	34,690	**111.58%**	31,883	37,404	31,090	0.5%	1.2%	1.6%
2006	37,669	44,574	36,794	**114.68%**	32,848	38,870	32,085	3.0%	3.9%	3.2%
2007	39,829	47,221	38,615	**117.66%**	33,851	40,134	32,819	3.1%	3.3%	2.3%
2008	41,008	48,715	39,751	**121.59%**	33,727	40,066	32,693	-0.4%	-0.2%	-0.4%

Bureau of Economic Analysis
U.S. Department of Commerce

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

The chart below shows real per capita personal income in Rhode Island, New England and the United States since 1994. As is clear from the graph, Rhode Island real per capita personal income tracks closely with that of the United States until 2002 when Rhode Island real per capita income exceeded that of the United States, a gap that has grown over the 2003 – 2008 period. Rhode Island real per capita personal income has consistently lagged that of the New England region for the entire 1994 – 2008 period.



Average Annual Pay. Although the growth in Rhode Island per capita personal income has fluctuated, annual pay has grown steadily in Rhode Island over the past fourteen years. Average annual pay is computed by dividing total annual payrolls of employees covered by unemployment insurance programs by the average monthly number of these employees. Although average annual pay has increased consistently for the last fourteen years, the ratio of pay levels in Rhode Island to the United States has been on a downward trend since 2003. In 1993, 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, $36,415 for Rhode Island versus $37,765 for the United States as a whole. In 2004, 2005, 2006 and 2007 average annual pay in Rhode Island again fell as a percentage of average annual pay in the U.S. The relationship between Rhode Island and U.S. average annual pay is shown in the table below.

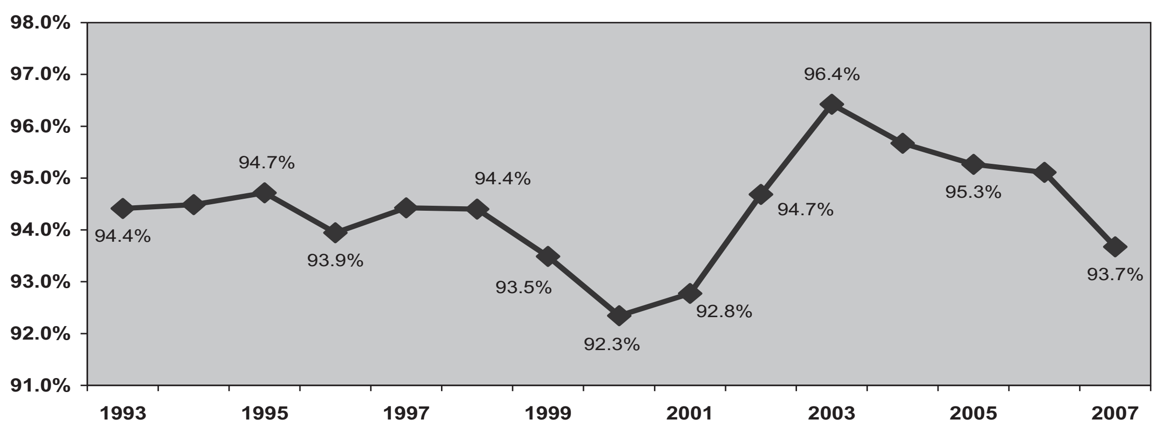
Average Annual Pay, 1993 - 2007
(in current dollars)

	Annual Pay		Ratio	Percentage Change	
Year	**R.I.**	**U.S.**	**R.I. / U.S.**	**R.I.**	**U.S.**
1993	24,889	26,361	94.4%	-	-
1994	25,454	26,939	94.5%	2.3%	2.2%
1995	26,375	27,846	94.7%	3.6%	3.4%
1996	27,194	28,946	93.9%	3.1%	4.0%
1997	28,662	30,353	94.4%	5.4%	4.9%
1998	30,156	31,945	94.4%	5.2%	5.2%
1999	31,169	33,340	93.5%	3.4%	4.4%
2000	32,615	35,320	92.3%	4.6%	5.9%
2001	33,603	36,219	92.8%	3.0%	2.5%
2002	34,810	36,764	94.7%	3.6%	1.5%
2003	36,415	37,765	96.4%	4.6%	2.7%
2004	37,651	39,354	95.7%	3.4%	4.2%
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%

Bureau of Labor Statistics
U.S. Department of Labor

The chart below plots the ratio of Rhode Island average annual wages to U.S. average annual wages over the 1993 – 2007 period.

Ratio of Rhode Island Average Annual Wages / U.S. Average Annual Wages
1993 - 2007



Consumer Prices. The following table presents consumer price index trends for the Northeast region and the United States for the period between 1994 and 2008. 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 1994 to 2008, the consumer price inflation in the Northeast consistently exceeded that for the United States. During this period, the percent change in consumer price inflation in the Northeast region has been less than for the United States in each of the following years 1995, 1996, 1998, 1999 and 2007. In 2000 and 2001 the consumer price inflation rate in the Northeast region was equal to that of the United States. In 2002 - 2006, the consumer price inflation rate in the Northeast region has exceeded that of the United States by 0.5 percent, 0.5 percent, 0.8 percent, 0.2 percent, and 0.4 percent respectively. For 2008 the rate was 0.2 percent above the United States.

Consumer Price Index for All Urban Consumers (CPI-U), 1994 - 2008

	CPI-U		Ratio	Pct. Change	
Year	**Northeast**	**U.S.**	**Northeast/U.S.**	**Northeast**	**U.S.**
1994	155.1	148.2	104.7%	-	-
1995	159.1	152.4	104.4%	2.6%	2.8%
1996	163.6	156.9	104.3%	2.8%	3.0%
1997	167.6	160.5	104.4%	2.4%	2.3%
1998	170.0	163.0	104.3%	1.4%	1.6%
1999	173.5	166.6	104.1%	2.1%	2.2%
2000	179.4	172.2	104.2%	3.4%	3.4%
2001	184.4	177.1	104.1%	2.8%	2.8%
2002	188.2	179.9	104.6%	2.1%	1.6%
2003	193.5	184.0	105.2%	2.8%	2.3%
2004	200.2	188.9	106.0%	3.5%	2.7%
2005	207.5	195.3	106.2%	3.6%	3.4%
2006	215.0	201.6	106.6%	3.6%	3.2%
2007	220.5	207.3	106.4%	2.6%	2.8%
2008	229.3	215.3	106.5%	4.0%	3.8%

Bureau of Labor Statistics
U.S. Department of Labor

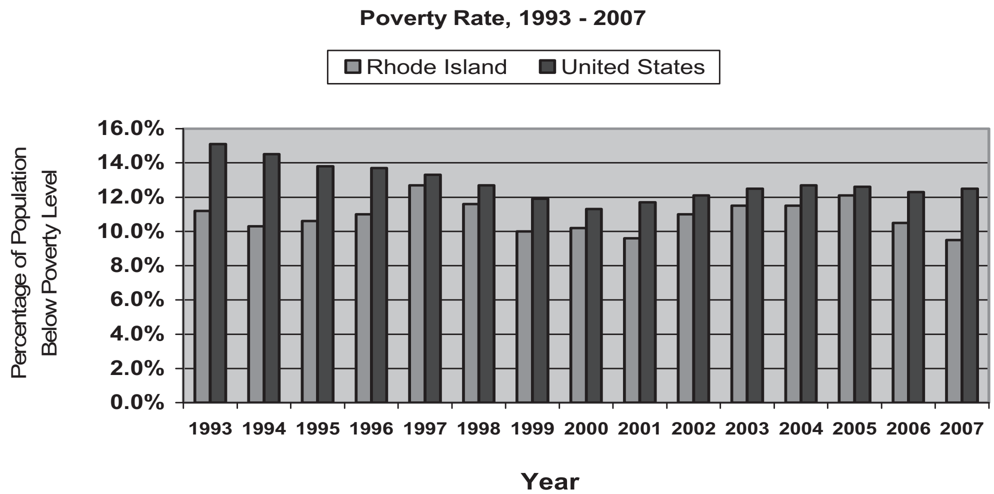
Poverty. From 1993 – 2007 the Rhode Island poverty rate has been below the poverty rate for the United States as a whole. The poverty rate is measured as the percent of a region's population that lives below the federal poverty level as determined by the U.S. Census Bureau. Between 1993 and 2007, the percentage of the Rhode Island population below the federal poverty line has varied from a low of 9.5 percent in 2007 to a high of 12.7 percent in 1997. During the same time period, the national poverty rate varied from a low of 11.3 percent in 2000 to a high of 15.1 percent in 1993. Interestingly, in the 2002, 2003 and 2005 periods, although Rhode Island's poverty rate has remained below that of the United States, the percentage change in Rhode Island's poverty rate has exceeded the percentage change in that of the U.S. These official poverty statistics are not adjusted for regional differences in the cost of living. The table below portrays the lower poverty rates in Rhode Island compared with the national average from 1993 through 2007.

Poverty Rate, 1993 - 2007

			Ratio	Percentage Change	
Year	**R.I.**	**U.S.**	**R.I./U.S.**	**R.I.**	**U.S.**
1993	11.2	15.1	74.2%	-	-
1994	10.3	14.5	71.0%	-8.0%	-4.0%
1995	10.6	13.8	76.8%	2.9%	-4.8%
1996	11.0	13.7	80.3%	3.8%	-0.7%
1997	12.7	13.3	95.5%	15.5%	-2.9%
1998	11.6	12.7	91.3%	-8.7%	-4.5%
1999	10.0	11.9	84.0%	-13.8%	-6.3%
2000	10.2	11.3	90.3%	2.0%	-5.0%
2001	9.6	11.7	82.1%	-5.9%	3.5%
2002	11.0	12.1	90.9%	14.6%	3.4%
2003	11.5	12.5	92.0%	4.5%	3.3%
2004	11.5	12.7	90.6%	0.0%	1.6%
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%

U.S. Census Bureau

The bar chart below plots the data from the above table and demonstrates the poverty level of Rhode Island and the United States from 1993 – 2007. It also illustrates the downward trend in the United States poverty rate over the course of the 1990s.



Employment

The table below shows Rhode Island Nonfarm Employment for the 1994 to 2008 period. The table reflects the new North American Industrial Classification System (NAICS) composition of employment.

Rhode Island Nonfarm Employment by Industry, 1994 - 2008

	Construction, Natural Resources & Mining		Manufacturing		Trade, Transportation & Utilities		Information, Financial Activities, & Business Services		Educational & Health Services		Leisure, Hospitality & Other Services		Government		Total Nonfarm Employment	
Year	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change
1994	13,300	-	82,600	-	72,400	-	76,200	-	75,000	-	53,100	-	61,700	-	**434,200**	**-**
1995	13,600	2.3%	80,300	-2.8%	75,600	4.4%	77,600	1.8%	77,200	2.9%	54,600	2.8%	61,300	-0.6%	**440,100**	**1.4%**
1996	14,200	4.4%	77,400	-3.6%	73,600	-2.6%	78,300	0.9%	79,200	2.6%	57,700	5.7%	61,300	0.0%	**441,600**	**0.3%**
1997	14,800	4.2%	76,200	-1.6%	72,900	-1.0%	82,500	5.4%	80,700	1.9%	59,600	3.3%	63,200	3.1%	**450,000**	**1.9%**
1998	16,200	9.5%	74,900	-1.7%	74,700	2.5%	86,800	5.2%	81,600	1.1%	61,000	2.3%	62,900	-0.5%	**458,000**	**1.8%**
1999	18,000	11.1%	72,200	-3.6%	75,700	1.3%	90,000	3.7%	82,300	0.9%	64,000	4.9%	63,400	0.8%	**465,500**	**1.6%**
2000	18,400	2.2%	71,200	-1.4%	79,600	5.2%	92,900	3.2%	83,200	1.1%	67,100	4.8%	64,400	1.6%	**476,700**	**2.4%**
2001	19,200	4.3%	67,800	-4.8%	79,300	-0.4%	94,000	1.2%	84,900	2.0%	68,000	1.3%	65,200	1.2%	**478,400**	**0.4%**
2002	19,600	2.1%	62,300	-8.1%	80,500	1.5%	93,000	-1.1%	88,000	3.7%	70,000	2.9%	66,100	1.4%	**479,400**	**0.2%**
2003	21,000	7.1%	58,700	-5.8%	80,800	0.4%	94,700	1.8%	91,000	3.4%	72,000	2.9%	66,200	0.2%	**484,300**	**1.0%**
2004	21,000	0.0%	56,900	-3.1%	80,000	-1.0%	98,700	4.2%	92,900	2.1%	73,100	1.5%	65,800	-0.6%	**488,400**	**0.8%**
2005	22,100	5.2%	54,900	-3.5%	80,100	0.1%	100,200	1.5%	95,300	2.6%	73,500	0.5%	64,900	-1.4%	**491,000**	**0.5%**
2006	23,300	5.4%	52,700	-4.0%	79,800	-0.4%	102,700	2.5%	97,000	1.8%	73,200	-0.4%	64,800	-0.2%	**493,400**	**0.5%**
2007	24,400	4.7%	51,000	-3.2%	80,000	0.3%	105,600	2.8%	98,600	1.6%	74,300	1.5%	64,400	-0.6%	**498,400**	**1.0%**
2008	20,600	-15.6%	48,000	-5.9%	77,300	-3.4%	98,800	-6.4%	99,900	1.3%	73,700	-0.8%	63,500	-1.4%	**481,700**	**-3.4%**

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

As is evident from the table, between 1994 and 2008, total nonfarm employment in Rhode Island increased by 10.9 percent. During this time all sectors experienced overall increases, with the exception of Manufacturing, which declined by 41.9 percent. Employment growth slowed in 1996 to a 0.3 percent rate and then rebounded sharply over the 1997 to 2000 period during which time Rhode Island total nonfarm employment growth averaged 1.9

percent. In 2001, Rhode Island employment growth moderated to a rate of 0.4 percent with the onset of a national recession in March 2001. In 2002, it weakened further to a rate of 0.2 percent as the "jobless" recovery commenced in early 2002. In 2003, Rhode Island employment growth moved sharply upward to a rate of 1.0 percent then began increasing at decreasing rates of 0.8 percent, 0.5 percent and 0.5 percent for 2004, 2005, and 2006 respectively, before moving higher in 2007. The first decline in nonfarm employment over this period came in 2008 with a drop of 3.4 percent.

Non-farm Employment by Industry. The following table summarizes the changes in Rhode Island employment by sector from 1998 to 2008. Total nonfarm employment increased by 5.2 percent during this period, and the composition of this total employment changed markedly. As is evident from the table, manufacturing employment decreased by 35.9 percent during this time period. Meanwhile, average employment growth for all other sectors, excluding government, increased 15.4 percent. The biggest gaining sector during this period was Construction, Natural Resources and Mining, which grew by 27.2 percent. Clearly, the Rhode Island economy underwent a significant restructuring during the 1998 to 2008 period, transforming from a manufacturing based economy to service based economy.

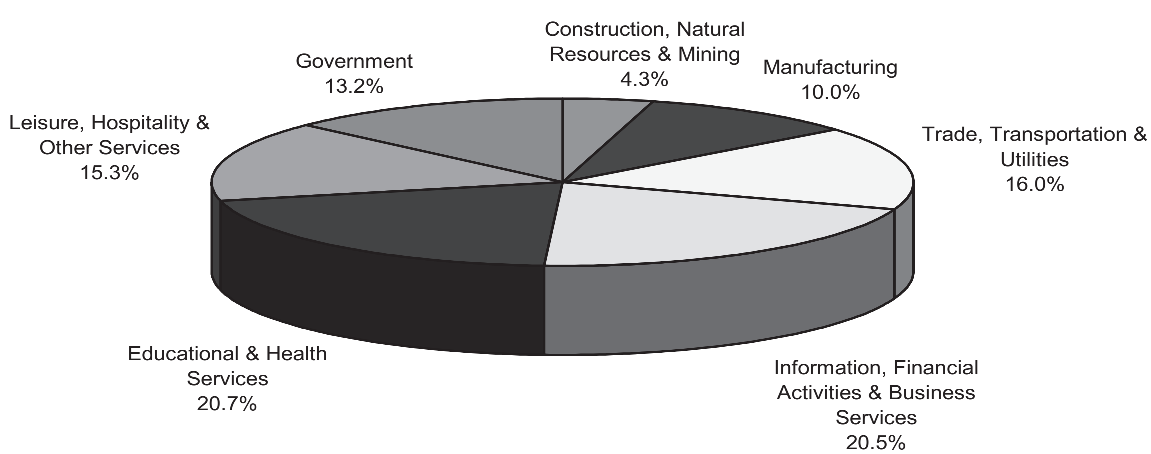
Rhode Island Nonfarm Employment by Industry, 1998 & 2008

Employment Sector	1998	% of Total	2008	% of Total	% Change 1998-2008
Construction, Natural Resources & Mining	16,200	3.5%	20,600	4.3%	27.2%
Manufacturing	74,900	16.4%	48,000	10.0%	-35.9%
Trade, Transportation & Utilities	74,700	16.3%	77,300	16.0%	3.5%
Information, Financial Activities & Business Services	86,800	19.0%	98,800	20.5%	13.8%
Educational & Health Services	81,600	17.8%	99,900	20.7%	22.4%
Leisure, Hospitality & Other Services	61,000	13.3%	73,700	15.3%	20.8%
Government	62,900	13.7%	63,500	13.2%	1.0%
Total Employment	458,000	100.0%	481,700	100.0%	5.2%

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

The pie chart illustrates the composition of Rhode Island employment after the restructuring of the State's economy during the 1990s. The Educational and Health Services sector, with 20.7 percent of the nonfarm work force in 2008, is the largest employment sector in the Rhode Island economy, followed by Information, Financial Activities and Business Services (20.5 percent), Trade, Transportation and Utilities (16.0 percent), and Leisure, Hospitality and Other Services employment (15.3 percent).

Rhode Island Nonfarm Employment by Industry, 2008



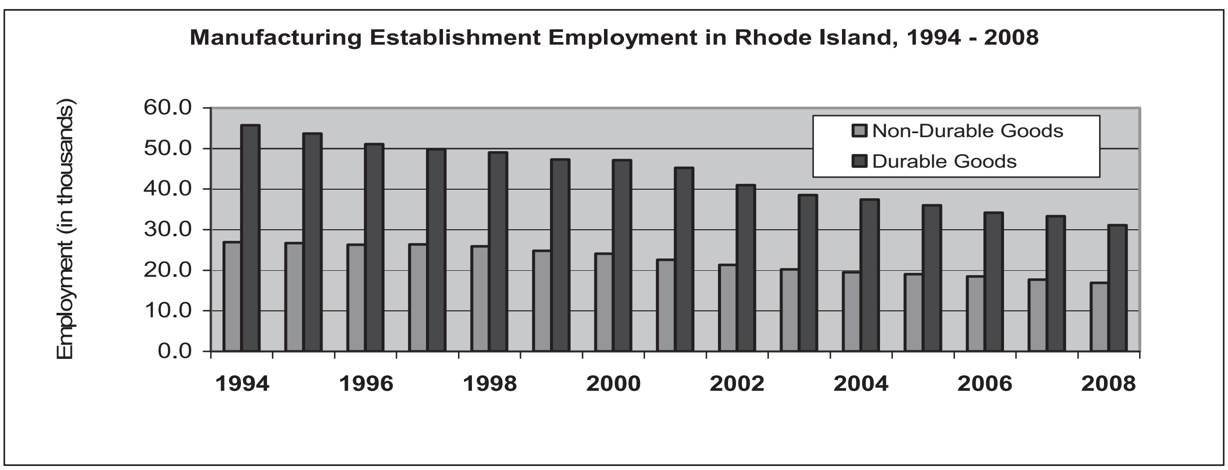
Manufacturing Employment. Like many industrial states, Rhode Island has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined in every year between 1994 and 2008, falling by 41.9 percent over this period. The rate of decline in manufacturing employment began to slow with the onset of the "Y2K expansion" that took hold in 1997. From 1997 to 2000, the decline in manufacturing employment was less than 2.0 percent per year with the exception of 1999. By 2000, this rate of decline had slowed to 1.4 percent. With the national economy slipping into recession in March 2001, the rate of decline in manufacturing employment accelerated to 4.8 percent in 2001. This rate of decline accelerated further in 2002 to 8.1 percent. Since that time, the rate of decline has again decelerated to 3.1 percent in 2004, 3.5 percent in 2005, 4.0 percent in 2006 and 3.2 percent in 2007. However, consistent with the overall contraction in the national economy, the rate of decline increased to 5.9 percent in 2008.

Manufacturing Establishment Employment in Rhode Island, 1994 - 2008
(In Thousands)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Non-Durable Goods	26.9	26.7	26.3	26.4	25.9	24.8	24.1	22.6	21.3	20.2	19.5	19.0	18.5	17.7	16.9
Percentage Change	-	-0.7%	-1.5%	0.4%	-1.9%	-4.2%	-2.8%	-6.2%	-5.8%	-5.2%	-3.5%	-2.6%	-2.6%	-4.3%	-4.5%
Durable Goods	55.7	53.7	51.1	49.8	49.0	47.3	47.1	45.2	41.0	38.5	37.4	36.0	34.2	33.3	31.1
Percentage Change	-	-3.6%	-4.8%	-2.5%	-1.6%	-3.5%	-0.4%	-4.0%	-9.3%	-6.1%	-2.9%	-3.7%	-5.0%	-2.6%	-6.6%
Total Manufacturing Employment	82.6	80.3	77.4	76.2	74.9	72.2	71.2	67.8	62.3	58.7	56.9	54.9	52.7	51.0	48.0
Percentage Change	-	-2.8%	-3.6%	-1.6%	-1.7%	-3.6%	-1.4%	-4.8%	-8.1%	-5.8%	-3.1%	-3.5%	-4.0%	-3.2%	-5.9%

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

Employment in the manufacture of non-durable goods declined in every year since 1994 with the exception of 1997 when it grew at a rate of 0.4 percent. Despite a decline in employment, the manufacturing sector continues to be a significant component in Gross State Product, as evidenced by its production in terms of dollars. (See "Economic Base and Performance" below.)



Largest Employers in Rhode Island. The following table lists, in descending order by employment, the 50 largest employers in Rhode Island for 2008. Together, the top 100 employ an estimated 156,000 persons, which is one-third of total nonfarm wage and salary employment in the State, excluding municipal employment.

Rhode Island's Largest Employers
December 2008

Employed	Employer	Industry
15,978	State of Rhode Island - *FY 2008 FTEs excluding URI, RIC, and CCRI*	Government
11,772	Lifespan	Health Care and Social Assistance
9,700	U.S. Government (excluding military)	Government
6,200	Roman Catholic Diocese of Providence	Other
6,193	Care New England	Health Care and Social Assistance
5,954	CVS Caremark Corporation	Retail Trade
5,500	Citizens Financial Group, Inc.	Finance and Insurance
4,877	Brown University	Educational Services
4,385	Stop & Shop Supermarket Co., Inc. (Royal Ahold)	Retail Trade
4,000	Bank of America	Finance and Insurance
2,851	Rhode Island Association for Retarded Citizens (ARC)	Health Care and Social Assistance
2,545	University of Rhode Island	Educational Services
2,300	Fidelity Investments	Finance and Insurance
2,143	General Dynamics Corp.	Manufacturing
2,084	WAL-Mart	Retail Trade
2,079	St. Joseph Health Services of Rhode Island	Health Care and Social Assistance
2,056	MetLife Insurance Co.	Finance and Insurance
2,050	The Jan Companies	Other
1,920	Shaw's Supermarkets (Supervalu, Inc.)	Retail Trade
1,780	The Home Depot, Inc.	Retail Trade
1,672	Raytheon	Manufacturing
1,488	Memorial Hospital of Rhode Island	Health Care and Social Assistance
1,470	Roger Williams Medical Center	Health Care and Social Assistance
1,452	Roger Williams University	Educational Services
1,282	Amica Life Insurance Company	Finance and Insurance
1,270	Johnson & Wales University	Educational Services
1,260	Cox Communications, Inc.	Information
1,228	Rite Aid Pharmacy	Retail Trade
1,205	Verizon Communications	Information
1,200	Amgen, Inc.	Manufacturing
1,198	Landmark Health Systems	Health Care and Social Assistance
1,167	Securitas AB	Administrative and Waste Services
1,144	American Power Conversion Corporation	Manufacturing
1,143	Blue Cross & Blue Shield of R.I.	Finance and Insurance
1,100	U.S. Security Associates, Inc.	Administrative and Waste Services
1,089	McDonald's	Other
1,080	AAA Southern New England	Administrative and Waste Services
1,074	GTECH Corporation	Information
1,050	National Grid	Utilities
1,015	South County Hospital	Health Care and Social Assistance
1,000	Hasbro, Inc.	Manufacturing
1,000	Sovereign Bank	Finance and Insurance
1,000	United Parcel Service, Inc.	Transportation and Warehousing
990	Chelo's Restaurants Corporate Offices	Other
950	Veterans' Administration Medical Center	Health Care and Social Assistance
936	Rhode Island College	Educational Services
930	Providence College	Educational Services
925	Newport Harbor Corporation	Other
912	Rhode Island School of Design	Educational Services
900	Twin River (BLB Investors)	Other

R.I. Economic Development Corporation, Research Division.

Unemployment. From 1994 to 1995, the Rhode Island unemployment rate was higher than the national unemployment rate. This pattern remained until 1996 when once again the unemployment rate in Rhode Island was less than that for the United States. From 1996 to 2001, Rhode Island's unemployment rate tracked closely with that of the United States. In 2002, the United States unemployment rate again rose above Rhode Island's. The following table compares the annual civilian labor force, the number unemployed, and the unemployment rate averages of Rhode Island, New England, and the United States between 1994 and 2008.

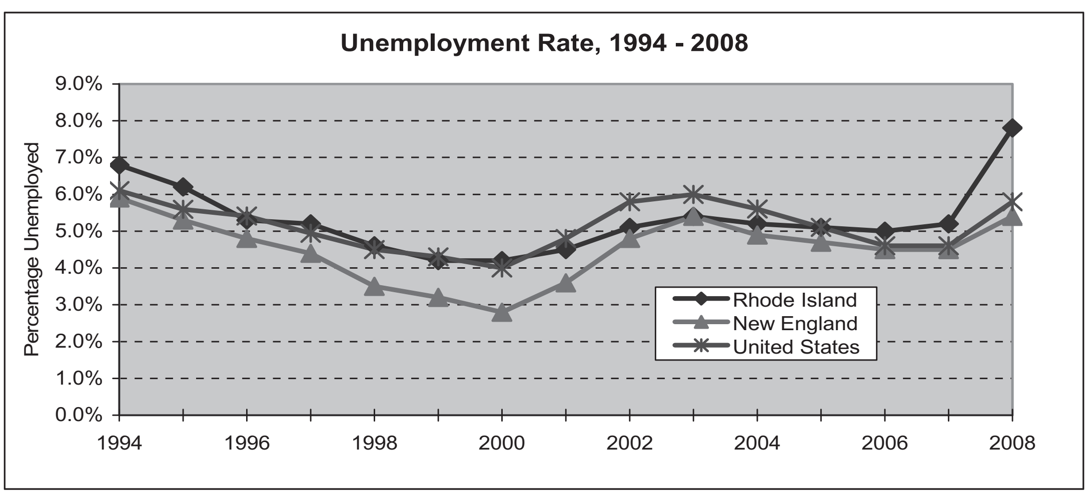
Annual Average Civilian Labor Force and Unemployment, 1994 - 2008
(in thousands)

	Civilian Labor Force			Unemployed			Unemployment Rate			R.I. Rate as a %
Year	**R.I.**	**N.E.**	**U.S.**	**R.I.**	**N.E.**	**U.S.**	**R.I.**	**N.E.**	**U.S.**	**of U.S.**
1994	516	7,041	131,056	35	415	7,976	6.8%	5.9%	6.1%	111.5%
1995	509	7,053	132,304	31	375	7,407	6.2%	5.3%	5.6%	110.9%
1996	517	7,118	133,943	28	340	7,231	5.3%	4.8%	5.4%	98.0%
1997	532	7,228	136,297	28	315	6,729	5.2%	4.4%	4.9%	105.2%
1998	534	7,257	137,673	24	253	6,204	4.6%	3.5%	4.5%	102.2%
1999	541	7,327	139,368	23	234	5,879	4.2%	3.2%	4.3%	97.7%
2000	543	7,348	142,583	23	204	5,685	4.2%	2.8%	4.0%	105.0%
2001	545	7,424	143,734	25	266	6,830	4.5%	3.6%	4.8%	93.8%
2002	554	7,496	144,863	28	363	8,376	5.1%	4.8%	5.8%	87.9%
2003	564	7,508	146,510	30	407	8,771	5.4%	5.4%	6.0%	90.0%
2004(d)	555	7,476	147,401	29	366	8,140	5.2%	4.9%	5.6%	92.9%
2005(d)	562	7,515	149,320	28	353	7,579	5.1%	4.7%	5.1%	100.0%
2006(d)	571	7,598	151,428	29	343	6,993	5.0%	4.5%	4.6%	108.7%
2007(d)	572	7,633	153,124	30	340	7,077	5.2%	4.5%	4.6%	113.0%
2008(d)	568	7,669	154,287	44	415	8,961	7.8%	5.4%	5.8%	134.5%

Bureau of Labor Statistics
U.S. Department of Labor
(d) Reflects revised population controls and model reestimation.

In April 2009, the State's unemployment rate was 11.1%, 125% of the U.S. unemployment rate of 8.9%.

The chart below graphs the unemployment rates for Rhode Island, New England, and the United States over the 1994 - 2008 period. This graph portrays Rhode Island's laggard status with respect to New England as a whole. This relationship between the Rhode Island unemployment rate and that for the New England region has been consistent over an extended period of time.



Unemployment Compensation Trust Fund. The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide benefits for eligible individuals when they are unemployed through no fault of their own. Benefits are paid from the Rhode Island Unemployment Compensation Trust Fund and financed through employer contributions.

Economic Base and Performance

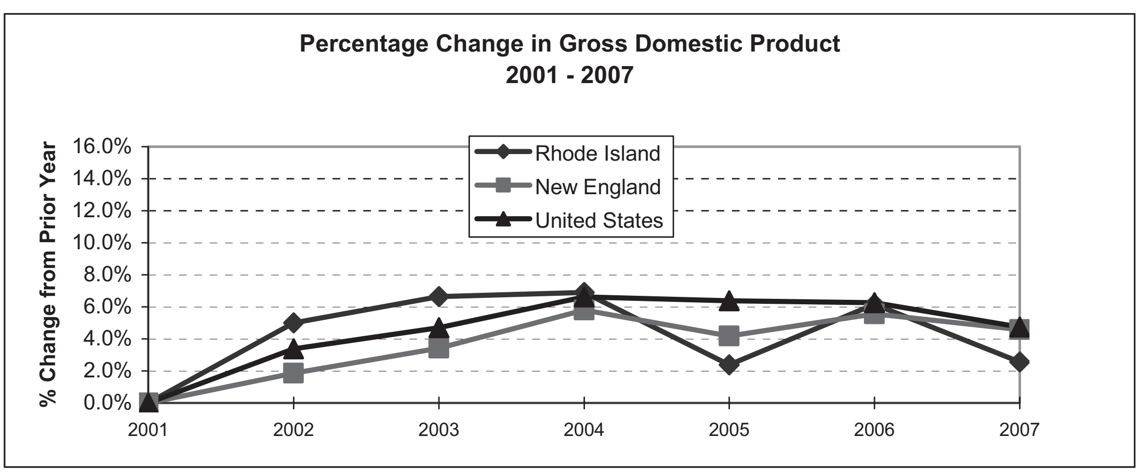
From 2002 – 2004, growth in Rhode Island Gross Domestic Product (GDP) was greater than GDP growth in the United States. For 2005 - 2007 Rhode Island GDP growth fell behind that of the United States. During the 2001 – 2004 period, Rhode Island GDP growth exceeded that of New England as well. In 2005, both United States GDP growth and New England GDP growth overtook that of Rhode Island for the first time in four years. The table below gives the Gross Domestic Product and the annual growth rates for Rhode Island, New England, and the United States over the 2001 – 2007 period.

Gross Domestic Product, 2001 - 2007
(millions of current dollars)

	Rhode Island		New England		United States	
Year	**GDP**	**Change**	**GDP**	**Change**	**GDP**	**Change**
2001	35,149	-	580,920	-	10,058,168	-
2002	36,909	5.0%	591,733	1.9%	10,398,402	3.4%
2003	39,357	6.6%	612,006	3.4%	10,886,172	4.7%
2004	42,073	6.9%	647,473	5.8%	11,607,041	6.6%
2005	43,078	2.4%	674,562	4.2%	12,346,871	6.4%
2006	45,733	6.2%	712,051	5.6%	13,119,938	6.3%
2007	46,900	2.6%	744,672	4.6%	13,743,021	4.7%

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

The graph below plots the percentage change in GDP for Rhode Island, New England, and the United States over the 2001 - 2007 period. It demonstrates that from 2001 to 2004, Rhode Island's GDP continued to rise at a faster pace than the nation and the region. The upswing in the growth of Rhode Island's GDP has been attributed in part to large gains in productivity of the state's labor force. Some of this productivity gain has been the result of the restructuring of the state's economy away from low value-added manufacturing to higher value-added services, such as those associated with the Finance, Insurance and Real Estate sector.



Economic Base and Performance -- Sector Detail. The economy of Rhode Island is well diversified. The table below shows the contribution to the Rhode Island Gross Domestic Product (GDP) of several industrial and non-industrial sectors. As is apparent, Rhode Island has experienced positive growth in all sectors from 2001 to 2007.

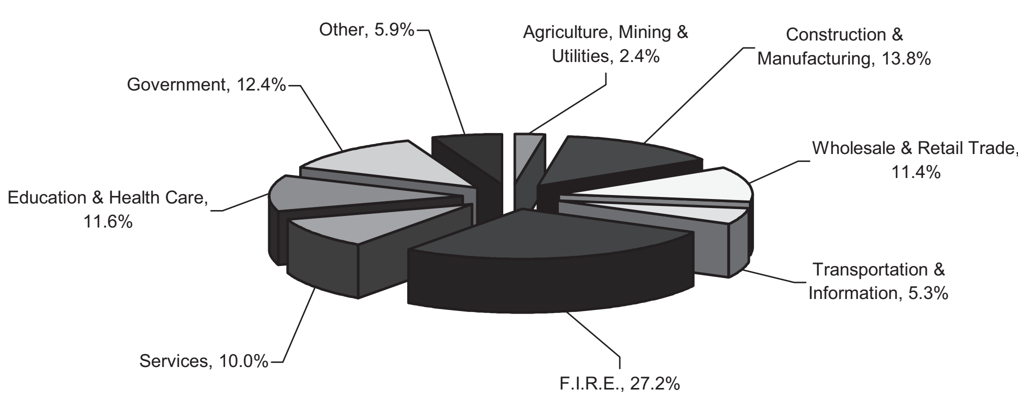
Gross Domestic Product by Industry in Rhode Island, 2001 - 2007
(millions of current dollars)

Industrial Sector	2001	2002	2003	2004	2005	2006	2007
Agriculture, forestry, fishing and hunting	85	83	88	94	86	93	97
Mining	16	19	20	29	28	28	33
Utilities	731	671	739	794	823	921	973
Construction	1,699	1,730	1,925	2,001	2,220	2,259	1,969
Manufacturing	3,928	4,126	3,806	4,320	3,876	4,305	4,479
Wholesale Trade	1,746	1,862	1,988	2,104	2,219	2,295	2,443
Retail Trade	2,254	2,472	2,613	2,692	2,740	2,729	2,915
Transportation and warehousing, excluding postal service	529	557	615	624	617	669	673
Information	1,301	1,355	1,483	1,675	1,787	1,802	1,809
Finance and insurance	4,773	4,804	5,075	5,434	5,219	5,758	5,697
Real estate, rental and leasing	4,741	5,000	5,553	6,043	6,375	6,726	7,073
Professional and technical services	1,831	1,859	1,948	2,119	2,226	2,548	2,469
Management of companies and enterprises	523	517	813	795	919	1,025	1,074
Administrative and waste services	833	831	885	974	1,052	1,100	1,151
Educational services	716	779	825	896	953	1,007	1,071
Health care and social assistance	3,061	3,397	3,618	3,829	3,993	4,192	4,373
Government	4,318	4,615	4,992	5,183	5,372	5,615	5,822
Other	2,064	2,232	2,371	2,467	2,573	2,661	2,779
Total GDP	**35,149**	**36,909**	**39,357**	**42,073**	**43,078**	**45,733**	**46,900**

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

The pie chart below shows the share of total Rhode Island Gross Domestic Product in 2007 attributable to each of the industry sectors noted above.

GDP by Industry in Rhode Island, 2007



Finance, Insurance and Real Estate. This is the largest sector in the economy of Rhode Island in terms of number of dollars. F.I.R.E.'s contributed 27.2 percent of GDP in 2007. In 2007, F.I.R.E. accounted for $12.8 billion of total gross domestic product of $46.9 billion. For the period 2001 – 2007 this sector expanded by a respectable 34.2 percent.

Construction and Manufacturing. In 2007, Construction and Manufacturing was the second largest sector in Rhode Island at $6.4 billion, or 13.7 percent of the total Gross Domestic Product. This sector increased by 14.6

percent from the 2007 level although it decreased in percent contribution to GDP. In 2001, Construction and Manufacturing comprised a slightly larger piece of GDP at 16.0 percent of the total.

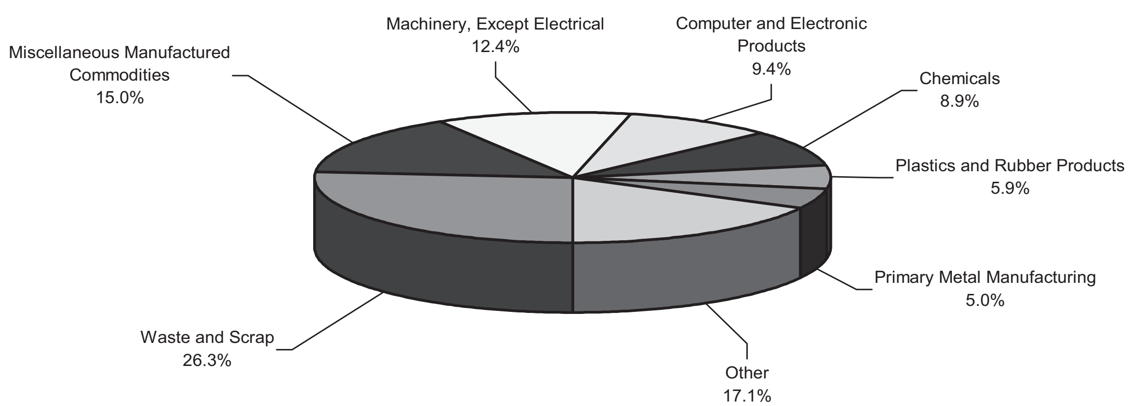
Government. At 12.4 percent of GDP in 2007, the Government sector has grown slowly and steadily since 2001. Yet, due to the gains in other sectors, particularly F.I.R.E., Government contributes slightly less as a percentage of GDP in 2007 than it did in 2001. In 2001, the Government sector accounted for 12.3 percent of GDP. The growth rate in 2002 was 6.9 percent, in 2003 it was 8.2 percent, in 2004 it was 3.8 percent, in 2005 it was 3.6 percent, in 2006 it was 4.5 percent and in 2007 it was 3.7 percent. In 2007, the Government sector contributed $5.8 billion to total gross state product.

Services. Services consists of professional and technical services, management services, administrative and waste services, educational, health care and social assistance, as well as other non-government services. Since 2001, Services have remained an integral sector accounting for 27.5 percent of Rhode Island's GDP in 2007. From 2001 to 2007, Services have grown by 43.1 percent, indicating the continuing shift from Rhode Island's traditional role as a manufacturing based economy to that of a service based economy.

International Trade and the Rhode Island Economy

Rhode Island products are exported throughout the United States and the world. The total value of all international shipments from Rhode Island in 2005 was $1.27 billion. This represented 3.1 percent of Rhode Island Gross Domestic Product of $42.1 billion. In 2008, Rhode Island's exports increased to $1.98 billion, an increase of 55.8 percent over 2005 levels.

Composition of Rhode Island Exports by Industry Group 2008



The most important exports, as shown in the pie chart above, were waste and scrap (26.3 percent), miscellaneous manufactured commodities (15.0 percent), machinery, except electrical (12.4 percent) and computer and electronic products (9.4 percent).

The table below provides greater detail of Rhode Island exports by industry (in thousands of dollars) for the 2005-2008 period.

Rhode Island Exports by Industry, 2005 - 2008
(in thousands of dollars)

	2005	2006	2007	2008
Total All Industries	1,268,455	1,531,603	1,648,710	1,976,689
Waste and Scrap	158,594	278,607	396,185	520,535
Miscellaneous Manufactured Commodities	208,989	222,223	201,929	296,299
Machinery, Except Electrical	134,567	173,097	179,062	245,289
Computer and Electronic Products	171,909	178,502	214,302	186,558
Chemicals	130,280	137,369	164,687	175,538
Plastics and Rubber Products	83,967	87,860	94,251	115,873
Primary Metal Manufacturing	84,087	129,864	87,626	98,760
Transportation Equipment	44,251	49,357	63,660	78,816
Electrical Equipment, Appliances and Component	56,286	68,517	72,611	76,427
Fabricated Metal Products, NESOI	45,061	55,571	48,610	48,158
Fish - Fresh, Chilled or Frozen & Other Marine Products	24,717	35,882	23,859	30,367
Textiles and Fabrics	35,917	29,286	26,724	25,592
Paper	16,457	17,948	15,866	16,064
Printing, Publishing and Similar Products	13,372	11,996	8,048	10,417
Nonmetallic Mineral Products	7,174	8,906	9,296	8,477
Food and Kindred Products	16,449	8,949	5,007	7,184
Apparel and Accessories	3,163	3,683	4,683	6,942
Furniture and Fixtures	5,611	4,773	5,900	6,845
Textile Mill Products	7,818	4,681	5,084	6,061
Special Classification Provisions, Nesoi	8,348	10,594	9,066	4,442
Leather and Allied Products	2,309	2,842	4,018	3,522
Used or Second-Hand Merchandise	827	3,894	1,335	2,783
Petroleum and Coal Products	1,332	644	914	1,378
Minerals and Ores	1,529	2,856	1,486	1,285
Wood Products	1,209	504	633	840
Agricultural Products	3,223	358	1,422	687
Livestock and Livestock Products	166	660	1,301	546
Goods Returned to Canada (Exports Only); U.S. Goods	164	836	381	503
Beverages and Tobacco Products	40	78	105	255
Prepackaged Software	233	556	91	184
Forestry Products, Nesoi	402	710	568	62
Oil and Gas	4	0	0	0

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

Housing

The following table shows the number of housing permits authorized on an annual basis in Rhode Island, New England, and the United States. In 1999 the number of housing permits authorized in Rhode Island increased by 22.5 percent. In 2008, the number of housing permits authorized decreased by 39.0 percent in Rhode Island, compared to a decrease of 34.1 percent for New England and a decrease of 36.7 percent for the United States.

Housing Permits Authorized, 1994 - 2008
(seasonally adjusted)

	Rhode Island		New England		United States	
Year	Total Permits	Percent Change	Total Permits	Percent Change	Total Permits	Percent Change
1994	2,504	-	40,807	-	1,367,000	-
1995	2,290	-8.5%	37,392	-8.4%	1,337,000	-2.2%
1996	2,360	3.1%	40,016	7.0%	1,420,000	6.2%
1997	2,721	15.3%	42,274	5.6%	1,442,000	1.5%
1998	2,651	-2.6%	47,906	13.3%	1,619,000	12.3%
1999	3,248	22.5%	47,381	-1.1%	1,662,000	2.7%
2000	2,651	-18.4%	43,751	-7.7%	1,600,000	-3.7%
2001	2,400	-9.5%	42,921	-1.9%	1,639,000	2.4%
2002	2,614	8.9%	47,309	10.2%	1,750,000	6.8%
2003	2,467	-5.6%	48,446	2.4%	1,889,000	7.9%
2004	2,504	1.5%	56,116	15.8%	2,058,000	8.9%
2005	2,911	16.3%	56,746	1.1%	2,162,000	5.1%
2006	2,267	-22.1%	48,198	-15.1%	1,846,000	-14.6%
2007	1,898	-16.3%	36,478	-24.3%	1,391,000	-24.6%
2008	1,158	-39.0%	24,035	-34.1%	881,000	-36.7%

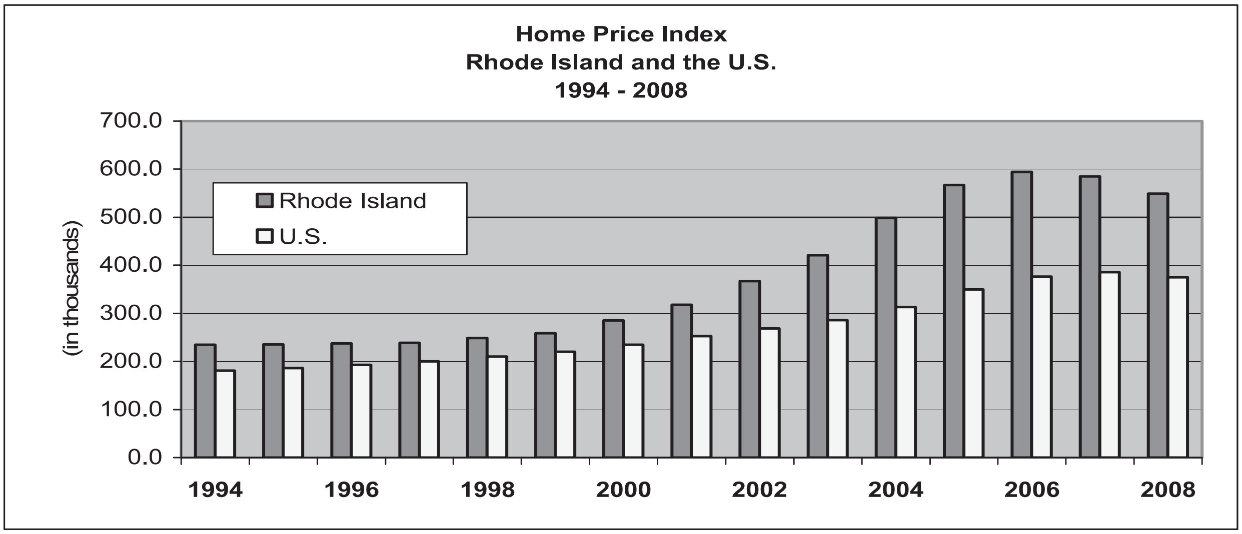
Federal Reserve Bank of Boston
U.S. Census Bureau

From 1994 – 1999 one of the strongest sectors of the state's economy had been housing. Over this period, existing home sales in Rhode Island grew at a minimum annual rate of 7.4 percent. In 1998 alone, they shot up 20.0 percent. Following this period of rapid growth, existing home sales decreased by 5.5 percent in 2000. Since then, existing home sales have been erratic. On a seasonally adjusted annual basis, existing home sales for Rhode Island, New England and the United States appear in the table below.

Existing Home Sales, 1994 - 2008
(seasonally adjusted at annual rates, in thousands)

	Rhode Island		New England		United States	
Year	Sales	Percent Change	Sales	Percent Change	Sales	Percent Change
1994	10.8	-	208.2	-	3,889.3	-
1995	11.6	7.4%	198.5	-4.7%	3,846.0	-1.1%
1996	12.8	10.3%	216.7	9.2%	4,162.8	8.2%
1997	14.0	9.4%	238.2	9.9%	4,364.3	4.8%
1998	16.8	20.0%	267.8	12.4%	4,962.8	13.7%
1999	18.1	7.7%	270.7	1.1%	5,171.7	4.2%
2000	17.1	-5.5%	259.3	-4.2%	5,187.5	0.3%
2001	18.1	5.8%	261.5	0.8%	5,326.7	2.7%
2002	17.2	-5.0%	279.0	6.7%	5,952.8	11.8%
2003	16.8	-2.3%	265.8	-4.7%	6,175.9	3.7%
2004	19.0	13.1%	307.4	15.7%	6,721.7	8.8%
2005	19.8	4.2%	-	-	7,064.0	5.1%
2006	18.5	-6.6%	-	-	6,510.0	-7.8%
2007	16.6	-10.3%	-	-	5,671.8	-12.9%
2008	13.5	-18.7%	215.9	-	4,896.5	-13.7%

Federal Reserve Bank of Boston
National Association of Realtors



Federal Reserve Bank of Boston; Federal Housing Finance Agency

The home price index for Rhode Island and the United States (not seasonally adjusted) appear in the above chart. While the Rhode Island home price index was 129.9 percent of the U.S. average in 1994, by 1999 it had fallen to 117.3 percent of the U.S. average. Since 1999, the Rhode Island home price index has climbed relative to the U.S. average, hitting a peak of 162.3 percent in 2005. Since then, the Rhode Island index has stayed well above the U.S. average and in 2008 stands at 146.4 percent of the U.S. level.

Military Contracts

Following a peak in the value of Department of Defense contracts awarded to Rhode Island firms in 1990 of $554 million, defense related contracts declined 29.6 percent by 1993 to $390 million. By 1994, the value of defense related contracts had rebounded to $422 million, up 8.2 percent from 1993. From 1995 to 1998, contracts again declined as the country cashed in the "peace dividend" from the end of the Cold War. In 2003 contracts had risen again to $499 million, up 36.7 percent from the previous year and in 2004 contracts declined again by 16.2 percent to $418 million. In 2005 contracts awarded to Rhode Island remained flat at $418 million. The relationship of the defense industry to the Rhode Island economy is reflected in the following table, which shows the value of Department of Defense contract awards between 1990 and 2005. Since 1990, Rhode Island's share of New England contract awards has decreased from 3.9 percent to 2.0 percent of such awards in 2005.

Department of Defense Contract Awards, 1990 - 2005
(in millions)

Fiscal Year	R.I.	N.E.	U.S.	R.I. Percentage of New England	R.I. Percentage of U.S.
1990	554	14,271	121,254	3.9%	0.5%
1991	413	13,889	124,119	3.0%	0.3%
1992	455	11,033	112,285	4.1%	0.4%
1993	390	10,789	114,145	3.6%	0.3%
1994	422	9,329	110,316	4.5%	0.4%
1995	388	9,374	109,004	4.1%	0.4%
1996	334	9,237	109,408	3.6%	0.3%
1997	275	9,152	106,561	3.0%	0.3%
1998	217	9,284	109,386	2.3%	0.2%
1999	312	9,456	114,875	3.3%	0.3%
2000	418	8,745	123,295	4.8%	0.3%
2001	283	11,094	135,225	2.6%	0.2%
2002	365	13,029	158,737	2.8%	0.2%
2003	499	17,544	191,222	2.8%	0.3%
2004	418	19,062	203,389	2.2%	0.2%
2005	418	20,699	236,987	2.0%	0.2%
2006	431	20,243	257,456	2.1%	0.2%

Department of Defense

Travel and Tourism

According to the most recent Rhode Island travel and tourism industry report, the 2006 Tourism Satellite Account produced by Global Insight and published on September 27, 2007, travel and tourism sales in Rhode Island broke the six billion dollar mark, at $6.21 billion. This generated 58,900 jobs (10% of the state total) and $1.4 billion in employee compensation (5.5% of the state total).

Visitation to Rhode Island grew 2.1% in 2006 to 17.46 million travelers. Leisure visitation grew at a rate of 4.2% while business travel experienced a 6% decline during 2006. Business spending made up just under 26% of total expenditures in 2006, compared to just under 20% of total visitation. Business expenditures were up 1.1% in 2006, mainly due to a low concentration in shopping (the lowest performing statewide category) and a strong concentration in food (the best performing statewide category).

Each R.I. visitor/traveler generates about $464 in expenditures, $53 of which goes to R.I. businesses that do not directly “touch” that visitor. Every 166 visitors create a new R.I. job. Each visitor creates about $108 in tax receipts, $58 of which goes to state & local authorities. It takes only 239 visitors to pay for one Rhode Island public school student for one year. Each R.I. visitor generates $174 in wages paid to R.I. workers employed across an array of industries. Each visitor adds about $284 to the state’s Gross State Product.

Travel and tourism industry sales increased by 0.7% during 2006. Entertainment and food sectors had the largest percentage increases in 2006 at 2.3% each. Accommodation sales increased by 2.1% while a modest 0.6% increase in transportation sales was reported. In 2006, retail sales dropped by 5.1%. Travel and tourism industry wages grew by 1.8% during 2006, while job growth remained flat. While tourism is responsible for 4.2% of R.I. GSP, it contributed 10.8% of state government revenue in 2006.

Human Resources

The availability of a skilled and well-educated population is an important resource for Rhode Island. The level of education reached by the population of Rhode Island compares favorably with the United States as a whole, as the following chart demonstrates. Although spending on education is not necessarily an indication of results, it is important to note that Rhode Island spends more per pupil than the national average on primary and secondary education. In fact, per pupil spending in Rhode Island has been significantly higher than the national average since 1993. The ratio of Rhode Island spending to the national average has varied from 124.2 percent in 1992-93 to a high of 142.2 percent in 2005-06. For the 2006-07 academic year Rhode Island spent 42.0 percent more on public elementary and secondary education than the United States average: $14,674 per student compared to a national average of $10,337 per student. The following table shows expenditures per pupil for Rhode Island and the United States since the 1992-93 academic year. It should be noted that data for the 2006-07 school year is the most recent available at this time from the National Center for Education Statistics.

Current Expenditure per Pupil in Public Elementary and Secondary Schools
Academic Years 1992-93 - 2006-07
(Based on Average Daily Attendance)

Academic Year	Rhode Island	United States	Ratio (R.I./U.S.)
1992-93	6,938	5,584	124.2%
1993-94	7,333	5,767	127.2%
1994-95	7,715	5,989	128.8%
1995-96	7,936	6,147	129.1%
1996-97	8,307	6,393	129.9%
1997-98	8,627	6,676	129.2%
1998-99	9,049	7,013	129.0%
1999-00	9,646	7,394	130.5%
2000-01	10,116	7,904	128.0%
2001-02	10,552	8,259	127.8%
2002-03	11,377	8,610	132.1%
2003-04	12,279	8,900	138.0%
2004-05	12,685	9,316	136.2%
2005-06	13,917	9,788	142.2%
2006-07	14,674	10,337	142.0%

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

For the 2005-06 academic year, Rhode Island per pupil expenditures was the fourth highest in the nation. The following table shows each of the fifty states and the District of Columbia ranked in terms of average expenditure per pupil.

National Ranking of Expenditure per Pupil in Public Elementary and Secondary Schools
Academic Year 2005-06
(Based on Average Daily Attendance)

Ranking	State	Expenditure	Ranking	State	Expenditure
1	District of Columbia	19,861	26	Oregon	9,762
2	New York	17,182	27	Indiana	9,727
3	New Jersey	16,650	28	Louisiana	9,650
4	**Rhode Island**	**14,674**	29	Georgia	9,615
5	Vermont	14,219	30	Kentucky	9,303
6	Wyoming	14,219	31	Missouri	9,266
7	Connecticut	14,143	32	Washington	9,233
8	Alaska	13,508	33	South Carolina	9,226
9	Massachusetts	13,338	34	North Dakota	9,203
10	Maryland	12,820	35	Arkansas	9,152
11	Maine	12,628	36	Colorado	9,110
12	Delaware	12,612	37	Florida	9,055
13	Hawaii	12,084	38	California	9,029
14	Pennsylvania	11,995	39	New Mexico	8,876
15	New Hampshire	11,347	40	Iowa	8,789
16	Michigan	10,932	41	Alabama	8,743
17	Virginia	10,913	42	South Dakota	8,506
18	Illinois	10,816	43	Texas	8,484
19	Wisconsin	10,813	44	North Carolina	8,373
20	Ohio	10,792	45	Nevada	8,372
21	Nebraska	10,711	46	Arizona	8,038
22	Kansas	10,280	47	Mississippi	7,988
23	Montana	10,244	48	Oklahoma	7,968
24	Minnesota	10,185	49	Tennessee	7,843
25	West Virginia	10,080	50	Idaho	7,074
			51	Utah	6,116

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

According to the Rhode Island Office of Higher Education, in fall 2007, the total enrollment in Rhode Island institutions of higher education was 87,953 students, up 9.4% from the 80,377 students from 2004. Enrollment in the public sector totaled 41,503 (47%) and 46,540 in the private sector (53%).

In 2007, Rhode Island institutions of higher education conferred 16,847 degrees and certificates. Rhode Island public institutions conferred 5,532 awards while the private sector conferred 11,315.

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APPENDIX B

Proposed Forms of Legal Opinion

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PROPOSED FORM OF OPINION OF SPECIAL COUNSEL

Date of Delivery

State of Rhode Island and Providence Plantations
State House
82 Smith Street
Providence, Rhode Island 02903

Re: $12,380,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Information Technology Project – 2009 Series A) (the "Certificates")

Ladies and Gentlemen:

We have acted as Special 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 June 1, 2009 (the "Sublease") by and between Wells Fargo Bank, 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 June 1, 2009 by and between the State, as lessor, and Wells Fargo Bank, 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 June 1, 2009 (the "Declaration of Trust") wherein Wells Fargo Bank, 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 $12,380,000 Lease Participation Certificates (Information Technology Project – 2009 Series A) (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 June 17, 2009, 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(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and such portion of the Lease Payments designated as Interest on the Certificates will not be treated as an item of tax preference for purposes of computing the federal alternative minimum tax. The portion of the Lease Payments designated as Interest on the Certificates will not be taken into account in computing an adjustment made in determining a corporate Certificate Owner's minimum tax based on such Certificate Owner's adjusted current earnings. We are also of the opinion that the portion of Lease Payments distributable as Interest on the Certificates is excludable from State of Rhode Island personal income taxation to the extent such Interest is excludable from gross income for federal income tax purposes.

Our opinion herein is subject to the condition that the State complies 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, and continue to be, excludable from gross income for federal income tax purposes as described above. 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 to comply with such requirements under the Code may cause that portion of the Lease Payments designated as Interest on the Certificates to become includable in the gross income of the Certificate Owners thereof for federal income tax purposes retroactive to the date of issuance of the Certificates. We express no opinion regarding other federal tax consequences arising with respect to the Certificates.

We express no opinion as to the exclusion from gross income for federal income tax purposes of the portion of the Lease Payments distributable to the Certificate Owners as Interest on the Certificates in the event of non-appropriation by the State of the Lease Payments. In addition, we express no opinion as to the effect that termination of the Sublease may have

upon the treatment for federal or state income tax purposes of amounts received by Certificate Owners.

The opinions as to enforceability of the Sublease, the Lease, the Declaration of Trust and the Certificates contained in paragraphs one, two, and three above are qualified in that the enforceability thereof is subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws in effect from time to time which 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.

Very truly yours,

HINCKLEY, ALLEN & SNYDER LLP

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PROPOSED FORM OF OPINION OF SPECIAL COUNSEL

Date of Delivery

State of Rhode Island and Providence Plantations
State House
82 Smith Street
Providence, Rhode Island 02903

Re: $11,805,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Energy Conservation Project – 2009 Series B) (the "Certificates")

Ladies and Gentlemen:

We have acted as Special 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 June 1, 2009 (the "Sublease") by and between Wells Fargo Bank, 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 June 1, 2009 by and between the State, as lessor, and Wells Fargo Bank, 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 June 1, 2009 (the "Declaration of Trust") wherein Wells Fargo Bank, 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 $11,805,000 Lease Participation Certificates (Energy Conservation Project – 2009 Series B) (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 June 17, 2009, 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(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and such portion of the Lease Payments designated as Interest on the Certificates will not be treated as an item of tax preference for purposes of computing the federal alternative minimum tax. The portion of the Lease Payments designated as Interest on the Certificates will not be taken into account in computing an adjustment made in determining a corporate Certificate Owner's minimum tax based on such Certificate Owner's adjusted current earnings. We are also of the opinion that the portion of Lease Payments distributable as Interest on the Certificates is excludable from State of Rhode Island personal income taxation to the extent such Interest is excludable from gross income for federal income tax purposes.

Our opinion herein is subject to the condition that the State complies 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, and continue to be, excludable from gross income for federal income tax purposes as described above. 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 to comply with such requirements under the Code may cause that portion of the Lease Payments designated as Interest on the Certificates to become includable in the gross income of the Certificate Owners thereof for federal income tax purposes retroactive to the date of issuance of the Certificates. We express no opinion regarding other federal tax consequences arising with respect to the Certificates.

We express no opinion as to the exclusion from gross income for federal income tax purposes of the portion of the Lease Payments distributable to the Certificate Owners as Interest on the Certificates in the event of non-appropriation by the State of the Lease Payments. In addition, we express no opinion as to the effect that termination of the Sublease may have

upon the treatment for federal or state income tax purposes of amounts received by Certificate Owners.

The opinions as to enforceability of the Sublease, the Lease, the Declaration of Trust and the Certificates contained in paragraphs one, two, and three above are qualified in that the enforceability thereof is subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws in effect from time to time which 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.

Very truly yours,

HINCKLEY, ALLEN & SNYDER LLP

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PROPOSED FORM OF OPINION OF SPECIAL COUNSEL

Date of Delivery

State of Rhode Island and Providence Plantations
State House
82 Smith Street
Providence, Rhode Island 02903

Re: $30,425,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (School for the Deaf– 2009 Series C) (the "Certificates")

Ladies and Gentlemen:

We have acted as Special 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 June 1, 2009 (the "Sublease") by and among Wells Fargo Bank, N.A., in its capacity as Trustee (hereinafter defined) as lessor (the "Lessor") and the State and the State Board of Regents for Elementary and Secondary Education (the "Board of Regents"), collectively as lessee (the "Lessee"), and a Lease Agreement dated as of June 1, 2009 by and among the State and the Board of Regents, collectively as lessor, and Wells Fargo Bank, 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 June 1, 2009 (the "Declaration of Trust") wherein Wells Fargo Bank, 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 $30,425,000 Lease Participation Certificates (School for the Deaf Project – 2009 Series C) (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 June 17, 2009, 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(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and such portion of the Lease Payments designated as Interest on the Certificates will not be treated as an item of tax preference for purposes of computing the federal alternative minimum tax. The portion of the Lease Payments designated as Interest on the Certificates will not be taken into account in computing an adjustment made in determining a corporate Certificate Owner's minimum tax based on such Certificate Owner's adjusted current earnings. We are also of the opinion that the portion of Lease Payments distributable as Interest on the Certificates is excludable from State of Rhode Island personal income taxation to the extent such Interest is excludable from gross income for federal income tax purposes.

Our opinion herein is subject to the condition that the State complies 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, and continue to be, excludable from gross income for federal income tax purposes as described above. 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 to comply with such requirements under the Code may cause that portion of the Lease Payments designated as Interest on the Certificates to become includable in the gross income of the Certificate Owners thereof for federal income tax purposes retroactive to the date of issuance of the Certificates. We express no opinion regarding other federal tax consequences arising with respect to the Certificates.

We express no opinion as to the exclusion from gross income for federal income tax purposes of the portion of the Lease Payments distributable to the Certificate Owners as Interest on the Certificates in the event of non-appropriation by the State of the Lease Payments. In addition, we express no opinion as to the effect that termination of the Sublease may have

upon the treatment for federal or state income tax purposes of amounts received by Certificate Owners.

The opinions as to enforceability of the Sublease, the Lease, the Declaration of Trust and the Certificates contained in paragraphs one, two, and three above are qualified in that the enforceability thereof is subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws in effect from time to time which 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 opinions of even date herewith of the Attorney General of the State of Rhode Island and legal counsel to the Board of Regents.

This opinion is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreement, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred. This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion letter to reflect any future actions, facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretation thereof, that may hereafter occur, or for any reason whatsoever.

Very truly yours,

HINCKLEY, ALLEN & SNYDER LLP

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APPENDIX C

Specimen Financial Guaranty Insurance Policy

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ASSURED GUARANTY®
ENDURING FINANCIAL STRENGTH

Financial Guaranty Insurance Policy

Issuer: **Policy No.:**

Obligations: **Premium:**

Effective Date:

SPECIMEN

Assured Guaranty Corp., a Maryland corporation ("**Assured Guaranty**"), in consideration of the payment of the Premium and on the terms and subject to the conditions of this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the "**Trustee**") or the paying agent (the "**Paying Agent**") for the Obligations (as set forth in the documentation providing for the issuance of and securing the Obligations) for the benefit of the Holders, that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

Assured Guaranty will make such Insured Payments to the Trustee or the Paying Agent on the later to occur of (i) the date applicable principal or interest becomes Due for Payment, or (ii) the Business Day next following the day on which Assured Guaranty shall have Received a completed Notice of Nonpayment. If a Notice of Nonpayment by Assured Guaranty is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and Assured Guaranty shall promptly give notice to the Trustee or the Paying Agent. Upon receipt of such notice, the Trustee or the Paying Agent may submit an amended Notice of Nonpayment. The Trustee or the Paying Agent will disburse the Insured Payments to the Holders only upon receipt by the Trustee or the Paying Agent, in form reasonably satisfactory to it of (i) evidence of the Holder's right to receive such payments, and (ii) evidence, including without limitation any appropriate instruments of assignment, that all of the Holder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Assured Guaranty. Upon and to the extent of such disbursement, Assured Guaranty shall become the Holder of the Obligations, any appurtenant coupon thereto and right to receipt of payment of principal thereof or interest thereon, and shall be fully subrogated to all of the Holder's right, title and interest thereunder, including without limitation the right to receive payments in respect of the Obligations. Payment by Assured Guaranty to the Trustee or the Paying Agent for the benefit of the Holders shall discharge the obligation of Assured Guaranty under this Policy to the extent of such payment.

This Policy is non-cancelable by Assured Guaranty for any reason. The Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment premium or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Assured Guaranty, nor against any risk other than Nonpayment.

Except to the extent expressly modified by any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "**Avoided Payment**" means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. "**Business Day**" means any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee, the Paying Agent or Assured Guaranty are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York or in the State of Maryland. "**Due for Payment**" means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest. "**Holder**" means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations. "**Insured Payments**" means that portion of the principal of and interest on the Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. "**Nonpayment**" means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term "Nonpayment" in respect of an Obligation includes any Avoided Payment. "**Receipt**" or "**Received**" means actual receipt or notice of or, if notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of the person to whom the notice was given. Notices to Assured Guaranty may be mailed by registered mail or personally delivered or telecopied to it at 1325 Avenue of the Americas, New York, New York 10019, Telephone Number: (212) 974-0100, Facsimile Number: (212) 581-3268, Attention: Risk Management Department – Public Finance Surveillance, with a copy to the General Counsel, or to such other address as shall be specified by Assured Guaranty to the Trustee or the Paying Agent in writing. A Notice of Nonpayment will be deemed to be Received by Assured Guaranty on a given Business Day if it is Received prior to 12:00 noon (New York City time) on such Business Day; otherwise it will be deemed Received on the next Business Day. "**Term**" means the period from and including the Effective Date until the earlier of (i) the maturity date for the Obligations, or (ii) the date on which the Issuer has made all payments required to be made on the Obligations.

At any time during the Term of this Policy, Assured Guaranty may appoint a fiscal agent (the "**Fiscal Agent**") for purposes of this Policy by written notice to the Trustee or the Paying Agent, specifying the name and notice address of such Fiscal Agent. From and after the date of Receipt of such notice by the Trustee or the Paying Agent, copies of all notices and documents required to be delivered to Assured Guaranty pursuant to this Policy shall be delivered simultaneously to the Fiscal Agent and to Assured Guaranty. All payments required to be made by Assured Guaranty under this Policy may be made directly by Assured Guaranty or by the Fiscal Agent on behalf of Assured Guaranty. The Fiscal Agent is the agent of Assured Guaranty only, and the Fiscal Agent shall in no event be liable to the Trustee or the Paying Agent for any acts of the Fiscal Agent or any failure of Assured Guaranty to deposit, or cause to be deposited, sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Assured Guaranty hereby waives, in each case for the benefit of the Holders only, all rights and defenses of any kind (including, without limitation, the defense of fraud in the inducement or in fact or any other circumstance that would have the effect of discharging a surety, guarantor or any other person in law or in equity) that may be available to Assured Guaranty to deny or avoid payment of its obligations under this Policy in accordance with the express provisions hereof. Nothing in this paragraph will be construed (i) to waive, limit or otherwise impair, and Assured Guaranty expressly reserves, Assured Guaranty's rights and remedies, including, without limitation, its right to assert any claim or to pursue recoveries (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, in each case, whether directly or acquired as a subrogee, assignee or otherwise, subsequent to making any payment to the Trustee or the Paying Agent, in accordance with the express provisions hereof, and/or (ii) to require payment by Assured Guaranty of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Policy.

This Policy (which includes each endorsement hereto) sets forth in full the undertaking of Assured Guaranty with respect to the subject matter hereof, and may not be modified, altered or affected by any other agreement or instrument, including, without limitation, any modification thereto or amendment thereof. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, Assured Guaranty has caused this Policy to be affixed with its corporate seal, to be signed by its duly authorized officer, and to become effective and binding upon Assured Guaranty by virtue of such signature.

ASSURED GUARANTY CORP.

(SEAL)

By:__________________________________
[Insert Authorized Signatory Name]
[Insert Authorized Signatory Title]

Signature attested to by:

____
Counsel

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS • LEASE PARTICIPATION CERTIFICATES

INFORMATION TECHNOLOGY PROJECT – 2009 SERIES A, ENERGY CONSERVATION PROJECT – 2009 SERIES B AND SCHOOL FOR THE DEAF PROJECT – 2009 SERIES C

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