NEW ISSUE/BOOK ENTRY-ONLY

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

In the opinion of Partridge Snow & Hahn 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 2014 Series A Lease Payments, the 2014 Series B Lease Payments and the 2014 Series C Lease Payments (collectively the "Lease Payments") distributable respectively to Owners of the 2014 Series A Certificates, the 2014 Series B Certificates and the 2014 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. However, the portion of each payment distributable to Owners of the Certificates as interest will be taken into account in computing an adjustment made in determining a corporate Certificate Owner's minimum tax based on such Owner's adjusted current earnings. The portion of each of the Lease Payments distributable to Owners of the Certificates as interest is excludable from gross income for Rhode Island personal income tax purposes to the extent that such interest is excludable from gross income for federal income tax purposes. See "TAX STATUS" and APPENDIX B — "Proposed Forms of Legal Opinion" herein.

$11,650,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Lease Participation Certificates (Pastore Center Energy Conservation Project - 2014 Series A)

$7,465,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Lease Participation Certificates (Rhode Island College Energy Conservation Project - 2014 Series B)

$30,380,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Lease Participation Certificates (Information Technology Project - 2014 Series C)

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

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

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

The principal of the 2014 Series A Certificates is payable on November 1 of each year as set forth on the inside cover hereof and interest thereon is payable on May 1 and November 1 of each year commencing May 1, 2015. The principal of the 2014 Series B Certificates is payable on November 1 of each year as set forth on the inside cover hereof and interest thereon is payable on May 1 and November 1 of each year commencing May 1, 2015. The principal of the 2014 Series C Certificates is payable on November 1 of each year as set forth on the inside cover hereof and interest thereon is payable on May 1 and November 1 of each year commencing May 1, 2015. 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 2014 Series B Certificates are subject to optional redemption prior to maturity. (See "DESCRIPTION OF THE CERTIFICATES – *Optional Redemption of the Series 2014 B Certificates*" herein.) The 2014 Series A Certificates and the 2014 Series C Certificates are not subject to optional redemption.

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

THE STATE'S OBLIGATION TO MAKE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO MAKE SUCH PAYMENTS.

The Certificates are offered when, as and if issued by the State and received by the original purchasers, subject to receipt of the approving legal opinions of Partridge Snow & Hahn LLP, Providence, Rhode Island, as special counsel. Certain other legal matters will be passed upon for the State by the Attorney General of the State and for the Underwriters by their counsel Pannone Lopes Devereaux & West LLC, Providence, Rhode Island. Certain matters will be passed upon for the State by Taft & McSally LLP, Cranston, Rhode Island, as disclosure counsel. FirstSouthwest is serving as financial advisor to the State in this transaction. It is expected that delivery of the Certificates in definitive form will be available through the facilities of DTC on or about November 6, 2014.

BofA Merrill Lynch
Fidelity Capital Markets
Piper Jaffray & Co.
Ramirez & Co.

Raymond James
Morgan Stanley
Oppenheimer & Co. Inc.

October 30, 2014

MATURITY SCHEDULE
Maturities, Amounts, Interest Rates and Yields

$11,650,000 Lease Participation Certificates
(Pastore Center Energy Conservation Project - 2014 Series A)

Maturity Date (November 1)	Principal Amount	Interest Rate	Yield	CUSIP†
2015	$ 950,000	0.50%	0.50%	76222WHW4
2016	975,000	4.00	0.61	76222WHX2
2017	1,020,000	5.00	0.90	76222WHY0
2018	1,070,000	5.00	1.20	76222WHZ7
2019	1,125,000	5.00	1.50	76222WJA0
2020	1,185,000	5.00	1.79	76222WJB8
2021	1,245,000	5.00	2.10	76222WJC6
2022	1,305,000	5.00	2.36	76222WJD4
2023	1,360,000	3.00	2.54	76222WJE2
2024	1,415,000	5.00	2.70	76222WJF9

$7,465,000 Lease Participation Certificates
(Rhode Island College Energy Conservation Project - 2014 Series B)

Maturity Date (November 1)	Principal Amount	Interest Rate	Yield	CUSIP†
2017	$340,000	2.000%	0.90%	76222WJG7
2018	370,000	3.000	1.20	76222WJH5
2019	405,000	4.000	1.50	76222WJJ1
2020	440,000	3.000	1.79	76222WJK8
2021	475,000	4.000	2.10	76222WJL6
2022	520,000	4.000	2.36	76222WJM4
2023	560,000	4.000	2.54	76222WJN2
2024	605,000	3.000	2.70	76222WJP7
2025	650,000	5.000	2.85*	76222WJQ5
2026	700,000	3.000	3.05	76222WJR3
2027	750,000	3.000	3.22	76222WJS1
2028	800,000	3.125	3.35	76222WJT9
2029	850,000	3.250	3.43	76222WJU6

*Priced to the first optional call date of November 1, 2024

$30,380,000 Lease Participation Certificates
(Information Technology Project - 2014 Series C)

Maturity Date (November 1)	Principal Amount	Interest Rate	Yield	CUSIP†
2015	$2,450,000	0.50%	0.50%	76222WJV4
2016	2,520,000	5.00	0.61	76222WJW2
2017	2,650,000	5.00	0.90	76222WJX0
2018	2,785,000	5.00	1.20	76222WJY8
2019	2,925,000	5.00	1.50	76222WJZ5
2020	3,080,000	5.00	1.79	76222WKA8
2021	3,235,000	5.00	2.10	76222WKB6
2022	3,400,000	5.00	2.36	76222WKC4
2023	3,575,000	5.00	2.54	76222WKD2
2024	3,760,000	5.00	2.70	76222WKE0

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

No dealer, broker, salesperson or other person has been authorized by the State or the Underwriters in connection with the offering contained herein, to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the State or the Underwriters. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Certificates offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from the State, and other sources that are deemed to be reliable but is not guaranteed as to accuracy or completeness by any of the foregoing. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof.

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

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

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

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

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

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

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

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STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS

CONSTITUTIONAL OFFICERS

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

APPOINTED OFFICIALS

Director of Administration	Steven T. Hartford
Budget Officer	Thomas A. Mullaney
State Controller	Marc A. Leonetti
Auditor General	Dennis E. Hoyle

SPECIAL COUNSEL

Partridge Snow & Hahn LLP
Providence, Rhode Island

DISCLOSURE COUNSEL

Taft & McSally LLP
Cranston, Rhode Island

FINANCIAL ADVISOR

FirstSouthwest
Lincoln, Rhode Island

OFFICIAL STATEMENT
of the
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Relating to

$11,650,000 Lease Participation Certificates
(Pastore Center Energy Conservation Project — 2014 Series A)

$7,465,000 Lease Participation Certificates
(Rhode Island College Energy Conservation Project — 2014 Series B)

$30,380,000 Lease Participation Certificates
(Information Technology Project — 2014 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 $11,650,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Pastore Center Energy Conservation Project — 2014 Series A) (the "2014 Series A Certificates"), the $7,465,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Rhode Island College Energy Conservation Project — 2014 Series B) (the "2014 Series B Certificates") and the $30,380,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Information Technology Project — 2014 Series C) (the "2014 Series C Certificates") (the 2014 Series A Certificates, the 2014 Series B Certificates and the 2014 Series C Certificates are collectively referred to herein as the "Certificates").

The 2014 Series A Certificates

The 2014 Series A Certificates represent the proportionate interest of the registered owners thereof in lease payments ("2014 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 energy conservation equipment and systems and related improvements to property to accommodate such energy conservation infrastructure at the Pastore Center in Cranston, Rhode Island (the "2014 Series A Project"). The 2014 Series A Project will be leased to the State pursuant to a Sublease dated as of November 1, 2014 as the same may be amended from time to time (the "2014 Series A Sublease") by and between the State and The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee for the benefit of the 2014 Series A Certificate Owners pursuant to the 2014 Series A Declaration of Trust (as herein defined), as lessor (the "Lessor"). Under the 2014 Series A Declaration of Trust dated as of November 1, 2014 as the same may be amended from time to time (the "2014 Series A Declaration of Trust"), all right to the 2014 Series A Lease Payments under the 2014 Series A Sublease is set aside, granted and assigned to a grantor trust (the "2014 Series A Trust"). The Bank of New York Mellon Trust Company, N.A. will act as trustee (the "2014 Series A Trustee") under the 2014 Series A Declaration of Trust, Lessor under the 2014 Series A Sublease and lessee under the 2014 Series A Lease (as herein defined).

The 2014 Series A Project is being leased to the Lessor by the State pursuant to a lease (the "2014 Series A Lease") dated as of November 1, 2014. The 2014 Series A Lease expires on November 1, 2024. The Trustee's leasehold interest under the 2014 Series A Lease is subleased to the State under the 2014 Series A Sublease, and all right to the 2014 Series A Lease Payments under the 2014 Series A Sublease is set aside, granted and assigned to the 2014 Series A Trust.

The 2014 Series A Certificates will be issued pursuant to the 2014 Series A Declaration of Trust. The proceeds of the sale of the 2014 Series A Certificates will be deposited in the 2014 Series A Trust. The proceeds of the 2014 Series A Certificates in the 2014 Series A Trust will be distributed into a 2014 Series A Project Account and a 2014 Series A Lease Payment Account established by the 2014 Series A Declaration of Trust. Amounts held in the 2014 Series A Project Account will be disbursed by the Trustee from the 2014 Series A Project Account to finance the 2014 Series A Project and to pay costs of issuance of the 2014 Series A Certificates. (See "THE PROJECTS – The 2014 Series A Project — Pastore Center Energy Conservation" herein.)

No Additional 2014 Series A Certificates

The 2014 Series A Sublease and the 2014 Series A Declaration of Trust do not provide for the issuance of additional certificates.

The 2014 Series B Certificates

The 2014 Series B Certificates represent the proportionate interest of the registered owners thereof in lease payments ("2014 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 at Rhode Island College (the "2014 Series B Project"). The 2014 Series B Project will be leased to the State pursuant to a Sublease dated as of November 1, 2014 as the same may be amended from time to time (the "2014 Series B Sublease") by and between the State and The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee for the benefit of the 2014 Series B Certificate Owners pursuant to the 2014 Series B Declaration of Trust (as herein defined), as lessor (the "Lessor"). Under the 2014 Series B Declaration of Trust dated as of November 1, 2014 as the same may be amended from time to time (the "2014 Series B Declaration of Trust"), all right to the 2014 Series B Lease Payments under the 2014 Series B Sublease is set aside, granted and assigned to a grantor trust (the "2014 Series B Trust"). The Bank of New York Mellon Trust Company, N.A. will act as trustee (the "2014 Series B Trustee") under the 2014 Series B Declaration of Trust, Lessor under the 2014 Series B Sublease and lessee under the 2014 Series B Lease (as herein defined).

The 2014 Series B Project is being leased to the Lessor by the State pursuant to a lease (the "2014 Series B Lease") dated as of November 1, 2014. The 2014 Series B Lease expires on November 1, 2029. The Trustee's leasehold interest under the 2014 Series B Lease is subleased to the State under the 2014 Series B Sublease, and all right to the 2014 Series B Lease Payments under the 2014 Series B Sublease is set aside, granted and assigned to the 2014 Series B Trust.

The 2014 Series B Certificates will be issued pursuant to the 2014 Series B Declaration of Trust. The proceeds of the sale of the 2014 Series B Certificates will be deposited in the 2014 Series B Trust. The proceeds of the 2014 Series B Certificates in the 2014 Series B Trust will be distributed into a 2014 Series B Project Account and a 2014 Series B Lease Payment Account established by the 2014 Series B Declaration of Trust. Amounts held in the 2014 Series B Project Account will be disbursed by the Trustee from the 2014 Series B Project Account to finance the 2014 Series B Project and to pay costs of issuance of the 2014 Series B Certificates. (See "THE PROJECTS – The 2014 Series B Project — Rhode Island College Energy Conservation" herein.)

No Additional 2014 Series B Certificates

The 2014 Series B Sublease and the 2014 Series B Declaration of Trust do not provide for the issuance of additional certificates.

The 2014 Series C Certificates

The 2014 Series C Certificates represent the proportionate interest of the registered owners thereof in lease payments ("2014 Series C Lease Payments") to be made by the State of Rhode Island and Providence Plantations acting by and through its Department of Administration (the "State" or the "Lessee") for the purchase and rental of certain information technology equipment and systems and related improvements to real property to accommodate such information technology infrastructure (the "2014 Series C Project"). The 2014 Series C Project will be leased to the State pursuant to a Sublease dated as of November 1, 2014 as the same may be amended from time to time (the "2014 Series C Sublease") by and between the State and The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee for the benefit of the 2014 Series C Certificate Owners pursuant to the 2014 Series C Declaration of Trust (as herein defined), as lessor (the "Lessor"). Under the 2014 Series C Declaration of Trust dated as of November 1, 2014 as the same may be amended from time to time (the "2014 Series C Declaration of Trust"), all right to the 2014 Series C Lease Payments under the 2014 Series C Sublease is set aside, granted and assigned to a grantor trust (the "2014 Series C Trust"). The Bank of New York Mellon Trust Company, N.A. will act as trustee (the "2014 Series C Trustee") under the 2014 Series C Declaration of Trust, Lessor under the 2014 Series C Sublease and lessee under the 2014 Series C Lease (as herein defined).

The 2014 Series C Project is being leased to the Lessor by the State pursuant to a lease (the "2014 Series C Lease") dated as of November 1, 2014. The 2014 Series C Lease expires on November 1, 2024. The Trustee's leasehold interest under the 2014 Series C Lease is subleased to the State under the 2014 Series C Sublease, and all right to the 2014 Series C Lease Payments under the 2014 Series C Sublease is set aside, granted and assigned to the 2014 Series C Trust.

The 2014 Series C Certificates will be issued pursuant to the 2014 Series C Declaration of Trust. The proceeds of the sale of the 2014 Series C Certificates will be deposited in the 2014 Series C Trust. The proceeds of the 2014 Series C Certificates in the 2014 Series C Trust will be distributed into a 2014 Series C Project Account and a 2014 Series C Lease Payment Account established by the 2014 Series C Declaration of Trust. Amounts held in the 2014 Series C Project Account will be disbursed by the Trustee from the 2014 Series C Project Account to finance the

2014 Series C Project and to pay costs of issuance of the 2014 Series C Certificates. (See "THE PROJECTS – The 2014 Series C Project — Information Technology" herein.)

No Additional 2014 Series C Certificates

The 2014 Series C Sublease and the 2014 Series C Declaration of Trust do not provide for the issuance of additional certificates.

SECURITY FOR THE CERTIFICATES

The 2014 Series A Certificates

The 2014 Series A Certificates are payable from (i) 2014 Series A Lease Payments received by the Trustee from the State with respect to the 2014 Series A Certificates; (ii) certain amounts on deposit from time to time in the 2014 Series A Trust established with respect thereto, including any remaining proceeds of the sale of the 2014 Series A Certificates and investment earnings on amounts on deposit in the 2014 Series A Trust; and (iii) proceeds from the disposition of the 2014 Series A Project upon the occurrence of an Event of Default under the 2014 Series A Sublease or upon termination of the 2014 Series A Sublease pursuant to non-appropriation of funds by the State. The 2014 Series A Sublease provides for 2014 Series A Lease Payments payable at times and in amounts equal to the principal of and interest on the 2014 Series A Certificates. The 2014 Series A Lease Payments will be made directly to the Trustee.

The State covenants in the 2014 Series A Sublease to do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which 2014 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 2014 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 2014 Series A Sublease provides an initial term commencing November 1, 2014 and terminating June 30, 2015, with annual renewals on July 1 of each year, commencing July 1, 2015, with a final 2014 Series A Sublease term commencing July 1, 2024 and terminating November 1, 2024 (the "Renewal Periods"). The State shall be deemed to have exercised its right of renewal for each succeeding Renewal Period, if at or prior to the expiration of the then current lease term, there are lawfully appropriated by the State sufficient funds enabling the payment of all 2014 Series A Lease Payments due during the next succeeding Renewal Period.

If during the initial 2014 Series A Sublease term or any 2014 Series A Sublease term thereafter, there are lawfully appropriated funds enabling payment of all 2014 Series A Lease Payments due within the next six-month period, the 2014 Series A Sublease shall be deemed renewed with respect to the 2014 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 2014 Series A Lease Payments for such six-month period.

If a 2014 Series A Sublease term terminates without a renewal of the 2014 Series A Sublease for a succeeding 2014 Series A Sublease term and if within sixty days after such date of termination there are lawfully appropriated funds which would have caused the 2014 Series A Sublease to be renewed if the appropriation had occurred prior to the termination of the 2014 Series A Sublease then the 2014 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 2014 Series A Lease Payment Date (May 1 and November 1) between the date of termination and the date of reinstatement of the 2014 Series A Sublease, the 2014 Series A Lease Payment which would have been due on such date if the 2014 Series A Sublease had not been terminated shall become immediately due and payable on the date if the 2014 Series A Sublease is reinstated.

In the event the 2014 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 2014 Series A Project. Under such circumstances, the State shall deliver the 2014 Series A Project to the Trustee and the Trustee has the right to lease the 2014 Series A Project and apply the net proceeds thereof to payment of the principal and interest portions of the 2014 Series A Certificates. UPON ANY SUCH OTHER SUBLEASE OF THE 2014 SERIES A PROJECT THERE MAY BE INSUFFICIENT MONIES HELD BY THE TRUSTEE UNDER THE 2014 SERIES A DECLARATION OF TRUST TO MAKE PAYMENT IN FULL OF THE PRINCIPAL AND INTEREST PORTIONS OF THE 2014 SERIES A CERTIFICATES. THE 2014 SERIES A PROJECT IS OF LIMITED VALUE FOR USE BY ANYONE OTHER THAN A DEPARTMENT OF STATE GOVERNMENT.

The 2014 Series B Certificates

The 2014 Series B Certificates are payable from (i) 2014 Series B Lease Payments received by the Trustee from the State with respect to the 2014 Series B Certificates; (ii) certain amounts on deposit from time to time in the 2014 Series B Trust established with respect thereto, including any remaining proceeds of the sale of the 2014 Series B Certificates and investment earnings on amounts on deposit in the 2014 Series B Trust; and (iii) proceeds from the disposition of the 2014 Series B Project upon the occurrence of an Event of Default under the 2014 Series B Sublease or upon termination of the 2014 Series B Sublease pursuant to non-appropriation of funds by the State. The 2014 Series B Sublease provides for 2014 Series B Lease Payments payable at times and in amounts equal to the principal of and interest on the 2014 Series B Certificates. The 2014 Series B Lease Payments will be made directly to the Trustee.

The State covenants in the 2014 Series B Sublease to do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which 2014 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 2014 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 2014 Series B Sublease provides an initial term commencing November 1, 2014 and terminating June 30, 2015, with annual renewals on July 1 of each year, commencing July 1, 2015, with a final 2014 Series B Sublease term commencing July 1, 2029 and terminating November 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 2014 Series B Lease Payments due during the next succeeding Renewal Period.

If during the initial 2014 Series B Sublease term or any 2014 Series B Sublease term thereafter, there are lawfully appropriated funds enabling payment of all 2014 Series B Lease Payments due within the next six-month period, the 2014 Series B Sublease shall be deemed renewed with respect to the 2014 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 2014 Series B Lease Payments for such six-month period.

If a 2014 Series B Sublease term terminates without a renewal of the 2014 Series B Sublease for a succeeding 2014 Series B Sublease term and if within sixty days after such date of termination there are lawfully appropriated funds which would have caused the 2014 Series B Sublease to be renewed if the appropriation had occurred prior to the termination of the 2014 Series B Sublease then the 2014 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 2014 Series B Lease Payment Date (May 1 and November 1) between the date of termination and the date of reinstatement of the 2014 Series B Sublease, the 2014 Series B Lease Payment which would have been due on such date if the 2014 Series B Sublease had not been terminated shall become immediately due and payable on the date if the 2014 Series B Sublease is reinstated.

In the event the 2014 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 2014 Series B Project. Under such circumstances, the State shall deliver the 2014 Series B Project to the Trustee and the Trustee has the right to lease the 2014 Series B Project and apply the net proceeds thereof to payment of the principal and interest portions of the 2014 Series B Certificates. UPON ANY SUCH OTHER SUBLEASE OF THE 2014 SERIES B PROJECT THERE MAY BE INSUFFICIENT MONIES HELD BY THE TRUSTEE UNDER THE 2014 SERIES B DECLARATION OF TRUST TO MAKE PAYMENT IN FULL OF THE PRINCIPAL AND INTEREST PORTIONS OF THE 2014 SERIES B CERTIFICATES. THE 2014 SERIES B PROJECT IS OF LIMITED VALUE FOR USE BY ANYONE OTHER THAN A DEPARTMENT OF STATE GOVERNMENT.

The 2014 Series C Certificates

The 2014 Series C Certificates are payable from (i) 2014 Series C Lease Payments received by the Trustee from the State with respect to the 2014 Series C Certificates; (ii) certain amounts on deposit from time to time in the 2014 Series C Trust established with respect thereto, including any remaining proceeds of the sale of the 2014 Series C Certificates and investment earnings on amounts on deposit in the 2014 Series C Trust; and (iii) proceeds from the disposition of the 2014 Series C Project upon the occurrence of an Event of Default under the 2014 Series C Sublease or upon termination of the 2014 Series C Sublease pursuant to non-appropriation of funds by the State. The 2014 Series C Sublease provides for 2014 Series C Lease Payments payable at times and in amounts equal to the principal of and interest on the 2014 Series C Certificates. The 2014 Series C Lease Payments will be made directly to the Trustee.

The State covenants in the 2014 Series C Sublease to do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which 2014 Series C Lease Payments may be made, including making provisions for such payments in the budget submitted for the purpose of obtaining such funding, using its bona fide best efforts to have such portion of the budget approved and exhausting all available administrative reviews and appeals, if any, in the event such portion of the budget is not approved. **HOWEVER, THE STATE IS UNDER NO OBLIGATION TO APPROPRIATE SUCH FUNDS.**

THE STATE'S OBLIGATION TO MAKE 2014 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 2014 Series C Sublease provides an initial term commencing November 1, 2014 and terminating June 30, 2015, with annual renewals on July 1 of each year, commencing July 1, 2015, with a final 2014 Series C Sublease term commencing July 1, 2024 and terminating November 1, 2024 (the "Renewal Periods"). The State shall be deemed to have exercised its right of renewal for each succeeding Renewal Period, if at or prior to the expiration of the then current lease term, there are lawfully appropriated by the State sufficient funds enabling the payment of all 2014 Series C Lease Payments due during the next succeeding Renewal Period.

If during the initial 2014 Series C Sublease term or any 2014 Series C Sublease term thereafter, there are lawfully appropriated funds enabling payment of all 2014 Series C Lease

Payments due within the next six-month period, the 2014 Series C Sublease shall be deemed renewed with respect to the 2014 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 2014 Series C Lease Payments for such six-month period.

If a 2014 Series C Sublease term terminates without a renewal of the 2014 Series C Sublease for a succeeding 2014 Series C Sublease term and if within sixty days after such date of termination there are lawfully appropriated funds which would have caused the 2014 Series C Sublease to be renewed if the appropriation had occurred prior to the termination of the 2014 Series C Sublease then the 2014 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 2014 Series C Lease Payment Date (May 1 and November 1) between the date of termination and the date of reinstatement of the 2014 Series C Sublease, the 2014 Series C Lease Payment which would have been due on such date if the 2014 Series C Sublease had not been terminated shall become immediately due and payable on the date if the 2014 Series C Sublease is reinstated.

In the event the 2014 Series C Sublease is terminated due to non-appropriation by the State, the State is under no obligation to make any further payment with respect to the 2014 Series C Project. Under such circumstances, the State shall deliver the 2014 Series C Project to the Trustee and the Trustee has the right to lease the 2014 Series C Project and apply the net proceeds thereof to payment of the principal and interest portions of the 2014 Series C Certificates. UPON ANY SUCH OTHER SUBLEASE OF THE 2014 SERIES C PROJECT THERE MAY BE INSUFFICIENT MONIES HELD BY THE TRUSTEE UNDER THE 2014 SERIES C DECLARATION OF TRUST TO MAKE PAYMENT IN FULL OF THE PRINCIPAL AND INTEREST PORTIONS OF THE 2014 SERIES C CERTIFICATES. THE 2014 SERIES C PROJECT IS OF LIMITED VALUE FOR USE BY ANYONE OTHER THAN A DEPARTMENT OF STATE GOVERNMENT.

THE PROJECTS

The 2014 Series A Project — Pastore Center Energy Conservation

The proceeds from the 2014 Series A Certificates will be utilized for the implementation of an energy conservation project in the State via “Energy Performance Contracts” (EPCs). An EPC is a contract with an Energy Service Company (ESCO) to replace or upgrade energy equipment (boilers, heating/air conditioning systems, lighting systems, etc.) that is antiquated, inefficient, and expensive to maintain. The resultant energy cost savings are then guaranteed under the terms of the EPC as sufficient to provide complete cost recovery on the new equipment. The 2014 Series A Certificates will finance the implementation of an EPC at the State of Rhode Island Department of Administration’s Pastore Center Facilities.

Energy Conservation - Pastore Center Facilities

The State has authorized a total of up to $45,500,000 in principal to support an EPC with an ESCO for various facilities at the Pastore Center in Cranston, 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 the Pastore Center.

Of the $45,500,000 total principal authorized for the Pastore Center, $12,275,000 was previously issued in 2011 and $17,520,000 was issued in 2013. A total of $11,650,000 in principal amount of the 2014 Series A Certificates is being issued. The State will not be issuing the remaining principal balance authorized.

The 2014 Series B Project — Rhode Island College Energy Conservation

The proceeds from the 2014 Series B Certificates will be utilized for the implementation of an energy conservation project in the State via "Energy Performance Contracts" (EPCs). An EPC is a contract with an Energy Service Company (ESCO) to replace or upgrade energy equipment (boilers, heating/air conditioning systems, lighting systems, etc.) that is antiquated, inefficient, and expensive to maintain. The resultant energy cost savings are then guaranteed under the terms of the EPC as sufficient to provide complete cost recovery on the new equipment. The 2014 Series B Certificates will finance the execution of an EPC at Rhode Island College.

Energy Conservation – Rhode Island College

The State has authorized a total of up to $7,500,000 in principal to support an EPC with an ESCO for various facilities at Rhode Island College (the "College") in Providence. Energy costs at the College have been increasing as the cost of electricity, natural gas, and fuel oil continue to rise. At the same time building equipment and materials available are much more efficient than those that were used when many of the College's buildings were constructed. This project will allow the College to install new energy efficient equipment.

A total of $7,465,000 in principal amount of the 2014 Series B Certificates is being issued. The State will not be issuing the remaining principal balance authorized.

The 2014 Series C Project — Information Technology

Across many areas of responsibility spanning several agencies within state government, critical information technology upgrades have become necessary due to obsolescence and resulting inefficiencies. The proceeds from the 2014 Series C Certificates will be utilized to modernize the technology used to support the State's tax enforcement activities within the Division of Taxation. In addition, the State's local education agencies ("LEAs"), districts, charter schools and state schools need to upgrade their existing technology infrastructure.

Information Technology – Integrated Tax System

A portion of the 2014 Series C Certificates proceeds will finance the acquisition of a modern integrated tax system that would allow the State's Division of Taxation to centralize taxpayer information in one computer system. The integrated tax system will help the Division of Taxation better support its tax enforcement activities. A total of $25,000,000 in principal has been authorized for the project. $4,170,000 in principal was issued in 2013. A total of $17,468,500 in principal amount of the 2014 Series C Certificates is being allocated to and issued for the integrated tax system. The State will not be issuing the remaining balance authorized.

Information Technology – LEA Technology Infrastructure

A portion of the Series 2014 C Certificate proceeds will finance information technology improvements at LEAs, district, charter schools and state schools in order to provide twenty-first century technology-based learning, including e-learning opportunities, online textbooks and online assessments. A total of $19,800,000 in principal has been authorized for the project. $5,000,000 in principal was issued in 2013. A total of $12,911,500 of 2014 Series C Certificates is being allocated to and issued for LEA technology infrastructure. The State will not be issuing the remaining principal balance authorized.

ESTIMATED SOURCES AND USES OF CERTIFICATE PROCEEDS

The 2014 Series A Certificates

Sources:	
Principal Amount of Certificates	$11,650,000.00
Net Original Issue Premium	$ 1,565,423.45
Total	$13,215,423.45
Uses:	
Project Account Deposit(1)	$ 13,165,200.76
Underwriters' Discount	$ 50,222.69
Total	$ 13,215,423.45

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

The 2014 Series B Certificates

Sources:	
Principal Amount of Certificates	$ 7,465,000.00
Net Original Issue Premium	$ 378,602.40
Total	$ 7,843,602.40

Uses:	
Project Account Deposit[1]	$ 7,802,809.88
Underwriters' Discount	$ 40,792.52
Total	$ 7,843,602.40

[1] For project fund proceeds, costs of issuance and $252,715.63 in capitalized interest.

The 2014 Series C Certificates

Sources:	
Principal Amount of Certificates	$30,380,000.00
Net Original Issue Premium	$ 4,708,644.10
Total	$35,088,644.10

Uses:	
Project Account Deposit[1]	$34,958.830.17
Underwriters' Discount	$ 129,813.93
Total	$35,088,644.10

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

DESCRIPTION OF THE STATE

See APPENDIX A – "Information Statement of the State of Rhode Island and Providence Plantations," dated October 8, 2014 for a description of the State, its budgetary process and financial profile. On November 17, 2011, the State General Assembly adopted "The Rhode Island Retirement Security Act" (the "Retirement Security Act") which restructures the State-run retirement systems. See the section entitled "State Retirement Systems" in APPENDIX A – "Information Statement of the State of Rhode Island and Providence Plantations" dated October 8, 2014. See also section entitled "Litigation" herein and pages A-136 through A-138 and A-142 through A-144 in APPENDIX A for a description of certain litigation challenging the legality of the Retirement Security Act and other State pension reform litigation.

DESCRIPTION OF THE CERTIFICATES

The 2014 Series A Certificates represent an undivided interest in the 2014 Series A Lease Payments to be made by the State to the Trustee under the 2014 Series A Sublease. The 2014 Series B Certificates represent an undivided interest in the 2014 Series B Lease Payments to be made by the State to the Trustee under the 2014 Series B Sublease. The 2014 Series C Certificates represent an undivided interest in the 2014 Series C Lease Payments to be made by the State to the Trustee under the 2014 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 November 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 May 1 and November 1 of each year commencing May 1, 2015 (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 2014 Series B Certificates

The 2014 Series B Certificates maturing on and after November 1, 2025 are subject to optional redemption prior to their stated dates of maturity on and after November 1, 2024, as a whole or in part at any time, and may be redeemed by the exercise of the option to make payment of all or part of the Rent Prepayment Price as provided in the 2014 Series B Sublease in such order of maturity and in such amounts as directed by the Lessee, at a redemption price of 100% of the principal amount of the Certificates to be redeemed, plus accrued interest to the redemption date.

No Optional Redemption of the 2014 Series A or C Certificates

The 2014 Series A and the 2014 Series C Certificates are not subject to optional redemption.

Special Mandatory Redemption

The Certificates are subject to special mandatory redemption in whole or in part at any time at a redemption price equal to the principal amount of the Certificates to be redeemed, plus interest accrued thereon to the redemption date, from moneys received or recovered by the applicable Trustee from: (i) the reletting of the applicable Project in connection with the enforcement of the applicable Trustee's rights under the applicable Sublease; and (ii) the proceeds of condemnation or of insurance payable with respect to the damage, destruction, theft or other loss of the applicable Project which are not applied to repair or replacement of the applicable Project in accordance with the applicable Sublease.

Selection for Redemption

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

Notice of Redemption

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

BOOK-ENTRY-ONLY SYSTEM

The information set forth in this section has been furnished by DTC, New York, New York. Neither the State nor the Underwriters make any representations as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Certificate will be issued for each maturity of each series of the Certificates in the aggregate principal amount of such series and maturity and will be deposited with DTC.

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

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

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

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

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

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

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

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

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

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

NEITHER THE STATE, THE PAYING AGENT, NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEE WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DTC PARTICIPANTS, OR THE INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

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

Neither the State nor the Paying Agent shall have any responsibility or obligation with respect to: (i) the accuracy of the records of DTC or any Participant with respect to any beneficial ownership interest of the Certificates; (ii) the delivery to any Participant, Beneficial Owner of the Certificates or other person, other than DTC, of any notice with respect to the Certificates; (iii) the payment to any Participant, Beneficial Owner of the Certificates or other person, other than DTC of any amount with respect to the principal of, or interest portion on, the Certificates; (iv) any consent given by DTC as registered owner; or (v) the selection by DTC or any Participant of any Beneficial Owners to receive payment if the Certificates are redeemed in part.

SCHEDULED LEASE PAYMENTS

Scheduled 2014 Series A Lease Payments

The following is a schedule of 2014 Series A Lease Payments of Base Rent (as hereinafter defined) due under the 2014 Series A Sublease in each fiscal year, and attributed to the 2014 Series A Certificates, assuming that the 2014 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
2015	$ 0	$ 244,416.67	$ 244,416.67
2016	950,000	500,425.00	1,450,425.00
2017	975,000	478,550.00	1,453,550.00
2018	1,020,000	433,550.00	1,453,550.00
2019	1,070,000	381,300.00	1,451,300.00
2020	1,125,000	326,425.00	1,451,425.00
2021	1,185,000	268,675.00	1,453,675.00
2022	1,245,000	207,925.00	1,452,925.00
2023	1,305,000	144,175.00	1,449,175.00
2024	1,360,000	91,150.00	1,451,150.00
2025	1,415,000	35,375.00	1,450,375.00
Total	$11,650,000	$3,111,966.67	$14,761,966.67

Scheduled 2014 Series B Lease Payments

The following is a schedule of 2014 Series B Lease Payments of Base Rent (as hereinafter defined) due under the 2014 Series B Sublease in each fiscal year, and attributed to the 2014 Series B Certificates, assuming that the 2014 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
2015	$0	$124,578.13	$124,578.12
2016	0	256,275.00	256,275.00
2017	0	256,275.00	256,275.00
2018	340,000	252,875.00	592,875.00
2019	370,000	243,925.00	613,925.00
2020	405,000	230,275.00	635,275.00
2021	440,000	215,575.00	655,575.00
2022	475,000	199,475.00	674,475.00
2023	520,000	179,575.00	699,575.00
2024	560,000	157,975.00	717,975.00
2025	605,000	137,700.00	742,700.00
2026	650,000	112,375.00	762,375.00
2027	700,000	85,625.00	785,625.00
2028	750,000	63,875.00	813,875.00
2029	800,000	40,125.00	840,125.00
2030	850,000	13,812.50	863,812.50
Total	$7,465,000	$2,570,315.63	$10,035,315.63

Scheduled 2014 Series C Lease Payments

The following is a schedule of 2014 Series C Lease Payments of Base Rent (as hereinafter defined) due under the 2014 Series C Sublease in each fiscal year, and attributed to the 2014 Series C Certificates, assuming that the 2014 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
2015	$0	$ 684,809.03	$ 684,809.03
2016	2,450,000	1,402,625.00	3,852,625.00
2017	2,520,000	1,333,500.00	3,853,500.00
2018	2,650,000	1,204,250.00	3,854,250.00
2019	2,785,000	1,068,375.00	3,853,375.00
2020	2,925,000	925,625.00	3,850,625.00
2021	3,080,000	775,500.00	3,855,500.00
2022	3,235,000	617,625.00	3,852,625.00
2023	3,400,000	451,750.00	3,851,750.00
2024	3,575,000	277,375.00	3,852,375.00
2025	3,760,000	94,000.00	3,854,000.00
Total	$30,380,000	$8,835,434.03	$39,215,434.03

CERTIFICATE OWNERS' RISKS

General

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

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

Special Mandatory Redemption or Acceleration Prior to Maturity

The Certificates are subject to special mandatory redemption or acceleration prior to maturity. (See "DESCRIPTION OF THE CERTIFICATES — Special Mandatory Redemption," above and "SUMMARY OF CERTAIN PROVISION OF THE DECLARATIONS OF TRUST" herein.) Certificate Owners may not realize their anticipated yield on investment to maturity because the Certificates may be redeemed or accelerated prior to maturity at par which results in the realization of less than the anticipated yield to maturity.

Value of Projects

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 2014 Series A and Series B Projects consist of improvements to real estate to accommodate the new energy cost saving equipment. Such assets incorporated into the real estate would not be available to the Series 2014 A or Series 2014 B Trustees to re-let in the event of non-appropriation by the State. Furthermore, the Series 2014 B Project will be on real property owned by the Council on Postsecondary Education which holds all of its properties in trust for the State. The 2014 Series C Project consists solely of tangible or intangible personal property, some of which will be in the possession of the LEA's. The 2014 C Trustee would need to obtain possession of such equipment prior to re-letting in the event of non-appropriation by the State. Additionally, significant portions of the 2014 Series C Project consist of related IT software, which do not result in acquired physical assets available to the 2014 Series C Trustee to be re-let in the event of non-appropriation by the State.

Risk of Non-Appropriation and Non-Renewal

Each of the Subleases is for a period ending June 30, 2015, 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.)

The State's FY2015 budget includes an appropriation to pay the debt service on the 38 Studios moral obligation bonds. The matter, however, has been subject to debate and is controversial. If there is a failure in the future to appropriate debt service on the 38 Studios bonds, there likely would be an adverse impact on the ratings on the Certificates that cannot be quantified at this time. See "RATINGS" herein. See also APPENDIX A – "Information Statement of the State of Rhode Island and Providence Plantations" dated October 8, 2014 at page A-86 for a description of the status of the 38 Studios bonds.

Market Factors

The financial condition of the State and the market for the Certificates could be affected by a variety of factors, some of which are beyond the control of the State. There can be no assurances that an adverse event will not occur which might affect the market price and the market for the Certificates. If a significant event should occur, the market for and market value of the Certificates could be adversely affected.

Certain Matters Relating to Enforceability of the Leases and the Subleases

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

Tax-Exempt Status; Continuing Legal Requirements

As described hereinafter under the caption "TAX STATUS," the failure of the State or the Trustee to comply with certain legal requirements may cause the interest portion of the Certificates to become subject to federal income taxation retroactive to the date of issuance. None of the Declarations of Trust provide for the payment of any additional interest in the event the interest on the related Certificates becomes includable in gross income for federal income tax purposes.

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

Special Counsel will express no opinion as to the effect that termination of any Sublease may have upon the treatment for federal or State income tax purposes of amounts received by Certificate Owners. There is no assurance that any amounts representing interest received by Certificate Owners after termination of any Sublease will be excludable from gross income under federal or State laws.

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

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

SUMMARY OF CERTAIN PROVISIONS OF THE SUBLEASES

The following is a summary of certain provisions of the Sublease. The 2014 Series A Sublease, the 2014 Series B Sublease and the 2014 Series C Sublease are substantially similar (except as otherwise differentiated in this summary). In this summary, the terms "Sublease," "Project," "Declaration of Trust" and "Lease Payments" should be read as referring to the documents related to the 2014 Series A Certificates, the 2014 Series B Certificates or the 2014 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 will be effective the date of the Certificates and will terminate on June 30, 2015. The Sublease may be renewed, upon the terms and conditions set forth therein, for the Renewal Periods of one year. The Sublease may be renewed beyond its termination date for such periods as other amendments to the Sublease may provide.

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

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

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

Rent

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

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

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

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

Non-appropriation of Funds

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

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

Title

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

Insurance

The State is required at all times during the term of the Sublease to maintain comprehensive property insurance or shall self-insure 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, damaged or appropriated by condemnation 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 therefor.

Rent Prepayment Option for Series 2014 B Certificates

On and after November 1, 2024 pursuant to the 2014 Series B Sublease, upon sixty (60) days prior written notice from the State to the 2014 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 2014 Series B Sublease, in whole or in part at any time by paying to the 2014 Series B Trustee, on such date, the payments then due under the 2014 Series B Sublease, together with the Rent Prepayment Price being paid on such date along with instructions to the 2014 Series B Trustee, as to how such Rent Prepayment Price shall be applied by the 2014 Series B Trustee in its capacity as 2014 Series B Trustee for the Owners of 2014 Series B Certificates. Upon satisfaction by the State of payment of the entire Rent Prepayment Price, the 2014 Series B Trustee will transfer any and all of its right, title and interest in the 2014 Series B Project, as is, to the State, without warranty, express or implied, except that the 2014 Series B Trustee will warrant to the State that the Project is free and clear of any liens created by the 2014 Series B Trustee.

Events of Default

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

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

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

Remedies

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

(a) By written notice to the State, request the State to (and the State agrees that it will) relinquish possession of any or all of the property comprising the Project, to the fullest possible extent;

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

(c) Lease the relinquished property comprising the Project for the account of the State who shall remain liable for all Lease Payments due during the Sublease term and other payments due to the effective date of such leasing and for the difference between the rental and other amounts paid by the State pursuant to such lease and the amounts payable by the State 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 will remain liable for all covenants and obligations under the Sublease and for all legal fees and other costs and expenses, including court costs, when and if deemed appropriate and awarded by a court of competent jurisdiction, incurred by the Trustee with respect to the enforcement of any of the remedies listed above or any other remedy available to the Trustee under the Sublease, when it is finally adjudicated by a court of competent jurisdiction that the State is in default of the Sublease.

SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATIONS OF TRUST

The following is a summary of certain provisions of the Declaration of Trust. The 2014 Series A Declaration of Trust, the 2014 Series B Declaration of Trust and the 2014 Series C Declaration of Trust are substantially similar (except as otherwise differentiated in this summary). In this summary, the terms "Sublease," "Project," "Declaration of Trust," and "Lease Payments" should be read as referring to the documents relating to the 2014 Series A Certificates, the 2014 Series B Certificates or the 2014 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 Sublease.

Transfer of Certificates

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

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

Redemption

The Certificates are subject to special mandatory redemption prior to maturity as a whole or in part in the amounts, on the dates and at the prices as more fully described above under "DESCRIPTION OF THE CERTIFICATES — *Special Mandatory Redemption.*" The 2014 Series B Certificates are also subject to optional redemption prior to maturity as described in "DESCRIPTION OF THE CERTIFICATES – *Optional Redemption of the 2014 Series B Certificates*."

Trust Fund

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

Establishment and Application of Project Account

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

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

Establishment and Application of Lease Payment Account

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

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

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

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

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

Establishment and Application of Rebate Account

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

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

Establishment and Application of Redemption Account

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

Moneys shall be deposited in the Redemption Account in the event of a special mandatory redemption or upon acceleration.

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

Deposit and Investment of Moneys in Funds

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

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

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

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

   Certificates of beneficial ownership

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

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

   Participation certificates

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

   GNMA - guaranteed mortgage-backed bonds

   GNMA - guaranteed pass-through obligations (participation certificates)

5. U.S. Maritime Administration

Guaranteed Title XI financing

6. U.S. Department of Housing and Urban Development (HUD)

Project Notes

Local Authority Bonds

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

1. Federal Home Loan Bank System

Senior debt obligations (Consolidated debt obligations)

2. Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")

Participation Certificates (Mortgage-backed securities) (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 Declaration of Trust, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to this Declaration of Trust may at times duplicate those provided to such funds by the Trustee or its affiliates;

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

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

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

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

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

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

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

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

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

Events of Default

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

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

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

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

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

Acceleration

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

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

Remedies

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

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

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

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

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

Rights of Certificate Owners to Direct Proceedings

The Owners of a majority in aggregate principal amount of the Certificates then outstanding under the Declaration of Trust shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Declaration of Trust and any supplemental amendment, or for the appointment of a receiver or any other proceedings hereunder; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Declaration of Trust; and further provided that the Trustee be provided with indemnification satisfactory to the Trustee.

Appointment of Receivers

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

Rights and Remedies of Certificate Owners

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

Waivers of Events of Default

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

Amendments and Supplemental Amendments

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

(a) To cure any ambiguity, inconsistency or formal defect or omission in the Declaration of Trust;

(b) To grant to or confer upon the Trustee for the benefit of the Certificate Owners any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Certificate Owners or the Trustee or either of them;

(c) To subject to the lien and pledge of the Declaration of Trust, additional revenues;

(d) To add to the covenants and agreements of the Trustee contained in the Declaration of Trust other covenants and agreements thereafter to be observed for the protection of the Certificate Owners, or to surrender or limit any right, power or authority herein reserved to or conferred upon the Trustee; and

(e) To evidence any succession within the Trustee and the assumption by such successors of the requirements, covenants and agreements of the Trustee and in the Lease, the Sublease and the Certificates issued under the Declaration of Trust.

Exclusive of the aforementioned types of amendments and subject to the terms and provisions contained in the Declaration of Trust, and not otherwise, the Owners of not less than a majority in aggregate principal amount of the Certificates then Outstanding shall have the right, from time to time, anything contained in the Declaration of Trust to the contrary notwithstanding, to consent to and approve the execution by the Trustee of such other amendments, as shall be deemed necessary and desirable by the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in a Declaration of Trust or in any amendment thereto, provided, however, that nothing therein shall permit, or be construed as permitting: (i) an extension of the maturity of the principal or interest portion on any Certificate issued thereunder, or a reduction in the principal amount of any Certificate or the rate of interest thereon, without the consent of each Certificate Owner so affected or (ii) a privilege or priority of any one Certificate over any other Certificate, or a reduction in the aggregate principal amount of the Certificates required for consent to such amendment, without the consent of the Owners of all of the Certificates then Outstanding.

The Trustee without the consent of the Owners of the Certificates may consent to any amendment to the Sublease which in its judgment is not to the prejudice of the Trustee or the

Owners of the Certificates. The Trustee shall not consent to any amendment, change or modification of the Sublease which would change the amount of the Lease Payments required to be paid under the Sublease, or the Lease Payment Dates under the Sublease unless the Owners of not less than a majority in aggregate principal amount of the Certificates then outstanding shall approve the Trustee's consent to such amendment; provided, however that no amendment to the Sublease shall be consented to if the amendment would result: (i) in an extension of the maturity of the principal portion of or the interest portion on any Certificate issued in connection therewith, or a reduction in the principal amount of any Certificate or the rate of interest thereon, unless each Certificate Owner so affected consents; or (ii) in a privilege or priority of any Certificate over any other Certificate, or a reduction in the aggregate principal amount of the Certificates required for consent to such amendment, unless the Owners of all of the Certificates then Outstanding under the Declaration of Trust so consent.

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

Defeasance of Certificates

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

LITIGATION

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 Subleases, the Leases, the Declarations of Trust, or the Certificates.

In June 2012, certain unions, active and retired State employees and associations of retired State and municipal employees who maintain they are current beneficiaries of the State Employees' Retirement System ("ERSRI") commenced five separate lawsuits in State court challenging the Retirement Security Act enacted by the General Assembly. As a result of the Retirement Security Act, the unfunded liability of $6.8 billion for State employees and teachers in the June 30, 2010 actuarial valuation for ERSRI was reduced to $4.4 billion as reported in the June 30, 2011 valuation. Also, the projected employer contribution was reduced from $622 million as reported in the 2010 actuarial valuation to $380 million as reported in the June 30, 2011 valuation. The unfunded liability and the projected employer contribution as reported in the June 30, 2013 actuarial valuation is approximately $4.5 billion and $411.5 million, respectively.

On August 17, 2012, the defendants filed a motion to dismiss the Rhode Island Public Employees' Retirement Coalition v. Chafee, C.A. No. 12-3166 case. The defendants also asked the Court to dismiss the remaining four cases if the Court concluded that the plaintiffs' purported contracts derive from the State's pension legislation. A hearing on defendants' motions was held in December 2012. Defendants' motions were denied.

On February 14, 2014, the parties (with the exception of City of Cranston, Police Officers, International Brotherhood of Police Officers Local 301 and Cranston Fire Fighters, IAFF Local 1363) executed a Settlement Agreement in each of those five cases. Pursuant to the terms of the parties' agreement, a series of votes took place for the unions to proceed with the proposed settlement. In addition, the settlement was conditioned on enactment of the legislation by the General Assembly.

As a result of the voting and pursuant to the terms of the proposed settlement, the settlement process has ended. Under the terms of the settlement, if any one of the six voting groups voted to reject the proposal, the settlement process would terminate and the litigation would continue. Although more than seventy percent of the members eligible to vote did not reject the settlement, the smallest group, representing less than two percent of all eligible members, voted to reject the settlement. The Court was apprised of the vote. The mediation has ended without a settlement agreement.

On April 3, 2014, fifty retired State workers and public school teachers filed an additional lawsuit objecting to the class action settlement, and seeking equitable relief, including but not limited to restoration of cost of living adjustments. Stated broadly, the plaintiffs' claims are substantively similar to those raised in the underlying litigation, Rhode Island Public Employees Retirement Coalition v. Chafee. Through a series of amendments to the complaint, the lawsuit was amended to add more than an additional 150 individuals as plaintiffs. The State intends to vigorously contest the lawsuit.

The six cases remain in litigation and, after the Court entered an order directing certain of the plaintiffs to join the municipal entities with which they allege they have a collective bargaining agreement, the Cranston Firefighters, IAFF Local 1363, AFL-CIO (which had been a party to one of the original five lawsuits challenging the Retirement Security Act) filed a separate lawsuit in Rhode Island Superior Court challenging the Retirement Security Act and withdrew from the original suit. In addition, the International Brotherhood of Police Officers, Local 201 (Cranston Police), which had been a party to one of the original lawsuits challenging the Retirement Security Act, filed a separate lawsuit in Rhode Island Superior Court challenging the Retirement Security Act.

On September 8, 2014, a ninth case was commenced by the Rhode Island State Troopers Association and Rhode Island State Troopers Association ex rel. Kevin M. Grace and Ernest E. Adams in Rhode Island Superior Court challenging the Retirement Security Act.

It is anticipated that the trial justice will set a trial date in the next few months with respect to the outstanding litigation noted above.

An adverse judgment to the State rendered in the pension litigation could significantly increase both the unfunded liability under the ERSRI and the State's Annual Required Contribution ("ARC") based upon the impact that the ERSRI has had in reducing the unfunded liability and ARC as reflected above. If there were to be significant increases in the ARC, the State may be required to (i) raise additional revenue, (ii) reduce State services, (iii) modify benefits provided by each of its defined-benefit retirement plans, (iv) implement a combination of the foregoing, or (v) take any other measures as necessary. For a discussion regarding such pension litigation, as well as certain pension litigation challenging the 2009 and 2010 pension reform and other pending litigation where the potential exposure for which is greater than $5,000,000, see the section entitled "Litigation" in APPENDIX A – "Information Statement of the State of Rhode Island and Providence Plantations" dated October 8, 2014. For a discussion regarding the status of the State Employees' Retirement System and the significance of unfunded liability and employer contributions with respect to the State Employees' Retirement System, see the section entitled "State Retirement Systems" in APPENDIX A – "Information Statement of the State of Rhode Island and Providence Plantations" dated October 8, 2014.

LEGAL MATTERS

The Attorney General of the State has reviewed and approved all the documentation related to the Subleases and the Leases and will render an opinion to the effect that the State possesses the authority necessary to enter into the Subleases and the Leases and that the Subleases and the Leases constitute legal, valid, binding and enforceable obligations of the State subject to the limitations set forth therein. Certain legal matters will be passed upon for the State by Partridge Snow & Hahn LLP, Providence, Rhode Island, special counsel to the State, and by Taft & McSally LLP, Cranston, Rhode Island, disclosure counsel to the State. Certain legal matters will be passed upon for the Underwriters by its counsel, Pannone Lopes Devereaux & West LLC, Providence, Rhode Island.

TAX STATUS

Partridge Snow & Hahn LLP is of the opinion that, under existing laws, regulations, rulings, and court decisions and assuming, among other matters, continuing compliance with certain tax covenants described herein, the portion of Lease Payments designated as interest and distributable to the Certificate Owners to the extent such payments are appropriated by the State and received by the Certificate Owners (the "Interest") is excludable from gross income of such Owners for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Such portion of the Lease Payments distributable as Interest is excludable from State of Rhode Island personal income taxation to the extent such interest is excludable from gross income for federal income tax purposes, although such amounts may be included in the measure of Rhode Island estate taxes and certain Rhode Island corporate and business taxes. Partridge Snow & Hahn LLP has not opined as to taxability under the laws of any state other than Rhode Island. (See APPENDIX C – "Proposed Forms of Legal Opinion").

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

The Code establishes certain requirements regarding the use, expenditure and investment of proceeds of the Certificates and the payment of rebates to the United States, which must be continuously satisfied subsequent to the issuance of the Certificates in order for the portion of the Lease Payments designated as Interest on the Certificates to remain excludable from gross income for federal income tax purposes. Failure to comply with these requirements may cause that portion of the Lease Payments designated as Interest on the Certificates to become includable in the gross income of the Owners thereof for federal income tax purposes retroactive to the date of issuance of the Certificates. The State will covenant to take all lawful action necessary under the Code to ensure that the portion of the Lease Payments designated as Interest on the Certificates will remain excludable from gross income for federal income tax purposes and to refrain from taking any action that would cause such portion to become includable in such gross income. The opinion of Partridge Snow & Hahn 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. Partridge Snow & Hahn LLP expresses no opinion regarding any other federal, state or local tax consequences with respect to the Certificates. Partridge Snow & Hahn LLP renders its opinion under existing laws, regulations, rulings, and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Partridge Snow & Hahn 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.

PARTRIDGE SNOW & HAHN 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.

Prospective Certificateholders should be aware that from time to time legislation is or may be proposed which, if enacted into law, could result in interest on the Certificates being subject directly or indirectly to federal income taxation, or otherwise prevent Certificateholders from realizing the full benefit provided under current federal tax law of the exclusion of interest on the Certificates from gross income. To date, no such legislation has been enacted into law. However, it is not possible to predict whether any such legislation will be enacted into law. Further, no assurance can be given that any pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the market value and marketability of, or the tax status of interest on, the Certificates. Prospective Certificateholders are urged to consult their own tax advisors with respect to any such legislation, interpretation or development.

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

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

UNDERWRITING

The Certificates are being purchased by the Underwriters listed on the cover page hereof. Merrill Lynch, Pierce, Fenner & Smith Incorporated is acting as representative on behalf of the Underwriters. The aggregate offering price of the Series A Certificates to the public is $13,215,423.45 and the Underwriters have agreed, subject to certain conditions, to purchase the Series A Certificates at a purchase price of $13,165,200.76 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 $7,843,602.40 and the Underwriters have agreed, subject to certain conditions, to purchase the Series B Certificates at a purchase price of $7,802,809.88 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 $35,088,644.10 and the Underwriters have agreed, subject to certain conditions, to purchase the Series C Certificates at a purchase price of $34,958,830.17 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.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the State, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and instruments of the State.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

In addition, certain of the Underwriters may have entered into distribution agreements with other broker-dealers (that have not been designated by the State as Underwriters) for the distribution of the offered certificates at the original issue prices. Such agreements generally provide that the relevant Underwriter will share a portion of its underwriting compensation or selling concession with such broker-dealers.

FINANCIAL ADVISOR

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

RATINGS

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

The Governor had included in his proposed fiscal year 2015 budget, and the Rhode Island General Assembly enacted a fiscal year 2015 budget including, an appropriation to pay debt service on the Rhode Island Commerce Corporation Job Creation Guaranty Program Taxable Revenue Bonds (38 Studios, LLC Project), Series 2010 (the "38 Studios Bonds") for fiscal year 2015. The Governor and the General Treasurer have opposed any effort to not appropriate funds to pay the debt service on the 38 Studios Bonds. The matter has been subject to debate and remains controversial. If there is a failure to appropriate funds to pay debt service on the 38 Studios Bonds in future fiscal years, there likely would be an adverse impact on the ratings for the Certificates that cannot be quantified at this time. See APPENDIX A – "Information Statement of the State of Rhode Island and Providence Plantations" dated October 8, 2014 at page A-86 for a description of the 38 Studios Bonds.

CONTINUING DISCLOSURE

Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, and officially interpreted from time to time (the "Rule") provides that underwriters shall not purchase or sell municipal securities unless the issuer of the municipal securities undertakes to provide continuing disclosure with respect to those securities, subject to certain exemptions. The State, through the State Budget Office, will undertake in a written agreement ("Continuing Disclosure Certificate") for the benefit of the owners of Certificates to provide in electronic format to the Electronic Municipal Market Access System ("EMMA") maintained by the Municipal Securities Rulemaking Board ("MSRB"), as the sole repository for the central filing of electronic disclosure pursuant to the Rule, the following information.

The State shall provide (a) not later than the end of each calendar year, commencing with December 31, 2015, financial information and operating data relating to the State for the preceding fiscal year, of the type presented in APPENDIX A of the Official Statement prepared in connection with the Certificates regarding (i) revenues and expenditures relating to operating budgets, (ii) capital expenditures, (iii) fund balances, (iv) tax information, (v) outstanding direct and indirect indebtedness, (vi) pension obligations, and (vii) such other financial information and operating data as may be required to comply with the Rule; and (b) promptly upon their public release, the audited financial statements of the State for the most recently ended fiscal year, to the extent any such statements have been commissioned, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by Rhode Island law. The State reserves the right to modify from time to time the specific types of information provided under subparagraph (a) above or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the State; provided that any such modification will be done in a manner consistent with the Rule. The State shall provide, in a timely manner, to the MSRB, notice of a failure to satisfy the requirements of this paragraph.

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

(a) Principal and interest payment delinquencies;

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

(c) Unscheduled draws on debt service reserves reflecting financial difficulties;

(d) Unscheduled draws on credit enhancements reflecting financial difficulties;

(e) Substitution of credit or liquidity providers, or their failure to perform;

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

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

(h) Certificate calls, if material;

(i) tender offers;

(j) Defeasances;

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

(l) Rating changes;

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

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

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

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

The State from time to time may choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the State, such other event is material with respect to the Certificates, but the State does not undertake to commit to provide any such notice of the occurrence of any event except those listed above.

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

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

the offering of the Certificates, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the beneficial owners of the Certificates, as determined either by a party unaffiliated with the State (such as special counsel), or by the vote or consent of beneficial owners of a majority in outstanding principal amount of the Certificates affected thereby at or prior to the time of such amendment. Furthermore, to the extent that the Rule, as in effect from time to time, no longer requires the issuers such as the State to provide all or any portion of the information the State has agreed to provide pursuant to this Continuing Disclosure Certificate with respect to securities such as the Certificates, the obligation of the State to provide such information also shall cease immediately.

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

Except as described below, the State has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule for the past five years.

The State has been filing from time to time notices regarding changes in the financial strength ratings issued by the Rating Agencies during the period from 2009 through 2014 for those national bond insurers who have provided bond insurance on certain bonds and lease participation certificates for which the State has a continuing disclosure obligation under the Rule. Although the State believes it has complied in all material respects with its obligations to file notices of material rating changes with respect to such rating changes, it cannot rule out the possibility that determinations made by the State might be open to interpretation as to whether certain rating changes in connection with such bond insurers were material or not material or what constituted "timely" filing. The State has instituted policies and procedures designed to ensure compliance with the new reporting obligations under the Rule that were effective as of December 1, 2010, that now require filing notices of rating changes in connection with new bond issues within 10 business days of such occurrence regardless of materiality. However, the State inadvertently failed to file a notice of rating change occurring on September 23, 2013 related to the Rhode Island Motor Fuel Tax Revenue Bonds issued in 2003, 2006 and 2009 through the Rhode Island Commerce Corporation (f/k/a Rhode Island Economic Development Corporation). At this time, such information has been filed. The State plans to regularly review the effectiveness of its policies and procedures and take prompt action to remedy any deficiencies of which it becomes aware.

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

MISCELLANEOUS INFORMATION

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

Information with respect to the State and a detailed description of the State's financial condition are set forth in the State's Information Statement dated October 8, 2014, the Basic Financial Statements of the State, as of and for the year ended June 30, 2013, and the Preliminary Unaudited Closing Report of the State for the fiscal year ended June 30, 2014, all of which have been prepared and furnished by the State and which are included in APPENDIX A. Subsequent to the October 8, 2014 date of the State's Information Statement, the State entered into an agreement on October 17, 2014 to sell State General Obligation Bonds consisting of $33,625,000 Consolidated Capital Development Loan of 2014, Series B (Tax-Exempt), $12,500,000 Capital Development Loan of 2014, Series C (Federally Taxable), and $162,115,000 Consolidated Capital Development Loan of 2014, Refunding Series D (Tax-Exempt). Closing on those State General Obligation Bonds is expected to occur on or about November 5, 2014.

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

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

STATE OF RHODE ISLAND AND
PROVIDENCE PLANTATIONS

By: /s/ Gina M. Raimondo
General Treasurer

By: /s/ Steven T. Hartford
Director of Administration

Dated: October 30, 2014

INFORMATION STATEMENT OF THE STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

DATED: October 8, 2014

Appendix A
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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.

Principal Governmental Services

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

General Government

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

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

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

The Department of Administration also includes the Office of Energy Resources, which is responsible for coordinating all energy matters. In January 2009, the State signed a joint development agreement with Deepwater Wind Rhode Island, LLC (Deepwater Wind) that outlines the terms and conditions for the construction of wind energy development off the shores of Rhode Island that is expected to provide up to one gigawatt per year of renewable energy. The first phase of the project began in late 2010 with preliminary work off of Block Island and actual construction may commence in 2015. It is expected that the development will cost in excess of $5.0 billion to construct, which will all be funded through private investment sources. In August 2010, the Public Utilities Commission approved a Power Purchase Agreement (PPA) relating to the purchase of power from this development. This PPA was challenged in court by certain local businesses and on July 1, 2011 the Supreme Court found insufficient grounds to overturn the contract under which Rhode Island's largest utility will buy power from the five-turbine wind farm that Providence-based Deepwater Wind proposes building in the waters southeast of Block Island.

As of FY 2013, the Rhode Island Health Benefits Exchange (recently rebranded as HealthSource RI) was transferred to the Department of Administration from the Governor's Office, where it had been established through an Executive Order on September 19, 2011. HealthSource RI is responsible for carrying out the establishment of a health benefits exchange in accordance with the Patient Protection and Affordable Care Act and for negotiating high quality, affordable health insurance options on behalf of Rhode Island businesses and citizens.

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

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

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

Human Services

Human Services includes those agencies that provide services to individuals. Services provided include medical assistance for eligible low-income populations by the Executive Office of Health and Human Services, care of the disabled by the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals; child protective and social services provided by the Department of Children, Youth and Families; health programs at the Department of Health and the Department of Human Services; and financial assistance and social services provided by the Department of Human Services.

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

Department of Human Services. The Department of Human Services operates as the principal state agency for the administration and coordination of local, state and federal programs for cash assistance and social services. The responsibilities of the Department include supervision of the following programs: child support enforcement, supplemental security income, general public assistance, supplemental nutrition assistance, TANF cash assistance, child care assistance, home energy assistance, elderly transportation, and other services to the elderly. The Department also operates the Rhode Island Veterans’ Home, the Veterans’ cemetery, and administers vocational rehabilitative services and services for the blind and visually impaired.

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

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

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

Education

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

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

As part of the FY 2015 Appropriations Act, the Governor proposed certain changes to the legislation enacted by the General Assembly in 2012. The new legislation increased the size of the Board of Education to seventeen (17) members and created two councils, a Council on Elementary and Secondary Education and a Council on Post-secondary Education. The Board of Education will set the goals for the entire education system and an agenda for state-wide priorities. Each of the councils will focus on regulatory and governance issues that pertain to their respective area. The legislation also created an Office of Post-secondary Commissioner to replace the Office of Higher Education.

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

Board of Regents for Elementary and Secondary Education. Through January 1, 2013, the Board of Regents for Elementary and Secondary Education was responsible for the formulation and implementation of statewide goals and objectives for elementary, secondary and special populations education and for the allocation and coordination of various educational functions among the educational agencies of the State and local school districts. The Board also established State aid reimbursement payments to local school districts, operated the Rhode Island School for the Deaf, the Metropolitan Career and Technical School and William M. Davies Vocational-Technical School, and supervised the State's area vocational-technical schools. The Department also operated the Central Falls School District. The Board appointed a Commissioner of Elementary and Secondary Education to serve as its chief executive officer and the chief administrative officer of the Department of Elementary and Secondary Education.

Board of Governors for Higher Education. Through January 1, 2013, the Board of Governors for Higher Education was responsible for the formulation and implementation of broad goals and objectives for public higher education in the State, including a comprehensive capital development program. In addition, the Board held title to all public higher education institutions of the State, which include the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island (collectively, the "State Colleges"). While there was institutional autonomy, the Board was responsible for general supervision of public higher education, including adoption and submittal of the State higher education budget, property acquisition and management and approval of organizational and curriculum structures. The Commissioner of Higher Education was appointed by the Board to serve as chief executive officer of the Board and chief administrative officer of the Office of Higher Education. The Board had the Rhode Island Health and Educational Building Corporation issue on its behalf from time to time revenue bonds to finance various capital improvements for the State Colleges, which revenue bonds are supported by certain revenues derived by the State Colleges and/or certain appropriations made by the State to the State Colleges. The outstanding balance for these revenue bonds as of June 30, 2014 totals $247,765,997.

Public Safety

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

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

Commission. In the 2011 Session of the General Assembly, the Sheriffs were transferred from the Department of Administration to the Department of Public Safety.

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

The Department of Corrections is made up of two main programmatic areas, Institutional Corrections and Community Corrections. The Adult Correctional Institutions (ACI) includes seven (7) separate facilities and associated support services. Within Community Corrections are Probation and Parole, the Home Confinement Unit, a Risk Assessment Unit and the Furlough Program. Also included in the Department of Corrections budget, but with independent decision-making authority, is the State Parole Board.

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

Natural Resources

Natural Resources includes those agencies responsible for protecting the natural and physical resources of the State and regulating the use of those resources. Agencies included in this function are the Department of Environmental Management and the Coastal Resources Management Council. Staffing responsibilities for the Water Resources Board were transferred to the Department of Administration as part of the FY 2012 Enacted Budget.

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

Transportation

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

The Intermodal Surface Transportation Fund is supported by the State's 32 cents per gallon motor fuel tax, which was raised 2 cents per gallon from 30 cents per gallon in the FY 2010 Enacted Budget. In addition, the State charges 1.0 cent per gallon of motor fuel delivered to an underground storage tank (UST). In 2009, 0.5 cents of the UST fee was dedicated to the Rhode Island Public Transit Authority (RIPTA); prior to 2009, the full 1.0 cent went to the Department of Environmental Management. Motor fuel tax receipts fund operating and debt service expenditures of the Department of Transportation, as well as specific portions of transportation-related expenditures of RIPTA and the Department of Human Services. As of FY 2010, the 32 cents per gallon motor fuel tax and the 1.0 cent UST fee has been allocated as follows: 19.75 cents to the Department of Transportation; 2.0 cents to an indenture trustee to support debt service on motor fuel tax bonds; 9.75 cents to RIPTA, of which 9.25 cents are from motor fuel tax and 0.5 cents are from the UST fee; 1.0 cent to the Department of Human Services for its Elderly and Disabled Transportation Program, and the remaining 0.5 cents from the UST fee to the Department of Environmental Management's UST Replacement Fund. However, commencing with FY 2015, the allocation of the 32 cents per gallon motor fuel tax to the Department of Transportation has been reduced by 3.5 cents from 19.75 cents to 16.25 cents and the 3.5 cents has been allocated to the Rhode Island Turnpike and Bridge Authority for maintenance expenses, capital expenditures and debt service.

Department of Transportation. The Department of Transportation is responsible for the integration of all modes of transportation into a single transportation system. The Department is organized to carry out its responsibilities for the construction and maintenance of all State roads, bridges, transportation facilities (other than those operated and maintained by the Rhode Island Turnpike and Bridge Authority), and the administration of State and Federal highway construction assistance programs. The Department's activities have substantially increased primarily due to the continued road funding resulting from passage of the 1998 Transportation Equity Act for the 21st Century (TEA-21). Major recent or ongoing construction and rehabilitation projects include the Route 195 Relocation, reconstruction of the Washington Bridge, replacement of the Sakonnet River Bridge, the extension of Route 403 and the Freight Rail Improvement program.

During the 2003 Session of the General Assembly, the Rhode Island Commerce Corporation, at the request of the Governor and Department of Transportation, received authority to issue bonds (GARVEEs) 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. As of June 30, 2014, there was $254,605,000 of the GARVEE Bonds outstanding.

In July 2011, the Governor signed into law an Act authorizing the sale of surplus property created by the relocation of Interstate 195. The Act also created the I-195 Redevelopment District Commission. The seven (7) member commission is authorized to plan, implement, administer and oversee the redevelopment of the Interstate 195 surplus properties. The proceeds from the sale or lease of such surplus properties will be used to help finance the completion of the Interstate 195 relocation project. Also included in this legislation was authorization for the Rhode Island Commerce Corporation to issue bonds or other obligations not to exceed $42.0 million to finance the acquisition by the I-195 Redevelopment District Commission of the surplus land. In April 2013, the Rhode Island Commerce Corporation issued $38.4 million of bonds under this authority, secured by State appropriations. This financing, in combination with residual funds from the motor fuel proceeds, is expected to be sufficient to fund completion of the I-195 relocation project and certain activities of the I-195 Redevelopment District Commission. To the extent these resources are not sufficient to complete the projects, other Transportation funds would be made available, which would impact the progress of other contemplated projects.

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

The Blue Ribbon Panel for Transportation Funding released its report dated as of December 23, 2008. The Blue Ribbon Panel projected that the State would need to spend approximately $639.0 million per year during the next 10 years to maintain Rhode Island's highway system in a state of good operation and repair but that State and federal funding only provided approximately $484.6 million in FY 2014. The Blue Ribbon panel suggested various funding strategies that could possibly be implemented to meet, in whole or in part, the funding gap each year, which stands at $197 million based upon available funding in FY 2014. Such recommended funding strategies included levying a $3.00 toll on all cars and $6.00 on all trucks entering the State, imposing tolls on all bridges between Aquidneck Island and the mainland, raising passenger-vehicle registration fees, raising the State gasoline tax by as much as 15 cents per gallon, creation of a petroleum product gross receipts tax and a vehicle miles traveled fee. The various revenue strategies outlined would require legislation for implementation. Despite the temporary relief provided through America Recovery and Reinvestment Act (ARRA) funding, transportation infrastructure funding will continue to present challenges and the Blue Ribbon Panel funding strategies may be revisited.

The FY 2013 Appropriations Act included Article 20, the East Bay Bridge System, which transferred responsibility for the Sakonnet River Bridge and the Jamestown Verrazzano Bridge from the Department of Transportation to the Rhode Island Turnpike and Bridge Authority. The legislation also authorized the Authority to impose tolls on the Sakonnet River Bridge and for the proceeds to be used for the upkeep of the entire East Bay Bridge System. Excess revenues, not required for maintenance of the bridges or for debt service, would be transferred to the East Bay Infrastructure Fund and used for road and bridge improvements in East Bay communities.

As a follow-up to Article 20, the FY 2014 Appropriations Act included Article 5, Relating to Highways, which was then superseded by House Bill 6329 Substitute A, amending RIGL 24-12-40.F entitled "Sakonnet River Bridge Vested in Rhode Island Turnpike and Bridge Authority – Institution of Tolls". The amendment delayed the collection of tolls on the Sakonnet River Bridge until August 19, 2013, at which time; the Authority was authorized to collect tolls for the use of the Bridge. However, the toll imposed on the Sakonnet River Bridge cannot exceed ten cents ($0.10) until May 15, 2014.

The amendment also established a Special Legislative Commission to make a comprehensive study of all types of funding mechanisms and strategies to support Rhode Island's infrastructure, including the Sakonnet River Bridge. This Commission issued a report of January 15, 2014, which summarized the revenue and expenditure needs for transportation infrastructure, but did not provide any final recommendation or solution.

On March 19, 2014, the Rhode Island Turnpike and Bridge Authority voted to raise the tolls on the Sakonnet River Bridge as of May 16, 2014 to 50 cents per trip, with a maximum of $1 a day for drivers with a Rhode Island E-ZPass electronic toll-payment device and $3.75 for all other drivers. If those become the tolls on the Sakonnet River Bridge, the tolls on the Pell Bridge would remain at their current 83 cents for Rhode Island E-ZPass holders and $4 for others.

During the 2014 legislative session, the financing mechanism for transportation infrastructure and bridge repairs changed dramatically when the General Assembly enacted Article 21 – Relating to Transportation of the FY 2015 Appropriations Act. This article creates a long-term solution for financing Rhode Island's roads and bridges, along with removal of the authority to toll the Sakonnet River Bridge. As part of this article, the General Assembly expanded the Highway Maintenance Account within the Intermodal Surface Transportation Fund, such that this account will become Rhode Island's primary source for transportation financing by making a number of technical changes to existing law and by implementing various funding streams as a means to finance the transportation plan. This account will collect and disburse various motor vehicle fees, surcharges and tax revenue currently accounted for in the General Fund, but now to be deposited to the Highway Maintenance Account (HMA).

Article 21 removes authority of the Rhode Island Turnpike and Bridge Authority to toll the Sakonnet River Bridge as of June 30, 2014 (the toll was formally removed on June 20, 2014 by order of the Governor). The Rhode Island Turnpike and Bridge Authority will continue to control the four bridges in the East Bay (Newport Pell, Jamestown, Mount Hope, and Sakonnet). To make up for the loss of toll revenue on the Sakonnet River Bridge, Article 21 transfers three and one-half cents ($0.035) of the State gas tax to the Rhode Island Turnpike and Bridge Authority beginning July 1, 2014 to be used for maintenance expenses, capital expenditures and debt service on any of the Authority's projects.

Article 21 makes additional changes that result in new revenue to the HMA, including: 1) authorization to increase the gas tax every other fiscal year equivalent to the increase in the Consumer Price Index (CPI), rounded to the nearest 1.0 cent increment; 2) transfer of fees collected for certificate of title issuance; 3) transfer of surcharges collected on the rental of vehicles; 4) imposition of a new twenty-five dollar ($25) fee on dismissals based on good driving records; 5) increase of the fee on motor vehicle inspections from thirty-nine dollars ($39) to fifty-five dollars ($55), thirty-two dollars ($32) of which will go to the HMA; and 6) transfer of most motor vehicle related fees over a three year period, with 25.0 percent transferred in FY 2016, 75.0 percent in FY 2017 and 100.0 percent in FY 2018. In total, these changes will result in an estimated increase in resources for transportation infrastructure of over $70.0 million by FY 2018 and thereafter.

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 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 fiscal year. They are prepared using the accrual basis of accounting, which recognizes all revenues and grants when earned and expenses at the time the related liabilities are incurred. The fund financial statements focus on the State's major governmental and enterprise funds, including its blended component units. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on the individual parts of the State government, and report the State's operations in more detail than the government-wide financial statements. The State's funds are divided into three categories: governmental, proprietary and fiduciary.

Budget Procedures

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

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

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

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

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

The Consensus Revenue Estimating Conference was created in 1990 to provide the Governor and the General Assembly with estimates of general revenues. The principals of the Consensus 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 Consensus Revenue Estimating Conference, was established to adopt welfare and medical assistance caseload estimates.

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

A budget reserve and cash stabilization account was created by statute in 1990. In 1992, the Rhode Island Constitution was amended specifying that the reserves created could only be called upon in an emergency involving the health, safety, or welfare of the State or in the event of an unanticipated deficit caused by a shortfall in general revenue receipts. Such reserve account was capped at 3 percent of General Fund revenues. The reserve account was funded by limiting annual appropriations to 98 percent of estimated revenues. When the Budget Reserve Account has reached its maximum, the excess contribution flows to the Rhode Island Capital Plan Fund. If funds are withdrawn, the Budget Reserve Account is replenished through the funding formula provided for in the Constitution, and the general law requires that the repayment be made to the Rhode Island Capital Plan Fund in the next fiscal year. The actual balance of the Budget Reserve Account at the end of FY 2008 was $103.1 million reflecting full funding. The State closed FY 2008 with a deficit of $42.9 million after the General Assembly declined the Governor's recommendation to transfer funds from the Budget Reserve Account to the General Fund. During the 2009 Session of the General Assembly, the Legislature appropriated $22.0 million from the Budget Reserve Account to fill a budget gap expected at the close of FY 2009. Even with this $22.0 million appropriation, the General Fund ended FY 2009 with a deficit of $62.3 million. The FY 2010 enacted budget included $22.0 million of appropriations to repay the Rhode Island Capital Plan Fund. However, the enacted Supplemental FY 2010 budget delayed that repayment to the Rhode Island Capital Plan Fund to FY 2011. The Governor's FY 2011 Supplemental Budget requested that this repayment be delayed again to FY 2013, but subsequent to the May Revenue Estimating Conference, the Governor requested that some of the additional revenues estimated to be available in FY 2011 be used to make this payment as originally enacted. The General Assembly approved this request as part of the final enacted FY 2011 Supplemental Budget. The balance of the Budget Reserve Account at the end of FY 2014 according to the unaudited financial statements was $177.0 million.

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

Additionally, during the 2007 Session of the General Assembly, a law was enacted which requires that revenues received in excess of the amount estimated in the enacted budget, net of reserve fund contributions, would be transferred to the State Retirement Fund upon completion of the post audit. Based on the State Controller's final closing report issued on December 20, 2012, $12.9 million of the General Fund balance was restricted for this transfer. The Governor's recommended FY 2014 Appropriations Act included a proposal to eliminate the requirement for this transfer for FY 2012 and future years, but this change was not approved by the General Assembly and the $12.9 million was transferred by the State Controller to the State Retirement Fund. Based on the final closing report for FY 2013, a total of $168,605 was transferred to the State Retirement Fund. The FY 2014 preliminary closing report issued by the State Controller indicates that $19.7 million would be transferred for FY 2014.

Financial Controls

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

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

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

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

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

The Finance Committee of the House of Representatives is required by law to provide for a complete post-audit of the financial transactions and accounts of the State on an annual basis, which must be performed by the Auditor General, who is appointed by the Joint Committee on Legislative Services 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 GASB 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 pursuant to the Federal Single Audit Act. The Auditor General also has the power, when directed by the Joint Committee, to make post-audits and performance audits of all State and local public bodies or any private entity receiving State funds.

Recent Events

Potential Federal Spending Cuts: On January 17, 2014, the President signed Consolidated Appropriations Act of 2014 which completed the budget process of federal fiscal year (FFY) 2014 ending

September 30, 2014. The funding levels in the law are in effect for the entire fiscal year and replace the annualized funding levels set in the previous continuing resolution.

The Budget Control Act of 2011 (BCA) established different sequestration procedures for discretionary spending for FFY 2014 through FFY 2021. The BCA calls for discretionary spending caps on defense and nondefense to be reduced by the amount of savings attributable to sequestration, so that Congress could appropriate funds at the post-sequestration level rather than have the federal Office of Management and Budget apply across the board cuts.

The Bipartisan Budget Act of 2013 (BBA) modified the caps on defense and nondefense funding for FFYs 2014 and 2015. The BBA maintains sequestration of nonexempt mandatory and extends sequestration for an additional two years to FFY 2023.

Appropriations for the defense and nondefense categories in the Consolidated Appropriations Act of 2014 are equal to the caps for those categories, and therefore, no sequestration will be required as a result of the appropriation. However, if the spending caps are breached as a result of Congress approving supplemental appropriations late in FFY 2014, the caps for FFY 2015 would be reduced to adjust for the excess funding in the FFY 2014.

Federal Debt Limit: On February 15, 2014, the President signed a bill into law that raises the debt ceiling through March 15, 2015. The law allows the government to meet existing obligations and prohibits the issuance of debt to increase cash balances.

March 2010 Floods: On March 29, 2010, the President signed a 'Declaration of Disaster' for all five counties in the State, as a result of damage from the March 2010 Floods. This declaration makes the State and local communities eligible for certain federal reimbursement from FEMA for emergency work and the repair and replacement of disaster damaged facilities. As of September 17, 2014, the Rhode Island Emergency Management Agency collected data on damages and cost incurred by various municipalities, State agencies, tribes, and eligible public nonprofits totaling approximately $25,494,002.58. The State anticipates that FEMA will reimburse 90 percent of these costs.

Tropical Storm Irene: On September 3, 2011, the President signed a 'Declaration of Disaster' for all five counties in the State, as a result of damage from Tropical Storm Irene on August 27-28, 2011. This declaration makes the State and local communities eligible for certain federal reimbursement from FEMA for emergency work and the repair or replacement of disaster damaged facilities. As of September 17, 2014, the Rhode Island Emergency Management Agency collected data on damage and costs incurred by various municipalities, State agencies, tribes, and eligible public nonprofits totaling approximately $8,565,719.48. The State anticipates that FEMA will reimburse 75 percent of these costs.

Hurricane Sandy: The President signed a 'Declaration of Disaster' for Newport, Bristol and Washington Counties on November 3, 2012 and for Kent County on November 10, 2012. This declaration makes the State and local communities eligible for certain federal reimbursement from FEMA for emergency work and the repair and replacement of disaster damaged facilities. As of September 17, 2014, the RI Emergency Management Agency collected data on damage and costs incurred by various municipalities, State agencies, tribes and eligible public nonprofits totaling approximately $6,990,821.44. The State anticipates that FEMA will reimburse 75 percent of these costs.

Blizzard of 2013: On March 22, 2013, the President signed a 'Declaration of Disaster' for all 5 counties in the State, as a result of the Blizzard on February 8-9 2013. This declaration makes the State agencies, municipalities, tribes and eligible public nonprofits eligible for certain federal reimbursement from FEMA for emergency work and the repair and replacement of disaster damaged facilities. In addition, assistance is available to state, tribal and eligible local governments on a cost-sharing basis for snow assistance, for a continuous 48-hour period during or proximate to the incident period in Kent, Providence, and Washington Counties. There was no individual assistance approved under this declaration. As of September 17, 2014, the Rhode Island Emergency Management Agency has collected data on damage and cost incurred by State agencies, municipalities, tribes and eligible public nonprofits totaling $7,090,232.17. The State anticipates that FEMA will reimburse 75 percent of these costs.

Municipalities

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

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

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

Status of Pension and OPEB Plans Administered by Municipalities

The Office of the Auditor General completed an initial review in 2007 of the fiscal health of the various locally-administered defined benefit pension plans covering Rhode Island municipal employees. Updated reviews have been completed in March 2010 and September 2011, which also included an assessment of the status of other post-employment benefit plans offered by municipalities. Twenty-four (24) communities have created 36 pension plans, which they administer for their employees. The Auditor General considered 24 locally administered pension plans to be at risk, twelve (12) were considered most at risk because the plans were significantly underfunded and annual contributions were significantly less than annual required amounts. The collective funded ratio of the plans decreased from 43 percent, as reported in March 2010, to 40 percent, as reported in the September 2011 update. Total assets collectively held by these 36 pension plans were $1.4 billion (as reported in their fiscal 2010 audit reports or more current valuations when available). The collective unfunded actuarial liability for future benefits under these locally-administered plans was approximately $2.1 billion (as of the most recent actuarial valuation referenced in their June 30, 2010 financial statements or more current valuations when available).

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

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

The Commission developed guidelines to assist municipalities whose locally-administered pension plans are deemed to be in critical status and is providing support to municipalities. All municipalities that currently have a pension plan in critical status have submitted a Funding Improvement Plan to the Commission which were all reviewed by the Commission and will be monitored on its progress by the Commission. Currently, there are twenty-two (22) plans deemed to be in critical status, based on the most recent submitted actuarial valuations. Please note that Central Falls does not have to submit a Funding Improvement Plan, pursuant to §45-65-4(4)(b), which excludes certain plans from the provisions of this chapter.

The Commission also continues its work to review OPEB for all cities and towns, as well as housing authorities, sewer, water and fire districts.

State Oversight for Municipal Fiscal Stability

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

The Fiscal Stability Act was a response to a display of fiscal weakness in several communities, including the filing of a petition for judicial receivership by the City of Central Falls in the Rhode Island Superior Court on May 18, 2010. Under the Fiscal Stability Act, Central Falls moved from having a judicially-appointed receiver to a State-appointed receiver (the "State Receiver"). The State Receiver, appointed by the Director of Revenue pursuant to the Fiscal Stability Act, filed for federal bankruptcy protection for Central Falls on August 1, 2011, (see "Central Falls Bankruptcy" below). The State has a compelling interest in the fiscal health of Rhode Island municipalities. The Fiscal Stability Act gives the State, acting primarily through the Department of Revenue, the power to exercise varying levels of support for and control over municipalities depending on the particular financial circumstances. The Fiscal Stability Act repealed Chapter 45-9 relating to Budget Commissions in its entirety and created three levels of State oversight and control. The three levels are: fiscal overseer, budget commission and state receiver. If the Director of Revenue determines, in consultation with the Auditor General, that a city or town is facing a fiscal emergency and that circumstances do not allow for the appointment of a fiscal overseer or a budget commission, the Director of Revenue may appoint a receiver without first having appointed a fiscal overseer or budget commission.

The Fiscal Stability Act also prohibits municipalities from filing for or being placed into, either voluntarily or involuntarily, judicial receivership. It further provided that the Superior Court had only limited jurisdiction to ratify certain actions taken prior to the enactment of the legislation upon the request of the Director of Revenue and to take such further actions as may have been necessary to ensure an orderly transition. When the Director of Revenue abolishes a fiscal overseer, budget commission or state receiver of a city or town as the case may be, after determining in writing that the city or town's fiscal stability has improved to a level that said fiscal overseer, budget commission or a state receiver is no longer needed, the city or town was required to create and maintain for a period of five (5) years a department of administration and finance, which would be responsible for the overall budgetary and financial administration of the city and town. The Division of Municipal Finance was required to submit a list of three (3) names to the chief executive officer of the city or town who would appoint one of those individuals for a period of not more than five (5) years as the officer who shall be responsible for the department of administration and finance. The appointment and removal of said officer was to be approved in writing by the Division of Municipal Finance. The Fiscal Stability Act applied retroactively to May 15, 2010. During the 2011, 2013 and 2014 legislative sessions, the Act was amended; those amendments are discussed below.

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

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

During the 2013 legislative session of the General Assembly, two bills were passed and enacted as Chapter 347 of the Public Laws of 2013 and its companion Chapter 246 of the Public Laws of 2013 which modified the Fiscal Stability Act in those instances where there was State oversight under the Act but the municipality had <u>not</u> been placed in a Chapter 9 bankruptcy. (In those instances where a municipality had been placed in a Chapter 9 bankruptcy, the law was changed in 2013 to require the State to reimburse the municipality for 50 percent of the cost of the Administration and Finance Officer.) Under the 2013 amendments, the Act was changed in the following material ways where a municipality had been under State oversight but the municipality had <u>not</u> been placed in a

Chapter 9 bankruptcy: (i) instead of an Administration and Finance Officer, a Finance Advisor is to be appointed for a five (5) year period upon the termination of a fiscal overseer, budget commission or state receiver; (ii) the Finance Advisor is to be appointed by the Director of Revenue, and report to the Director of Revenue but is an employee of the municipality; and (iii) the Finance Advisor is responsible for monitoring the overall budgetary and finance administration and fiscal health of the municipality. The cost of the Finance Advisor will be shared 50/50 by the State and the municipality. The 2013 amendments to the Act do not impact the existing Administration and Finance Officer in Central Falls, except to provide that the State reimburses the municipality 50 percent of the cost for that position.

During the 2014 legislative session of the General Assembly, three bills were passed which modified the Fiscal Stability Act. House bill H-7943 and its companion bill S-2974 provide for a member of a town or city council to be elected to serve on a budget commission. (Prior to that change, it was the town or city council president.) House bill H-8291 Substitute A and its companion bill S-3115 provide that for a municipality where a State receiver has been abolished because of a Chapter 9 bankruptcy filing, the director of information technology and the director of human resources would not report to or be under the direction of the Administration and Finance Officer for the municipality.

Lastly, House bill H-7944 Substitute A, as amended, and its companion bill S-2778, as amended, extend the provisions of the budget commission chapter to include/cover fire districts and also provide additional financial reporting requirements for fire districts, which requirements are similar to those applicable to cities and towns.

Central Falls

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

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

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

In the 2014 Session of the General Assembly, H-7776 sub A and S-2332 sub A were enacted. These bills stipulate that the "state shall annually appropriate sufficient funds to the restricted account for the city of Central Falls to supplement the city's funding for payments to Central Falls retirees in order that they continue to receive seventy-five percent (75%) of their base pension benefit as of July 31, 2011…". Annual general revenue appropriations will be required beginning in FY 2017 in an estimated amount of $328,561. Total projected funding through FY 2045 is estimated at $4.9 million.

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

The above-referenced plan of debt adjustment filed with Bankruptcy Court on September 22, 2011, did not account for the subsequently-agreed upon collective bargaining agreements with the three (3) municipal unions and the settlement agreement with the retirees. On June 15, 2012, the City filed an amended plan of debt adjustment and then, to respond to concerns expressed by the Bankruptcy Court, filed a Second Amended Plan of Debt Adjustment on July 10, 2012, a Third Amended Plan of Debt Adjustment on July 23, 2012, and a Fourth Amended Plan of Debt Adjustment on July 27, 2012. The Fourth Amended Plan of Debt Adjustment was confirmed by the Bankruptcy Court by confirmation order entered on September 11, 2012. Over 99 percent of the creditors that voted on the plan, voted to accept. Not a single creditor filed an objection to the plan.

The Fourth Amended Plan of Debt Adjustment became effective on October 23, 2012 and the City emerged from bankruptcy on that date. Under the plan, the City will have court-ordered balanced budgets for Fiscal Years 2013, 2014, 2015, 2016 and 2017 and imposes a four percent (4.0%) property tax increase in each of the next five years. Also, as a result of the agreement with the retirees, the City's five-year budget plan contains affordable pay as you go pension and retiree health insurance costs based upon the restructured plans.

Counsel for certain members of the Central Falls city council filed a motion seeking to terminate the receivership. Counsel for the State filed an objection to that motion on the grounds that the Director of Revenue was not yet able to make the required determination under the Fiscal Stability Act that the receivership was no longer necessary. In response, the Rhode Island Superior Court entered an order requiring the parties to participate in mediation to attempt to resolve their differences. A mediator was appointed and the mediation commenced on February 4, 2013. The mediation was not successful in resolving the issues between the parties. In April 2013, the Director of Revenue, finding that the financial condition of Central Falls had improved to a level such that a receivership was no longer necessary, terminated the receivership effective as of that date. After posting the position of Administration and Finance Officer and conducting interviews, the Division of Municipal Finance recommended the names of candidates to the Mayor of Central Falls. The Mayor appointed an Administration and Finance Officer for the City in April 2013. The State provides 50 percent of the funding for this position.

East Providence

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

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

In December 2011, the Director of Revenue established a budget commission under the Fiscal Stability Act thereby placing the finances of East Providence under the jurisdiction of that commission. The Budget Commission assumed responsibility for all budget and financial matters. On September 9, 2013, the Director of Revenue determined that the fiscal health of the City improved to a level that the oversight of a Budget Commission was no longer needed. The last scheduled meeting of the Budget Commission was held September 16, 2013. At the same time, the Director appointed a Finance Advisor for the City as required by R.I. Gen. Law §45-9-10, as amended during the 2013 legislative session. The appointment was effective as of September 16, 2013. The State provides 50 percent of the funding for this position.

Woonsocket

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

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

Central Coventry Fire District

During the 2014 legislative session, the General Assembly amended the Fiscal Stability Act to extend its provisions to fiscally distressed fire districts. At the time, the Central Coventry Fire District was under judicial receivership and had been scheduled for liquidation. Pursuant to the Fiscal Stability Act as amended, the Central Coventry Fire District is currently under the oversight of the State. On May 6, 2014, the Director of Revenue appointed a Receiver who is working to achieve fiscal stability for the fire district.

Local Tax Relief

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

The other local property tax levy reduced was the local levy on motor vehicles and trailers. This tax was to be phased out subject to annual review and appropriation by the General Assembly by providing increasing exemptions against the assessed value of all motor vehicles. Local communities were reimbursed on the value of the exempted amounts and assumed cumulative growth in the tax rate equal to the CPI. Beginning in FY 2004, however, there was no longer a CPI adjustment for an assumed growth in municipal tax rates. For FY 2008 and FY 2009, the first $6,000 in value of a vehicle was exempted from taxation and municipalities were prohibited from applying an excise tax rate higher than the rate applied in 1998. Municipalities were being reimbursed for the lost revenue resulting from the exemption. Beginning in FY 2008, municipalities were being reimbursed for 98 percent of the tax value of the exemption. During the 2005 Session of the General Assembly, additional video lottery terminals were authorized which were expected to yield additional lottery revenues to the State, a portion of which was to be dedicated to local governments through the Motor Vehicle Excise Tax Reimbursement Program. In the FY 2010 supplemental budget enacted by the General Assembly, the Motor Vehicle Excise Tax Reimbursement Program was reduced by $18.1 million, approximately 13.4 percent of the enacted FY 2010 budget amount. The statute was amended to require reimbursement to communities equal to 88 percent of the 98 percent current rate of reimbursement. For FY 2011, the Governor proposed, in his recommended FY 2011 budget, to eliminate all State appropriations to reimburse local governments for the $6,000 exemption, and included permissive language to allow for taxation by local governments subject to the cap on property tax levy discussed above. For FY 2011 and thereafter, the General Assembly enacted legislation that mandates a $500 exemption for which the State will reimburse municipalities an amount subject to appropriation. The legislation further allows municipalities to provide an additional exemption; however, that additional exemption will not be subject to reimbursement. The General Assembly also removed the provision that restricted municipalities from taxing the difference in the event that the value of a vehicle is higher than the prior fiscal year. It also allowed for rates to be lowered from the then current frozen levels.

The General Assembly provided $10.0 million annually in the FY 2011 to FY 2015 budgets for the Motor Vehicle Excise Tax Reimbursement Program. The General Assembly did not provide funding for fire districts beyond FY 2010, but for FY 2011 and thereafter, it restored the authority for fire districts to levy a motor vehicle excise tax.

State Aid to Local Communities

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

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

For FY 2015, not including aid to State-operated schools, the State appropriated $784.4 million in education aid to local school districts and charter schools through the funding formula ($813.1 million with the inclusion of the State-operated Davies Career and Technical High School, the Metropolitan Career and Technical School, and the Rhode Island School for the Deaf).

In addition to redistributing current aid levels, the formula establishes six categories of funding outside of the core formula amount. These categories are subject to appropriations and may be ratably reduced if demand exceeds the available funding, however they are integral parts of the funding formula and are being funded under a ten-year transition plan. Under these new categories, the State will pay for the costs of setting up and running career and technical education programs, the costs of pre-kindergarten programs, transportation for out-of-district non-public students and students in regionalized school districts, and the amount of the cost of any special education student that is above five times the core education aid amount (meaning the cost for a non-special education student who is eligible for the free and reduced lunch program). Existing permanent bonuses for regionalized school districts will be replaced with temporary bonuses that phase out over two years. Lastly, the State will match funding for the Central Falls School Department from the City of Central Falls as it gradually resumes paying its required local contribution during a transition period of ten years (currently, the State pays 100 percent of the local contribution for Central Falls). The State appropriated $12.3 million for these categories in FY 2015.

There are also a handful of aid categories still being funded that pre-date the funding formula. In the FY 2015 budget State general aid support of $7.3 million is provided for internet access, for administering the school breakfast program, for textbooks for non-public schools, for implementation of full day kindergarten, and for a payment based on the number of group home beds in each community.

In addition to reimbursement of school operations costs, State school construction aid is provided at levels ranging from 30 percent to 95 percent of the construction cost of new facilities and renovations. Under current law, the minimum reimbursement percentage is 35 percent for FY 2013 and thereafter. The level for each individual community is based upon the relationship between student enrollment and community wealth, and takes into consideration the relative weight of school debt in the particular city or town to its total debt. The definition of reimbursable expenditures includes capital expenditures made through a capital lease or lease revenue bonds or from a municipality's capital reserve account. In June 2011, the General Assembly enacted a moratorium on the approval of new projects with the exception of those needed for health and safety issues. This moratorium is scheduled to run through May 31, 2015. The State appropriated $67.9 million for this category in the FY 2015 enacted budget. A related program will provide approximately $2.3 million in FY 2015 to cities and towns to provide aid in the construction of libraries.

The final major category of State aid is State funding of teachers' retirement costs. Both the employer and the employee contribute to the costs of the defined benefit plan that covers teachers throughout the State. Effective July 1, 2012 there is a defined contribution plan, which features both employer and employee contributions. For teachers, by Rhode Island law, the employer share is split between the State and the local school district or charter school, with the State paying 40 percent of the employer share and the local district or charter school paying 60 percent. These payments are made directly to the Employees Retirement System of Rhode Island. The only public school teachers who do not participate in this system are those at State-operated schools that are staffed by State employees and those at schools that are exempt from participating: namely Mayoral Academy charter schools and the Metropolitan Career and Technical School. The FY 2015 enacted budget includes $89.5 million based on projected FY 2014 expenditures.

Other local aid programs include the motor vehicle excise tax reimbursement (as discussed above), payment-in-lieu of taxes (PILOT) program and distressed communities aid program. The Motor Vehicle Excise Tax Reimbursement Program was funded at $135.6 million in the FY 2010 Enacted Budget. However, this was reduced in the final enacted budget to $117.2 million. For FY 2011 through FY 2015, the enacted budgets included an appropriation of $10.0 million annually to local governments for the Motor Vehicle Excise Tax Reimbursement Program and a reduction of the exemption from $6,000 to $500.

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. Eligible properties included in this program are private, non-profit institutions of higher education, non-profit hospitals, State owned and operated hospitals, veterans' residential facilities, and correctional facilities occupied by more than one hundred (100) residents. The FY 2014 Enacted Budget included $35.1 million for this program. The FY 2015 enacted budget includes $40.1 million for this program. Funding by community has been adjusted to reflect changes in tax rates and values, as well as any changes to the exempted tax rolls. Article 2 of the FY 2015 enacted budget also made changes to the distribution of appropriations under the program to allow for the issuance of the payment on July 31st or following receipt of a municipality's assessment data for the following year's fiscal payment, whichever is later. This change will go into effect as of July 1, 2015. Furthermore, the 2014 General Assembly granted cities and towns the right to and the method by which they may: (1) tax the real and personal property of a for-profit hospital facility; and/or (2) enter into a stabilization agreement with a for-profit hospital facility.

Also, the State makes payments to communities identified as distressed based upon four different criteria. As a result of the indices established by Rhode Island Gen. Law §45-13-12, the following communities will receive funds through the Distressed Communities Relief Fund in FY 2015: Central Falls, Cranston, North Providence, Pawtucket, Providence, West Warwick and Woonsocket. Cranston falls out of the program in FY 2015, but is considered a distressed community in the fall-out year. For FY 2015, Cranston will receive a transition payment.

Of the communities identified as distressed, Central Falls was determined to be especially distressed in FY 1991 and in FY 1993 the State assumed full responsibility for funding education in Central Falls. Appropriations of $10.4 million were included in the FY 2013 through FY 2015 enacted budgets.

State library aid provides financial support for local public library services and for the construction and capital improvement of any free public library. A portion of library aid is disbursed directly to local libraries, including private libraries, while other aid is disbursed to the individual cities and towns. Appropriations of $8.7 million are included in the FY 2015 enacted budget.

Rhode Island also distributes to communities the proceeds of a statewide tax imposed on the tangible personal property of telephone, telegraph, cable, express and telecommunications companies. For FY 2015, an amount of $14.3 million was included in the budget. Funds collected from this tax are distributed to cities and towns within the state on the basis of the ratio of the city or town population relative to the population of the State as a whole.

Also, the State distributes a 1.0 percent meals and beverage tax according to the proportion of that tax collected in each community. For FY 2014, the enacted meals and beverage tax was estimated at $21.8 million, or 2.0 percent greater than actual FY 2013 meals and beverage tax revenues. The FY 2015 enacted budget includes an amount of $23.0 million. Similarly, the State distributes a 1.0 percent hotel tax, as well as a 25.0 percent local share of the State 5.0 percent hotel tax which, when combined, provide municipalities a 2.25 percent gross receipts tax on the rental of lodging accommodations at hotels, inns and certain bed and breakfast establishments within a municipality. For actual FY 2013, the combined local portion of the hotel tax is $6.7 million while the enacted FY 2014 hotel tax is $6.5 million, 2.2 percent less than the actual FY 2013 hotel tax. In the FY 2015 enacted budget, an amount of $7.2 million is included.

The State also provides funds through the Airport Impact Aid program to cities and towns that host airports, and expects to distribute a total of $1.025 million in FY 2015.

Beginning in 1987, a variety of general aid programs were consolidated into one general revenue sharing program, which incorporated a distribution formula based upon relative population, tax effort for municipal services and personal income of each city and town. The general revenue sharing program also incorporated additional funding to compensate municipalities for the phased loss of the inventory tax, as described above. No funding was provided for this program in either the FY 2014 or FY 2015 enacted budgets. This program was last funded in FY 2009 with an appropriation of $25.0 million.

In the FY 2014 Appropriations Act, the Governor proposed Article 11, known as the "Municipal Incentive Aid Act". The purpose of this Act is to encourage municipalities to improve the sustainability of their retirement plans and to reduce unfunded liabilities. Municipalities that comply with the requirements of this Act will receive aid under this new program. The Governor recommended an appropriation of $10.0 million for FY 2014, with the intent to have an additional $10.0 million appropriated in FY 2015 and FY 2016, respectively. The municipal incentive aid would be distributed to each municipality as a percentage of the municipality's population as compared to the total State population. The General Assembly enacted an amount of $5.0 million in the FY 2014 and FY 2015 budgets for eligible communities.

The 2014 General Assembly also made changes to the statute governing this program. The statute provides now that for FY 2015 and each fiscal year thereafter that municipal incentive aid is distributed to eligible municipalities under R.I. General Laws §45-13.2-6, a municipality has to implement the original recommended Funding Improvement Plan (FIP) or an amended FIP pursuant to chapter 45-65, within one month after the close of the fiscal year and have made the required funding payment in compliance with the municipality's adopted FIP(s) and the funding guidelines established by the Pension Study Commission.

Furthermore, the statute now provides that for FY 2014, and in any year thereafter that a municipality is not eligible to receive a distribution under chapter 45-13.2, the distribution that said municipality would have received had it been eligible shall be re-appropriated to the immediately following fiscal year, at which time the amount re-appropriated shall be distributed to said municipality provided that said municipality has satisfied the eligibility requirements of both the prior fiscal year and the then current fiscal year. In the event that said municipality fails to satisfy the eligibility requirements for the prior and the then current fiscal year by the time that eligibility to receive distributions in the next fiscal year is determined, then the amount that would have been distributed to the municipality for said prior year will be distributed in the month of May among the municipalities that received a distribution in the prior fiscal year, with the share to be received by each municipality calculated in the same manner as distributions were calculated in the prior fiscal year.

The Town of Coventry did not submit a funding improvement plan for all its locally-administered pension plans by the deadline for FY 2014 funding. However, the above provision gives the Town additional time to submit the funding improvement plan in order to still qualify to receive the aid.

State Budgeting Practices for Municipalities

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

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

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

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

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

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

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 2013 reflect audited revenues. For a discussion of FY 2014 revenues, see "General Revenues - Preliminary FY 2014 General Revenues". For a discussion of FY 2015 revenues, see "General Revenues – FY 2015 Enacted Revenues".

Major Sources of State Revenue

Tax Revenues: In FY 2014, 75.8 percent of all tax revenues were derived from the Rhode Island personal income tax and the sales and use tax. These two revenue sources constituted 59.1 percent of all general revenues.

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

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

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

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

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

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

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

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

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

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

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

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

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

In the 2008 Session, the General Assembly enacted legislation that authorized the Rhode Island Economic Development Corporation (renamed the Rhode Island Commerce Corporation) to issue up to $356.2 million in revenue bonds to provide a fund from which the general fund would be reimbursed for the State's historic tax credit liabilities paid out to taxpayers ("Historic Preservation Tax Credit Fund"). In June 2009, $150.0 million of the Rhode Island Economic Development Corporation bonds were issued and secured by payment obligations of the State subject to annual appropriation by the General Assembly. The 2008 legislation also placed a moratorium on new projects eligible for the Historic Preservation Tax Credit program, lowered the effective credits for ongoing projects to 22.0 percent from 27.75 percent after processing fees, and authorized the State to enter into contracts with developers for the amount of credits that would be awarded upon completion of projects. Processing fees collected after June 30, 2008, in the amount of $3.8 million, were deposited in a restricted receipt account and were applied prior to June 30, 2009 to the reimbursement of the historic tax credits previously taken. Beginning in May

2009, the estimates of personal income tax collections adopted at the semi-annual Revenue Estimating Conference no longer reflect a reduction for historic structure tax credits as any credits redeemed are to be reimbursed from the funds authorized by the General Assembly.

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

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

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

In the 2010 Session, the General Assembly enacted a substantive structural reform of the State's personal income tax system. The reformed personal income tax system replaces both the five bracket progressive tax rate and the alternative flat tax rate personal income tax systems effective for tax years beginning after December 31, 2010. The reformed personal income tax system begins with federal Adjusted Gross Income (AGI) modified as provided for in current law and then subtracts an enhanced standard deduction of between $7,500 and $15,000 and a personal and dependent exemption amount of $3,500 to arrive at taxable income. Both the enhanced standard deduction and the personal and dependent exemption amounts are subject to phase-out at modified AGI of more than $175,000. Unlike in prior tax years, itemized deductions can no longer be passed through from a taxpayer's federal income tax return. Taxable income is then subject to tax at marginal rates of 3.75, 4.75, and 5.99 percent to yield the Rhode Island tax liability before credits. In the tax years ending before January 1, 2011, taxpayers could choose to either subject modified AGI less deductions and exemptions to marginal rates of 3.75, 7.0, 7.75, 9.0, and 9.9 percent or subject modified AGI to the alternative flat tax rate (which was 6.0 percent in Tax Year 2010) to yield Rhode Island tax liability before credits. Under the reformed personal income tax system, eight tax credits may be taken against the computed Rhode Island tax liability versus 34 tax credits that could be utilized against the Rhode Island tax liability computed under the five bracket progressive rate personal income tax system. (No credits other than taxes paid to other states are allowed for taxpayers that utilized the alternative flat tax rate system.) The tax credits allowed under the reformed personal income tax system are: a partially refundable earned income tax credit, the property tax relief credit, the lead paint abatement credit, a child and dependent care credit, credit for taxes paid to other states, the motion picture production company credit, the credit for contributions to qualified K-12 scholarship organizations, and the historic structures tax credit. Each of these credits is also available under current law. At the time of enactment, the reformed personal income tax system was estimated to be revenue neutral in FY 2011.

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

In the 2012 Session, the General Assembly accepted two proposals included in the Governor's FY 2013 recommended budget. The first proposal was to discontinue the preparation of personal income tax returns for individual taxpayers at no cost. The discontinuation of this service allowed the Division of Taxation to reallocate two positions from the Taxpayer Services Section to the Office Audit Section to perform compliance audits on the personal income tax. The second proposal was the 2012 Tax Amnesty Act. This act provided for a tax amnesty on overdue taxes that were incurred prior to January 1, 2012. The tax amnesty was in effect from September 1, 2012 through November 15, 2012. The purpose of the tax amnesty was to provide delinquent taxpayers the opportunity to pay taxes that may have become overdue as a result of the Great Recession (December 2007 through June 2009). Under the tax amnesty, taxpayers with overdue taxes paid said taxes without penalty and with a reduction in interest owed of 25.0 percent (effectively lowering the interest rate on overdue taxes from 18.0 percent to 13.5 percent).

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

In the 2013 Session, the General Assembly adopted two of the Governor's FY 2014 recommended revenue proposals. The first proposal was the creation of a special investigative tax unit in the Division of Taxation. It is anticipated that the special investigative tax unit will increase personal income tax revenues from the more efficient and effective identification and quantification of tax fraud and related activity associated with personal income tax compliance. The second proposal is to allow the Division of Taxation to hire out of state collection agencies to enhance the collection of tax debts from non-resident individuals and businesses. The General Assembly's enacted FY 2014 budget increased the total amount that can be awarded in a given fiscal year under the Tax Credits for Contributions to Scholarship Organizations program by $500,000 to a total of $1.5 million.

The 2013 General Assembly enacted legislation that allows for the re-use of historic structures tax credits associated with historic rehabilitation projects that were abandoned by developers after being accepted into the reconstituted historic structures tax credit program in 2008. This legislation, based on a proposal contained in the Governor's FY 2014 recommended budget, reallocated $34.5 million of historic structures tax credits that had been previously authorized to new historic rehabilitation projects. Under the legislation, new historic preservation projects generally receive a Rhode Island tax credit of up to 25.0 percent of the qualified rehabilitation expenditures incurred by a developer. The maximum credit any one historic rehabilitation project can receive is $5.0 million. The developer must pay a non-refundable fee equal to 3.0 percent of the estimated qualified rehabilitation expenditures the developer expects to incur for the eligible project. The proceeds from these fees are deposited into the Historic Preservation Tax Credit Trust Fund and are used to reimburse the General Fund for the redemption of historic structures tax credit certificates. Historic structures tax credit certificates can be redeemed against personal income tax, business corporations tax, financial institutions tax, public utilities gross earnings tax, and insurance companies gross premiums tax liabilities.

Further, in the 2013 Session, the General Assembly enacted legislation to conform Rhode Island's tax treatment of the expensing of assets in lieu of deprecation to the federal rules for Section 179 expensing. Under prior Rhode Island law, expensing in lieu of depreciation is limited to $25,000 versus $100,000 under Section 179 of the Internal Revenue Code. In addition, the General Assembly enacted legislation to conform Rhode Island's asset depreciation schedule to that used by the Internal Revenue Service disregarding section 168(k) of the Internal Revenue Code. Under prior Rhode Island law, the asset depreciation schedule used for Rhode Island tax purposes was that used by the Internal Revenue Service prior to JGTRRA. The effective date for the changes in the expensing of assets in lieu of depreciation and conformance to the current Internal Revenue Service depreciation rules is January 1, 2014 for assets placed into service on or after that date. The Department of Revenue predicts that personal income tax revenue will be foregone from conformance to federal law concerning expensing in lieu of depreciation and adoption of the current federal depreciation schedule. Finally, in the 2013 Session, the General Assembly enacted legislation to require businesses to add back amounts deducted from income under the federal Domestic Production Activities Deduction (DPAD). This "add-back" is required for tax years beginning on or after January 1, 2014.

In the 2014 Session, the General Assembly adopted four of the Governor's FY 2015 recommended revenue proposals. The first proposal was for the addition of ten (10) new revenue officer positions in the Department of Revenue's Division of Taxation to assist in the collection of delinquent taxes. It is anticipated that the ten new revenue officer positions will enhance FY 2015 general revenues by $2.7 million in personal income taxes. The second proposal was for the creation of a statewide taskforce designed to combat employee misclassification. The General Assembly's FY 2015 enacted budget included increased personal income tax revenues of $990,000 from this initiative. The 2014 General Assembly also passed legislation proposed by the Governor which will implement a state employee tax compliance program and is anticipated to enhance personal income tax revenue by $400,000 in the FY 2015 enacted budget. The fourth piece of legislation that was introduced by the Governor and passed by the General Assembly establishes a registration block on "new" vehicle registrations for those individuals who are delinquent on State taxes. This initiative is estimated to augment personal income tax collections by $268,400 in the FY 2015 enacted budget.

In addition to passing the four proposals included in the Governor's FY 2015 recommended budget, the 2014 General Assembly passed three pieces of legislation that will augment personal income tax collections in FY 2015 by $4.6 million. The first initiative established a personal income tax compliance project for local employees and public officials. It is anticipated that this initiative will increase personal income taxes by $691,782 in FY 2015. The 2014 General Assembly also passed legislation to eliminate the property tax relief credit for low income individuals while retaining it for the elderly and disabled. Elimination of the property tax relief credit for low income individuals is expected to enhance personal income tax collections by $8.2 million in the FY 2015 enacted budget. Finally, the 2014 General Assembly enacted legislation to restructure the Rhode Island earned income tax credit (EITC). The restructured Rhode Island EITC reduced the percentage of the federal EITC that could be used against a taxpayer's Rhode Island tax liability from 25.0 percent to 10.0 percent but increased the percentage of the unused portion of the EITC that was refunded to the taxpayer from 15.0 percent to 100.0 percent. The General Assembly included a revenue loss of $4.3 million in the FY 2015 enacted budget from this initiative.

In the 2014 Session, the General Assembly passed H-8246 which became law on July 12, 2014. This law reduces the minimum total number of seats required from 1,500 to 1,000 in order for a theater that otherwise would qualify to receive a musical and theatrical production State tax credit. The General Assembly did not change the existing cap of $15.0 million in combined motion picture production and musical and theatrical production tax credits that can be issued in a single tax year and thus the change in the minimum total number of seats that a theater must have to be eligible for a tax credit will not impact the State's revenues, including its personal income tax revenues.

Rhode Island personal income tax revenues surpassed the billion dollar mark in a fiscal year for the first time in FY 2007. In FY 2014, personal income tax revenues totaled $1.116 billion or 32.5 percent, of preliminary FY 2014 total general revenues. Preliminary FY 2014 personal income tax revenues are the highest amount received in the State's history and the fourth consecutive year that personal income tax revenues were above $1.0 billion. Preliminary FY 2014 personal income tax revenues increased by $29.7 million from audited FY 2013 revenues but decreased in the share of total general revenues by 0.2 percentage points from audited FY 2013 levels.

Sales and Use Tax. The State assesses a tax on all retail sales, subject to certain exemptions, on hotel and other public accommodation rentals, and on the storage, use or other consumption of tangible personal property in the State. Major exemptions from the sales and use tax include: (a) food for human consumption off the premises of the retailer, excluding food sold by restaurants, drive-ins or other eating places; (b) clothing and most footwear that is sold for less than $250 per item; (c) prescription medicines and medical devices; (d) fuel used in the heating of homes and residential premises; (e) domestic water usage; (f) gasoline and other motor fuels otherwise specifically taxed; (g) sales of tangible property and public utility services when the property or service becomes a component part of a manufactured product for resale, or when the property or service is consumed directly in the process of manufacturing or processing products for resale and such consumption occurs within one year from the date such property is first used in such production; (h) tools, dies and molds and machinery and equipment, including replacement parts thereof, used directly and exclusively in an industrial plant in the actual manufacture, conversion or processing of tangible personal property to be sold; (i) sales of air and water pollution control equipment for installation pursuant to an order by the state Director of Environmental Management; and (j) sales of boats or vessels.

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

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

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

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

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

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

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

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

In the 2011 Session, the General Assembly also enacted legislation and the Governor signed into law the elimination of two sales and use tax exemptions, one administered by the Rhode Island Commerce Corporation and one administered by the Rhode Island Industrial Facilities Corporation (RIIFC) effective July 1, 2011. Prior to July 1, 2011, both Corporations were authorized to grant a sales and/or use tax exemption to eligible companies for the materials used in the construction and/or rehabilitation of a building and the equipment purchased to outfit the building for use. Eligible companies with currently active sales and use tax exemption agreements or eligible companies with projects approved prior to July 1, 2011 will receive the sales and use tax exemption through the end of the respective project agreements. Finally, during the 2011 Session, the General Assembly accepted the Governor's proposal to establish a separate top 100 delinquent business taxpayers list.

In the 2012 Session, the General Assembly approved the extension of the State's 7.0 percent sales tax, effective October 1, 2012, to (1) pet services providers other than providers of veterinary services and laboratory testing; (2) taxicabs and other providers of road transportation services; and (3) items of clothing and footwear that cost more than $250.00 per item By instituting a threshold amount above which an item of clothing or footwear becomes taxable, the State will potentially no longer be in compliance with the Streamlined Sales and Use Tax Agreement (SSUTA) and may cause the State to forego the receipt of sales tax collected by remote sellers that are signatories to the SSUTA. On November 25, 2013, the SSUTA's Compliance Review and Interpretation Committee issued its 2013 Compliance Review Report with a recommendation that Rhode Island was out of compliance with the SSUTA on the clothing threshold issue. On December 19, 2013, the Streamline Sales Tax Governing Board voted to find Rhode Island out of compliance. As of this date, no further action has been taken. On September 28, 2012, the Rhode Island Taxi Owners Association and Airport Taxi, Inc. initiated a lawsuit challenging the enforceability of the law and regulations extending the sales tax to taxicabs and other providers of road transportation services by arguing, among other things, that the law and/or regulations are unconstitutional and were not implemented in accordance with certain State laws. The litigation filed in the Rhode Island Superior Court sought declaratory and injunctive relief. A request for a temporary injunction to enjoin the implementation of the law was heard on October 1, 2012 and was denied. The matter was set down for hearing on October 16, 2012 on plaintiff's request for preliminary injunctive relief. The court also denied that request for relief. Having lost on both those motions, the plaintiffs have not pursued the litigation any further. Also, in the 2012 Session, the General Assembly repealed the application of the sales tax to providers of package tours and scenic and sightseeing transportation. The General Assembly had approved the expansion of the sales tax base to include providers of package tours and scenic and sightseeing transportation during the 2011 Session.

In the 2012 Session, the General Assembly enacted the Governor's proposal to increase the State's cigarette excise tax. One of the impacts of this tax increase is to raise the retail price of a pack of cigarettes which is subject to the State's sales and use tax. Additionally, in the 2012 Session, the General Assembly accepted the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above.

Further, in the 2012 Session, the General Assembly passed a modification to Rhode Island's compassion center statute that reduces the amount of medical marijuana that a compassion center can have available for sale at any given time and applies more stringent regulations on the distribution of medical marijuana by a compassion center. The new legislation is designed to make it possible for said licenses to be issued and, subject the retail sale of medical marijuana to the State's sales tax. There are currently two licensed compassion centers operating in the state. Up to three licensed compassion centers are allowed by law.

Finally, in the 2012 Session, the General Assembly enacted an expansion of the sales and use tax "exemption for buses, trucks and trailers used in interstate commerce". The sales and use tax exemption was expanded to include buses used 80.0 percent or more in interstate commerce rather than the 100.0 percent threshold in place under prior law. The exemption of buses used 80.0 percent or more in interstate commerce is also applied to local motor vehicle excise taxes levied by municipalities.

In the 2013 Session, the General Assembly passed and the Governor signed into law the exemption of works of art, including print and photograph, produced by Rhode Island residents with a business located in Rhode Island from the sales tax effective December 1, 2013 and the repeal of the sales tax on the sale of spirits and wine by package stores also effective December 1, 2013. The enactment of this legislation has had a negative impact on sales and use tax revenues.

Additionally, in the 2013 Session, the General Assembly accepted the Governor's proposal for the initiation of a special investigative tax unit in the Division of Taxation. It is anticipated that the special investigative tax unit will generate additional sale and use tax revenues from the more efficient and effective identification and quantification of tax fraud and related activity associated with compliance with the sales and use tax.

In the 2014 Session, the General Assembly accepted the Governor's proposal for the addition of ten new revenue officer positions in the Division of Taxation to assist in the collection of delinquent taxes. The General Assembly included enhanced sales and use tax revenues of $2.7 million in the FY 2015 enacted budget from this initiative. In addition, the 2014 General Assembly passed two proposals in concurrence with the Governor's FY 2015 recommended revenue enhancements for the inclusion of a safe harbor provision on personal income tax returns for use tax owed, and so called "anti-zapper" legislation which combats the understatement of total sales by business owners for tax purposes. It is anticipated that these two proposals will increase sales and use tax revenues by $3.0 million in the General Assembly's FY 2015 enacted budget. The 2014 General Assembly also enacted legislation to extend the exemption of wine and spirits from the statutory 7.0 percent sales and use tax to June 30, 2015. The General Assembly's FY 2015 enacted budget includes a reduction in sales and use tax revenues of $3.1 million to reflect this change.

The sales and use tax totaled $916.0 million, or 26.7 percent, of the State's preliminary FY 2014 total general revenues. Preliminary FY 2014 sales and use tax revenues increased by $37.2 million from audited FY 2013 sales and use tax revenues and increased in the share of total general revenues by 0.2 percentage points from audited FY 2013.

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

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

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

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

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

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

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

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

In the 2006 Session, the General Assembly created a new credit for corporations for contributions to qualified scholarship organizations. The Division of Taxation is responsible for certifying the scholarship organizations and administering the credit. The amount of the credit depends on the commitment from the corporation. If a 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 Rhode Island Commerce Corporation to issue up to $2.0 million of Innovation and Growth Tax Credits not to exceed $2.0 million during any two-year period. The purpose of the credit is to attract and retain serial entrepreneurs and to catalyze economic growth in high-wage, high-growth industries.

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

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

In addition, the 2008 General Assembly amended the 2006 Innovation and Growth Tax Credits legislation and reduced the authorization of the Rhode Island Commerce Corporation from $2.0 million, not to exceed $2.0 million in any two year period to $1.0 million, not to exceed $1.0 million in any two year period.

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

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

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

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

Additionally, in the 2012 Session, the General Assembly accepted the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above. Finally, in the 2012 Session, changes to the motion picture production tax credit, as described in the Personal Income Tax section, were enacted by the General Assembly with the concurrence of the Governor. Due to the maintenance of the $15.0 million calendar year cap on the issuance of motion picture production tax credits, including musical and theatrical production tax credits, the changes to the motion picture production tax credit outlined in the Personal Income Tax section above will likely have no impact on business corporations tax revenues received by the State.

The re-opening of the historic preservation tax credit program was approved by the General Assembly in the 2013 Session. This re-opened program is described in more detail under "Tax Revenues – Personal Income Tax" and is applicable to the business corporations tax as well as other taxes. In the 2013 Session, the General Assembly also passed and the Governor signed into law legislation that enables the Enterprise Zone Council to add census tracts 153 and 154 in the City of Pawtucket to the Pawtucket Enterprise Zone upon approval of such additions by the Pawtucket City Council. No revenue offset for the expansion of this enterprise zone was included in the enacted FY 2014 budget. The changes enacted by the General Assembly to conform Rhode Island law to federal law with respect to the expensing of assets in lieu of depreciation and the schedule used to depreciate assets (see the detailed explanation under Tax Revenues – Personal Income Tax above) also apply to business corporations taxes. Finally, the requirement that businesses add-back amounts deducted from income under Section 199 of the Internal Revenue Code Domestic Production Activities Deduction (DPAD) effective for tax years beginning on or after January 1, 2014 also impacts business corporations tax revenues.

In the 2014 Session, the General Assembly concurred with the Governor's proposal to add ten (10) new revenue officer positions in the Department of Revenue's Division of Taxation to assist in the collection of delinquent taxes. The General Assembly included increased business corporation tax revenues of $711,698 in their FY 2015 enacted budget to reflect this change. The 2014 General Assembly also passed legislation that will implement combined reporting with single sales factor apportionment for all C-corporations and simultaneously reduced the business corporations tax rate for C-corporations from 9.0 to 7.0 percent. In addition, the 2014 General Assembly eliminated the franchise tax for those franchise tax filers paying more than the $500 minimum tax. As a result of these initiatives, the General Assembly included an increase of $2.7 million in business corporation tax revenue in the FY 2015 enacted budget.

In addition to the changes in business corporations taxes included in the General Assembly's FY 2015 enacted budget, the 2014 General Assembly also passed and the Governor signed into law 14 S-2343 on June 23, 2014 which adds federal census block group 2 of census tract 401.01 in the Town of Portsmouth as a state enterprise zone under the Distressed Areas Economic Revitalization Act. The designation of this area in Portsmouth means that qualified business tax filers are eligible for an enterprise zone wage tax credit provided that certain conditions are met and can use that credit to reduce the tax liability owed under Rhode Island General Law Chapters 44-11 titled "Business Corporation Tax," 44-13 titled "Public Service Corporation Tax" (except for the tax imposed under Section 44-13-13), 44-14 titled "Taxation of Banks" and 44-17 titled "Taxation of Insurance Companies." The Budget Office estimated that business corporations tax revenues will decline by $81,118 in FY 2015 as a result of the bill, although this reduction is not included in the FY 2015 enacted budget.

Additionally, in the 2014 Session, the General Assembly passed H-8246 which became law on July 12, 2014. This law reduces the minimum total number of seats required from 1,500 to 1,000 in order for a theater that otherwise would qualify to receive a musical and theatrical production State tax credit. The General Assembly did not change the existing cap of $15.0 million in combined motion picture production and musical and theatrical production tax credits that can be issued in a single tax year and thus the change in the minimum total number of seats that a theater must have to be eligible for a tax credit will not impact the state's revenues, including its business corporations tax revenues.

Business corporations tax revenues totaled $115.2 million, or 3.4 percent, of the State's preliminary FY 2014 total general revenues. Preliminary FY 2014 business corporations tax revenues decreased in both dollar terms and in the share of total general revenues from audited FY 2013 revenues.

Health Care Provider Assessment. The State levies a health care provider assessment on residential facilities for the developmentally disabled. The levy has been set at 6.0 percent of gross revenues since 1994. In 2003, the General Assembly expanded the base of providers covered by the tax to include facilities with three or fewer residents. From January 1, 2008 through September 30, 2011, the health care provider assessment on residential facilities for the developmentally disabled will be reset to 5.5 percent of gross revenues due to a rule-making by the Center for Medicare and Medicaid Services (CMS), the federal agency responsible for administering Medicare, Medicaid, SCHIP, HIPAA, and several other health related programs. Since July 1, 2009, due to the approval of the *Rhode Island Global Consumer Choice Compact Section 1115 Demonstration* ("Global Medicaid Waiver"), the State is no longer able to assess the health care provider assessment on group homes.

The State also levies a tax on the gross revenues of nursing homes. In 2003, the gross revenue tax on nursing homes was increased from 4.75 percent to 6.0 percent. In addition, a 1.5 percent tax on gross revenues from freestanding Medicaid facilities not associated with hospitals is levied. In 2008, the General Assembly reduced the nursing homes labor costs principal payment by $5.0 million in FY 2009, which lowered payments received from the 5.5 percent provider tax. The General Assembly enacted a decrease of total payments to nursing homes of $57.6 million further decreasing payments generated from the 5.5 percent provider tax. In 2009, a series of expenditure reductions to nursing homes lowered State tax revenues.

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

In the 2012 Session, the General Assembly accepted the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above.

In the 2013 Session, the General Assembly accepted the Governor's recommendation to suspend the COLA that nursing home providers were scheduled to receive on October 1, 2013. The increased revenues to nursing home providers resulting from the COLA would have been subject to the 5.5 percent health care provider assessment. It is anticipated that the health care provider assessment on nursing homes will decrease as a result of suspending the COLA effective October 1, 2013.

In the 2014 Session, the General Assembly partially accepted the Governor's recommendation to suspend the COLA that nursing home providers were scheduled to receive on October 1, 2014 and enacted legislation that pushed back this effective date to April 1, 2015. The General Assembly included a revenue loss of $435,295 in the FY 2015 enacted budget as a result of this initiative. In addition, the General Assembly concurred with the Governor's proposal to enact legislation that will provide a more in-depth review process associated with the determination of financial eligibility for long-term care. It is anticipated that this initiative will reduce revenues by $27,517 in the General Assembly's FY 2015 enacted budget.

The health care provider assessment accounted for approximately $42.1 million, or 1.2 percent of the State's preliminary FY 2014 total general revenues. The dollar amount increased for the health care provider assessment between preliminary FY 2014 and audited FY 2013 while the share of total general revenues slightly decreased between the two fiscal years.

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

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

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

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

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

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

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

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

In the 2012 Session, the General Assembly accepted the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above.

The re-opening of the historic preservation tax credit program was approved by the General Assembly in the 2013 Session. This re-opened program is described in more detail under "Tax Revenues – Personal Income Tax" and is applicable to the public utilities gross earnings tax as well as other taxes.

The public service corporation gross earnings tax accounted for approximately $101.4 million, or 3.0 percent, of the State's preliminary FY 2014 total general revenues. The dollar amount of total general revenues increased while the share of total general revenues for public utilities gross earnings tax declined slightly between preliminary FY 2014 and audited FY 2013.

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

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

In the 1997 Session, 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 the 1999 Session, 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 the 2002 Session, legislation was passed making the insured liable for the 3.0 percent gross premiums tax on surplus lines of insurance if the insured purchases or renews surplus lines insurance coverage with an insurer not licensed in the State.

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

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

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

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

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

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

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

In the 2012 Session, the General Assembly also accepted the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above. Finally, in the 2012 Session, changes to the motion picture production tax credit, as described in the Personal Income Tax section, were enacted by the General Assembly with the concurrence of the Governor. Due to the maintenance of the $15.0 million calendar year cap on the issuance of motion picture production tax credits, including musical and theatrical production tax credits, the changes to the motion picture production tax credit outlined in the Personal Income Tax section above will likely have no impact on insurance companies gross premiums tax revenues received by the State.

The re-opening of the historic preservation tax credit program was approved by the General Assembly in the 2013 Session. This re-opened program is described in more detail under "Tax Revenues – Personal Income Tax" and is applicable to the insurance companies gross premiums tax as well as other taxes. In the 2013 Session, the General Assembly also enacted legislation for the expansion of the insured Medicaid population under the Affordable Care Act (ACA). The expansion of the insured Medicaid population under ACA is anticipated to generate $1.1 million in additional insurance companies' gross premiums revenues in FY 2014. Additionally, the General Assembly's enacted FY 2014 budget increased the total amount that can be awarded in a given fiscal year under the Tax Credits for Contributions to Scholarship Organizations program by $500,000 to a total of $1.5 million. Finally, as a result of contractual negotiations, managed care insurance companies agreed to a reduction in the rate paid by the State for managed care.

In the 2014 Session, the General Assembly accepted all five of the Governor's FY 2015 recommended changes to insurance companies gross premiums taxes in the FY 2015 enacted budget. These proposals included (i) a managed care rate decrease yielding an estimated decline in revenues of $468,365; (ii) an initiative to reduce the number of high utilizers of health care services resulting in a reduction in revenues of $326,221; (iii) a hospital rate freeze estimated to reduce revenues by $132,176; (iv) a proposal to determine the suitability of durable medical equipment purchases based on the results from the U.S. Office of the Inspector General audits of such purchases, expected to decrease revenues by $40,024; and (v) the implementation of utilization reviews for imaging services also expected to decrease revenues by $40,024. In addition, the 2014 General Assembly passed legislation to accelerate the recertification process for RIte Care eligibility under the Affordable Care Act which is estimated to reduce insurance companies gross premiums tax revenues by $389,486 in the FY 2015 enacted budget.

Additionally, in the 2014 Session, the General Assembly passed H-8246 which became law on July 12, 2014. This law reduces the minimum total number of seats required from 1,500 to 1,000 in order for a theater that otherwise would qualify to receive a musical and theatrical production state tax credit. The General Assembly did not change the existing cap of $15.0 million in combined motion picture production and musical and theatrical production tax credits that can be issued in a single tax year and thus the change in the minimum total number of seats that a theater must have to be eligible for a tax credit will not impact the State's revenues, including its insurance companies gross premiums tax revenues.

Insurance companies gross premiums tax revenues totaled approximately $102.4 million, or 3.0 percent, of the State's preliminary FY 2014 total general revenues. Both the dollar amount and the share of total general revenues for insurance companies gross premiums tax revenues increased between preliminary FY 2014 and audited FY 2013.

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

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

In the 1996 Session, the General Assembly enacted the JDA. 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 the 1997 Session, the General Assembly increased the investment tax credit for financial institutions from 2.0 to 4.0 percent of purchased buildings and structural components and 10.0 percent on buildings and equipment purchased or leased for firms that meet certain median wage or training performance criteria. The median wage criteria is defined as pay to qualified full-time equivalent employees above the median wage to all Rhode Island businesses in the same two digit North American Industrial Classification code.

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

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

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

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

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

The re-opening of the historic preservation tax credit program was approved by the General Assembly in the 2013 Session. This re-opened program is described in more detail under "Tax Revenues – Personal Income Tax" and is applicable to the financial institutions tax as well as other taxes.

In the 2014 Session, the General Assembly passed H-8246 which became law on July 12, 2014. This law reduces the minimum total number of seats required from 1,500 to 1,000 in order for a theater that otherwise would qualify to receive a musical and theatrical production state tax credit. The General Assembly did not change the existing cap of $15.0 million in combined motion picture production and musical and theatrical production tax credits that can be issued in a single tax year and thus the change in the minimum total number of seats that a theater must have to be eligible for a tax credit will not impact the State's revenues, including its financial institutions tax revenues.

The financial institutions tax accounted for approximately $22.0 million, or 0.6 percent of the State's preliminary FY 2014 total general revenues. The dollar amount and share of total general revenues increased for financial institutions excise tax revenues between preliminary FY 2014 and audited FY 2013.

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 $2.5 million, or less than 0.1 percent, of the State's preliminary FY 2014 total general revenues. Both the dollar amount of bank deposits taxes and the share of total general revenues decreased slightly between preliminary FY 2014 and audited FY 2013.

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

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

In the 2012 Session, the General Assembly accepted the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above.

In the 2014 Session, the General Assembly enacted legislation to restructure the estate and transfer tax effective for decedents whose deaths occur on or after January 1, 2015. The estate tax restructuring eliminated the estate tax threshold exemption amount in favor of providing a credit of $64,400 against estate taxes owed. The General Assembly's proposed estate tax credit is equivalent to the taxes owed on an estate with a taxable value of $1.5 million. This initiative is estimated to reduce estate and transfer tax revenues in the General Assembly's FY 2015 enacted budget by $9.4 million.

The estate and transfer tax accounted for approximately $43.6 million, or 1.3 percent, of the State's preliminary FY 2014 total general revenues. The dollar amount of estate and transfer tax revenues and their share of total general revenues increased between preliminary FY 2014 and audited FY 2013.

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

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

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

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

In the 2012 Session, the General Assembly accepted the Governor's FY 2013 budget recommendation to increase the cigarette excise tax stamp rate from $3.46 a pack to $3.50 a pack effective July 1, 2012. Additionally, in the 2012 Session, the General Assembly concurred with the Governor's FY 2013 budget proposal to amend the definition of a little cigar to include all non-cigarette tobacco products with an integrated filter that weigh 4.0 pounds or less per 1,000 individual sticks. Under prior law, the weight threshold was 3.0 pounds or less per thousand individual sticks. The change in definition for little cigars subjects more non-cigarette tobacco products to the cigarette excise tax of $3.50 per pack of 20 individual sticks rather than the other tobacco products tax of 80.0

percent of the wholesale cost. Finally, the Governor proposed and the General Assembly accepted legislation for four (4) Tax Investigator positions in the Division of Taxation to fully staff its tobacco tax enforcement task force.

Cigarettes tax revenues accounted for approximately $139.5 million, or 4.1 percent, of the State's preliminary FY 2014 total general revenues. The dollar amount of cigarettes tax revenues and its share of total general revenues increased between preliminary FY 2014 and audited FY 2013.

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

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

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

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

In the 2014 Session, the General Assembly enacted legislation to index the motor fuel tax rate on a biennial basis to the consumer price index for all urban consumers (CPI-U) as published by the United States Bureau of Labor Statistics as of September 30 of the prior calendar year with the first indexation effective July 1, 2015. This change does not impact general revenue since effective as of July 1, 2009 the State's General Fund no longer receives any of the revenues generated by the State's motor fuel tax. It should be noted, however, that the indexation of the motor fuel tax rate is projected to increase the State's motor fuel tax from $0.32 per gallon to $0.33 per gallon for FY 2016 and FY 2017.

FY 2014 motor fuel tax revenues accounted for zero percent of the State's FY 2014 preliminary total general revenues. Effective July 1, 2009, the State's General Fund no longer receives any of the revenues generated by the State's per gallon motor fuel tax.

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

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

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

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

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

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

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

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

In the 2012 Session, the General Assembly passed legislation that the Governor signed into law which increased the rental vehicle surcharge from 6.0 percent to 8.0 percent and decreased the State's share of total rental vehicle surcharge revenues from 50.0 percent to 40.0 percent. Additionally, in the 2012 Session, the General Assembly passed and the Governor signed into law legislation that exempted any "qualified sale" of a mobile and manufactured home park to a resident organization from State and local excise taxes. A qualified sale is defined as the sale of a mobile or manufactured home park to a residential organization with the goal of resident ownership by at least 51.0 percent of the homeowner households residing in the park.

In the 2013 Session, the General Assembly enacted and the Governor signed into law increases in the alcohol excise taxes for beer and malt, high proof distilled spirits and still wine. For beer and malt, the excise tax is increased from $3.00 per barrel (31 gallons) of beer or malt to $3.30 per barrel. For high proof spirits, those spirits that contain 15 percent or more alcohol, the excise tax is increased from $3.75 per gallon to $5.40 per gallon. For still wine, the excise tax is increased from $0.60 per gallon to $1.40 per gallon. The excise taxes on low proof distilled spirits and sparkling wine were unchanged by the General Assembly. The effective date of these tax increases is July 1, 2013.

In the 2014 Session, the General Assembly enacted and the Governor signed into law legislation that will extend the increased alcohol excise taxes for beer and malt, high proof distilled spirits and still wine from April 1, 2015 until June 30, 2015. The General Assembly included an increase in alcohol excise tax revenues of $1.5 million in their FY 2015 enacted budget as a result of extending the sunset date of this excise tax increase.

In addition, the 2014 General Assembly enacted and the Governor signed into law legislation that transfers the State's share of the 8.0 percent rental vehicle surcharge from general revenue to the Rhode Island Highway

Maintenance account. The General Assembly included a reduction in general revenue of $2.8 million in their FY 2015 enacted budget as a result of this change. The 2014 General Assembly also passed legislation, signed by the Governor that will transfer motor vehicle operator license and vehicle registration fees from general revenue to the Rhode Island Highway Maintenance Account beginning in FY 2016 with 25.0 percent of these fees being transferred in FY 2016, 75.0 percent of the remaining fees being transferred in FY 2017 and all of the remaining fees being transferred in FY 2018 and for each fiscal year thereafter.

Furthermore, the 2014 General Assembly enacted and the Governor signed into law legislation that increased the real estate conveyance tax by $0.30 to $2.30 per $500 in the total purchase price of a property inclusive of the value of any lien or encumbrance remaining at the time of sale. The revenue generated by the $0.30 increase in the real estate conveyance tax will be deposited into the Housing Resources Commission's restricted receipt account and used to provide for the lead hazard abatement program, housing rental subsidy, and homeless prevention and housing retention assistance. As a result, the increase in the real estate conveyance tax rate from $2.00 per $500 in property value to $2.30 per $500 in property value will not have a general revenue impact.

Other taxes accounted for approximately $80.4 million, or 2.3 percent, of the State's preliminary FY 2014 total general revenues. FY 2014 other tax revenues increased in both dollar terms and percentage share of total general revenues between preliminary FY 2014 and audited FY 2013.

Departmental Receipts. In FY 2014, 79.1 percent of all departmental receipts revenues were derived from the various licenses and fees assessed by State agencies. Departmental receipts revenues comprised 10.5 percent of all general revenues in preliminary FY 2014.

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

The hospital licensing fee was first enacted in 1994. The FY 1998, FY 1999, and FY 2000 Appropriations Acts each extended the fee for one year and changed the base year upon which the fee would be applied. In each fiscal year, the hospital licensing fee was assessed at the rate of 2.0 percent of gross patient service receipts in the hospitals' 1995 base year. The FY 2001 Appropriations Act extended the fee for FY 2001 at the rate of 4.0 percent of net patient service receipts in the hospitals' 1999 base year and retroactively increased the fee to 2.65 percent for FY 2000. The retroactive increase for FY 2000 was assessed as a one-time 0.65 percent surcharge on gross patient service receipts in the hospitals' 1995 base year. The FY 2002 Appropriations Act extended the fee for FY 2002 at the rate of 4.25 percent of net patient service revenues in the hospitals' 1999 base year. The FY 2003 Appropriations Act extended the fee for FY 2003 at the rate of 4.35 percent of net patient service receipts in the hospitals' 2000 base year. For FY 2004, the rate was set at 4.0 percent of net patient service revenues applicable to the 2001 base year. In the 2004 Session, the FY 2005 rate was set at 3.14 percent of net patient service revenues generated in the 2003 base year. In the 2005 Session, the General Assembly increased the rate to 3.56 percent of net patient service revenues and advanced the base year to 2004. In the 2006 session, the General Assembly re-instituted the hospital licensing fee at the 3.56 percent rate 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. The 2009 General Assembly increased the hospital licensing fee rate for FY 2009 to 5.437 percent and applied it to the 2007 base year net patient revenues. For FY 2010, the General Assembly re-instated the hospital licensing fee but decreased the rate to 5.237 percent and applied it to each hospital's fiscal 2008 net patient revenue. In the 2010 Session, the General Assembly increased the rate of the hospital licensing fee from 5.237 percent to 5.314 percent applied to each hospital's fiscal year 2008 net patient revenue. For FY 2011, the General Assembly passed legislation to reinstitute the hospital licensing fee but at a rate of 5.465 percent applied to each hospital's fiscal year 2009 net patient revenues. In the 2011 Session, the General Assembly reinstituted the hospital licensing fee for FY 2012 at a rate of 5.430 percent applied to each hospital's fiscal year 2010 net patient revenues. In the 2012 Session, the General Assembly continued the hospital licensing fee for FY 2013 at a rate of 5.350 percent of 2011 net patient revenues. The hospital licensing fee rate of 5.350 percent is discounted by 37.0 percent "for all hospitals located in Washington County, Rhode Island" subject to the approval of the Centers for

Medicare and Medicaid Services. The 37.0 percent discount yields an effective hospital licensing fee rate for Washington County hospitals of 3.3705 percent. In the 2013 Session, the General Assembly reinstituted the hospital licensing fee for FY 2014 at a rate of 5.246 percent of 2012 net patient revenues. The 2013 General Assembly retained the 37.0 percent discount on the hospital licensing fee rate for all Washington County hospitals. The 37.0 percent discount yields an effective hospital licensing fee rate for Washington County hospitals of 3.305 percent. In the 2014 Session, the General Assembly increased the FY 2014 Hospital Licensing Fee from 5.246 percent to 5.418 percent of 2012 net patient revenues. The General Assembly included an increase of $4.6 million in the licenses and fees component of departmental receipts to account for this rate increase in the FY 2014 final enacted budget. For FY 2015, the General Assembly passed legislation to reinstitute the hospital licensing fee at 5.703 percent on FY 2013 net patient revenues. The 2014 General Assembly retained the 37.0 percent discount on the hospital licensing fee rate for all Washington County hospitals. The 37.0 percent discount yields an effective hospital licensing fee rate for Washington County hospitals of 3.593 percent. Increasing the hospital licensing fee rate to 5.703 percent and updating the base to FY 2013 net patient revenues increases the FY 2015 hospital licensing fee receipts by $10.2 million from the FY 2014 hospital licensing fee of $145.9 million. It should be noted that the FY 2014 hospital licensing fee amount noted here does not include the receipt of $5.5 million for a FY 2012 overdue hospital licensing fee payment. Although this $5.5 million is included in FY 2014 departmental receipt revenues, it is not a recurring hospital licensing fee payment and thus is not part of the FY 2014 hospital licensing fee payment. The payment of the FY 2015 hospital licensing fee will occur in July 2015.

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 2008 Session, the General Assembly placed a moratorium on the Historic Preservation Tax Credit program and gave developers with on-going projects a choice of either prepaying the processing fee at a rate of 3.0 percent in exchange for a 25.0 percent tax credit upon project completion, prepaying the processing fee at a rate of 4.0 percent in exchange for a 26.0 percent tax credit upon project completion, or prepaying the processing fee at a rate of 5.0 percent in exchange for a 27.0 percent tax credit upon project completion. Developers that wished to remain eligible for Historic Preservation Tax Credits for their projects were required to pay a 2.25 percent processing fee by March 15, 2008 with the remaining percent due on March 5, 2009. Fees collected on or before June 30, 2008 were deposited into the General Fund while fees paid after June 30, 2008 were placed into a restricted receipt account. In the 2013 Session, the General Assembly enacted legislation to re-open the Historic Preservation Tax Credit program that was reconstituted in 2008. The re-opened Historic Preservation Tax Credit program requires developers to pay a non-refundable fee equal to 3.0 percent of the estimated qualified rehabilitation expenditures that a developer expects to incur to complete an eligible project. The revenues generated by these fees will be deposited into the Historic Preservation Tax Credit Trust Fund to be used to reimburse the General Fund for the redemption of historic structures tax credit certificates.

In the 2009 Session, the General Assembly passed legislation to increase a number of motor vehicle registration and operator license reinstatement fees and certificates of title fees effective April 1, 2009. The 2009 General Assembly also increased several fees administered by the Coastal Resources Management Council, raised numerous professional license fees collected by the Department of Business Regulation, and instituted a fee to expunge criminal records. Each of these fee changes were effective July 1, 2009.

The 2010 General Assembly enacted legislation to increase a variety of fees administered by the Division of Motor Vehicles and the Department of Public Safety. The Division of Motor Vehicles fees that were changed were: motor vehicles dealers' license fees which increased from $100.00 to $300.00; motor vehicles manufacturers and distributors fees which increased from $200.00 to $300.00; and motor vehicles factory representative fees which increased from $40.00 to $100.00. Furthermore, the Division of Motor Vehicles established a new fee for a flashing light permit that was set at $25.00. The Department of Public Safety's accident report fee was increased from $10.00 to $25.00. Also, during the 2010 Session, the General Assembly passed legislation to modify the collection of the State's 911 access fee on prepaid wireless telecommunications services. Under prior law, the Emergency 911 Telecommunications Access fee of $1.00 per month was assessed on all wireless telecommunications service users, however, prepaid wireless telephone users paid the fee only at the time the wireless device was purchased. The new law assesses a fee of 2.5 percent per retail transaction for prepaid wireless telecommunications services.

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

Further, the General Assembly adopted the Governor's proposal in the 2011 Session to increase both the estate tax filing fee and the letter of good standing fee from $25.00 to $50.00. In addition, the General Assembly concurred with the Governor's proposal to apply a $25.00 surcharge to non-sufficient fund checks written to the Division of Motor Vehicles. Also during the 2011 Session, the General Assembly increased the parking fees at State beaches operated by the Department of Environmental Management. The 2011 Session also saw the General Assembly concur with the Governor's proposal to institute a $10.00 surcharge for conducting application clearances for (1) individuals seeking employment in licensed residential and child day care programs, (2) child caregivers, (3) individuals applying to adopt children, and (4) for intra-state requests for child welfare history. Finally, in the 2011 Session, the General Assembly adopted the Governor's proposal to apply a 4.0 percent surcharge on the three compassion centers that are authorized to provide medical marijuana within Rhode Island.

In the 2012 Session, the General Assembly and the Governor signed into law a modification to Rhode Island's compassion center statute that reduces the amount of medical marijuana that compassion centers can have available for sale at any given time and applies more stringent regulations on the distribution of medical marijuana by compassion centers. The new legislation may make it possible for said licenses to be issued. Currently, two out of the three compassion center licenses to sell medical marijuana have been issued. Also, in the 2012 Session, the General Assembly enacted legislation to expand the definition of beverage containers that are subject to the State's $0.04 per case litter control permit fee. The new law now includes all beverage containers that contain non-alcoholic drinks for human consumption, except milk but including beer and other malt beverages. Furthermore, in the 2012 Session, the General Assembly passed legislation to eliminate the Rhode Island Department of Environmental Management's municipal wastewater treatment testing program. Currently, municipalities are charged a fee depending on the amount of pollutant discharge from a municipally owned waste water treatment plant. Finally, in the 2012 Session, the General Assembly enacted legislation to restructure the licenses and fees administered by the Rhode Island Department of Health (DOH) into a single fee schedule. The single fee schedule was created to align with the wages and salaries reported by the Rhode Island Department of Labor and Training for these professions.

In the 2013 Session, the Governor proposed and the General Assembly agreed to eliminate the Division of Motor Vehicles requirement of the filing of an accident report separate from that filed by law enforcement and to eliminate the Department of Labor and Training's hazardous substance right to know fee.

In the 2014 Session, the Governor proposed and the General Assembly agreed to implement a utilization review procedure for imaging services which will reduce the revenues collected by the Department of Revenue from the imaging services surcharge by $40,024 in the FY 2015 enacted budget. The General Assembly also included a directive to the Department of Administration to increase the parking garage fee for State employees that use the underground parking garage located beneath One Capitol Hill in Providence. A total of $200,802 was included in the FY 2015 enacted budget as a result of this directive.

In addition, the 2014 General Assembly passed legislation to transfer revenues generated from motor vehicle title fees and the state's share of the $39 emission inspection sticker fee from general revenue to the Rhode Island Highway Maintenance Account effective July 1, 2015. It should also be noted that the General Assembly increased the emission inspection sticker fee from $39 to $55 with the additional $16 per emission inspection sticker issued being deposited directly into the Rhode Island Highway Maintenance Account. The General Assembly included a reduction in general revenue of $14.5 million in the FY 2015 enacted budget as a result of these changes. The 2014 General Assembly also enacted legislation that will increase the fine for good driving record dismissals from $35 to $60, with the $25 increase deposited directly into the Rhode Island Highway Maintenance Account starting in FY 2015. This initiative does not have an impact on general revenues for FY 2015 as the original $35 fee will remain in the General Fund to be used for State operations.

A second category of departmental receipts is sales and services, which includes disproportionate share revenues collected on behalf of the State hospitals, as well as revenues derived from the sale of vanity license plates. The 2010 General Assembly passed legislation to reclassify non-Medicaid hospital payments received by the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (formerly the Department of Mental Health, Retardation, and Hospitals) as restricted receipts for FY 2010. The 2011 General Assembly accepted the Governor's proposal to allow the Division of Taxation to act as a collection agency on the behalf of other State and municipal agencies. State law allows the Division of Taxation to retain a percentage of the revenues collected to offset its cost of engaging in such collection activity. These revenues, when retained, will be recorded as sales and service receipts.

A third category of departmental receipts is fines and penalties, such as interest and penalties on overdue taxes. In the 2012 Session, the General Assembly accepted the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above. In the 2013 Session, the General Assembly accepted the Governor's proposal for the initiation of a special investigative tax unit in the Division of Taxation. It is anticipated that the special investigative tax unit within the Division of Taxation will generate additional interest and penalties on overdue taxes due to the more efficient and effective identification and quantification of tax fraud and related activity associated with compliance with the sales and use tax. Finally, the General Assembly enacted and the Governor signed into law a requirement that all municipalities use the State approved universal summons for red light violations issued via photo enforcement. In the 2014 Session, the General Assembly accepted the Governor's proposal to add ten (10) new revenue officer positions within the Division of Taxation to assist in the collection of delinquent taxes. The General Assembly included $2.2 million more in interest and penalties on overdue taxes in the fines and penalties component of departmental receipts in the FY 2015 enacted budget. The 2014 General Assembly also enacted and the Governor signed into law the creation of a statewide taskforce to combat employee misclassification and a block on "new" vehicle registrations for those individuals who are delinquent on taxes owed to the State. The 2014 General Assembly included a revenue increase of $1.0 million in interest and penalties on overdue taxes as a result of these two initiatives in the FY 2015 enacted budget.

The 2014 General Assembly passed, outside of the enacted budget, a bill that relieves municipalities operating automated traffic violation monitoring systems under Rhode Island General Law Chapter 31-41.2 from having to remit to the State General Fund, the State's share of tickets issued by a municipality using such systems. The legislation passed by the General Assembly would, effective July 1, 2015 and thereafter, allow municipalities that issue moving violations for "eluding" a traffic light via an automated traffic violation monitoring system to retain the full amount of the fine imposed by the municipal court. In the enacted FY 2014 budget, the General Assembly included $300,000 in revenues from the State's share of such moving violations. The Budget Office assumed the same amount of revenue would be received in FY 2015 and beyond for these moving violations. Passage of this bill will reduce the fines and penalties component of departmental receipts revenues by $300,000 for FY 2016 and thereafter.

Lastly, the miscellaneous departmental revenues category includes revenues from investment earnings on General Fund balances, indirect cost recoveries, as well as Child Support payments. In the 2009 Session, the General Assembly increased miscellaneous departmental revenues by including the revenue from the National Council on Aging's (NCA) Choices for Self-Care Challenge grant and from a grant by the American Cancer Society (ACS). The NCA grant will support a statewide chronic disease self-management program for adults 60 and over and the ACS grant will support women's cancer screening activities. The 2010 General Assembly enacted legislation to reclassify the payments received from local education authorities for the State administered student transportation initiative from miscellaneous departmental receipts to a restricted receipt account for FY 2010 and beyond. The 2010 General Assembly also passed legislation to subject the telecommunication education access fund to the indirect cost recovery charge. Finally, the 2010 General Assembly accepted monies from a non-government entity to continue women's cancer screenings until June 30, 2010. In the 2011 Session, the General Assembly proposed and the Governor approved for FY 2011 a grant by the Hospital Association of Rhode Island for the Department of Health's cancer registries research. In addition, the 2011 General Assembly enacted legislation to classify the Urban Institute's "Work Support Strategies" grant to the Department of Human Services as general revenue. This grant is designed to help improve the provision of services to low-income working families. In the 2012 Session, the General Assembly accepted the Governor's tax amnesty proposal, as outlined in the section on the Personal Income Tax above. Additionally in the 2012 Session, the General Assembly enacted legislation to eliminate the Rhode Island Department of Environmental Management's well drilling program. Finally, in the 2012 Session, the General Assembly added the Rhode Island Department of Administration's Regional Greenhouse Gas Initiative restricted receipt account to the list of restricted receipt accounts that are subject to the State's 10.0 percent indirect cost recovery surcharge. On December 1, 2012 the Budget Office was informed that the Regional Greenhouse Gas Initiative restricted receipt account was statutorily exempt from the State's 10.0 percent indirect cost recovery surcharge. In the 2013 Session, the General Assembly enacted two measures. The first measure was to discontinue the netting of bank fees against gross investment earnings and recording the difference as general revenue. Instead gross investment earnings will be recorded as general revenue and bank fees as expenditures on a going forward basis. The second revenue measure was to apply the State's 10.0 percent indirect cost recovery to the monies received by the Attorney General for the national mortgage settlement. In the 2014 Session, the General

Assembly passed legislation establishing a new grant in the Department of Health to improve vaccine coverage and utilization by pregnant women and is expected to increase miscellaneous departmental receipts by $29,465 in the final enacted FY 2014 budget. The General Assembly also enacted legislation in the 2014 Session with the Governor's approval, exempting all of the revenues deposited in the Jobs Development Fund from the 10.0 percent indirect cost recovery charge. It is expected that this change will reduce miscellaneous departmental receipts by $1.3 million in the FY 2015 enacted budget.

Departmental receipts revenues were $360.3 million of the State's preliminary FY 2014 total general revenues of $3.436 billion. Preliminary FY 2014 departmental receipts increased on a nominal basis and decreased as a percentage share of total general revenues by 0.2 percentage points when compared to audited FY 2013 revenues.

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

The FY 2001 Appropriations Act increased the allowable payout percentages for certain lottery and keno games, and also redistributed net terminal income (NTI) from video lottery games, resulting in a greater portion of net terminal income being retained by the State. The FY 2003 Appropriations Act further redistributed NTI from video lottery games. During the 2003 Session, the General Assembly enacted legislation that increased the State's share of video lottery NTI. This was done by reducing the share of NTI paid to the pari-mutuel facilities that house the video lottery terminals (VLTs), lowering the allocation of NTI to the dog kennel owners at Lincoln Park, and cutting the payments to the providers of the video lottery games. In the 2004 Session, the General Assembly again enacted legislation that increased the State's share of VLT NTI. In this case, the percentage of Lincoln Park net terminal income that was allocated to the dog kennel owners was eliminated and split between the State General Fund, Lincoln Park, and the Town of Lincoln. In the 2005 Session, the General Assembly passed legislation that allowed the Director of the Division of State Lottery to enter into long-term contracts with the owners of the State's two licensed video lottery retailers. These master contracts allowed for the addition of 2,550 VLTs between the two facilities (1,750 at Twin River (the former Lincoln Park) and 800 at Newport Grand), provided that the facilities invest $145.0 million in structural and operational upgrades and expansions within three years ($125.0 million at Twin River and $20.0 million at Newport Grand). The master contract for Twin River froze the retailer's share of NTI from existing terminals at 28.85 percent and from additional video lottery terminals at 26.0 percent (which rates are subject to certain adjustments based on the CPI in the eleventh through fifteenth years of the contract term). The master contract for Newport Grand freezes the share of video lottery NTI that is allocated to the facility from existing and additional video lottery terminals at 26.0 percent. In the 2008 Session, the General Assembly passed legislation to allow Twin River and Newport Grand to operate 24 hours a day, three days a week on weekends (24/3) at each facility's discretion. The State's proceeds from 24/3 operations were deposited into the Permanent School Fund and dispersed to the cities and towns to support education. The provision for the distribution of revenue from 24/3 gaming to the Permanent School Fund expired on June 30, 2009.

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

$590.0 million of debt on the balance sheet of the facility and, subject to the State's regulatory approval process, the lenders have become the new owners of the facility.

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

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

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

The 2010 General Assembly enacted legislation that amended the master video lottery terminal contracts for Twin River and Newport Grand. The amendments reduced the employment levels that each facility must have in order to extend the term of the contract, provide for promotional points programs, institutes a marketing program for each facility to be operated jointly with the Division of Lottery, decreases the State percentage of the net terminal income generated at Newport Grand, and increases the Town of Lincoln's share of the net terminal income generated at Twin River for weeks when Twin River is open 24 hours. Twin River has been operating on a 24 hours a day, seven days a week basis since November 2009. The enhanced payment to the Town of Lincoln expired on June 30, 2011. In the 2011 Session, the General Assembly enacted legislation to extend the increased share of Twin River's net terminal income received by the Town of Lincoln for those weeks in which Twin River operated on a 24 hour basis to June 30, 2012. The enhancement in the share of net terminal income going to the Town of Lincoln reduced the State's share of Twin River's NTI on a dollar-for-dollar basis. The 2011 General Assembly enacted legislation to permanently restore the funds Newport Grand would have received had the facility met the benchmarks set forth in the First Amendment to the Newport Grand Master Video Lottery Contract with regard to the joint marketing program contained therein. The Newport Grand joint marketing program requires the State to share in the cost of marketing Newport Grand's gaming offerings for approved marketing expenses in excess of $560,000. The State pays out of its share of Newport Grand's video lottery terminal net terminal income (NTI) 61.69 percent of the marketing expenses in excess of the $560,000 threshold. The 2011 General Assembly also realized additional savings within the Division of Lottery's operations resulting in an increase of available revenue to be transferred to the State.

While the possible opening of new gaming sites in Massachusetts may significantly reduce the revenues of Twin River since such sites are likely to reduce the number of out-of-state patrons visiting Twin River, it should be noted that during the 2011 legislative session, the General Assembly passed Article 25 of the 2012 Appropriations Act which authorizes, subject to statewide and local voter approval, the expansion of state-operated gaming at the Twin River facility to include "any and all table and casino-style games played with cards, dice or equipment." The Act was signed by the Governor and became law on June 30, 2011. While the Narragansett Indian Tribe filed a complaint against the State in the Superior Court on or about September 28, 2011, inter alia, challenging the constitutionality of the casino gaming act on the grounds that it would not be "state-operated" and the act "delegates unconstitutional authority to a private corporation", on or about June 29, 2012, the Superior Court found that the Narragansett Indian Tribe had not sustained their burden of proof that the act violates the State or United States constitution. The Narragansett Indian Tribe filed a notice of appeal of that decision. The remaining issues in the case which are still pending in the Superior Court relate to whether the state "operates" Twin River and Newport Grand. In November 2012, the qualified electors of the State and the qualified electors of the Town of Lincoln approved the expansion of gaming at Twin River to include table games.

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

In the fall of 2011, the Division of Lottery commissioned a study by Christiansen Capital Advisors, LLC to determine the impact that the pending expansion of gaming in Massachusetts might have on Rhode Island's gaming industry and the State's revenues. An update to this study has been commissioned and is expected to be completed prior to the 2014 November Revenue Estimating Conference. The Christiansen study examined nine different scenarios depending on the location of the three destination resort casinos and the one slot parlor in Massachusetts. Under the likely case scenario with tables games in operation only at Twin River outlined in the Christiansen study, the Rhode Island Department of Revenue projects that, by FY 2019, casino gaming in Massachusetts will reduce Twin River gross gaming revenues by 28.8 percent from its FY 2013 level of $472.6 million and reduce Newport Grand gross gaming revenues by 51.4 percent from its FY 2013 level of $48.1 million. These declines in Twin River and Newport Grand gross gaming revenues are estimated to reduce the State's revenues from these facilities by $94.6 million in FY 2019 vis-à-vis the amount the State received from these two facilities in FY 2013. There is no assurance that any level of revenue projected from table gaming at Twin River will be achieved or to what degree gaming in Massachusetts, or the overall decline of the casino industry in the Northeast, will ultimately impact revenues generated at Twin River or Newport Grand from table gaming and/or video lottery terminals in the future.

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

Also, during the 2012 Session, the General Assembly passed two identical bills, 2012 –S 3001 Substitute A and 2012 – H 8213 Substitute A as amended entitled "An Act Relating to Revenue Protection," that were signed into law by the Governor on June 20, 2012. The Revenue Protection Act (i) requires that the Director of the Division of Lottery promulgate rules and regulations relating to state-operated table gaming on or before March 31, 2013 and set policy for table games; (ii) requires the table game retailer to reimburse and pay the Division of Lottery for all reasonable costs and expenses associated with the Division's review of the business practices or operations of the table game retailer, including but not limited to, such items as ongoing auditing, legal, investigation services, compulsive and problem gambling programs, and other related matters; and (iii) gives the Director of Lottery the authority to enforce the provisions of the law and allows for the imposition of administrative penalties of not more than $1,000 for each violation of any rule, regulation, policy or procedure or administrative order with the interest, cost or expense collected appropriated to the Division of State Lottery for administrative purposes. The law provides that, inter alia, 18.0 percent of the Net Table Game Revenue derived from Table Games at Twin River as defined in the law be deposited into the State lottery fund for administrative purposes with the balance remaining going into the General Fund with that percentage being reduced to 16.0 percent on the first date that Twin River's net terminal income for a full State fiscal year is less than Twin River's net terminal income for the prior State fiscal year The operation of table games at Twin River began on June 16, 2013. At that time, the provisions of the Revenue Protection Act became effective.

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

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

Because of the improvements in the Massachusetts economy since the Great Recession and the signs of the decline of the casino industry in the Northeast, the voters of Massachusetts will be voting in the November 2014 election on whether to repeal the gambling legislation adopted in Massachusetts in 2011 before any casino or slot parlor has even been opened. In the meantime, the Massachusetts Gaming Commission has awarded licenses for two of the three casinos and the one slot parlor contemplated by the gambling legislation. Licenses have been awarded to MGM Resorts International on June 13, 2014 for an $800 million casino in Springfield, Massachusetts, and to Wynn Resorts on September 16, 2014 for a $1.6 billion casino in Everett, Massachusetts, which is just outside of Boston. A license was also awarded on February 27, 2014 to Penn National Gaming for a slot parlor in Plainville, Massachusetts, approximately twenty (20) miles from the Twin River Facility. Neither MGM Resorts International nor Wynn Resorts have made payments at this time to the Commonwealth of Massachusetts for the licenses awarded in light of the pending vote to repeal the gambling legislation. However, Penn National Gaming has submitted its payment of $25 million to the Commonwealth of Massachusetts for its license and has commenced construction of the slot parlor notwithstanding the possible repeal of the gambling legislation. If the repeal measure is defeated, the slot parlor is expected to open in September 2015.

The 2014 General Assembly enacted legislation to amend the master contract with Twin River by increasing the marketing program which is jointly financed by Twin River and the State. Under current law, Twin River pays for 100.0 percent of the first $4.0 million in approved marketing expenses while Twin River and the State share the cost of the next $6.0 million of approved marketing expenses up to a cap of $10.0 million. Under the amendment to Twin River's master contract with the State, the next $4.0 million of approved marketing expenses above the $10.0 million cap will be borne entirely by Twin River while Twin River and the State will share the cost of the next $3.0 million of approved marketing expenses up to a cap of $17.0 million. It is estimated that this contract amendment will reduce general revenue by $1.1 million in the General Assembly's FY 2015 enacted budget.

The General Assembly also enacted with the Governor's approval, a bill that provides for the authorization of State operated casino gaming at Newport Grand subject to State and local voter approval through a referendum at the November 2014 general election. Approval of the bill is also subject to approval of a referendum on the State level at the November 2014 general election that would amend Section 22 of Article VI of the Rhode Island Constitution to provide that no change in the location of gambling permitted in a municipality would occur without the approval of a majority of the voters in a local referendum within the municipality on the proposed location change. Subject to passage of the referenda, the Department of Revenue's Division of Lottery would be authorized to operate table games in addition to video lottery terminals (VLTs) at Newport Grand. The passage of the referenda will increase the City of Newport's share of the net terminal income (NTI) generated by the VLTs at Newport Grand from 1.01 percent to 1.45 percent effective July 1, 2015. This increase in the City of Newport's share of the NTI generated by Newport Grand's VLTs will reduce the State's share of the same on a dollar for dollar basis. Assuming the passage of the referenda, the Budget Office projects a decrease in State general revenue of $161,480 in FY 2016.

This bill also includes certain conditions that, if they are met and the aforementioned referenda are approved, will further enhance the City of Newport's share of NTI from the VLTs operated at Newport Grand. In particular, after July 1, 2015, if the current owners of Newport Grand, or their successors, have invested $40.0 million in the renovation of the existing facility and received a certificate of completion and passed inspection by the City of Newport's building inspector, and the number of VLTs in operation is at least 1,097, the number of VLTs that were in operation as of January 1, 2014, and table gaming has started at Newport Grand, then the City of Newport is guaranteed to receive the greater of 1.45 percent of the NTI generated by the VLTs located at Newport Grand or $1.5 million for the first six full fiscal years commencing when these conditions are met. After six full fiscal years, the guaranteed minimum declines to $1.0 million. Assuming passage of the State and local referenda and the meeting of the conditions noted above, the Budget Office projects a decrease in State general revenue of $1.1 million in FY 2016.

It should be noted that the Department of Revenue's Division of Lottery has informed the State that the State's share of net table game revenues generated at Twin River will decline from 18 percent to 16 percent effective July 1, 2014 and thereafter. The reduction in the State's share of Twin River net table game revenue is the result of Twin River VLT NTI in FY 2014, after the commencement of table game operations at Twin River, yielding less than Twin River VLT NTI in FY 2013.

The lottery transfer to the General Fund totaled $376.3 million which accounted for 11.0 percent of the State's preliminary total general revenues in FY 2014. The dollar amount of the lottery transfer to the General Fund and its percentage share of total general revenue decreased between preliminary FY 2014 and audited FY 2013.

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

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

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

The unclaimed property transfer totaled $12.7 million in FY 2014 and accounted for 0.4 percent of the State's FY 2014 preliminary total general revenues. The dollar amount of the unclaimed property transfer increased as did its share of total general revenue's between FY 2014 and FY 2013.

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

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

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

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

In the 2011 Session, the General Assembly transferred excess reserves from the Rhode Island Resource Recovery Corporation to the State's General Fund. Additionally, the General Assembly passed legislation to designate revenue received from land sales to the information technology revolving fund, a restricted receipt account.

In the 2012 Session, the General Assembly enacted legislation to accept a grant from Neighborhood Health Plan of Rhode Island for dental care for low income adults. The amount of the grant is $1.8 million and its receipt was realized in FY 2013. The State Controller reclassified this grant from general revenue to an expenditure credit in the preliminary FY 2013 closing statement of revenues and expenditures and as a result, although the grant was received it was not recorded as other miscellaneous revenue.

In the 2014 Session, the General Assembly enacted legislation to transfer bond proceeds from a Department of Administration insurance restricted receipt account in the amount of $925,419 to the General Fund by June 30, 2014. The transfer is available as general revenue and can be used to finance FY 2014 State operations.

In addition, the 2014 General Assembly enacted legislation to transfer during FY 2015 $5.0 million from the Tobacco Settlement Financing Corporation to the General Fund from proceeds of a refinancing of previously issued tobacco settlement bonds. As noted under the Tobacco Settlement Financing Corporation section of this document, the planned refinancing of previously issued tobacco settlement bonds has been challenged by a bond holder in Superior Court. Until a resolution of this challenge is determined, the refinancing transaction is on hold. As such, there is no assurance at this time that the $5.0 million transfer authorized in the FY 2015 enacted budget will occur.

The total amount of other miscellaneous revenues received in FY 2014 was approximately $6.4 million, which accounted for 0.2 percent of the State's preliminary FY 2014 total general revenues. For FY 2013, these amounts were $4.2 million and 0.1 percent, respectively.

Restricted Receipts. In FY 2014, the State expended $221.5 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 2014, the State expended $2.669 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, or Medicaid), and a block grant for Temporary Assistance to Needy Families (TANF). The federal participatory rate for Title XIX, known as the Federal Medical Assistance Percentage (FMAP), is recalculated annually. The major determinant in the FMAP rate calculation is the relative per capita income of the State. The provisions of ARRA included a temporary increase in the FMAP rate from 52.59 percent to 63.89 through September 30, 2009 and from 52.63 to 63.92 from October 1, 2009 through September 30, 2010. The ARRA-enhanced FMAP for the second quarter of FY 2011 was 64.22. The FMAP enhancement provisions of ARRA were partially continued by Public Law 111-226, the Education Jobs and Medicaid Assistance Act, which resulted in enhanced FMAPs of 61.39 and 59.51 for the third and fourth quarters of FY 2011, respectively. Statutory enhancements of the FMAP ceased on July 1, 2011, at which time the FMAP for Rhode Island reverted to the base level of 52.97 percent for one quarter. From October 1, 2011 through September 30, 2012, the State's prevailing FMAP was 52.12 percent. For the following federal fiscal year, FFY 2013, Rhode Island's FMAP decreased to 51.26 percent and for FFY 2014 Rhode Island's FMAP decreased again to 50.11 percent. Due to continuing relative shifts in the State's per capita income statistics as measured by the Bureau of Economic Analysis (BEA), FFY 2015 represents the first year of Rhode Island receiving the minimum FMAP allowable under current federal Medicaid law (42 U.S.C. 1396d), or 50.0 percent. The FY 2015 enacted budget includes $492.4 million in federal spending to expand Medicaid eligibility under the Affordable Care Act (ACA) for non-pregnant, childless adults up to 138 percent of the federal poverty level. Under the ACA, federal funds will fully support this expansion until January 2017, after which the federal matching rates decline incrementally until reaching 90 percent for 2020 and thereafter. As such, the State's share in support of medical services for the newly eligible population will not be required until FY 2017.

ECONOMIC FORECAST

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

The Consensus Economic Forecast (CEF) was adopted at the May 2nd meeting of the May 2014 Revenue Estimating Conference (REC). The principals heard testimony from their economic consultant (Moody's Analytics). The consultant presented Conferees with updated economic forecasts for the United States and Rhode Island. Testimony from Moody's Analytics covered current economic performance and the outlook for the next several years and how the outlook has changed since the November 2013 Revenue Estimating Conference. In addition, the Assistant Director of the Labor Market Information Unit within Rhode Island's Department of Labor and Training presented the latest labor market data for Rhode Island.

After questioning the presenters, the Conferees adopted an updated consensus economic forecast for Rhode Island. The updated forecast offered slight changes to the consensus outlook adopted at the November 2013 Conference.

With respect to the Rhode Island economy, Moody's Analytics noted that the State's economy is still the laggard of the New England states. They did note, however, that a major positive for the State as a whole is the manufacturing sector, which experienced positive growth in 2013 for the first time in the last decade. Moody's Analytics stated that uncertainty surrounding the restoration of expired emergency unemployment insurance benefits is a major concern for the State. Due to the severity of the recession in the State, Rhode Island has benefitted disproportionately from the extension of unemployment insurance benefits beyond the traditional 26 weeks covered by State and federal law. Moody's Analytics outlined as an additional cause for concern the fact that although personal bankruptcies are trending down at a similar pace to that of the U.S, the amount of foreclosure inventory in Rhode Island has been rising since the second quarter of 2013, at a time when foreclosure inventory is falling nationally. The rise in foreclosure inventory is puzzling, since Rhode Island is one of the few Northeast states to have non-judicial foreclosure processing and is likely attributable to mortgage resets, restricted access to mortgage financing, and slower job growth.

With respect to Rhode Island, Moody's Analytics also noted that the cost of doing business in the State is still relatively high compared to the U.S. as a whole, particularly in the areas of energy and taxes. Moody's Analytics stated that the State needs to reform its tax structure and reduce the cost of energy in order to make the State a more viable destination for outside business investment and the resultant in-migration of residents that accompanies it. A downside risk to the Rhode Island economic forecast is the faster economic growth occurring in Massachusetts and Connecticut, which could divert residents, employers and spending power away from the State. In addition, Moody's Analytics mentioned that weak demographics combined with restrained income growth may further slow the growth of the State's service-oriented economy in the near future. This will be exacerbated if the State does not direct resources into areas that will accelerate this transition period. Finally, well-directed business investment, particularly in the State's comparative advantage areas of higher education, healthcare and biotechnology will be critical for the State's long-term sustainable economic growth. Moody's Analytics testified that the State should leverage the resources currently available to foster continual expansion in the areas that will deliver sustainable growth in Rhode Island in order to make the State more competitive in the region and nationally.

The Rhode Island Department of Labor and Training (DLT) reported that the Rhode Island unemployment rate declined to 8.7 percent in March 2014, the highest in the United States at that time. The March 2014 unemployment rate of 8.7 percent was markedly higher than the U.S. rate of 6.7 percent, and the Massachusetts and Connecticut unemployment rates of 6.3 and 7.0 percent, respectively. While Rhode Island's unemployment rate decreased in March 2014, it was largely a reflection of a contraction in the labor force, a year-over-year decrease of 4,600 individuals employed or actively seeking employment. The total amount of Rhode Island employed residents did not change over the same time frame. In addition, there was a reduction of 4,500 unemployed workers. Therefore, the observed labor force contraction is purely reflective of individuals who were actively looking for work electing to exit the labor force. Rhode Island's resident employment figure peaked at 548,900 in December 2006. Rhode Island resident employment in March 2014 totaled 506,000, or 42,900 off the peak.

Utilization of Rhode Island's WorkShare program has dropped dramatically since 2009. The WorkShare program allows employers to reduce the hours of a larger number of workers in lieu of a layoff of a smaller group of employees. The workers recapture the lost earnings due to the reduction in hours through regular unemployment benefits. Initial claims dropped 45.1 percent between the first quarter of 2013 and the first quarter of 2014, and payments decreased 16.8 percent for the same period.

DLT reported that between August 2009 and March 2014, the State regained a net of 19,900 jobs, or 50 percent of the jobs lost from the peak of employment in December 2006 to the trough of employment levels in August 2009. The composition of the jobs recovered is as follows: 9,500 or 47.7 percent in the middle wage group (i.e., $30,000 - $59,999 in annual income), 7,400 or 37.2 percent in the low-wage group (i.e., $30,000 and below in annual income), and 3,000 or 15.1 percent in the high wage group (i.e., $60,000 and above in annual income).

Between March 2013 and March 2014, Rhode Island establishment employment increased overall by 6,400 jobs. The change in employment breaks down as follows (all employment data are seasonally adjusted):

Sector	Jobs Change	Sector	Jobs Change
Professional & Business Services	2,400	Construction	100
Leisure & Hospitality	2,200	Natural Resource & Mining	-
Manufacturing	700	Financial Activities	(200)
Trade, Transportation & Utilities	700	Government	(300)
Education and Health Services	700	Information	(400)
Other Services	500	**Total Non-Farm**	**6,400**

In August 2014, Rhode Island's seasonally adjusted unemployment as reported by the Bureau of Labor Statistics was 7.7 percent. Rhode Island now has the third highest unemployment rate in the country. The U.S. seasonally adjusted unemployment rate fell to 6.1 percent for the same period.

The principals at the May 2014 Revenue Estimating Conference adopted a consensus economic forecast based on the testimony of Moody's Analytics. The forecast projects an increase in non-farm employment of 6,800 jobs in FY 2014 and 9,100 jobs in FY 2015. Employment growth is expected to average 1.2 percent for the FY 2015 – FY 2019 forecast period. Personal income growth is anticipated to be positive in FY 2014 and FY 2015, at 2.8 percent and 5.8 percent, respectively, with the peak in personal income growth taking place in FY 2016 at 6.6 percent before consistent declines in personal income growth for the FY 2017 - FY 2019 period. Personal income growth is forecasted to average 3.9 percent over the FY 2017 – FY 2019 period. Wage and salary growth is expected to follow a similar pattern to personal income growth, with growth of 3.3 percent in FY 2014 and 6.3 percent in FY 2015. Peak wage and salary growth is projected to be 6.9 percent in FY 2016. Wage and salary growth is forecasted to average 4.6 percent in the FY 2017 – FY 2019 forecast period. The State's unemployment rate is projected to be 9.2 percent in FY 2014 before falling to 8.2 percent in FY 2015. Rhode Island's unemployment rate is not expected to fall below 7.0 percent until FY 2016.

The consensus economic forecast through FY 2019 as adopted by the conferees at the May 2014 Revenue Estimating Conference is shown in the following table.

Forecast Metric	May 2014 Consensus Economic Forecast					
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Non-Farm Employment (Thousands)	475.0	484.1	495.0	502.3	504.6	504.4
Growth Rates (%)						
Non-Farm Employment	1.5	1.9	2.3	1.5	0.5	-0.1
Personal Income	2.8	5.8	6.6	5.5	3.3	2.9
Wages and Salaries	3.3	6.3	6.9	6.0	4.4	3.5
Dividends, Interest, and Rent	3.8	7.2	9.3	7.3	2.2	1.9
Percentage Rates (%)						
Unemployment	9.2	8.2	6.9	5.9	5.6	5.5
Consumer Price Index (U.S.)	1.5	2.0	2.1	2.5	2.7	2.5
Ten Year U.S. Treasury Notes	2.8	3.6	4.6	5.1	4.8	4.7
Three Month U.S. Treasury Bills	0.1	0.1	1.0	2.7	3.3	3.5

Significant revisions downward can be seen for FY 2014 and FY 2015 in the May 2014 Consensus Economic Forecast (CEF) when compared to the November 2013 CEF. Rates of growth in personal income, wages and salaries, and dividends, interest and rent were all revised downward in the May 2014 CEF. Specifically, personal income growth was revised downward by 0.9 percentage points in FY 2014 and 0.5 percentage points in FY 2015. Moody's Analytics provided a significant downward revision to dividends, interest and rent growth by 2.0 percentage points in FY 2014 and 1.8 percentage points in FY 2015. Wage and salary growth was revised downward by 0.8 percentage points in FY 2014 and 0.4 percentage points in FY 2015 from the November 2013 CEF. In addition, stronger than expected non-farm employment growth in the State can be seen through the upward revision of 4,900 jobs in FY 2014 and 4,900 jobs in FY 2015 from the November 2013 CEF. The unemployment rate was revised upward slightly by 0.4 percentage points in both FY 2014 and FY 2015 in the May 2014 CEF. Moody's Analytics forecast provided only slight modifications for the other major forecast metrics including CPI-U, ten year U.S. Treasury notes and three month U.S. Treasury bills in FY 2014 and FY 2015. The changes from the November 2013 CEF made in the May 2014 CEF on a State fiscal year basis can be seen in the following table.

Forecast Metric	May 2014 REC vs. November 2013 REC Consensus Economic Forecast					
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Non-Farm Employment (Thousands)	4.9	4.9	4.6	4.6	4.2	3.8
Growth Rates (%)						
Non-Farm Employment	0.6	0.0	-0.1	0.0	-0.1	-0.1
Personal Income	-0.9	-0.5	0.2	0.1	-0.7	-0.7
Wages and Salaries	-0.8	-0.4	-0.1	0.1	0.2	-0.1
Dividends, Interest, and Rent	-2.0	-1.8	0.8	0.3	-1.6	-1.3
Percentage Rates (%)						
Unemployment	0.4	0.4	0.3	0.3	0.1	0.0
Consumer Price Index (U.S.)	0.0	0.0	-0.2	0.1	0.3	0.2
Ten Year U.S. Treasury Notes	-0.1	-0.2	-0.1	0.1	0.1	0.0
Three Month U.S. Treasury Bills	0.0	0.0	-0.1	-0.1	-0.1	0.0

GENERAL REVENUES

FY 2014 Preliminary Revenues

Preliminary FY 2014 total general revenues of $3.436 billion were up $112.3 million compared to audited FY 2013 total general revenues of $3.324 billion, which translates into a growth rate of 3.4 percent. Preliminary FY 2014 total general revenues were 0.6 percent more than the final enacted FY 2014 total general revenue estimate of $3.416 billion, a surplus of $20.3 million.

Preliminary FY 2014 total taxes and departmental receipts were 0.9 percent more than the final enacted FY 2014 estimate of $3.015 billion, a surplus of $25.9 million. Preliminary FY 2014 total taxes and departmental receipts of $3.041 billion were up $106.5 million compared to audited FY 2013 total taxes and departmental receipts of $2.934 billion, which translates into a growth rate of 3.6 percent.

Preliminary FY 2014 other general revenue sources were 1.4 percent less than the final enacted FY 2014 estimate of $401.1 million, a shortfall of $5.6 million. Preliminary FY 2014 other general revenue sources of $395.4 million were up $5.8 million compared to audited FY 2013 other general revenue sources of $389.7 million, which translates into a growth rate of 1.5 percent.

Preliminary FY 2014 revenues for total taxes were 0.9 percent more than the final enacted FY 2014 estimate of $2.656 billion, a surplus of $24.7 million. Preliminary FY 2014 total taxes revenues of $2.681 billion were up $103.0 million compared to audited FY 2013 total taxes revenues of $2.578 billion, which translates into a growth rate of 4.0 percent.

Preliminary FY 2014 personal income tax revenues were 1.1 percent more than the final enacted FY 2014 estimate of $1.103 billion, a surplus of $12.3 million. Preliminary FY 2014 personal income tax revenues of $1.116 billion were up $29.7 million compared to audited FY 2013 personal income tax revenues of $1.086 billion, which translates into a growth rate of 2.7 percent.

Rhode Island business corporations tax revenues are comprised of taxes collected from the corporate income tax and taxes on nonresident contractors and political organizations. Preliminary FY 2014 business corporations tax revenues were 1.6 percent less than the final enacted FY 2014 estimate of $117.1 million, a shortfall of $1.9 million. Preliminary FY 2014 business corporations tax revenues of $115.2 million were down $16.6 million compared to audited FY 2013 business corporations tax revenues of $131.8 million, which translates into a growth rate of -12.6 percent.

Preliminary FY 2014 public utilities gross earnings tax revenues were 6.1 percent less than the final enacted FY 2014 public utilities gross earnings tax revenue estimate of $108.0 million, a shortfall of $6.6 million. Preliminary FY 2014 public utilities gross earnings tax revenues of $101.4 million were up $1.7 million compared to audited FY 2013 public utilities gross earnings tax revenues of $99.6 million, which translates into a growth rate of 1.7 percent.

Preliminary FY 2014 financial institutions tax revenues were 62.8 percent more than the final enacted FY 2014 estimate of $13.5 million, an excess of $8.5 million. Preliminary FY 2014 financial institutions tax revenues of $22.0 million were up $9.4 million compared to audited FY 2013 financial institutions tax revenues of $12.6 million, which translates into a growth rate of 74.5 percent.

Preliminary FY 2014 insurance companies gross premiums tax revenues were 3.4 percent less than the final enacted FY 2014 estimate of $106.0 million, a shortfall of $3.6 million. Preliminary FY 2014 insurance companies gross premiums tax revenues of $102.4 million were up $9.6 million compared to audited FY 2013 insurance companies gross premiums tax revenues of $92.7 million, which translates into a growth rate of 10.4 percent.

Preliminary FY 2014 bank deposit tax revenues were 3.0 percent more than the final enacted FY 2014 estimate of $2.4 million, a surplus of $71,553. Preliminary FY 2014 bank deposit tax revenues of $2.5 million were down $405,772 compared to audited FY 2013 bank deposit tax revenues of $2.9 million, which translates into a growth rate of -14.1 percent.

Preliminary FY 2014 health care provider assessment revenues were 0.8 percent more than the final enacted FY 2014 estimate, an excess of $331,465. Preliminary FY 2014 health care provider assessment revenues of $42.1 million were up $562,876 compared to audited FY 2013 health care provider assessment revenues of $41.6 million, a growth rate of 1.4 percent.

Preliminary FY 2014 sales and use tax revenues were 1.0 percent more than the final enacted FY 2014 estimate of $907.0 million, a surplus of $9.0 million. Preliminary FY 2014 sales and use tax revenues of $916.0 million were up $37.2 million compared to audited FY 2013 sales and use tax revenues of $878.9 million, a growth rate of 4.2 percent.

Preliminary FY 2014 motor vehicle operator license and vehicle registration fee revenues were 0.2 percent more than the final enacted FY 2014 estimate of $52.3 million, a surplus of $107,813. Preliminary FY 2014 motor vehicle operator license and vehicle registration fee revenues of $52.4 million were up $3.0 million compared to audited FY 2013 motor vehicle operator license and vehicle registration fee revenues of $49.4 million, which translates into a growth rate of 6.0 percent.

Preliminary FY 2014 motor carrier fuel use tax revenues were up $23,920 or 4.8 percent from the final enacted FY 2014 estimate of $500,000. Preliminary FY 2014 motor carrier fuel use tax revenues of $523,920 were up $85,665 compared to audited FY 2013 motor carrier fuel use tax revenues of $438,255, which translates into a growth rate of 19.5 percent.

Rhode Island cigarettes tax receipts are made up of excise taxes collected on the sale of cigarettes, a tax on the wholesale price of other tobacco products such as cigars, pipe tobacco, and smokeless tobacco, and a cigarette floor stock tax, which is imposed when the cigarette excise tax rate is increased. Preliminary FY 2014 cigarettes tax revenues, including other tobacco products and any cigarette floor stock taxes, were up $361,685 or 0.3 percent from the final enacted FY 2014 estimate of $139.1 million. Preliminary FY 2014 cigarettes tax revenues of $139.5 million were up $7.0 million compared to audited FY 2013 cigarettes tax revenues of $132.5 million, a growth rate of 5.2 percent.

Preliminary FY 2014 alcohol excise tax revenues were 3.7 percent more than the final enacted FY 2014 estimate, a surplus of $652,450. Preliminary FY 2014 alcohol tax revenues of $18.3 million were up $6.1 million compared to audited FY 2013 alcohol tax revenues, a growth rate of 49.9 percent. It should be noted that alcohol excise tax rates for beer and malt, still wine and high proof spirits were increased on July 1, 2013.

Preliminary FY 2014 controlled substances revenues include a net accrual of $48,188. There was no final enacted FY 2014 controlled substances revenue estimate and no controlled substances revenues were received in FY 2013.

Preliminary FY 2014 estate and transfer tax revenues were 14.4 percent more than the final enacted FY 2014 estimate of $38.1 million, a surplus of $5.5 million. Preliminary FY 2014 estate and transfer tax revenues of $43.6 million were up $15.1 million compared to audited FY 2013 estate and transfer tax revenues of $28.5 million, a growth rate of 53.0 percent.

Preliminary FY 2014 racing and athletics tax revenues were 1.9 percent less than the final enacted FY 2014 estimate of $1.2 million, a shortfall of $23,131. Preliminary FY 2014 racing and athletics tax revenues of $1.18 million were up $5,761 compared to audited FY 2013 racing and athletics tax revenues of $1.17 million, which translates into a growth rate of 0.5 percent.

Preliminary FY 2014 realty transfer tax revenues were 0.5 percent less than the final enacted FY 2014 estimate of $8.0 million, a shortage of $38,184. Preliminary FY 2014 realty transfer tax revenues of $8.0 million were up $562,594 compared to audited FY 2013 realty transfer tax revenues of $7.4 million, which translates into a growth rate of 7.6 percent.

Preliminary FY 2014 total departmental receipts were 0.3 percent more than the final enacted FY 2014 estimate of $359.2 million, an excess of $1.2 million. Preliminary FY 2014 total departmental receipts of $360.3 million were up $3.5 million compared to audited FY 2013 total departmental receipts of $356.8 million, which translates into a growth rate of 1.0 percent. The increase is partially attributable to the hospital licensing fee rate increase from 5.246 percent in FY 2013 to 5.418 percent in FY 2014.

Preliminary FY 2014 other miscellaneous revenues were 24.6 percent less than the final enacted FY 2014 estimate of $8.5 million, a shortfall of $2.1 million. It should be noted that the final enacted FY 2014 other miscellaneous revenue estimate includes $1.8 million for the Neighborhood Health Plan of Rhode Island's Adult Dental Care grant. This grant, however, was reclassified as a restricted receipt and is not included in the preliminary FY 2014 general revenues. Preliminary FY 2014 other miscellaneous revenues of $6.4 million were up $2.2 million compared to audited FY 2013 other miscellaneous revenues of $4.2 million, a growth rate of 53.4 percent.

The preliminary FY 2014 lottery transfer to the State's General Fund was down 1.1 percent compared to the final enacted FY 2014 estimate of $380.7 million, a shortfall of $4.4 million. The preliminary FY 2014 lottery transfer was $376.3 million or $2.9 million less than the audited FY 2013 lottery transfer of $379.2 million, which translates into a growth rate of -0.8 percent.

The preliminary FY 2014 unclaimed property transfer was 6.9 percent more than the final enacted FY 2014 estimate of $11.9 million, an excess of $824,124. The unclaimed property transfer of $12.7 million for preliminary FY 2014 was up 103.0 percent or $6.5 million compared to the audited FY 2013 unclaimed property transfer of $6.3 million.

FY 2015 Enacted Revenues

The enacted FY 2015 budget estimates general revenues of $3.493 billion, an increase of 1.7 percent from the preliminary FY 2014 level of $3.436 billion. The General Assembly's enacted FY 2015 budget is comprised of $3.343 billion of revenue estimated at the May 2014 Revenue Estimating Conference (REC) and $149.8 million of changes to these adopted estimates.

The largest source of enacted FY 2015 general revenues is the personal income tax, with estimated revenues of $1.157 billion, an increase of 3.7 percent from preliminary FY 2014 revenues. In addition, the General Assembly's enacted FY 2015 budget includes the elimination of the property tax relief credit for low income individuals, which is estimated to augment revenues by $8.2 million in FY 2015, and a restructured Rhode Island earned income tax credit (EITC), which is estimated to reduce revenues by $4.3 million in enacted FY 2015. The General Assembly concurred with the Governor's FY 2015 recommendation to add ten (10) new revenue officer positions to assist the Division of Taxation's collection of delinquent taxes. The initiative is projected to enhance FY 2015 personal income tax revenues by $2.7 million. The General Assembly also concurred with the Governor's proposal to create a statewide taskforce designed to combat employee misclassification which is projected to generate an additional $990,000 of personal income tax revenue in FY 2015. The General Assembly also accepted the Governor's proposals to implement a state employee tax compliance program expanding the initiative to include local government employees and public officials, and establish a registration block on "new" vehicle registrations for those individuals who are delinquent on State taxes. These initiatives are expected to generate $1.4 million in FY 2015. Enacted FY 2015 personal income tax revenues are projected to comprise 33.1 percent of the enacted FY 2015 general revenue. The enacted FY 2015 personal income tax estimate incorporates the reimbursement of the State from the Historic Structures Tax Credit Fund for historic structures tax credit certificates that are expected to be redeemed against the personal income tax.

Sales and use tax revenues are enacted at a total of $939.6 million in FY 2015, an increase of 2.6 percent from preliminary FY 2014 revenues. The enacted increase in sales and use tax revenue for FY 2015 is due in part to the General Assembly's acceptance of the Governor's recommendation for the addition of ten (10) new revenue officers in the Department of Revenue's Division of Taxation, the inclusion of a safe harbor provision on personal income tax returns for use tax owed, and anti-zapper legislation to combat the understatement of total sales by business owners for tax purposes. These three initiatives are expected to augment sales and use tax revenues by $5.7 million in FY 2015. In addition, the General Assembly passed legislation to extend the exemption of wine and spirits from the statutory 7.0 percent sales and use tax to June 30, 2015. The enacted FY 2015 budget includes a reduction in sales and use tax revenues of $3.1 million to reflect this change. Sales and use taxes are expected to contribute 26.9 percent to enacted total general revenues in FY 2015.

Motor vehicle operator license and vehicle registration fees are enacted at $49.5 million in FY 2015, a decrease of 5.5 percent from preliminary FY 2014 revenues. The estimated reduction in enacted FY 2015 revenues of $2.9 million for motor vehicle operator license and vehicle registration fees relative to preliminary FY 2014 revenues is a result of the General Assembly's decision to pass legislation that will transfer all of the revenue generated from the State's share of the 8.0 percent rental vehicle surcharge into the Rhode Island Highway Maintenance Account. Motor carrier fuel use taxes are enacted at $500,000 in FY 2015 a decrease of 4.6 percent, or $23,920 over preliminary FY 2014 revenues. Motor vehicle license and fee revenues are projected to make up 1.4 percent of enacted FY 2015 total general revenues while motor carrier fuel use taxes are enacted at less than 0.1 percent of FY 2015 total general revenues.

Cigarettes and other tobacco products tax revenues are expected to total $135.8 million in FY 2015, a decrease of 2.6 percent or $3.7 million from preliminary FY 2014 revenues. The General Assembly's enacted FY 2015 estimate for cigarettes and other tobacco products tax revenue are anticipated to contribute 3.9 percent to total general revenues in FY 2015.

FY 2015 alcohol tax revenues are enacted at $17.4 million or 4.4 percent less than the preliminary FY 2014 level. The General Assembly enacted legislation to extend the expiration date of the alcohol excise tax increase from March 31, 2015 to June 30, 2015 for beer and malt, high proof distilled spirits and still wine in the FY 2015 budget. The passage of the extension of the sunset provision in current law for the increased excise tax rates that went into effect on July 1, 2013 is estimated to increase alcohol excise tax revenues by $1.4 million in FY 2015. Enacted FY 2015 alcohol excise taxes are estimated to comprise 0.5 percent of the enacted total for FY 2015 general revenues.

General Business taxes are projected to comprise 11.5 percent of total general revenues in the FY 2015 enacted budget. Business corporations tax revenues are expected to yield $118.8 million or 3.1 percent more than the preliminary FY 2014 level. The General Assembly passed legislation that will implement combined reporting with single sales factor apportionment for all C-corporations while simultaneously reducing the business corporations tax rate from 9.0 to 7.0 percent. In addition, the General Assembly eliminated the franchise tax for those franchise tax filers paying more than the $500 minimum tax. Enactment of these proposals is estimated to increase business corporation tax revenues by $2.7 million in FY 2015. As noted above for the personal income tax, the General Assembly also approved the Governor's recommendation to provide the Division of Taxation with 10 new revenue officers to assist in the collection of delinquent taxes. This proposal is expected to enhance business corporation tax revenues by another $711,698 in FY 2015. In addition, the General Assembly passed, outside of the enacted budget, a bill that adds one additional federal census block group within the Town of Portsmouth, to a state enterprise zone under the Distressed Areas Economic Revitalization Act. The designation of this site in Portsmouth means that qualified business tax filers can receive an enterprise zone wage tax credit and use that credit to reduce the tax liability owed. The Budget Office estimated that business corporations tax revenues will decline by $81,118 in FY 2015 and $86,202 in FY 2016 as a result of passing the bill.

The health care provider assessment is enacted at $42.1 million in the General Assembly's FY 2015 enacted budget, an increase of less than 0.1 percent from preliminary FY 2014 revenues. The General Assembly's concurrence with the Governor's recommendation to suspend the COLA to nursing home providers that was scheduled to be received on October 1, 2014 and newly enacted legislation that further pushes back this effective date to April 1, 2015 is estimated to reduce revenues by $435,295 in the FY 2015 enacted budget. In addition, the General Assembly enacted legislation to provide a more in-depth review process associated with the determination of financial eligibility for long-term care which will reduce revenues by $27,517 in FY 2015. The FY 2015 enacted estimate is $5,723 more than FY 2014 preliminary revenues and are anticipated to constitute 1.2 percent of the enacted total for FY 2015 general revenues.

Insurance companies gross premium taxes are estimated at $115.5 million in the FY 2015 enacted budget, an increase of 12.8 percent from preliminary FY 2014 revenues. The General Assembly's FY 2015 enacted budget includes a managed care rate decrease yielding an estimated decline in revenues of $468,365; an initiative to reduce the number of high utilizers of health care services resulting in a reduction in revenues of $326,221; a hospital rate freeze estimated to reduce revenues by $132,176; a proposal to determine the suitability of durable medical equipment purchases based on the results from the U.S. Office of the Inspector General audits of such purchases, expected to decrease revenues by $40,024; and the implementation of utilization reviews for imaging services also expected to decrease revenues by $40,024. In addition, the General Assembly passed legislation to accelerate the recertification process for RIte Care eligibility under the Affordable Care Act which is estimated to reduce revenues by $389,486 in FY 2015. Insurance companies gross premiums tax revenues are expected to represent 3.3 percent of enacted FY 2015 total general revenues.

FY 2015 enacted financial institutions tax revenues total $11.5 million or 47.7 percent less than preliminary FY 2014 financial institutions tax revenues. FY 2015 enacted financial institutions tax revenues are expected to constitute 0.3 percent of total general revenues. The enacted FY 2015 financial institutions tax estimate incorporates the reimbursement of the State from the Historic Structures Tax Credit Fund for historic structures tax credit certificates that are expected to be redeemed against financial institutions taxes.

FY 2015 enacted bank deposits taxes total $2.4 million and comprise 0.1 percent of total enacted general revenues. The enacted FY 2015 estimate for bank deposits taxes is 2.9 percent less than preliminary FY 2014 revenues.

The General Assembly's enacted FY 2015 public utilities gross earnings tax estimate is 10.5 percent greater than preliminary FY 2014 revenues. Enacted FY 2015 public utilities gross earnings tax revenues are estimated at $112.0 million and make up 3.2 percent of total enacted general revenues. The enacted FY 2015 public utilities gross earnings tax estimate incorporates the reimbursement of the State from the Historic Structures Tax Credit Fund for historic structures tax credit certificates that are expected to be redeemed against public utilities gross earnings taxes.

The General Assembly's enacted FY 2015 budget does not include any additional general revenue from the statutorily imposed excise tax on controlled substances, or $48,188 less than preliminary FY 2014 revenues. It should be noted that preliminary FY 2014 revenues includes a net accrual of $48,188 which is not anticipated to recur going forward.

The enacted total for other tax revenues in FY 2015 is $36.6 million. This amount is equal to approximately 1.0 percent of total enacted general revenues in FY 2015. Estate and transfer taxes, the largest component of other tax revenues, are enacted by the General Assembly at $27.0 million for FY 2015, a decrease of 38.0 percent from preliminary FY 2014 revenues. Enacted FY 2015 estate and transfer taxes are expected to constitute 0.8 percent of total enacted general revenues. The reduction in the enacted FY 2015 estimate for estate and transfer tax revenues of $16.6 million relative to preliminary FY 2014 estate and transfer tax revenues is attributable to the General Assembly's decision to restructure the estate and transfer tax by eliminating the estate tax threshold exemption amount in favor of providing a tax credit of $64,400 against estate taxes owed. Under current law, the estate tax threshold amount is $921,655. Estates with taxable values less than this amount are exempt from the estate tax while estates with taxable values greater than this amount are fully subject to the estate tax. The General Assembly's proposed estate tax credit is equivalent to the taxes owed on an estate with a taxable value of $1.5 million. This initiative is estimated to reduce estate and transfer tax revenues in FY 2015 by $9.4 million. FY 2015 realty transfer tax revenues are enacted at $8.5 million or 6.8 percent more than preliminary FY 2014 revenues. Racing and athletics tax revenues are enacted at $1.1 million, or 6.5 percent less than preliminary FY 2014 revenues. Realty transfer tax revenues are expected to constitute 0.2 percent of enacted total general revenues in FY 2015 while enacted FY 2015 racing and athletics tax revenues are estimated to be less than 0.1 percent of the same.

Inclusive of the General Assembly's proposed changes to departmental receipts, total departmental receipt revenues are enacted to be $351.7 million in FY 2015, or 10.1 percent of enacted total general revenue. The FY 2015 enacted departmental receipts are expected to generate $8.7 million less than preliminary FY 2014 revenues. The decrease is driven primarily from the General Assembly's decision to pass legislation transferring revenue generated from motor vehicle title fees of $9.0 million and fees derived from vehicle emission inspection stickers of $5.7 million in FY 2015 to the Rhode Island Highway Maintenance Account for a total general revenue reduction of $14.7 million. In addition to transferring existing vehicle emission inspection fees from general revenue to the Rhode Island Highway Maintenance Account, the General Assembly also enacted a $16.00 increase in vehicle emission inspection fees, the proceeds of which will be deposited directly into the Rhode Island Highway Maintenance Account. The General Assembly also enacted legislation to reinstitute the hospital licensing fee at a rate of 5.703 percent applied to the hospital FY 2013 net patient revenue base. The hospital licensing fee rate of 5.703 percent is discounted by 37.0 percent "for all hospitals located in Washington County, Rhode Island". The 37.0 percent discount yields an effective hospital licensing fee rate for Washington County hospitals of 3.593 percent. Passage of the hospital licensing fee increase and advancing the base will augment general revenue by $156.1 million in FY 2015. The General Assembly also directed the Department of Administration (DOA) to increase the parking fee for State employees that park in DOA's garage from $16 biweekly to $32 biweekly which is estimated to increase departmental receipt revenues by $200,802 in FY 2015. Finally, the General Assembly passed legislation to exempt all of the Jobs Development Fund from the 10 percent indirect cost recovery charge. This exemption is estimated to reduce departmental receipt revenues by $1.3 million.

The General Assembly's FY 2015 enacted departmental receipt revenues figure includes the following initiatives:

- An increase of $156.1 million from reinstituting the hospital licensing fee as noted above;
- An increase of $2.2 million in interest and penalties on overdue taxes from concurrence with the Governor's recommendation for the addition of 10 new revenue officers in the Division of Taxation to assist in the collection of delinquent taxes;

- An increase of $810,000 in interest and penalties on overdue taxes from concurrence with the Governor's recommendation to create a statewide taskforce to combat employee misclassification;
- An increase of $219,600 in interest and penalties on overdue taxes from concurrence with the Governor's recommendation for a registration block on "new" vehicle registrations;
- An increase of $200,802 from the General Assembly's proposal to increase the Department of Administration parking garage fee for State employees from $16 biweekly to $32 biweekly;
- A decrease of $1.3 million as a result of the General Assembly passing legislation to exempt all of the Job Development Fund from the 10 percent indirect cost recovery charge;
- A decrease of $40,024 from concurrence with the Governor's recommendation to implement a utilization review procedure for imaging services which will reduce the revenues collected by the Department of Revenue from the imaging services surcharge;
- A decrease of $9.0 million as a result of the General Assembly's legislation to transfer motor vehicle title fees to the Rhode Island Highway Maintenance Account;
- A decrease of $5.7 million as a result of the General Assembly's legislation to transfer vehicle emission inspection fees to the Rhode Island Highway Maintenance Account.

The enacted FY 2015 estimate for the other sources component of total general revenues is $402.5 million, an increase of 1.8 percent, or $7.0 million, when compared to preliminary FY 2014 other sources revenues. Enacted other sources revenues are expected to comprise 11.5 percent of total enacted general revenues for FY 2015.

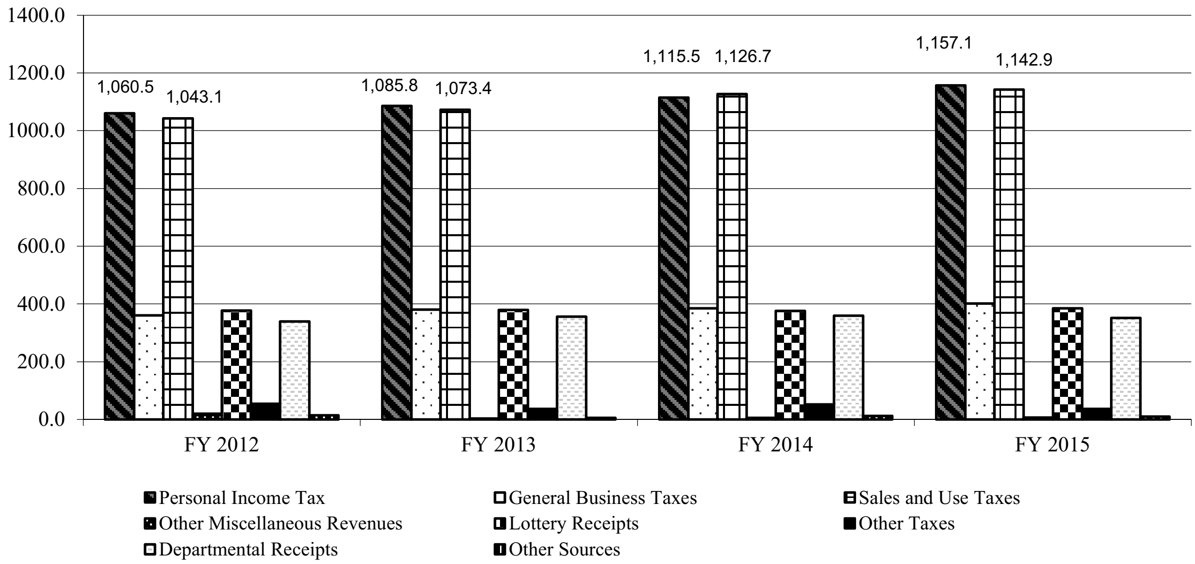
The General Assembly's enacted FY 2015 estimate for other miscellaneous revenues is $1.1 million higher than the preliminary FY 2014 level of $6.4 million, an increase of 16.9 percent. Enacted other miscellaneous revenues are expected to comprise 0.2 percent of total enacted general revenues for FY 2015.

The enacted FY 2015 estimate for the lottery transfer is 2.2 percent greater than preliminary FY 2014 revenues. In FY 2015, the lottery transfer is enacted at $384.5 million with $59.5 million generated by traditional and monitor games, $312.3 million generated by the video lottery terminals installed at Newport Grand and Twin River and $12.7 million produced by the table games located at Twin River. In the General Assembly's FY 2015 enacted budget, an amendment to the master contract with Twin River to increase the marketing program that is jointly financed by Twin River and the State occurred. Under current law, Twin River pays for 100 percent of the first $4.0 million in approved marketing expenses while Twin River and the State share the cost of the next $6.0 million of approved marketing expenses up to a cap of $10.0 million. Under the amendment to Twin River's master contract with the State, the next $4.0 million of approved marketing expenses above the $10.0 million cap will be borne entirely by Twin River while Twin River and the State will share the cost of the next $3.0 million of approved marketing expenses up to a cap of $17.0 million. It is estimated that amending the master contract with Twin River to accommodate this change will reduce the lottery transfer by $1.1 million in the FY 2015 enacted budget.

The final category of general revenues is the unclaimed property transfer. In FY 2015, this transfer is enacted at $2.2 million less than the preliminary FY 2014 unclaimed property transfer, a decrease of 17.5 percent. The unclaimed property transfer is enacted at $10.5 million in FY 2015, and comprises 0.3 percent of FY 2015 enacted total general revenues.

The following chart shows the sources of general revenues for the period FY 2012 – FY 2015. The values of the two major sources of general revenues, personal income taxes and sales and use taxes, are highlighted. The general revenue amounts reflected in the chart for FY 2012 and FY 2013 are derived from the State's Comprehensive Annual Financial Reports for FY 2012 and FY 2013 prepared by the State Controller and post audited by the Auditor General. The general revenue amount reflected for FY 2014 is derived from the State's Preliminary Closing Report prepared by the State Controller prior to any audit adjustments by the Auditor General. The general revenue amount for FY 2015 is the amount reflected in the enacted FY 2015 budget.

General Revenue Sources ($ millions)



COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES

The following tables set forth comparative summaries for all State General Revenues for fiscal years 2012 through 2015 and expenditures for the fiscal years 2012 through 2015. General Fund data on expenditures for FY 2012 and FY 2013 are derived from the State's Comprehensive Annual Financial Reports prepared by the State Controller and post audited by the Auditor General. Expenditures for Final Enacted FY 2014 Budget reflect the budget enacted by the General Assembly and signed into law by the Governor on June 19, 2014. Expenditures for FY 2014 Preliminary reflect the unaudited expenditures as presented in the preliminary closing report issued by the State Controller on August 29, 2014. The expenditures for FY 2015 reflect those contained in the FY 2015 Budget enacted by the General Assembly and signed into law by the Governor on June 19, 2014. 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 funds sources, as well as certain expenditures from Federal and Restricted sources.

General Fund revenues for FY 2012 and FY 2013 reflect the audited actual revenues as reported by the State Controller. FY 2014 Final Enacted revenues reflect those estimated at the May 2014 Revenue Estimating Conference revenues, adjusted by changes enacted by the 2014 General Assembly in the final enacted FY 2014 budget. FY 2014 Preliminary reflects the unaudited preliminary revenues as presented by the State Controller in the preliminary closing report issued on August 29, 2014. The FY 2015 revenues reflect those adopted by the Conferees at the May 2014 Revenue Estimating Conference and any statutory changes approved by the General Assembly as part of FY 2015 enacted Budget. These estimates are explained under the section above entitled *Revenue Estimates* and the subheading below entitled *Free Surplus*.

General Revenues as Enacted

	FY 2012 Actual	FY 2013 Actual	FY 2014 Final Enacted	FY 2014 Preliminary	FY 2015 Enacted
Personal Income Tax	$ 1,060,481,684	$ 1,085,765,261	$ 1,103,200,000	$ 1,115,512,527	$ 1,157,132,269
General Business Taxes					
Business Corporations	123,054,377	131,827,907	117,100,000	115,226,852	118,811,698
Public Utilities Gross Earnings	100,631,477	99,640,815	108,000,000	101,382,220	112,000,000
Financial Institutions	3,557,938	12,594,921	13,500,000	21,983,833	11,500,000
Insurance Companies	89,487,511	92,744,945	106,000,000	102,356,841	115,503,704
Bank Deposits	2,000,645	2,877,325	2,400,000	2,471,553	2,400,000
Health Care Provider Assessment	41,922,464	41,568,589	41,800,000	42,131,464	42,137,188
Sales and Use Taxes					
Sales and Use	851,055,730	878,866,074	907,000,000	916,083,253	939,619,684
Motor Vehicle	48,391,564	49,431,495	52,300,000	52,407,813	49,500,000
Motor Fuel	732,672	438,255	500,000	523,920	500,000
Cigarettes	131,085,912	132,516,310	139,100,000	139,461,685	135,800,000
Alcohol	11,873,646	12,176,109	17,600,000	18,252,450	17,442,085
Other Taxes					
Inheritance and Gift	46,411,738	28,489,275	38,100,000	43,592,370	27,009,849
Racing and Athletics	1,327,003	1,171,108	1,200,000	1,176,869	1,100,000
Realty Transfer	6,434,665	7,399,222	8,000,000	7,961,816	8,500,000
Total Taxes	**$ 2,518,449,026**	**$ 2,577,507,611**	**$ 2,655,800,000**	**$ 2,680,525,466**	**$ 2,738,956,476**
Departmental Receipts	**$ 339,895,284**	**356,831,653**	**$ 359,160,861**	**$ 360,333,833**	**$ 351,671,912**
Taxes and Departmentals	**$ 2,858,344,310**	**$ 2,934,339,264**	**$ 3,014,960,861**	**$ 3,040,859,299**	**$ 3,090,628,388**
Other Sources					
Other Miscellaneous	20,110,214	4,166,214	8,480,419	6,391,686	7,475,000
Lottery	377,706,394	379,224,715	380,700,000	376,327,121	384,500,000
Unclaimed Property	14,555,573	6,268,627	11,900,000	12,724,124	10,500,000
Other Sources	**$ 412,372,181**	**$ 389,659,556**	**$ 401,080,419**	**$ 395,442,931**	**$ 402,475,000**
Total General Revenues	**$ 3,270,716,491**	**$ 3,323,998,820**	**$ 3,416,041,280**	**$ 3,436,302,230**	**$ 3,493,103,388**

FY 2014 General Revenue Changes to Enacted

	Original Enacted Revenues *July 2013*	November 2013 REC *November 2013*	Governor Recommended *January 2014*	May 2014 REC *May 2014*	Total Enacted Revenue Enhancements *June 2014*	Final Enacted Revenues *June 2014*
Personal Income Tax	$ 1,109,154,500	$ 1,120,700,000	$ 1,120,700,000	$ 1,103,200,000	**$ -**	$ 1,103,200,000
General Business Taxes						
Business Corporations	141,300,000	136,000,000	136,000,000	117,100,000	-	117,100,000
Public Utilities Gross Earnings	94,900,000	95,900,000	95,900,000	108,000,000	-	108,000,000
Financial Institutions	4,300,000	4,300,000	4,300,000	13,500,000	-	13,500,000
Insurance Companies	98,815,832	100,600,000	100,600,000	106,000,000	-	106,000,000
Bank Deposits	2,500,000	2,900,000	2,900,000	2,400,000	-	2,400,000
Health Care Provider Assessment	42,610,544	42,600,000	42,600,000	41,800,000	-	41,800,000
Sales and Use Taxes						
Sales and Use	887,201,672	904,000,000	904,000,000	907,000,000	-	907,000,000
Motor Vehicle	51,800,000	50,800,000	50,800,000	52,300,000	-	52,300,000
Motor Fuel	1,000,000	700,000	700,000	500,000	-	500,000
Cigarettes	130,700,000	136,300,000	136,300,000	139,100,000	-	139,100,000
Alcohol	18,173,328	18,200,000	18,200,000	17,600,000	-	17,600,000
Other Taxes						
Estate and Transfer	31,800,000	31,800,000	31,800,000	38,100,000	-	38,100,000
Racing and Athletics	1,200,000	1,200,000	1,200,000	1,200,000	-	1,200,000
Realty Transfer	7,500,000	8,000,000	8,000,000	8,000,000	-	8,000,000
Total Taxes	**$ 2,622,955,876**	**$ 2,654,000,000**	**$ 2,654,000,000**	**$ 2,655,800,000**	**$ -**	**$ 2,655,800,000**
Departmental Receipts	**$ 348,707,542**	**$ 360,100,000**	**$ 354,514,976**	**$ 354,500,000**	**$ 4,660,861**	**$ 359,160,861**
Taxes and Departmentals	**$ 2,971,663,418**	**$ 3,014,100,000**	**$ 3,008,514,976**	**$ 3,010,300,000**	**$ 4,660,861**	**$ 3,014,960,861**
Other Sources						
Other Miscellaneous	5,545,000	7,455,000	11,701,398	7,555,000	925,419	8,480,419
Lottery	394,100,000	394,200,000	394,200,000	380,700,000	-	380,700,000
Unclaimed Property	9,700,000	10,900,000	10,900,000	11,900,000	-	11,900,000
Other Sources	**$ 409,345,000**	**$ 412,555,000**	**$ 416,801,398**	**$ 400,155,000**	**$ 925,419**	**$ 401,080,419**
Total General Revenues	**$ 3,381,008,418**	**$ 3,426,655,000**	**$ 3,425,316,374**	**$ 3,410,455,000**	**$ 5,586,280**	**$ 3,416,041,280**

FY 2015 General Revenue Changes to Estimated

	Initial Estimated Revenues *November 2013*	Governor Recommended *January 2014*	May 2014 REC *May 2014*	Enacted Revenue Enhancements *June 2014*	Original Enacted *June 2014*
Personal Income Tax	$ 1,153,900,000	$ 1,158,295,659	$ 1,148,100,000	$ 9,032,269	$ 1,157,132,269
General Business Taxes					
Business Corporations	133,200,000	133,911,698	115,400,000	3,411,698	118,811,698
Public Utilities Gross Earnings	97,500,000	97,500,000	112,000,000	-	112,000,000
Financial Institutions	4,500,000	4,500,000	11,500,000	-	11,500,000
Insurance Companies	108,700,000	107,738,811	116,900,000	(1,396,296)	115,503,704
Bank Deposits	2,900,000	2,900,000	2,400,000	-	2,400,000
Health Care Provider Assessment	44,300,000	43,860,632	42,600,000	(462,812)	42,137,188
Sales and Use Taxes					
Sales and Use	930,600,000	937,510,924	937,000,000	2,619,684	939,619,684
Motor Vehicle	50,800,000	50,800,000	52,300,000	(2,800,000)	49,500,000
Motor Fuel	700,000	700,000	500,000	-	500,000
Cigarettes	132,400,000	133,150,000	135,800,000	-	135,800,000
Alcohol	17,000,000	17,000,000	16,000,000	1,442,085	17,442,085
Other Taxes					
Estate and Transfer	31,800,000	31,800,000	36,400,000	(9,390,151)	27,009,849
Racing and Athletics	1,100,000	1,100,000	1,100,000	-	1,100,000
Realty Transfer	8,400,000	8,400,000	8,500,000	-	8,500,000
Total Taxes	**$ 2,717,800,000**	**$ 2,729,167,723**	**$ 2,736,500,000**	**$ 2,456,476**	**$ 2,738,956,476**
Departmental Receipts	**208,200,000**	**$ 352,869,278**	**$ 208,200,000**	**$ 143,471,912**	**$ 351,671,912**
Taxes and Departmentals	**$ 2,926,000,000**	**$ 3,082,037,001**	**$ 2,944,700,000**	**$ 145,928,388**	**$ 3,090,628,388**
Other Sources					
Other Miscellaneous	2,475,000	2,475,000	2,475,000	5,000,000	7,475,000
Lottery	399,900,000	399,900,000	385,600,000	(1,100,000)	384,500,000
Unclaimed Property	10,100,000	10,100,000	10,500,000	-	10,500,000
Other Sources	**$ 412,475,000**	**$ 412,475,000**	**$ 398,575,000**	**$ 3,900,000**	**$ 402,475,000**
Total General Revenues	**$ 3,338,475,000**	**$ 3,494,512,001**	**$ 3,343,275,000**	**$ 149,828,388**	**$ 3,493,103,388**

Expenditures from All Funds

	FY 2012 Actual	FY 2013 Actual	FY 2014 Final Revised	FY 2014 Preliminary Actual	FY 2015 Enacted
General Government					
Administration (1)	$390,215,975	$376,882,855	$450,252,781	$412,495,073	$425,765,956
Business Regulation	12,591,226	14,707,298	14,608,789	12,249,226	12,976,430
Labor and Training	801,847,663	651,866,242	587,166,235	511,010,523	511,579,990
Revenue	345,151,113	348,801,259	440,172,498	422,287,255	460,214,642
Legislature	35,327,139	37,045,498	40,330,187	35,681,698	38,016,750
Lieutenant Governor	1,068,715	1,243,608	2,679,322	2,673,290	1,089,434
Secretary of State	6,742,224	7,313,841	7,006,010	6,668,513	8,366,955
General Treasurer	39,706,807	42,696,505	38,723,630	38,039,736	35,241,893
Board of Elections	1,660,728	1,846,513	1,743,059	1,573,262	4,145,127
Rhode Island Ethics Commission	1,410,813	1,500,568	1,581,301	1,541,741	1,581,205
Governor's Office	4,648,355	4,024,335	4,146,433	3,975,744	4,527,562
Commission for Human Rights	1,408,199	1,454,143	1,466,788	1,489,579	1,480,179
Public Utilities Commission	6,335,868	7,130,573	8,518,927	6,823,882	8,459,886
Subtotal - General Government	**$1,648,114,825**	**$1,496,513,238**	**$1,598,395,960**	**$1,456,509,522**	**$1,513,446,009**
Human Services					
Office of Health & Human Services (2)	17,098,684	1,663,295,782	1,980,784,394	1,945,098,777	2,391,411,846
Children, Youth, and Families	216,588,816	210,554,310	216,882,991	219,685,921	210,636,391
Health	104,085,326	103,167,181	120,564,680	108,576,130	122,645,570
Human Services (3)	2,206,209,397	631,829,247	663,747,447	612,824,018	649,786,890
Behavioral Healthcare, DD and Hospitals	428,033,267	437,129,466	439,786,890	441,114,441	365,509,826
Governor's Commission on Disabilities	597,971	447,357	1,079,902	871,546	1,508,802
Commission On Deaf and Hard of Hearing	377,005	371,083	470,430	399,505	474,279
Office of the Child Advocate	558,884	610,133	627,551	583,702	661,817
Office of the Mental Health Advocate	387,894	340,722	485,427	485,005	495,010
Subtotal - Human Services	**$2,973,937,244**	**$3,047,745,281**	**$3,424,429,712**	**$3,329,639,045**	**$3,743,130,431**
Education					
Elementary and Secondary	1,122,700,087	1,171,742,289	1,227,409,488	1,197,362,280	1,246,096,357
Higher Education	1,025,536,228	1,008,387,638	1,061,270,908	1,046,622,853	1,080,789,192
RI Council on the Arts	2,760,123	3,094,687	2,741,120	2,280,949	2,914,959
RI Atomic Energy Commission	1,282,491	1,230,680	1,228,604	1,133,765	1,271,174
Higher Education Assistance Authority	24,036,466	25,054,892	24,979,919	22,873,672	23,946,961
Historical Preservation and Heritage Comm.	1,908,488	1,876,982	4,226,478	2,000,284	5,909,976
Public Telecommunications Authority	1,557,832	784,886	0	0	0
Subtotal - Education	**$2,179,781,715**	**$2,212,172,054**	**$2,321,856,517**	**$2,272,273,803**	**$2,360,928,619**

Expenditures from All Funds

	FY 2012 Actual	FY 2013 Actual	FY 2014 Final Revised	FY 2014 Preliminary Actual	FY 2015 Enacted
Public Safety					
Attorney General	24,597,318	25,023,767	42,903,048	31,009,997	36,791,685
Corrections	189,703,152	189,506,984	197,785,140	195,805,164	209,326,500
Judicial	100,907,796	105,381,333	108,103,331	107,052,063	105,669,516
Military Staff (5)	36,046,730	40,713,548	49,151,199	34,101,891	18,454,074
Public Safety (4)	102,975,645	103,867,362	124,090,524	111,609,833	126,554,846
RI Emergency Management Agency (5)	0	0	0	0	20,622,227
Office Of Public Defender	10,560,860	10,651,421	11,154,125	10,917,680	11,379,680
Subtotal - Public Safety	**$464,791,501**	**$475,144,415**	**$533,187,367**	**$490,496,628**	**$528,798,528**
Natural Resources					
Environmental Management	74,010,170	67,572,786	103,060,502	79,469,714	103,811,527
Coastal Resources Management Council	6,100,775	4,667,950	4,632,074	4,457,741	4,959,681
Subtotal - Natural Resources	**$80,110,945**	**$72,240,736**	**$107,692,576**	**$83,927,455**	**$108,771,208**
Transportation					
Transportation	387,375,260	407,977,702	484,637,169	400,618,105	525,120,546
Subtotal - Transportation	**$387,375,260**	**$407,977,702**	**$484,637,169**	**$400,618,105**	**$525,120,546**
Total	**$7,734,111,490**	**$7,711,793,426**	**$8,470,199,301**	**$8,033,464,558**	**$8,780,195,341**

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

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

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

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

(5) In FY 2015, the RI Emergency Management Agency was split off from Military Staff as its own stand alone agency.

Expenditures from General Revenue

	FY 2012 Actual	FY 2013 Actual	FY 2014 Final Revised (6)	FY 2014 Preliminary Actual	FY 2015 Enacted
General Government					
Administration (1)	$248,320,234	$260,904,556	$261,059,802	$259,268,901	$268,843,237
Business Regulation	8,394,345	8,610,843	8,721,939	8,526,389	9,013,477
Labor and Training	7,553,602	7,730,995	8,560,971	8,027,721	8,669,103
Revenue	95,686,157	94,786,540	100,171,755	99,768,361	107,798,690
Legislature	33,685,084	35,681,738	38,762,187	34,498,448	36,429,671
Lieutenant Governor	948,391	942,140	949,998	957,446	1,015,084
Secretary of State	6,262,148	6,810,969	6,436,003	6,196,251	7,337,203
General Treasurer	2,531,859	2,532,414	2,564,644	2,384,819	2,432,105
Board of Elections	1,610,728	1,846,488	1,743,059	1,573,262	4,145,127
Rhode Island Ethics Commission	1,410,813	1,500,568	1,581,301	1,541,741	1,581,205
Governor's Office	4,081,232	4,024,335	4,146,433	3,975,744	4,527,562
Commission for Human Rights	1,093,206	1,131,840	1,149,421	1,138,859	1,193,083
Public Utilities Commission	0	0	0	0	0
Subtotal - General Government	**$411,577,799**	**$426,503,426**	**$435,847,513**	**$427,857,942**	**$452,985,547**
Human Services					
Office of Health & Human Services (2)	9,694,301	772,296,683	848,418,269	840,381,330	904,633,663
Children, Youth, and Families	154,375,838	150,929,977	152,383,373	154,719,224	148,707,146
Health	23,518,929	24,068,601	23,529,171	23,469,936	22,957,920
Human Services (3)	844,385,003	97,459,617	94,017,506	93,465,358	96,328,781
Behavioral Healthcare, DD and Hospitals	190,883,740	196,900,069	201,312,012	197,865,467	167,536,873
Governor's Commission on Disabilities	381,164	337,427	357,642	339,529	358,275
Commission On Deaf and Hard of Hearing	377,005	371,083	390,430	375,549	394,279
Office of the Child Advocate	512,165	578,085	577,551	544,231	611,817
Office of the Mental Health Advocate	387,894	340,722	485,427	485,005	495,010
Subtotal - Human Services	**$1,224,516,039**	**$1,243,282,264**	**$1,321,471,381**	**$1,311,645,629**	**$1,342,023,764**
Education					
Elementary and Secondary	860,936,950	928,462,807	960,407,862	959,927,061	1,004,400,123
Higher Education	165,658,691	172,678,735	179,239,903	179,174,881	190,954,911
RI Council on the Arts	1,656,365	1,561,217	1,311,904	1,310,474	1,483,075
RI Atomic Energy Commission	875,412	829,034	859,903	859,903	913,197
Higher Education Assistance Authority	5,911,331	5,693,317	4,333,323	4,333,323	147,000
Historical Preservation and Heritage Comm.	1,253,696	1,242,950	1,344,547	1,282,682	1,320,610
Public Telecommunications Authority	928,421	799,077	0	0	-
Subtotal - Education	**$1,037,220,866**	**$1,111,267,137**	**$1,147,497,442**	**$1,146,888,324**	**$1,199,218,916**

Expenditures from General Revenue

	FY 2012 Actual	FY 2013 Actual	FY 2014 Final Revised (6)	FY 2014 Preliminary Actual	FY 2015 Enacted
Public Safety					
Attorney General	22,161,393	22,301,954	23,875,478	23,235,530	23,607,146
Corrections	184,655,159	184,044,974	186,801,223	188,152,167	187,745,480
Judicial	87,723,958	87,871,336	91,669,283	91,551,391	91,636,668
Military Staff (5)	3,491,202	3,548,304	3,569,561	3,461,473	1,842,096
Public Safety (4)	90,786,762	90,408,367	94,365,963	96,048,576	95,294,034
RI Emergency Management Agency (5)	0	0	0	0	1,959,858
Office Of Public Defender	10,166,398	10,472,687	10,897,039	10,742,068	11,130,816
Subtotal - Public Safety	**$398,984,872**	**$398,647,622**	**$411,178,547**	**$413,191,205**	**$413,216,098**
Natural Resources					
Environmental Management	35,707,703	34,140,929	34,237,557	34,534,163	35,540,105
Coastal Resources Management Council	2,234,732	2,205,036	2,166,119	2,160,560	2,185,538
Subtotal - Natural Resources	**$37,942,435**	**$36,345,965**	**$36,403,676**	**$36,694,723**	**$37,725,643**
Transportation					
Transportation	0	0	0	0	0
Subtotal - Transportation	**$0**	**$0**	**$0**	**$0**	**$0**
Total	**$3,110,242,011**	**$3,216,046,414**	**$3,352,398,559**	**$3,336,277,823**	**$3,445,169,968**

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

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

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

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

(5) In FY 2015, the RI Emergency Management Agency was split off from Military Staff as its own stand alone agency.

(6) FY 2014 Final Revised Appropriations include the allocation of funding for a cost of living adjustment from the Administration budget to all other agencies.

Expenditures from Federal Funds

	FY 2012 Actual	FY 2013 Actual	FY 2014 Final Revised	FY 2014 Preliminary Actual	FY 2015 Enacted
General Government					
Administration (1)	$64,385,784	$48,041,755	$91,718,624	$72,702,362	$51,493,455
Business Regulation	2,726,596	4,698,165	3,958,494	2,038,842	2,021,830
Labor and Training	205,099,595	151,039,255	99,066,609	71,681,756	42,183,672
Revenue	1,472,179	1,951,612	1,846,191	1,655,815	5,113,145
Legislature	0	0	0	0	0
Lieutenant Governor	120,324	301,468	1,594,324	1,583,196	74,350
Secretary of State	52,872	2,541	50,163	16,040	0
General Treasurer	1,199,276	1,027,164	851,029	852,195	870,338
Board of Elections	50,000	25	0	0	0
Rhode Island Ethics Commission	0	0	0	0	0
Governor's Office	(1)	0	0	0	0
Commission for Human Rights	314,993	322,303	317,367	350,720	287,096
Public Utilities Commission	307,914	281,102	205,056	207,575	87,733
Subtotal - General Government	**$275,729,532**	**$207,665,390**	**$199,607,857**	**$151,088,501**	**$102,131,619**
Human Services					
Office of Health & Human Services (2)	6,506,943	879,749,356	1,119,813,012	1,092,149,228	1,470,870,303
Children, Youth, and Families	59,251,759	56,817,341	60,985,292	61,602,917	56,568,664
Health	55,441,392	54,360,133	63,895,434	55,777,861	65,094,393
Human Services (3)	1,344,961,678	523,431,013	561,593,830	512,401,343	547,332,819
Behavioral Healthcare, DD and Hospitals	225,892,158	229,691,067	219,901,053	226,315,996	181,157,004
Governor's Commission on Disabilities	70,987	101,893	156,330	50,799	141,350
Commission On Deaf and Hard of Hearing	0	0	0	0	0
Office of the Child Advocate	46,719	32,048	50,000	39,471	50,000
Office of the Mental Health Advocate	0	0	0	0	0
Subtotal - Human Services	**$1,692,171,636**	**$1,744,182,851**	**$2,026,394,951**	**$1,948,337,615**	**$2,321,214,533**
Education					
Elementary and Secondary	234,690,933	214,304,993	228,824,552	203,805,167	208,495,934
Higher Education	23,218,046	4,015,957	5,032,194	5,204,666	5,092,287
RI Council on the Arts	824,067	713,635	796,680	686,230	799,348
RI Atomic Energy Commission	79,057	132,451	60,724	12,301	0
Higher Education Assistance Authority	9,566,865	10,977,121	12,316,514	10,244,455	15,465,693
Historical Preservation and Heritage Comm.	537,821	538,626	2,175,422	522,900	2,183,588
Public Telecommunications Authority	0	0	0	0	-
Subtotal - Education	**$268,916,789**	**$230,682,783**	**$249,206,086**	**$220,475,719**	**$232,036,850**

Expenditures from Federal Funds

	FY 2012 Actual	FY 2013 Actual	FY 2014 Final Revised	FY 2014 Preliminary Actual	FY 2015 Enacted
Public Safety					
Attorney General	1,475,840	1,390,205	2,829,090	1,648,980	1,634,631
Corrections	2,388,892	1,950,008	2,563,718	1,834,575	1,654,703
Judicial	2,377,916	3,411,809	2,410,583	2,986,862	1,909,247
Military Staff (5)	31,350,783	34,152,735	41,330,122	28,705,774	14,779,178
Public Safety (4)	7,573,445	5,960,830	10,744,356	6,597,933	6,894,275
RI Emergency Management Agency (5)		0	0	0	18,273,640
Office Of Public Defender	394,462	178,734	257,086	175,612	248,864
Subtotal - Public Safety	**$45,561,338**	**$47,044,321**	**$60,134,955**	**$41,949,736**	**$45,394,538**
Natural Resources					
Environmental Management	22,171,087	18,300,658	37,400,336	22,231,819	31,859,611
Coastal Resources Management Council	3,054,725	2,021,633	2,215,955	2,127,181	1,774,143
Subtotal - Natural Resources	**$25,225,812**	**$20,322,291**	**$39,616,291**	**$24,359,000**	**$33,633,754**
Transportation					
Transportation	291,517,766	272,507,069	355,027,537	283,213,475	352,114,755
Subtotal - Transportation	**$291,517,766**	**$272,507,069**	**$355,027,537**	**$283,213,475**	**$352,114,755**
Total	**$2,599,122,873**	**$2,522,404,705**	**$2,929,987,677**	**$2,669,424,046**	**$3,086,526,049**

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

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

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

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

(5) In FY 2015, the RI Emergency Management Agency was split off from Military Staff as its own stand alone agency.

Expenditures from Restricted Receipts

	FY 2012 Actual	FY 2013 Actual	FY 2014 Final Revised	FY 2014 Preliminary Actual	FY 2015 Enacted
General Government					
Administration (1)	$15,107,473	$7,165,104	$18,380,918	$15,899,348	$36,398,746
Business Regulation	1,470,285	1,398,290	1,928,356	1,683,995	1,941,123
Labor and Training	23,685,420	36,663,287	55,242,490	36,675,422	41,540,583
Revenue	1,993,811	1,730,219	1,795,805	1,696,101	4,000,819
Legislature	1,642,055	1,363,760	1,568,000	1,183,250	1,587,079
Lieutenant Governor	0	0	135,000	132,648	0
Secretary of State	427,204	500,331	519,844	456,222	529,752
General Treasurer	35,767,114	38,966,029	35,097,680	34,602,288	31,718,842
Board of Elections	0	0	0	0	0
Rhode Island Ethics Commission	0	0	0	0	0
Governor's Office	567,124	0	0	0	0
Commission for Human Rights	0	0	0	0	0
Public Utilities Commission	6,027,954	6,849,471	8,313,871	6,616,307	8,372,153
Subtotal - General Government	**$86,688,440**	**$94,636,491**	**$122,981,964**	**$98,945,581**	**$126,089,097**
Human Services					
Office of Health & Human Services (2)	897,440	11,249,743	12,553,113	12,568,219	15,907,880
Children, Youth, and Families	2,682,360	2,448,750	2,448,750	2,762,996	2,448,750
Health	25,113,233	24,703,887	33,011,013	29,272,149	34,593,257
Human Services (3)	12,585,836	7,232,941	2,810,765	2,355,044	1,797,309
Behavioral Healthcare, DD and Hospitals	6,973,731	6,039,273	9,551,440	8,459,502	9,608,663
Governor's Commission on Disabilities	7,442	5,217	15,930	6,898	9,177
Commission On Deaf and Hard of Hearing	0	0	80,000	23,956	80,000
Office of the Child Advocate	0	0	0	0	0
Office of the Mental Health Advocate	0	0	0	0	0
Subtotal - Human Services	**$48,260,042**	**$51,679,811**	**$60,471,011**	**$55,448,764**	**$64,445,036**
Education					
Elementary and Secondary	23,014,366	23,405,069	26,593,892	25,529,786	26,953,972
Higher Education	739,741	596,538	702,583	0	644,000
RI Council on the Arts	0	0	0	0	0
RI Atomic Energy Commission	0	0	0	0	0
Higher Education Assistance Authority	0	0	0	0	0
Historical Preservation and Heritage Comm.	41,971	42,137	457,820	45,108	434,910
Public Telecommunications Authority	0	0	0	0	0
Subtotal - Education	**$23,796,078**	**$24,043,744**	**$27,754,295**	**$25,574,894**	**$28,032,882**

Expenditures from Restricted Receipts

	FY 2012 Actual	FY 2013 Actual	FY 2014 Final Revised	FY 2014 Preliminary Actual	FY 2015 Enacted
Public Safety					
Attorney General	837,372	923,413	15,956,675	5,900,916	11,249,908
Corrections	92,770	52,723	66,153	53,383	398,879
Judicial	9,731,044	10,393,917	11,838,182	10,426,434	10,773,601
Military Staff (5)	205,899	359,161	771,058	301,196	442,800
Public Safety (4)	416,630	3,076,402	12,853,755	4,060,157	12,863,854
RI Emergency Management Agency (5)		0	0	0	221,729
Office Of Public Defender	0	0	0	0	0
Subtotal - Public Safety	**$11,283,715**	**$14,805,616**	**$41,485,823**	**$20,742,086**	**$35,950,771**
Natural Resources					
Environmental Management	11,406,708	12,009,000	18,901,450	13,377,916	15,934,989
Coastal Resources Management Council	145,000	219,000	250,000	170,000	250,000
Subtotal - Natural Resources	**$11,551,708**	**$12,228,000**	**$19,151,450**	**$13,547,916**	**$16,184,989**
Transportation					
Transportation	$2,518,104	973,230	6,868,950	7,219,852	12,352,761
Subtotal - Transportation	**$2,518,104**	**$973,230**	**$6,868,950**	**$7,219,852**	**$12,352,761**
Total	**$184,098,087**	**$198,366,892**	**$278,713,493**	**$221,479,093**	**$283,055,536**

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

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

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

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

(5) In FY 2015, the RI Emergency Management Agency was split off from Military Staff as its own stand alone agency.

Expenditures from Other Funds

	FY 2012 Actual	FY 2013 Actual	FY 2014 Final Revised	FY 2014 Preliminary Actual	FY 2015 Enacted
General Government					
Administration (1)	$62,402,484	$60,771,440	$79,093,437	$64,624,462	$69,030,518
Business Regulation	0	0	0	0	0
Labor and Training	565,509,046	456,432,705	424,296,165	394,625,624	419,186,632
Revenue	245,998,966	250,332,888	336,358,747	319,166,978	343,301,988
Legislature	0	0	0	0	0
Lieutenant Governor	0	0	0	0	0
Secretary of State	0	0	0	0	500,000
General Treasurer	208,558	170,898	210,277	200,434	220,608
Board of Elections	0	0	0	0	0
Rhode Island Ethics Commission	0	0	0	0	0
Governor's Office	0	0	0	0	0
Commission for Human Rights	0	0	0	0	0
Public Utilities Commission	0	0	0	0	0
Subtotal - General Government	**$874,119,054**	**$767,707,931**	**$839,958,626**	**$778,617,498**	**$832,239,746**
Human Services					
Office of Health & Human Services (2)	0	0	0	0	0
Children, Youth, and Families	278,859	358,242	1,065,576	600,784	2,911,831
Health	11,772	34,560	129,062	56,184	0
Human Services (3)	4,276,880	3,705,676	5,325,346	4,602,273	4,327,981
Behavioral Healthcare, DD and Hospitals	4,283,638	4,499,057	9,022,385	8,473,476	7,207,286
Governor's Commission on Disabilities	138,378	2,820	550,000	474,320	1,000,000
Commission On Deaf and Hard of Hearing	0	0	0	0	0
Office of the Child Advocate	0	0	0	0	0
Office of the Mental Health Advocate	0	0	0	0	0
Subtotal - Human Services	**$8,989,527**	**$8,600,355**	**$16,092,369**	**$14,207,037**	**$15,447,098**
Education					
Elementary and Secondary	4,057,838	5,569,420	11,583,182	8,100,266	6,246,328
Higher Education	835,919,750	831,096,408	876,296,228	862,243,306	884,097,994
RI Council on the Arts	279,691	819,835	632,536	284,245	632,536
RI Atomic Energy Commission	328,022	269,195	307,977	261,561	357,977
Higher Education Assistance Authority	8,558,270	8,384,454	8,330,082	8,295,894	8,334,268
Historical Preservation and Heritage Comm.	75,000	53,269	248,689	149,594	1,970,868
Public Telecommunications Authority	629,411	(14,191)	0	0	0
Subtotal - Education	**$849,847,982**	**$846,178,390**	**$897,398,694**	**$879,334,866**	**$901,639,971**

Expenditures from Other Funds

	FY 2012 Actual	FY 2013 Actual	FY 2014 Final Revised	FY 2014 Preliminary Actual	FY 2015 Enacted
Public Safety					
Attorney General	122,713	408,195	241,805	224,571	300,000
Corrections	2,566,331	3,459,279	8,354,046	5,765,039	19,527,438
Judicial	1,074,878	3,704,271	2,185,283	2,087,376	1,350,000
Military Staff (5)	998,846	2,653,348	3,480,458	1,633,448	1,390,000
Public Safety (4)	4,198,808	4,421,763	6,126,450	4,903,167	11,502,683
RI Emergency Management Agency (5)	0	0	0	0	167,000
Office Of Public Defender	0	0	0	0	0
Subtotal - Public Safety	**$8,961,576**	**$14,646,856**	**$20,388,042**	**$14,613,601**	**$34,237,121**
Natural Resources					
Environmental Management	4,724,672	3,122,199	12,521,159	9,325,816	20,476,822
Coastal Resources Management Council	666,318	222,281	0	0	750,000
Subtotal - Natural Resources	**$5,390,990**	**$3,344,480**	**$12,521,159**	**$9,325,816**	**$21,226,822**
Transportation					
Transportation	93,339,390	134,497,403	122,740,682	110,184,778	160,653,030
Subtotal - Transportation	**$93,339,390**	**$134,497,403**	**$122,740,682**	**$110,184,778**	**$160,653,030**
Total	**$1,840,648,519**	**$1,774,975,415**	**$1,909,099,572**	**$1,806,283,596**	**$1,965,443,788**

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

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

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

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

(5) In FY 2015, the RI Emergency Management Agency was split off from Military Staff as its own stand alone agency.

Free Surplus

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

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

The 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 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 out year expenditures will exceed revenues, at times by a substantial amount. The Budget Office's most recent projections for FY 2016 through FY 2019, which were based on the FY 2015 enacted budget and revenue forecasts from May 2014, forecasted deficits of $172.9 million for FY 2016, $296.3 million for FY 2017, $396.1 million for FY 2018 and $463.8 million for FY 2019. These estimates take into account the potential impact of implementation of gaming in Massachusetts and the potential loss of revenue to Rhode Island's two gaming facilities. In the event of a budgetary imbalance, the available free surplus will be reduced and or additional resources (i.e. taxes, fines, fees, etc.) will be required and/or certain of the expenditure controls discussed under "State Government Organization and Finances -- Budget Procedures and -- Financial Controls" will be put into effect.

Due to the past fiscal challenges facing the State, the budget has from time to time incorporated certain significant one-time resources. The enacted FY 2002 and FY 2003 budgets incorporated the use of the proceeds from the securitization of the tobacco settlement payments due the State under the Master Settlement Agreement (MSA) entered into by the Attorney General in November 1998. The tobacco securitization proceeds included in the budget as enacted are based on the actual sale of the State's right to receive *all* of its tobacco settlement payments for the 2004–2043 period. The bonds were sold by the Tobacco Settlement Financing Corporation on June 27, 2002 in the amount of $685.4 million. The net proceeds of the sale, after funding the costs of issuance, capitalized interest, and the debt service reserve account, totaled $544.2 million.

The budget used the net tobacco bond proceeds as follows: $295.3 million was used in June 2002 to defease $247.6 million of outstanding general obligation and 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 MSA, 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 capital projects.

FY 2014 Preliminary Closing

The State Controller's Office issued its preliminary closing report for FY 2014 on August 29, 2014. The report showed a general revenue surplus of $68.0 million. General revenue receipts were $20.3 million more than estimated and spending was $16.1 million less than budgeted. The Budget Reserve and Cash Stabilization account is fully funded at $177.0 million. A copy of the preliminary unaudited closing report is attached.

As reflected in the Free Surplus table, a surplus of $59.2 million was projected for FY 2014, so the final surplus of $68.0 million is $8.8 million better than expected. Under current law, the general revenue receipts in excess of estimated revenue, net of transfer to the rainy day fund, will be transferred to the State Employee's Retirement Fund after the final audited closing report is issued. The preliminary closing report estimates this transfer at $19.7 million.

FY 2015 Enacted Budget

The FY 2015 Budget was passed by the General Assembly under H-7133 Substitute A, as amended, which was signed by the Governor on June 19, 2014.

The final FY 2015 enacted budget at $8.780 billion is higher than the Governor's recommended budget of $8.544 billion by $236.2 million, or 2.8 percent. This increase incorporates $200.2 million in amendments submitted by the Governor in April and May of 2014, in addition to $36.0 million in General Assembly initiatives. Given the revised revenue picture adopted by the May 2014 Revenue Estimating Conference, the General Assembly could have utilized an additional $4.7 million of net general revenues in comparison to the estimates adopted in November 2013.

FY 2015 General Revenue Budget Surplus

	FY 2012 Audited [1]	FY 2013 Audited[2]	FY 2014 Final Enacted [3]	FY 2014 Preliminary[4]	FY 2015 Final Enacted[5]
Surplus					
Opening Surplus	$63,641,074	$115,187,511	$104,119,715	$104,119,715	$59,210,130
Reappropriated Surplus	4,532,242	7,726,521	7,052,524	7,052,524	
Subtotal	**$68,173,316**	**$122,914,032**	**$111,172,239**	**$111,172,239**	**$59,210,130**
General Taxes	$2,518,449,026	2,577,507,611	2,622,955,876	2,680,525,466	2,717,800,000
Revenue estimators' revision	-	-	32,844,124	-	18,700,000
Changes to the Adopted Estimates	-	-	-	-	2,456,476
Subtotal	**$2,518,449,026**	**$2,577,507,611**	**$2,655,800,000**	**$2,680,525,466**	**$2,738,956,476**
Departmental Revenues	339,895,284	356,831,653	348,707,542	360,333,833	208,200,000
Revenue estimators' revision	-		5,792,458	-	-
Changes to Adopted	-		4,660,861	-	143,471,912
Subtotal	**$339,895,284**	**$356,831,653**	**$359,160,861**	**$360,333,833**	**$351,671,912**
Other Sources					
Other Miscellaneous	20,110,214	4,166,214	5,545,000	6,391,686	2,475,000
Revenue estimators' revision	-	-	2,010,000	-	-
Changes to Adopted	-	-	925,420	-	5,000,000
Lottery	377,706,394	379,224,715	394,100,000	376,327,121	399,900,000
Revenue estimators' revision	-	-	(13,400,000)	-	(14,300,000)
Changes to Adopted	-	-	-	-	(1,100,000)
Unclaimed Property	14,555,573	6,268,627	9,700,000	12,724,124	10,100,000
Revenue estimators' revision	-		2,200,000	-	400,000
Subtotal	**$412,372,181**	**$389,659,556**	**$401,080,420**	**$395,442,931**	**$402,475,000**
Total Revenues	**$3,270,716,491**	**$3,323,998,820**	**$3,416,041,281**	**$3,436,302,230**	**$3,493,103,388**
Transfer to Budget Reserve	**(93,362,012)**	**(103,175,590)**	**(105,604,830)**	**(106,212,658)**	**(106,569,406)**
Total Available	**$3,245,527,795**	**$3,343,737,262**	**$3,421,608,690**	**$3,441,261,811**	**$3,445,744,113**
Actual/Enacted Expenditures	**$3,110,242,012**	$3,216,046,418	$3,359,755,123	$3,336,277,849	$3,456,087,970
Reappropriations	-	-	7,052,524	7,378,665	-
Caseload Conference Changes	-	-	8,950,009	-	24,596,693
Other Changes in Expenditures	-	-	(23,359,096)	-	(35,514,695)
Total Expenditures	**$3,110,242,012**	**$3,216,046,418**	**$3,352,398,560**	**$3,343,656,514**	**$3,445,169,968**
Total Ending Balances	**$135,285,783**	**$127,690,844**	**$69,210,130**	**$97,605,297**	**$574,145**
Transfer to Other Funds [6]	**($12,943,629)**	**($16,518,605)**	**($10,000,000)**	**($29,653,121)**	**$0**
Reappropriations	(7,726,521)	(7,052,524)			
Free Surplus	**$114,615,633**	**$104,119,715**	**$59,210,130**	**$67,952,176**	**$574,145**
Budget Reserve and Cash Stabilization Account	**$153,407,512**	**$171,959,317**	**$176,008,050**	**$177,021,097**	**$177,615,676**

(1) Derived from the State Controller's final closing report for FY 2012, dated December 20, 2012.

(2) Derived from the State Controller's final closing report for FY 2013, dated December 19, 2013.

(3) Reflects the FY 2014 supplemental budget enacted by the General Assembly and signed into law by the Governor on June 19, 2014

(4) Derived from the State Controller's preliminary closing report for FY 2014, dated August 29, 2014.

(5) Reflects the final enacted FY 2015 budget as enacted by the General Assembly and signed into law by the Governor on June 19, 2014.

(6) Reflects restricted General Fund balances transferred to the retirement fund in FY 2012, FY 2013 and FY 2014, the Information Technology Investment Fund and the State Fleet Revolving Loan Fund in FY 2013 and the Accelerated Depreciation Fund in FY 2014.

CERTAIN MATTERS RELATING TO AUDITED FINANCIAL REPORTS

In recent years, the State has significantly enhanced the timeliness of financial reporting. As a result, the Comprehensive Annual Financial Report (CAFR) and related annual audit for fiscal year ending June 30, 2013 were completed on December 19, 2013. The preliminary unaudited closing statements for FY 2014 were issued by the State Controller on August 29, 2014 and have been attached.

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

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 Rhode Island Commerce Corporation, the Housing and Mortgage Finance Corporation, or to appropriate monies to pay rental obligations under State long-term leases, such as the State's lease agreements with the Convention Center Authority, are not subject to this limitation.

Public Finance Management Board

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

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

The Public Finance Management Board has adopted and from time to time revised Credit Guidelines for use in evaluating certain elements of the State's debt burden. The current guidelines are as follows: Tax Supported Debt to not exceed the target range of 5.0 percent to 6.0 percent of personal income, and annual debt service for Tax Supported Debt to not exceed 7.5 percent of general revenues. As of June 30, 2014, net tax supported debt was 3.87 percent of personal income, and annual debt service was 6.32 percent of general revenues. It is anticipated that fluctuation of this ratio over the long-term will be affected by both variations in personal income levels, general revenues and debt issuance. The target ranges will continue to be reviewed on an annual basis with consideration given to trends in the State's debt level and upcoming infrastructure projects. The Board monitors the total amount of Tax Supported Debt, State Supported Revenue Debt, and Agency Revenue Debt in relation to the State's personal income and general revenues. The Credit Guidelines may be exceeded temporarily under certain extraordinary conditions. The Credit Guidelines provide that if a Credit Guideline is exceeded due to economic or financial circumstances, the Public Finance Management Board should request that the Governor and the General Assembly recommend a plan to return debt levels to the Credit Guidelines within five years.

According to the most recent Capital Budget, the projected ratio of debt service to general revenues is projected to range between 6.72 percent and 7.63 percent over the five year planning horizon. The State's general revenue receipts have begun to recover over the last few years, and the out-year forecast reflects a continuing, but slow recovery. The State will continue to take appropriate actions to address debt service obligations, such as refundings, and will closely monitor the growth of debt service expenditures.

Sinking Fund Commission

During the 1998 Session of the General Assembly, legislation was enacted that reconstituted the Sinking Fund Commission, which shall have control and management of all sinking funds established for the redemption of any bonds or certificates of indebtedness issued by the State. To address the State's relatively high debt levels, the General Assembly appropriated general revenues of $4.0 million in FY 1999, and $865,245 in FY 2000 to be utilized by the Commission to defease or refund State debt. The Sinking Fund will also receive funds in an amount equal to the annual interest earnings on bond funds. During FY 2000, the Sinking Fund allocated a net $5.5 million to defease debt associated with the Alpha Beta Corporation project financed by the Rhode Island Commerce Corporation. The Commission executed a defeasance transaction on June 15, 2000 which reduced the State's general obligation debt by an estimated $4.415 million. As of June 30, 2013, the balance of Sinking Fund Commission funds was $0.

Tax Anticipation Notes

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

The State has undertaken a series of measures to improve the timing of receipts and disbursements and to reduce the level of short-term borrowing. These measures include accelerating the collection of certain taxes, the partial restructuring of the State's disbursement pattern, and moving certain special revenue funds into the General Fund as accounts within the General Fund. Based on current cash flow projections by the General Treasurer's Office, the State does not anticipate the need to borrow for cash flow purposes in FY 2015.

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
1999	-	0.0
2000	-	0.0
2001	-	0.0
2002	90,000,000	4.4
2003	150,000,000	7.9
2004	200,000,000	7.4
2005	-	0.0
2006	-	0.0
2007	120,000,000	4.8
2008	220,000,000	7.8
2009	350,000,000	13.4
2010	350,000,000	14.6
2011	350,000,000	15.2
2012	200,000,000	8.4
2013	-	0.0
2014	-	0.0
2015	- *	0.0

* No issuance is currently planned or authorized at this time for FY 2015.

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 July 1, 2014, authorized but unissued direct debt totaled $191,402,195 and there was no authorized but unissued guaranteed debt. However, see the discussion on guaranteed debt under the heading "State Indebtedness – Authorized but Unissued Direct Debt" below.

Direct debt is authorized by the voters as general obligation bonds and notes. Current interest bonds require the State to make annual payments of principal and semi-annual payments of interest on bonds outstanding, and capital appreciation bonds of the State require the payment of principal and interest at maturity. As of July 1, 2014, the State had $1.075 billion of general obligation tax supported bonds outstanding. The State currently has no variable rate debt or capital appreciation bonds 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 2015 through FY 2034.

Outstanding Debt Service Payments General Obligation Bonds			
Fiscal Year	Principal	Interest	Total Debt Service
2015	$ 87,480,000	$ 50,225,622	$ 137,705,622
2016	86,560,000	46,282,231	132,842,231
2017	90,610,000	42,183,145	132,793,145
2018	79,320,000	38,169,376	117,489,376
2019	75,105,000	34,426,211	109,531,211
2020	69,785,000	31,054,923	100,839,923
2021	74,435,000	27,754,224	102,189,224
2022	66,705,000	24,401,093	91,106,093
2023	68,520,000	21,157,501	89,677,501
2024	60,310,000	18,102,807	78,412,807
2025	55,140,000	15,257,024	70,397,024
2026	57,205,000	12,484,014	69,689,014
2027	44,100,000	9,901,400	54,001,400
2028	44,605,000	7,595,256	52,200,256
2029	29,565,000	5,435,290	35,000,290
2030	30,945,000	3,786,433	34,731,433
2031	19,850,000	2,077,123	21,927,123
2032	20,850,000	1,079,068	21,929,068
2033	9,705,000	383,321	10,088,321
2034	3,955,000	89,589	4,044,589
	$ 1,074,750,000	**$ 391,845,651**	**$ 1,466,595,651**

* Reflects full fiscal year general obligation tax supported debt service for bonds issued as of July 1, 2014. 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 July 1, 2014 that have been approved by voter referenda.

Authorized but Unissued Direct Debt

Purpose	Statutory Authorization	Authorized but Unissued Debt as of July 1, 2014
Direct Debt:		
Preservation, Recreation & Heritage	Ch. 65-P.L. of 2002	$ 1,200,000
Open Space Recreation, Bay & Watershed Protection	Ch. 595-P.L. of 2004	500,000
Transportation	Ch. 246-P.L. of 2006	2,195
Higher Education	Ch. 23-P.L. of 2010	10,000,000
Transportation	Ch. 23-P.L. of 2010	7,000,000
Affordable Housing	Ch. 241-P.L. of 2012	12,500,000
Veterans' Home	Ch. 241-P.L. of 2012	88,000,000
Higher Education	Ch. 241-P.L. of 2012	46,500,000
Environmental Management	Ch. 241-P.L. of 2012	13,000,000
Clean Water Finance Agency	Ch. 241-P.L. of 2012	12,700,000
Total Direct Debt		**$191,402,195**

Source: State Budget Office

Guaranteed debt of the State includes bonds and notes issued by, or on behalf of, certain agencies, commissions and authorities created by the General Assembly and charged with enterprise undertakings, for the payment of which debt the full faith and credit of the State are pledged in the event that the revenues of such entities may at any time be insufficient. As of July 1, 2014, there was no outstanding or authorized but unissued guaranteed debt. However, the State has agreed to appropriate or borrow and pay to the Rhode Island Industrial Recreational Building Authority any amounts required up to $60,000,000 to service eligible mortgage loans for industrial and/or recreational projects insured under the Industrial Recreational Building Mortgage Insurance Fund that are in default and for which funds in the Industrial Recreational Building Mortgage Insurance Fund are insufficient (see the discussion regarding the Rhode Island Industrial Recreational Building Authority under the section entitled "State Agencies and Authorities").

General Obligation Bond Referenda: The November 2014 general election ballot will include the following new debt authorization referenda for voter approval for the issuance of general obligation bonds in the aggregate amount not to exceed $248,000,000:

Purpose	Maximum Debt Authorized
Higher Education Facilities (URI - College of Engineering – Phase I)	$125,000,000
Art-Creative and Cultural Economy	$ 35,000,000
Mass Transit Hub Infrastructure	$ 35,000,000
Clean Water, Open Space and Health Communities	$ 53,000,000
Total	$248,000,000

If any of the bond referenda questions noted are approved by the voters in the November 2014 general election, then the bonds approved shall become authorized and available for issuance as general obligation debt of the State.

Extinguishments of Debt Authorization

Chapter 438 of the Public Laws of 1988, which took effect on December 31, 1991, provides that any special act of the State which authorizes the issuance of general obligation bonds or notes of the State, which has a balance that remains unissued, and is seven (7) years old or older is invalid as to that portion which remains unissued. Notwithstanding, the General Assembly may, by special act, extend any authorization for a period of one (1) to five (5) years upon a petition of the Department of Administration. Such extension may be granted more than one (1) time. Upon a certification of the General Treasurer to the Governor as to debt authorizations described above the authorization shall not be deemed or counted toward the authorized but unissued debt of the State. Since December 31, 1991, the State has extinguished a total of $96,276,387, which was previously reflected in the above table.

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 Commerce 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, 2014, $505,000 of these certificates were outstanding.

The State also entered into a lease agreement with a financial institution which issued $24.0 million in certificates of participation in January 1997 to finance the renovation of a group of buildings at the State-owned John O. Pastore Center, formerly known as Howard Center in Cranston for use as an office facility for the Department of Labor and Training. These remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $13,375,000 Lease Participation Certificates (Howard Center Improvements – 2007 Refunding Series E). As of June 30, 2014, $4,705,000 of such certificates were outstanding.

In November 1994, the State entered into a lease agreement with the Rhode Island Commerce Corporation which issued $34.1 million in long-term bonds for the renovation of the Shepard's Building. During August 1997, the State issued $34,805,000 in certificates of participation that were used to defease the Rhode Island Commerce Corporation bonds. These remaining certificates of participation were defeased through the issuance on December 13, 2007 of the State's $21,420,000 Lease Participation Certificates (Shepard's Building – 2007 Refunding Series F). As of June 30, 2014, $8,320,000 in certificates of participation 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, 2014, there were $13,580,000 in certificates outstanding.

In November 2003, the State entered into a payment agreement with the Rhode Island Commerce Corporation relating to the issuance of $53,030,000 of Motor Fuel Tax Revenue Bonds to provide funds for the State match for certain major Transportation projects funded by GARVEE bonds also issued by the Corporation. The Motor Fuel Tax Revenue Bonds are secured by two cents of the motor fuel tax dedicated to the Department of Transportation, subject to annual appropriation. In March 2006, a second series of bonds totaling $42,815,000 was sold, and on April 2, 2009 a third series was sold totaling $12,410,000. As of June 30, 2014, $62,525,000 was outstanding.

In 2005, the State entered into a lease agreement with a financial institution that issued $58,910,000 in certificates of participation to construct a new Kent County Courthouse in Warwick. These certificates were defeased through the issuance on April 11, 2013 of $36,310,000 in Lease Participation Certificates (Kent County Courthouse Project – 2013 Refunding Series A). As of June 30, 2014, there was $33,180,000 outstanding.

In 2005, the State entered into a lease agreement with a financial institution that issued $21,565,000 in certificates of participation to construct a new Traffic Tribunal in Cranston. These certificates were defeased through the issuance on April 11, 2013 of $15,290,000 in Lease Participation Certificates (Traffic Tribunal Project – 2013 Refunding Series E). As of June 30, 2014, there was $14,115,000 outstanding.

In 2005, the State entered into a lease agreement with a financial institution that issued $51,985,000 in certificates of participation to construct a new Juvenile Training School, including a Youth Assessment Facility and a Juvenile Detection Center. These certificates were defeased through the issuance on April 11, 2013 of $36,575,000 in Lease Participation Certificates (Juvenile Training School Project – 2013 Refunding Series B). As of June 30, 2014, there was $33,825,000 outstanding.

In 2007, the State entered into a lease agreement with a financial institution that issued $23,490,000 in certificates of participation for technology improvement projects. In 2009, an additional $12,380,000 was issued. In 2013, an additional $9,170,000 was issued for a new integrated tax system and technology improvements in local education agencies. As of June 30, 2014, there was $16,890,000 outstanding.

In 2007, the State entered into a lease agreement with a financial institution that issued certificates of participation for energy conservation projects which are intended to result in cost savings. There was $6.0 million issued for Department of Administration energy projects, and $6.75 million for the University of Rhode Island. In 2009, an additional $11,805,000 was issued for University of Rhode Island projects. As of June 30, 2014, there was $16,795,000 outstanding.

In 2009, the State entered into a lease agreement with a financial institution that issued $30,425,000 of certificates of participation for the construction of a new School for the Deaf. As of June 30, 2014, there was $25,185,000 outstanding.

In June 2009, the State entered into a payment agreement with the Rhode Island Commerce Corporation relating to the issuance of Rhode Island Commerce Corporation Revenue Bonds in the amount of $150,000,000 to provide funds to reimburse the State for Historic Structures Tax Credits presented by taxpayers. As of June 30, 2014, there was $74,400,000 of such Revenue Bonds outstanding.

In May 2010, the State entered into a loan agreement with Bank of America in the amount of $11,000,000 to provide funds for the replacement of the Registry of Motor Vehicle computer system. The debt service on this loan will be funded from a $1.50 surcharge on all Registry transactions. As of June 30, 2014, there was $5,110,000 of this loan outstanding.

In July 2011, the State entered into a lease agreement with a financial institution that issued $31,980,000 certificates of participation for energy conservation projects for the Department of Administration, University of Rhode Island and Community College of Rhode Island, which are intended to result in cost savings. In 2013, an additional $17,520,000 was issued for Department of Administration projects. As of June 30, 2014, there was $40,495,000 outstanding.

In April 2013, the Rhode Island Commerce Corporation entered into a loan agreement with a financial institution that loaned the Corporation $38.4 million for the acquisition of land associated with the relocation of the I-

195 interstate highway in downtown Providence. These funds were paid to the Department of Transportation and will be used to complete the relocation project, including road reconstruction and other infrastructure improvements to the surplus land. As of June 30, 2014, there was $38,400,000 outstanding.

Moral Obligation of the State Regarding 38 Studios

In November 2010, the Rhode Island Commerce Corporation issued $75.0 million of taxable revenue bonds under the Job Creation Guaranty Program (Fund to Grow Rhode Island Companies). The bond proceeds were loaned to 38 Studios LLC ("38 Studios") to fund an overall agreement that included relocation of the company's corporate headquarters to Rhode Island, establishment and operation of a video gaming studio in Providence and completion of at least one particular video game. Proceeds also were used to fund a Capital Reserve Fund and Capitalized Interest Fund. Amounts in the Capital Reserve Fund are to be used in the event that 38 Studios fails to make any required loan payments. In accordance with the enabling legislation and the agreement between the Rhode Island Commerce Corporation, the trustee and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, the Rhode Island Commerce Corporation is required to present the Governor with a certificate stating the amounts required to restore any shortfall and the Governor is required to include such amounts in his or her budget request for appropriation to the General Assembly. 38 Studios filed for Chapter 7 bankruptcy protection on June 7, 2012 and the Rhode Island Commerce Corporation and the trustee for the bonds have obtained court approval to take custody of the assets pledged by 38 Studios to secure the payment of the bonds but it is not certain at this time what the value of the assets pledged is. At the time of the bankruptcy, the total debt service on the bonds, after considering existing reserves with the trustee, was $89.2 million. The maturity dates on the outstanding bonds range from 2014 to 2020 with maximum annual debt service of approximately $12.75 million. The General Assembly may, but is not required, to appropriate such amounts as required in future fiscal years. In the 2013 Session, the General Assembly repealed the authority for the Rhode Island Commerce Corporation to guarantee further loans under this program.

During the fiscal year ended June 30, 2014, the State transferred $2.5 million to the Rhode Island Commerce Corporation to satisfy debt service obligations related to 38 Studios. The FY 2015 enacted budget includes $12.3 million to cover scheduled debt service payments, along with reserve funds on hand, in November 2014 and May 2015.

In November 2012, the Rhode Island Commerce Corporation sued various individuals and entities involved with the loan to 38 Studios including principals of 38 Studios, former employees of the Rhode Island Commerce Corporation and various advisors to the Rhode Island Commerce Corporation alleging fraud, negligence, breach of fiduciary duty and other charges. The suit seeks repayment of compensatory and punitive damages associated with the various counts identified in the lawsuit. On July 22, 2014, a Rhode Island Superior Court ruling upheld an initial legal settlement entered into by the Rhode Island Commerce Corporation with two defendants in connection with this lawsuit (Rhode Island Economic Development Corporation v. Wells Fargo, et al.), which resulted in a gross payment of $4,370,000. After payment of fees, costs and expenses, the net amount from the settlement of $3,171,441 was paid to the Bank of New York Mellon Trust Company, as trustee for the bondholders of the 38 Studios debt.

Obligations for Which Appropriation Has Not Been Made

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

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 July 1, 2014, the following authorizations have been enacted and the State may issue the debt over the next several years:

Purpose	Total Remaining Authorization
Energy Conservation Certificates of Participation	$35,200,000
Information Technology Certificates of Participation	$36,130,000
Nursing Education Center Debt Authorizations	$36,000,000
Garrahy Courthouse Garage Debt Authorization	$45,000,000
Commerce Corporation – Historic Structures Tax Credit Fund	$206,200,000
Total Authorized But Unissued Debt Subject to Annual Appropriation	$358,530,000

It is expected that the Rhode Island Commerce Corporation will issue additional debt in FY 2015 and FY 2018 for the Historic Structures Tax Credit Program. As originally intended, the Corporation will issue debt in order to reimburse the State each fiscal year for tax credits taken relating to the Historic Structures Tax Credit Program in order to stabilize budget projections and the annual impact of the taking of such tax credits. The actual amount of bonds issued will be dependent upon the compliance by the parties involved with the projects. The debt service on these bonds will be subject to annual appropriation by the General Assembly. There are other debt authorizations approved for quasi-public agencies and the Board of Education, which will be funded from non-general revenue sources.

The State will issue additional Certificates of Participation during FY 2015 for continuing energy conservation work at state facilities at the Pastore Government Center in Cranston. Additional Certificates will also be issued during FY 2015 for Information Technology projects for an Integrated Tax System.

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

Performance-based obligations of the Rhode Island Commerce Corporation.

In May 1996, the Rhode Island Commerce 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 Corporation and FMR Rhode Island, Inc. to secure the bonds, job rent credits are applied against lease payments if certain targeted new job goals are met for the financed project. Currently, it is projected that these job goals will be met. If the job goals are met, the 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, 2014, $20.988 million of Fidelity bonds were outstanding. Job rent credits are expected to result in a State obligation of $3.4 million in FY 2015 and thereafter.

In November 1997, the Corporation entered into a similar agreement with Fleet Bank (now known as Bank of America); bonds issued for that transaction totaled $11.0 million. As of June 30, 2014, $7,710,000 of Fleet Bank bonds were outstanding. Under the lease agreement with Fleet Bank, job rent credits are applied against lease payments if certain targeted new job goals are met for the financed project. The company has never reported jobs levels in excess of the base number of jobs (approx. 3,900). Job rent credits, if maximized are estimated to result in a State obligation of approximately $945,000 per year.

Borrowing for the Employment Security Fund

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

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

The balance in the Rhode Island Employment Security Fund was ($49.6) million as of June 30, 2014. This was an increase of $105.7 million from June 30, 2013 when the fund balance was ($155.3) million. Notwithstanding the limitations on borrowing described above, the State Constitution permits borrowings from the federal government without consent of the people. The Rhode Island Department of Labor and Training borrowed from the Federal Unemployment Account administered by the federal government a total of $70.3 million in FY 2009, $155.2 million in FY 2010, $89.9 million in FY 2011, $228.3 million in FY 2012, $182.9 million in FY 2013 and $137.7 million in FY 2014. From May 1, 2011 through June 30, 2014 the Department repaid $830.9 million in principal of its federal loans through the automatic application of Unemployment Insurance taxes received and FUTA credits to the outstanding federal loans in order to reduce the interest due each September 30th. The Department expects that it will be able to fully repay its federal loans by November 10, 2014 and eliminate the federal tax credit reductions for 2014. The Department projects that it will need to borrow approximately $50 million again in FY 2015 as authorized by federal law in order to meet its cash flow needs to finance the cost of unemployment benefit payments. This loan will be completely repaid in May 2015 with no expectation of borrowing again after that time.

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 authorized the final transfer of $75.8 million from the Rhode Island Employment Security Fund to the Federal Unemployment Account to complete the $129.3 million repayment of the outstanding loan balance.

A history of the Rhode Island Employment Security Fund's financial status since 1975 when the first loan was made is presented in the following table. The first column of the chart presents the ending fund balance for each calendar year between 1975 and 2013. This figure is comprised primarily of a combination of employer contributions and Federal loans (receipts) minus employee benefits and loan repayments (disbursements) less any outstanding loan balance.

Year Ended Dec. 31	Fund Balance (Millions)	Borrowings from Federal Unemployment Account Amount Borrowed (Millions)	Amount Repaid (Millions)
1975	$ -40.5	$ 45.8	$ -0-
1976	-53.9	20.0	-0-
1977	-66.6	9.0	3.73
1978	-88.0	31.0	-0-
1979	-96.3	5.0	4.31
1980	-94.5	18.5	0.02
1981	-71.0	0	9.26
1982	-76.6	0	10.22
1983	-46.6	-0-	12.15
1984	19.7	-0-	89.61
1985	71.4	-0-	-0-
1986	133.5	-0-	-0-
1987	211.5	-0-	-0-
1988	270.8	-0-	-0-
1989	295.0	-0-	-0-
1990	255.7	-0-	-0-
1991	140.2	-0-	-0-
1992	99.5	-0-	-0-
1993	114.0	-0-	-0-
1994	110.3	-0-	-0-
1995	107.6	-0-	-0-
1996	112.5	-0-	-0-
1997	157.0	-0-	-0-
1998	220.0	-0-	-0-
1999	260.5	-0-	-0-
2000	295.7	-0-	-0-
2001	278.0	-0-	-0-
2002	253.8	-0-	-0-
2003	205.5	-0-	-0-
2004	184.3	-0-	-0-
2005	185.8	-0-	-0-
2006	197.9	-0-	-0-
2007	168.4	-0-	-0-
2008	79.2	-0-	-0-
2009	-127.5	127.5	-0-
2010	-194.3	98.0	-0-
2011	-228.3	169.9	167.1
2012	-199.5	219.2	247.8
2013[1]	-109.3	157.5	247.6
2014 (through June 30)[2]	- 49.6	108.4	168.1

[1] Unaudited as of December 31, 2013 including outstanding federal loans
[2] Unaudited as of June 30, 2014 including outstanding federal loans

In March 2009, the Governor applied for repayable advances to the account of the State in the Unemployment Trust Fund from the federal unemployment account in accordance with the provisions of Section 1201 of the Social Security Act. In 2009, the State received $127.5 million in federal advances. The State also borrowed $98.0 million in 2010, $169.9 million in 2011, $219.2 million in 2012, $157.5 million in 2013, and $108.4 million through June 30, 2014. It is expected that additional borrowing will be needed in 2014 and 2015 for cash flow purposes. The State's outstanding loan balance peaked at $291.8 million during April 2012.

Under ARRA, the loans from the federal account did not bear interest through December 2010. Beginning in 2011, any interest due on federal loans must be paid by September 30th of each year. The Department paid $7.1 million to the federal government in interest due on its federal loans for the January 1, 2011 to September 30, 2011 period. The Department also paid $7.6 million to the federal government in interest due on its federal loans for the October 1, 2011 to September 30, 2012 period. In September 2013, the Department paid $5.0 million in interest for the October 1, 2012 to September 30, 2013 period. Failure to pay interest by a due date would have resulted in a loss of state employer federal unemployment tax (FUTA) tax credits and the loss of the State's Unemployment Insurance (UI) Administrative grant. The interest due on federal loans could not be paid out of the State's UI Trust fund or by UI Grant funds. As a result, the General Assembly passed legislation that deleted a 0.3 percent UI surtax scheduled to take effect on January 1, 2011 and added 0.3 percent to the Job Development Fund Assessment that will be dedicated to paying the principal and interest on the State's UI loans. The Governor's FY 2015 Budget provides for the termination of this assessment at the end of December 2014.

If the State is unable to repay federal loans, there are provisions for automatic cuts in federal tax credits that employers receive when State law is in conformity with federal law. Currently, employers pay a FUTA of 6.0 percent to the federal government less a credit of 5.4 percent when State UI law is in conformity with federal law. The net federal tax is, therefore, 0.6 percent. However, after two years of outstanding loans, federal law requires cuts in the federal credit of 0.3 percent for each additional year that the loans remain outstanding. The additional money raised from the cut in the federal tax credit is applied against the State's federal loan balance. Rhode Island employers were subject to the first 0.3 percent tax credit reduction on 2011 taxable wages, which reduced the outstanding federal loan by $7.9 million in 2012. Rhode Island employers were subject to a 0.6 percent tax credit reduction on 2012 taxable wages which reduced the outstanding federal loan by $15.7 million in 2013. Rhode Island employers were subject to a 0.9 percent tax credit reduction on 2013 taxable wages which reduced the outstanding federal loan by $24.6 million through June 30, 2014.

In order to avoid an additional FUTA tax credit reduction for 2014, the General Assembly enacted legislation in the 2013 Session authorizing advances from the State's General Fund to the Employment Security Trust Fund to enable all outstanding loans to be repaid prior to November 2014, with the condition that any such advance be repaid, with interest, from resources in the Trust fund by the end of the State FY 2015. The General Assembly also enacted legislation in its 2014 Session authorizing advances from the State's General Fund to the Employment Security Trust Fund to pay benefits to avoid borrowing from the federal government at the end of 2014. Rhode Island expects to fully repay its federal loans by November 10, 2014, so employers will not be subject to the potential 1.2 percent FUTA tax credit reduction on 2014 taxable wages. In addition, the Governor submitted an application in June 2014 to the U.S. Department of Labor to waive the 5th year Benefit Cost Rate Add-on which could have added 1.0 percent to the employers' FUTA tax credit reduction for 2014. If projected resources are not going to be sufficient to repay advances from the State's General Fund prior to the end of the fiscal year, then no advances will be made and the additional FUTA tax will be imposed.

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

Article 4 of the FY 2012 Appropriations Act implemented adjustments to the Unemployment Insurance taxable wage base provisions beginning on January 1, 2012 and adjustments to Unemployment Insurance benefit provisions beginning on July 1, 2012. On the employer tax side, the taxable wage base went from a fixed amount based on the Employment Security Fund reserve to a variable amount equal to 46.5 percent of Rhode Island's average annual wage in January 2012. For CY 2012, the taxable wage base for most employers was $19,600. The taxable wage base for employers with the highest negative reserve account percentages was $21,100, which is $1,500 above the level set for all other employers. In CY 2013, the taxable wage base rose by $600 to $20,200 for most employers and $21,700 for employers with the highest negative reserve account percentages. In CY 2014 the taxable wage base rose by $400 to $20,600 for most employers and $22,100 for employers with the highest negative reserve account percentages.

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

For individual workers, the total amount of benefits payable during a benefit year was reduced from a maximum of 36 percent of total wages during his or her base period, to 33 percent effective July 1, 2012. In addition, the percentage of an individual's earnings replaced by Unemployment Insurance benefits was reduced from 60 percent to 57 percent on July 1, 2012, to 54 percent on July 7, 2013 and was further reduced to 50 percent on July 6, 2014.

It is estimated that if projected savings from these changes are realized, then taken together these changes will enable the State to fully repay its federal loans in November 2014 through a combination of increased federal and State taxes and estimated projected savings of $100.1 million in benefit adjustments. If the estimated savings are realized, these changes could then enable the Employment Security Fund to rebuild its reserves. These estimates are based on the Department of Labor and Training's projections of employment and unemployment levels assuming a gradual recovery from the current recession and therefore are uncertain and subject to change.

State Agencies and Authorities

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

Rhode Island Turnpike and Bridge Authority. Originally created by an act of the General Assembly, Chapter 12, title 24 of the General Laws, in 1954, the Rhode Island Turnpike and Bridge Authority has rights and obligations under agreements which secure its outstanding bonds. On August 21, 1997, the Authority issued $42,985,000 Refunding Revenue Bonds Series 1997 providing escrowed funds to defease bond issues outstanding totaling $41,355,000, (the original issues in 1965 and 1967 totaled $61,000,000). On July 31, 2003 the Authority issued $35,765,000 Taxable Refunding Bonds Series 2003A and together with other funds paid the outstanding balance of the Series 1997 Revenue Refunding Bonds. Accordingly, as of June 30, 2004, the Authority had no obligations related to the defeased Series 1997 bonds. The Authority voted to remove the tolls from the Mt. Hope Bridge on May 1, 1998. The Mt. Hope Bridge will continue to be maintained by the Authority. Tolls on the Claiborne Pell Bridge are the primary source of the Authority's revenues and together with interest earned on investments are anticipated to be adequate to service debt and maintain the Authority's facilities. The outstanding balance of the 2003A issue of taxable refunding bonds is $11,735,000 at June 30, 2014.

On April 28, 2010, the Authority issued $50,000,000 Revenue Bonds, Series 2010A secured by tolls and other revenues for the purpose of financing the renovation, repair and improvement of the Claiborne Pell Bridge, the Mount Hope Bridge and other facilities for which it is responsible. The outstanding balance of the Series 2010A Revenue Bonds is $50,000,000 at June 30, 2014.

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

In its 2012 Session, the General Assembly amended Chapter 12, Title 24 of the General Laws to authorize the transfer of the Sakonnet River Bridge and the Jamestown Verrazzano Bridge to the Authority and approved tolling the Sakonnet River Bridge subject to federal regulations and approvals. The transfer from the Department of Transportation to the Authority occurred during FY 2013. The Authority was authorized to implement a $0.10 toll on the Sakonnet River Bridge as of August 23, 2013 through May 15, 2014, at which time the Authority would be authorized to implement a larger toll. However, in its 2014 Session, the General Assembly amended Chapter 12, Title 24 to eliminate the tolls on the Sakonnet River Bridge altogether. The collection of Sakonnet River Bridge toll ceased on June 20, 2014. At the same time, the General Assembly voted to allocate $0.035 per gallon of the State's motor fuel tax to Rhode Island Turnpike and Bridge Authority beginning July 1, 2014 for maintenance expenses, capital expenditures and debt service. It is currently estimated that revenue from the motor fuel tax to be paid to Rhode Island Turnpike and Bridge Authority will be approximately $14.7 million in FY 2015.

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

All of the Commission's full-time union employees participate in the Employees' Retirement System ("ERSRI") of the State. The Commission has contributed 100 percent of its required pension contribution to ERSRI. For FY 2013, the Commission fully funded its required contribution to the trust established by the State in FY 2012 to accumulate assets and pay benefits and costs associated with other post-retirement health benefits.

Pursuant to the Narragansett Bay Commission Act, the Commission is authorized to accept advances or loans of funds of up to $3.0 million from the General Fund of the State (a) in anticipation of the receipt of federal funds and (b) for the purpose of meeting debt service liabilities and providing for the construction, maintenance and operation for the project during such periods of time as the Narragansett Bay Commission Fund may be insufficient for any such purposes. The Commission currently has no outstanding advances from the State. As of June 30, 2014, the Commission has outstanding net long-term debt (revenue bonds) of $260,681,984.35 and outstanding net long-term loans payable to the Rhode Island Clean Water Finance Agency of $369,160,324.91.

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

As of June 30, 2013, the Authority had outstanding mortgage agreements and other commitments for $14,930,495 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, 2014, the Fund had a balance of $2,871,796. The State has agreed to appropriate or borrow and pay to the Authority any amounts required to service insured loans that are in default should the Fund be insufficient.

In February 2012, the Authority began using the Insurance Fund to satisfy amounts required to service an outstanding loan guarantee on a $5.0 million loan made to Capco Steel Corporation, which had defaulted on the loan. As of June 30, 2014, the outstanding loan guarantee was $4,163,443.

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

The Corporation is authorized to issue its revenue bonds and notes from time to time for any of its corporate purposes. All bonds and notes issued by the Corporation shall be payable solely out of the revenues and receipts derived from the leasing or sale by the Corporation of its projects, or from any other financing arrangement which may be designated in the proceedings of the Corporation under which the bonds or notes shall be authorized to be issued. As of June 30, 2014, the Corporation had an outstanding principal balance of conduit debt of $57,642,658. 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 $14,930,495 as of June 30, 2014.

Rhode Island Convention Center Authority. The Authority was created in 1987, under Chapter 99, title 42 of the General Laws as a public corporation having a distinct legal existence from the State and not constituting a department of State government. The Authority was created for the purpose of acquiring, constructing, managing and operating a convention center, as well as facilities related thereto such as parking lots and garages, connection walkways, hotels and office buildings, including any retail facilities incidental to and located within any of the foregoing and to acquire, by purchase or otherwise, land to construct the complex. Obligations issued by the Authority do not constitute a debt or liability or obligation of the State, but are secured solely from the pledged revenues or assets of the Authority. In November 1991, the Authority sold $225 million in bonds to finance the construction of the Rhode Island Convention Center and in July 1993, the Authority sold an additional $98 million in bonds to finance the construction of the hotel and parking garage. Market conditions in 1993, 2001 and 2003 enabled the Authority to refund all or portions of its 1991 and 1993 bonds. In addition, during 2005, the Authority sold the Westin Hotel and defeased $90,085,000 in Authority bonds and refunded a portion of its 1993 Series C Bonds. The 1993 Series C Bonds were retired in FY 2008. During FY 2009, the Authority refunded the 2001 Series A Bonds, thereby converting the variable risk of this series with a fixed rate. This series was replaced by 2009 Series A and B. The 2009 Series B Bonds and issue is federally taxable. During April 2013, the Authority issued Refunding Revenue Bonds in an aggregate principal amount of $37,335,000 to refund the 2003 Series A Bonds, refund a portion of the 1993 Series B Bonds and to pay costs of issuance. The 1993 Series B Bonds will be retired in 2015. The refunding of the 2003 Series A Bonds is now reflected as 2013 Series A Bonds. The 2009 Series B Bonds were retired on May 15, 2014 with a final principal payment of $485,000.

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

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

As of June 30, 2014, the Authority had $226,900,000 in principal of outstanding debt (excluding interest) consisting of the following issues:

- 1993 Series B - $ 7,485,000
- 2005 Series A - $ 33,045,000
- 2006 Series A - $ 81,000,000
- 2009 Series A - $ 68,035,000
- 2013 Series A - $ 37,335,000

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

During January 2002, the Corporation issued Resource Recovery System Revenue Bonds, 2002 Series A, in the aggregate principal amount of $19,945,000. The bond proceeds were used to finance the construction and equipping of a tipping facility to receive and handle commercial and municipal solid waste delivered to the facility. In May 2013 the Corporation redeemed the outstanding balance of its 2002 Series A revenue bonds. The outstanding principal balance at time of redemption was $11,185,000.

During May 2013, the Corporation issued Resource Recovery System Revenue Bonds, Leachate Pretreatment Facility Project, Series 2013 in the aggregate principal amount of $40,000,000. The proceeds of the Series 2013 Bonds will be used to finance the design, construction and installation of a leachate pretreatment facility at the Central Landfill together with all related infrastructure improvements. The outstanding balance at June 30, 2014 totals $36,482,813.

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

The General Assembly approved legislation establishing a mechanism for a State subsidy in implementing a comprehensive waste disposal program during its 1986 session. The General Law defines the State's financial participation as a subsidy to the local "tipping fee" paid by municipalities, and establishes a formula for calculating the subsidy. The State provided the Corporation with a $6,000,000 subsidy in FY 1994. However, in years when the Corporation took in excess volumes of solid waste that generated surplus cash, the General Assembly required the Corporation to transfer a portion of those surpluses to the State's General Fund.

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

While the cost of future remedial actions may potentially increase based on EPA's review and evaluation, the Corporation projects that the amount reserved plus cash flow over the next twenty-four years will be adequate to fund the Superfund remedy. The Corporation would seek appropriations from the General Assembly to fund any shortfall. The State, virtually every municipality in the State, and numerous businesses within and outside of the State are all potentially responsible parties ("PRPs") for the costs of remedial actions at the Corporation's Superfund site. Under federal law, PRPs are jointly and severally liable for all costs of remediation. EPA has agreed not to seek contributions from any other PRP as long as the Corporation is performing the remedy.

The Corporation has established trust funds, in accordance with Rhode Island Department of Environmental Management (RIDEM) requirements for a municipal solid waste landfill, for the closure and post closure care costs related to all currently operating and closed phases of the landfill. At June 30, 2014, the Corporation has approximately $, 83,891,332 in trust funds, which includes the remaining balance of the Superfund remediation trust funds, to meet the financial requirements of closure and post closure care costs related to Phases I, II, III, IV and V. Future trust fund contributions will be made each year to enable the Corporation to satisfy these closure and post closure care costs. The Corporation's total estimate of future landfill closure and post-closure costs for existing phases is approximately $ 80,936,468 as of June 30, 2014. The RIDEM has approved the Corporation's application for licensure of Phase VI. Based on current cost estimates, the Corporation expects to record an additional $75,000,000 of closure and post-closure costs over the anticipated life of Phase VI which will be activated in 2016.

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

In December 2005, a Complaint was filed in Providence County Superior Court alleging that the Corporation, its former Executive Director and other defendants (unrelated to the Corporation) through their actions and omissions have caused harm to the plaintiffs through exposure to alleged toxic substances, as well as assertions of unspecified damages and punitive damages. Various claims, including negligence, strict liability and other torts, have been alleged. The Corporation and the former Executive Director have answered and denied the allegations. As of September 2013, the Corporation has settled with all plaintiffs under the lawsuit and under the terms of the settlement agreement, has made payments in exchange for the plaintiffs dismissing all claims and terminating the litigation.

On December 14, 2011 the Town of Johnston filed a complaint against the Corporation alleging that odors emanating from the Central Landfill located at 65 Shun Pike, in Johnston have given rise to a public nuisance and constitutes a breach of the Host Community Agreement. The complaint seeks unspecified monetary damages as well as injunctive relief. On or about February 10, 2012, the Town of Johnston filed an amended complaint. In April 2013 the Town and Corporation entered into a settlement agreement and release whereby the Town agreed to voluntarily dismiss the Corporation from the lawsuit in exchange for the Corporation agreeing to execute an amendment to the Host Community Agreement between the parties. The amendment requires the Corporation to1) make a one-time lump sum payment of $1,500,000 to the Town, and 2) for each subsequent year for a period of fourteen years to make a payment of $107,143 to the Town.

On February 2, 2012 the Rhode Island Department of Environmental Management (DEM) issued a Notice of Violation (NOV) to the Corporation and Broadrock Gas Services LLC relating to alleged air pollution violations at the Central Landfill. The Notice of Violation required the Corporation and Broadrock Gas Services LLC to take certain action to remediate the alleged violations and assessed a $55,000 penalty. In April 2013 the Corporation paid $28,500 and DEM acknowledged that all issues raised in the February 2, 2012 NOV had been resolved and the matter closed.

On July 20, 2010, the City of Cranston (the "City") issued an "invoice" to the Corporation totaling $2,096,598.31 for both capital and operating and maintenance ("O&M") costs relating to alleged excess loading impact to the City's WPCF. The invoice states that the capital costs are associated with a 2005 Wastewater Pollution Control Facility (WPCF) upgrade the City made relating to the Total Nitrogen permit limits issued by the Department of Environmental Management, and that the City is seeking the "burdened" costs based on the "significant loading" on the order of 27% that the Corporation contributes to WPCF. The invoice also states that the O&M costs are associated with the excess (above average concentrations) Total Nitrogen discharged from the Corporation to the WPCF.

On August 19, 2011, the City issued its annual industrial pretreatment ("IP") charge to the Corporation with an assessment of $370,012 (the "2011 IP Invoice"). The assessment consisted of three charges: an IP Fee of $40,442, an IP Violation of $151,692, and an IP Surcharge of $177,878. On October 14, 2011, the Corporation filed a request for a fee adjustment to the assessment because it is based on incorrect calculations and erroneous application of the City's Sewer Code Ordinance. On October 15, 2012, the Corporation also filed a request for a fee adjustment to the 2012 IP charge of $271.461.24. On October 15, 2012, the Corporation filed a request for an adjustment to the assessment because it is based on incorrect calculations and erroneous application of the City's Sewer Code Ordinance. On October 30, 2012, the Cranston Director of Public Works issued a decision on both of these requests. For the 2011 IP invoice, the Director reduced the fee to $218,411, and for the 2012 IP invoice, the Director reduced the fee to $174,270. On November 9, 2012, the Corporation filed an appeal of both of these decisions with the Cranston City Council. The City has not yet ruled on these appeals. On September 19, 2013, the Corporation requested a fee adjustment of $141,649 for the IP violation charge that was billed on the 2013 Invoice with the City of Cranston's Director of Public Works. The Director has not ruled on this appeal.

On April 24, 2012, the City issued another "invoice" to the Corporation totaling $4,214,212 that reflected an "update" to the 2010 invoice. The invoice reflected the 2010 invoice charges as well as additional charges through 2011 for alleged excess loading impact to the City's WPCF.

On August 14, 2012, the City issued a "Fine Notice" to the Corporation for alleged exceedences of the Total Toxics Organic limits in the Corporation's Industrial Wastewater Discharge Permit. The Fine Notice assessed a penalty of $190,000. On August 24, 2012, the Corporation filed a "Request for Reconsideration" to reduce this fine to $40,000. On November 13, 2012, the City denied the Corporation's Request for Reconsideration. On December 7, 2012, the Corporation appealed the City's "ruling" on the Fine Notice to the Cranston City Council. On November 5, 2012, the City's Director of Public Works issued a "ruling" on this request denying any reduction in the fine amount. On November 21, 2012, the Company appealed this ruling to the City Council. The City Council has not yet ruled on this appeal. The Company and the City have initiated discussions on these issues but have not yet reached any resolution.

On January 4, 2013, Broadrock Gas Services, LLC and Rhode Island LFG Genco, LLC (collectively, "Broadrock") filed a complaint against the Corporation in the Superior Court in Providence seeking (a) specific performance to enforce an alternative dispute resolution provision in the Amended and Restated Landfill Gas Services Agreement and the Amended and Restated Site Lease and Landfill Gas Delivery Agreement (collectively, the "Agreements") and (b) a declaratory judgment to determine, inter alia, whether Broadrock had committed Events of Default that justified the Corporation's termination of the Agreements. On February 1, 2013, Broadrock filed a first amended complaint adding a count for a declaratory judgment that it has cured one of the alleged Events of Default. On February 11, 2013, the Corporation answered the first amended complaint denying Broadrock's allegations. . On September 25, 2014, a Non-Binding Memorandum of Understanding was reached in which the Corporation would pay Broadrock $1,250,000 as a partial settlement with a remainder of $1,250,000 to be paid upon execution of a definitive agreement.

On July 18, 2013, the Conservation Law Foundation ("CLF") sent a notice of intent to file a citizens suit against Broadrock Gas Services, LLC and Rhode Island LFG Genco, LLC (collectively, "Broadrock") and the Corporation alleging that Broadrock has violated emission standards and exceeded operational standards established in the Clean Air Act. The letter also alleges that the Corporation is also "legally responsible" for noncompliance of these standards. The letter further alleges that the Corporation has been operating the Landfill without an operating permit since 1997 in violation of Title V of the Clean Air Act. On December 16, 2013, the complaint was filed in U.S. District Court. The complaint requests that the court order the defendants to comply with the Clean Air Act, remedy the alleged violations and pay civil penalties.

In September 2013, a complaint was filed in Providence County Superior Court alleging the Corporation and the third-party operator of the gas collection system were negligent in their operation of the gas collection system, unreasonably interfered with a public right and interfered with the use and enjoyment of their property and business. The plaintiffs seek, inter alia, an injunction preventing further operation and control of the gas collection system and monetary and special damages, including but not limited to costs of suit and attorney's fees. Due to the preliminary nature of this matter, it is not feasible to estimate any potential liability to the Corporation at this time.

The State, in conjunction with its annual budgeting process, may include a provision in its budget requiring the Corporation to pay an amount to the State's General Fund. From FY 1995 through FY 2014, the Corporation has paid approximately $70,215,000 to the State's General Fund. No such payments are included in the FY 2015 enacted budget.

Rhode Island Public Transit Authority. The Public Transit Authority was created under Chapter 18, title 39 of the General Laws in 1964 as a body politic and corporate in response to the continuing financial difficulties being experienced by private bus transportation companies in the State resulting in the disruption of service. The Authority, with assistance from the State and with the proceeds of a federal loan, acquired the assets of the former United Transit Company and is authorized to acquire any other bus passenger systems or routes in the State which have filed with the Chairman of the State Public Utilities Commission a petition to discontinue service, and which the Authority deems necessary in the public interest. The Authority has expanded its operations statewide and at fiscal year ended June 30, 2014 operated a fleet of approximately 232 buses and 129 vans carrying approximately 20.5 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 motor fuel tax receipts in support of appropriations to the Authority, and (2) the Authority increased its base fare from time to time with the most recent increase being from $1.50 to $1.75 to $2.00 in September 2010. The Authority, in an effort to build ridership, has maintained rates at a level that has necessitated State appropriations to support its operations. In the fiscal year ended June 30, 2014, audited results of operations reveal that State-operating assistance to the Authority totaled $40,772,363, operating revenues totaled $33,030,634, and other revenues totaled $24,105,482.

The State has issued general obligation bonds on behalf of the Authority and for which the Authority is responsible for the debt service payments. For FY 2013 and FY 2014, the Governor recommended and the General Assembly approved funding the Authority's debt service payments with general revenue, thereby providing budgetary relief to the Authority. The Governor's FY 2015 Budget proposes to extend this funding for one additional year, but the Authority has been informed that it will be responsible for funding these payments in FY 2016 and thereafter. As of June 30, 2014, there was $15,104,854 in outstanding State general obligation bonds attributable to the Authority.

Rhode Island Commerce Corporation. The Rhode Island Commerce Corporation (the "Corporation") is a public corporation and political subdivision of the State and is the official economic development organization for the State. The Corporation changed its name in January 2014 and was previously known (since 1995) as the Rhode Island Economic Development Corporation. Prior to 1995, the Corporation was known as the Rhode Island Port Authority and Economic Development Corporation, and was created in 1974 under Chapter 64, title 42 of the General Laws. The Corporation is governed by a board of directors, which is chaired by the Governor. Board members include leaders from Rhode Island's business and labor communities, as well as academic and healthcare institutions. The Governor appoints all twelve members. The board oversees the development and implementation of all state-level economic development initiatives and works with the Executive Director to advance the Corporation's objectives.

The Corporation's mission is to work with public, private and non-profit partners to create the conditions for businesses in all sectors to thrive and to improve the quality of life for our citizens by promoting the State's long-term economic health and prosperity. The Corporation also provides assistance to economic related agencies including the Rhode Island Industrial-Recreational Building Authority and the Rhode Island Industrial Facilities Corporation.

The Corporation serves as a government and community resource to help streamline business expansion in, and relocation to, Rhode Island. The Corporation assists companies with commercial real estate, business financing, workforce training, and other relevant issues, and 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.

Effective January 1, 2005, corporate governance of the Quonset Point/Davisville Industrial Park in North Kingstown was transferred to the Board of Directors of the Quonset Development Corporation, a subsidiary of the

Corporation. The Rhode Island Airport Corporation, also a subsidiary of the Corporation, continues to maintain an autonomous corporate governance structure with an independent Board of Directors.

As of June 30, 2014, the total aggregate principal amount outstanding under all conduit debt obligations was $931,366,054. Certain of the bonds of the Corporation can be secured, in addition to a pledge of revenues, by a capital reserve fund established by the Corporation for the applicable bond issue. In accordance with its enabling legislation, if at any time the balance in such capital reserve fund falls below its requirement, the Corporation is authorized to request the General Assembly to appropriate the amount of the deficiency. The General Assembly may, but is not obligated to, appropriate such amounts. Some, but not all, revenue bonds issued by or through the Corporation that are outstanding are listed below.

In May 1996, the Corporation issued $25,000,000 in revenue bonds on behalf of Fidelity Management Resources for development of infrastructure improvements at a site in Smithfield to be utilized for Fidelity of Rhode Island, Inc. These bonds are also secured, in part, by the Corporation's capital reserve fund. At June 30, 2014, the outstanding balance was $13,037,909.

In May 2002, the Corporation and Fidelity Management Resources entered into a Second Amendment to Ground Lease, to expand the premises to include additional lots at Fidelity Management Resources site in Smithfield. In connection therewith, the Corporation issued $10,000,000 in revenue bonds on behalf of Fidelity Management Resources. These bonds are secured, in part by the Corporation's capital reserve fund. At June 30, 2014, the outstanding balance was $7,949,953.

In addition, pursuant to the lease, the Corporation entered into an agreement with FMR Rhode Island, Inc., for the Fidelity Management Resources projects described above, to secure those bonds, credits are provided for lease payments if certain targeted new job goals are met for the financed project. If the job goals are met, the Corporation will credit FMR Rhode Island, Inc.'s lease payments and make annual requests to the General Assembly for appropriations which will be used to pay the debt service on this issue. In FY 2014, the State's expenditure for this purpose was $3,184,026.

In November 1997, the Corporation issued $11,000,000 in revenue bonds on behalf of Fleet National Bank (which is now part of Bank of America by merger) for development of infrastructure improvements at a site in Lincoln, to be utilized by Fleet National Bank. These bonds are also secured, in part, by the Corporation's capital reserve fund. In addition, the State has provided for credits if certain targeted new job goals are met. No expenditures have been made to date. At June 30, 2014, the outstanding balance was $7,710,000.

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

In May 2000, the Corporation issued revenue note obligations in the amount of $40,820,000 to finance a portion of the costs of the Providence Place Mall. Such financing will be supported by two-thirds of the sales taxes generated at the mall (up to a cap of $3.68 million in years 1-5, and $3.56 million in years 6-20) as provided in the Mall Act (R.I.G.L. § 42-63.5-1 et. seq.) enacted by the General Assembly in 1996 and by Public Investment and HOV Agreement. It is expected that sales tax revenues generated at the Mall will be sufficient to fully support the revenue note obligations. Sales tax generated at the Mall is recorded as general revenues. The State is not obligated to fund the note payments if the sales tax generated is not sufficient. As of June 30, 2014, there were $19,135,000 of bonds outstanding.

In November 2003, the State entered into a payment agreement with the 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 issued. In April 2009, a third series was issued totaling $12,410,000. As of June 30, 2014, $62,525,000 was outstanding.

The GARVEE bonds issued through the Corporation, which are secured by federal funds made available to the Department of Transportation, are not considered part of the State's net tax supported debt. As of June 30, 2014, there was $254,605,000 outstanding which were supported by federal revenues.

In June 2009, the Corporation issued revenue bonds in the amount of $150,000,000 to provide funds to reimburse the State for Historic Structures Tax Credits from time to time presented by taxpayers. These revenue bonds are supported by a payment agreement with the State subject to annual appropriation. As of June 30, 2014, there was $74,400,000 of such revenue bonds outstanding.

In November 2010, the Corporation issued $75.0 million of taxable revenue bonds under the Job Creation Guaranty Program (Fund to Grow Rhode Island Companies). The bond proceeds were loaned to 38 Studios to fund an overall agreement that included relocation of the company's corporate headquarters to Rhode Island, establishment and operation of a video gaming studio in the City of Providence and completion of at least one particular video game. Proceeds also were used to fund a Capital Reserve Fund and Capitalized Interest Fund. Amounts in the Capital Reserve Fund are to be used in the event that 38 Studios fails to make any required loan payments. In accordance with the enabling legislation and the agreement between the RI Commerce Corporation, the trustee and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, the Rhode Island Commerce Corporation is required to present the Governor with a certificate stating the amounts required to restore any shortfall and the Governor is required to include such amounts in his or her budget request for appropriation to the General Assembly. 38 Studios filed for Chapter 7 bankruptcy protection on June 7, 2012 and the Rhode Island Commerce Corporation and the trustee for the bonds have obtained court approval to take custody of the assets pledged by 38 Studios to secure the payment of the bonds but it is not certain at this time what the value of the assets pledged is. At the time of the bankruptcy, the total debt service on the bonds, after considering existing reserves with the trustee, was $89.2 million. The maturity dates on the bonds range from 2014 to 2020 with maximum annual debt service of approximately $12.75 million. The General Assembly may, but is not required, to appropriate such amounts as required in future fiscal years.

During FY 2014, the State transferred $2.5 million to the Rhode Island Commerce Corporation to satisfy debt service obligations related to 38 Studios. The FY 2015 enacted budget includes $12.3 million to cover scheduled debt service payments, along with reserve funds on hand, in November 2014 and May 2015.

As of June 30, 2014, there was $67,560,000 of such revenue bonds outstanding. For further information regarding the current status of 38 Studios and the bonds issued by the Corporation for 38 Studios, see "State Indebtedness – Moral Obligation of the State Regarding 38 Studios". An additional $6,500,000 in guarantees was issued under the Job Creation Guaranty Program ("JCGP"), of which $4,369,674 remains outstanding as of June 30, 2014. In the 2013 Session, the General Assembly repealed the authority for the Rhode Island Commerce Corporation to guarantee further loans under this program.

On August 27, 2014, Bridge Bank sent a notice of nonpayment to RI Commerce in accordance with RI Commerce's guaranty (the Guaranty) of a term loan advanced by Bridge Bank to a borrower under the JCGP. The loan was a part of the JCGP created in 2010 by the General Assembly. Under this program, the State used its "moral obligation" authority to guarantee debt service payments to the bondholders. In accordance with its obligation under the Guaranty, RI Commerce made payment of the amounts sought by Bridge Bank (the Advance) and subsequently made demand upon the borrower to pay RI Commerce for such Advance. As of September 30, 2014, the amounts paid from JCGP reserves held by RI Commerce totaled $75,336, representing the August payment on the Advance. In the event RI Commerce is further called upon to meet the obligations under the Guaranty, BankRI hold approximately $1,000,000 in a reserve account (Capital Reserve Account) to partially satisfy the obligations under the Guaranty. The approximate amount of the term loan for which RI Commerce provided the Guaranty is $3,300,000 and after payment of the funds in the Capital Reserve Account, the remaining obligation due from the borrower on the term loan would be approximately $2,300,000. As of September 30, 2014, it is unclear whether RI Commerce will be called upon to make additional payments in connection with the Guaranty.

During August 2012, Quonset Development Corporation (a subsidiary of the Corporation) entered into loan agreements to borrow up to $7,500,000 to support the Davisville Dredging project. The balance as of June 30, 2014 was $5,902,215.

Information regarding bonds issued by the Corporation on behalf of the I-195 Redevelopment District Commission and, the Rhode Island Airport Corporation, respectively, both subsidies of the Corporation, is listed separately under “State Agencies and Authorities – I-195 Redevelopment District Commission” and “State Agencies and Authorities - Rhode Island Airport Corporation”.

I-195 Redevelopment District Commission. The I-195 Redevelopment Act of 2011 created the I-195 Redevelopment District Commission as a subsidiary of the Corporation and authorized the District Commission to purchase I-195 surplus land from the Department of Transportation. The Act also authorized the Corporation to issue bonds in the amount of the purchase price for the land. The Corporation provides office space and technical support to the I-195 Redevelopment District Commission established to help guide and oversee the thoughtful and planned economic development of the land.

The seven member Commission is authorized to plan, implement, administer and oversee the redevelopment of the I-195 surplus properties. The proceeds from the sale or lease of such surplus properties will be used to help finance the completion of the I-195 relocation project. Also included in this legislation was authorization for the Rhode Island Commerce Corporation to issue bonds or other obligations not to exceed $42,000,000 to finance the acquisition by the Redevelopment District Commission of the surplus land from the State. The actual balance of total outstanding bonds issued, as of June 30, 2014, is $38,400,000. This financing, in combination with residual funds from the motor fuel proceeds, is expected to be sufficient to fund completion of the I-195 relocation project and certain activities of the Redevelopment District Commission. To the extent these resources are not sufficient to complete the project, other state and federal transportation funds would be made available which would impact the progress of other contemplated projects.

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

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

RIAC was created to operate as a self-sustaining entity and receives no funds from the State’s General Fund for the operation and maintenance of any of the Airports under its jurisdiction. RIAC has utilized State G.O. Bonds issued on behalf of RIAC for the intended use at the Airports. Per the Lease Agreement, RIAC is obligated to repay to the State the principal and interest on any G.O. Bonds issued for airport purposes. RIAC does not have the authority to issue bonds or notes or borrow money without the approval of Commerce RI.

RIAC operates T. F. Green Airport, which is Rhode Island’s only certified Part 139 commercial airport. The Airport is primarily an origin – destination airport. In recent years, approximately 96% of the passengers at the

Airport either began or ended their journeys at the Airport. As of June 2012, and based upon classifications defined by the U.S. Department of Transportation, the Airport has scheduled passenger service provided by fifteen major/national and two regional airlines. Two airlines provide all-cargo service.

Airport Use and Lease Agreements

RIAC established Signatory Airline Agreements with Delta Airlines, Federal Express Corporation (FedEx), JetBlue Airways, Southwest Airlines, United Airlines, United Parcel Service Co. (UPS), and US Airways. Affiliates of Signatory Airlines operate under the terms and conditions of the Signatory Airline Agreements. Cape Air executed a Non-Signatory Agreement.

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

Historical Enplanement Data

T.F. Green Airport was ranked as the 63rd busiest airport in the country for calendar year 2012 according to the latest published data produced by the FAA. This compares with rankings of 63rd busiest in calendar year 2011 and 2010 and 62nd busiest in calendar years 2009 and 2008.

Actual enplaned passengers for fiscal year 2014 were 7,529 below 2013 resulting in a decrease of 0.4%. The decline in enplanements at the Airport is attributable to the continued impact of the economic downturn.

General Aviation Airports

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

North Central Airport

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

Quonset Airport

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

Westerly Airport

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

Newport Airport

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

Block Island Airport

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

Long-Term Debt Administration - General

Under the State Lease Agreement, RIAC has agreed to reimburse the State for GO Bond debt service accruing after July 1, 1993. In the event there are not sufficient moneys available to reimburse the State, such event shall not constitute an event of default. Instead, the unpaid portion shall accrue and be payable in the next succeeding fiscal year and shall remain a payment obligation of RIAC until paid in full. If the unpaid portion is not reimbursed by the end of the following year, such failure could constitute an event of default on the part of RIAC under the State Lease Agreement. RIAC is current in all of its payment obligations to the State. These bonds mature annually through 2023. The balance outstanding at June 30, 2014 and 2013 was $2.020 million and $3.575 million, respectively.

In 1994, RIAC issued $30 million Series A General Airport Revenue Bonds dated May 19, 1994, maturing annually from 1998 through 2014 with interest coupons ranging from 5.25% to 7%. The balance outstanding as of June 30, 2014 and 2013 was $1.190 and $2.305 million, respectively.

In 1998, RIAC issued $8.035 million Series A and $53.14 million Series B General Airport Revenue Bonds dated June 11, 1998, maturing annually from 2001 through 2028 with interest coupons ranging from 4.2% to 5.25%. As referenced below, $32.06 million of these bonds were refunded during fiscal year 2014. The balance outstanding as of June 30, 2014 and 2013 was $0 and $32.06 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 through 2015 with interest coupons ranging from 3.5% to 5%. As referenced below, $6.02 million of these bonds were refunded during fiscal year 2014. The balance outstanding as of June 30, 2014 and 2013 was $0 and $8.885 million, respectively.

In 2004, RIAC issued $52.665 million Series A Airport Revenue Refunding Bonds dated March 12, 2004 to enable the defeasance of $31.915 million and $20.19 million of 1993 Series A and 1994 Series A General Airport Revenue Bonds, respectively. The refund issue matures annually through 2024 with interest coupons from 2% to 5%. The balance outstanding as of June 30, 2014 and 2013 was $48.72 million and $48.81 million, respectively.

In 2005, RIAC issued $43.545 million Series A and $27.245 million Series B General Airport Revenue Bonds dated June 28, 2005 maturing annually from 2009 through 2030 with interest coupons ranging from 4.625% to 5%. Also on June 28, 2005, RIAC issued $44.465 million Series C Airport Revenue Refunding Bonds to enable the defeasance of $42.165 million of 2000 Series B General Airport Revenue Bonds. The refund issue matures annually through 2028 with interest coupons ranging from 3% to 5%. RIAC's defeasance of the 2000 Series B Bonds resulted in an economic present value gain of $3.04 million or 7.2% of the refunded bonds. The outstanding balance for the 2005 Series as of June 30, 2014 and 2013 was $101.92 million and $105.99 million, respectively.

In 2008, RIAC issued $17.645 million Series A and $15.49 million Series B General Airport Revenue Bonds dated May 30, 2008 maturing annually through 2038 with interest coupons ranging from 3.5% to 5.25%. Also on May 30, 2008, RIAC issued $18.03 million Series C Airport Revenue Refunding Bonds to enable the defeasance of $18.06 million of 1998 Series B General Airport Revenue Bonds. The refund issue matures annually from 2010 through 2018 with interest coupons ranging from 4% to 5%. RIAC's defeasance of these 1998 Series B Bonds resulted in an economic present value gain of $597 thousand or 3.3% of the refunded bonds. The outstanding balance for the 2008 Series as of June 30, 2014 and June 30, 2013 was $41.810 million and $44.365 million, respectively.

In 2013, RIAC secured funds for the Deicer Management System at T.F. Green Airport under the Rhode Island Clean Water Finance Agency's State Revolving Fund for the payment of eligible project costs up to $33.5 million at an average effective interest rate of 2.44% (2013 Series A General Airport Revenue Bonds). This bond is issued pursuant to the Ninth Supplemental Indenture and secured by general airport revenues. Eligible project costs include construction funds, costs of issuance, and the debt service reserve fund. Interest payments will accrue as amounts are drawn down from this loan. The outstanding balance as of June 30, 2014 and June 30, 2013 was $ 11.7 million and $2.582 million, respectively.

In 2013, RIAC issued $30.7 million Series B and $2.055 million Series C Airport Revenue Refunding Bonds to enable the defeasance of $32.06 million in 1998 Series A General Airport Revenue Bonds and $6.02 million in 2003 Series A General Airport Revenue Bonds, respectively. The 2013 Series B refund issue matures annually from 2019 through 2028 with interest coupons from 4% to 5%. The 2013 Series C refund issue matures annually from 2014 to 2015 with interest coupons from 3% to 4%. RIAC's defeasance of the 1998 Series B Bonds and the 2003 Series A Bonds resulted in economic present value savings of $1.914 million or 6% and $171 thousand or 2.8% of the refunded bonds, respectively. The outstanding balance for the 2013 Series B and C as of June 30, 2014 was $32.755 million.

Long-Term Debt Administration – Special Facility

In 2006, RIAC issued $48.765 million Series 2006 First Lien Special Facility Bonds for the InterLink Project (2006 First Lien Bonds) dated June 14, 2006 maturing annually from 2011 through 2036 with interest coupons ranging from 4% to 5%. The balance outstanding for the 2006 First Lien Bonds was $46.87 million and $47.57 million as of June 30, 2014 and 2013, respectively. 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 Commerce RI 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) Commerce RI's right, title and interest to receive loan payments from RIAC under the Commerce RI Loan Agreement.

As part of the financing for the InterLink Project, RIAC and Commerce RI secured additional funds under the USDOT's TIFIA for the payment of eligible project costs of the InterLink up to $42 million at an interest rate of 5.26%. This TIFIA Bond is issued pursuant to the First Supplemental Indenture as a Second Lien Obligation payable from and secured by a pledge of and secondary interest in the Trust Estate under the Indenture, subject to the pledge of the Trust Estate for the security and payment of the 2006 First Lien Bonds. The 2006 TIFIA Bond is also secured by the Second Lien Debt Service Reserve Fund that was funded from CFCs on the DOO in an amount of $3,328,407. The outstanding balance as of June 30, 2014 and June 30, 2013 was $41.541 million for both years.

Current Operations and Financial Situation

Condor Airlines has announced regularly scheduled seasonal service to Frankfurt, Germany beginning in June 2015. Flights will operate on Mondays and Thursdays on a Boeing B767/300. This new international service will give Rhode Island travelers a direct, affordable connection to Frankfurt and Europe.

Rhode Island Housing and Mortgage Finance Corporation. The Rhode Island Housing and Mortgage Finance Corporation is a public corporation and instrumentality of the State created in 1973 to assist in the construction and financing of low and moderate income housing and health care facilities in the State. In addition to its general powers, the Corporation is authorized to issue revenue bonds, to originate and make mortgage loans to low and moderate income persons and families, to purchase mortgage loans from and make loans to private mortgage lenders in the State in order to increase the amount of mortgage money generally available, to make mortgage loans to contractors and developers of low and moderate single-family and multi-family housing developments and to acquire and operate, both solely and in conjunction with others, housing projects. The total outstanding indebtedness, including unamortized bond premium/discount, of the Corporation at June 30, 2013 was $1,566,213,846 consisting of $1,445,593,846 of long-term bonds and notes and $120,620,000 of short-term or convertible-option bonds and notes. Included in the total outstanding is $164,230,211 in bonds, which are secured in part by capital reserve funds which have aggregated to $32,206,624 on June 30, 2013. The total outstanding indebtedness, including unamortized bond premium/discount, of the Corporation at June 30, 2014 was $1,448,559,003 consisting of $1,319,176,003 of long-term bonds and notes and $129,383,000 of short-term or convertible-option bonds and notes. Included in the total outstanding is $131,970,558 in bonds, which are secured in part by capital reserve funds which have aggregated to $31,113,556 on June 30, 2014. Under provisions similar to those governing the Rhode Island Commerce Corporation, the General Assembly may, but is not obligated to, provide appropriations for any deficiency in the reserve funds referenced above. The Corporation has never been required to request any such appropriations. Such reserve funds relate solely to select multi-family issues of the Corporation.

Rhode Island Student Loan Authority. The Authority was created in 1981 under Chapter 62, title 16 of the General Laws, for the purpose of increasing the supply of loans made to students and their families to finance the cost of obtaining a post-secondary education. To achieve this purpose, one of the powers of the Authority is the ability to issue bonds and notes. Obligations of the Authority shall not constitute a debt, liability or obligation of the State or any political subdivision thereof, and shall be payable solely from the revenues or assets of the Authority. As of June 30, 2014, the Authority held $392,989,999 in Federal Family Education Loans that were insured by the Rhode Island Higher Education Assistance Authority and other Guarantors. The Authority also held on June 30, 2014, $390,351,724 in state based private education loans. As of June 30, 2014, the Authority had $698,572,000 of bonds outstanding.

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

Rhode Island Clean Water Finance Agency. Pursuant to Chapter 12.2 of title 46 of the Rhode Island General Laws, the Rhode Island Clean Water Finance Agency is a body politic and corporate and a public instrumentality of the State, having distinct legal existence from the State and not constituting a department of the State government. The purpose of the Agency is to operate revolving loan funds capitalized by federal grants, proceeds of the 1986 and 1990 general obligation bond referenda, and other revenues and borrowing as authorized. Eligible applicants to the revolving loan fund include local government units for water pollution control facility capital improvements and drinking water capital improvements. The Agency also administers, pursuant to the FY 2014 State Budget, the newly created Municipal Road and Bridge Revolving Fund (the "MRBRF"). The State appropriated $10,313,759 in FY 2014 for the MRBRF. The initial loans from the MRBRF are expected to close in early FY 2015.

The Agency is empowered to issue revenue bonds and notes, which are not guaranteed by the State. As of June 30, 2014, the Agency has issued bonds in the aggregate amount of $1,311,859,000 to fund $1,436,020,462 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, 2014 is $523,535,000 in the clean water state revolving fund (CWSRF wastewater projects), $84,392,000 for seven conduit financings and $166,195,000 in the drinking water state revolving fund. Also, in years 1997 through 2014, the Agency made a total of $68,433,660 in direct loans (loans issued without bond financing) out of the CWSRF, a total of $70,551,557 in direct loans out of the Drinking Water State Revolving Fund and $58,845,000 in direct loans out of the Rhode Island Water Pollution Control Revolving Fund and five loans out of the Agency's operating fund totaling $19,498,005.

Rhode Island Water Resources Board Corporate. Pursuant to Chapter 15.1 of title 46 of the Rhode Island General Laws, the Water Resources Board Corporate (WRBC) is a body politic and corporate and a public instrumentality of the State having a distinct legal existence from the State. The purpose of the WRBC is to foster and guide the development of water resources including the establishment of water supply facilities and lease the same to cities, towns, districts and other municipal, quasi-municipal or private corporations or companies engaged in the water supply business in Rhode Island, contract for the use of the same by such parties, or sell to such parties the water derived from, carried by or processed in such facilities. The WRBC is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water and a water surcharge.

On March 1, 1994, the WRBC issued revenue bonds for public drinking water protection in the amount of \$11,835,000. On November 15, 2002, the WRBC issued \$11,835,000 of refunding revenue bonds. The proceeds refunded the 1994 series on March 1, 2004 in the amount of \$7,847,700. The excess proceeds were used to fund Phase III of public drinking water protection. The amount of the Series 2002 refunding bonds outstanding as of June 30, 2014 was \$604,181.

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

During the 2011 Session, the General Assembly enacted legislation that transferred all employees, accounts, and properties to the Division of Planning in the Department of Administration. The legal counsel for the Department of Administration has confirmed that although these assets of the Water Resource Board ("WRB") and WRBC have been transferred to the Division of Planning, the Board members of the WRB and WRBC retain their existing authority and obligations that comprise their programs under Chapter 46-15 and 46-15.1 through 46-15.8 of the General Laws of Rhode Island.

Rhode Island Health and Educational Building Corporation. The Corporation was organized in 1966 as a Rhode Island non-business corporation with the name Rhode Island Educational Building Corporation. In 1967, the Corporation was constituted as a public body corporate and an agency of the State under Chapter 38.1, title 45 of the General Laws. The Corporation has broad powers to assist colleges and universities in the State with the financing of educational facilities, to assist hospitals in the State with the financing of health care facilities, to assist students and families of students attending institutions for higher education in the State with the financing of the cost or a portion of the cost of higher education, to assist with financing a broad range of non-profit health care projects, to assist with financing non-profit secondary schools, child day care centers, adult day care centers, free standing assisted living facilities, and to assist local educational authorities in the State with financing public school projects. To assist it with carrying out its powers, the Corporation may issue bonds and notes which are special obligations of the Corporation payable from revenues derived from the project financed or other funds of the participating educational institution or health care institution available for such purpose. The State is not liable for the payment of the principal, premium, if any, or interest, on any bonds or notes of the Corporation, or for the performance of any pledge, mortgage, obligation, or agreement of any kind whatsoever which may be undertaken by the Corporation, and none of the bonds or notes of the Corporation nor any of its agreements or obligations shall be construed to constitute an indebtedness of the State. As of June 30, 2014, the Corporation had \$3,161,538,674 of bonds and notes outstanding (excluding series secured by funds held in trust for future redemption).

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

The TSFC issued \$685,390,000 of its Tobacco Settlement Asset-Backed Bonds, Series 2002A and Series B ("TSFC Bonds") in June 2002 to finance the costs of acquisition of the right, title and interest to one-hundred percent (100 percent) of the "State's tobacco receipts" for the years 2004-2043. The TSFC issued an additional \$197.0 million of its TSFC Bonds on June 27, 2007, all of which are outstanding. Combined, there is \$744,820,742 of principal outstanding, or \$846,474,344 including accreted interest at June 30, 2014. The TSFC 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.

At its meeting on July 15, 2014, the Corporation Board approved resolutions authorizing the issuance of bonds not to exceed $630.0 million to 1) finance a payment to the State in an amount not less than $20.0 million; 2) to refund all of the Corporation's outstanding tobacco settlement asset-backed bonds, Series 2002A; 3) to fund the open market purchase of certain maturities of the Corporation's outstanding tobacco settlement asset-backed bonds, Series 2007 accepted for purchase by the Corporation; 4) to make deposits to the debt service reserve accounts with respect to the Series 2014 bonds and 5) to pay related costs of issuance of the Series 2014 bonds. On August 4, 2014, a holder of Series 2002 and Series 2007 bonds and related entities filed a complaint in Rhode Island Superior Court contending that the proposed 2014 transaction would violate State law and provisions in the 2007 indenture. The Corporation filed an answer on August 25, 2014 asserting that State law enacted by the 2014 General Assembly authorized this transaction and that provisions of the 2007 indenture are being followed as required and filed a counterclaim for damages. On August 29, 2014, the plaintiff filed a motion to amend their original complaint to, inter alia, add additional counts to the complaint and add the State and future buyers of the Series 2014 bonds as additional defendants in the lawsuit. The Corporation filed a response opposing the plaintiff's motion to amend. On September 29, 2014, the Judge ruled in favor of the plaintiff and allowed the motion to amend the original complaint. The Corporation intends to answer the new complaint and deny its claims and expects to move for summary judgment on the now operative complaint.

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 or her designee on matters pertaining to wages, hours and other conditions of employment, except the State Employees' Retirement System. State employees have all rights given to private employees under the State Labor Relations Act other than the right to strike. If the representatives of employee organizations and the State representatives are unable to reach agreement in collective bargaining negotiations, State law provides for the submission of unresolved issues to the Director of Labor & Training for mediation and conciliation to assist in a voluntary resolution of impasses. If impasses are not resolved, the Conciliator makes written findings of fact and recommendations with a view toward the voluntary settlement of unresolved issues. If mediation and conciliation fail or are not requested, any and all unresolved issues are submitted to arbitration. The decision of the arbitrators is binding on the parties with respect to all issues and matters other than issues which involve wages for all bargaining units other the State Police, E-911 Emergency Telephone, and employees of the Rhode Island Brotherhood of Correctional Officers, for whom an arbitrator's decision involving wages is binding. For all other bargaining units, the arbitrators' decision on issues involving wages is advisory only.

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

As of September 9, 2014, the State had 15,127 paid employees. This equates to approximately 13,809.3 full-time equivalent positions. Of this amount, 11,342 employees organized in numerous unions represented by various collective bargaining units, the largest of which is the American Federation of State, County and Municipal Employees, Council 94. This union represents approximately 3,864 employees, or 34.0 percent of total organized State employees. Several other major bargaining groups are represented by the Rhode Island Alliance of Social Service Employees, Local 580 (830 employees); the Rhode Island Brotherhood of Correctional Officers (3,073 employees); the American Association of University Professors (681 employees) to name a few. In addition, there are 3,785 non-union employees.

Contracts with all but two of the collective bargaining units expired on or prior to October 1, 2012. The State and the Rhode Island Brotherhood of Correctional Officers utilized the interest arbitration process to determine the collective bargaining agreements for 2006 through 2009 and 2009 through 2012. The interest arbitration panel issued their awards on March 31, 2010. The interest arbitration panel awarded an 8.74 percent pay increase effective June 21, 2009; 3.0 percent increases effective both June 20, 2010 and June 19, 2011; pay reduction days for FY 2009 (1), FY 2010 (8) and FY 2011 (4); and changes in medical benefit co-shares from percent of pay to percent of premium. The State Police union ratified a new contract for the period of May 2010 through April 2013. The third year of the State Police contract allowed for a wage reopener. The State offered no COLA for this period to be consistent with other State employee contracts. The State Police union requested binding arbitration. In September 2013, the arbitrators ruled that for the period of May 2012 to April 2013 eligible troopers shall receive a three percent (3.0%) increase in annual salary.

The FY 2011 Enacted Budget included new provisions in the pension system for State employees, teachers, and judges who were not eligible for retirement in September 30, 2009 and were not eligible to retire as of the enactment of the proposal. These provisions limited COLAs to the first $35,000 of the retirement allowance, indexed to inflation but capped at 3 percent, beginning in the third anniversary of the date of retirement or age 65, whichever is later. Savings from this action were estimated at $16.0 million in general revenue expenditure, $5.7 million from State employees and judges, and $10.3 million from teachers ($4.2 million from the State share and $6.1 million from the municipalities). As a result of changes that were enacted, which modified the cost sharing of State employee retiree health benefits effective October 1, 2008, there were a significant number of State employees who retired.

As part of the FY 2012 Enacted Budget, the General Assembly imposed a moratorium on the longevity pay program for State employees. This program provided employees increases in pay based on years of services as follows: 5 percent after 5 years, 10 percent after 11 years, 15 percent after 15 years, 17.5 percent after 20 years and 20 percent after 25 years. The moratorium was effective July 1, 2011 for non-union employees and as of the end of current collective bargaining agreements that include longevity pay provisions for unionized employees, most of which expired June 30, 2012. Employees will maintain any longevity pay they have earned as of these dates, but will not be eligible to receive additional increments. Although many contracts expired June 30, 2012, there was some ambiguity with regards to when longevity pay would end, July 1, 2012 or when the successor contract took effect. To avoid any ambiguity, the State terminated the various collective bargaining agreements, but offered to reinstate them if the respective union acknowledged that the longevity statute controlled this provision as of July 1, 2012. All affected unions, with the exception of the Physicians union as of this time, agreed to this. Most unions also signed a Memorandum of Settlement (MOS) that extended contract provisions for one additional year, but with no provision for any cost of living adjustment. Over the past year, the Department of Administration has been actively engaged in collective bargaining with all unions under its jurisdiction. As of September 11, 2014, ten of the fifteen parent unions representing various bargaining units within their respective organizations have ratified certain terms and conditions including a four (4) year contract term ranging from July 1, 2013 through June 30, 2017. The various agreements include three (3) general salary increases with certain modifications to the health insurance benefit. The general salary increases include a 2% general salary increase effective April 6, 2014, a 2% general salary increase effective October 5, 2014 and a 2% general salary increase effective October 4, 2015. There is a wage reopener in the fourth and final year of the contract term. The general salary increases have also been extended to nonunion employees. The health insurance benefit incorporates a new family/single ($500/$250) deductible program toward specific items covered and an increase in various other co-pays including an increase in the pharmaceutical program co-pays. Of the remaining unions outstanding, the RI Troopers Association is actively engaged in Interest Arbitration and the RI Brotherhood of Correctional Officers has informed the State that it too is pursuing Interest Arbitration on behalf of the bargaining units it represents. Unions including the RI Physicians Association, the National Association of Government Employees, and the United Nurses and Allied Professionals, continue negotiations with the State. The Judiciary continues to negotiate with its respective unions under its jurisdiction.

The general salary increase payments to be made in FY 2015 under the collective bargaining agreement amount to approximately $25 million. No appropriation for these general salary increases have been provided for in the FY 2015 enacted budget. As a result, savings from expenditures reflected in the FY 2015 enacted budget and additional revenue not reflected in the FY 2015 enacted budget will need to be found to address the shortfall arising from the general salary increase payments. The State expects to generate some of those savings by not filling State employee vacancies as they arise.

During a special session of the General Assembly in the Fall of 2011, Rhode Island Retirement Security Act of 2011 was enacted that made substantial changes to the retirement provisions for most State employees. Details on these changes are provided below under “State Retirement Systems”.

As of September 9, 2014, there were 13,809.3 FTE positions filled, 1,276.7 less than the authorized amount in the FY 2015 Enacted Budget.

STATE RETIREMENT SYSTEMS

(See the Glossary at the end of this section for the definitions of certain capitalized terms used in this section.)

Background Information Regarding the State Retirement Systems

The State, through the Employees’ Retirement System of Rhode Island (“ERSRI”), administers and contributes to three defined-benefit retirement plans - the Employees’ Retirement System (the “ERS”), the Judicial Retirement Benefits Trust (the “JRBT”), and the State Police Retirement Benefits Trust (the “SPRBT”). The ERS, JRBT and SPRBT are collectively referred to herein as the “Plans”. ERSRI acts as a common investment and administrative agent for the Plans. ERSRI is administered by the State of Rhode Island Retirement Board (the “Retirement Board”), which was authorized, created and established in the Office of the General Treasurer as an independent retirement board to hold and administer, in trust, the funds of ERSRI.

On November 18, 2011, the Rhode Island Retirement Security Act of 2011 ("RIRSA") was signed into law. RIRSA, which took effect July 1, 2012, makes significant changes to the state retirement systems administered by the ERSRI. Some of the significant changes are as follows:

- COLAs are suspended for retired State employees, teachers, judges and State police until an 80% funding level is achieved in the aggregate for the Plans. After the suspension, future COLAs/benefit adjustments will be applied to the first $25,000 of retirement income (indexed annually) and will be based on market performance of the plan assets determined by subtracting 5.5% from the 5-year average investment return of the aggregate funds with a maximum adjustment of 4% and a minimum adjustment of 0%. During the suspension period, a benefit adjustment, if warranted under the foregoing formula, will be awarded at five-year intervals.

- For State employees and teachers, the defined benefit pension plan has been transitioned into a combination defined benefit/defined contribution plan. Benefit accruals under the defined benefit plan have been reduced to an annual accrual rate of 1% multiplied by an employee's highest 5-year average compensation. For all State employees and approximately 50% of teachers (those participating in Social Security), the defined contribution plan requires a 5% employee contribution and 1% employer contribution. For teachers not participating in Social Security, the defined contribution plan requires a 7% employee contribution and 3% employer contribution.

- For State employees and teachers, the retirement age under the defined benefit pension plan is extended to Social Security normal retirement age, with transition rules easing the implementation of the new retirement age for longer service employees.

- For State police, the retirement age is extended to 25 years of service for officers with fewer than twenty (20) years of service on June 30, 2012.

As a result of the RIRSA legislation, the unfunded liability of $6.8 billion for State employees and teachers reported in the June 30, 2010 valuation was reduced to $4.4 billion as reported in the June 30, 2011 valuation. The projected employer contribution was reduced from $622 million as reported in the 2010 actuarial valuation report to $380 million as reported in the June 30, 2011 valuation. The unfunded liability and projected employer contribution as reported in the June 30, 2013 actuarial valuation are approximately $4.5 billion and $411.5 million, respectively. The GASB funded ratio improved from approximately 48% as of June 30, 2010 to approximately 57.4% as of June 30, 2011. The funded ratio as of June 30, 2013 is 56.2% for State employees and 58.1% for teachers

As reported in further detail below, a number of unions representing State employees and teachers filed a lawsuit in State court in May 2010 challenging pension reforms made by the General Assembly in 2009 and 2010. In addition, in June 2012, certain unions, active employees, retired State employees and associations of retired State and municipal employees who maintain they are current beneficiaries of ERSRI commenced five separate lawsuits in State court challenging the RIRSA.

On August 17, 2012, the defendants filed a motion to dismiss the *Rhode Island Public Employees' Retirement Coalition v. Chafee* case on the ground that Rhode Island's pension legislation does not create a contract with ERSRI participants and that general contract principles, such as implied contracts, cannot be used to determine whether a State statute creates a contract. In the remaining four cases, the defendants filed motions for more definite statements in which they argued that it is not clear from the plaintiffs' pleadings what purported contract or contract(s) plaintiffs allege have been impaired. The defendants also moved in the alternative and asked the Court to dismiss the remaining four cases if the Court concluded that the plaintiffs' purported contracts derive from Rhode Island's pension legislation. A hearing on defendants' motions was held in December 2012.

On February 14, 2014, the parties (with the exception of City of Cranston, Police Officers, International Brotherhood of Police Officers Local 301 and Cranston Fire Fighters, IAFF Local 1363) executed a Settlement Agreement in each of those five cases. Pursuant to the terms of the parties' agreement, a series of votes took place for the unions to proceed with the proposed settlement. In addition, the settlement was conditioned on enactment of the legislation by the General Assembly.

As a result of the voting and pursuant to the terms of the proposed settlement, the settlement process has ended. Under terms of the proposed settlement, if any one of the six voting groups voted to reject the proposal, the settlement process would terminate and the litigation would continue. Although more than seventy percent of the members eligible to vote did not reject the settlement, the smallest group, representing less than two percent of all eligible members, voted to reject the settlement. The Court was apprised of the vote. The mediation has ended without a settlement agreement.

Meanwhile, on April 3, 2014, fifty retired State workers and public school teachers filed an additional lawsuit objecting to the class action settlement, and seeking equitable relief, including but not limited to restoration of COLAs. Stated broadly, the plaintiffs' claims are substantively similar to those raised in the underlying litigation, *Rhode Island Public Employees Retirement Coalition v. Chafee*. Through a series of amendments to the complaint, the lawsuit was amended to add more than an additional 150 individuals as plaintiffs. The State intends to vigorously contest the lawsuit.

On May 9, 2014, after the Superior Court was informed that the mediation was unsuccessful, the Court denied each of defendants' motions for more definite statements and motions to dismiss.

The six cases remain in litigation and, after the Court entered an order directing certain of the plaintiffs to join the municipal entities with which they allege they have a collective bargaining agreement, the Cranston Firefighters, IAFF Local 1363, AFL-CIO, which had been a party to one of the original five lawsuits challenging RIRSA filed a separate lawsuit in Rhode Island Superior Court challenging RIRSA and withdrew from the original suit. In addition, the International Brotherhood of Police Officers, Local 201 (Cranston Police), which had been a party to one of the original lawsuits challenging RIRSA, filed a separate lawsuit in Rhode Island Superior Court challenging RIRSA.

Finally, on September 8, 2014, a ninth case was commenced by the Rhode Island State Troopers Association and Rhode Island State Troopers Association *ex rel.* Kevin M. Grace and Ernest E. Adams in Rhode Island Superior Court challenging RIRSA.

It is anticipated that the trial justice will set a trial date in the next few months with respect to the outstanding litigation noted above.

The State continues to face challenges in addressing the unfunded pension liability of ERSRI. This liability is the product of a number of factors, including; (i) investment performance during the last decade that was significantly lower than the actuarial assumed rate of return, (ii) certain demographic actuarial assumptions proving to be inconsistent with actual experience (such as retiree longevity), (iii) improvements in pension benefits to members prior to 1991 without corresponding funding, (iv) key decisions made prior to 2002 by the General Assembly and Retirement Board (as defined below) which had the effect of lowering contributions to ERSRI, and (v) other overly optimistic actuarial assumptions. The magnitude of the unfunded pension liability together with significant costs related to post-employment healthcare benefits pose a significant financial challenge to the State.

The amounts and percentages set forth in this section relating to ERSRI, including, for example, Actuarial Value of Assets, Actuarial Accrued Liabilities, Unfunded Actuarial Accrued Liability, Funded Ratios, and Annual Required Contribution ("ARC"), are based upon numerous demographic and economic assumptions, including investment return rates, inflation rates, salary increase rates, cost of living adjustments, postemployment mortality, active member mortality, and rates of retirement. The prospective purchasers of the Bonds are cautioned to review and carefully assess the reasonableness of the assumptions set forth in the documents that are cited as the sources for the information in this section. In addition, the prospective purchasers of the Bonds are cautioned that such sources and the underlying assumptions speak as of their dates, and are subject to change, any one of which could cause a significant change in the Unfunded Actuarial Accrued Liability.

An adverse judgment to the State rendered in the litigation could significantly increase the State's ARC. If there were to be a significant increase in the ARC, the State may be required to (i) raise additional revenue, (ii) reduce State services, (iii) modify benefits provided by each of the Plans, (iv) implement a combination of the foregoing, or (v) take any other measures as necessary.

Employees' Retirement System

The ERS was established under section two of chapter 2334 of the Rhode Island Public Laws of 1936 and placed under the management of the Retirement Board for the purpose of providing retirement allowances for employees of the State under chapters 8 to 10 of title 36 of the State of Rhode Island General Laws (the "RIGL"), and public school teachers under chapters 15 to 17 of title 16 of the RIGL.

The ERS, the largest of the Plans, is a multiple-employer, cost-sharing, public employee retirement plan covering eligible State employees as well as teachers and certain other employees employed by local school districts. The ERS provides retirement, disability and death benefit coverage. Employer contributions for State employees are made only by the State. Employer contributions for teachers are made by both local education agencies ("LEAs") and the State, except that the State does not contribute to the Teachers' Survivors' Plan. For teachers, the State contributes 40% of the employer contribution rate and LEAs contribute 60% (this split is further adjusted to account for the State's repayment of amounts taken from the trust in the early 1990s and in the case of five cities or towns that did not participate in the 1990 early retirement window for teachers). Separate contribution rates are determined for State employees and for teachers. Prior to July 1, 2012, State employees and teachers contributed 8.75% and 9.50% of their salary per year to the ERS, respectively. Under RIRSA, employee contributions to ERS for both State employees and teachers are reduced to 3.75% effective July 1, 2012.

Prior to July 1, 2012, ERS provides a two-tier benefit structure (known as "Schedule A Benefits" and "Schedule B Benefits"). Schedule A Benefits were available to members who possessed ten years or more of contributory service on or before July 1, 2005. Schedule B Benefits were provided to members who had less than ten years of contributory service on or before July 1, 2005. Effective October 1, 2009, Schedule B Benefits became applicable to future service of all active employees except those employees who were eligible to retire as of September 30, 2009. Effective July 1, 2012, all members accrue future benefits at a rate of 1% of their highest 5-year average compensation.

To fund the future benefits owed to employees in a defined-benefit structure, ERSRI invests money contributed by both the employers and the employees during the employees' employment. Generally, employees contribute a fixed percentage of their annual salary and employers contribute the additional amounts determined by an actuarial process to be necessary, when combined with the projected investment earnings on plan assets, to pay the benefits under the pension plan. Typically, the funds contributed by the employer and employee are invested in a diversified mix of equity, fixed income and real asset investments. Information can be found at http://www.treasury.ri.gov/investor-relations/state-investments.php

Under Section 36-10-2 of the RIGL, the State is required to make contributions to the Plans, as computed annually by an actuary. Gabriel, Roeder, Smith and Company is the actuary currently employed by the ERSRI (the "Actuary"). The Retirement Board's current policy regarding the actuarial determination of the State's contribution rates is that the contribution rates determined by an Actuarial Valuation become effective two years after the valuation date.

Judicial Retirement Benefits Trust (JRBT)

The JRBT, a single-employer plan, was established under Sections 8-8.2-7, 8-3-16, 8-8-10.1, and 28-30-18.1 of the RIGL and placed under the management of the Retirement Board for the purpose of providing retirement allowances to judges appointed after December 31, 1989. Prior to July 1, 2012, State judges contributed 8.75% of their salary per year to the JRBT. Effective July 1, 2012, the judges' contribution rate increased to 12% of salary per year, except Supreme Court judges who contribute 8.75% of their salary. It should be noted that the Retirement Board's management is limited to the collection of employee and employer contributions; benefit eligibility is managed by the administrative section of the judiciary.

Pensions for 59 judges and their beneficiaries appointed prior to December 31, 1989 are funded by the State on a pay-as-you-go basis and have an annualized cost of $6,315,516 as of FY 2013. Effective July 1, 2012, active judges in the pay-as-you-go system are contributing 12% of their salary. A trust was established effective July 1, 2012 to receive contributions from active judges in the pay-as-you-go system on a pre-tax basis. There are seven (7) judges participating in this trust. The State has not made employer contributions to this trust to date.

However, the State has always fully funded the pay-as-you-go system through annual appropriations and the FY 2015 Budget continues to provide for this appropriation.

State Police Retirement Benefits Trust (SPRBT)

The SPRBT, a single-employer plan, was established under Section 42-28-22.1 of the RIGL and placed under the management of the Retirement Board for the purpose of providing retirement allowances, disability and death benefit coverage to State Police officers originally hired after July 1, 1987. State police officers contribute 8.75% of their salary per year to the SPRBT. The Retirement Board's oversight includes collection of employee and employer contributions and computation of benefits. Pensions for 259 State police officers and their beneficiaries hired prior to July 31, 1987 are funded by the State on a pay-as-you-go basis and have an annualized cost of $17,679,104 as of FY 2013.

The JRBT and SPRBT are significantly smaller retirement plans than the ERS. Assets for the Plans are held in trust and are commingled with other programs and plans for investment purposes. For further discussion of the State's investment of Plan assets, see "Asset Allocation Policy" and Table R-1 below.

Other Background Information

The State also administers but does not contribute to the Municipal Employees' Retirement System (MERS), an agent multi-employer, defined-benefit pension plan. As part of the new RIRSA legislation, changes were made to the MERS similar to the changes made to the State-supported systems. Effective July 1, 2012, MERS has converted from a defined benefit plan to a combination defined benefit/defined contribution plan with plan features largely identical to the ERS plan. Public safety employees covered by MERS remain in a defined benefit plan with an increased eligible retirement date of age 55 and 25 years of service.

In addition, a separate retirement program is maintained for members of the faculty of the State University and colleges and certain administrative employees in education and higher education. This program is provided through Teachers' Insurance and Annuity Association Plan. This retirement program for education employees is a defined contribution plan to which the State contributes 9.5% of employee compensation.

The State also administers post-employment health care plans covering State employees, legislators, judges, State police officers and certain public school teachers. For more details about the State's retiree health plans, see "RETIREE HEALTH CARE BENEFITS" below.

Annual Reports and Audit Reports

The annual reports for ERSRI, issued for each fiscal year, are available at ERSRI's website. The audited financial statements for ERSRI for the fiscal year ended June 30, 2013 are available at the website of the Auditor General.

As a part of the auditing process, the Auditor General made one finding and management comments which are reflected in the Auditor General's report for the fiscal year ended June 30, 2013 entitled "Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*" (the "Report"). A copy of the 2013 Report can be found at the website of the Auditor General.

Asset Allocation Policy

The State Investment Commission (the "Commission") establishes the long-term asset allocation policy (the "Asset Allocation Policy"), selects investments and monitors investment performance of the Plans' assets. An asset/liability study is conducted periodically as requested by the Commission to identify an optimal diversified investment allocation that seeks to maximize return within an acceptable level of risk. The Asset Allocation Policy incorporates capital market return expectations, risks, and correlations associated with each asset class as well as the unique profile and objectives of the ERSRI. Table R-1 sets forth the asset allocation targets that were in place at June 30, 2014 and the actual percentage and fair value of the assets in the portfolio at June 30, 2014.

Policy targets and actual allocations will vary due to market movements and efforts to minimize trading costs, diversify assets, and allow for prudent implementation of investment decisions.

TABLE R-1
ASSET ALLOCATION TARGETS, ACTUAL PERCENTAGES, AND FAIR VALUES

Type of Investment	Policy Targets	Actual Allocation	Valuation (millions)
Global Equity	38.0%	49.3%	$4,091
Equity Hedge Funds	8.0%	8.3%	$676
Private Equity	7.0%	6.7%	$552
Core Fixed Income	15.0%	14.1%	$1,123
Absolute Return Hedge Funds	7.0%	6.4%	$521
Real Estate	8.0%	3.1%	$255
Other Real Return Assets	9.0%	8.6%	$705
Cash, Overlay and Money Market	3.0%	3.6%	$292
Infrastructure	5.0%	0.0%	$0

Source: Data provided by the General Treasurer's Office as of June 30, 2014.

The Commission oversees all investments made by the State, including those made for the ERSRI. Section 35-10-11 of the RIGL requires that all investments be made in securities as would be acquired by prudent persons of discretion and intelligence who are seeking a reasonable income and the preservation of capital.

In 1994 and 1995, the assets of the SPRBT and JRBT, respectively, were pooled with the assets of the ERS for investment purposes only. Bank of New York, the custodian bank, holds assets of the ERSRI in a pooled trust and each Plan holds units in the trust. The number of units held by each Plan is a function of each Plan's respective contributions to, or withdrawals from, the trust.

The membership and unfunded liabilities of the JRBT and SPRBT are less than 1% of the membership and unfunded liabilities of the ERS. Therefore, the discussion throughout this section will focus primarily on the ERS.

ERS Membership

Table R-2 shows the current membership and member contributions for each of the Plans as provided by the June 30, 2013 Actuarial Valuation.

TABLE R-2
MEMBERSHIP AND MEMBER CONTRIBUTIONS

	Retirees And Beneficiaries	Active	Inactive	Total By Plan	Member Contributions (As A Percentage Of Salary-*effective 7/1/12*)
ERS State Employees	11,139	11,280	2,776	25,195	3.75%
ERS Teachers	10,776	13,193	2,947	26,916	3.75%
Total By Type	21,915	24,473	5,723	52,111	

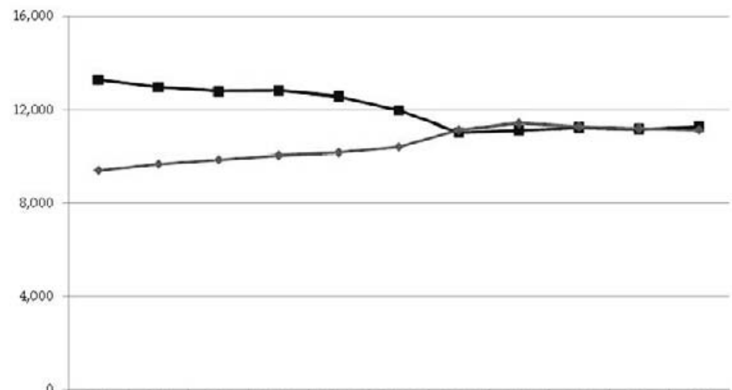
Source: ERSRI Actuarial Valuation Report as of June 30, 2013 (Executive Summary, pages 2-3).

Table R-2 demonstrates a growing concern with respect to State employees and teachers. For State employees, there are now nearly as many retirees and beneficiaries are active members. For teachers, there are still more active members than retirees and beneficiaries, but current trends indicate a likelihood that retirees and beneficiaries will outnumber active members in the near future if the active population continues to decline.

Chart R-1 below provides a graphical representation of active membership and retiree and beneficiary data for State employees and teachers from 2003 through 2013.

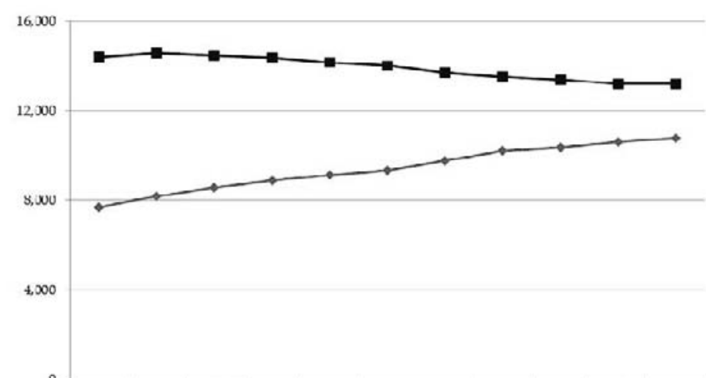
CHART R-1
MEMBERSHIP TRENDS

STATE EMPLOYEES



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Actives	13,281	12,957	12,789	12,817	12,572	11,970	11,023	11,122	11,233	11,166	11,280
Payees	9,398	9,674	9,863	10,041	10,163	10,396	11,142	11,421	11,271	11,200	11,139

TEACHERS



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Actives	14,410	14,556	14,469	14,343	14,146	13,999	13,689	13,530	13,381	13,212	13,193
Payees	7,704	8,179	8,565	8,873	9,113	9,337	9,749	10,213	10,347	10,622	10,776

Source: ERSRI Actuarial Valuations as from June 30, 2003 to June 30, 2013 executive summaries.

The trends expressed by the graphs in Chart R-1 are a concern for the State. For State employees, there are approximately the same number of retirees and beneficiaries. There has been a decrease in active members for State employees over the last ten years. While the downward trend for teachers has been more gradual, it is likely that retirees and beneficiaries will outnumber active members if the active population continues to decline. The decrease in active membership has been the result of reductions in the size of the overall workforce and demographic trends. These developments significantly increase the burden upon contributions from current employees, who are receiving lower salary increases than projected and unpaid furlough days, and from the State and LEAs, where total pension-related contributions for State employees and teachers is approximately 21.13% of salary in FY 2013.

Actuaries and the Actuarial Valuation

Each fiscal year, the Actuary produces a report called the "Actuarial Valuation" in which the Actuary provides the Actuarial Value of Assets and Actuarial Accrued Liability. To determine the Plans' Actuarial Value of Assets and Actuarial Accrued Liabilities, the Actuary employs methodologies required in part by statute as more fully discussed below under the section entitled "Actuarial Methods". The Actuary certifies that its work conforms to generally accepted actuarial principles and practices, in accordance with the Actuarial Standards of Practice issued by the Actuarial Standards Board, and complies with the requirements of State law, pertinent sections of the Internal Revenue Code, ERISA, and the Governmental Accounting Standards Board ("GASB").

The primary purpose of the Actuarial Valuation is to determine how much the State should contribute during the upcoming fiscal year in order to pay current and future benefits due under the Plans. Public employees contribute a fixed percentage of their salaries to the Plans. Annual actuarially determined changes in contribution rates generally affect only the employer contribution.

The amount that the employer is required to contribute in a particular fiscal year to satisfy the Plans' funding requirements is referred to as the Annual Required Contribution, or ARC. Under Section 36-10-2 of the RIGL, the State is required to make the ARC by annually appropriating an amount equal to a percentage of the covered compensation paid to the active membership, as computed by the Actuary and certified by the Retirement Board. In computing the amount of the ARC, the Actuary determines the value of the contributions made by the Plans' members, income on ERSRI investments, and other income of the ERSRI. The Actuary then computes the ARC by determining the amount that will be necessary to (i) pay the actuarial estimate of the Normal Cost for the next succeeding fiscal year and (ii) amortize the Unfunded Actuarial Accrued Liability or "UAAL" of the Plans. Under RIRSA, the amortization period was changed from a closed 30-year schedule with 19 years remaining to a closed 25-year schedule. After an initial period of five (5) years, future actuarial gains and losses occurring within a plan year will be amortized over individual new twenty (20) year closed periods. Section 36-10-2.1 of the RIGL requires the Actuary to utilize the entry age normal ("EAN") actuarial cost method in computing the ARC. The EAN cost method is defined in the amended Accounting Standard No. 27, now No. 68 of the GASB. The ARC is intended to be sufficient to pay the Normal Cost and to amortize the UAAL in payments representing a level percentage of member compensation over the remaining portion of the fixed amortization period. Under State law, it is intended that by the end of the fixed amortization period there will be no UAAL in the Plans and is discussed further in the section entitled "Determination of Employer's Contributions & Historical Contribution Rates" below. For more information on the Normal Cost and EAN actuarial cost method, see "Actuarial Methods" below.

The second key purpose of the Actuarial Valuation is to determine a Plan's funding progress by examining how each Plan's assets compare with its liabilities. The funding progress can be described as a Funded Ratio, or as the Funded Status. If assets in a defined-benefit plan are greater than liabilities, the Funded Ratio is over 100% and the amount of over-funding is called the surplus. If assets are less than liabilities, the Funded Ratio is under 100% and the amount of under-funding is called the unfunded liability. The Funded Ratio and Funded Status can also be presented based on the market value of assets as opposed to actuarial value of assets in a plan for any given year. The lower the Funded Ratio is, the greater the unfunded liability.

To determine the ARC and the funding progress of the Plans, the Actuary calculates both the Actuarial Accrued Liability and the Actuarial Value of Assets of the Plans. The Actuarial Accrued Liability is calculated using a variety of demographic and other data (such as employee age, salary and service credits) and actuarial assumptions (such as salary increases, interest rates, turnover, mortality and disability). Periodically, the Actuary performs an experience review to validate the actuarial assumptions used by the Plans as compared to the actual experience of the Plans. Experience studies were performed for the fiscal years ended June 30, 1997, 2000, 2003, 2006, 2010 and 2013. Upon the completion of an experience study, the Actuary delivers a report of its findings and makes certain recommendations regarding the actuarial assumptions to the Retirement Board. The Retirement Board then considers the Actuary's recommendations and determines whether to alter any of the actuarial assumptions. For further discussion on the most recent experience study conducted for the six-year period ending June 30, 2013, see "Actuarial Assumptions - Changes to Actuarial Assumptions and the Effect on UAAL and Normal Cost" below. For a discussion of the methods and assumptions used to calculate the Actuarial Accrued Liability and Actuarial Value of Assets, see the sections entitled "Actuarial Methods" and "Actuarial Assumptions" below.

Actuarial Methods

As described above, the Actuary uses the EAN actuarial cost method to determine the ARC, which is the amount necessary to (i) pay the Normal Cost and (ii) amortize the UAAL over the amortization period. Under the RIRSA legislation, the amortization period was modified to a closed twenty-five (25) year period. After an initial period of five (5) years, future actuarial gains and losses occurring within a plan year will be amortized over individual new twenty (20) year closed periods.

Normal Cost

Under the EAN actuarial cost method, the Normal Cost is the present value of the benefits that ERSRI expects to become payable in the future that are attributable to the current year's employment. For pension systems such as ERSRI with multiple tiers of benefits in which new members (members who will replace the current membership as they retire) have a different benefit structure than a portion of the current population, there are two variations of the method that are used to determine the Normal Cost. Effective with the new RIRSA legislation, ERSRI changed from the Ultimate Normal Cost Method variation of EAN to the Phase-In Method variation. Under the Phase-In–Method, the total plan Normal Cost in any given year is a blend of the normal costs computed separately for each individual that are then added together. Under this method, the Normal Cost will shift over time from the Normal Cost under the old benefit structure to the Normal Cost based on the new benefit structure as members under the old structure are replaced. Under the Ultimate Normal Cost Method previously used by ERSRI, the Normal Cost is based on the benefits applicable to new hires under the replacement benefit structure. The Phase-In Method is the recommended variation and using this variation achieves consistency between accounting/reporting and funding.

Actuarial Accrued Liability

Actuarial Accrued Liability is that portion, as determined by a particular actuarial cost method, of the actuarial present value of a Plan's benefits and expenses that is not provided for by future Normal Costs. The actuarial present value of benefits for active employees is determined by discounting the projected benefits for each member back to the valuation date using the assumed investment rate of return as the discount rate. As of the June 30, 2010 valuation, the investment rate of return assumption, also used as the discount rate, was lowered from 8.25% to 7.50% by the Retirement Board. The 7.50% investment rate of return was adopted in accordance with the recommendation of the Actuary. Pension Consulting Alliance, Inc. ("PCA"), the investment consultant to the Commission, advised the Retirement Board at the June 18, 2014 Board meeting that based on PCA's ten-year capital market assumptions the probability of achieving a 7.50% compounded return over the next 10 years was 32%. The 7.50% rate first became effective for the June 30, 2010 valuation.

For active members, projected benefits are based on the member's age, service, sex, and compensation. Projected benefits are also based on certain actuarial assumptions such as the member's death, disability, and termination of employment prior to becoming eligible for a retirement benefit. Future salary increases are also taken into consideration. For more information regarding the actuarial assumptions, see "Actuarial Assumptions" and Table R-14 below.

The actuarial present value of expected benefits for all active members is added to the actuarial present value of the expected future payments of retired participants and beneficiaries to obtain the actuarial present value of all expected benefits. The actuarial present value of future normal costs is computed separately for each individual and then added together. In conformity with GASB 25 (as defined and discussed below), liabilities for future members are not included in the calculation of the Actuarial Accrued Liability.

Actuarial Value of Assets

The Actuarial Value of Assets measures the actuarial value of the assets available in the pension plan to pay benefits. The Actuarial Value of Assets in a plan may be higher or lower than the market value of assets at any given time. In calculating the Actuarial Value of Assets, the State uses an asset smoothing method which is based on the market value of the assets with a five-year phase-in of actual investment return in excess of (or less than) expected investment income. For the FY 2013, the State used the assumed investment rate of return of 7.50% and the market value of assets (adjusted for receipts and disbursements during the year) to determine expected investment income. The actual returns, based on the market value of assets, are computed net of administrative and investment expenses.

Tables R-4 and R-5 show the calculation of the Actuarial Value of Assets for State employees and teachers as of June 30, 2013 and also show the difference between the market value of assets and the Actuarial Value of Assets.

In FY 2013, the Retirement Board contracted with an independent actuarial firm, Cheiron, to conduct an audit of the June 30, 2012 actuarial valuations and the June 30, 2010 experience studies for both the ERS and the MERS. This independent report indicated that the Board may rely on the results found in the June 30, 2012 actuarial reports prepared by the System's actuary for both ERS and MERS and that the replication of these reports were within acceptable tolerance levels.

TABLE R-4*

DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS
(STATE EMPLOYEES)

	Year Ending June 30, 2013
1. Market value of assets at beginning of year	$ 2,257,498,009
2. Net new investments	
a. Contributions	$ 180,259,918
b. Benefits paid	(327,043,768)
c. Refunds	(4,731,081)
d. Transfers	(817,442)
e. Subtotal	(152,332,373)
3. Market value of assets at end of year	$ 2,346,851,689
4. Net earnings (3-1-2) (includes misc revenues)	$ 241,686,053
5. Assumed investment return rate for fiscal year	7.50%
6. Expected return	$ 163,599,887
7. Excess return (4-6)	$ 78,086,166

8. Development of amounts to be recognized as of June 30, 2013:

Fiscal Year End	Remaining Deferrals of Excess (Shortfall) of Investment Income	Offsetting of Gains/(Losses)	Net Deferrals Remaining	Years Remaining	Recognized for this valuation	Remaining after this valuation
	(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) / (4)	(6) = (3) - (5)
2009	$ (53,079,267)	$ 53,079,267	$ 0	1	$ 0	$ 0
2010	0	0	0	2	0	0
2011	0	0	0	3	0	0
2012	(110,614,266)	25,006,899	(85,607,367)	4	(21,401,842)	(64,205,525)
2013	78,086,166	(78,086,166)	0	5	0	0
Total	$ (85,607,367)	$ 0	$ (85,607,367)		$ (21,401,842)	$ (64,205,525)

9. Actuarial value of assets as of June 30, 2013 (Item 3 - Item 8)	$ 2,411,057,214
10. Ratio of actuarial value to market value	102.7%

Source: ERSRI Actuarial Valuation Report as of June 30, 2013 (Section C - Table 8A, page 20).

*Note: There is no Table R-3.

TABLE R-5
DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS
(TEACHERS)

	Year Ending June 30, 2013
1. Market value of assets at beginning of year	$ 3,499,847,941
2. Net new investments	
a. Contributions	$ 216,143,801
b. Benefits paid	(480,608,602)
c. Refunds	(4,687,990)
d. Transfers	228,578
e. Subtotal	(268,924,213)
3. Market value of assets at end of year	$ 3,601,811,359
4. Net earnings (3-1-2) (includes misc revenues)	$ 370,887,631
5. Assumed investment return rate for fiscal year	7.50%
6. Expected return	$ 252,403,938
7. Excess return (4-6)	$ 118,483,693

8. Development of amounts to be recognized as of June 30, 2013:

Fiscal Year End	Remaining Deferrals of Excess (Shortfall) of Investment Income	Offsetting of Gains/(Losses)	Net Deferrals Remaining	Years Remaining	Recognized for this valuation	Remaining after this valuation
	(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) / (4)	(6) = (3) - (5)
2009	$ (74,880,544)	$ 74,880,544	$ 0	1	$ 0	$ 0
2010	0	0	0	2	0	0
2011	0	0	0	3	0	0
2012	(171,571,386)	43,603,149	(127,968,237)	4	(31,992,059)	(95,976,178)
2013	118,483,693	(118,483,693)	0	5	0	0
Total	$ (127,968,237)	$ 0	$ (127,968,237)		$ (31,992,059)	$ (95,976,178)

9. Actuarial value of assets as of June 30, 2013 (Item 3 - Item 8)	$ 3,697,787,537
10. Ratio of actuarial value to market value	102.7%

Source: ERSRI Actuarial Valuation Report as of June 30, 2013 (Section C - Table 8B, page 21).

Unfundded Actuarial Accrued Liability

The UAAL is the difference between the (i) Actuarial Accrued Liability and (ii) Actuarial Value of Assets. In other words, the UAAL represents the value of benefits accrued under the Plans that are not presently funded by assets in the Plans. One of the key purposes of the Actuarial Valuation is to determine a Plan's funding progress or overall health by examining how the Plan's assets compare with its liabilities. See "Actuaries and the Actuarial Valuation" above. The UAAL and the Funded Ratio are used to measure the financial health of defined-benefit plans. From year to year, if the UAAL decreases and the Funded Ratio increases, a defined-benefit plan's ability to meet future obligations is showing progress. If such progress continues, it should be able to meet its future obligations when due. Conversely, an increasing UAAL and decreasing Funded Ratio indicates that a plan is less healthy and that its assets may become insufficient to meet its future obligations when due.

Tables R-6 and R-7 below show the schedule of funding progress for ERS, SPRBT, and JRBT, as prescribed by GASB Statement No. 25 - Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans ("GASB 25"). Tables R-6 and R-7 display trend information of funded ratios using both Actuarial Value of Assets and market value of assets.

As set forth in Table R-6, as of June 30, 2013, the UAAL for State employees was $1,878,757,695 and the Actuarial Funded Ratio was 56.2%. As of June 30, 2013, the UAAL for teachers was $2,665,948,183 and the Actuarial Funded Ratio was 58.1%.

Tables R-6 and R-7 indicate that the Plans are currently underfunded. Significant increases in the ARC may be required to reduce the UAAL by the end of the fixed amortization period and there can be no assurances that the State will be able to fund its ARC in the future.

TABLE R-6
SCHEDULES OF FUNDING PROGRESS (ERSRI)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b-a)	Actuarial Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)	Market Value of Assets (d)	Funded Ratio at Market (d / b)
STATE EMPLOYEES								
6/30/2003[1]	$2,267,673,016	$3,517,352,031	$ 1,249,679,015	64.5%	$606,102,182	206.2%	$1,811,009,063	51.5%
6/30/2004	2,202,900,345	3,694,787,818	1,491,887,473	59.6	606,087,585	246.2	2,068,012,733	56.0%
6/30/2005	2,163,391,323	3,843,518,875	1,680,127,552	56.3	606,474,789	277.0	2,218,892,001	57.7%
6/30/2006	2,256,979,077	4,131,157,601	1,874,178,524	54.6	644,980,127	290.6	2,409,378,699	58.3%
6/30/2007	2,493,428,522	4,332,888,818	1,839,460,296	57.5	660,044,273	278.7	2,791,619,718	64.4%
6/30/2008[2]	2,700,368,568	4,331,504,516	1,631,135,948	62.3	587,500,000	277.6	2,575,270,868	59.5%
6/30/2009	2,646,081,020	4,482,244,291	1,836,163,271	59.0	605,872,460	303.1	1,954,618,465	43.6%
6/30/2010[3]	2,532,090,798	4,651,175,973	2,119,085,175	54.4	632,503,225	335.0	2,083,616,670	44.8%
6/30/2010	2,532,090,798	5,232,541,325	2,700,450,527	48.4	630,246,973	428.5	2,083,616,670	39.8%
6/30/2010[4]	2,532,090,798	4,234,409,675	1,702,318,877	59.8	630,246,973	270.1	2,083,616,670	49.1%
6/30/2011	2,443,690,798	4,255,362,463	1,811,671,665	57.4	633,146,197	286.1	2,337,532,264	54.9%
6/30/2012	2,421,191,542	4,297,261,311	1,876,069,769	56.3	669,477,539	280.2	2,257,498,009	52.5%
6/30/2013	2,411,057,214	4,289,814,909	1,878,757,695	56.2	667,334,976	281.5	2,346,851,689	54.7%
TEACHERS								
6/30/2003[1]	$3,427,685,554	$5,341,627,416	$1,913,941,862	64.2%	$834,642,391	229.3%	$2,729,820,882	51.1%
6/30/2004	3,340,527,073	5,634,195,435	2,293,668,362	59.3	866,532,598	264.7	3,131,927,525	55.6%
6/30/2005	3,280,977,321	5,919,156,211	2,638,178,890	55.4	898,051,154	293.8	3,364,100,154	56.8%
6/30/2006	3,394,085,565	6,444,693,666	3,050,607,101	52.7	914,985,746	333.4	3,623,938,636	56.2%
6/30/2007	3,737,981,686	6,750,125,236	3,012,143,550	55.4	959,372,837	314.0	4,185,381,396	62.0%
6/30/2008[2]	4,044,954,378	6,632,016,708	2,587,062,330	61.0	985,898,174	262.4	3,857,373,705	58.2%
6/30/2009	4,008,931,337	6,900,963,108	2,892,031,771	58.1	987,463,633	292.9	2,962,026,384	42.9%
6/30/2010[3]	3,873,118,262	7,150,987,128	3,277,868,866	54.2	992,874,301	330.1	3,196,511,775	44.7%
6/30/2010[4]	3,873,118,262	8,006,313,862	4,133,195,600	48.4	989,236,951	417.8	3,196,511,775	39.9%
6/30/2010[5]	3,873,118,262	6,266,400,444	2,393,282,182	61.8	989,236,951	241.9	3,196,511,775	51.0%
6/30/2011	3,776,407,834	6,325,941,951	2,549,534,117	59.7	1,002,656,294	254.3	3,626,646,745	57.3%
6/30/2012	3,746,299,871	6,373,081,344	2,626,781,473	58.8	971,904,991	270.3	3,499,847,941	54.9%
6/30/2013	3,697,787,537	6,363,735,720	2,665,948,183	58.1	970,541,509	274.7	3,601,811,359	56.6%

Source: For fiscal years 2003-2010, see ERSRI Actuarial Valuation Report as of June 30, 2010 (Section C – Table 3, page 15). The Market Value of Assets figure is a line item in the Executive Summary of each Actuarial Valuation as of June 30th of the fiscal year then ending. Figures in the final column are calculated by dividing the Market Value of Assets by the Actuarial Accrued Liability.

(1) Restated June 30, 2003 actuarial value after adopting Article 7, Substitute A as amended.
(2) Reflects adoption of the Rhode Island Public Laws, Chapter 23, Article 16 (Bill Number H 7397 Aaa) (2010).
(3) Actuarial value at June 30, 2010 before changes to actuarial assumptions, which are described in "Actuarial Assumptions – Changes to Actuarial Assumptions and the Effect on UAAL and Normal Cost Actuarial Assumptions" below.
(4) Restated June 30, 2010 actuarial value after change to actuarial assumptions but before the Rhode Island Retirement Security Act of 2011
(5) Restated June 30, 2010 actuarial value after reflecting the Rhode Island Retirement Security Act of 2011.

TABLE R-7
SCHEDULES OF FUNDING PROGRESS (SPRBT and JRBT)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b-a)	Actuarial Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)	Market Value of Assets (d)	Funded Ratio at Market (d / b)
SPRBT (STATE POLICE)								
6/30/2004	$24,767,014	$32,689,173	$ 7,922,160	75.8%	$11,421,880	69.4%	$24,495,990	74.9%
6/30/2005	29,616,896	37,510,992	7,894,096	79.0%	13,225,400	59.7%	30,457,966	81.2%
6/30/2006	36,314,689	42,216,142	5,901,453	86.0%	13,474,588	43.8%	38,131,989	90.3%
6/30/2007(1)	45,996,910	60,427,947	14,431,037	76.1%	15,836,354	91.1%	50,445,259	83.5%
6/30/2008	54,927,390	69,029,513	14,102,123	79.6%	16,698,764	84.5%	51,883,909	75.2%
6/30/2009	60,232,045	75,480,005	15,247,960	79.8%	17,096,202	89.2%	45,747,494	60.6%
6/30/2010(3)	65,760,284	83,099,931	17,339,647	79.1%	19,715,070	88.0%	56,464,727	67.9%
6/30/2010	65,760,284	94,300,302	28,540,018	69.7%	19,715,070	144.8%	56,464,727	59.9%
6/30/2010(4)	65,760,284	73,048,680	7,288,396	90.0%	19,715,070	37.0%	56,464,727	77.3%
6/30/2011	73,151,768	74,185,705	1,033,937	98.6%	19,711,694	5.2%	72,479,031	97.7%
6/30/2012	84,293,968	94,031,687	9,737,719	89.6%	23,669,619	41.1%	80,472,894	85.6%
6/30/2013	92,916,758	102,259,438	9,342,680	90.9	19,904,363	46.9%	92,034,792	90.0%
JRBT (JUDGES)								
6/30/2004	$16,019,053	$21,845,744	$ 5,826,691	73.3%	$ 5,637,865	103.3%	$15,844,213	72.5%
6/30/2005	19,347,372	22,250,728	2,903,356	87.0%	5,684,585	51.1%	19,892,509	89.4%
6/30/2006	23,873,009	27,504,102	3,631,093	86.8%	6,313,069	57.5%	25,055,824	91.1%
6/30/2007(1)	29,630,637	35,355,326	5,724,689	83.8%	6,451,666	88.7%	32,548,957	92.1%
6/30/2008(2)	34,670,394	38,115,602	3,445,208	91.0%	6,601,889	52.2%	32,783,006	86.0%
6/30/2009	36,839,221	41,738,040	4,898,819	88.3%	6,843,454	71.6%	27,729,085	66.4%
6/30/2010(3)	38,074,287	44,605,741	6,531,454	85.4%	7,461,120	87.5%	32,267,469	72.3%
6/30/2010	38,074,287	48,941,360	10,867,073	77.8%	7,461,120	145.6%	32,267,469	65.9%
6/30/2010(4)	38,074,287	46,641,701	8,567,414	81.6%	7,461,120	114.8%	32,267,469	69.2%
6/30/2011	40,105,919	46,594,407	6,488,488	86.1%	8,474,716	76.6%	39,404,943	84.6%
6/30/2012	43,428,646	52,085,154	8,656,508	83.4%	8,822,823	98.1%	41,202,998	79.1%
6/30/2013	47,640,773	55,101,254	7,460,481	86.5%	8,975,536	83.1%	46,989,257	85.3%

Source: For fiscal years 2004-2009, see Audited Financial Statements of ERSRI for the Fiscal Year ended June 30, 2010 (Required Supplementary Information, Schedules of Funding Progress, page 38). For fiscal year 2010, see SPRBT Actuarial Valuation Report as of June 30, 2010 (Schedule of Funding Progress (as required by GASB 25), page 11) and JRBT Actuarial Valuation Report as of June 30, 2010 (Schedule of Funding Progress (as required by GASB 25), page 11). For fiscal year 2011, see SPRBT Actuarial Valuation Report as of June 30, 2011 (Schedule of Funding Progress (as required by GASB 25), page 11) and JRBT Actuarial Valuation Report as of June 30, 2011 (Schedule of Funding Progress (as required by GASB 25), page 11). For fiscal year 2012, see SPRBT Actuarial Valuation Report as of June 30, 2012 (Schedule of Funding Progress (as required by GASB 25), page 11) and JRBT Actuarial Valuation Report as of June 30, 2012 (Schedule of Funding Progress (as required by GASB 25), page 11). For Fiscal year 2013, see JRBT Actuarial Valuation Report as of June 30, 2013 (Schedule of Funding Progress (as required by GASB 25), page 11) and SPRBT Actuarial Valuation Report as of June 30, 2013 (Schedule of Funding Progress (as required by GASB 25), page 11).

The Market Value of Assets figure is a line item in the Executive Summary of each Actuarial Valuation as of June 30th of the fiscal year then ending. Figures in the final column are calculated by dividing the Market Value of Assets by the Actuarial Accrued Liability.

(1) Restated June 30, 2007 actuarial value after 2008 amendment to the RIGL.

(2) Reflects adoption of the Rhode Island Public Laws, Chapter 23, Article 16 (Bill Number H 7397 Aaa) (2010).

(3) Actuarial value at June 30, 2010 before changes to actuarial assumptions, which are described in "Actuarial Assumptions - Changes to Actuarial Assumptions and the Effect on UAAL and Normal Cost Actuarial Assumptions" below.

(4) Restated after reflecting the Rhode Island Retirement Security Act of 2011.

Determination of Employer's Contributions & Historical Contribution Rates

Accounting requirements for the Plans are set by GASB 25. GASB 25 requires that defined-benefit plans calculate an ARC, and, if actual contributions made by the State to its Plans are less than the ARC, this must be disclosed. The ARC must be calculated in accordance with certain parameters. In particular, it must include a payment to amortize the UAAL. For purposes of amortizing its UAAL, effective with the June 30, 2013 valuation, the State uses a closed twenty-two (22) year period. After an additional period of two (2) years, future actuarial gains and losses occurring within a plan year will be amortized over individual new twenty (20) year closed periods. The Actuary considers the funding period being used in connection with the Plans to be reasonable and in accordance with GASB 25 as discussed below.

The State computes its required contribution on a level percent of payroll approach. Under this approach, GASB 25 provides that the payroll growth assumption may not anticipate future membership growth. The employer contribution rate determined by the State's Actuarial Valuation is not effective until two years after the valuation date. The determination of the contribution rate reflects this deferral. The UAAL and covered payroll are projected forward for two years, and the Actuary then determines the amortization charge required to amortize the UAAL over the remaining amortization period from that point.

Tables R-8 and R-9 below show the State's calculated contribution rates for State employees and teachers as of June 30, 2013. The payroll growth rate used in the amortization calculations is determined by the Retirement Board and does not include any allowance for membership growth in accordance with GASB 25. See "Actuarial Assumptions" below.

TABLE R-8
DEVELOPMENT OF CONTRIBUTION RATE (STATE EMPLOYEES)

		June 30, 2013 (1)	June 30, 2012 (2)
1.	Compensation		
	(a) Supplied by ERSRI	$ 649,998,544	$ 643,909,132
	(b) Adjusted for one-year's pay increase	667,334,976	669,477,539
2.	Actuarial accrued liability	4,289,814,909	4,297,261,311
3.	Actuarial value of assets	2,411,057,214	2,421,191,542
4.	Unfunded actuarial accrued liability (UAAL) (2 - 3)	1,878,757,695	1,876,069,769
5.	Remaining amortization period at valuation date	22	23
6.	Contribution effective for fiscal year ending:	June 30, 2016	June 30, 2015
7.	Payroll projected for two-year delay	718,323,539	720,629,808
8.	Amortization of UAAL	135,241,094	131,931,581
9.	Normal cost		
	(a) Total normal cost rate	9.06%	9.27%
	(b) Employee contribution rate	4.25%	4.25%
	(c) Employer normal cost rate (a - b)	4.81%	5.02%
10.	Employer contribution rate as percent of payroll		
	(a) Employer normal cost rate	4.81%	5.02%
	(b) Amortization payments (8 / 7)	18.83%	18.31%
	(c) Total (a + b)	23.64%	23.33%
11.	Estimated employer contribution amount (7 * 10(c))	$ 169,811,685	$ 168,122,934
	Projected Payroll		
	(c) FY 2015	692,360,038	694,582,947
	(d) FY 2016	718,323,539	720,629,808
	Known Amortization Contribution Rates for		
	(a) FY 2014	18.24%	16.16%
	(b) FY 2015	18.52%	18.03%
	Projected Amortization Payment		
	(a) FY 2014	$ 121,721,900	$ 108,187,570
	(b) FY 2015	128,225,079	125,233,305
	Projected UAAL		
	(a) FY 2014	$ 1,893,433,066	$ 1,904,579,294
	(b) FY 2015	1,902,464,980	1,917,549,788
	Remaining Amortization Period	20	21

Source: ERSRI Actuarial Valuation Report as of June 30, 2013 (Section C - Table 1A, page 11).
Note: State employees contribute at a 3.75% rate and correctional officers contribute at an 8.75% rate. The number shown under 9 (b) is a weighted average contribution rate.

TABLE R-9
DEVELOPMENT OF CONTRIBUTION RATE (TEACHERS)

		June 30, 2013 (1)	June 30, 2012 (2)
1.	Compensation		
	(a) Supplied by ERSRI	$ 936,234,816	$ 961,958,877
	(b) Adjusted for one-year's pay increase	970,541,509	971,904,991
2.	Actuarial accrued liability	6,363,735,720	6,373,081,344
3.	Actuarial value of assets	3,697,787,537	3,746,299,871
4.	Unfunded actuarial accrued liability (UAAL) (2 - 3)	2,665,948,183	2,626,781,473
5.	Remaining amortization period at valuation date	22	23
6.	Contribution effective for fiscal year ending:	June 30, 2016	June 30, 2015
7.	Payroll projected for two-year delay	1,044,696,946	1,046,164,607
8.	Amortization of UAAL	193,446,060	186,583,018
9.	Normal cost		
	(a) Total normal cost rate	8.37%	8.52%
	(b) Employee contribution rate	3.75%	3.75%
	(c) Employer normal cost rate (a - b)	4.62%	4.77%
10.	Employer contribution rate as percent of payroll		
	(a) Employer normal cost rate	4.62%	4.77%
	(b) Amortization payments (8 / 7)	18.52%	17.83%
	(c) Total (a + b)	23.14%	22.60%
11.	Estimated employer contribution amount (7 * 10(c))	$ 241,742,873	$ 236,433,201
	Projected Payroll		
	(c) FY 2015	1,006,936,816	1,008,351,428
	(d) FY 2016	1,044,696,946	1,046,164,607
	Known Amortization Contribution Rates for		
	(a) FY 2014	16.06%	14.52%
	(b) FY 2015	17.98%	15.91%
	Projected Amortization Payment		
	(a) FY 2014	$ 155,868,966	$ 141,120,605
	(b) FY 2015	181,047,240	160,428,712
	Projected UAAL		
	(a) FY 2014	$ 2,704,250,691	$ 2,677,441,238
	(b) FY 2015	2,719,314,809	2,711,877,050
	Remaining Amortization Period	20	21

Source: ERSRI Actuarial Valuation Report as of June 30, 2013 (Section C - Table 1B, page 12).

Pursuant to Section 36-10-2 of the RIGL, the State makes its ARC based upon the Actuarial Valuation. The method for determining the ARC, as set forth in Section 36-10-2 of the RIGL, conforms to the requirements of GASB 25. The State has made 100% of its ARC to the Plans for each of the past eighteen years. However, the Plans remain severely underfunded (as evidenced by the Plans' UAAL). See Tables R-6 and R-7. It is important to note that while the State has made 100% of its ARC payments in each of the last eighteen years, several factors over the course of those eighteen years, and in many years prior to that period, have contributed to the Plans' UAAL. Over the course of many years, key decisions were made by the General Assembly and Retirement Board that resulted in lower contributions to ERSRI. There were also certain improvements made to the Plans' benefits without providing sufficient funding to pay for such improvements. Certain demographic actuarial assumptions, such as retiree longevity, and other actuarial assumptions, including an assumed investment rate of return, have also played significant roles in contributing to the Plans' UAAL. The principal factors contributing to the growth of the UAAL are (i) investment experience, (ii) interest owed on the UAAL, (iii) liability experience, (iv) changes to actuarial assumptions, and (v) legislative changes prior to 1991.

TABLE R-10
SCHEDULES OF CONTRIBUTIONS FROM THE EMPLOYERS AND OTHER CONTRIBUTING ENTITY

ERS

Fiscal Year Ended June 30		State Employees		Teachers (State)		Teachers (LEAs)	
		Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2002		$31,801,645	100%	$30,763,337	100%	$44,391,050	100%
2003		45,141,250	100	38,242,690	100	55,504,739	100
2004		55,699,588	100	45,039,279	100	70,666,221	100
2005		66,087,984	100	48,834,755	100	73,006,173	100
2006		91,254,063	100	54,537,733	100	83,794,372	100
2007		118,300,522	100	70,531,472	100	109,415,227	100
2008		131,560,248	100	82,455,777	100	122,906,860	100
2009	*	126,297,706	100	73,600,069	100	115,234,100	100
2010	**	123,547,738	100	68,542,956	100	109,566,352	100
2011		126,560,644	100	70,286,262	100	113,422,000	100
2012		153,448,309	100	80,385,930	100	126,395,672	100
2013	***	136,615,349	100	70,703,201	100	108,444,319	100

Source: For fiscal years 2005-2013, see Audited Financial Statements of ERSRI for the Fiscal Year ended June 30, 2013 (Required Supplementary Information, Schedules of Contributions from the Employers and Other Contributing Entity, page 41). For fiscal years 2002-2004, see Annual Financial Report for the fiscal year ending June 30, 2006 (Required Supplementary Information, Schedules of Contributions from the Employers and Other Contributing Entity, page 35).

* Reflects adoption of H5983Aaa, Article 7, Substitute A as amended, enacted on June 30, 2009
** Reflects adoption of Article 16 of Chapter 23 of the 2010 Public Laws enacted on June 12, 2010
*** Amounts shown for 2013 are ARCs. For fiscal year 2013, the General Laws required certain supplemental contributions. Section 36-10-2(a) 1 and 2 which require, in addition to the contributions provided for by the funding policy, for each fiscal year in which the actuarially determined State contribution rate for State employees and teachers is lower than that for the prior fiscal year, the Governor shall include an appropriation to that system equivalent to twenty percent (20%) of the rate reduction to be applied to the actuarial accrued liability. The amounts to be appropriated shall be included in the annual appropriation bill and shall be paid by the General Treasurer into the retirement system. The retirement system's actuary shall not adjust the computation of the ARC for the year in which supplemental contributions are received; such contributions once made may be treated as reducing the actuarial liability remaining for amortization in the next following actuarial valuation to be performed. For fiscal year 2013, $2,312,058 was contributed to the retirement system in accordance with this provision of the General Laws.

The General Laws also require that for any fiscal year in which the State's actual general revenues exceed estimated amounts, the difference shall be paid to the ERS plan upon completion and release of the State's audited financial statements. The amount paid to the Retirement System in fiscal year 2013 related to the State's fiscal year 2012 actual general revenues exceeding budgeted amounts by $12,943,629.

Beginning in fiscal year 2013, the Retirement Security Act provides for additional contributions to the retirement system based on 5.5% of the value of contracts where the services performed by the contractor were previously performed by State employees. A supplemental contribution of $434,677 was paid to the retirement system pursuant to Section 42-149-3.1 of the General Laws.

TABLE R-11
HISTORY OF EMPLOYER CONTRIBUTION RATES

Valuation Date as of June 30,	Fiscal Year Ending June 30,	Employer Contribution Rate
(1)	(2)	(3)
State Employees		
1999	2002	5.59%
2000	2003	7.68%
2001	2004	9.60%
2002	2005	11.51%
2003	2006	14.84%
2004	2007	18.40%
2005	2008	20.77%
2006	2009	21.64% [1]
2007	2010	20.78% [2]
2008	2011	20.78%
2009	2012	22.98%
2010	2013	21.18% [3]
2011	2014	23.05%
2012	2015	23.33%
2013	2016	23.64%
Teachers		
1999	2002	9.95%
2000	2003	11.97%
2001	2004	13.72%
2002	2005	14.84%
2003	2006	16.47%
2004	2007	19.64%
2005	2008	22.01%
2006	2009	20.07% [1]
2007	2010	19.01% [2]
2008	2011	19.01%
2009	2012	22.32%
2010	2013	19.29% [3]
2011	2014	20.68%
2012	2015	22.60%
2013	2016	23.14%

Source: ERSRI Actuarial Valuation Report as of June 30, 2013 (Section C - Table 11B, page 25).
(1) Reflects restatement after adoption of Rhode Island Public Laws, Chapter 68, Article 7 (Bill Number H 5983 Aaa) (2009).
(2) Reflects restatement after adoption of Rhode Island Public Laws, Chapter 23, Article 16 (Bill Number H 7397 Aaa) (2010).
(3) Reflects restatement after adoption of the Rhode Island Retirement Security Act of 2011

The following table provides an analysis of the change in the employer ARC from the June 30, 2012 Actuarial Valuation to the June 30, 2013 Actuarial Valuation:

TABLE R-12
ANALYSIS OF CHANGE IN EMPLOYER COST

Basis	State Employees	Teachers
(1)	(2)	(3)
1. Employer contribution rates from prior valuation	23.33%	22.60%
2. Impact of changes, gains and losses		
a. Non-salary liability experience (gain)/loss	-0.38%	-0.15%
b. Salary (gain)/loss	-0.54%	-0.47%
c. Total payroll growth (gain)/loss	0.83%	0.77%
d. Investment experience (gain)/loss	0.40%	0.39%
e. Changes in assumptions/methods	0.00%	0.00%
f. Changes in plan provisions	0.00%	0.00%
g. Total	0.31%	0.54%
3. Employer contribution rates from current valuation	23.64%	23.14%

Source: ERSRI Actuarial Valuation Report as of June 30, 2013 (Section C - Table 11A, page 24).

(1) The employer contribution rate is a percentage of payroll.

TABLE R-13
PROSPECTIVE FUNDING STATUS (ERS)[1]

Actuarial Valuation Date	Actuarial Value of Assets (in Millions $) (a)	Actuarial Accrued Liability (AAL) (in Millions $) (b)	Unfunded AAL (UAAL) (in Millions $) (b-a)	Actuarial Funded Ratio (a / b)	Annual Required Contribution (ARC) (in Millions $)	Market Value of Assets (in Millions $) (d)	Funded Ratio at Market Value (d / b)
STATE EMPLOYEES							
6/30/2013	$2,411.1	$4,289.8	$1,878.7	56.2%	$153.8	$2,346.9	54.7%
6/30/2014	2,403.8	4,323.3	1,919.5	55.6	161.5	2,361.0	54.6
6/30/2015	2,401.8	4,354.5	1,952.7	55.2	169.8	2,380.4	54.7
6/30/2016	2,408.1	4,385.6	1,977.5	54.9	175.0	2,408.1	54.9
6/30/2017	2,441.6	4,416.9	1,975.3	55.3	179.9	2,441.6	55.3
6/30/2018	2,481.3	4,448.9	1,967.6	55.8	185.5	2,481.3	55.8
6/30/2019	2,525.1	4,478.6	1,953.5	56.4	190.7	2,525.1	56.4
6/30/2020	2,574.8	4,507.4	1,932.6	57.1	197.4	2,574.8	57.1
6/30/2021	2,632.5	4,535.5	1,903.0	58.0	204.1	2,632.5	58.0
6/30/2022	2,698.6	4,562.6	1,864.0	59.1	210.5	2,698.6	59.1
TEACHERS							
6/30/2013	$3,697.8	$6,363.7	$2,665.9	58.1%	$200.7	$3,601.8	56.6%
6/30/2014	3,669.5	6,411.7	2,742.2	57.2	227.6	3,605.6	56.2
6/30/2015	3,670.9	6,464.3	2,793.4	56.8	241.7	3,638.9	56.3
6/30/2016	3,690.5	6,521.2	2,830.7	56.6	250.4	3,690.5	56.6
6/30/2017	3,755.5	6,582.6	2,827.1	57.1	258.3	3,755.5	57.1
6/30/2018	3,834.2	6,648.9	2,814.7	57.7	266.7	3,834.2	57.7
6/30/2019	3,922.8	6,715.3	2,792.5	58.4	274.3	3,922.8	58.4
6/30/2020	4,024.0	6,784.2	2,760.2	59.3	283.1	4,023.0	59.3
6/30/2021	4,139.5	6,855.4	2,715.9	60.4	292.0	4,139.5	60.4
6/30/2022	4,270.9	6,929.6	2,658.7	61.6	300.9	4,270.9	61.6

Source: The figures in Table R-13 were calculated for ERSRI by the Actuary.

(1) The ERS is projected to be 100% funded as of June 30, 2036. These figures assume the accuracy of all actuarial calculations and that the State continues to contribute 100% of the ARC

Actuarial Assumptions

General

The Actuarial Valuations use actuarial assumptions to calculate the Actuarial Accrued Liability and the Actuarial Value of Assets. Although the majority of the assumptions are the same across all of ERSRI, the Retirement Board separately determines certain assumptions for State employees and teachers unless a specific assumption is required by the RIGL. The actuarial cost method and the amortization period are set by the RIGL. The remaining assumptions are determined by the Retirement Board with the advice of the Actuary. While experience studies are performed regularly, no assurance can be given that any of the assumptions underlying the Actuarial Valuations will reflect the actual results experienced by the Plans, or that the assumptions will not be changed from time to time. Actual results can and almost certainly will differ as the actual experience deviates from the assumptions. Even seemingly minor deviations from the assumptions used to determine the value of a Plan's assets and liabilities can materially change the liabilities and contribution rates. Assumptions used can significantly impact the Actuarial Accrued Liability and the Actuarial Value of Assets reported. Certain of the assumptions used by ERSRI are summarized in Table R-14 below. For additional information on these assumptions, please refer to the Actuarial Valuations of the Plans, which are public documents and are available at ERSRI's website.

TABLE R-14
CERTAIN ACTUARIAL ASSUMPTIONS AND METHODS USED BY ERSRI

Item	State Employees	Teachers
Valuation date	June 30, 2013	June 30, 2013
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percentage, closed	Level percentage, closed
Remaining amortization period	22 years	22 years
Asset valuation method	5-Year Smoothed Market	5-Year Smoothed Market
Actuarial assumptions:		
Investment rate of return*	7.50%	7.50%
Projected salary increase*	4.00% to 7.00%	4.00% to 12.75%
*Includes inflation at:	2.75%	2.75%
Cost of living adjustments (COLAs)(1):	2.00%	2.00%

Source: ERSRI Actuarial Valuation Report as of June 30, 2013 (Notes to Required Supplementary Information (as required by GASB 25), Section C - Table 5, page 17).

(1) COLAs are currently suspended for all State employees, teachers, BHDDH nurses, correctional officers, judges, and State police until the aggregate funding level of their plans exceeds 80%. It is assumed that the COLAs will be suspended for 14 years due to the current funding level of the plans; however, an interim COLA will be granted in five-year intervals while the COLA is suspended.

Assumed Investment Rate of Return

The Actuarial Valuations of the Plans assume an investment rate of return on the assets in the Plans. For the FY 2013, the Actuary used an assumed investment rate of return of 7.50% in connection with the valuation of the Plans' assets. (As of June 30, 2010, the assumed investment rate of return assumption, also used as the discount rate, was lowered from 8.25% to 7.50% by the Retirement Board.) The assumed investment rate of return is the same number used to discount the Plans' future liabilities (benefits owed) to a present value. Due to the volatility of the United States' and international financial markets, the actual rate of return earned by the Plans on their assets may be higher or lower than the assumed rate. Changes in the Plans' assets as a result of market performance will lead to an increase or decrease in the UAAL and the Funded Ratio. As a result of the State's adoption of the five-year asset smoothing method, however, only a portion of these increases or decreases will be recognized in the current year, with the remaining gain or loss spread over the remaining four years. See "Actuarial Methods - Actuarial Value of Assets" above.

Changes to Actuarial Assumptions and the Effect on UAAL and Normal Cost

The ERSRI assumptions were last changed as the result of an experience study conducted by the Actuary for the six-year period ending June 30, 2013 and approved by the Retirement Board on June 18, 2014 (the "Experience Study"). These approved assumption changes will be reflected in the June 30, 2014 valuation, which will be considered at the December 2014 Retirement Board meeting. The purpose of the Experience Study, as is done periodically, was to determine the adequacy of the actuarial assumptions used in determining liabilities and contribution rates for the Plans. These actuarial assumptions include retirement rates, mortality rates, turnover rates, disability rates, investment rate of return, salary increase rates, and inflation rate.

Based upon the results of the most recent Experience Study, the Retirement Board approved revisions to the actuarial assumptions used in determining liabilities and contribution rates for the Plans, including:

- Reducing the productivity component of the salary scale assumption by 0.50%, from 1.25% to 0.75%, above inflation for State Employees, Teachers, General MERS, and for Judges and by 0.25%, from 1.50% to 1.25%, above inflation for MERS Police and Fire and State Police.
- Small adjustments were made in the service-based promotional/longevity component of the salary scale for all employee groups.
- A reduction in the payroll growth rate assumption from 3.75% to 3.25% for State Employees and General MERS, from 3.75% to 3.00% for Teachers; from 3.75% to 3.50% for MERS Police and Fire, from 4.00% to 3.50% for Judges; and from 4.00% to 3.75% for State Police. Changing the payroll growth assumption has no impact on the liabilities, but does assume there is a lower growth in the future payroll to amortize the UAAL, which results in an increase in the current contribution requirements.
- For State Employees, Teachers, and General MERS, a slight increase the rates of termination. For MERS Police and Fire, a decrease in the rates of termination.
- Slight modifications to the rates of disability for most groups based on the experience of the individual group.

In light of the Retirement Board's decision to decrease the Plans' assumed investment rate of return to 7.50% in the June 30, 2010 experience study, it is important to understand the long-term implications of this lower rate of return. The investment rate of return assumption is one of the principal assumptions in the Actuarial Valuation and is among the various assumptions used to determine the State's ARC. Any change to the assumed investment rate of return can produce significant changes to the Normal Cost and UAAL for the Plans. The significance of changing the assumed investment rate of return is demonstrated in the following two bullets dealing with UAAL and Normal Cost, respectively. While the data in these bullets are derived from the June 30, 2009 valuation, these bullets are illustrative of the impact of different assumed investment rate of returns.

- The UAAL based on calculations using data derived from the June 30, 2009 Actuarial Valuation and using assumed investment rates of return of 8.25% (the then current rate), 6.25% (the FASB Rate), and 4.40% (ERSRI's 10-year historical return rate through February 28, 2011) would be $4.7 billion, $9.0 billion, and $11.4 billion, respectively.

- The Normal Cost based on calculations using data derived from the June 30, 2009 Actuarial Valuation and assumed investment rates of return of 8.25% (the then current rate), 6.25% (the FASB Rate), and 4.40% (ERSRI's 10-year historical return rate through February 28, 2011) would be (i) 10.0% (for teachers) and 9.3% (for state employees), (ii) 14.8% (for teachers) and 14.4% (for State employees), and (iii) 25.6% (for teachers) and 22.2% (for State employees), respectively.

As demonstrated by the foregoing bullets, the UAAL and Normal Cost increase as the assumed investment rate of return is lowered. Reducing the assumed investment rate of return to a lower, but more realistic, level will increase the State's ARC, but result in a greater likelihood that the Plans' UAAL will be sufficiently reduced over the course of the fixed amortization period. It is critical to the fiscal health of the Plans to have a realistic assumed investment rate of return and to choose such rate with some precision. If the assumed investment rate of return is too optimistic, then the State's ARC will be lower and insufficient to reduce the Plans' UAAL by the end of the amortization period.

History of Investment Return Rates

A history of the market investment return rates and the actuarial investment return rates, as well as average return rates for the most recent five-year and ten-year periods, for assets of each of the Plans are set forth in Table R-15.

TABLE R-15
HISTORY OF INVESTMENT RETURN RATES

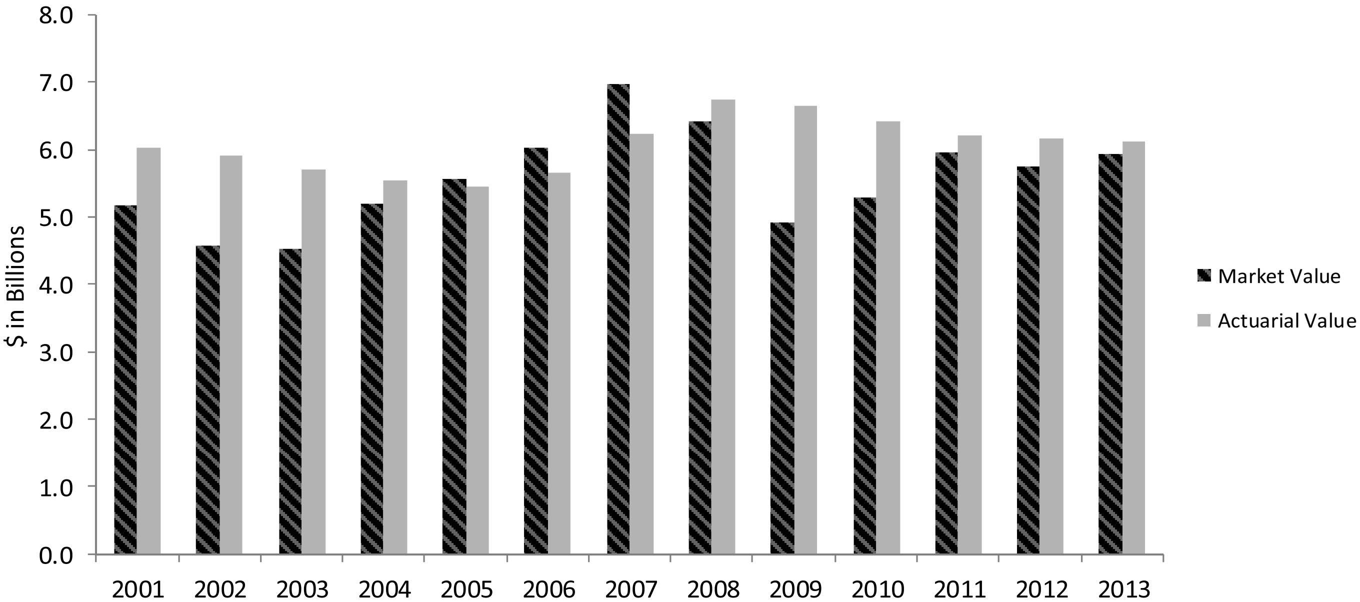
Year Ending June 30 of	Market	Actuarial (1)
1995	17.0%	10.2%
1996	13.7%	13.7%
1997	19.1%	19.1%
1998	16.1%	16.5%
1999	10.1%	14.7%
2000	9.1%	8.8%
2001	-11.0%	4.9%
2002	-8.4%	0.9%
2003	2.6%	-0.8%
2004	18.7%	0.4%
2005	11.4%	1.8%
2006	11.6%	7.4%
2007	18.2%	13.0%
2008	-5.8%	10.7%
2009	-20.1%	2.4%
2010	14.0%	0.8%
2011	19.5%	2.1%
2012	1.4%	3.9%
2013	11.0%	6.1%
Average Returns:		
Last 5 Years	4.1%	3.0%
Last 10 Years	7.2%	4.8%
Since 1995	6.6%	6.9%

Source: ERSRI Actuarial Valuation Report as of June 30, 2013 (page 23 Section C - Table 10).
(1) The investment return rates in this column were calculated using the State's five-year asset smoothing method.

Most public pension funds do not immediately recognize large market gains or losses when valuing their assets. Instead, they recognize gains and losses over a period of years. For the State's Plans, the impact of the smoothing methodology is shown in the column entitled "Actuarial Return" in Table R-15 above. One can see that using the five-year asset smoothing method results in less drastic changes in the returns which in turn cause the State's ARC to be less volatile. The State uses an asset smoothing method which is based on the market value of the assets with a five-year phase-in of actual investment return in excess of (or less than) expected investment income. See "Actuarial Methods - Actuarial Value of Assets" and Table R-14. Because the valuation of assets is part of the calculation of the State's ARC, asset smoothing protects the State from sudden demands for large cash infusions in the event of losses in the financial markets. While asset smoothing allows for more consistent and predictable budgeting, it can also distort the gravity of the Plans' UAAL.

Chart R-2 shows the fluctuation between ERSRI's Actuarial Value of Assets using asset smoothing and market value of the assets from 2001 through 2013.

CHART R-2
MARKET VALUE OF ASSETS VS. ACTUARIAL VALUE OF ASSETS



Source: Data From Actuarial Valuations as of June 30, 2001 through 2013.

Chart R-2 demonstrates how asset smoothing provides a more consistent value of assets, which in turn provides for a smoother and more predictable ARC for the State. However, there can be a wide spread between the market value of assets and the actuarial value of assets at any specific point in time. For example, as of June 30, 2013, the Actuarial Value of Assets was approximately $6.11 billion, but the market value of the assets was approximately $5.95 billion (a difference of $0.16 billion). If the market value of assets is consistently less than the Actuarial Value of Assets, the distortion of the UAAL caused by asset smoothing can become problematic and cause the UAAL to grow. It is important to note that eventually the two values will converge with either the market value increasing to the actuarial value or the actuarial value decreasing to the market value if the market value does not recover.

As can be seen in Table R-15 and Chart R-2, volatile market conditions resulted in significant adverse investment returns on the Plans' assets in FY 2008 and FY 2009. While FY 2010 through FY 2013 produced gains in the market value of assets, the market remained unstable. No assurances can be given that adverse market conditions will not return in future fiscal years, leading to a continued increase in the UAAL. In the event that such adverse market conditions return in future fiscal years, lower than expected investment performance could result in a significant reduction in the Funded Ratio and a corresponding increase in the UAAL and the State's ARC.

Other Recent Pension-Related Events

Pre-RIRSA Pension Reform

In the last several years, the State has modified the pension benefit structure and reduced benefits in order to increase the stability and security of the Plans. In addition to the RIRSA pension reform described above, the reforms enacted in 2005, 2009 and 2010 as described below are reflected in the June 30, 2012 Actuarial Valuation.

The 2005 reform legislation provided for major changes in the retirement age, accrual of benefits, and COLAs for non-vested (less than ten years of service) State employees and teachers effective July 1, 2005.

The 2009 pension reform legislation made additional changes for all active State employees and teachers not eligible to retire as of September 30, 2009 including (i) extending the retirement age to 62 (including proportional adjustments), (ii) extending the lower benefit accrual method implemented in the 2005 reform to all active employees, (iii) utilizing final average compensation for the five highest consecutive years versus three under prior law for pension calculation purposes, (iv) reducing COLAs, and (v) introducing a new tier of disability benefits.

The 2010 pension reform legislation became effective June 12, 2010 and modified the COLA for all active employees not yet eligible to retire. Such modifications provided that (i) the COLA begins at a member's third anniversary of retirement or age 65, whichever is later, and (ii) the COLA applies to the first $35,000 of retirement income indexed annually.

RIRSA and other pension reforms summarized above have contributed to a reduction in the ARC and UAAL, however, these pension reforms are already fully reflected in the June 30, 2013 valuation and therefore are not expected to materially reduce either the ARC or the UAAL going forward.

Pension Litigation

Challenges to the 2009 and 2010 Pension Reform

A number of unions representing State employees and teachers filed a lawsuit in State court in May 2010 initially challenging and attempting to block the 2009 pension reforms enacted by the General Assembly and later amended the suit to include 2010 reforms. The 2005 reforms were not challenged. The State intends to vigorously contest the lawsuit. The defendant State officials filed a Motion for Summary Judgment on the claims set forth in the Amended Complaint, which was heard on July 18, 2011. Prior to the hearing, the parties stipulated that the only issue that would be presented to the Court during the hearing on the Motion would concern whether the statute created a contract between the state and its participants. The parties agreed that in the event that the Court concluded that the statute did create a contract, the remaining issues of whether the contract had been impaired and whether any such impairment was legally justified would be briefed and argued at a later date. On September 13, 2011, the Superior Court issued its decision in which it ruled that pension plan participants have a contractual right based on an implied-in-fact contract theory. Consistent with the parties' stipulation, the Court did not decide whether that contract had been impaired or whether any such impairment was legally justified. The defendant State officials believe the Superior Court's ruling was legally wrong. On October 3, 2011, Defendants filed a Petition for Issuance of a Writ of Certiorari and Supporting Memorandum of Law with the Supreme Court. Defendants also filed a motion through which they requested that the Supreme Court expedite its review of the Petition for Issuance of a Writ of Certiorari. On November 22, 2011, the Supreme Court denied the petition for Writ of Certiorari. On January 2, 2013, the Court ordered the parties to participate in mediation. As noted below, mediation has ended without a settlement agreement. It is anticipated that in the next few months the trial justice will set a trial date.

The total savings from the 2009 and 2010 pension reforms is approximately $75 million annually (approximately 5% of employee eligible compensation), including State savings of $46.3 million annually and local government savings of $28.4 million annually. The pending lawsuit could impact some or all of the annual savings related to the 2009 and 2010 pension reforms, resulting in future increases in the Plans' unfunded liabilities and the State's ARC. If there were an unfavorable outcome for the State in connection with this pending litigation, the

State's ARC could increase significantly. This could have an adverse effect on the Plans if sufficient funding for such increased costs were not available.

Challenges to the 2011 Pension Reform

In June 2012, certain unions, active and retired State employees and associations of retired State and municipal employees who maintain they are current beneficiaries of ERSRI commenced five separate lawsuits in State court challenging the Rhode Island Retirement Security Act of 2011 ("RIRSA") enacted by the General Assembly. The five cases are: *Rhode Island Public Employees' Retirement Coalition v. Chafee,* C.A. No. 12-3166; *Bristol/Warren Regional School Employees, Local 581, AFSCME, Council 94 v. Chafee*, C.A. No. 12-3167; *Rhode Island Council 94, AFSCME, AFL-CIO, et al v. Chafee*, C.A. No. 12-3168; *City of Cranston Police Officers, International Brotherhood of Police Officers, Local 301, AFL, CIO v. Chafee*, C.A. No. 12-3169 and *Woonsocket Fire Fighters, IAFF Local 732, AFL-CIO v. Chafee*, C.A. No. 12-3579. In each of the five cases, the plaintiffs alleged that RIRSA violates the Contract Clause, the Takings Clause and the Due Process Clause of the Rhode Island Constitution. In addition, in the *Rhode Island Public Employees' Retirement Coalition v. Chafee,* C.A. No. 12-3166 case, the plaintiffs also allege counts for promissory estoppel and breach of contract. The State intends to vigorously contest the lawsuits.

On August 17, 2012, the defendants filed a motion to dismiss the *Rhode Island Public Employees' Retirement Coalition v. Chafee* case on the ground that Rhode Island's pension legislation does not create a contract with ERSRI participants and that general contract principles, such as implied contracts, cannot be used to determine whether a State statute creates a contract. In the remaining four cases, the defendants filed motions for more definite statements in which they argued that it is not clear from the plaintiffs' pleadings what purported contract or contract(s) plaintiffs allege have been impaired. The defendants also moved in the alternative and asked the Court to dismiss the remaining four cases if the Court concluded that the plaintiffs' purported contracts derive from Rhode Island's pension legislation. A hearing on defendants' motions was held in December 2012.

On February 14, 2014, the parties (with the exception of City of Cranston, Police Officers, International Brotherhood of Police Officers Local 301 and Cranston Fire Fighters, IAFF Local 1363) executed a Settlement Agreement in each of those five cases. Pursuant to the terms of the parties' agreement, a series of votes took place for the unions to proceed with the proposed settlement. In addition, the settlement was conditioned on enactment of the legislation by the General Assembly.

As a result of the voting and pursuant to the terms of the proposed settlement, the settlement process has ended. Under terms of the proposed settlement, if any one of the six voting groups voted to reject the proposal, the settlement process would terminate and the litigation would continue. Although more than seventy percent of the members eligible to vote did not reject the settlement, the smallest group, representing less than two percent of all eligible members, voted to reject the settlement. The Court was apprised of the vote. The mediation has ended without a settlement agreement.

Meanwhile, on April 3, 2014, fifty retired State workers and public school teachers filed an additional lawsuit objecting to the class action settlement, and seeking equitable relief, including but not limited to restoration of COLAs stated broadly the plaintiffs' claims are substantively similar to those raised in the underlying litigation, *Rhode Island Public Employees Retirement Coalition v. Chafee*. Through a series of amendments to the complaint, the lawsuit was amended to add more than an additional 150 individuals as plaintiffs. The State intends to vigorously contest the lawsuit.

On May 9, 2014, after the Superior Court was informed that the mediation was unsuccessful, the Court denied each of defendants' motions for more definite statements and motions to dismiss.

The six cases remain in litigation and, after the Court entered an order directing certain of the plaintiffs to join the municipal entities with which they allege they have a collective bargaining agreement, the Cranston Firefighters, IAFF Local 1363, AFL-CIO, which had been a party to one of the original five lawsuits challenging RIRSA filed a separate lawsuit in Rhode Island Superior Court challenging RIRSA and withdrew from the original suit. In addition, the International Brotherhood of Police Officers, Local 201 (Cranston Police), which had been a party to one of the original lawsuits challenging RIRSA, filed a separate lawsuit in Rhode Island Superior Court challenging RIRSA.

Finally, on September 8, 2014, a ninth case was commenced by the Rhode Island State Troopers Association and Rhode Island State Troopers Association *ex rel*. Kevin M. Grace and Ernest E. Adams in Rhode Island Superior Court challenging RIRSA.

It is anticipated that the trial justice will set a trial date in the next few months with respect to the outstanding litigation noted above.

Loss to the State and ERSRI as a whole cannot be estimated if such a legal challenge to the 2011 pension reform was successful. Future contribution rates for the Plans and the unfunded actuarial accrued liability would be negatively impacted. It should be noted, however, that as a result of the RIRSA legislation, the unfunded liability of $6.8 billion for State employees and teachers in the June 30, 2011 valuation for ERSRI was reduced to $4.4 billion as reported in the June 30, 2011 valuation. Also, the projected employer contribution was reduced from $622 million as reported in the 2010 actual valuation report to $380 million as reported in the June 30, 2011 valuation. The unfunded liability and projected employer contribution as reported in the June 30, 2013 actuarial valuation are approximately $4.5 billion and $411.5 million, respectively.

An adverse judgment to the State rendered in the pension litigation could significantly increase both the unfunded liability under the ERSRI and the State's ARC based upon the impact that the RIRSA has had in reducing the unfunded liability and ARC as reflected above. If there were to be significant increases in the ARC, the State may be required to (i) raise additional revenue, (ii) reduce State services, (iii) modify benefits provided by each of the Plans, (iv) implement a combination of the foregoing, or (v) take any other measures as necessary.

New GASB Pension Accounting and Financial Reporting Standards

On June 25, 2012, GASB adopted two new standards to improve the accounting and financial reporting of public employee pensions by state and local governments that replace GASB Statements 25, 27, and 50, which are the accounting and financial reporting standards for pensions on the basis of which much of the information included in this section of the Information Statement is derived.

The State's financial reporting on its pension system will be affected by the changes addressed in the two new standards (GASB Statements 67 and 68) which include, among other changes, (i) the separation of accounting and financial reporting requirements from funding approaches, (ii) a requirement to report "net pension liability" (defined as total pension liability minus a pension plan's net assets) on the State's balance sheet, (iii) the modification of a pension plan's discount rate into a blended rate reflecting both the assumed investment rate of return (for projected benefits to be paid from current and expected future plan net assets) and a rate of return based on a high-quality municipal bond index (for projected benefit payments that are expected to be made after plan net assets are projected to be fully depleted), (iv) the immediate recognition of differences between expected and actual changes in economic and demographic factors, and (v) the deferred recognition over a five-year, closed period of differences between actual and projected earnings on plan investments. The provisions of GASB Statement 67 are effective for plan financial statements for periods beginning after June 15, 2013 (FY 2014). The provisions of GASB Statement 68 are effective for employer financial statements for fiscal years beginning after June 15, 2014 (FY 2015). The State and the ERSRI have begun implementing these new standards.

GLOSSARY

Actuarial Accrued Liability:	That portion, as determined by a particular actuarial cost method, of the actuarial present value of a Plan's benefits and expenses that is not provided for by future Normal Costs.
Actuarial Valuation:	The annual actuarial determination delivered by the Actuary comparing the Plans' assets and liabilities.
Actuarial Value of Assets:	The value of cash, investments, and other property belonging to the Plans, as used by the Actuary for purposes of the Actuarial Valuation. The Actuarial Value of Assets (in contrast to the current market value of assets) attempts to smooth annual investment return performance over multiple years to reduce annual return volatility.
Actuary:	Gabriel, Roeder, Smith & Company
Alternative 1:	The Phase-In Method under which the total plan Normal Cost in any given year is a blend of the normal costs computed separately for each individual and then added together. The Normal Cost will shift over time from the Normal Cost under the old benefit structure to the Normal Cost based on the new benefit structure as members under the old structure are replaced.
Alternative 2:	The Ultimate Normal Cost Method under which the Normal Cost is based on the benefits applicable to new hires under the replacement benefit structure. In short, the method assumes, for purposes of determining the Normal Cost of the Plan, the more limited benefits resulting from the pension reforms are applicable to all current employees. Under this method, any additional benefits above the levels provided to current new employees are recognized in the UAAL and amortized over the remaining amortization period.
ARC:	Actuarial Required Contribution. The aggregate in a particular year of (i) the Normal Cost and (ii) payments made to amortize the UAAL.
Asset Allocation Policy:	The long-term asset allocation policy of ERSRI's investments as established by the Commission.
COLA:	Cost of Living Adjustment
Commission:	The State Investment Commission
EAN:	The Entry Age Normal actuarial cost method, which is designed to fund a Plan member's total benefits over the course the member's career. This method is designed to produce stable ARCs that increase at the same rate as the State's payroll (i.e., a level percentage of payroll).
ERS:	Employees' Retirement System, the largest of the three Plans covering eligible State employees as well as teachers and certain other employees employed by local school districts.
ERSRI:	The Employees' Retirement System of Rhode Island, the common investment and administrative agent of the Plans, administered by the Retirement Board.

Experience Study:	The most recent actuarial experience study conducted by the Actuary for the six-year period ending June 30, 2013.
FASB Rate:	The assumed investment rate of return as dictated by the Financial Accounting Standards Board, which sets the accounting rules for private pension plans and requires such plans to use an assumed investment rate of return consistent with the yields on high quality corporate bonds rated AA or better.
Funded Ratio:	The ratio of (A) the Actuarial Value of Assets (or market value of assets) to (B) Actuarial Accrued Liabilities. Such valuation can be on an actuarial or a market value basis. If a plan has a funded ratio of less than 100%, then the plan has a UAAL.
Funded Status:	A value determined by subtracting (A) the Actuarial Accrued Liabilities from (B) Actuarial or Market Value of Assets. Such valuation can be on an actuarial or a market value basis.
GASB:	Governmental Accounting Standards Board
GASB 25:	Governmental Accounting Standards Board Statement No. 25 - Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans
JRBT:	The Judicial Retirement Benefits Trust
LEAs:	Local Education Agencies, such as municipalities, who contribute as employers to the ERS with respect to teachers.
Normal Cost:	The present value of the benefits that ERSRI expects to become payable in the future that are attributable to the current year's employment.
Plans:	The ERS, JRBT and SPRBT, collectively
Report:	The State Auditor General's report for the fiscal year ended June 30, 2013 entitled "Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*."
Retirement Board:	The State of Rhode Island Retirement Board
RIGL:	The State of Rhode Island General Laws
SPRBT:	The State Police Retirement Benefits Trust
UAAL:	Unfunded Actuarial Accrued Liability, which is the difference between (A) the Actuarial Value of Assets (or market value of assets) and (B) the Actuarial Accrued Liability. Such valuation can be on an actuarial or a market value basis.

OTHER BENEFITS

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

RETIREE HEALTH CARE BENEFITS

During the 2008 Session of the General Assembly, in order to begin funding the unfunded liability for retiree health care, legislation was enacted which required the State to fund retiree healthcare benefits on an actuarial basis and which also authorized creation of a trust for retiree healthcare benefit assets. During the 2009 Session of the General Assembly, these requirements were delayed until FY 2011 due to budget constraints.

The Trust was established in December 2010, and all contributions to the Trust for FY 2011 and thereafter have been made and will be made on an actuarially determined basis in accordance with the law.

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

Pursuant to GASB Statement 45, *"Other Post Employment Benefits"* and Rhode Island law the State has obtained an updated actuarial valuation of the unfunded liability relating to retiree health care benefits. The unfunded liability as of June 30, 2013, the date of the latest valuation, was determined to be approximately $667.6 million, including $597.5 million for State employees, $60.8 million for State Police, $0 for Legislators, $0 million for Judges, and $9.3 million for the State's share for teachers. This was calculated using an assumed investment rate of return of 5.0% due to the fact that effective in FY 2011, a Trust was established and the plan was funded on an actuarially determined basis. The annual required contribution as a percentage of payroll for FY 2015 is 6.75%, 39.00%, 0% and 0% (no rate for teachers), respectively.

Several changes were made in OPEB specific actuarial assumptions and methods between the June 30, 2011 and June 30, 2013 valuations. Changes to the OPEB specific assumptions include a decrease in the wage inflation and long term health care cost inflation assumptions from 4% to 3.5%. In addition, the excise tax load expected to be imposed under the Patient Protection and Affordable Care Act on pre-65 liabilities was changed from 7.4% to 11%. Also, there was a change in actuarial method. The premium development methodology was changed to create a single premium for all groups.

The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2018. The excise tax is 40% of costs above a threshold. The actual actuarial assumptions used in the most recent valuation assume that the plans will be subject to the excise tax in 2018.

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. Effective October 1, 2014 the State established health reimbursement accounts (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. In addition, certain changes in benefits offered under the program are effective in July 2014 and January 2015. The effect on the Actuarial Accrued Liability resulting from these changes is reflected in the June 30, 2013 valuation.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. These future revisions in actuarial assumptions could have a material effect on the unfunded actuarial accrued liability or actuarially required contribution in the future. In the event of material changes in the unfunded actuarial accrued liability with respect to retiree healthcare, there is no assurance that the State will be able to fund its actuarially required contributions in the future. In the event that the State is not able to fund such contributions, the State may be required to raise additional revenue, to reduce State services, to modify benefits, to implement a combination of the foregoing or take other necessary measures.

The total contributions made by the State and the other participating employees for retiree health care benefits were $58.2 million in FY 2013 and $57.2 million in FY 2014.

For further information about retiree health care benefits, see Note 15 Other Post Employment Benefits to the State's audited financial statements for the FY 2013 which are attached hereto in Exhibit A.

LITIGATION

The State, its officers and employees are defendants in numerous lawsuits. With respect to any such litigation, State officials are of the opinion that the lawsuits are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position. It should be noted, however, in the event an adverse judgment to the State is rendered in the pension litigation described below challenging pension reform, such judgment could materially affect the State's financial position, depending upon the extent to which such judgment impacts the reductions in unfunded liability and employer contributions achieved by the pension reform.

Furthermore, the following pending litigation, the potential exposure for which is greater than $5,000,000, should be noted.

Pension Litigation

Challenges to the 2009 and 2010 Pension Reform

A number of unions representing State employees and teachers filed a lawsuit in State court in May 2010 initially challenging and attempting to block the 2009 pension reforms enacted by the General Assembly and later amended the suit to include 2010 reforms. The 2005 reforms were not challenged. The State intends to vigorously contest the lawsuit. The defendant State officials filed a Motion for Summary Judgment on the claims set forth in the Amended Complaint, which was heard on July 18, 2011. Prior to the hearing, the parties stipulated that the only issue that would be presented to the Court during the hearing on the Motion would concern whether the statute created a contract between the State and its participants. The parties agreed that in the event that the Court concluded that the statute did create a contract, the remaining issues of whether the contract had been impaired and whether any such impairment was legally justified would be briefed and argued at a later date. On September 13, 2011, the Superior Court issued its decision in which it ruled that pension plan participants have a contractual right based on an implied-in-fact contract theory. Consistent with the parties' stipulation, the Court did not decide whether that contract had been impaired or whether any such impairment was legally justified. The defendant State officials believe the Superior Court's ruling was legally wrong. On October 3, 2011, Defendants filed a Petition for Issuance of a Writ of Certiorari and Supporting Memorandum of Law with the Supreme Court. Defendants also filed a motion through which they requested that the Supreme Court expedite its review of the Petition for Issuance of a Writ of Certiorari. On November 22, 2011, the Supreme Court denied the petition for Writ of Certiorari. On January 2, 2013, the Court ordered the parties to participate in mediation. As noted below, mediation has ended without a settlement agreement. It is anticipated that in the next few months the trial justice will set a trial date.

The total savings from the 2009 and 2010 pension reforms is approximately $75 million annually (approximately 5% of employee eligible compensation), including State savings of $46.3 million annually and local government savings of $28.4 million annually. The pending lawsuit could impact some or all of the annual savings related to the 2009 and 2010 pension reforms, resulting in future increases in the Plans' unfunded liabilities and the State's ARC. If there were an unfavorable outcome for the State in connection with this pending litigation, the State's ARC could increase significantly. This could have an adverse effect on the Plans if sufficient funding for such increased costs were not available.

Challenges to the 2011 Pension Reform

In June 2012, certain unions, active and retired State employees and associations of retired State and municipal employees who maintain they are current beneficiaries of ERSRI commenced five separate lawsuits in State court challenging the Rhode Island Retirement Security Act of 2011 ("RIRSA") enacted by the General Assembly. The five cases are: *Rhode Island Public Employees' Retirement Coalition v. Chafee,* C.A. No. 12-3166; *Bristol/Warren Regional School Employees, Local 581, AFSCME, Council 94 v. Chafee*, C.A. No. 12-3167; *Rhode Island Council 94, AFSCME, AFL-CIO, et al v. Chafee*, C.A. No. 12-3168; *City of Cranston Police Officers, International Brotherhood of Police Officers, Local 301, AFL, CIO v. Chafee*, C.A. No. 12-3169 and *Woonsocket Fire Fighters, IAFF Local 732, AFL-CIO v. Chafee*, C.A. No. 12-3579. In each of the five cases, the plaintiffs alleged that RIRSA violates the Contract Clause, the Takings Clause and the Due Process Clause of the Rhode Island Constitution. In addition, in the *Rhode Island Public Employees' Retirement Coalition v. Chafee,* C.A. No. 12-3166 case, the plaintiffs also allege counts for promissory estoppel and breach of contract. The State intends to vigorously contest the lawsuits.

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On February 14, 2014, the parties (with the exception of City of Cranston, Police Officers, International Brotherhood of Police Officers Local 301 and Cranston Fire Fighters, IAFF Local 1363) executed a Settlement Agreement in each of those five cases. Pursuant to the terms of the parties' agreement, a series of votes took place for the unions to proceed with the proposed settlement. In addition, the settlement was conditioned on enactment of the legislation by the General Assembly.

As a result of the voting and pursuant to the terms of the proposed settlement, the settlement process has ended. Under terms of the proposed settlement, if any one of the six voting groups voted to reject the proposal, the settlement process would terminate and the litigation would continue. Although more than seventy percent of the members eligible to vote did not reject the settlement, the smallest group, representing less than two percent of all eligible members, voted to reject the settlement. The Court was apprised of the vote. The mediation has ended without a settlement agreement.

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The six cases remain in litigation and, after the Court entered an order directing certain of the plaintiffs to join the municipal entities with which they allege they have a collective bargaining agreement, the Cranston Firefighters, IAFF Local 1363, AFL-CIO, which had been a party to one of the original five lawsuits challenging RIRSA filed a separate lawsuit in Rhode Island Superior Court challenging RIRSA and withdrew from the original suit. In addition, the International Brotherhood of Police Officers, Local 201 (Cranston Police), which had been a party to one of the original lawsuits challenging RIRSA, filed a separate lawsuit in Rhode Island Superior Court challenging RIRSA.

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It is anticipated that the trial justice will set a trial date in the next few months with respect to the outstanding litigation noted above.

Loss to the State and ERSRI as a whole cannot be estimated if such a legal challenge to the 2011 pension reform was successful. Future contribution rates for the Plans and the unfunded actuarial accrued liability would be negatively impacted. It should be noted, however, that as a result of RIRSA legislation, the unfunded liability of $6.8 billion for State employees and teachers in the June 30, 2011 valuation for ERSRI was reduced to $4.4 billion as reported in the June 30, 2011 valuation. Also, the projected employer contribution was reduced from $622 million as reported in the 2010 actual valuation report to $380 million as reported in the June 30, 2011 valuation. The unfunded liability and projected employer contributions as reported in the June 30, 2013 actuarial valuation are approximately $4.5 billion and $411.5 million, respectively.

An adverse judgment to the State rendered in the pension litigation could significantly increase both the unfunded liability under the ERSRI and the State's ARC based upon the impact that the RIRSA has had in reducing the unfunded liability and ARC as reflected above. If there were to be significant increases in the ARC, the State may be required to (i) raise additional revenue, (ii) reduce State services, (iii) modify benefits provided by each of the Plans, (iv) implement a combination of the foregoing, or (v) take any other measures as necessary.

Other Litigation

Separate claims have been made against the Rhode Island Department of Education by the Cranston School Department and the Chariho Regional School Committee alleging that they are owed reimbursement for certain expenses incurred by them in the operation of their respective area vocational-technical career centers. The Cranston School Department claims it is owed $7,166,656 for the amounts it paid for salaries of directors and guidance counselors from 1990 to the present and for the costs of building repairs from 1999 to the present at the Cranston Area Vocational Technical Center. The Chariho Regional School Committee claims it is owed $4,142,893 for amounts it paid for salaries of directors and guidance counselors from 1990 to the present at the Chariho Career and Technical Center. None of the other six (6) school districts that operate regional vocational technical centers in the State have raised similar claims to date. The claims were assigned to a hearing officer at the Department of Education. On August 26, 2009, counsel for the Department filed a preliminary motion to dismiss on several legal grounds. That motion was granted and both claims were dismissed by the Commissioner on January 21, 2010. Both parties appealed to the Board of Regents. Cranston and Chariho filed their briefs with the Board of Regents on February 17, 2010. The Department submitted a reply brief, and the Board of Regents affirmed the dismissal. Cranston and Chariho have both filed Administrative Procedures Act appeals in Superior Court which are currently pending. Both Cranston and Chariho have also appealed adverse decisions to the Supreme Court in connection with their Petitions for Writs of Mandamus which were previously denied. A tentative settlement agreement had been reached and was subject to final approval from the Department of Administration (the terms of the agreement being that Cranston would receive $258,866 in FY 2012). However, because a supplemental appropriation was not approved for payment of the settlement amount, the Superior Court and Supreme Court actions shall proceed. It is to be noted that along with Cranston's claim, the aggregate sums demanded by the school districts is approximately

$22 million. This matter has been fully briefed and argued before the Supreme Court as to the denial of the Petitions for Writ of Mandamus and judgment was affirmed in the State's favor.

The School Committees of Woonsocket and Pawtucket, as well as various educators, parents and students in these school districts, have brought suit in Superior Court alleging that the allocation method of funding public schools by the General Assembly in 2010 violated the Rhode Island Constitution's education clause (Art. XII) that provides that "it shall be the duty of the general assembly to promote public schools". Plaintiffs assert that more funding should go to "poor" communities such as themselves. The State's defense is that this issue was settled in the case of City of Pawtucket vs. Sundlun, 662 A.2d 40 (1995), in which the Supreme Court held that there was no right to a public education in Rhode Island. The Superior Court, in the instant case, concurred with the State's position; and, the parties argued before the Supreme Court on March 4, 2014. The judgment was affirmed in the State's favor.

The State was sued by Simcha Berman, who fell while walking along the Newport Cliff Walk and became a quadriplegic. The State won a jury trial and the plaintiff was not successful in obtaining a new trial on the claims. An appeal is currently pending. Plaintiff's special damages exceed $8,000,000. The State intends to contest this case.

The State was sued by Brett Roy, who became a quadriplegic after diving into a pond at Veterans Memorial Park in Woonsocket. After the trial, a verdict was rendered for the State and two years later a motion for a new trial was granted. During the trial, the Plaintiff asserted damages in excess of $70,000,000, including over $2,000,000 in past medical expenses and approximately $9,000,000 in future expenses. The State has appealed the grant of the new trial and the denial of other motions, and intends to continue to contest this case.

The estate of Sydney M. Jones has filed a wrongful death action against the State arising from a drowning in a closed State pond facility at the World War II Memorial Park in the City of Woonsocket. Damages would reasonably be expected to be in excess of $1.0 million. However, the State is vigorously defending any liability in this action; and, it believes that it has strong defenses in this matter.

The General Assembly enacted legislation that called for analysis of competitive casino gaming operations and a statewide referendum (November 2012) to allow casino style gaming at Twin River. Subsequently, the constitutionality of that legislation is being challenged by the Narragansett Indian Tribe. The Tribe also disputes whether the State "operates" either Twin River or Newport Grand. The Supreme Court has recently determined that the Tribe has standing to maintain the case, and has remanded the case to the Superior Court. The State does not believe that the Tribe's lawsuit seeking a declaratory judgment will be successful.

The Department of Children, Youth and Families has been sued by Children's Right of New York which alleges constitutional and statutory violations in its foster care programs. Children's Rights is seeking substantial changes to these programs, prolonged supervision by a private, outside monitor and attorney's fees. Similar lawsuits have been brought by this organization in other jurisdictions resulting in the award of substantial legal fees. Should plaintiff be afforded the relief sought, expenditures and attorney's fees could reach more than $1.0 million. The State has vigorously contested the allegations. A sixteen day bench trial on the individual claims of the named Plaintiff children was held in United States District Court. The State moved for judgment on the record at the close of the Plaintiffs case and the motion was granted. Judgment entered in favor of the State on April 30, 2014. The case is now on appeal to the United States Court of Appeals for the First Circuit.

The State was sued by the US Department of Justice ("USDOJ") alleging that the Department of Corrections engaged in a pattern of discriminatory hiring with respect to African-American and Hispanic applicants for correctional officer positions. The USDOJ is seeking many millions of dollars in "back pay" and other "make-whole" relief to individuals who took and failed the correctional officer test. The full extent of the relief has not been codified. The State has filed a motion to dismiss, which is currently under consideration in the Rhode Island US District Court.

Certain litigation involving quasi-agencies or authorities may be identified in the State Agencies and Authorities section.

FINANCIAL STATEMENTS

Attached are the financial statements and notes of the State for fiscal year ended June 30, 2013, and the report thereon by the Auditor General, a certified public accountant appointed by the Joint Committee on Legislative Services.

Office of the Auditor General
State of Rhode Island and Providence Plantations - General Assembly
Dennis E. Hoyle, CPA - Auditor General
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of:

- the Tobacco Settlement Financing Corporation, a blended component unit which represents 2% of the assets and 1% of the revenues of the governmental activities and 1% of the assets and 3% of the revenues of the aggregate remaining fund information;

- the Convention Center Authority, a major fund, which also represents 64% of the assets and 2% of the revenues of the business-type activities;

- the Ocean State Investment Pool, an external investment trust, which represents less than 1% of the assets and revenues of the aggregate remaining fund information; and

- all the component units comprising the aggregate discretely presented component units.

Those financial statements were audited by other auditors whose reports 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 solely 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As described in Notes 1(T) and 18(F), the State implemented Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, which resulted in a change in the component units included within the State reporting entity.

As described in Note 7(J), the State has borrowed from the federal Unemployment Insurance Trust Fund to fund unemployment benefits paid from the Employment Security Fund, a major fund. At June 30, 2013, the amount outstanding was $155 million and the Employment Security Fund had a net deficit of $81 million.

As described in Note 13, various lawsuits have been filed challenging legislatively enacted pension reforms. The parties are participating in on-going court ordered mediation. An adverse judgment to the State resulting from these challenges could significantly increase both the unfunded liability of the plans included within the pension trust funds and the State's actuarially determined annual required contribution.

Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages Exhibit A-5 through A-23, the Budgetary Comparison Schedules on pages Exhibit A-116 through A-119, and the Schedules of Funding Progress on pages Exhibit A-120 through A-121 be presented to

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

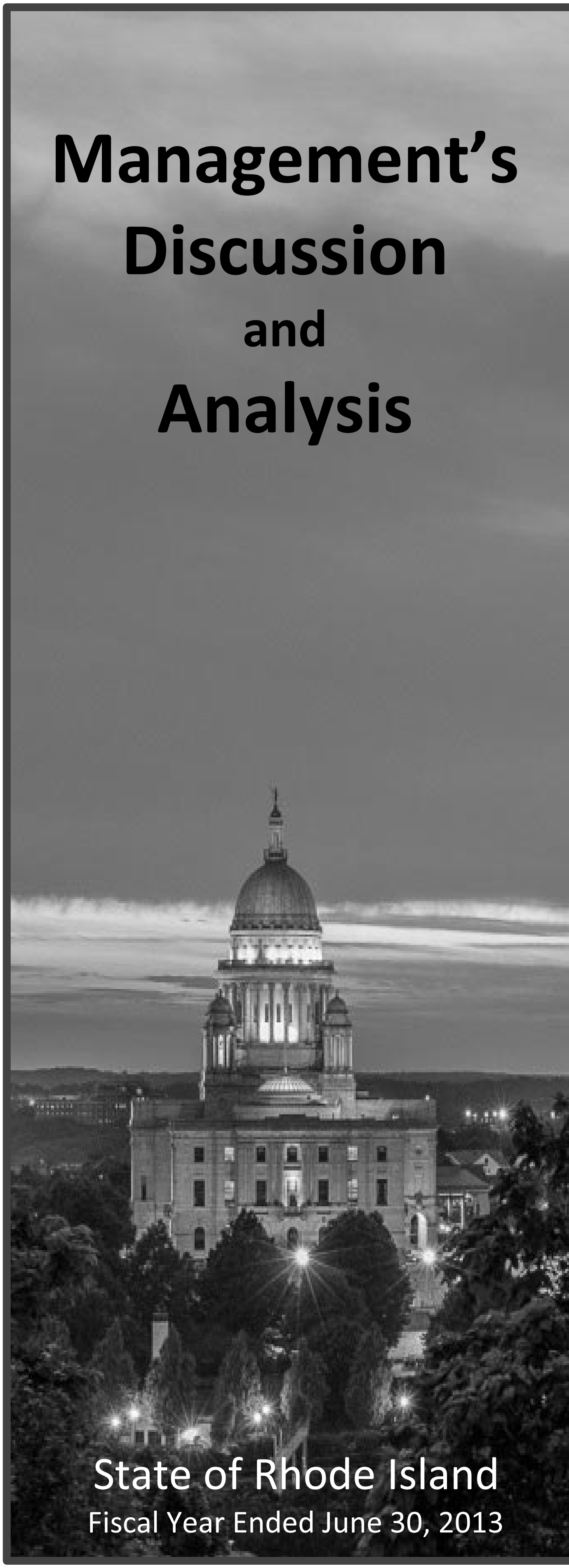
supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

Dennis E. Hoyle, CPA
Auditor General

December 19, 2013



Management's Discussion and Analysis

State of Rhode Island

Fiscal Year Ended June 30, 2013

Management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of the State of Rhode Island (State) for the fiscal year ended June 30, 2013. The MD&A is intended to serve as an introduction to the State's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A is designed to (a) assist the reader in focusing on significant financial matters, (b) provide an overview of the State's financial activities, (c) identify any material changes from the original budget, and (d) highlight individual fund matters. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the State's financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

Financial Highlights – Primary Government

Government-wide Financial Statements

- **Net Position:** The total assets of the State exceeded total liabilities on June 30, 2013 by $1,698.8 million. This amount is presented as "net position" on the Statement of Net Position for the Total Primary Government. Of this amount, ($1,385.2) million was reported as unrestricted net position (deficit), $660.5 million as restricted net position, and $2,423.5 million as net investment in capital assets.

- **Changes in Net Position:** In the Statement of Activities, the State's total net position increased by $370.4 million in fiscal year 2013. Net position of governmental activities increased by $301.4 million, primarily because increases in tax revenue, charges for services and miscellaneous revenue exceeded the growth in expenses which were subject to careful control and management. Tax revenues increased primarily because of the stronger economy as the State gradually emerged from the "Great Recession." Net position of the business-type activities increased by $69.1 million due primarily to the significant operating surplus of the Employment Security Fund. The fund was positively impacted by a declining unemployment rate, changes in benefits and measures implemented to increase the longer term financial strength of the fund.

Fund Financial Statements

<u>**Governmental Funds**</u>

- The State's governmental funds reported a combined ending fund balance of $1,057.8 million, an increase of $67.3 million in comparison with the previous fiscal year. This is primarily a result of the increase in the fund balance of the General Fund, which in turn is attributable to increases in general revenues coupled with careful management of expenditures. In addition, the fund balance of the Intermodal Surface Transportation Fund benefited from an inflow of funds from the transfer of land to a discretely presented component unit.

- As of June 30, 2013, the State's General Fund reported an ending fund balance of $401.1 million, an increase of $28.0 million as compared to the prior year. This change resulted from increases in general revenue, primarily taxes, in fiscal year 2013 and further enhanced controls over expenditures, which resulted in general revenue expenditures being less than appropriations by $17.8 million.

- As of June 30, 2013, the State's Intermodal Surface Transportation Fund reported an ending fund balance of $141.7 million, an increase of $33.0 million as compared to the prior year. The increase was mainly due to an inflow of funds from a transaction involving the transfer of land to a discretely presented component unit.

Proprietary Funds

- The Rhode Island State Lottery transferred $379.2 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of $1.5 million in comparison with the previous fiscal year.

- The Employment Security Fund ended the fiscal year with a fund deficit of ($81.3) million, as compared with a ($151.5) million deficit at the end of fiscal year 2012. This favorable change is primarily attributable to a significant reduction in benefits paid due to the improving employment level in the State and changes in benefits.

- The R.I. Convention Center Authority ended the fiscal year with a net position deficiency of ($55.9) million, a deficit increase of ($1.7) million compared with the prior year. The Authority has historically had a net position deficiency as the amount of debt related to capital assets has exceeded the net book value of the capital assets, because the repayment term for the debt is generally longer than the depreciable life of the assets.

Overview of the Financial Statements

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

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

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

Government-wide Financial Statements

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

- The **Statement of Net Position** presents all of the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as "net position." Over time, increases and decreases in the government's net position 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 position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods; for example, uncollected taxes and earned but unused vacation leave. This statement also presents a comparison between direct expenses and program revenues for each function of the government.

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

- **Governmental Activities:** The activities in this section represent most of the State's basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the State include general government, human services, education, public safety, natural resources, and transportation. The net position and change in net position of the internal service funds are also included in this column.

- **Business-type Activities:** These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include the operations of the Rhode Island Lottery, Rhode Island Convention Center Authority and the Employment Security Trust Fund.

- **Discretely Presented Component Units:** Component units are entities that are legally separate from the State, but for which the State is financially accountable. These entities are listed in Note 1. The financial information for these entities is presented separately from the financial information presented for the primary government.

Fund Financial Statements

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

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

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

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

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

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

Discretely Presented Component Units

Discretely presented component units are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discretely presented component units serve or benefit those outside of the primary government. The State distinguishes between major and nonmajor component units. The criteria for distinguishing between major and nonmajor component units are discussed in Note 1 (B).

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

Other supplementary information, which follows the required supplementary information in the State's CAFR, includes the combining financial statements for nonmajor governmental funds, internal service funds and fiduciary funds.

Government-Wide Financial Analysis

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The State's combined net position (governmental and business-type activities) totaled $1,698.8 million at the end of fiscal year 2013, compared to $1,328.4 million (as restated) at the end of the prior fiscal year. Governmental activities reported unrestricted net position (deficit) of ($1,298.6) million.

A portion of the State's net position 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 position represents resources that are subject to external restrictions on how they may be used.

State of Rhode Island's Net Position as of June 30, 2013
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012*	2013	2012	2013	2012*
Current and other assets	$ 2,045,687	$ 1,881,099	$ 124,168	$ 126,097	$ 2,169,855	$ 2,007,196
Capital assets	3,492,383	3,324,273	169,270	177,461	3,661,653	3,501,734
Total assets	5,538,070	5,205,372	293,438	303,558	5,831,508	5,508,930
Long-term liabilities outstanding	2,621,233	2,671,882	386,108	464,090	3,007,341	3,135,972
Other liabilities	1,047,652	992,542	50,844	52,048	1,098,496	1,044,590
Total liabilities	3,668,885	3,664,424	436,952	516,138	4,105,837	4,180,562
Net position (deficit):						
Net investment in capital assets	2,488,755	2,302,368	(65,283)	(64,492)	2,423,472	2,237,876
Restricted	652,126	576,387	8,340	9,308	660,466	585,695
Unrestricted	(1,298,579)	(1,337,807)	(86,571)	(157,396)	(1,385,150)	(1,495,203)
Total net position (deficit) as restated	$ 1,842,302	$ 1,540,948	$ (143,514)	$ (212,580)	$ 1,698,788	$ 1,328,368

* Certain fiscal year balances were restated as discussed in Note 18(F).

As indicated above, the State reported a balance in unrestricted net position (deficit) of ($1,385.2) million as of June 30, 2013 in the Statement of Net Position. This deficit results in part from the State's use of general obligation bond proceeds (which are reported as debt of the primary government) for other than the primary government's direct capital purposes. In these instances, proceeds are transferred to municipalities, discretely presented component units, and non-profit organizations within the State to fund specific projects. As of June 30, 2013 approximately $605.6 million of general obligation bonds related to such projects were outstanding.

Examples of these uses of general obligation bond proceeds include, but are not limited to, the following:

- Certain transportation projects funded with bond proceeds that do not meet the State's criteria for capitalization as infrastructure;
- Construction of facilities at the State's university and colleges, which are reflected in the financial statements as discretely presented component units;
- Water resources projects including the acquisition of sites for future water supply resources, various water resources planning initiatives, and funding to upgrade local water treatment facilities;
- Environmental programs to acquire, develop, and rehabilitate local recreational facilities and ensure that open space is preserved;
- Historical preservation initiatives designed to protect and preserve historical buildings as well as to provide funding for cultural facilities.

Other debt that is not for the State's acquisition of capital assets is as follows:

- Tobacco Settlement Asset-Backed Bonds and Accreted Interest - The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued $882.4 million of Tobacco Asset-Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent Decree and Final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof, and the State has no obligation to satisfy any deficiency or default of any payment of the bonds. As of June 30, 2013 approximately $765.2 million of principal and $83.1 million of accreted interest are included in the State's debt.

- Historic Tax Credit Bonds - In fiscal year 2009 the R.I. Economic Development Corporation (RIEDC), on behalf of the State, issued $150.0 million of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The State is obligated under a Payment Agreement to make payments to the trustee. This obligation is subject to annual appropriation by the General Assembly. The proceeds of the bonds are being used to provide funds for redemption of Historic Structures Tax Credits. As of June 30, 2013, approximately $90.6 million is outstanding.

- The State has entered into certain capital lease agreements, Certificates of Participation (COPS), the proceeds of which are to be used by the State's university and colleges for energy conservation projects or by local school districts to increase electronic communication on a state-wide basis. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly. As of June 30, 2013, approximately $33.9 million is outstanding relating to these projects.

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

Changes in Net Position

The State's overall net position for the primary government improved by $370.4 million during fiscal year 2013. Total revenues of $7,222.6 million were more than expenses of $6,852.1 million. The favorable results were aided by increased general revenues due primarily to an increase in tax collections attributable to the improving economy and increases in miscellaneous revenues. The next largest source of revenues was operating grants and contributions (including federal financial aid) which actually decreased due to the winding down of funding under the American Recovery and Reinvestment Act of 2009 and a significant decline in federal assistance for unemployment insurance benefits. The State's expenses in total, which cover a wide range of services, declined by $81.4 million. This net decrease was caused by reductions in general government costs due to careful expense control and by reductions in employment insurance costs due to fewer workers receiving such payments. These decreases were offset in part by increased spending on human services programs and education due to spending on the Race to the Top program and greater education assistance for local communities.

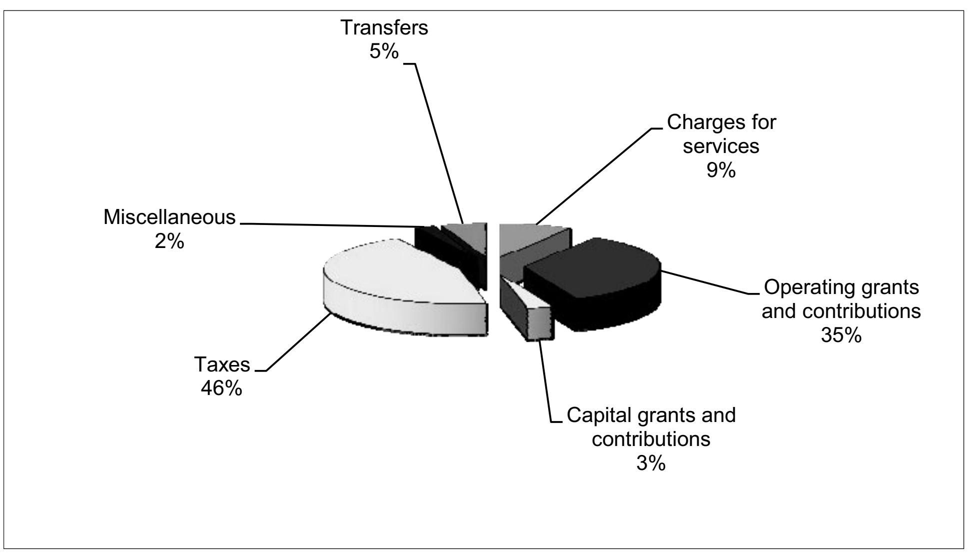
A more detailed analysis of changes in revenues and program expenses for both governmental activities and business-type activities is presented after each of the following pie charts.

State of Rhode Island's Changes in Net Position
For the Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	$ 551,500	$ 508,140	$ 1,055,070	$ 1,056,285	$ 1,606,570	$ 1,564,425
Operating grants and contributions	2,211,800	2,194,892	166,164	278,671	2,377,964	2,473,563
Capital grants and contributions	190,551	210,720			190,551	210,720
General revenues:						
Taxes	2,870,969	2,824,368			2,870,969	2,824,368
Interest and investment earnings	4,893	4,304	117	94	5,010	4,398
Miscellaneous	146,997	118,506	24,490	16,564	171,487	135,070
Total revenues	5,976,710	5,860,930	1,245,841	1,351,614	7,222,551	7,212,544
Program expenses:						
General government	625,081	653,003			625,081	653,003
Human services	3,038,841	2,970,269			3,038,841	2,970,269
Education	1,364,575	1,334,355			1,364,575	1,334,355
Public safety	473,580	468,098			473,580	468,098
Natural resources	76,730	85,039			76,730	85,039
Transportation	300,639	268,523			300,639	268,523
Interest	129,714	145,964			129,714	145,964
Lottery			397,625	399,421	397,625	399,421
Convention Center			48,437	49,439	48,437	49,439
Employment insurance			396,909	559,440	396,909	559,440
Total expenses	6,009,160	5,925,251	842,971	1,008,300	6,852,131	6,933,551
Excess (deficiency) before transfers	(32,450)	(64,321)	402,870	343,314	370,420	278,993
Transfers	333,804	344,386	(333,804)	(344,386)		
Change in net position	301,354	280,065	69,066	(1,072)	370,420	278,993
Net position (deficit) - Beginning	1,418,495	1,138,430	(212,580)	(211,508)	1,205,915	926,922
Cumulative effect of prior period adjustments	122,453				122,453	
Net position (deficit) - Beginning, as restated	1,540,948	1,138,430	(212,580)	(211,508)	1,328,368	926,922
Net position (deficit) - Ending	$ 1,842,302	$ 1,418,495	$ (143,514)	$ (212,580)	$ 1,698,788	$ 1,205,915

Chart 1 depicts the State's sources of revenues from Governmental Activities for the fiscal year ended June 30, 2013.

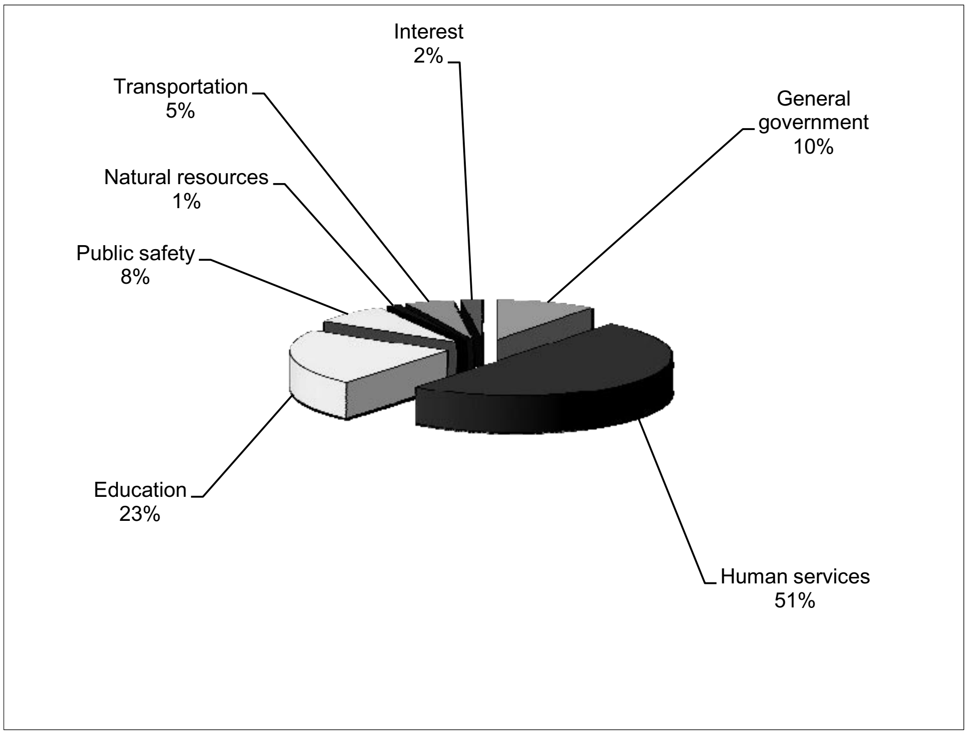
Chart 1 - Revenues and Transfers - Governmental Activities



The relative mix of revenue and transfers by source for governmental activities remained fairly constant in fiscal year 2013 versus the prior fiscal year. Taxes continued to represent the largest source of revenue at 46% of the total while operating grants and contracts represented 35% of the total in fiscal year 2013.

Chart 2 depicts the purposes that program expenses related to Governmental Activities were expended for during the fiscal year ended June 30, 2013.

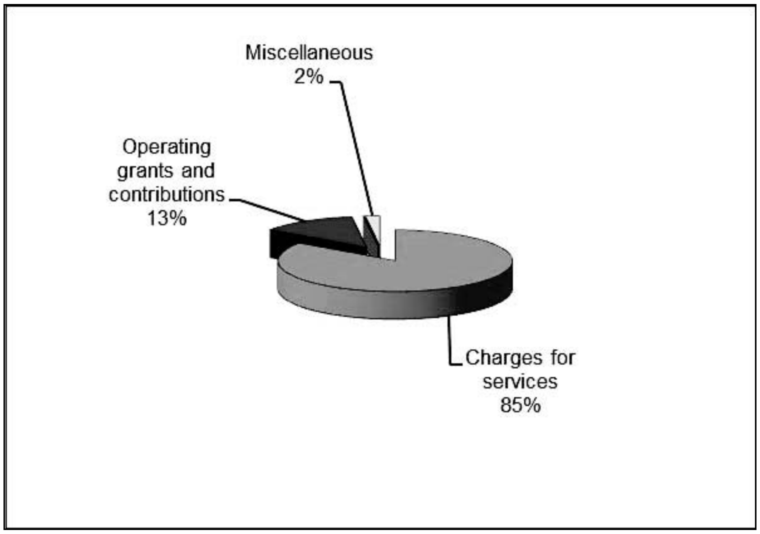
Chart 2 - Program Expenses - Governmental Activities



The relative mix of program expenses - governmental activities remained about the same in fiscal year 2013 as the prior fiscal year. A slight increase from 50% to 51% occurred in the percent of total spending that is directed towards human services programs. This was offset by a decline in spending on general government which went from 11% to 10% of the total, primarily because of careful management of costs.

Chart 3 depicts the State's sources of revenues from Business Type Activities for the fiscal year ended June 30, 2013.

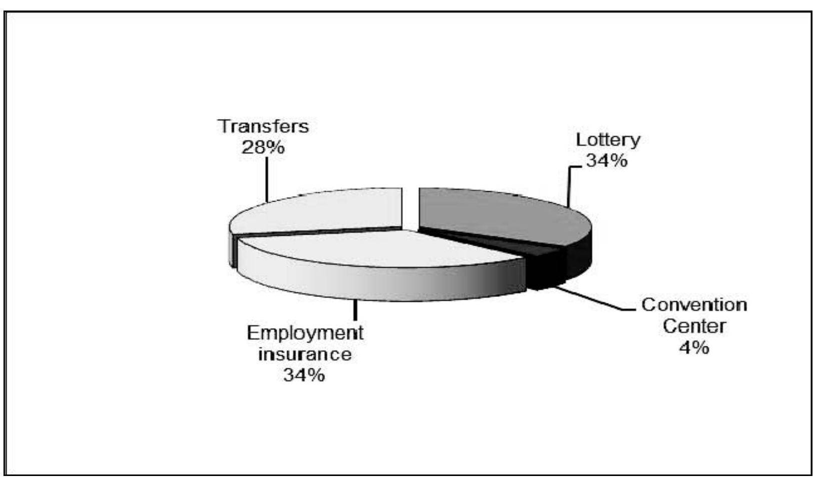
Chart 3 - Revenues – Business Type Activities



Operating grants and contributions declined from 21% to 13% of total revenues - business type activities in fiscal year 2013 when compared to the prior fiscal year because of a significant reduction in spending on the employment insurance program.

Chart 4 depicts the expenses and transfers related to Business Type Activities that were expended during the fiscal year ended June 30, 2013.

Chart 4 - Expenses and Transfers – Business Type Activities



The relative mix of expenses and transfers – business type activities changed significantly due to a reduction in the amount of benefits paid under the employment insurance program. In fiscal year 2013 such payments represented 34% of total business type expenses and transfers as compared to 41% in fiscal year 2012.

Financial Analysis of the State's Funds

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

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. At the end of the current fiscal year, the State's governmental funds reported a combined ending fund balance of $1,057.8 million, an increase of $67.3 million from June 30, 2012. A breakdown of the components follows (expressed in thousands):

	2013	2012*	Change	Percent
Governmental Funds				
Nonspendable	$ 174	$ 174	$	
Restricted	942,335	852,147	90,188	10.58%
Unrestricted				
Committed	4,198	24,535	(20,337)	-82.89%
Assigned	105,894	97,957	7,937	8.10%
Unassigned	5,210	15,657	(10,447)	-66.72%
Total	$ 1,057,811	$ 990,470	$ 67,341	6.80%

* Certain fiscal year balances were restated as discussed in Note 18(F).

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned primarily based on the extent to which the State is bound to honor constraints on how specific amounts can be spent. More information about each category is presented below:

- Nonspendable fund balance – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by constitutional provisions, as is the case for the Budget Reserve and Cash Stabilization Account, or by law through enabling legislation enacted by the General Assembly.
- Committed fund balance – amounts that can only be used for specific purposes determined by the enactment of legislation by the General Assembly, and that remain binding unless removed in the same manner. The underlying action that imposed the limitation must occur no later than the close of the fiscal year and must be binding unless repealed by the General Assembly.
- Assigned fund balance – amounts that are constrained by the State's intent to be used for specific purposes. The intent is generally established by legislation enacted by the General Assembly and is implemented at the direction of the Governor. This is also the classification for residual funds in the State's special revenue funds.
- Unassigned fund balance – the residual classification for the State's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

Significant changes in fund balance are discussed below:

- The increase in restricted fund balance is primarily a result of new debt issues in fiscal year 2013 reflected in certain capital projects funds.

- The increase in the assigned portion of the unrestricted fund balance is primarily attributable to the general fund surplus that has been earmarked as a resource in the fiscal year 2014 budget.

The major governmental funds of the primary government are:

General Fund

The General Fund is the chief operating fund of the State. The fund balance of the General Fund consisted of the following (expressed in thousands):

	2013	2012	Change	Percent
Restricted	$ 282,137	$ 232,348	$ 49,789	21.43%
Unrestricted				
Committed	4,035	22,793	(18,758)	-82.30%
Assigned	105,639	97,639	8,000	8.19%
Unassigned	9,323	20,374	(11,051)	-54.24%
Total	$ 401,134	$ 373,154	$ 27,980	7.50%

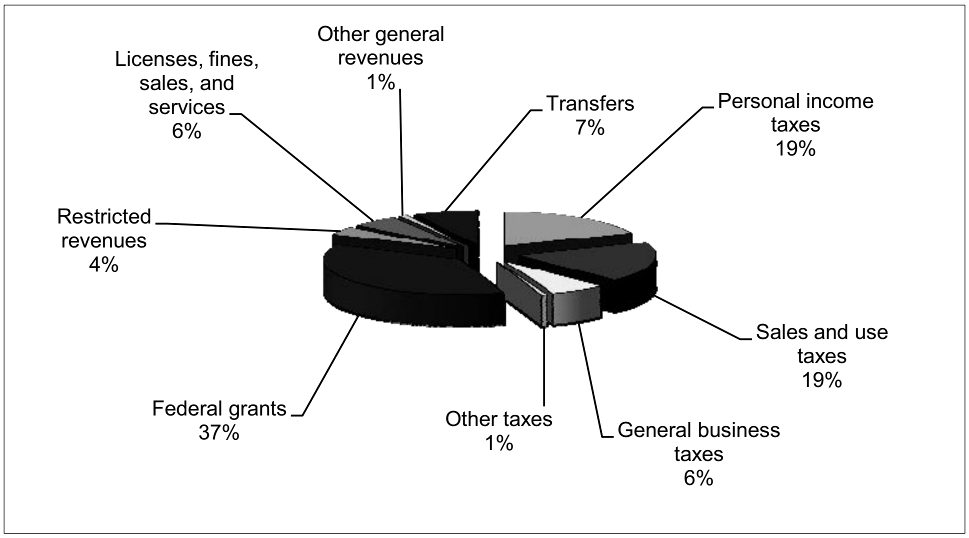
Revenues and transfers of the General Fund totaled $5,737.2 million in fiscal year 2013, an increase of $86.7 million or 1.53%, from the previous year. The revenues from various sources and the change from the previous year are shown in the following tabulation (expressed in thousands):

			Increase (decrease) from 2012	
	2013	2012	Amount	Percent
Taxes:				
Personal income	$ 1,083,011	$ 1,059,119	$ 23,892	2.26%
Sales and use	1,073,428	1,043,141	30,287	2.90%
General business	375,014	355,457	19,557	5.50%
Other	37,060	54,174	(17,114)	-31.59%
Subtotal	2,568,513	2,511,891	56,622	2.25%
Federal grants	2,129,847	2,119,476	10,371	0.49%
Restricted revenues	220,983	192,642	28,341	14.71%
Licenses, fines, sales, and services	323,308	313,455	9,853	3.14%
Other general revenues	57,537	71,059	(13,522)	-19.03%
Subtotal	2,731,675	2,696,632	35,043	1.30%
Total revenues	5,300,188	5,208,523	91,665	1.76%
Transfers	437,012	441,953	(4,941)	-1.12%
Total revenue and transfers	$ 5,737,200	$ 5,650,476	$ 86,724	1.53%

Personal income taxes increased modestly between fiscal year 2012 and fiscal year 2013. Final payments, payments made with a return and extension payments, increased by 12.8 percent while withholding tax payments and estimated tax payments had more muted growth of 0.7 percent and 1.3 percent, respectively. These increases were offset in part by an increase in income tax refunds and adjustments paid of 4.0 percent. The spike in final tax payments and the increase in income tax refunds and adjustments paid are due in part to the 2012 Tax Amnesty Act which allowed taxpayers to pay overdue taxes while waiving late payment penalties and reducing the interest rate on overdue taxes by 25.0 percent. The 2012 tax amnesty program, which ran from September 1, 2012 through November 15, 2012, increased final income tax payments received by $5.3 million and increased income tax refunds and adjustments paid by $2.4 million. Accounting for these tax amnesty payments reduces the growth rate for final payments to 8.1 percent and reduces the growth rate for income tax refunds and adjustments paid to 3.1 percent. The modest increase in withholding tax payments in fiscal year 2013 compared to fiscal year 2012 is due to the State's improving economy which saw a decline in the State's unemployment rate from 10.6 percent to 8.8 percent on a state fiscal year basis. The remaining taxes exhibited reasonable year-over-year growth with the exception of Other Taxes which fell by 31.59 percent in fiscal year 2013. This decline was attributable to a sharp drop off in estate and transfer taxes paid in fiscal year 2013 which declined on a nominal basis by $17.9 million or -38.6 percent.

Chart 5 depicts the General Fund's revenues and other sources for the fiscal year ended June 30, 2013.

Chart 5 – Revenues and Other Sources – General Fund



Expenditures and other uses totaled $5,709.2 million in fiscal year 2013, an increase of $161.0 million, or 2.90%, from the previous year. Changes in expenditures and other uses by function from the previous year are shown in the following tabulation (expressed in thousands):

			Increase (decrease) from 2012	
	2013	2012	Amount	Percent
General government	$ 470,328	$ 474,135	$ (3,807)	-0.80%
Human services	3,042,705	2,969,166	73,539	2.48%
Education	1,330,128	1,281,879	48,249	3.76%
Public safety	463,734	459,114	4,620	1.01%
Natural resources	70,145	75,141	(4,996)	-6.65%
Debt Service:				
Principal	125,148	111,711	13,437	12.03%
Interest	68,295	73,249	(4,954)	-6.76%
Total expenditures	5,570,483	5,444,395	126,088	2.32%
Other uses	138,737	103,827	34,910	33.62%
Total expenditures and other uses	$ 5,709,220	$ 5,548,222	$ 160,998	2.90%

The significant increase in the Human Services function is partially attributable to increased Medicaid costs, in both state and federal funds. In addition, there were substantial increases in costs pertaining to the Low Income Home Energy Assistance Program (LIHEAP) and the Supplemental Nutrition Assistance

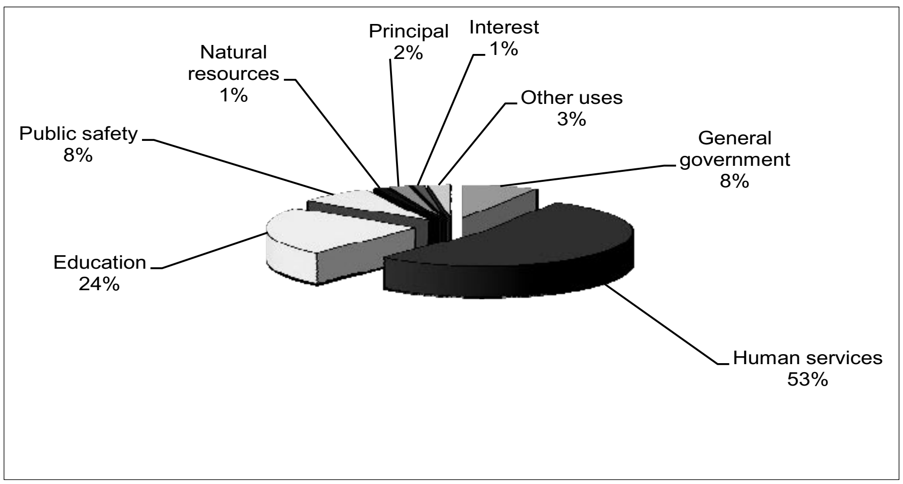
Program (SNAP). Finally, both the Office of Health and Human Services and the Department of Human Services bore new costs associated with the development of an eligibility system called the Unified Health Infrastructure Project (UHIP).

The transition to a new Education Funding Formula was primarily responsible for the increased costs within the Education function. Race to the Top federal grant expenditures also accounted for a signification portion of the increase. These two large increases were partially offset by decreases in expenditures associated with the American Recovery and Reinvestment Act (ARRA) and the Education Jobs Fund.

Debt service expenditures increased due to savings from the refinancing of debt in the prior year not being available again in FY 2013.

Chart 6 depicts the General Fund's Expenditures and Other Uses for the fiscal year ended June 30, 2013.

Chart 6 – Expenditures and Other Uses – General Fund



Intermodal Surface Transportation Fund

The Intermodal Surface Transportation Fund (IST) is a special revenue fund that accounts for the collection of gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's transportation systems. It also accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, the I-195 Redevelopment District Commission bonds, and related expenditures. The components of fund balance of the IST fund are as follows (expressed in thousands):

	2013	2012	Change	Percent
Restricted	$ 145,473	$ 111,537	$ 33,936	30.43%
Unrestricted				
Committed	95	1,742	(1,647)	-94.55%
Assigned	255	117	138	117.95%
Unassigned (deficit)	(4,113)	(4,717)	604	12.80%
Total	$ 141,710	$ 108,679	$ 33,031	30.39%

General Fund Budgetary Highlights – General Revenue Sources

According to the State's Constitution, general revenue appropriations in the general fund cannot exceed 97% of available general revenue sources. These sources consist of the current fiscal year's budgeted general revenue plus the general fund undesignated fund balance from the prior fiscal year. Excess revenue is transferred to the State Budget Reserve Account. If the balance in the Reserve exceeds five percent of the total general revenues and opening surplus, the excess is transferred to the R.I. Capital Plan Fund to be used for capital projects. 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 slight increase of $2.9 million between the original budget and the final budget. General revenue appropriations decreased from the original budget by $62.0 million. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations (expressed in thousands) are listed below.

General Fund Budgetary Highlights
General Revenue Sources

	Original Budget	Final Budget	Actual	Final Budget vs. Actual Variance
Revenues and sources:				
Taxes:				
Personal income	$ 1,080,857	$ 1,075,300	$ 1,085,765	$ 10,465
General business	369,183	385,600	381,255	(4,345)
Sales and use	1,085,833	1,068,200	1,073,428	5,228
Other taxes	42,249	38,500	37,060	(1,440)
Departmental revenue	342,874	363,400	356,832	(6,568)
Other sources:				
Miscellaneous	4,440	5,665	4,166	(1,499)
Lottery transfer	387,553	380,160	379,225	(935)
Unclaimed property	7,900	7,000	6,269	(731)
Total revenues and other sources	3,320,889	3,323,825	3,324,000	175
Expenditures and other uses:				
General government	441,780	438,416	426,503	11,913
Human services	1,294,456	1,245,771	1,243,282	2,489
Education	1,118,040	1,111,779	1,111,267	512
Public safety	404,750	401,398	398,648	2,750
Natural resources	36,811	36,447	36,346	101
Total expenditures and other uses	3,295,837	3,233,811	3,216,046	17,765
Excess of revenues and other sources over expenditures and other uses	$ 25,052	$ 90,014	$ 107,954	$ 17,940

The positive variance from the fiscal year 2013 actual revenues to the fiscal year 2013 Original Budget for Personal Income Taxes is due in part to the stronger revenue performance of the 2012 tax amnesty program than was forecasted when the fiscal year 2013 Original Budget was enacted. The fiscal year 2013 Original Budget projected tax amnesty receipts for personal income tax of $3.0 million while actual personal income tax amnesty receipts came in at $5.7 million. In addition, actual personal income tax refunds and adjustments came in 4.0 percent below the original budget. These two positive changes in fiscal year 2013 actual revenues relative to the fiscal year 2013 Original Budget were offset in part by personal income tax withholding payments falling short of the Original Budget amount by 1.9 percent. Fiscal year 2013 actual sales and use tax revenues were 0.7 percent above the Final Budget amount reflecting the improved economic climate in the State. The decline in departmental revenue between the fiscal year 2013 Final Budget and the actual revenues was primarily the result of the state not receiving hospital license fee payments that were expected to be received.

The positive expenditure variance in the General Government function of approximately $11.9 million was primarily in three agencies, Administration, Revenue and the General Assembly. Within Administration, the majority of the positive variance was in the Facilities Management program due to lower utility costs and/or usage, as well as personnel savings in many programs and unspent funds for the I-195 Commission that will be carried forward for expenditure in FY 2014. In the Revenue budget, the primary driver of the surplus was unspent local aid funds for local property revaluations, followed by personnel savings due to staff turnover. In the General Assembly budget, the positive variance was primarily in the grants category, where funds may be committed but not fully expended within the fiscal year. The entire surplus for the General Assembly is reappropriated to fiscal year 2014.

The positive expenditure variance in the Human Services function of approximately $2.5 million was due to a positive variance of $8.1 million in the Office of Health and Human Services (OHHS), offset by negative variances in the Department of Human Services (DHS) of $1.8 million and the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH) of $4.5 million. The OHHS positive variance was primarily in the Medicaid program due to final caseloads being lower than estimated by the Caseload Estimating Conference in May 2013. The DHS negative variance was primarily due to a payable established for a penalty imposed on the TANF program by the federal government over eligibility and verification discrepancies in a prior year audit. The BHDDH negative variance is primarily attributable to overtime expenditures due to staffing shortages in their 24/7 facilities.

The positive expenditure variance in the Public Safety function of approximately $2.7 million was due to positive variances in the Department of Corrections (DOC) and the Department of Public Safety (DPS). The DOC surplus was the result of a number of equipment purchases not being received prior to the close of the fiscal year and thus requiring reappropriation of funds in fiscal year 2014 to cover the expense when it came due. The DPS surplus was primarily in the Security Services (Capitol Police and Sheriffs) program and was attributable to lower than anticipated equipment purchases, as well as savings from personnel turnover.

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, 2013, amounts to $3,661.7 million, net of accumulated depreciation of $2,328.4 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 approximately 4.57% of net book value (as restated). This increase is primarily caused by investments in the construction and rehabilitation of highways and other infrastructure as discussed in the second paragraph below.

Actual expenditures to purchase or construct capital assets were $303.2 million for the year. Of this amount $179.6 million was used to construct or reconstruct highways. Depreciation charges for the year totaled $156.2 million.

State of Rhode Island's Capital Assets as of June 30, 2013
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Capital assets not being depreciated or amortized						
Land	$ 375,225	$ 358,968	$ 45,558	$ 45,558	$ 420,783	$ 404,526
Works of Art	2,389	1,414			2,389	1,414
Intangibles	161,777	159,093			161,777	159,093
Construction in progress*	594,657	450,433	446	24	595,103	450,457
Total capital assets not being depreciated or amortized	1,134,048	969,908	46,004	45,582	1,180,052	1,015,490
Capital assets being depreciated or amortized						
Land improvements	3,700	3,700			3,700	3,700
Buildings*	711,315	685,494	234,384	234,384	945,699	919,878
Building improvements*	270,378	267,714			270,378	267,714
Equipment*	253,089	244,916	27,080	25,646	280,169	270,562
Intangibles	14,040	14,049	175		14,215	14,049
Infrastructure*	3,295,847	3,193,823			3,295,847	3,193,823
	4,548,369	4,409,696	261,639	260,030	4,810,008	4,669,726
Less: Accumulated depreciation or amortization*	2,190,034	2,055,332	138,373	128,152	2,328,407	2,183,484
Total capital assets being depreciated or amortized	2,358,335	2,354,364	123,266	131,878	2,481,601	2,486,242
Total capital assets (net)	$ 3,492,383	$ 3,324,272	$ 169,270	$ 177,460	$ 3,661,653	$ 3,501,732

*Certain fiscal year 2012 balances have been restated.

In fiscal year 2013, the State completed several significant capital projects, including the Sakonnet River Bridge in Tiverton/Portsmouth and the new Pawtucket River Bridge on Route I-95 in Pawtucket.

Additional information on the State's capital assets can be found in Note 6 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 $2,337.8 million, of which $1,103.9 million is general obligation debt, $468.7 million is special obligation debt and $765.2 million is debt of the blended component units. Additionally, accreted interest of $83.1 million has been recognized for debt of one blended component unit, which is not scheduled to be paid until 2052. On an overall basis the State's total bonded debt decreased by $71.5 million during fiscal year 2013. This decrease consists of a $6.8 million decrease in general obligation debt, a decrease of $50.4 million in special obligation debt, and a decrease of $14.3 million in the blended component units' debt. The general obligation debt is supported by the full faith and credit of the State. Other obligations subject to annual appropriation by the R.I. General Assembly totaled $396.7 million and are discussed in Note 7.

The State's assigned general obligation bond ratings are as follows: AA by Standard & Poor's Ratings Services (S&P), Aa2 by Moody's Investor Service, Inc. and AA by Fitch Ratings. The State does not have any debt limitation.

Bonds authorized by the voters that remain unissued as of June 30, 2013 amounted to $244.6 million; other obligations that are authorized but unissued totaled $277.5 million and are described in Note 7. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

Conditions Expected to Affect Future Operations

Fiscal Year 2014 Budget

The first quarter report for fiscal year 2014 prepared by the State Budget Office contains estimates of annual expenditures based upon analysis of expenditures through the first quarter of fiscal year 2014, as well as caseload and medical assistance expenditure estimates and revenue estimates adopted at the November 2013 Caseload and Revenue Estimating Conferences. The fiscal year 2014 balance, based upon these assumptions, is estimated to reflect a $33.4 million surplus in the General Fund.

The Budget Office continues to review department and agency fiscal year 2014 expenditure plans in conjunction with the fiscal year 2015 budget process. Any changes recommended by the Governor to the fiscal year 2014 enacted appropriations, or adopted revenues, will be incorporated in the supplemental appropriations bill, which under current law must be submitted to the General Assembly in January 2014.

The November Revenue Estimating Conference's estimates reflect recent revenue trends and expected collections based upon the current economic forecast. On the revenue side, general revenue receipts are expected to be $45.6 million more than enacted for fiscal year 2014. Taxes are expected to exceed enacted estimates by $31.0 million, while departmental revenues and other sources, including lottery revenues, are also expected to exceed enacted estimates by $14.6 million. The November Revenue Estimating Conference estimates that revenues will be $3,426.6 million as compared with the enacted estimate of $3,381.0 million for fiscal year 2014.

Lottery Revenue

The General Fund derives more than 11% of general revenue from the Rhode Island Lottery.

The Lottery's video lottery operations currently compete with casinos in nearby Connecticut. In addition, Massachusetts lawmakers have passed a bill to allow three casinos and one slot parlor in that State. Massachusetts has developed a two-phase application process for potential operators and developers. The process is anticipated to be completed and operators selected during spring 2014. It is anticipated that there could be an adverse effect on the amount of revenue derived from video lottery facilities in Rhode Island. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

A statewide ballot referendum was approved in November 2012 to allow the expansion of gaming at the Twin River facility located in Lincoln, RI. The expansion allows the facility to offer casino style gaming (i.e., table games) to the public subject to the operational control by the Lottery and/or Department of Business Regulation. The expanded gaming went into operation in June 2013.

Pension Benefits

During fiscal year 2012, the General Treasurer and Governor undertook a comprehensive pension reform initiative with the goal of improving the funded status of the plans within the Employees' Retirement System, reducing required employer contributions, and ensuring the long-term viability of the System. The General Assembly convened a special legislative session to address pension reform measures which were enacted on November 18, 2011.

The pension reform measures make significant changes to member benefit provisions including retirement eligibility age and service credit accrual factors. Additionally, cost of living allowances are generally suspended until the funded status of the plans improves and are now linked to performance of the System's investments. A defined contribution plan has been implemented for most active employees to supplement the reduced benefits provided through the defined benefit plans. The restated unfunded liability of the plans is being reamortized over a 25 year period.

See Note 13 for information about litigation that has been filed relating to these reforms.

Other Postemployment Benefits (OPEB)

Pursuant to legislation enacted by the General Assembly, the State established a trust in fiscal year 2011 to accumulate assets and pay benefits and other costs associated with its OPEB plans. In addition, effective in fiscal year 2011, all participating employers are required by law to fully fund the actuarially determined annual required contribution.

In accordance with GASB Statement No. 45, the State began accounting for retiree health care benefits on an actuarial basis in fiscal year 2008. The most recent actuarial study completed as of June 30, 2011 has determined the State's unfunded actuarial liability for all six plans included in the Rhode Island State Employees' and Electing Teachers OPEB System to be $858.7 million. Based on a discount rate of 5.0%, the State and other participating employers' annual required contribution was $56.8 million. For fiscal year 2013, the State funded the retiree health care program in accordance with law by contributing the actuarially required contribution. See Note 19 – Subsequent Events for information about future changes in the way benefits are provided to certain Medicare eligible retirees.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Future changes in healthcare costs, as well as investment returns and other assumptions, could significantly affect the level of contributions required of the State.

Collective Bargaining

The State is currently in negotiations with the various unions which represent certain State employees for new contracts that would be retroactively effective to July 1, 2013.

Transportation Funding Initiatives

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

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

The FY 2014 Appropriations Act established a Special Legislative Commission to make a comprehensive study of all types of funding mechanisms and strategies to support Rhode Island's infrastructure.

Unemployment Insurance Program

The State has borrowed from the Federal Unemployment Trust Fund to continue to pay benefits to unemployed individuals. Outstanding borrowings through June 30, 2013 totaled $155.3 million and the State anticipates needing to continue borrowing in fiscal 2014 in order to fund unemployment benefit payments. The General Assembly passed legislation effective in fiscal years 2012 and 2013 increasing the taxable wage base for employers and reducing the maximum weekly benefit amounts to unemployed individuals. The Department of Labor and Training currently estimates that the combination of benefit adjustments and increased federal and state taxes could enable the State to repay its federal loans from the Federal Unemployment Trust Fund as soon as 2015. This estimate is based on the department's projections of employment and unemployment levels assuming a gradual economic recovery and therefore is uncertain and subject to change.

Google Inc. Settlement

An investigation by the United States Attorney's Office in Rhode Island and the U.S. Food and Drug Administration's Office of Criminal Investigations Rhode Island Task Force resulted in the forfeiture of $500 million in revenue by Google. The State of Rhode Island will receive approximately $110 million of that amount to be utilized for public safety purposes.

Local Government Financial Matters

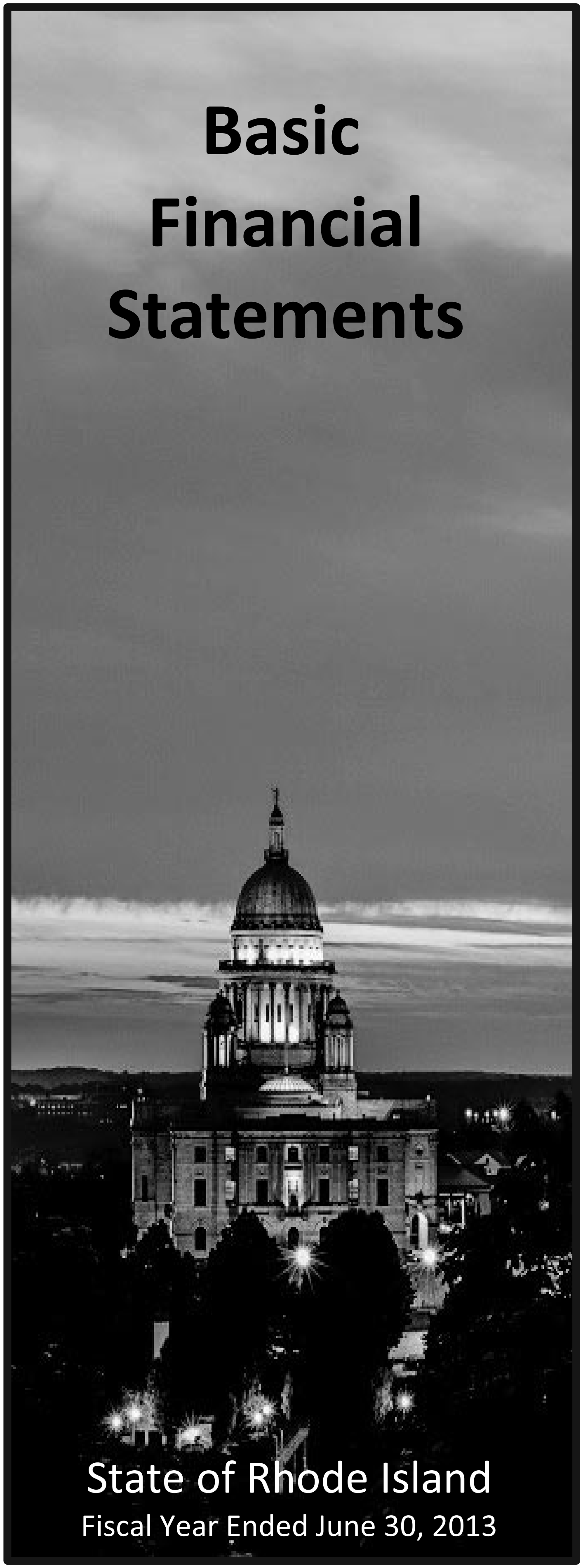
A number of local governments in the State continue to experience financial difficulties involving cumulative deficits, budgetary imbalances, unfunded pension and OPEB obligations, and rating agency downgrades. Most notably, the City of Central Falls was under the control of a State appointed receiver and subsequently filed for federal bankruptcy protection in August 2011. The Fourth Amended Plan of Debt Adjustment became effective on October 25, 2012 and allowed the City of Central Falls to emerge from bankruptcy. Under the plan, the City will have court-ordered balanced budgets for Fiscal Years 2013, 2014, 2015, 2016 and 2017 and will impose a 4 percent property tax increase in each of the next five years. Also, as a result of the agreement with the retirees, the City's five-year budget plan contains affordable pay as you go pension and retiree health insurance costs based upon the restructured plans.

The State has certain oversight responsibilities with respect to municipalities which are outlined in the General Laws and carried out by the Department of Revenue – Division of Municipal Finance and the Office of the Auditor General. The General Laws give the State, acting through the Department of Revenue, the power to implement three levels of oversight and control: fiscal overseer, budget commission, and state receiver. A State fiscal overseer and a budget commission were appointed for the City of East Providence in 2011. In September 2013 it was determined that the fiscal health of the City improved to a level that such oversight was no longer necessary. In addition, a budget commission was appointed for the City of Woonsocket in May 2012.

The State is continually monitoring the financial status of all municipalities to forestall the need for more extensive intervention.

Requests for Information

This report is designed to provide a general overview of the State's finances and accountability for all of the State's citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be sent to Peter.Keenan@doa.ri.gov. The State's Comprehensive Annual Financial Report may be found on the State Controller's home page, http://controller.admin.ri.gov/index.php. Requests for additional information related to component units should be addressed to the entities as listed in Note 1 of the financial statements.



Basic Financial Statements

State of Rhode Island

Fiscal Year Ended June 30, 2013

State of Rhode Island and Providence Plantations
Statement of Net Position
June 30, 2013
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business - Type Activities	Totals	Component Units
Assets				
Current assets:				
Cash and cash equivalents	$ 871,900	$ 23,702	$ 895,602	$ 277,569
Funds on deposit with fiscal agent	154,172	518	154,690	
Investments				18,034
Receivables (net)	576,545	80,676	657,221	64,625
Restricted assets:				
Cash and cash equivalents		8,338	8,338	272,037
Investments	69,319		69,319	38,693
Receivables (net)				4,113
Other assets				39,605
Due from primary government				19,142
Due from component units	4,489		4,489	552
Internal balances	(4,625)	4,625		
Due from other governments and agencies	239,585	1,565	241,150	955
Inventories	1,694	699	2,393	10,246
Other assets	6,984	435	7,419	6,748
Total current assets	1,920,063	120,558	2,040,621	752,319
Noncurrent assets:				
Investments				165,375
Receivables (net)	22,359		22,359	36,201
Due from other governments and agencies	2,680		2,680	
Restricted assets:				
Cash and cash equivalents				101,506
Investments				370,144
Other assets				1,555,854
Due from component units	55,415		55,415	1,394
Capital assets - nondepreciable	1,134,048	46,004	1,180,052	230,599
Capital assets - depreciable (net)	2,358,335	123,266	2,481,601	1,603,157
Derivative instruments	26,883		26,883	
Other assets	18,287	3,610	21,897	185,693
Total noncurrent assets	3,618,007	172,880	3,790,887	4,249,923
Total assets	5,538,070	293,438	5,831,508	5,002,242
Liabilities				
Current Liabilities:				
Accounts payable	624,836	19,574	644,410	93,908
Due to primary government				4,489
Due to component units	19,142		19,142	552
Due to other governments and agencies		5,933	5,933	114
Accrued expenses		4,408	4,408	30
Unearned revenue	74,837		74,837	
Other current liabilities	105,110		105,110	196,406
Current portion of long-term debt	223,727	13,533	237,260	194,446
Obligation for unpaid prize awards		7,396	7,396	
Total current liabilities	1,047,652	50,844	1,098,496	489,945
Noncurrent Liabilities:				
Due to primary government				55,415
Due to other governments and agencies		155,276	155,276	
Net pension obligation	1,816		1,816	
Net OPEB obligation	11,341		11,341	46,878
Unearned revenue		6,305	6,305	12,916
Due to component units				1,394
Notes payable	5,110	43	5,153	20,177
Loans payable				41,375
Obligations under capital leases	222,315		222,315	6,931
Compensated absences	14,387	223	14,610	23,275
Bonds payable	2,334,131	224,261	2,558,392	2,139,690
Other liabilities	32,133		32,133	305,328
Total noncurrent liabilities	2,621,233	386,108	3,007,341	2,653,379
Total liabilities	3,668,885	436,952	4,105,837	3,143,324
Deferred inflows of resources				
Fair value of hedging derivatives	26,883		26,883	
Net position (deficit)				
Net investment in capital assets	2,488,755	(65,283)	2,423,472	1,120,009
Restricted for:				
Budget reserve	171,959		171,959	
Transportation	1,432		1,432	
Debt	114,242	8,340	122,582	284,019
Assistance to other entities	98,293		98,293	
Temporary disability insurance program	154,004		154,004	
Other	112,022		112,022	169,563
Nonexpendable	174		174	90,616
Unrestricted	(1,298,579)	(86,571)	(1,385,150)	194,711
Total net position (deficit)	$ 1,842,302	$ (143,514)	$ 1,698,788	$ 1,858,918

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

State of Rhode Island and Providence Plantations
Statement of Activities
For the Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

					Net (Expense) Revenue and Changes in Net Position			
		Program Revenues			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	$ 625,081	$ 220,376	$ 96,706	$ 1,852	$ (306,147)	$	$ (306,147)	$
Human services	3,038,841	227,158	1,742,901	1,280	(1,067,502)		(1,067,502)	
Education	1,364,575	26,840	219,585	121	(1,118,029)		(1,118,029)	
Public safety	473,580	47,075	44,962	2,083	(379,460)		(379,460)	
Natural resources	76,730	28,975	18,658	3,558	(25,539)		(25,539)	
Transportation	300,639	1,076	88,988	181,657	(28,918)		(28,918)	
Interest and other charges	129,714				(129,714)		(129,714)	
Total governmental activities	6,009,160	551,500	2,211,800	190,551	(3,055,309)		(3,055,309)	
Business-type activities:								
State lottery	397,625	775,993				378,368	378,368	
Convention center	48,437	22,485				(25,952)	(25,952)	
Employment security	396,909	256,592	166,164			25,847	25,847	
Total business-type activities	842,971	1,055,070	166,164			378,263	378,263	
Total primary government	$ 6,852,131	$ 1,606,570	$ 2,377,964	$ 190,551	(3,055,309)	378,263	(2,677,046)	
Component units:	$ 1,232,182	$ 616,480	$ 456,029	$ 86,943				(72,730)
General Revenues:								
Taxes:								
Personal income					1,082,035		1,082,035	
General business					381,252		381,252	
Sales and use					1,070,648		1,070,648	
Gasoline					134,465		134,465	
Other					202,569		202,569	
Interest and investment earnings					4,893	117	5,010	101,462
Miscellaneous revenue					143,240	24,490	167,730	11,849
Gain on sale of capital assets					3,757		3,757	
Transfers (net)					333,804	(333,804)		
Total general revenues and transfers					3,356,663	(309,197)	3,047,466	113,311
Change in net position					301,354	69,066	370,420	40,581
Net position (deficit) - beginning as restated					1,540,948	(212,580)	1,328,368	1,818,337
Net position (deficit) - ending					$ 1,842,302	$ (143,514)	$ 1,698,788	$ 1,858,918

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

Major Funds

Governmental

General Fund – is the operating fund of the State and is used to account for all financial transactions except those required to be accounted for in another fund.

Special Revenue Funds - account for the proceeds of specific revenue sources that are legally restricted.

> **Intermodal Surface Transportation Fund –** accounts for the collection of the gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the state's highway system. It also accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) bonds, the RI Motor Fuel Tax (RIMFT) revenue bonds, and the I-195 Redevelopment District Commission bonds and related expenditures.

Proprietary

Enterprise Funds - account for operations where management has decided that periodic determination of revenues earned, expenses incurred (including depreciation), and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

> **State Lottery Fund -** operates lottery games for the purpose of generating resources for the State's General Fund.
>
> **Rhode Island Convention Center Authority** - created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veteran's Memorial Auditorium Arts and Cultural Center located in Providence.
>
> **Employment Security Fund –** accounts for the State's unemployment compensation benefits. Revenues consist of taxes assessed on employers and federal grants to pay benefits to qualified unemployed persons.

State of Rhode Island and Providence Plantations
Balance Sheet
Governmental Funds
June 30, 2013
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 501,054	$ 19,292	$ 312,634	$ 832,980
Funds on deposit with fiscal agent		109,234	44,938	154,172
Restricted investments			69,319	69,319
Receivables (net)	499,691	12,519	67,037	579,247
Due from other funds	283	9,379	291	9,953
Due from component units		454		454
Due from other governments and agencies	188,377	50,740		239,117
Loans to other funds	15,568		84,546	100,114
Other assets	367			367
Total assets	$ 1,205,340	$ 201,618	$ 578,765	$ 1,985,723
Liabilities and Fund Balances				
Liabilities				
Accounts payable	548,672	31,657	29,488	609,817
Due to other funds			15,714	15,714
Due to component units	5,093	5,387	8,662	19,142
Loans from other funds	84,545		9,608	94,153
Unearned revenue	89,545	18,384		107,929
Other liabilities	76,351	4,480	326	81,157
Total liabilities	804,206	59,908	63,798	927,912
Fund Balances				
Nonspendable			174	174
Restricted	282,137	145,473	514,725	942,335
Unrestricted				
Committed	4,035	95	68	4,198
Assigned	105,639	255		105,894
Unassigned	9,323	(4,113)		5,210
Total fund balances	401,134	141,710	514,967	1,057,811
Total liabilities and fund balances	$ 1,205,340	$ 201,618	$ 578,765	$ 1,985,723

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

State of Rhode Island and Providence Plantations
Reconciliation of the Balance Sheet of the Governmental Funds
to the Statement of Net Position
June 30, 2013
(Expressed in Thousands)

Fund balance - total governmental funds			$ 1,057,811
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds.			
	Capital assets	5,676,713	
	Accumulated depreciation	(2,186,648)	
			3,490,065
Bonds, notes, certificates of participation, accrued interest and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds.			
	Compensated absences	(78,392)	
	Bonds payable	(2,420,887)	
	Net premium/discount	(58,619)	
	Refunding costs	15,775	
	Costs of issuance	10,720	
	Obligations under capital leases	(232,975)	
	Premium	(18,441)	
	Refunding costs	6,266	
	Costs of issuance	2,463	
	Interest payable	(21,871)	
	Other liabilities	(54,504)	
			(2,850,465)
Other long-term assets and unearned revenue are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
	Receivables	16,316	
	Due from component units	59,450	
	Other assets	5,104	
	Unearned revenue	33,094	
			113,964
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net position of the internal service funds is reported with governmental activities.			30,927
Net position - total governmental activities			$ 1,842,302

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

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	$ 2,568,513	$ 134,465	$ 165,525	$ 2,868,503
Licenses, fines, sales, and services	323,308		(2,541)	320,767
Departmental restricted revenue	220,983	1,044		222,027
Federal grants	2,129,847	272,597		2,402,444
Income from investments	693	174	3,973	4,840
Other revenues	56,844	43,876	46,370	147,090
Total revenues	5,300,188	452,156	213,327	5,965,671
Expenditures:				
Current:				
General government	470,328		163,682	634,010
Human services	3,042,705			3,042,705
Education	1,330,128		260	1,330,388
Public safety	463,734			463,734
Natural resources	70,145		57	70,202
Transportation		372,083	1,804	373,887
Capital outlays			130,415	130,415
Debt service:				
Principal	125,148	36,057	15,765	176,970
Interest and other charges	68,295	20,683	37,874	126,852
Total expenditures	5,570,483	428,823	349,857	6,349,163
Excess (deficiency) of revenues over (under) expenditures	(270,295)	23,333	(136,530)	(383,492)
Other financing sources (uses):				
Bonds and notes issued			81,400	81,400
Proceeds from refundings			88,175	88,175
Proceeds from the sale of certificates of participation			26,690	26,690
Premium			27,507	27,507
Transfers in	437,012	57,513	98,279	592,804
Payment to refunded bonds escrow agent			(101,172)	(101,172)
Transfers out	(138,737)	(47,815)	(78,019)	(264,571)
Total other financing sources (uses)	298,275	9,698	142,860	450,833
Net change in fund balances	27,980	33,031	6,330	67,341
Fund balances - beginning as restated	373,154	108,679	508,637	990,470
Fund balances - ending	$ 401,134	$ 141,710	$ 514,967	$ 1,057,811

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

State of Rhode Island and Providence Plantations
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of the Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

Net change in fund balances - total governmental funds			$ 67,341
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	315,644	
	Depreciation expense	(145,594)	
			170,050
Bond, note, and certificate of participation proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net Position. Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.			
	Principal paid on debt	176,970	
	Debt defeased in refunding	92,855	
	Accrued interest and other charges	(13,196)	
	Proceeds from sale of debt	(196,265)	
	Deferral of premium/discount	(27,507)	
	Amortization of premium/discount	14,939	
	Deferral of issuance costs	1,366	
	Amortization of issuance costs	(1,896)	
	Deferral of refunding costs	5,523	
	Amortization of refunding costs	(1,281)	
			51,508
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	(666)	
	Program expenses	(3,321)	
	Program revenue	8,707	
	Capital grant revenue	(95)	
	General revenue - taxes	2,466	
	General revenue-miscellaneous	(3,779)	
			3,312
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is reported with governmental activities.			9,143
Change in net position - total governmental activities			$ 301,354

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

State of Rhode Island and Providence Plantations
Statement of Net Position
Proprietary Funds
June 30, 2013
(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	$ 18,915	$ 3,648	$ 1,139	$ 23,702	$ 38,737
Restricted cash and cash equivalents		8,338		8,338	
Funds on deposit with fiscal agent			518	518	
Receivables (net)	7,325	677	72,674	80,676	6,488
Due from other funds		1,859	3,967	5,826	1,437
Due from other governments and agencies			1,565	1,565	
Inventories	699			699	1,692
Other assets	42	393		435	6,610
Total current assets	26,981	14,915	79,863	121,759	54,964
Noncurrent assets:					
Capital assets - nondepreciable		46,004		46,004	
Capital assets - depreciable (net)	402	122,864		123,266	2,317
Other assets		3,610		3,610	
Total noncurrent assets	402	172,478		172,880	2,317
Total assets	27,383	187,393	79,863	294,639	57,281
Liabilities					
Current liabilities:					
Accounts payable	13,942	5,632		19,574	17,642
Due to other funds	1,201			1,201	301
Due to other governments and agencies			5,933	5,933	
Loans from other funds					5,961
Accrued expenses	4,408			4,408	
Unearned revenue		2,447		2,447	
Other current liabilities	671			671	2,450
Notes payable		188		188	
Bonds payable		10,060		10,060	
Compensated absences	167			167	
Obligation for unpaid prize awards	7,396			7,396	
Total current liabilities	27,785	18,327	5,933	52,045	26,354
Noncurrent liabilities:					
Due to other governments and agencies			155,276	155,276	
Unearned revenue	5,625	680		6,305	
Notes payable		43		43	
Bonds payable		224,261		224,261	
Compensated absences	223			223	
Total noncurrent liabilities	5,848	224,984	155,276	386,108	
Total liabilities	33,633	243,311	161,209	438,153	26,354
Net Position (Deficit)					
Net investment in capital assets	402	(65,685)		(65,283)	2,317
Restricted for:					
Debt		8,340		8,340	
Unrestricted	(6,652)	1,427	(81,346)	(86,571)	28,610
Total net position (deficit)	$ (6,250)	$ (55,918)	$ (81,346)	$ (143,514)	$ 30,927

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 Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Operating revenues:					
Charges for services	$	$ 22,068	$ 256,592	$ 278,660	$ 284,447
Lottery sales	253,365			253,365	
Video lottery, net	520,747			520,747	
Table games	1,881			1,881	
Federal grants			166,164	166,164	
Miscellaneous		417		417	
Total operating revenues	775,993	22,485	422,756	1,221,234	284,447
Operating expenses:					
Personal services	6,212	14,344		20,556	11,983
Supplies, materials, and services	241,384	9,574		250,958	268,724
Prize awards, net of prize recoveries	149,878			149,878	
Depreciation and amortization	151	10,169		10,320	234
Benefits paid			382,162	382,162	
Total operating expenses	397,625	34,087	382,162	813,874	280,941
Operating income (loss)	378,368	(11,602)	40,594	407,360	3,506
Nonoperating revenues (expenses):					
Interest revenue	115	2		117	52
Other nonoperating revenue	1,095	806	22,589	24,490	14
Interest expense		(14,350)	(6,029)	(20,379)	
Other nonoperating expenses			(8,718)	(8,718)	
Total nonoperating revenue (expenses)	1,210	(13,542)	7,842	(4,490)	66
Income (loss) before transfers	379,578	(25,144)	48,436	402,870	3,572
Transfers in	272	23,423	22,532	46,227	7,400
Transfers out	(379,225)		(806)	(380,031)	(1,829)
Change in net position	625	(1,721)	70,162	69,066	9,143
Net position (deficit) - beginning	(6,875)	(54,197)	(151,508)	(212,580)	21,784
Net position (deficit) - ending	$ (6,250)	$ (55,918)	$ (81,346)	$ (143,514)	$ 30,927

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

State of Rhode Island and Providence Plantations
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2013
(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	$ 254,142	$ 22,401	$ 254,458	$ 531,001	$ 279,520
Cash received from video lottery operations, net	518,621			518,621	
Cash received from MUSL for grand prize winners	2,333			2,333	
Cash received from grants			167,066	167,066	
Cash payments to suppliers for goods and services	(3,671)	(8,078)		(11,749)	(267,427)
Cash payments to employees	(6,222)	(14,535)		(20,757)	(12,870)
Cash payments to prize winners	(153,161)			(153,161)	
Cash payments for commissions	(233,345)			(233,345)	
Cash payments for benefits			(382,176)	(382,176)	
Other operating revenue (expense)					14
Net cash provided by (used for) operating activities	378,697	(212)	39,348	417,833	(763)
Cash flows from noncapital financing activities:					
Loan from federal government			180,177	180,177	
Payment of interest on loan from federal government			(7,573)	(7,573)	
Loans from other funds					4,412
Loans to other funds					(868)
Repayment of loans to other funds					849
Repayment of loans from other funds					(1,111)
Transfers in		21,878	24,641	46,519	7,400
Transfers out	(380,638)		(736)	(381,374)	(1,829)
Net transfers from (to) fiscal agent			(236,296)	(236,296)	
Net cash provided by (used for) noncapital financing activities	(380,638)	21,878	(39,787)	(398,547)	8,853
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(51,073)		(51,073)	
Interest paid on capital obligations		(8,151)		(8,151)	
Acquisition of capital assets	(294)	(1,376)		(1,670)	(82)
Proceeds from the disposition of capital assets	8			8	
Proceeds from bonds		38,141		38,141	
Net cash provided by (used for) capital and related financing activities	(286)	(22,459)		(22,745)	(82)
Cash flows from investing activities:					
Interest on investments	115	2		117	52
Net cash provided by investing activities	115	2		117	52
Net increase (decrease) in cash and cash equivalents	(2,112)	(791)	(439)	(3,342)	8,060
Cash and cash equivalents, July 1	21,027	12,777	1,578	35,382	30,677
Cash and cash equivalents, June 30	$ 18,915	$ 11,986	$ 1,139	$ 32,040	$ 38,737
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	378,368	(11,602)	40,594	407,360	3,506
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	151	10,169		10,320	234
Other revenue (expense) and operating transfer in (out)	469		887	1,356	14
Net changes in assets and liabilities:					
Receivables, net	243	424	(2,133)	(1,466)	(3,681)
Inventory	116			116	18
Prepaid items		51		51	(486)
Other assets	(38)			(38)	
Due to / due from transactions	12			12	
Accounts and other payables	(122)	1,254		1,132	519
Accrued expenses	422			422	(887)
Unearned revenue	26	(508)		(482)	
Prize awards payable	(950)			(950)	
Total adjustments	329	11,390	(1,246)	10,473	(4,269)
Net cash provided by (used for) operating activities	$ 378,697	$ (212)	$ 39,348	$ 417,833	$ (763)

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

Fiduciary Funds

Fiduciary Funds – used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the State's own programs.

Pension and Other Postemployment Benefits Trusts – used to report resources that are required to be held in trust for the members and beneficiaries of the State sponsored defined benefit pension plans, defined contribution plan and other postemployment benefit plans.

External Investment Trust – Ocean State Investment Pool (OSIP) – Accounts for the share of the Ocean State Investment Pool that is external to the reporting entity.

Private-Purpose Trust – used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

Touro Jewish Synagogue – accounts for the earnings on monies bequeathed to the State for the purpose of maintaining the Touro Jewish Synagogue.

Agency Funds – used to report resources held by the State in a purely custodial capacity (assets equal liabilities).

State of Rhode Island and Providence Plantations
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013
(Expressed in Thousands)

	Pension and Other Postemployment Benefits Trusts	External Investment Trust Ocean State Investment Pool	Private Purpose Touro Jewish Synagogue	Agency
Assets				
Cash and cash equivalents	5,931	$	$	$ 14,487
Deposits held as security for entities doing business in the State				70,211
Advance held by claims processing agent	1,248			
Receivables				
Contributions	30,665			
Due from state for teachers	14,549			
Miscellaneous	16,417	7		1,891
Total receivables	61,631	7		1,891
Investments, at fair value				
Equity in short-term investment fund		13,384		
Equity in pooled trust	7,599,444			
Other investments	122,405		2,267	
Total investments	7,721,849	13,384	2,267	
Total assets	7,790,659	13,391	2,267	$ 86,589
Liabilities				
Accounts payable	5,132	3		2,930
Incurred but not reported claims	2,785			
Unearned revenue	6,064			
Deposits held for others				83,659
Total liabilities	13,981	3		$ 86,589
Net position				
Held in trust for:				
Pension benefits	7,710,558			
Other postemployment benefits	66,120			
Other		13,388	2,267	
Total net position	$ 7,776,678	$ 13,388	$ 2,267	

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 Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

	Pension and Other Postemployment Benefits Trusts	External Investment Trust Ocean State Investment Pool	Private Purpose Touro Jewish Synagogue
Additions			
Contributions			
Member contributions	$ 190,355	$	$
Employer contributions	370,498		
Supplemental employer contributions	15,690		
State contributions for teachers	70,703		
Interest on service credits purchased	1,002		
Service credit transfer payments	593		
From participants		12,178	
Total contributions	648,841	12,178	
Other income	1,256		
Investment income			
Net appreciation in fair value of investments	711,597		224
Interest	60,094	27	
Dividends	17,182		37
Other investment income	7,877		
	796,750	27	261
Less investment expense	14,583	14	
Net income from investing activities	782,167	13	261
Total additions	1,432,264	12,191	261
Deductions			
Retirement benefits	899,223		
Death benefits	3,518		
Distributions	338	1,083	96
Refund of contributions	11,941		
Administrative expense	7,507		
Service credit transfers	593		
OPEB benefits	53,803		
Total deductions	976,923	1,083	96
Change in net position:			
Pension benefits	426,083		
Other postemployment benefits	29,258		
Other		11,108	165
Net position - beginning	7,321,337	2,280	2,102
Net position - ending	**$** 7,776,678	**$** 13,388	**$** 2,267

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

State of Rhode Island and Providence Plantations
Combining Statement of Net Position
Component Units
June 30, 2013
(Expressed in Thousands)

	RIAC	RIEDC	I-195 RDC	RIPTA	RITBA
Assets					
Current Assets:					
Cash and cash equivalents	$ 47,167	$ 5,569	$ 166	$ 3,304	$ 2,051
Investments				2,789	2,728
Receivables (net)	5,229	2,748		4,295	72
Restricted assets:					
Cash and cash equivalents	22,654	12,894			5,365
Investments	11,793	2,967			10,850
Receivables (net)	2,437	1,676			
Other assets	52				390
Due from primary government		108		8,630	
Due from other governments					
Due from other component units	131	95			
Inventories				2,342	166
Other assets	717	77	44	142	107
Total current assets	90,180	26,134	210	21,502	21,729
Noncurrent Assets:					
Investments		1,878		1,622	5,638
Receivables (net)	127	4,551			
Restricted assets:					
Cash and cash equivalents	50,692	6,401			
Investments		26,113			2,483
Other assets		1,135			
Capital assets - nondepreciable	47,885	129		17,052	3,760
Capital assets - depreciable (net)	464,939	53		150,478	148,146
Due from other component units		697			
Other assets, net of amortization	4,840		1,492		1,049
Total noncurrent assets	568,483	40,957	1,492	169,152	161,076
Total assets	658,663	67,091	1,702	190,654	182,805
Liabilities					
Current liabilities:					
Accounts payable	3,455	589	43	7,794	8,065
Due to primary government	454			930	
Due to other component units					
Due to other governments					
Accrued liabilities					
Other liabilities	15,313	3,846	118	5,859	3,077
Current portion of long-term debt	11,672	2,566		32	2,595
Total current liabilities	30,894	7,001	161	14,615	13,737
Noncurrent liabilities:					
Due to primary government	3,575			14,978	
Due to other component units					
Unearned revenue		12,098			
Notes payable	151				5,000
Loans payable	40,059				
Obligations under capital leases					
Net OPEB obligation				37,397	
Other liabilities		3,717		8,200	
Compensated absences					
Bonds payable	281,480	28,698	38,400		61,059
Total noncurrent liabilities	325,265	44,513	38,400	60,575	66,059
Total liabilities	356,159	51,514	38,561	75,190	79,796
Net position (deficit)					
Net investment in capital assets	207,389	182		151,622	80,222
Restricted for:					
Debt					16,605
Other	47,379	2,805			
Other nonexpendable					
Unrestricted	47,736	12,590	(36,859)	(36,158)	6,182
Total net position (deficit)	$ 302,504	$ 15,577	$ (36,859)	$ 115,464	$ 103,009

(Continued)

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

State of Rhode Island and Providence Plantations
Combining Statement of Net Position
Component Units
June 30, 2013
(Expressed in Thousands)

	URI	RIC	CCRI	Other Component Units	Totals
Assets					
Current Assets:					
Cash and cash equivalents	$ 124,156	$ 20,627	$ 17,302	$ 57,227	$ 277,569
Investments				12,517	18,034
Receivables (net)	30,295	4,777	4,518	12,691	64,625
Restricted assets:					
Cash and cash equivalents				231,124	272,037
Investments				13,083	38,693
Receivables (net)					4,113
Other assets				39,163	39,605
Due from primary government	6,198	2,069		2,137	19,142
Due from other governments				955	955
Due from other component units				326	552
Inventories	2,749	508	820	3,661	10,246
Other assets	1,326		120	4,215	6,748
Total current assets	164,724	27,981	22,760	377,099	752,319
Noncurrent Assets:					
Investments	129,805	22,832	2,461	1,139	165,375
Receivables (net)	15,653	4,785	40	11,045	36,201
Restricted assets:					
Cash and cash equivalents	745	92	3,973	39,603	101,506
Investments				341,548	370,144
Other assets	27,194	1,002	784	1,525,739	1,555,854
Capital assets - nondepreciable	27,763	15,406	13,277	105,327	230,599
Capital assets - depreciable (net)	557,036	109,895	61,605	111,005	1,603,157
Due from other component units				697	1,394
Other assets, net of amortization	12,806		24	165,482	185,693
Total noncurrent assets	771,002	154,012	82,164	2,301,585	4,249,923
Total assets	935,726	181,993	104,924	2,678,684	5,002,242
Liabilities					
Current liabilities:					
Accounts payable	39,142	8,567	3,537	22,716	93,908
Due to primary government	1,600	890	615		4,489
Due to other component units				552	552
Due to other governments				114	114
Accrued liabilities				30	30
Other liabilities		1,341	1,352	165,500	196,406
Current portion of long-term debt	29,129	6,883	7,200	134,369	194,446
Total current liabilities	69,871	17,681	12,704	323,281	489,945
Noncurrent liabilities:					
Due to primary government	17,305	14,632	4,925		55,415
Due to other component units				1,394	1,394
Unearned revenue				818	12,916
Notes payable		1,334		13,692	20,177
Loans payable	834			482	41,375
Obligations under capital leases	6,565			366	6,931
Net OPEB obligation				9,481	46,878
Other liabilities	12,815	3,753	22	276,821	305,328
Compensated absences	17,789	1,915	840	2,731	23,275
Bonds payable	233,835	18,364	2,954	1,474,900	2,139,690
Total noncurrent liabilities	289,143	39,998	8,741	1,780,685	2,653,379
Total liabilities	359,014	57,679	21,445	2,103,966	3,143,324
Net position (deficit)					
Net investment in capital assets	351,442	89,220	66,096	173,836	1,120,009
Restricted for:					
Debt				267,414	284,019
Other	55,118	4,003	3,936	56,322	169,563
Other nonexpendable	74,528	16,078	10		90,616
Unrestricted	95,624	15,013	13,437	77,146	194,711
Total net position (deficit)	$ 576,712	$ 124,314	$ 83,479	$ 574,718	$ 1,858,918

(Concluded)

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

State of Rhode Island and Providence Plantations
Combining Statement of Activities
Component Units
For the Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

	RIAC	RIEDC	I-195 RDC	RIPTA	RITBA	URI	RIC	CCRI	Other Component Units	Totals
Expenses	$ 61,286	$ 34,690	$ 39,177	$ 120,045	$ 21,945	$ 471,094	$ 141,851	$ 117,076	$ 225,018	$ 1,232,182
Program revenues:										
Charges for services	50,320	2,518		33,239	19,031	308,739	70,800	42,492	89,341	616,480
Operating grants and contributions	4,927	28,474	2,495	65,073		163,258	63,411	78,664	49,727	456,029
Capital grants and contributions	6,427		7	28,896		26,936	14,525	3,275	6,877	86,943
Total program revenues	61,674	30,992	2,502	127,208	19,031	498,933	148,736	124,431	145,945	1,159,452
Net (Expenses) Revenues	388	(3,698)	(36,675)	7,163	(2,914)	27,839	6,885	7,355	(79,073)	(72,730)
General revenues:										
Interest and investment earnings	47	4,130			497	10,702	2,092	340	83,654	101,462
Miscellaneous revenue				965	254	991	1,675	353	7,611	11,849
Total general revenue	47	4,130		965	751	11,693	3,767	693	91,265	113,311
Change in net position	435	432	(36,675)	8,128	(2,163)	39,532	10,652	8,048	12,192	40,581
Net position (deficit) - beginning as restated	302,069	15,145	(184)	107,336	105,172	537,180	113,662	75,431	562,526	1,818,337
Net position (deficit) - ending	$ 302,504	$ 15,577	$ (36,859)	$ 115,464	$ 103,009	$ 576,712	$ 124,314	$ 83,479	$ 574,718	$ 1,858,918

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

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Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Reporting Entity

The accompanying financial statements include all funds of the State and its component units. GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement No. 61*, The Financial Reporting Entity: Omnibus*, defines component units as a) legally separate entities for which the elected officials of the primary government (such as the State) are financially accountable, or b) legally separate entities for which a primary government is not financially accountable but whose exclusion from the State's financial statements would cause said statements to be misleading.

GASB has set forth criteria to be considered in determining financial accountability. The primary government (the State) is financially accountable if it appoints a voting majority of the entity's governing body **and** (1) it is able to impose its will on that entity **or** (2) there is a potential for the entity to provide specific financial benefits to, or to impose specific financial burdens on, the State. Also, the State is financially accountable if an entity is fiscally dependent on the State and there is the potential for the entity to provide specific financial benefits to, or to impose specific financial burdens on, the State, regardless of the State's appointment power over the governing body.

The State has considered all agencies, boards, commissions, public benefit authorities and corporations, the State university and colleges and the Central Falls School District to be potential component units. Audited financial statements of the individual component units can be obtained from their respective administrative offices. Those entities that were deemed to be component units were included as such because of the entity's relationship with the State as determined by application of GASB statements 14, 39, and 61.

Blended Component Units

A component unit should be reported as part of the primary government and blended into the appropriate funds in any of the following circumstances:

- The component unit provides services entirely or almost entirely to the primary government, or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it;
- The component unit's governing body is substantively the same as the governing body of the primary government and (a) there is a financial benefit or burden relationship between the primary government and the component unit, or (b) management of the primary government has operational responsibility for the component unit; or
- The component unit's total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government.

The following component units are reported as part of the primary government in both the fund and government-wide financial statements.

Rhode Island Convention Center Authority (RICCA)

The RICCA was established by State law as a single purpose building authority to finance the development of convention and other event facilities in Providence, RI. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veteran's Memorial Auditorium Arts and Cultural Center located in Providence. RICCA is dependent upon annual State appropriations of lease revenue by the General Assembly to fund debt service on its outstanding bonds. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One LaSalle Square, Providence, RI 02903.

Tobacco Settlement Financing Corporation (TSFC)

TSFC was organized in June 2002 as a public corporation by the State. TSFC is legally separate and provides services exclusively to the State through the purchase of its future tobacco settlement revenues. TSFC is authorized to issue bonds necessary to provide sufficient funds for carrying out its purpose. TSFC's purchase of tobacco settlement revenues from the State did not meet all the requirements of a sale of future revenues and consequently, consistent with generally accepted accounting principles, the TSFC is reflected as a blended component unit. For more detailed information, a copy of the financial statements can be obtained by writing to the Tobacco Settlement Financing Corporation, One Capitol Hill, Providence, RI 02908.

Rhode Island Public Rail Corporation (RIPRC)

This corporation was created and established for the purpose of enhancing and preserving the viability of commuter rail operations in the State. Currently its primary purpose, as outlined in the State's General Laws, is to provide indemnity for rail service operating within the State. The State is fully responsible for reimbursing the RIPRC for all costs associated with the purchase of such coverage. Separately issued financial statements are not available for the RIPRC.

Discretely Presented Component Units

Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading.

For each discretely presented component unit the potential exists for a financial burden or benefit to be imposed on the State as a result of the existence of the component unit. For the discretely presented component units (DPCU's) included in the State's CAFR, the State, generally acting through the Governor, appoints a voting majority of the component units' governing boards. These discretely presented component units primarily serve or benefit those outside of the primary government.

The State distinguishes between major and nonmajor component units based upon the nature and significance of the component unit's relationship to the State. The factors underlying this determination include the type and dollar value of services provided to the citizens of the State, the presence of significant transactions with the State, and a significant benefit or burden relationship with the State. Discretely presented component units, grouped by major and nonmajor categories, are as follows:

Major Component Units

Rhode Island Airport Corporation (RIAC)

This corporation was created in 1992 and its purpose is to undertake the management, operation, maintenance and improvements of the six airports in the State. Revenues of RIAC include airline and concession contract revenues, federal grants, licenses, and permits. The RIAC leases the land on which the State's largest airport is located and reimburses the State annually for general obligation proceeds utilized for airport projects. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, Rhode Island Airport Corporation, 2000 Post Road, Warwick, RI 02886 or at www.pvdairport.com.

Rhode Island Economic Development Corporation (RIEDC)

This corporation was created in 1995 and its purpose is to promote and encourage the preservation, expansion, and sound development of new and existing industry, business, commerce, agriculture, tourism, and recreational facilities in the State, so as to promote economic development. It has the power to issue tax-exempt bonds to accomplish its corporate purpose. The RIEDC has one component unit, the Small Business Loan Fund Corporation, which was created for the purpose of granting secured and unsecured loans to Rhode Island's small business community. The RIEDC's activities are largely supported by State appropriations and the RIEDC has used its debt issuance authority to finance various economic development initiatives on behalf of 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. Economic Development Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.riedc.com.

I-195 Redevelopment District Commission (I-195 RDC)

This commission was created in 2011 by the Rhode Island General Assembly, to oversee, plan, implement, and administer the development of land reclaimed from the Interstate 195 relocation project and the Washington Bridge project. Upon completion of the redevelopment of the I-195 land, the commission will oversee the sale of the land in an attempt to maximize the economic benefits for the State. The commission issued debt and utilized the proceeds to reimburse the primary government for the fair value of the land acquired from the State. The State will appropriate amounts to the commission for debt service and operating assistance until sufficient land sale proceeds are available to fund these expenses. Proceeds from land sales are expected to fund the majority of the debt service. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, Rhode Island Economic Development Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903.

Rhode Island Public Transit Authority (RIPTA)

This authority was established in 1964 to acquire any mass motor bus transportation system that has filed a petition to discontinue its service, provided that the Authority has determined it to be in the public interest to continue such service. Revenues of RIPTA include passenger revenue and operating assistance grants from the State and federal governments. In addition to significant operating assistance, the State has also forgiven certain debt service obligations owed to the primary government as a means to provide additional financial assistance to the Authority. For more detailed information, a copy of the financial statements can be obtained by writing to the Finance Department, R.I. Public Transit Authority, 265 Melrose Street, Providence, RI 02907, or at www.ripta.com.

Rhode Island 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. The authority is responsible for the maintenance and operation of the Claiborne Pell, Mount Hope, Jamestown, and Sakonnet River Bridges which are a vital segment of the State's infrastructure. Title relating to the Jamestown and Sakonnet River bridges has remained with the State, thus those capital assets are reported within the primary government on the State's government-wide financial statements. The Claiborne Pell and Mount Hope bridges are reported as capital assets of the authority. For more detailed information, a copy of the financial statements can be obtained by writing to the Executive Director, R.I. Turnpike and Bridge Authority, P.O. Box 437, Jamestown, RI 02835-0437, or at www.ritba.org.

University and Colleges

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

Nonmajor Component Units

Central Falls School District

The Central Falls School District ("District") is governed by a seven member board of trustees that is appointed by the State's Board of Education ("Board"). As a result of the enactment of Chapter 312 of Rhode Island Public Laws of 1991, the State of Rhode Island assumed responsibility for the administration and operational funding of the Central Falls School District effective July 1, 1991. In June 2002, Chapter 16-2 of the Rhode Island General Laws established the board of trustees to govern the Central Falls School District in a manner consistent with most local school committees. In addition, the Commissioner of

Education and the Board have oversight over the development and approval of the District's operating budget and for other significant operating decisions and contracts. The District, which provides elementary and secondary education to residents of the City of Central Falls, is funded primarily through State appropriations and federal grant funds. For more detailed information, a copy of the financial statements can be obtained by writing to the Central Falls School District, 949 Dexter Street – Lower Level, Central Falls, RI 02863-1715.

Rhode Island 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. The authority receives significant appropriations from the State annually to administer certain scholarship and grant programs on its behalf. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, R.I. Higher Education Assistance Authority, 560 Jefferson Boulevard, Warwick, RI 02886, or at www.riheaa.org.

Rhode Island 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. Certain debt issued by the RIHMFC is secured in part by capital reserve funds which the Generally Assembly may, but is not required to, appropriate amounts to fund any deficiencies in such reserves. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, R.I. Housing and Mortgage Finance Corporation, 44 Washington Street, Providence, RI 02903-1721, or at www.rhodeislandhousing.org.

Rhode Island 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. Certain obligations of the RIIFC are secured by mortgages which are insured by the Rhode Island Industrial-Recreational Building Authority for which the State's full faith and credit is pledged. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial Facilities Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.riedc.com.

Rhode Island 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. The authority's insurance of first mortgages and first security agreements is backed by a pledge of the full faith and credit of the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial-Recreational Building Authority, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.riedc.com.

Rhode Island 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. The RIRRC coordinates and administers a statewide recycling program and has periodically transferred amounts to the State's general fund as operating assistance. Additionally, the State is one of several potentially responsible parties for the costs of remedial actions at the RIRRC's superfund site. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Resource Recovery Corporation, 65 Shun Pike, Johnston, RI 02919, or at www.rirrc.org.

Rhode Island Water Resources Board Corporate (RIWRBC)

This board was created by law to foster and guide the development of water resources, including the establishment of water supply facilities, and to lease these facilities to cities, towns, districts, and other municipal, quasi-municipal or private corporations engaged in the water supply business in the State. RIWRBC is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water. All administrative duties of the board are being performed by the State Division of Planning as RIWRBC transfers all functions, programmatic and financial, to the Rhode Island Clean Water Finance Agency, a related organization of the State, upon repayment of the RIWRBC's existing debt due to be fully repaid in fiscal 2015. 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.

Quonset Development Corporation (QDC)

This corporation was established in 2004 as a real estate development and management company for the Quonset Point/Davisville Industrial Park. Its purpose is to promote the preservation, expansion, and development of new and existing industry and business, in order to stimulate and support diverse employment opportunities in the State. The State has provided funding for certain capital improvements required at the industrial park to aid in its expansion and development. For more detailed information, a copy of the financial statements can be obtained by writing to the Finance Director, Quonset Development Corporation, 95 Cripe Street, North Kingstown, RI 02852 or at www.quonset.com.

Related Organizations

The following are "related organizations" under GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and Statement No. 61*, The Financial Reporting Entity: Omnibus:* Rhode Island Student Loan Authority, Narragansett Bay Commission, Rhode Island Health and Education Building Corporation, and Rhode Island Clean Water Finance Agency. The State is responsible for appointing a voting majority of the members of each entity's board. However, the State's accountability does not extend beyond the appointments. These entities do not meet the criteria for inclusion as component units of the State and therefore are not part of these financial statements.

C. Financial Statement Presentation

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position 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 Position presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net position. The net position is reported in three categories:

Net investment in capital assets – This category reflects the portion of net position associated with capital assets, net of accumulated depreciation and the amount of outstanding bonds and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted – This category represents the portion of net position whose use is subject to constraints that are either a) imposed externally by creditors, grantors or contributors, or b) imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This category represents the portion of net position that does not meet the definition of the two preceding categories. The use of the unrestricted net position is often subject to constraints imposed by management, but such constraints can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are specifically associated with a service, program, or department and, thus, are clearly identifiable to a particular function. The State includes certain centralized services charged through internal service funds as direct expenses by charging these amounts directly to departments and programs. The State does not allocate indirect costs amongst the functional expenditure categories.

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

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

The State reports the following fund types:

Governmental Fund Types

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

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

Debt Service Fund – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds are used to report resources if legally mandated or when financial resources are being accumulated for principal and interest maturing in future years.

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

Proprietary Fund Types

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

Enterprise Funds **-** These funds may be used to report any activity for which a fee is charged to external users for goods and services.

Fiduciary Fund Types

Pension and Other Post-Employment Benefit Trust Funds

Pension Trust Funds **-** These funds account for the activities of the Employees' Retirement System, Municipal Employees' Retirement System, State Police Retirement Benefit Trust, Judicial Retirement Benefit Trust, Rhode Island Judicial Retirement Fund Trust, and the defined contribution retirement plan which accumulate resources for pension benefit payments to eligible employees.

Other Post-Employment Benefit (OPEB) Trust Funds - These funds account for the activities of the Rhode Island State Employees' and Electing Teachers OPEB System, which accumulate resources for other post-employment benefit payments to eligible employees.

External Investment Trust – This fund accounts for the share of the Ocean State Investment Pool that is owned by participants external to the reporting entity.

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

Agency Funds **-** These funds account for assets held by the State pending distribution to others, assets pledged to the State as required by statute, and health insurance for certain employees and retirees of a component unit.

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

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

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

Major Funds

Governmental funds:

General Fund

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

Intermodal Surface Transportation Fund

This fund accounts for the collection of the gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system. It also accounts for the proceeds from the Grant Anticipation Revenue Vehicle (GARVEE) bonds, the RI Motor Fuel Tax (RIMFT) revenue bonds, the I-195 Redevelopment District Commission bonds, and related expenditures.

Proprietary funds:

State Lottery Fund

The State Lottery Fund, a division of the Department of Revenue, operates games of chance for the purpose of generating resources for the State's General Fund. For more detailed information, a copy of the financial statements can be obtained by writing to the Rhode Island Lottery, 1425 Pontiac Avenue, Cranston, RI 02920, or at www.rilot.com.

Rhode Island Convention Center Authority (RICCA)

The RICCA was established by State law as a single purpose building authority to finance the development of convention and other event facilities in Providence, RI. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veteran's Memorial Auditorium Arts and Cultural Center located in Providence.

Employment Security Fund

This fund accounts for the State's unemployment compensation program. Revenues consist of taxes assessed on employers to pay benefits to qualified unemployed persons. Funds are also provided by the federal government, interest income, and loans from the Federal Unemployment Trust Fund.

D. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues and related receivables are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period (i.e., earned and collected within the next 12 months) or soon enough thereafter to pay liabilities of the current period. Significant sources of tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and business corporation taxes), as sales are made (sales and use taxes) and as other taxable events occur (miscellaneous taxes), net of estimated tax refunds. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures for principal and interest on long-term debt and compensated absences are recorded when payments come due. Expenditures and liabilities relating to other claims and judgments are recorded to the extent that such amounts are expected to be paid within the current period.

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

The State’s enacted budget designates the source of funds for expenditures. When a type of expenditure is allocable to multiple funding sources, generally the State uses restricted resources first, then unrestricted resources as they are needed.

E. Cash and Cash Equivalents

Cash represents amounts in demand deposit accounts with financial institutions. Cash equivalents are highly liquid investments with a maturity of three months or less at the time of purchase. Cash equivalents are stated at cost, which approximates fair value except for those of the Ocean State Investment Pool which are stated at amortized cost, which approximates fair value.

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

F. Funds on Deposit with Fiscal Agent

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

G. Investments

Investments have a maturity of more than three months and are generally stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, as opposed to a forced or liquidation sale.

H. Receivables

Receivables are stated net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience. Within governmental funds, an allowance for unavailable (amounts not expected to be collected in the next twelve months) amounts is also reflected.

I. Due From Other Governments and Agencies

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

J. Interfund Activity

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

The Due From/To Other Funds are reported at the net amount on the fund financial statements. Transfers between governmental and business-type activities are reported at the net amount on the government-wide financial statements.

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

K. Inventories

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

L. Capital Assets

Capital assets, which include land, intangible assets not being amortized, construction in progress, land improvements, buildings, building improvements, furniture and equipment (which also includes subcategories for vehicles and computer systems), depreciable intangibles (computer software), and infrastructure (e.g., roads, bridges, dams, piers) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Intangible assets not being amortized consist mostly of perpetual land rights such as conservation, recreational, and agricultural easements.

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

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

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

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

Depreciation and amortization are recorded in the government-wide financial statements, proprietary funds, fiduciary funds and component unit financial statements. Capital assets of the primary government are depreciated using the straight-line method over the assets' estimated useful life.

The State has recorded its investment in intangible assets, which includes certain land rights such as conservation and agricultural easements as well as certain rights of way obtained by the State. These easements tend to be of a perpetual nature and thus are not amortized. Intangible assets also include the State's capitalization of internally developed or substantially customized computer software, which is amortized over a 5-year period. The State has included its investment in intangible assets within Note 6, Capital Assets.

Discretely presented component units have adopted estimated useful lives for their capital assets as well as capitalization thresholds. These entities depreciate capital assets using the straight-line method.

M. Bonds Payable

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

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

N. Obligations under Capital Leases

The construction and acquisition of certain office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds and notes issued by a trustee pursuant to a lease/purchase agreement with the State (See Note 7(E)).

O. Compensated Absences

Vacation pay may be discharged, subject to limitations as to carry-over from year to year, by future paid leave or by cash payment upon termination of service. Sick pay may be discharged by payment for an employee's future absence caused by illness or, to the extent of vested rights, by cash payment upon death or retirement. Also, an additional category of leave obligation has been established as a result of pay reductions taken by certain classes of employees. For governmental fund types, such obligations are recognized when paid. For the government-wide financial statements and proprietary fund types, they are recorded as liabilities when earned.

P. Other Assets and Liabilities

Other assets reported within the primary government mainly consist of deposits required by contract with the State's healthcare claims administrator.

Other liabilities include 1) escrow deposits, accrued salary and fringe benefits for the governmental fund types; 2) accrued interest payable, accrued salaries, accrued vacation and sick leave for the proprietary fund types; and 3) escrow deposits, landfill closure costs, accrued expenses, and arbitrage and interest payable for the component units.

Q. Deferred Inflows/Outflows – Derivative Investments

The State reported deferred inflows of resources on the Statement of Net Position relating to the fair value of two interest-earning investment contracts that the Tobacco Settlement Financing Corporation, a blended component unit, entered into in 2002 in conjunction with the issuance of tobacco settlement revenue bonds. The change in the fair value of these instruments is deferred and recognized as investment income consistent with the timing of the purchase of investments pursuant to the related investment contract. See Note 3 for complete details of this derivative transaction.

R. Fund Balances

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the State is bound to honor constraints on how specific amounts can be spent. More information about each category is presented below:

- Nonspendable – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

- Restricted – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by constitutional provisions, as is the case for the Budget Reserve and Cash Stabilization Fund, or (c) by law through enabling legislation enacted by the General Assembly.

- Committed – amounts that can only be used for specific purposes as established through the enactment of legislation by the General Assembly, and that remain binding unless modified or rescinded through subsequent legislative action. The underlying action that imposed the limitation must occur no later than the close of the fiscal year and must be binding unless repealed by the General Assembly.

- Assigned – amounts that are constrained by the State's intent that they be used for specific purposes. The intent is generally established by legislation enacted by the General Assembly and is implemented at the direction of the Governor. This is also the classification for residual funds in the State's special revenue funds.

- Unassigned – the residual classification for the State's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, followed by unrestricted resources. Unrestricted resources, when available for a particular use, are used in the following order: committed, assigned, and unassigned.

S. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2013, the State adopted the following new accounting standards issued by GASB:

GASB Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangements. This Statement establishes guidance for accounting and financial reporting for service concession arrangements (SCAs). These arrangements are often referred to as public-private partnerships or public-public partnerships (PPP). Implementation of this standard did not impact the State's financial statements.

GASB Statement No. 61 – The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34. This Statement modifies existing requirements for the assessment of potential component units in determining which entities should be included in the financial reporting entity, how those component units should be displayed (blending vs. discrete presentation), and certain disclosure requirements. The implementation of this standard resulted in a number of changes in reported discretely presented component units and related organizations within the State's reporting entity.

GASB Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board and AICPA pronouncements issued on or before November 30, 1989. Implementation of this standard did not significantly impact the State's financial statements.

GASB Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. Deferred outflows of resources represent the consumption of the State's net position that is applicable to a future reporting period. Deferred inflows of resources represent the acquisition of net position that is applicable to a future period. GASB 63 prescribes the reporting requirements for these two elements and requires that the title of the statement of net assets be changed to the statement of net position. In addition to this financial statement title change, implementation of this standard resulted in the reporting of a deferred inflows of resources on the State's government-wide financial statements relating to the fair value of a hedging derivative.

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

GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities. This Statement specifies the items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred inflows of resources, outflows of resources, or inflows of resources. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012.

GASB Statement No. 66 – *Technical Corrections – 2013 – an amendment to GASB No. 10 and No. 62*. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012.

GASB Statement No. 67 – *Financial Reporting for Pension Plans – an amendment to GASB Statement No. 25*. This Statement replaces the requirements of Statements No. 25 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trust or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013.

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions - an amendment to GASB Statement No. 27*. This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014.

GASB Statement No. 69 – *Government Combinations and Disposals of Governmental Operations*. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013.

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013.

GASB Statement Nos. 65, 68 and 70, in particular, could impact the State's recognition of assets and liabilities in government-wide and/or fund financial statements. The requirements of these statements may require the restatement of beginning net position and fund balances in future periods. The State is currently not planning to early implement these statements, and has made no estimation of the effect these statements will have on the financial statements, except for GASB Statement No. 65.

GASB Statement No. 65 requires that issue costs for long-term debt be expensed in the year incurred. The State estimates that the beginning net position for fiscal year 2014 will decrease by approximately $13 million due to the implementation of GASB Statement No. 65. This will result from the write-off of deferred issuance costs on certain long-term debt.

T. Changes in Reporting Entity

As discussed above in fiscal year 2013 the State implemented *GASB Statement No. 61 – The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. After a full review of all existing component units the following entities are no longer considered component units as they do not present the potential to provide a financial benefit or impose a financial burden on the State.

- Rhode Island Student Loan Authority
- Narragansett Bay Commission
- Rhode Island Health and Educational Building Corporation
- Rhode Island Clean Water Finance Agency
- The College Crusade of Rhode Island

Except for The College Crusade of Rhode Island, the above entities met the criteria to be related organizations of the State.

In addition, the Rhode Island Public Telecommunications Authority is no longer a component unit as its operations have been assumed by the Rhode Island PBS Foundation.

See Note 18F regarding restatements of prior period net position for the State's discretely presented component units resulting from changes in the State's reporting entity resulting from the implementation of GASB Statement No. 61.

U. Changes in Financial Reporting and Financial Statement Presentation

Changes in Financial Reporting

(a) The Tobacco Settlement Financing Corporation modified its revenue recognition policy for tobacco settlement revenues (TSRs) by recognizing the revenue and related receivables at the time of the domestic shipment of cigarettes as opposed to when the TSRs are received. TSRs recognized for fiscal year 2013 included an accrual of $23.2 million. See details regarding the restatement of the TSFC's beginning net position relating to this change in Note 18F.

Changes in Financial Statement Presentation

(a) As a result of the reexamination of all potential component units in conjunction with the implementation of GASB Statement No. 61 – The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, it was determined that Quonset Development Corporation, Rhode Island Airport Corporation, and the I-195 Redevelopment District Commission are component units of the State. In each instance the entities have the potential to provide a financial benefit or impose a financial burden on the State. They were formerly included as component units of the Rhode Island Economic Development Corporation.

The implementation of GASB Statement No. 61 also resulted in changes to those entities identified as major component units in the State's financial reporting entity. The RI Housing and Mortgage Finance Corporation and RI Resource Recovery Corporation are reported as nonmajor for fiscal year 2013 after previously being reported as major component units in previous financial statements. The RI Turnpike and Bridge Authority is reported as major for fiscal year 2013 after previously being reported as a nonmajor component unit in previous financial statements.

(b) The financial statements of the Tobacco Settlement Financing Corporation (TSFC), a blended component unit, were determined to be more appropriately reflected as a Debt Service Fund, consistent with the implementation of GASB Statement No. 61. This change in presentation resulted from the TSFC's financial statement presentation being consolidated to a single governmental fund.

Note 2. Cash, Cash Equivalents, Investments, and Funds in Trust

A. Primary Government-Governmental and Business-Type Activities

Cash Deposits

Cash deposits include demand deposit accounts, interest-bearing deposit accounts, and certificates of deposit. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and the deposits are a) uncollateralized, b) collateralized with securities held by the pledging financial institution, or c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government were required to be collateralized at June 30, 2013 pursuant to this statutory provision. However, the Office of the General Treasurer has instituted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the balance of uninsured deposits. Additionally, consistent with State Investment Commission guidelines, certain interest-bearing deposit accounts used as short-term investments are required to be collateralized at 102% of the outstanding balance. The lone exception to the full collateralization requirement is the Ocean State Investment Pool Trust (OSIP or the Trust), which follows the 60 day time deposit rule, but otherwise does not require full collateralization. The investment objective of the OSIP's Cash Portfolio is to seek to obtain as high a level of current income as is generally consistent with the preservation of principal and liquidity within the OSIP's investment guidelines which are consistent with SEC Rule 2-A-7. While investment in the pool is not guaranteed or fully collateralized certain investments within the pool are collateralized. At June 30, 2013, of the $545 million invested, $157 million was either a US Government or Agency Security ($66.2 million) or a Collateralized Repurchase Agreement ($90.7 million).

With the exception of $580,240 in bank balances of the R.I. Convention Center Authority, as of June 30, 2013 all of the bank balances were either covered by federal depository insurance or collateralized by securities held by an independent third party in the State's or the blended component unit's name.

Cash Equivalent Investments and Investments

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

The Ocean State Investment Pool Cash Portfolio (the Cash Portfolio) is a portfolio of the Ocean State Investment Pool Trust, which is an investment pool established by the General Treasurer of the State of Rhode Island under Declaration of Trust, dated January 25, 2012 under the Rhode Island Local Government Investment Pool Act, G.L. 35-10.2 of the Rhode Island General Laws as amended, for the purpose of investing funds of, and funds under custody of, agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State of Rhode Island. The Cash Portfolio, which began operations on March 6, 2012, is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940 (Rule 2a-7).

The Cash Portfolio may invest in securities that would constitute an "Eligible Security" under and as defined in Rule 2a-7 which may include certain U.S. government and government agency obligations, U.S. dollar-denominated money market securities of domestic and foreign issuers such as short-term certificates of deposit, commercial paper, corporate bonds and notes, time deposits, municipal securities, asset-backed securities and repurchase agreements.

Government Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," establishes standards for accounting for investments held by government entities. The Cash Portfolio operates as a Rule 2a-7-like pool and thus reports all investments at amortized cost rather than fair value.

A copy of the annual report for the Ocean State Investment Pool can be obtained by writing to the Office of the General Treasurer, 50 Service Avenue, Warwick, RI 02886.

Other short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of certain blended component units are not made at the direction of the Commission, but are governed by specific statutes or policies established by their governing body.

The State's cash equivalents and investments (expressed in thousands) at June 30, 2013 are as follows:

Pooled cash equivalents (at amortized cost)	
Financial company commercial paper	$ 219,900
Other commercial paper	9,500
Asset backed commercial paper	95,660
Government agency repurchase agreement	57,670
Other repurchase agreements	33,000
Treasury debt	51,216
Certificates of deposit	21,000
Government agency debt	14,997
Other notes	31,000
Other Instruments	11,000
Total investments	544,943
Plus: other assets in excess of other liabilities	162
Total investment pool	545,105
Funds held by fiduciary funds and discretely presented component units	
Less:	
Amounts categorized as funds on deposit with fiscal agent	20,821
Amounts held by fiduciary trust funds:	
Pension trusts	200,216
OPEB trust	3,266
RIPTA health fund	1,488
Amounts held for external parties	13,388
Amounts held by discretely presented component units:	
URI	11,018
RIHEAA	306
RIIRBA	3,153
Primary government pooled cash equivalents	291,449
Other primary government cash equivalents and investments	
Repurchase agreements	1,128
Financial company commercial paper	52,633
Government agency debt	16,686
Money Market Mutual Funds	11,214
Total primary government cash equivalents and investments	$ 373,110
Cash equivalents and investments	373,110
Cash	600,149
Total cash, cash equivalents and investments	$ 973,259
Statement of Net Position	
Cash and cash equivalents	895,602
Restricted cash and cash equivalents	8,338
Restricted investments	69,319
Total cash, cash equivalents and investments	$ 973,259

The State's restricted investments, equaling $69,319,000 are held by the Tobacco Settlement Financing Corporation, a blended component unit.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the State will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either: a. the counterparty, or b. the counterparty's trust department or agent but not in the government's name. Pursuant to guidelines established by the SIC, securities purchased or underlying collateral are required to be delivered to an independent third party custodian for the investments of the primary government.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Based on SIC policy, the State's short-term investment portfolio is structured to minimize interest rate risk by matching the maturities of investments with the requirements for funds disbursement.

As of June 30, 2013, information about the State's exposure to interest rate risk for cash equivalents and investments (expressed in thousands) is as follows:

Pooled Cash Equivalents:

			Investment Maturities (in days) (At Amortized Cost)				
Investment Type	**At Fair Value**	**Total Amortized Cost**	**0-30**	**31-90**	**91-180**	**181-397**	**>397**
Financial Company Commercial Paper	$ 219,914	$ 219,900	$ 43,984	$ 108,967	$ 65,951	$ 998	$
Other Commercial Paper	9,498	9,500	5,500	1,000	3,000	--	
Asset Backed Commercial Paper	95,660	95,660	49,996	45,664	--	--	
Gov't Agency Repurchase Agreements	57,670	57,670	57,670	--	--	--	
Other Repurchase Agreements	33,007	33,000	12,000	21,000	--	--	
Treasury Debt	51,223	51,216	--	14,027	25,052	12,137	
Certificates of Deposit	21,000	21,000	21,000	--	--	--	
Government Agency Debt	15,003	14,997	--	1,000	--	5,999	7,998
Other Notes	31,000	31,000	4,000	22,000	5,000	--	
Other Instruments	11,000	11,000	11,000				
Grand Total	$ 544,975	$ 544,943	$ 205,150	$ 213,658	$ 99,003	$ 19,134	$ 7,998

Non-pooled Cash Equivalents and Investments:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Financial company commercial paper	$ 52,633	$ 52,633	$ 0	$ 0	$ 0
Government agency debt	16,686	16,686	0	0	0
Money Market Mutual Funds	11,214	11,214	0	0	0
Repurchase agreements	1,128	1,128	0	0	0
Cash equivalents and investments	$ 81,661	$ 81,661	$ 0	$ 0	$ 0

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is mitigated by the State's minimum rating criteria policy, collateralization requirements, and the fact that maximum participation by any one issuer is limited to 35% of the total portfolio. Credit risk policies have been developed for investments in commercial paper.

As of June 30, 2013, information about the State's exposure to credit risk for cash equivalents and investments (expressed in thousands) is as follows:

Pooled Cash Equivalents:

			Quality Ratings (1) (At Amortized Cost)		
Investment Type	**At Fair Value**	**Total Amortized Cost**	**A-1+**	**A-1**	**A-2**
Financial Company Commercial Paper	$ 219,914	$ 219,900	$ 112,940	$ 106,960	$ --
Other Commercial Paper	9,498	9,500	--	3,000	6,500
Asset Backed Commercial Paper	95,660	95,660	--	95,660	--
Gov't Agency Repurchase Agreements	57,670	57,670	54,670	3,000	--
Other Repurchase Agreements	33,007	33,000	--	33,000	--
Treasury Debt	51,223	51,216	51,216	--	--
Certificates of Deposit	21,000	21,000	--	21,000	--
Government Agency Debt	15,003	14,997	14,997	--	--
Other Notes	31,000	31,000	21,000	8,000	2,000
Other Instruments	11,000	11,000		11,000	--
Grand Total	$ 544,975	$ 544,943	$ 254,823	$ 281,620	$ 8,500

The Ocean State Investment Pool has not been assigned credit quality ratings by rating agencies.

Non-pooled Cash Equivalents and Investments:

Issuer		Fair Value	Type of Investment	Moody's Rating	Average Maturities in Days
Government Agencies					
Federal Home Loan Bank Discount Note	$	16,686	Government Agency	P-1	Not Applicable
Money market mutual funds					
Fidelity Institutional Money Market Gvt. Port Class III		9,622	Money Market	Aaa-mf	56
Goldman Sachs Treasury Instruments Fund		4	Money Market	Aaa-mf	57
Wells Fargo Advantage 100% Treasury Money Market Fund		1,588	Money Market	Aaa-mf	55
Commercial Paper					
Banco Santander Chile Commercial Paper		52,633	Commercial Paper	P-1	Not Applicable
	$	80,533			

The Tobacco Settlement Financing Corporation, a blended component unit, purchased the Federal Home Loan Bank Discount Note and the Banco Santander Chile Commercial Paper listed in the above table under the terms of two contracts that are discussed in Note 3.

Funds on Deposit with Fiscal Agent

Investments within the category – Funds on deposit with fiscal agent – are governed by specific trust agreements entered into at the time of the issuance of the debt. The trust agreements outline the specific permitted investments, including any limitations on credit quality and concentrations of credit risk.

The State's funds on deposit with fiscal agent reported in the governmental funds (expressed in thousands) at June 30, 2013 and the breakdown by maturity are as follows:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Money Market Mutual Funds	$ 148,758	$ 148,758	0	0	0
Investment Contracts	5,414	5,414	0	0	0
Investments	$ 154,172	$ 154,172	$ 0	$ 0	$ 0

The above investments with fiscal agent (expressed in thousands) consist of the following:

Issuer		Fair Value	Moody's Rating	Average Maturities in Days
Money Market Funds				
Dreyfus Treasury Prime Cash Management Fund	$	2,902	Aaa-mf	52
Federated Govt. Obligation Tax Managed Fund		12,376	Aaa-mf	50
Fidelity Institutional Money Market Gvt. Port Class III		67,215	Aaa-mf	56
First American Treasury Obligations Fund		39,401	Aaa-mf	54
JP Morgan US Govt. Money Market Fund Agency Class		801	Aaa-mf	52
Wells Fargo Advantage 100% Treasury Money Market Fund		744	Aaa-mf	55
Morgan Stanley Prime Portfolio		4,500	Aaa-mf	26
Ocean State Investment Pool		20,819	N/A	N/A
Investment Contracts				
FSA Capital Management GIC		5,414	N/A	N/A
	$	154,172		

Funds on deposit with fiscal agent also include approximately $518 thousand held by the Federal Unemployment Insurance Trust Fund.

B. Concentration of Credit Risk

The SIC has adopted limitations as to the maximum percentages of the State's total short-term investment portfolio that may be invested in a specific investment type or with any one issuer of securities. The combined portfolio concentrations for cash equivalents, investments and funds in trust by issuer (expressed in thousands) that are greater than 5% are as follows:

Type	Issuer	Amount	Percentage
Money Market Funds	Fidelity Institutional Money Market Gvt. Port Class III	$ 76,837	14.57%
Money Market Funds	First American Treasury Obligations Fund	39,401	7.47%
Commercial Paper	Banco Santander Chile Commercial Paper	52,633	9.98%

C. Pension Trusts

The Employees' Retirement System (ERS) consists of five plans: the Employees' Retirement System, Municipal Employees' Retirement System (MERS), State Police Retirement Board Trust (SPRBT), Judicial Retirement Board Trust (JRBT), and Rhode Island Judicial Retirement Fund Trust (RIJRFT).

Cash Deposits and Cash Equivalents

At June 30, 2013, the carrying amount of the ERS cash deposits was $2,350,000 and the bank balance was $2,688,000. The bank and book balances represent the plans' deposits in short-term trust accounts which include demand deposit accounts and interest-bearing, collateralized bank deposit accounts. The bank balance, $1,904,000, and the remainder representing interest-bearing collateralized bank deposits totaling $784,000, are either federally insured or collateralized (102%) with U.S. Treasury, agencies, and Federal Home Loan Bank letters of credit held by a third party custodian.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the System's deposits were required to be collateralized at June 30, 2013 (excluding the collateralized interest-bearing deposits). However, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the deposit amounts that are not insured by federal depository insurance.

Investments

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

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

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

The following table presents the fair value of investments by type that are held within the Pooled Trust for the defined benefit plans at June 30, 2013 (expressed in thousands):

Pooled Investment Trust - Investment Type	Fair Value
Cash and Cash Equivalents	$ 34,812
Foreign Currencies	6,247
Money Market Mutual Fund	347,748
U.S. Government Securities	485,705
U.S. Government Agency Securities	369,389
Global Inflation Linked Bonds	139,739
Collateralized Mortgage Obligations	23,158
Corporate Bonds	408,309
Term Loans	291,140
Domestic Equity Securities	805
International Equity Securities	194
Commingled Funds - Domestic Equity	1,843,373
Commingled Funds - International Equity	1,736,807
Private Equity	557,190
Real Estate Limited Partnerships and Commingled Funds	241,159
Hedge Funds	1,084,675
Derivative Investments	(894)
Investments at Fair Value	$ 7,569,556
Receivable for investments sold	260,370
Payable for investments purchased	(297,226)
Payable to broker	(1,843)
Total	$ 7,530,857

Consistent with a target asset allocation model adopted by the State Investment Commission (SIC), the ERS directs its separate-account investment managers to maintain, within the mandate specified by the SIC, diversified portfolios by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

Specific manager performance objectives are outlined and generally stated in relation to a benchmark or relevant index. These guidelines also include prohibited investments, limitations on maximum exposure to a single industry or single issuer, a minimum number of holdings within the manager's portfolio and, for fixed income managers, minimum credit quality ratings and duration/maturity targets.

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 sensitivity to fair value changes arising from changes in the level of interest rates. It is the weighted average maturity of a bond's cash flows. 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:

Barclays US Aggregate Index
Barclays World Government Inflation –Linked All Maturities USD Hedge
Custom High Yield and Bank Loan Index – 30% Bank of America Merrill Lynch 1-3 BB-B High Yield and 70% Credit Suisse Institutional Leveraged Loan Index

At June 30, 2013, 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, 2013 (expressed in thousands):

Investment Type	Fair Value	Effective Duration
U.S. Government Securities	$ 485,705	5.41
U.S. Government Agency Securities	369,389	3.72
Collateralized Mortgage Obligations	23,158	3.52
Corporate Bonds	408,309	6.21
Global Inflation Linked Bonds	139,739	14.40
Term Loans	291,140	0.60
Total Fixed Income	$ 1,717,440	5.13

The ERS had investments at June 30, 2013 totaling $200,216,449 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The ERS's investment accounted for 37% of the total OSIP at June 30, 2013.

OSIP operates in a manner consistent with SEC Rule 2a-7 like pool and thus, reports all investments at amortized cost rather than fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2nd Floor, Warwick, RI 02886.

The ERS also invested $147,529,772 in a short-term money market mutual fund that held investments with a weighted average maturity of 66 days at June 30, 2013.

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

Credit Risk

The ERS manages exposure to credit risk generally by instructing fixed income managers to adhere to an overall target weighted average credit quality for their portfolios and by establishing limits on the percentage of the portfolios that are invested in non-investment grade securities. The ERS's exposure to credit risk as of June 30, 2013 is as follows (expressed in thousands):

Quality Rating (1)	Collateralized Mortgage Obligations	U.S. Government Agency Obligations	Corporate Bonds	Gobal Inflation Linked Bonds	Term Loans
Aaa	$ 12,131	$ 369,389	$ 10,451	$ 22,240	$
Aa	6,069		4,603	112,135	
A	3,710		86,513		
Baa	1,248		199,182	5,364	14,611
Ba			42,929		96,356
B			53,323		119,498
Caa			11,259		4,511
Ca					
C					
D					
Not rated			49		56,164
Fair Value	$ 23,158	$ 369,389	$ 408,309	$ 139,739	$ 291,140

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. There is no single issuer exposure within the ERS's pooled investment trust that comprises 5% of the overall portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of a 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, 2013, 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, Bank of New York Mellon.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Portfolios are diversified to limit foreign currency and security risk. The ERS may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. The ERS's exposure to foreign currency risk at June 30, 2013, was as follows (expressed in thousands):

Currency	Commingled Fund	Foreign Cash	Derivative Contracts	Global Inflation Linked Bonds	Equities	Private Equity	Total
Australian Dollar	$ 95,062	$	$ 5	$ 3,146	$	$	$ 98,213
Austrian Schilling	3,210						3,210
Belgian Franc	13,699						13,699
Brazilian Real	41,249			2,434			43,683
British Pound	256,629		(187)	61,573			318,015
Canadian Dollar	120,814		1	10,004	194	12,507	143,520
Chilean Peso	7,049						7,049
Chinese Yuan Renminbi	49,580						49,580
Colombian Peso	4,461						4,461
Czech Republic Koruna	903						903
Danish Krone	13,363						13,363
Egyptian Pound	914						914
Euro Currency	323,896	6,247	(490)	45,269		85,088	460,010
Hong Kong Dollar	60,920						60,920
Hungarian Forint	980						980
Indian Rupee	27,727						27,727
Indonesia Rupiah	12,495						12,495
Israeli Shekel	6,035						6,035
Japanese Yen	276,406		311	5,258			281,975
Malaysian Ringgit	16,090						16,090
Mauritian Rupee	348						348
Mexican Peso	21,584			2,931			24,515
Moroccan Dirham	295						295
New Zealand Dollar	1,432						1,432
Norwegian Krone	9,426						9,426
Peruvian Nouveau Sol	1,307						1,307
Philippine Peso	4,100						4,100
Polish Zloty	6,087						6,087
Russian Ruble	21,564						21,564
Singapore Dollar	19,479						19,479
South Africa Rand	28,631						28,631
South Korean Won	58,042						58,042
Swedish Krona	37,358		(44)	9,124			46,438
Swiss Franc	113,442						113,442
Taiwan Dollar	47,179						47,179
Thailand Baht	11,103						11,103
Turkish Lira	7,730						7,730
Total	$ 1,720,589	$ 6,247	$ (404)	$ 139,739	$ 194	$ 97,595	$ 1,963,960
US Dollar	16,218						
Commingled Fund	$ 1,736,807						

In addition to the foreign currency exposure highlighted in the foregoing table, certain hedge and private equity fund investments may have foreign currency exposure.

Derivatives and Other Similar Investments

Certain of the ERS's investment managers are allowed to invest in derivative type transactions consistent with the terms and limitations governing their investment objective and related contract specifications. Derivatives and other similar investments are financial contracts whose value depends on one or more underlying assets, reference rates, or financial indices.

The ERS's derivative investments include forward foreign currency transactions, futures contracts, options, rights, and warrants. The ERS enters into these transactions to enhance performance, rebalance the portfolio consistent with overall asset allocation targets, gain or reduce exposure to a specific market, or mitigate specific risks.

Forward foreign currency contracts – The ERS enters into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. A currency forward is a contractual agreement to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. If not offset by a corresponding position with the opposite currency exposure, these contracts involve risk in excess of the amount reflected in the ERS's Statements of Fiduciary Net Position. The face or contract amount in U.S. dollars reflects the total exposure the ERS has in currency contracts. The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

Futures contracts – The ERS uses futures to manage its exposure to the domestic and international equity, money market, and bond markets and the fluctuations in interest rates and currency values. Futures are also used to obtain target market exposures in a cost effective manner and to narrow the gap between the ERS's actual cash exposures and the target policy exposures. Using futures contracts in this fashion is designed to reduce (or hedge) the risk of the actual plan portfolio deviating from the policy portfolio more efficiently than by using cash securities. The program is only used to manage intended exposures and asset allocation rebalancing.

Buying futures tends to increase the ERS's exposure to the underlying instrument. Selling futures tends to decrease the ERS's exposure to the underlying instrument, or hedge other ERS investments. Losses may arise due to movements in the underlying or reference markets.

Through commingled funds, the ERS also indirectly holds derivative type instruments, primarily equity index futures.

The ERS invests in mortgage-backed securities, which include 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 the Interest Rate Risk section of this note.

The ERS may sell a security in anticipation of a decline in the fair value of that security or to lessen the portfolio allocation of an asset class. Short sales may increase the risk of loss to the ERS when the price of a security underlying the short sale increases and the ERS is obligated to deliver the security in order to cover the position.

The following summarize the ERS's exposure to specific derivative investments at June 30, 2013 (expressed in thousands).

Investment Derivative Instruments	Change in fair value included in investment income	Fair value at June 30, 2013	Notional amount
Fixed income futures - long	$ (873)	$	$ 40,255
Fixed income futures - short	(7,086)	(615)	
Index futures - long	30,736	378	39,036
Index futures - short	(32)	(721)	(14,562)
Credit default swap		63	2,000
	$ 22,745	$ (895)	
Foreign Currency Forward Contracts:			
Pending payable (liability)		$ (1,357)	

The ERS is exposed to counterparty risk on foreign currency contracts that are in asset positions. The aggregate fair value of derivative instruments in asset positions at June 30, 2013 was $441 thousand.

This represents the maximum loss that would be recognized if all counterparties failed to perform as contracted. Risk is mitigated by using a continuous linked settlement process.

Credit Default Swaps can be used in the portfolio by the credit manager to either obtain exposure to the high yield market efficiently (i.e. by selling protection) at a similar or better price than what can be obtained in cash bonds, or to hedge the credit risk of the portfolio (i.e. buy protection). The actual swap entered into sold protection on an index to effectively and quickly gain long exposure to the high yield markets giving this new manager time to invest in individual cash bonds in line with the mandate.

The ERS executes (through its investment managers) derivative instruments with various counterparties. The credit ratings of these counterparties were Baa1 (Moody's) or better, one counterparty was not rated by Moody's but is rated A+ by Fitch.

Other Investments –Defined Contribution Plan

The State Investment Commission selected various investment options for defined contribution plan participants with the overall objective of offering low-cost, strategic, and long-term oriented investment products. Plan participants can choose one or more of the various options and can change options at any time. Plan participants who do not elect a specific option default to a target date retirement fund consistent with their anticipated Social Security retirement eligibility date. The plan's holdings at June 30, 2103 are as follows (expressed in thousands):

Investment Type	Fair Value	% of Total	Duration (years)	Weighted Average Maturity (days)
Annuities				
TIAA Stable Value	$ 1,554	1.3%		
TIAA Real Estate-variable annuity	579	0.5%		
Total	$ 2,133	1.8%		
Money Market				
Vanguard Prime Money Market Fund	$ 148	0.1%		59
Fixed Income Funds				
Primco Real Return Institutional Class	1,145	0.9%	6.35	
Vanguard Total Bond Market Index	803	0.7%	5.31	
Total	$ 1,948	1.6%		
Target Retirement Funds				
Vanguard Target Retirement 2010 Investor Class	2,651	2.2%		
Vanguard Target Retirement 2015 Investor Class	10,096	8.2%		
Vanguard Target Retirement 2020 Investor Class	17,484	14.3%		
Vanguard Target Retirement 2025 Investor Class	18,383	14.9%		
Vanguard Target Retirement 2030 Investor Class	17,986	14.7%		
Vanguard Target Retirement 2035 Investor Class	17,060	13.9%		
Vanguard Target Retirement 2040 Investor Class	13,082	10.7%		
Vanguard Target Retirement 2045 Investor Class	9,653	7.9%		
Vanguard Target Retirement 2050 Investor Class	5,103	4.2%		
Vanguard Target Retirement 2055 Investor Class	1,086	0.9%		
Vanguard Target Retirement 2060 Investor Class	105	0.1%		
Vanguard Target Retirement Income Investor Class	813	0.7%		
Total	$ 113,502	92.7%		
Equity Mutual Funds				
TIAA-CREF International Equity Index Fund Institutional	509	0.4%		
Vanguard 500 Index Fund Signal Class	2,085	1.7%		
Vanguard Emerging Markets Stock Index Signal Class	502	0.4%		
Vanguard Mid-Cap Index Fund Signal Class	834	0.7%		
Vanguard Small Cap Index Fund Signal Class	744	0.6%		
Total	$ 4,674	3.8%		
Total	$ 122,405	100.0%		

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, 2013, all assets and securities were registered in the name of TIAA-CREF as the Defined Contribution Plan's record keeper for the benefit of plan members and were held in the possession of TIAA-CREF's custodian, J.P. Morgan Bank.

The majority of the defined contribution plan investment options are mutual funds that invest in diversified portfolios of securities including equity and fixed-income investments. For investment options that are solely fixed income, weighted-average maturity or duration have been disclosed as a measure of interest rate risk.

Fixed income mutual funds and variable annuity accounts are subject to interest rate, inflation and credit risks. Target-date retirement mutual funds share the risks associated with the types of securities held by each of the underlying funds in which they invest including equity and fixed income funds. Mutual funds may have exposure to foreign currency risk through investment in non-US denominated securities.

D. OPEB Trust Funds

The Rhode Island State Employees' and Electing Teachers OPEB System (OPEB System), which accumulates resources for other post-employment benefit payments to qualified employees, consists of six plans: State employees, Teachers, Judges, State police, Legislators and Board of Education.

Cash Deposits and Cash Equivalents

At June 30, 2013, the carrying amount of the OPEB System's cash deposits was $313,747 and the bank balance was the same amount. The bank and book balances represent the OPEB System's deposits in short-term trust accounts, which include fully insured demand deposit accounts and interest-bearing, collateralized bank deposit accounts.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. In addition, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the uninsured deposit amounts. At June 30, 2013, the System's cash deposits were either federally insured or collateralized.

In addition, at June 30, 2013, the System also had cash equivalent investments consisting of $3,265,884 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The System's investment accounted for .6% of the total investment in OSIP at June 30, 2013. Funds of agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State are eligible to invest in OSIP. OSIP operates in a manner consistent with a SEC Rule 2a-7 like pool and thus, reports all investments at amortized cost rather than fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2nd Floor, Warwick, RI 02886.

Investments

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

The assets of each of the plans are pooled for investment purposes only, and units are assigned to the plans based on their respective share of market value. The custodian bank holds assets of the OPEB

System in a Pooled Account and each plan holds units in the account. The number of units held by each plan is a function of each plan's respective contributions to, or withdrawals from, the account. Investment expense is allocated to each plan based on the plan's units in the pooled trust at the end of each month.

The following table presents the fair value of investments by type that are held within the pooled trust at June 30, 2013 (expressed in thousands):

Investment Type	Fair Value
Money Market Mutual Fund	$ 2,612
US Government Securities	8,272
US Government Agency Securities	7,998
Collateralized Mortgage Obligations	623
Corporate Bonds	6,167
Commingled Funds - Domestic Equity	44,835
	70,507
Net investment receivable (payable)	(1,919)
Total Investments at Fair Value	$ 68,588

Consistent with a target asset allocation model adopted by the State Investment Commission, the OPEB System maintains a diversified portfolio by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

Interest Rate Risk

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

The following table shows the OPEB System's fixed income investments by type, fair value and the effective duration at June 30, 2013 (expressed in thousands):

Investment Type	Fair Value	Effective Duration
US Government Securities	$ 8,272	4.32
US Government Agency Securities	7,998	4.00
Collateralized Mortgage Obligations	623	5.16
Corporate Bonds	6,167	7.87
Total Fixed Income	$ 23,060	4.67

The OPEB System's investment in Dreyfus Institutional Cash Advantage Fund, a money market mutual fund, had an average maturity of 41 days at June 30, 2013.

Credit Risk

The OPEB System generally manages exposure to credit risk by adhering to an overall target weighted average credit quality for the portfolio.

The OPEB System's exposure to credit risk on corporate bonds as of June 30, 2013 is as follows (expressed in thousands):

Rating (1)	Collateralized Mortgage Obligations	US Government Agency Obligations	Corporate Bonds
Aaa	$ 623	$ 7,998	$ -
Aa			99
A			1,460
Baa			4,453
Ba			155
Fair Value	$ 623	$ 7,998	$ 6,167

(1) Moody's Investor Service

The OPEB System's investment in a short-term money market mutual fund (Dreyfus Institutional Cash Advantage Fund) was rated AAAm by Standard & Poor's Investors Service.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the OPEB System's investments in a single issuer. There is no single issuer exposure within the OPEB System's portfolio that comprises more than 5% of the overall portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the OPEB System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2013, all securities were registered in the name of the OPEB System (or in the nominee name of its custodial agent) and were held in the possession of its custodial bank, Bank of New York Mellon.

Derivatives and Other Similar Investments

Through its commingled fund, the OPEB System indirectly holds derivative type instruments, primarily equity index futures.

E. Private Purpose Trust

The private purpose trust (Touro Jewish Synagogue) had investments of $2,267,000 in the Fidelity Balanced Fund as of June 30, 2013.

F. Agency Funds

As of June 30, 2013, all of the bank balances of Agency Funds were either covered by federal depository insurance or collateralized by securities held by an independent third party in the State's name.

Note 3. Hedging Derivatives

In connection with the issuance of revenue bonds in June 2002, the Tobacco Settlement Financing Corporation (TSFC) entered into two interest-bearing contracts. The contracts are considered hedging derivatives. The contracts are a type of investment in which the investor, in this case the TSFC, purchases eligible securities selected by the agreement provider on a periodic basis from the agreement provider at a fixed rate of return that is specified in the contract.

One contract, having a notional amount of $51,351,531, with Morgan Stanley & Co. Inc. as provider, generates a fixed annual rate of return of 5.48% through June 1, 2042. As of June 30, 2013 Morgan Stanley & Co. Inc. long-term debt was rated Baa1 by Moody's and A- by Standard & Poor's. At June 30, 2013 Banco Santander Chile Commercial Paper was held pursuant to this contract.

The other contract, the notional amount of which varies based on the TSFC's debt service payment requirements, is with JP Morgan Chase Bank, N.A. as provider and generates a fixed annual rate of return of 4.013% through June 1, 2022 or the date on which the trustee and the TSFC have satisfied all of their obligations under the agreement. As of June 30, 2013 JP Morgan Chase Bank, N.A. long-term debt was rated A2 by Moody's and A- by Standard & Poor's. At June 30, 2013 a Federal Home Loan Bank Discount Note was held pursuant to this contract.

The interest-earning investment contracts provide for a fixed annual rate of return for investments held within the TSFC's debt service reserve fund and debt service fund. The counterparty to the investment contract purchases investments based on types permitted by the TSFC's trust indenture. When the earnings on such investments are less than the fixed annual return rate as specified in the contract, the counterparty is required to make an additional payment to the trustee on behalf of the TSFC.

Through the interest-earning investment contracts, the TSFC is exposed to concentration of credit risk since the counterparty is required to purchase only permitted investments but not necessarily diversify such holdings. The fair value of the investment contracts is estimated based on the present value of their estimated future cash flows and is sensitive to interest rate changes. The terms of the investment contracts generally coincide with the TSFC's outstanding indebtedness and maintenance of the debt service and debt service reserve fund. The contracts provide for the payment of a termination amount under certain conditions specified in the agreement (e.g., defeasance, default). The termination amount payable between the provider and the TSFC would vary depending on prevailing interest rates at the time the termination amount was calculated. Under certain market conditions, the termination amount payable by the TSFC (or its trustee) could be substantial. In addition, the contracts also require the providers to pledge collateral in certain circumstances.

Note 4. Receivables

Receivables at June 30, 2013 (expressed in thousands) consist of the following:

Primary Government	Taxes Receivable	Accounts Receivable	Notes and Loans Receivable	Total Receivables, Net	Due from Other Governments and Agencies	Due from Component Units
Governmental receivables	$ 446,381	$ 356,944	$ 1,530	$ 804,855	$ 242,265	$ 59,904
Less: Allowance for Uncollectibles	102,118	103,369	464	205,951		
Governmental receivables, net	344,263	253,575	1,066	598,904	242,265	59,904
Business-type receivables	73,687	32,760		106,447	1,565	
Less: Allowance for Uncollectibles	4,668	21,103		25,771		
Business-type receivables, net	69,019	11,657		80,676	1,565	
Receivables, Net of Allowance for Uncollectibles	413,282	265,232	1,066	679,580	243,830	59,904
Less: Current Portion						
Governmental receivables	337,204	239,236	105	576,545	239,585	4,489
Business-type receivables	69,019	11,657		80,676	1,565	
Noncurrent Receivables, Net	$ 7,059	$ 14,339	$ 961	$ 22,359	$ 2,680	$ 55,415

Note 5. Intra-Entity Receivables and Payables

Intra-entity receivables and payables as of June 30, 2013 are the result of ongoing operations and are expected to be reimbursed within the subsequent fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable	Description
Governmental Funds			
Major Funds			
General	$ 283	$	Reimbursement for operating expenses
Intermodal Surface Transportation	9,379		Transportation funding
Non-Major Funds			
RI Temporary Disability Insurance		605	Debt service and administrative costs
Bond Capital		41	State match for transportation
RI Capital Plan		15,068	Primarily for transportation State match
Certificates of Participation	291		Fees restricted for COPS debt service
Total Non-Major Funds	291	15,714	
Total Governmental	9,953	15,714	
Proprietary Funds			
Enterprise			
RI Lottery		1,201	Net income owed to General Fund
RI Convention Center Authority	1,859		Project funding
Employment Security Trust	3,967		Benefit reimbursements
Total Enterprise	5,826	1,201	
Internal Service	1,437	301	Settlement of services rendered
Total Internal Service			
Total primary government	$ 17,216	$ 17,216	

Note 6. Capital Assets

The capital asset activity of the reporting entity for the year ended June 30, 2013 consists of the following (expressed in thousands):

Primary Government

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land	$ 358,968	$ 16,657	$ (400)	$ 375,225
Works of Art	1,414	975		2,389
Intangibles	159,093	2,684		161,777
Construction in progress *	450,433	281,824	(137,600)	594,657
Total capital assets not being depreciated or amortized	969,908	302,140	(138,000)	1,134,048
Capital assets being depreciated or amortized:				
Land improvements	3,700			3,700
Buildings *	685,494	27,456	(1,635)	711,315
Building Improvements *	267,714	2,664		270,378
Furniture and equipment *	244,916	17,303	(9,130)	253,089
Intangibles	14,049		(9)	14,040
Infrastructure *	3,193,823	102,024		3,295,847
Total capital assets being depreciated or amortized	4,409,696	149,447	(10,774)	4,548,369
Less accumulated depreciation or amortization for:				
Land improvements	3,389	50		3,439
Buildings *	214,035	13,294	(2,145)	225,184
Building Improvements *	175,130	8,942		184,072
Furniture and equipment	217,398	11,752	(8,972)	220,178
Intangibles	12,270	712	(9)	12,973
Infrastructure *	1,433,110	111,078		1,544,188
Total accumulated depreciation or amortization	2,055,332	145,828	(11,126)	2,190,034
Total capital assets being depreciated or amortized, net	2,354,364	3,619	352	2,358,335
Governmental activities capital assets, net	$ 3,324,272	$ 305,759	$ (137,648)	$ 3,492,383

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

General government	$ 8,289
Human services	6,090
Education	3,512
Public safety	11,075
Natural resources	5,413
Transportation	111,449
Total depreciation or amortization expense - governmental activities	$ 145,828

* Beginning balances have been restated.

Business-type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 45,558	$	$	$ 45,558
Construction in progress	24	446	(24)	446
Total capital assets not being depreciated	45,582	446	(24)	46,004
Capital assets being depreciated:				
Buildings	234,384	33	(33)	234,384
Machinery and equipment	25,646	1,539	(105)	27,080
Intangibles		175		175
Total capital assets being depreciated	260,030	1,747	(138)	261,639
Less accumulated depreciation for:				
Buildings	109,229	8,266	(18)	117,477
Machinery and equipment	18,923	2,057	(99)	20,881
Intangibles		15		15
Total accumulated depreciation	128,152	10,338	(117)	138,373
Total capital assets being depreciated, net	131,878	(8,591)	(21)	123,266
Business-type activities capital assets, net	$ 177,460	$ (8,145)	$ (45)	$ 169,270

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land *	$ 109,115	$ 1,376	$ (125)	$ 110,366
Construction in progress *	186,309	122,592	(188,918)	119,983
Other	250			250
Total capital assets not being depreciated or amortized	295,674	123,968	(189,043)	230,599
Capital assets being depreciated or amortized:				
Buildings *	1,728,139	169,219	(52)	1,897,306
Land improvements	194,237	3,325		197,562
Machinery and equipment *	376,409	47,711	(15,884)	408,236
Infrastructure *	171,290	18,459		189,749
Total capital assets being depreciated or amortized	2,470,075	238,714	(15,936)	2,692,853
Less accumulated depreciation or amortization for:				
Buildings *	621,457	56,942	(23)	678,376
Land improvements *	112,214	6,891		119,105
Machinery and equipment *	224,425	27,929	(15,633)	236,721
Infrastructure *	48,169	7,325		55,494
Total accumulated depreciation or amortization	1,006,265	99,087	(15,656)	1,089,696
Total capital assets being depreciated or amortized, net	1,463,810	139,627	(280)	1,603,157
Total capital assets, net	$ 1,759,484	$ 263,595	$ (189,323)	$ 1,833,756

* Beginning balances have been restated.

Note 7. Long-Term Liabilities

A. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2013 are presented in the following table:

Long-term Liabilities
(Expressed in Thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental Activities						
Bonds Payable						
General obligation bonds (see section B)	$ 1,110,585	$ 81,400	$ (88,040)	$ 1,103,945	$ 76,825	$ 1,027,120
RIEDC Grant Anticipation Revenue Bonds	342,720		(31,075)	311,645	32,615	279,030
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds	70,350		(3,840)	66,510	3,985	62,525
Tobacco Settlement Asset-Backed Bonds	779,426		(14,265)	765,161		765,161
Accreted interest on TSFC bonds	66,901	16,150		83,051		83,051
RIEDC Historic Tax Credit Bonds	105,990		(15,415)	90,575	16,175	74,400
Net unamortized premium/discount	59,870	10,410	(11,661)	58,619		58,619
Deferred amount on refunding	(16,839)		1,064	(15,775)		(15,775)
Bonds Payable, net	2,519,003	107,960	(163,232)	2,463,731	129,600	2,334,131
Obligation under capital leases (see section E)	233,800	114,865	(115,690)	232,975	22,835	210,140
Net unamortized premium/discount	4,622	17,097	(3,278)	18,441		18,441
Deferred amount on refunding	(958)	(5,523)	215	(6,266)		(6,266)
Obligation under capital leases, net	237,464	126,439	(118,753)	245,150	22,835	222,315
Compensated absences	81,063	64,138	(64,903)	80,298	65,911	14,387
Net pension obligation		1,816		1,816		1,816
Net OPEB Obligation (see note 15 C)	11,248	93		11,341		11,341
Special obligation notes	8,175		(1,500)	6,675	1,565	5,110
Other Long-term Liabilities						
Pollution remediation	11,515	2,962	(4,970)	9,507	2,307	7,200
Other	46,178	1,583	(21,319)	26,442	1,509	24,933
Total Governmental Long-term Liabilities	$ 2,914,646	$ 304,991	$ (374,677)	$ 2,844,960	$ 223,727	$ 2,621,233
Business-type Activities						
Revenue bonds (see section B)	$ 250,510	$ 37,335	$ (50,885)	$ 236,960	$ 10,060	$ 226,900
Net unamortized premium/discount	825	5,823	(1,549)	5,099		5,099
Deferred amount on refunding	(9,800)	976	1,086	(7,738)		(7,738)
Revenue bonds, net	241,535	44,134	(51,348)	234,321	10,060	224,261
Notes payable	419		(188)	231	188	43
Unearned Revenue	7,645	2,911	(1,133)	9,423	3,118	6,305
Compensated absences	400	246	(256)	390	167	223
Due to Other Governments and Agencies (see Section J)	224,646		(69,370)	155,276		155,276
Total Business-type Long-term Liabilities	$ 474,645	$ 47,291	$ (122,295)	$ 399,641	$ 13,533	$ 386,108
Component Units						
Bonds payable (see section B)	$ 2,191,735	$ 435,518	$ (422,808)	$ 2,204,445	$ 73,985	$ 2,130,460
Net unamortized premium/discount	9,385	7,479	(1,053)	15,811	864	14,947
Deferred amount on refunding	(6,355)		638	(5,717)		(5,717)
Bonds Payable, net	2,194,765	442,997	(423,223)	2,214,539	74,849	2,139,690
Notes payable (see section C)	95,761	324,000	(321,785)	97,976	77,799	20,177
Loans payable (see section D)	42,476	173	(672)	41,977	602	41,375
Obligations under capital leases	9,629		(1,603)	8,026	1,095	6,931
Net OPEB obligation	38,466	8,425	(13)	46,878		46,878
Compensated absences	33,601	1,024	(2,002)	32,623	9,348	23,275
Due to primary government	60,508	4,954	(5,558)	59,904	4,489	55,415
Due to Other Governments and Agencies	165		(51)	114	114	
Unearned Revenue	37,543	17,149	(19,331)	35,361	22,445	12,916
Due to Component Units	1,858	337	(249)	1,946	552	1,394
Other Long-term liabilities						
Arbitrage rebate	3,814		(2,114)	1,700		1,700
Pollution remediation	25,502		(8,598)	16,904	987	15,917
Other liabilities	256,557	54,321	(15,846)	295,032	7,321	287,711
Total Component Units Long-term Liabilities	$ 2,800,645	$ 853,380	$ (801,045)	$ 2,852,980	$ 199,601	$ 2,653,379

Certain beginning balances of the component units have been reclassified to conform to the current financial statement presentation or restated due to changes in the reporting entity, see Note 18 F.

B. Bonds Payable

At June 30, 2013, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government - Governmental Activities Principal	Primary Government - Governmental Activities Interest	Primary Government - Business Type Activities Principal	Primary Government - Business Type Activities Interest	Component Units Principal	Component Units Interest
2014	$ 129,600	$ 111,198	$ 10,060	$ 12,970	$ 73,985	$ 88,505
2015	141,060	105,085	10,750	12,229	77,741	86,146
2016	147,095	98,331	11,300	11,673	73,196	83,420
2017	154,725	90,900	11,285	11,182	73,681	80,656
2018	147,310	83,500	10,955	10,620	80,094	77,763
2019 - 2023	518,340	327,393	68,355	43,884	420,200	301,133
2024 - 2028	269,115	226,823	75,785	23,147	422,468	245,930
2029 - 2033	261,885	167,141	25,820	8,711	407,440	154,243
2034 - 2038		116,156	12,650	1,161	287,045	75,894
2039 - 2043	371,700	92,925			204,015	30,483
2044 - 2048					61,270	10,756
2049 - 2053	197,006	2,637,174 *			23,310	1,295
	$ 2,337,836	$ 4,056,626	$ 236,960	$ 135,577	$ 2,204,445	$ 1,236,224

* Accreted interest on capital appreciation bonds of the Tobacco Settlement Financing Corporation.

Primary Government - *Governmental Activities*

General obligation bonds of the State are serial bonds with interest payable semi-annually.

During the year ended June 30, 2013 the State issued $81,400,000 of general obligations bonds with interest rates ranging from 2.00% to 5.00%, maturing from 2014 through 2033.

At June 30, 2013, general obligation bonds authorized by the voters and unissued amounted to $244,600,000. In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved, unless extended by the General Assembly.

In addition to the debt authorized by the voters for which the full faith and credit is pledged, the General Assembly has authorized the issuance of other debt that is subject to annual appropriation. The following authorizations have been enacted and the State plans to issue the debt over the next several years: (1) Energy Conservation Certificates of Participation - $109,240,000, and (2) Information Technology Improvements Certificates of Participation - $45,300,000. The unissued balances are $35,200,000 and $36,130,000 respectively.

Historic Tax Credit Bonds - In FY2009 the RIEDC, on behalf of the State, issued $150,000,000 of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RIEDC has no taxing power. The State is obligated under a Payment Agreement to make payments to the trustee. This obligation is subject to annual appropriation by the General Assembly. The proceeds of the bonds are being used to provide funds for redemption of Historic Structures Tax Credits. There is remaining authorization to issue up to $206,200,000 of Historic Tax Credit Bonds.

RIEDC Grant Anticipation Bonds and Rhode Island Motor Fuel Tax Revenue Bonds - The R.I. Economic Development Corporation (RIEDC), on behalf of the State, issues special obligation debt. Grant Anticipation Revenue Vehicle Bonds are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects. Rhode Island Motor Fuel Tax Revenue Bonds are payable solely from certain pledged revenues derived from two cents ($.02) per gallon of the thirty-two cents ($.32) per gallon Motor Fuel Tax. The bonds provide the State matching funds for the Grant Anticipation Revenue Vehicle Bonds. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RIEDC has no taxing power. The obligation of the State to make payments to the trustee of future federal aid revenues and future pledged motor fuel taxes is subject to annual appropriation by the General Assembly. Pledged revenues were sufficient to fund fiscal 2013 debt service payments for Grant Anticipation and Motor Fuel Tax Revenue Bonds. These revenues have been pledged for the term of the Grant Anticipation and Motor Fuel Tax Revenue Bonds through fiscal 2021 and 2027, respectively.

Tobacco Settlement Asset-Backed Bonds and Accreted Interest - The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued $882,395,742 of Tobacco Asset-Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent Decree and Final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof, and the State has no obligation or intention to satisfy any deficiency or default of any payment of the bonds. The TSFC has no taxing power. Certain of the TSFC bonds are capital appreciation bonds on which no periodic interest payments are made, but which were 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 TSFC is required to apply 100% of all collections that are in excess of the current funding requirements of the indenture to the early redemption of the bonds. During the year ended June 30, 2013, TSFC utilized $14,265,000 of excess collections to early redeem an equal amount of outstanding bonds. Pledged tobacco revenues were sufficient to fund fiscal 2013 debt service payments for Tobacco Settlement Asset-Backed bonds. These revenues have been pledged for the term of the underlying debt through fiscal 2052.

Primary Government - *Business-Type Activities*

R.I. Convention Center Authority

The R.I. Convention Center Authority (RICCA) is limited to the issuance of bonds or notes in an aggregate principal amount of $305,000,000. At June 30, 2013, outstanding bond and note indebtedness totaled $237,191,000.

Revenue bonds of RICCA were issued to (a) refund bonds and notes, (b) pay construction costs, (c) pay costs of issuance and (d) acquire and renovate the Dunkin Donuts Center. The revenue bonds are secured by all rents receivable, if any, under a lease agreement between the RICCA and the State covering all property purchased by the RICCA. The agreement also covers a mortgage on facilities and land financed by the proceeds of the revenue bonds and amounts held in various accounts into which bond proceeds were deposited. Minimum annual lease payments by the State are equal to the gross debt service of RICCA. In the event of an operating deficit (excluding depreciation), annual lease payments may be increased by the amount of the deficit. The obligation of the State to pay such rentals is subject to and dependent upon annual appropriations of such payments being made by the Rhode Island General Assembly for such purpose. Those appropriations are made in connection with the State's annual budgetary process and are therefore dependent upon the State's general financial resources and factors affecting such resources. In addition, outstanding indebtedness is insured under certain financial guaranty insurance policies.

All outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required for certain bonds over various years through 2027 at the principal amount of the bonds. Certain bonds may be redeemed early, at the option of RICCA, at amounts ranging from 100% to 102% of the principal balance.

During March 2013, RICCA issued Refunding Revenue Bonds, 2013 Series A, in an aggregate principal amount of $37,335,000 for the purpose of refunding RICCA's outstanding Refunding Revenue Bonds, 2003 Series A, refunding a portion of RICCA's Refunding Revenue Bonds, 1993 Series B, and to pay costs of issuance. The bonds bear interest at rates ranging from 2% to 5% and mature in varying installments beginning May 15, 2015 through May 15, 2020. The debt service prior to refunding was $53,325,950 while the debt service subsequent to the refunding is $46,426,283; therefore, the refunding resulted in savings of $6,899,667, the present value of which is $6,444,627.

Each of the RICCA's Bond Resolutions contains certain restrictive covenants. During fiscal year 2013, the RICCA was unable to fund the Operating Reserve and Debt Service Reserve requirements.

Subsequent to June 30, 2013, RICCA and the Rhode Island Department of Administration (DOA) entered into two grant agreements that provide for total appropriations of $6,475,000 for the purpose of funding the renewal and replacement requirement included in the 2006 Series A Bonds (DDC) and $5,500,000 for the purpose of funding renovations and repairs to the RICCA through June 30, 2018. Under the grant agreement for the DDC, RICCA will receive funding of $925,000 in fiscal year 2014 and will receive annual appropriations of $1,387,500 through fiscal year 2018. Under the grant agreement for the RICCA, they received funding of $500,000 in fiscal year 2013 and will receive annual appropriations of $1,000,000 through fiscal year 2018. Any unexpended funds from one fiscal year will be recommended to be re-appropriated to the subsequent fiscal year.

Discretely Presented Component Units

University of Rhode Island, Rhode Island College and the Community College of Rhode Island

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

At June 30, 2013 revenue bonds outstanding were as follows: URI - $235,502,000, RIC - $18,447,000 and CCRI - $3,117,000.

R.I. Airport Corporation

Per its Master Indenture of Trust and Supplemental Indentures, the R.I. Airport Corporation (RIAC) has pledged net revenues derived from the operation by RIAC of the Airport and certain outlying airports to repay $244,967,000 in airport revenue bonds issued on their behalf by RIEDC. Proceeds from the bonds were used for various airport improvement projects. The amount available to pay debt service per the Master Indenture, including pledged passenger facility charges, was approximately $38,691,000 for the year ended June 30, 2013. Principal and interest payments for the year ended June 30, 2013 were approximately $22,521,000.

RIAC has pledged facility revenues related to the InterLink Facility, net of specified operating expenses, to repay $47,570,000 in First Lien Special Facility Bonds. Proceeds from the bonds were used for the construction of the InterLink Facility. Facility revenues, including interest income, were $7,419,000 for the year ended June 30, 2013. Principal and interest paid for the year ended June 30, 2013 was approximately $3,005,000. Principal payments commenced on July 1, 2011. The InterLink Facility includes consolidated facilities for Airport rental car operations; a train platform to provide access for commuter rail service south to Wickford, Rhode Island and north to both Providence and Boston; and a parking garage for rental car operators and rail commuters.

I-195 Redevelopment District Commission

In April 2013, RIEDC issued Economic Development Revenue Bonds, 2013 Series A, in the aggregate principal amount of $37,440,000, for which the I-195 Redevelopment District Commission (I-195 RDC) is the obligor. The 2013 Series A Bonds mature in April 2033. Through April 30, 2013, the 2013 Series A Bonds bore interest at 1.1717%; thereafter, the bonds bear interest at the lesser of the 30-Day London InterBank Offered Rate (LIBOR) (0.20% at June 30, 2013) plus applicable margin, or 7.75 %.

Concurrent with the issuance of the 2013 Series A Bonds, RIEDC issued Economic Development Bonds, 2013 Series B (federally taxable), in the aggregate principal amount of $960,000, for which the RI-195 RDC is the obligor. The 2013 Series B Bonds mature in April 2019. Through April 30, 2013, the 2013 Series B Bonds bore interest at 1.3217%; thereafter, the 2013 bonds bear interest at the lesser of the 30-Day LIBOR (0.20% at June 30, 2013) plus applicable taxable margin, or 7.75%.

Applicable margin and applicable taxable margin is the rate that corresponds to the lesser of the two long-term bond ratings of the State from Moody's Investors Service (Moody's) and Standard & Poor's (S&P) in the following table:

State Bond Rating (S & P/Moody's):	AA/Aa2 or Higher	AA-/Aa3	A+/A1	A/A2	A-/A3
Applicable Margin, 2013 Series A	1.00%	1.17%	1.37%	1.57%	1.82%
Applicable Taxable Margin, 2013 Series B	1.15%	1.32%	1.52%	1.72%	1.97%

The State's bonds were rated AA- and Aa3 by S&P and Moody's, respectively, as of March 2013, which is the most recent date for which bond rating information is available. As such, at June 30, 2013, the 2013 Series A bonds bore interest at 1.37%, and the 2013 Series B bonds bore interest at 1.52%.

Simultaneously with the issuance of the 2013 Series A and B Bonds, the Commission, RIEDC, and Sovereign Bank (the Bank) entered into a bond purchase agreement under the terms of which the 2013 Series A and B Bonds were purchased by the Bank. The Bank holds a mandatory tender option to sell the bonds to RIEDC on either April 1, 2023 or April 1, 2028.

Concurrent with the issuance of the 2013 Series A and B Bonds, the State entered into separate rate cap transaction agreements with the Bank for each bond series (the 2013 Series A and B Rate Cap Agreements). Under the terms of the 2013 Series A Rate Cap Agreement, the State paid the Bank $658,500. In exchange, the Bank agreed to pay the State interest on a monthly basis at 30-Day LIBOR (0.20% at June 30, 2013), to the extent 30-Day LIBOR exceeds the interest rate cap, on the notional amount, which mirrors the scheduled principal balance of the 2013 Series A Bonds through April 1, 2023. The interest rate under the 2013 Series A Rate Cap Agreement is capped at 6.75%.

Under the terms of the 2013 Series B Rate Cap Agreement, the Bank agreed to pay the State interest on a monthly basis at 30-Day LIBOR (0.20% at June 30, 2013), to the extent 30-Day LIBOR exceeds the interest rate cap, on the notional amount, which mirrors the scheduled principal balance of the 2013 Series B Bonds, through April 1, 2019. The State made no payment to the Bank under the terms of that agreement. The interest rate under the 2013 Series B Rate Cap Agreement is capped at 6.85%.

At June 30, 2013, the fair value of the 2013 Series A and B Rate Cap Agreements was $635,834 and is estimated as the amount the Bank would receive to terminate the Rate Cap Agreement at that date, taking into account current interest rates and the current credit worthiness of the counterparties.

Repayment of the 2013 Series A and B Bonds shall be solely from i) appropriated funds, if any, made available and appropriated by the General Assembly for bond payments, but not for payment of administrative expenses and ii) pledged receipts, which are the net proceeds derived from the sale, lease, transfer, conveyance, or other disposition of any interest in all or any portion of the I-195 land owned by the Commission.

The Commission has pledged and granted to RIEDC a security interest, which has been assigned to the bond trustee, in all pledged receipts and all deposits in the bond, project, expense, and credit facility funds established with the bond trustee.

Proceeds from the 2013 Series A and B Bonds were transferred by the Commission to the State's Intermodal Surface Transportation Fund. As required by federal regulations, the State must utilize the proceeds for infrastructure projects consistent with those eligible for federal funding under the Highway Planning and Construction Program.

R.I. Industrial-Recreational Building Authority

The $60,000,000 of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority (RIIRBA) are limited by mortgage balances that it has insured which are guaranteed by the State. See Note 12 for details of specific commitments relating to a defaulted project guaranteed by RIIRBA.

R.I. Resource Recovery Corporation

The R.I. Resource Recovery Corporation (RIRRC) issued bonds in 2002 known as Resource Recovery System Revenue Bonds, 2002 Series A, which bore interest at rates ranging from 3.5% to 5% and matured in varying installments through March 2022. In May 2013, RIRRC redeemed the outstanding balance of its 2002 Series A revenue bonds, in the amount of $11,185,000. At the same time, the unamortized bond discount and unamortized bond issuance costs of approximately $180,000 and $144,000, respectively, were fully expensed. In conjunction with the redemption, RIRRC terminated a debt service forward delivery agreement which guaranteed interest of 5% per year on the balance of the debt service fund, and received a payment of $390,000 as the termination payment. In addition, RIRRC was required to pay an arbitrage rebate to the Internal Revenue Service of approximately $220,000.

In May 2013, RIRRC issued Resource Recovery System Revenue Bonds, Leachate Pretreatment Facility Project, Series 2013, in the amount of $40,000,000. These bonds bear interest at 2.78% and mature on May 31, 2023. A prepayment option was included in the bond issue which allows prepayment in whole or in part, at a price equal to the principal amount plus accrued interest, plus a yield maintenance fee. This fee is calculated as the difference between the rate on US Treasury securities with a maturity date of May 31, 2023, and the Cost of Funds component of the interest rate on the Series 2013 bonds.

Outstanding indebtedness is collateralized by all net revenues of the RIRRC, certain restricted funds created pursuant to the bonds' issuance, and any revenues and property specifically conveyed, pledged, assigned, or transferred by the RIRRC as additional security for the bonds.

R.I. Turnpike and Bridge Authority

At June 30, 2013, the R. I. Turnpike and Bridge Authority (RITBA) had revenue bonds outstanding with principal amounts totaling $64,330,000. These bonds are from the 2003 Series A Taxable Refunding Revenue Bonds and from the 2010 Series A Revenue Bonds, maturing in 2017 and 2039, respectively. The bond proceeds are used to finance the repair, rehabilitation, upgrading, and improvement of the Claiborne Pell Bridge, the Mount Hope Bridge, and other such activities as stated in the Authority Acts which authorized the issuance of the bonds. The State has authorized RITBA to issue approximately $68 million of additional revenue bonds. The terms and expected date for such issuance have not yet been determined.

Other Component Units

Other nonmajor component units have various bonds outstanding. These revenue bonds were generally issued to fulfill the component unit's corporate purpose. Additional information on each nonmajor component unit's debt obligations is available in their audited financial statements.

C. Notes Payable

Primary Government

Special Obligation Notes (expressed in thousands) at June 30, 2013 are as follows*:*

Note payable to a financial institution - to finance the design, development and implementation of a motor vehicles information management system for the Division of Motor Vehicles – the note is payable with interest of 4.2137% due semi-annually and principal due April 1, 2014-2017	$ 6,675

The special obligation note is subject to annual appropriation by the General Assembly. The note payable to a financial institution will be repaid from a $1.50 surcharge on every transaction processed at the Division of Motor Vehicles. This surcharge is pledged to fund debt service on the note. Pledged revenues were sufficient to fund fiscal 2013 debt service payments for this special obligation note. These revenues have been pledged for the term of the note through fiscal 2017.

Discretely Presented Component Units

Notes payable (expressed in thousands) at June 30, 2013 are as follows:

Component Units		
Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024	$	1,432
R.I. Housing and Mortgage Finance Corporation bank notes and lines of credit, 0.24% to 6.25% interest, payable through 2030.		91,291
R.I. Turnpike and Bridge Authority Bond Anticipation Note maturing on February 7, 2015 at interest at the thirty-day London InterBank Offered Rate (LIBOR) plus an applicable margin rate based on RITBA's debt rating payable monthly.		5,000
R.I. Airport Corporation note payable at 4.15% interest, payable through 2015		253
		97,976
Less: current portion		(77,799)
	$	20,177

D. Loans Payable

Discretely Presented Component Units

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 (TIFIA). The purpose of the Agreement is to reimburse RIEDC and RIDOT and to provide funding to RIAC for a portion of eligible project costs related to the InterLink Facility Project. RIAC is permitted under the Agreement to make requisitions of funds for eligible project costs, and it is anticipated that such requisitions will occur through fiscal year 2013. Upon completion of the project, RIAC began making monthly payments of principal and interest, with interest at a rate of 5.26%. Payments are made on behalf of RIEDC (the borrower per the Agreement), and debt service payments commenced in fiscal year 2013 with a final maturity in fiscal year 2042. Such repayments are payable solely from the net revenues derived from the InterLink Facility. As of June 30, 2013, RIAC had $40,059,000 in borrowings under this agreement.

The remaining balance consists of loans payable by the University of Rhode Island and the Quonset Development Corporation of approximately $1,071,000 and $847,000, respectively.

E. Obligations Under Capital Leases

Primary Government

The State has entered into capital lease agreements, Certificates of Participation (COPS), with financial institutions. These financing arrangements have been used by the State to acquire, construct or renovate facilities and acquire other capital assets. The State's obligation under capital leases at June 30, 2013 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.

During the year ended June 30, 2013 the State issued the following Certificates of Participation:

- $36,310,000 of Lease Participation Certificates (Kent County Courthouse Project – 2013 Refunding Series A), with interest rates ranging from 2.00% to 5.00%, maturing from 2014 through 2024. The proceeds were used to affect an advance refunding of $39,410,000 of Kent County Courthouse Project lease participation certificates. The net proceeds from the sale of the refunding certificates 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 certificates. The refunding met the requirements of an in-substance debt defeasance and the refunded certificates were removed from the Statement of Net Position. The refunding decreases total debt service payments over the next 11 years by $3,517,000 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $3,380,000.

- $36,575,000 of Lease Participation Certificates (Training School Project – 2013 Refunding Series B), with interest rates ranging from 2.00% to 5.00%, maturing from 2014 through 2025. The proceeds were used to affect an advance refunding of $38,030,000 of Training School Project lease participation certificates. The net proceeds from the sale of the refunding certificates 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 certificates. The refunding met the requirements of an in-substance debt defeasance and the refunded certificates were removed from the Statement of Net Position. The refunding decreases total debt service payments over the next 12 years by $2,267,000 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $2,176,000

- $17,520,000 of Lease Participation Certificates (Energy Conservation Project – 2013 Series C) with interest rates from 2.00% to 5.00%. The proceeds will be used for a number of energy conservation projects at State facilities. The certificates mature in 2014 through 2023.

- $9,170,000 of Lease Participation Certificates (Information Technology Project – 2013 Series D) with interest rates from 2.00% to 5.00%. The proceeds will be used for a number of information technology projects to benefit the State as well as municipalities. The certificates mature in 2014 through 2023.

- $15,290,000 of Lease Participation Certificates (Traffic Tribunal Project – 2013 Refunding Series E), with interest rates ranging from 2.00% to 5.00%, maturing from 2014 through 2025. The proceeds were used to affect an advance refunding of $15,415,000 of Traffic Tribunal Project lease participation certificates. The net proceeds from the sale of the refunding certificates 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 certificates. The refunding met the requirements of an in-substance debt defeasance and the refunded certificates were removed from the Statement of Net Position. The refunding decreases total debt service payments over the next 12 years by $743,000 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $710,000.

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, 2013:

Fiscal Year Ending June 30	Total
2014	$ 34,942
2015	31,078
2016	30,638
2017	30,735
2018	25,219
2019 - 2023	109,202
2024 - 2028	30,968
2029 - 2033	2,482
Total future minimum lease payments	295,264
Amount representing interest	(62,289)
Present value of future minimum lease payments	$ 232,975

Each COPS transaction generally covers multiple capital projects supporting multiple functions of the primary government. In general, the amount of capital asset additions funded through COPS is equivalent to the amount of the issuance. The State reports the amortization charge on assets acquired through COPS with depreciation expense on the government-wide financial statements and discloses the amounts in Note 6, Capital Assets.

When issuances also fund component unit projects, the State records the full lease under the obligation and recognizes the related receivable from the component unit for their portion of debt service in the government-wide financial statements.

F. Defeased Debt

In prior years, the State and its component units defeased certain general obligation bonds and revenue bonds by placing the proceeds of the new bonds or other sources in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2013, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	$ 122,545
R.I. Convention Center Authority	6,035
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	148,410
R.I. Economic Development Corporation	10,765
R.I. Turnpike and Bridge Authority	32,300

G. Conduit Debt

The R.I. Industrial Facilities 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, 2013 was $80,000,000 and $903,500,000 respectively, for these component units. Certain issues of conduit debt are moral obligations of the State, and the current amounts outstanding are disclosed in Note 13.

H. Short-Term Borrowing

The R.I. Housing & Mortgage Corporation had outstanding balances of $68,000,000 at June 30, 2013 on two lines of credit that are payable on demand and accrue interest at rates ranging from 1.22% to 1.95%.

I. Pollution Remediation Liabilities

GASB Statement No. 49 establishes guidance to estimate and report potential costs which may be incurred for pollution remediation liabilities. GASB 49 requires the reporting entity to reasonably estimate and report a remediation liability when one of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the reporting entity is compelled to take action.
- The reporting entity is in violation of a pollution related permit or license.
- The reporting entity is named or has evidence it will be named as a responsible party by a regulator.
- The reporting entity is named or has evidence it will be named in a lawsuit to enforce a cleanup.
- The reporting entity commences or legally obligates itself to conduct remediation activities.

The State and certain component units have remediation activities underway, and these are in stages including site investigation, planning and design, clean up and site monitoring. Several agencies within State government have as part of their mission the responsibility to investigate possible pollution sites and oversee the remediation of those sites. These agencies have the expertise to estimate the remediation obligations presented herein based on prior experience in identifying and funding similar remediation activities. The remediation liabilities reported have been calculated using the expected cash flow technique. Situations posing potential liabilities, for which a reasonable estimate could not be made, have not been included.

The remediation obligation estimates presented are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes in laws or regulations, and other factors that could result in revision to the estimates. Recoveries from responsible parties may reduce the State's obligation. As of June 30, 2013, no reasonable estimates of those recoveries can be made. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

J. Due to Other Governments and Agencies

The State has borrowed amounts from the federal government (Unemployment Insurance Trust Fund) to fund employment insurance benefits paid from the Employment Security Fund to eligible unemployed individuals. The amount outstanding was $155,276,000 on June 30, 2013. Interest accrued beginning January 1, 2011 and is payable on October 1 of each year.

The interest due on federal loans cannot be paid from employer taxes and federal revenue received by the State to pay unemployment benefits. In recent years, the General Assembly passed legislation increasing the Job Development Fund Assessment on employers by 0.3%, dedicating the additional assessment to pay the principal and interest on the federal loans. Other legislative changes, effective in fiscal year 2012 and 2013, included adjusting the unemployment insurance taxable wage base and reducing individual unemployment benefit amounts. Estimated savings from these changes are designed to reduce the amount owed to the federal government in future years.

The State projects that it will need to continue to borrow in fiscal year 2014 as authorized by Federal law in order to meet its cash flow needs to finance the cost of unemployment benefit payments.

K. Compensated Absences

State employees and those of certain component units are granted vacation and sick leave in varying amounts based upon years of service. Additionally, the State has deferred payment of certain compensation to employees. A liability has been calculated for all earned vacation credits subject to certain limitations and vested sick leave credits that are payable at retirement subject to certain limitations. Payment is calculated at the employees' current rate of pay.

L. Arbitrage Rebate

A liability accrues for income on the investment of debt proceeds determined to be arbitrage earnings in accordance with federal regulations. These amounts are generally payable to the federal government five years after the issuance date of the bonds.

M. Due to the Primary Government

This consists of the repayment of general obligation debt that was issued by the State on behalf of certain component units.

N. Other Long-Term Liabilities

Governmental Activities - the liabilities consist primarily of:

- *Retainage related to infrastructure construction projects* - these amounts are considered long-term liabilities since the related construction projects are not expected to be completed in the subsequent fiscal period.
- *Tax refunds payable* – these amounts are tax carry-forward credits for taxpayers that are not expected to be paid in the subsequent fiscal period

In addition, certain other long-term payables are included in this category. Historically, long-term liabilities, other than debt, will be paid through certain funds as follows:

- Compensated Absences – Assessed Fringe Benefits Fund, an internal service fund and the respective fund to which the underlying employee's wages and benefits are charged.
- Pollution remediation – General, RI Capital Plan, and Intermodal Surface Transportation Funds.
- Other long-term liabilities – General and Intermodal Surface Transportation Funds.

Component Units – the liabilities consist primarily of landfill closure and post-closure costs and grants refundable.

Note 8. Net Position/Fund Balances

Governmental Activities

Restricted Net Position

The Statement of Net Position reflects $657,545,000 of restricted net position, of which $264,180,000 is restricted by enabling legislation. The net position that is restricted by enabling legislation is included in the Temporary Disability Insurance Program and Other categories on the Statement of Net Position. The principal components of the remaining balance of the restricted net position relate to the Budget Reserve and Cash Stabilization Account and unexpended bond proceeds.

Governmental Funds – Fund Balances
Governmental fund balance categories are detailed below (expressed in thousands):

	Major Funds			
	General Fund	IST Fund	Other Funds	Total
Fund Balances:				
Nonspendable:				
Permanent Fund Principal	$	$	$ 174	$ 174
Restricted for:				
Budget Reserve and Cash Stabilization	171,959			171,959
Purposes specified by enabling legislation	110,177			110,177
Debt Service		18,598	94,113	112,711
Capital Projects			252,776	252,776
Temporary Disability Insurance			154,004	154,004
Historic Tax Credit Redemption			11,285	11,285
Transportation		126,875		126,875
Education			1,865	1,865
Other			682	682
Committed to:				
Transportation		95		95
Employees' Retirement System Transfer	168			168
Other	3,867			3,867
Assigned to:				
Subsequent Years Expenditures	101,942			101,942
Other	3,698	255	68	4,021
Unassigned:	9,323	(4,113)		5,210
Totals	$ 401,134	$ 141,710	$ 514,967	$ 1,057,811

Article IX of the State Constitution requires the maintenance of a State Budget Reserve and Cash Stabilization Account ("Reserve") within the State's General Fund. Section 35-3 of the General Laws specifically establishes the annual minimum balance requirements for the account. For fiscal year 2013, 3.0% of total general revenues and opening surplus are transferred to the Reserve. Amounts in excess of 5.0% of total general revenues and opening surplus are transferred to the RI Capital Plan Fund to be used for capital projects. The Reserve, or any portion thereof, may be appropriated in the event of an emergency involving the health, safety or welfare of the citizens of the State or in the event of an unanticipated non-routine deficit in any given year. Such appropriations must be approved by a majority of each chamber of the General Assembly. Since its inception the Reserve has been accessed once in fiscal year 2009 to address an unexpected severe revenue shortfall. At that time the General Assembly appropriated $22 million from the Reserve.

The State has not adopted any minimum fund balance requirements for any funds beyond the State Budget Reserve and Cash Stabilization Account within the General Fund.

Pursuant to the General Laws upon issuance of the audited financial statements, the State Controller is required to transfer all general revenues received in the fiscal year (net of the transfer to the State Budget Reserve and Cash Stabilization Account) in excess of those estimates adopted for that fiscal year as contained in the final enacted budget, to the Employees' Retirement System. The amount of such transfer is $169 thousand which is reflected in the committed category of fund balance in the table above. The transfer will be made in fiscal year 2014 upon issuance of the audited financial statements.

See Note 1, Section R of these Notes for more information regarding the five categories of fund balance.

Note 9. Taxes

Tax revenue reported on the Statement of Activities is reported net of the allowance for uncollectible amounts and net of estimated refunds. Tax revenue on the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds is reported net of estimated refunds, uncollectible amounts and the amount that will not be collected within one year (unavailable). The unavailable amount is reported as unearned 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	$ 1,083,011	$ 1,082,035
General Business Taxes:		
Business Corporations	131,828	131,897
Public Utilities Gross Earnings	99,641	99,454
Financial Institutions	7,500	13,866
Insurance Companies	91,599	91,589
Bank Deposits	2,877	2,877
Health Care Provider Assessment	41,569	41,569
Sub-total - General Business Taxes	375,014	381,252
Sales and Use Taxes:		
Sales and Use	878,867	876,152
Motor Vehicle	49,431	49,429
Motor Fuel	438	401
Cigarettes	132,516	132,490
Alcoholic	12,176	12,176
Sub-total - Sales and Use Taxes	1,073,428	1,070,648
Other Taxes:		
Inheritance and Gift	28,490	28,474
Racing and Athletics	1,171	1,171
Realty Transfer	7,399	7,399
Sub-total - Other Taxes	37,060	37,044
Total - General Fund	2,568,513	2,570,979
Intermodal Surface Transportation Fund		
Gasoline	134,465	134,465
Other Governmental Funds	165,525	165,525
Total Taxes	$ 2,868,503	$ 2,870,969

Note 10. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2013 are presented below (expressed in thousands):

	Transfers	Description
Governmental Activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	$ 46,029	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,769	Administrative cost reimbursement
Historic Tax Credit	8,995	Reimbursement for tax credits claimed
Bond Capital	188	Interest earnings transfer
Business-Type Activities		
Lottery	379,225	Net income transfer
Employment Security	806	Administrative cost reimbursement
Intermodal Surface Transportation		
General Fund	1,000	Infrastructure funding
Bond Capital	23,115	Infrastructure funding
RI Capital Plan	33,398	Infrastructure funding
Nonmajor Funds		
COPs		
General	1,874	Debt service
RI Capital Plan		
General	84,624	Transfer statutory excess in budget reserve
Bond Capital	9,993	Premium on new bonds
RI Public Rail Corporation		
Intermodal Surface Transportation	1,788	Operating assistance
Total Governmental Activities	592,804	
Business-Type Activities		
Lottery Fund		
RI Capital Plan	272	Capital Improvement
Convention Center		
General	23,136	Debt service
RI Capital Plan	287	Capital Improvement
Employment Security		
General	20,704	Administrative cost reimbursement
Assessed Fringe Benefits	1,828	Reimbursement for State employees' unemployment compensation
Internal Service Funds		
Central Mail	50	Capital assistance
Vehicle Replacement Revolving Loan	7,350	Allocation of prior year ending balance
Total operating transfers primary government	$ 646,431	

Note 11. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately $11,825,000 for the fiscal year ended June 30, 2013.

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, 2013:

Fiscal Year Ending June 30		
2014	$	12,945
2015		11,024
2016		8,025
2017		3,719
2018		3,426
2019 - 2023		8,479
Total	$	47,618

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

Note 12. Commitments

Primary Government

Commitments arising from encumbrances are listed below (expressed in thousands):

Major funds		
General	$	12,624
IST		484,734
Total major funds		497,358
Other governmental funds		6,389
Total encumbrances outstanding	$	503,747

The primary government is committed at June 30, 2013 under various contractual obligations for infrastructure construction and other capital projects, which will be principally financed with debt proceeds and federal grants. Encumbrances within the General Fund will be principally financed through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years. The primary government is also committed at June 30, 2013 under contractual obligations with various service providers, which will be funded through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years.

Performance-based Agreements

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, entered into several agreements with the developer of the Providence Place Mall. The agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer through fiscal year 2021 of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) $3,680,000 in the first five years and $3,560,000 in years 6 through 20. In the year ended June 30, 2013, $3,560,000 was paid to the developer.

The RIEDC has issued economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State paid $3,081,000 of the debt on the related economic development revenue bonds in fiscal year 2013. The State has commitments relating to this debt through fiscal year 2027.

Rhode Island Lottery – Master Contract Agreements

Gaming Systems Provider - GTECH

The Lottery in May 2003 entered into a 20-year master contract with its gaming systems provider, GTECH, granting it the right to be the exclusive provider of information technology hardware, software, and related services for all lottery games. This contract is effective from July 1, 2003 through June 30, 2023, and it amends all previous agreements between the parties. As consideration for this exclusive right, the gaming systems provider paid the Lottery $12.5 million. In the event that the contract term is not fulfilled, the Lottery will be obligated to refund a pro-rata share of this amount to the gaming systems provider. Additionally, GTECH was obligated to invest $100 million in connection with the construction of a new corporate headquarters and expansion of its manufacturing operations in the State. The gaming system contractor is also required to employ no less than 1,000 full time active employees during the term of the agreement.

Video Lottery Facilities – UTGR, Inc.

During fiscal year 2006, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with UTGR, Inc., the owners of Twin River, to manage one of the State's licensed video lottery facilities. The contract entitles UTGR, Inc. to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. UTGR and the Lottery extended the contract and signed the first five-year extension term commencing on July 18, 2010. The second term would commence on July 18, 2015. Certain extensions are contingent on UTGR's compliance with full-time employment mandates.

The Master Contract has been amended in recent years to reflect the statutory authorization of the operation of a promotional points program at Twin River. In fiscal year 2013, Twin River was authorized and issued approximately $31.8 million in promotional points to facility patrons. Recently enacted legislation has authorized an additional expansion of Twin River's promotional play program effective July 1, 2013.

The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse UTGR for allowable marketing expenses at an amount not to exceed $6 million multiplied by the Lottery's percentage of net terminal income (61.12% for fiscal year 2013). The reimbursement of marketing expenses by the Lottery occurs only after UTGR has incurred $4 million in qualified marketing expenses (with marketing expenses defined by the Lottery).

Video Lottery Facilities – Newport Grand

On November 23, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand to continue to manage one of the State's licensed video lottery facilities.

Newport Grand and the Lottery extended the contract and signed the first five-year extension term of the contract commencing on November 23, 2010. The second term, which would commence on November 23, 2015, is contingent on Newport Grand's compliance with full-time employment mandates specified in the 2010 law. The contract, as amended, entitles Newport Grand to compensation equal in percentage of net terminal income to that of Twin River. Recent legislation increased the percentage of net terminal income by 2.25% effective July 1, 2013, and expiring June 30, 2015.

The Master Contract has been amended in recent years to reflect the statutory authorization of a promotional points program at Newport Grand. In fiscal year 2013, Newport Grand was authorized and issued approximately $5.8 million in promotional points to facility patrons. Recently enacted legislation has authorized an additional expansion of Newport Grand's promotional play program effective July 1, 2013.

The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse Newport Grand for allowable marketing expenses at an amount not to exceed $840,000 multiplied by the Lottery's percentage of net terminal income (61.67% for fiscal year 2013). The reimbursement of marketing expenses by the State occurs only after Newport Grand has incurred $560,000 in qualified marketing expenses (with marketing expenses to be defined by the Lottery).

R. I. Public Rail Corporation

The R. I. Public Rail Corporation (RIPRC), a blended component unit, has obtained a letter of credit in the amount of $7,500,000 in favor of AMTRAK to secure the RIPRC's performance of its obligations arising under any South County Rail Service agreements. The RIPRC has been designated as the entity responsible for securing and maintaining liability insurance coverage to provide funds to pay all or a portion of the liabilities of the State, the MBTA, and AMTRAK for property damage, personal injury, bodily injury or death arising out of the South County Commuter Rail Service with policy limits of $200 million subject to a self-insured retention of $7.5 million.

Discretely Presented Component Units

R.I. Airport Corporation

The R.I. Airport Corporation (RIAC) currently has several projects underway that are part of the Green Airport Improvement Program. The lengthening of primary Runway 5-23 to a total of 8,700 feet will allow the airport to accommodate coast-to-coast and international flights, and will enhance the efficiency of the New England Regional Airport System. Included in the project is the construction of a taxiway extension, an Engineered Material Safety Arresting System (EMAS) Runway Safety Area, and an airport service road. Design of the project is expected to commence in February 2014, and construction is expected to be complete by December 2017.

In addition, RIAC is constructing a Deicer Management System which will collect glycol impacted stormwater resulting from de-icing aircraft at T.F. Green Airport, and treat the collected material prior to discharging it into storm drains. As of June 30, 2013, field construction is underway with anticipated completion by April 2014, and the system is scheduled to be fully operational by March 2015. RIAC will begin construction on safety improvements on the end of Runway 16 in July 2013, and on the end of Runway 34 in the summer of 2014. Improvements include the construction of EMAS arrestor beds, blast fencing, drainage improvements, and reconstruction of segments of runway and taxi lanes.

As of June 30, 2013 RIAC is obligated for the completion of certain airport improvements under commitments of approximately $6 million, which are expected to be funded from current available resources and future operations.

R.I. Turnpike and Bridge Authority

The R.I. Turnpike and Bridge Authority (RITBA) has entered into contracts for the maintenance of, and improvements to, its bridges and property. In connection with its Series 2010A Bond Issue, RITBA has a contract with a remaining commitment of approximately $1.8 million as of June 30, 2013. In 2013 RITBA entered into contracts for Phase II of steel repairs and painting on the Claiborne Pell Bridge. The total contract value is $40.8 million and will take several years to complete. At June 30, 2013, the remaining commitments on the contracts total approximately $39.3 million. In addition, RITBA has various other maintenance contracts with remaining commitments of approximately $3 million as of June 30, 2013.

R.I. Resource Recovery Corporation

Landfill closure and post-closure:

The EPA established closure and post-closure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. The landfill operated by the RIRRC has been segregated into five distinct phases. Phases I, II and III were closed by the RIRRC in prior years. While Phase IV reached capacity during fiscal year 2013, portions of Phase IV have been capped, with final capping expected during fiscal year 2014. In 2005, the RIRRC began landfilling in Phase V. As of June 30, 2013 the RIRRC has not begun landfilling in phase VI.

A liability for closure and post-closure care of $53,190,729 as of June 30, 2013 has been recorded in the accompanying statement of net position, as summarized by Phases below:

	Year ended June 30, 2013
Phase I	$ 8,357,552
Phase II and III	4,095,437
Phase IV	9,874,448
Phase V	30,863,292
	$ 53,190,729

The RIRRC has received site approval for Phase VI from the State Planning Council and has been licensed by RIDEM.

As of June 30, 2013, the remaining total estimated current cost to be recognized in the future as landfill closure and post-closure care expense, the estimated percent of landfill capacity used and the estimated remaining years for accepting waste are as follows:

	Estimated remaining costs to be recognized	Estimated capacity used	Estimated remaining years for accepting w aste
Phase V	$ 7,345,813	80.8%	2.5 years

As of June 30, 2013 the RIRRC revised its estimate for future pollution remediation and landfill closure and post-closure care costs. The revised estimate resulted in a $5,582,821 reduction of the corresponding liability from $75,962,402 at June 30, 2012 to $70,379,581 at June 30, 2013 and was primarily attributable to improved leachate flow data and revised capping costs based on pricing from a recently executed contract.

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

Included in restricted position held in trust in the accompanying statements of net position as of June 30, 2013 is $41,454,829 placed in trust to meet the financial requirements of closure and post-closure care related to Phases II, III, IV and V. The RIRRC plans to make additional trust fund contributions each year to enable it to satisfy these and future costs.

Pollution remediation obligations:

Amounts provided for pollution remediation obligations are based on current costs. These costs may be adjusted each year due to changes in the remediation plan, inflation or deflation, technology, or applicable laws or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material. Future recoveries from responsible parties which may reduce the remediation obligation, while possible, cannot be reasonably estimated.

The pollution remediation obligation for the year ended June 30, 2013 is as follows:

Balance, June 30, 2012	Additions	Reductions	Balance, June 30, 2013	Current Portion
$ 25,501,843	$ 0	$ (8,597,749)	$ 16,904,094	$ 986,985

Superfund site:

In prior years, the EPA issued administrative orders requiring the RIRRC to conduct environmental studies of the Central Landfill and undertake various plans of action. Additionally, in 1986, the Central Landfill was named to the EPA's Superfund National Priorities List.

During 1996, the RIRRC entered into a Consent Decree with the EPA concerning remedial actions taken by the RIRRC for groundwater contamination. The Consent Decree, which was approved by the U.S. District Court on October 2, 1996, required the establishment of a trust fund in the amount of $27,000,000 for remedial purposes. The balance of the trust fund totaled $42,292,593 as of June 30, 2013 and has been included in restricted position held in trust in the accompanying statement of net position.

In 2004, the RIRRC began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. The RIRRC has recorded a liability for future remediation costs of approximately $16,904,000 as of June 30, 2013.

Other pollution remediation obligations:

The RIRRC is the owner of several properties adjacent to its landfill operations. The RIRRC is obligated to remediate one of these parcels. The RIRRC has recorded a liability for future remediation costs of approximately $285,000 as of June 30, 2013.

Environmental concerns:

In August 1996, the RIRRC entered into a Consent Agreement (the Agreement) with RIDEM concerning action to be taken by the RIRRC regarding the restoration of certain wetlands. Projects included the relocation of Cedar Swamp Brook, creation of a three acre wetland, and the implementation of a soil and erosion plan. The Agreement also called for the establishment of an escrow account for wetlands replacement. Annual deposits of $100,000 were made by the RIRRC during fiscal years 1997 through 2002, as required by RIDEM. During 2004, RIDEM released from the escrow approximately $543,000 to the RIRRC. As of June 30, 2013 the escrow account totaled approximately $156,000.

The RIRRC submitted a comprehensive plan to RIDEM which was approved by RIDEM in April 1998. The RIRRC had until 2001 to complete the restoration. Phase I of the Cedar Swamp Brook relocation was substantially completed by November 1998. The wetlands restoration work was completed in the spring of 1999 and is awaiting RIDEM approval.

R.I. Public Transit Authority

The R.I. Public Transit Authority is committed under construction contracts in the amount of $7,220,480 at June 30, 2013.

R.I. Industrial-Recreational Building Authority

At June 30, 2013, the Authority had insured contractual principal and interest payments required under first mortgages and first security agreements principally for land and buildings of manufacturing and distribution entities located throughout Rhode Island. Principal balances outstanding under first mortgages and first security agreements insured by the Authority at June 30, 2013 are $16,105,000.

The Authority insured a bond issued by Rhode Island Industrial Facilities Corporation (RIIFC) on behalf of a private sector entity. During the year ended June 30, 2013 the private sector entity was in default on its payments to the bond holder and the Authority has assumed responsibility for making the debt payments. These payments will be made by first exhausting the Authority's available financial resources. The Authority must then request appropriations from the Rhode Island General Assembly for any loss in excess of the insured amount. At June 30, 2013, the Authority has determined that it is likely that it will incur a loss under the insured commitment. The Authority has estimated the range of potential loss to be between $1,749,000 and $6,413,000 and has determined the best estimate within this range to be $2,006,810. Accordingly, the Authority has accrued an insured commitment payable of $2,006,810 equal to the estimated loss at June 30, 2013. The current portion of the insured commitments payable was calculated by estimating the monthly payments due within one year on this bond.

Other Component Units

Other component units have various commitments arising from the normal course of their operations. These commitments are not significant, overall, to the State's financial statements.

Note 13. Contingencies

Primary Government

The State, its officers and employees are defendants in numerous lawsuits. For those cases in which it is probable that a loss has or will occur and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid, the State has recognized a liability within its financial statements. Significant specific litigation matters are discussed below.

Challenges to the 2009 and 2010 Pension Reform - A number of unions representing state employees and teachers filed a lawsuit in State court in May 2010 initially challenging and attempting to block the 2009 pension reforms enacted by the General Assembly and later amended the suit to include 2010 reforms. The 2005 reforms were not challenged. The State intends to vigorously contest the lawsuit. The defendant State officials filed a Motion for Summary Judgment on the claims set forth in the Amended Complaint, which was heard on July 18, 2011. Prior to the hearing, the parties stipulated that the only issue that would be presented to the Court during the hearing on the Motion would concern whether the statute created a contract between the state and its participants. The parties agreed that in the event that the Court concluded that the statute did create a contract, the remaining issues of whether the contract had been impaired and whether any such impairment was legally justified would be briefed and argued at a later date. On September 13, 2011, the Superior Court issued its decision in which it ruled that pension plan participants have a contractual right based on an implied-in-fact contract theory. Consistent with the parties' stipulation, the Court did not decide whether that contract had been impaired or whether any such impairment was legally justified. The defendant State officials believe the Superior Court's ruling was legally wrong. On October 3, 2011, Defendants filed a Petition for Issuance of a Writ of Certiorari and Supporting Memorandum of Law with the Rhode Island Supreme Court. Defendants also filed a motion through which they requested that the Supreme Court expedite its review of the Petition for Issuance of a Writ of Certiorari. On November 22, 2011, the Supreme Court denied the petition for Writ of Certiorari. The litigation is proceeding through discovery at this time.

Challenges to the 2011 Pension Reform - In June 2012, certain retiree groups and unions representing state and municipal employees who maintain they are current beneficiaries of ERSRI commenced five separate lawsuits in State court challenging the Rhode Island Retirement Security Act of 2011 (“RIRSA”) enacted by the General Assembly. In each of the five cases, the plaintiffs alleged that RIRSA violates the Contract Clause, the Takings Clause and the Due Process Clause of the Rhode Island Constitution. In addition, in the Rhode Island Public Employees’ Retirement Coalition v. Chafee, C.A. No. 12-3166 case, the plaintiffs also allege counts for promissory estoppel and breach of contract. The State intends to vigorously contest the lawsuit.

On August 17, 2012, the defendants filed a motion to dismiss the Rhode Island Public Employees’ Retirement Coalition v. Chafee, C.A. No. 12-3166 case on the ground that Rhode Island’s pension legislation does not create a contract with ERSRI participants and that general contract principles, such as implied contracts, cannot be used to determine whether a state statute creates a contract. In the remaining four cases, the defendants filed motions for more definite statements in which they argued that it is not clear from the plaintiffs’ pleadings what purported contract or contract(s) plaintiffs allege have been impaired. The defendants also moved in the alternative and asked the Court to dismiss the remaining four cases if the Court concluded that the plaintiffs’ purported contracts derive from Rhode Island’s pension legislation. A hearing on the defendants’ motions was held in December 2012. The parties have not yet received a decision on those motions.

On January 2, 2013 Superior Court judge presiding over the cases involving challenges to enacted pension reforms ordered the parties to participate in mediation, which is ongoing. The parties are scheduled to report back to the Court again on January 3, 2014.

An adverse judgment to the State rendered in the pension litigation could significantly increase both the unfunded liability under the plans within the ERSRI and the State’s actuarially determined annual required contribution.

Other

With respect to other litigation, State officials are of the opinion that the lawsuits are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position.

Tobacco Settlement Financing Corporation

According to the Master Settlement Agreement ("MSA"), for any year in which the Participating Manufacturers ("PMs") suffer a loss of market share of more than two percent as compared to their collective market share in 1997, there is the potential of a Non-Participating Manufacturer Adjustment ("NPM Adjustment"), which would permit the tobacco manufacturers to reduce their MSA payments for that year. Whether such an adjustment is applicable depends on whether: (1) an economic firm jointly selected by the Settling States and the PMs determines that the disadvantages experienced by the PMs as a result of the provisions of the MSA were a "significant factor" contributing to the market share loss ("Significant factor proceeding"); and (2) the State is found to not have diligently enforced its escrow statute. For calendar years 2003, 2004, 2005 and 2006, there have been four Significant Factor Proceedings in which the firm found in favor of the PMs. There will not be a Significant Factor Proceedings for calendar years 2007, 2008, 2009, 2010, 2011, 2012 and 2013.

From April 2005 through April 2013, many of the tobacco manufacturers participating in the MSA either withheld all or portions of their payments due or remitted their payments to an escrow account, disputing the calculations of amounts due under the agreement. These manufacturers assert that the calculations of the amounts due failed to apply the NPM Adjustment. The TSFC's share of these disputed payments is approximately $37.7 million.

There has been a long-standing dispute between the PMs and the MSA Settling States relating to NPM Adjustment Disputes, and up until December 2012, all MSA Settling States and the PMs were engaged in an arbitration proceeding regarding the issue of Diligent Enforcement for the calendar year 2003 ("2003 Dispute") (Rhode Island's Diligent Enforcement is no longer being challenged for 2003). In December 2012, the PMs reached a settlement agreement with certain MSA States & Territories ("Term Sheet States") in connection with certain claims relating to NPM Adjustment Disputes, including the 2003 Dispute. The general terms thereof were memorialized in a Term Sheet ("Term Sheet") with the PMs. In March of 2013, the Panel, which was convened for the 2003 Dispute, issued a Stipulated Partial Settlement and Award ("Award") that incorporated certain provisions of the Term Sheet. Also, the award included specific instructions to the Independent Auditor directing it to implement the provisions provided therein, which it did in preparing final calculations for the 2013 MSA payments.

Thirty (30) MSA States and Territories ("NSS") have not accepted the terms of the Term Sheet, so the NPM Adjustment disputes between the NSS and PMs remain unresolved. Future NPM Adjustments could be as large as or exceed the reported potential $1.2 billion calendar year 2003 NPM adjustment. The resolution of the substance of such disputes could take years. Moreover, there is no assurance that these funds will be collected by the TSFC in the future. Due to these uncertainties regarding the ultimate realization of the remaining amount of these disputed payments, they have not been recognized as revenue in the financial statements. The TSFC and the other affected parties are taking actions prescribed in the MSA to arrive at a resolution of these matters.

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

Lottery

The Lottery's master contracts with its video lottery facility operators contain revenue protection provisions in the event that existing video lottery facility operators incur revenue losses caused by new gaming ventures within the State.

The Lottery's video lottery operations could be adversely impacted by enacted legislation in Massachusetts allowing three casinos and one slot parlor in that State. Massachusetts has developed a two-phase application process for potential operators and developers. The Massachusetts Gaming Commission could award casino licenses during fiscal 2014 based on their current timeline. Depending on the resulting location of the facilities within Massachusetts, video lottery revenues in Rhode Island could decrease.

The Narragansett Indian Tribe filed a complaint against the State of Rhode Island in the Superior Court on or about September 28, 2011, inter alia, challenging the constitutionality of the casino gaming act on the grounds that it would not be "state-operated" and the act "delegates unconstitutional authority to a private corporation." On or about June 29, 2012, the Superior Court found that the Narragansett Indian Tribe had not sustained their burden of proof that the act violates the State or United States constitution. The Narragansett Indian Tribe filed a notice of appeal of that decision. The remaining issues in the case which are still pending in the Superior Court relate to whether the state "operates" Twin River and Newport Grand.

A significant portion of the Lottery's revenues are derived from video lottery gaming at two licensed video lottery facilities. Newport Grand, one of those video lottery facilities, is subject to certain financing agreement restrictions. In 2008, Newport Grand entered into a $25,000,000 financing agreement with two banks for expansion and renovation of its video lottery terminal facility. Prior events of default relative to failing to meet earnings levels amended the loan agreement, which required additional partner contributions, quarterly deposits and restricted dividend distributions. During fiscal year 2013, a subsequent loan amendment required continued deposits and a new loan covenant requirement.

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, 2012 was issued in March 2013. That report identified approximately $2.3 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 2013 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit. The State's management believes that any disallowances of federal funding received by the State will not have a material impact on the State's financial statements.

Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Monies in a capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bondholders. 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, 2013, the following debt was morally obligated by the State:

R.I. Housing and Mortgage Finance Corporation (RIHMFC)

The R.I. Housing and Mortgage Finance Corporation (RIHMFC) had $164,230,211 outstanding in bonds, which are secured in part by capital reserve funds which have aggregated to $32,206,624 on June 30, 2013. Under the moral obligation provisions detailed in the preceding paragraph, upon request by the Governor, the General Assembly may, but is not obligated to, provide appropriations for any deficiency in such reserve funds. The RIHMFC has never been required to request such appropriations. Such reserve funds relate solely to select multi-family issues of the RIHMFC.

R.I. Economic Development Corporation (RIEDC)

In November 2010, the RIEDC issued $75 million of taxable revenue bonds under the Job Creation Guaranty Program. The bond proceeds were loaned to 38 Studios, LLC (38 Studios) and provided funding for the relocation of the company's corporate headquarters to the State and establishment and operation of a video gaming studio in the City of Providence. Proceeds also were used to fund a Capital Reserve Fund and Capitalized Interest Fund. Amounts in the Capital Reserve Fund are to be used in the event that 38 Studios fails to make any required loan payments. In accordance with the enabling legislation and the agreement between the RIEDC, the trustee and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, the RIEDC has agreed to present the Governor with a certificate stating the amounts required to restore any shortfall and the Governor is required to include such amounts in his or her budget request for appropriation by the General Assembly. The General Assembly may, but is not required to, appropriate such amounts.

38 Studios filed for Chapter 7 bankruptcy protection on June 7, 2012 and the RIEDC and the trustee for the bonds have obtained court approval to take custody of the assets pledged by 38 Studios to secure the payment of the bonds. The value of the assets pledged is not certain at this time. It is estimated that the total debt service on the bonds after considering any existing reserves with the trustee may be in the range of $89 million. The maturity dates on the bonds range from 2015 to 2020 with maximum annual debt service of approximately $12.75 million. The FY2014 enacted budget includes an appropriation of $2.5 million, which together with remaining amounts available in the capital reserve fund, will be used to pay principal and interest on the bonds due in fiscal 2014.

The State has recorded a liability of $2.5 million relating to the default by 38 Studios at June 30, 2013. This amount represents a current estimate of the amount of probable loss by the State. It is reasonably possible that the State's loss relating to this contingency could range as high as the remaining debt service principal of $68,000,000 owed to bondholders at June 30, 2014 less amounts potentially recovered through the sale of assets. The General Assembly is expected to reconsider the issue during the 2014 legislative session when $12.75 million in debt service will be requested for appropriation as part of the FY2015 budget request submitted by the Governor.

In November 2012, the RIEDC sued various individuals and entities involved with the loan to 38 Studios including principals of 38 Studios, former employees of the RIEDC and various advisors to the RIEDC alleging fraud, negligence, breach of fiduciary duty and other charges. The suit seeks repayment of compensatory and punitive damages associated with the various counts identified in the lawsuit.

An additional $6,500,000 in guarantees was issued under the Job Creation Guaranty Program for notes through June 30, 2013. The General Assembly repealed the authority for the RIEDC to guarantee further loans under this program during the 2013 legislative session.

Component Units

R.I. Higher Education Assistance Authority (RIHEAA)

On March 30, 2010, the President of the United States signed into law the Health Care and Education Reconciliation Act of 2010 (the Act), which included the Student Aid and Fiscal Responsibility Act (SAFRA). The Act made sweeping changes in student financial assistance programs, including a provision which eliminated loan originations under the Federal Family Education Loan (FFEL) Program effective July 1, 2010. As a result, new guaranteed student loans now originate under the Federal Direct Loan Program. RIHEAA's role as a guaranty agency in the FFEL Program constituted its single largest activity, and approximately 85% of the Authority's employees are allocated to the guaranty agency functions. The elimination of new loan originations has had a significant impact on the Authority's ongoing operations.

The Authority will continue to provide services for loans currently in its portfolio, including claims payments and reinsurance transactions, default prevention and aversion activities, and collections of defaulted student loans. It is difficult, however, to predict the period over which such services would be required, and to what extent those responsibilities will continue to constitute a substantive activity for the Authority. RIHEAA's senior management believes that a reasonable estimate of that period is in the range of two to four years. RIHEAA's senior management, in conjunction with its Board, has already taken steps necessary to respond to the changes resulting from the Act, and will continue to closely monitor all aspects of the operating environment.

In June 2013, the Rhode Island General Assembly passed and the Governor signed into law added language to RIHEAA's enabling legislation, titled – Reserve Funds: "To assure continued solvency of the authority, the authority's operating fund shall be used solely for the ordinary operating expenses of the authority. Furthermore, it is the intent of the General Assembly that these funds eventually be used to increase financial assistance to Rhode Island students in the form of scholarships and grants." The RIHEAA Board has had discussions about the new legislative language and is in the process of developing proposals and programs that are consistent with the legislature's intent.

R.I. Housing and Mortgage Finance Corporation (RIHMFC)

As of June 30, 2013, the RIHMFC may borrow up to a maximum of $85,000,000 under various revolving loan agreements expiring between August 2013 and December 2014. Borrowings under the lines of credit are payable on demand and are unsecured.

The RIHMFC is a party to financial instruments with off-balance sheet risk in connection with its commitments to provide financing. Such commitments expose the RIHMFC to credit risk in excess of the amounts recognized in the statements of net position. The RIHMFC's exposure to credit loss in the event of nonperformance by the borrowers is represented by the contractual amount of such instruments. Total credit exposure as a result of loan commitments at June 30, 2013 is $33,386,881.

Other Component Units

Other component units have various contingent liabilities that have arisen in the normal course of their operations. These contingencies are not significant to the State's financial statements.

Note 14. Employer Pension Plans

Defined Benefit Plans

Plan Descriptions

The State, through the Employees' Retirement System (ERS), administers five defined benefit pension plans. Four of these plans - the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan, and the Judicial Retirement Benefits Trust (JRBT), the Rhode Island Judicial Retirement Fund Trust (RIJRFT), and the State Police Retirement Benefits Trust (SPRBT), which are single-employer defined benefit pension plans, cover most State employees. The State does not contribute to the Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan. The ERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to State employees and teachers, which is subject to amendment by the general assembly, is established by Chapter 36-10 of the General Laws. The ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained by writing to the Employees' Retirement System, 50 Service Ave., Warwick, RI 02886.

Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the ERS are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the wages, subject to required contributions, are earned for the performance of duties for covered employment. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Methods Used to Value Investments

Dividend income is recorded on the ex-dividend date. Investment transactions are recorded on a trade date basis. The gains or losses on foreign currency exchange contracts are included in income consistent with changes in the underlying exchange rates.

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale. Short-term investments are generally carried at cost, which approximates fair value.

The fair value of fixed income securities and domestic and international equity securities is generally based on published market prices and quotations from national security exchanges and securities pricing services.

Commingled funds consist of institutional domestic equity index and international equity index funds. The fair value of these commingled funds is based on the reported net asset value (NAV) of the respective fund based upon the fair value of the underlying securities or assets held in the fund. The determination of fair value for other commingled funds, which include hedge, private equity, and real estate funds is described in the succeeding paragraphs.

Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded.

The ERS also trades in foreign exchange contracts to manage exposure to foreign currency risks. Such contracts are used to purchase and sell foreign currency at a guaranteed future price. The change in the estimated fair value of these contracts, which reflects current foreign exchange rates, is included in the determination of the fair value of the ERS investments.

Other investments that are not traded on a national security exchange (primarily private equity, real estate investments, and hedge fund investments) are generally valued based on audited December 31 net asset values adjusted for (1) cash flows for the period January 1 to June 30 (which principally include additional investments and partnership distributions), and (2) significant changes in fair value as determined or estimated by the general partners as of June 30. The general partners estimate the fair value of the underlying investments held by the partnership periodically. Publicly traded investments held by the partnerships are valued based on quoted market prices. If not publicly traded, the fair value is determined by the general partner. Financial Accounting Standards Board, ASC Topic 820, *Fair Value Measurements and Disclosures,* requires private equity and real estate limited partnership general partners to value non-publicly traded assets at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information. ERS management considers the fair values reported by the general partners at June 30 in addition to the audited net asset values at December 31 adjusted for cash flows for the period January 1 to June 30 in determining the fair value of private equity and real estate investments on the financial statements of ERS.

Private equity and real estate investments represented 7.4% and 3.2%, respectively, of the total reported fair value of all ERS investments at June 30, 2013. Of the underlying holdings within private equity investments, approximately 19% were valued based on quoted market prices. The remaining underlying assets were valued generally following the objectives outlined above. Because these fair values were not determined based on quoted market prices, the fair values may differ from the values that would have been determined had a ready market for these investments existed.

Hedge funds are valued based on information provided by the fund manager and as verified by their respective third party administrator. Of the underlying holdings within the hedge funds approximately 66% were valued based on Tier 1 inputs (unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted investments) and 28% as Tier 2 inputs (other significant inputs, either directly or indirectly, at the measurement date such as a) quoted prices for similar assets or liabilities in active markets; b) quoted prices for identical or similar assets and liabilities in markets that are not active; c) observable inputs, other than quoted prices, for assets and liabilities; or

d) inputs that are derived from or corroborated by observable market data by correlation or other means. The remaining underlying holdings within the hedge funds approximating 6% were valued based on Tier 3 inputs (unobservable inputs which are developed based on the best information available in the circumstances which might include the fund's own data).

Investment Expenses

Investment management expenses are presented separately as a component of net investment income and include investment consultants' fees, custodial fees, direct investment expenses allocated by managers, and allocated Office of the General Treasurer expenses associated with oversight of the portfolio. In some instances (hedge funds, private equity, real estate investments, and cash investments), investment related costs are not readily separable from investment income and consequently investment income is recorded net of related expenses.

Funding Policy and Annual Pension Cost

The fiscal 2013 contribution rates for the Employees' Retirement System, the State Police Retirement Benefits Trust, and the Judicial Retirement Benefits Trust were based on the actuarial valuation of those plans performed as of June 30, 2010. The fiscal 2013 contribution rate for the Judicial Retirement Fund Trust, effective July 1, 2012 was based on the actuarial valuation of that plan performed as of June 30, 2012.

A summary of the State's annual pension cost (expressed in thousands) for the fiscal year ended June 30, 2013 and the actuarial assumptions and methods used in the June 30, 2010 valuation of the plans is provided in the table below:

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust	RI Judicial Retirement Fund Trust
Contribution rate:				
State	21.18%	11.07%	19.69%	$1,816
Plan members - state employees	3.75%	8.75%	8.75% and 12.00%	8.75% and 12.00%
State contribution for teachers	7.15% and 7.88%			
Annual pension cost	$207,319	$2,103	$1,752	$1,816
Contributions made - state employees	$136,615	$2,103	$1,752	
Contribution made - teachers	$70,704			
Actuarial valuation date	June 30, 2010	June 30, 2010	June 30, 2010	June 30, 2012
Actuarial cost method	Entry Age Normal-Individual Entry Age Actuarial Cost Method	Entry Age Normal-Individual Entry Age Actuarial Cost Method	Entry Age Normal-Individual Entry Age Actuarial Cost Method	Entry Age Normal-Individual Entry Age Actuarial Cost Method
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Dollar
Equivalent Single Remaining Amortization Period	25 years	25 years	25 years	16 Years
Asset valuation method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions:				
Investment rate of return	7.50%	7.50%	7.50%	4.00%
Projected salary increases	4.00% to 7.00%	4.00% to 12.00%	4.00%	4.00%
Inflation	2.75%	2.75%	2.75%	2.75%
Cost-of-living adjustments	The COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to be applied to the first $25,000 of benefits, indexed over time. The COLA is delayed until the later of Social Security eligibility age or 3 years after retirement except for State Police for which the COLA is delayed until the later of age 55 or 3 years after retirement. A COLA of 2% is assumed only every five years until the plans achieve an 80% collective funded status in accordance with the law. It is assumed that the plans will not achieve the targeted 80% funded status for 15 years.			
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	8-3-16

The assumptions used in the Rhode Island Judicial Retirement Fund Trust are consistent with those used for the Judicial Retirement Benefits Trust except that since the plan is not currently advance funded, a 4% investment return assumption was utilized. This plan is for a closed group of individuals and the amortization payment has been calculated based on level-dollar amortization over 16 years from June 30, 2012.

Annual Pension Cost and Net Pension Assets and Obligations

For all defined benefit plans, except for the RI Judicial Retirement Fund Trust, the State contributed 100% of the annual pension cost. The net pension obligation relating to the RIJRFT is detailed in the table below (amounts expressed in thousands):

Annual Required Contribution	$1,816
Interest on net pension obligation	-
Adjustment to annual required contribution	-
Annual pension cost	1,816
Contributions made	-
Increase in net pension obligation	1,816
Net pension obligation, beginning of year	-
Net pension obligation, end of year	$1,816

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation (In Thousands)
Employees' Retirement System	6/30/11	$ 196,847	100%	$ -
	6/30/12	233,834	100%	-
	6/30/13	207,319	100%	-
State Police Retirement Benefits Trust	6/30/11	3,787	100%	-
	6/30/12	5,333	100%	-
	6/30/13	2,103	100%	-
Judicial Retirement Benefits Trust	6/30/11	1,298	100%	-
	6/30/12	1,718	100%	-
	6/30/13	1,752	100%	-
RI Judicial Retirement Fund Trust	6/30/13	1,816	0%	1,816

The RI Judicial Retirement Fund Trust was established on July 1, 2012.

Funded Status and Funding Progress

The table below displays the funded status of each plan as of June 30, 2012, the most recent actuarial valuation date (See Note 19 – Subsequent Events):

	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	$ 2,421,191,542	$ 4,297,261,311	$ 1,876,069,769	56.30%	$ 669,477,539	280.20%
Teachers	3,746,299,871	6,373,081,344	2,626,781,473	58.80%	971,904,991	270.30%
SPRBT	84,293,968	94,031,687	9,737,719	89.60%	23,669,619	41.10%
JRBT	43,428,646	52,085,154	8,656,508	83.40%	8,822,823	98.10%
RIJRFT	-	16,387,206	16,387,206	0.00%	1,230,644	1331.60%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liabilities (AAL) for benefits.

Additional information as of the June 30, 2012 actuarial valuation follows:

	ERS				
	State Employees	Teachers	SPRBT	JRBT	RIJRFT
Valuation Date	6/30/2012	6/30/2012	6/30/2012	6/30/2012	6/30/2012
Actuarial Cost Method	Entry Age Normal	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	Level Dollar
Equivalent Single Remaining Amortization Period	23 years	23 years	23 years	23 years	16 years
Asset Valuation Method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions Investment Rate of Return	7.50%	7.50%	7.50%	7.50%	4.00%
Projected Salary Increases	4.00% to 7.00%	4.00% to 12.75%	4.00% to 12.00%	4.00%	4.00%
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%
Cost of Living Adjustments	The COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - The COLA is to be applied to the first $25,000 of benefits, indexed over time. The COLA is delayed until the later of Social Security eligibility age or 3 years after retirement except for State Police for which the COLA is delayed until the later of age 55 or three years after retirement. A COLA of 2% is assumed only every five years until the plans achieve an 80% collective funded status in accordance with the law. It is assumed that the plans will not achieve the targeted 80% funded status for 15 years.				

Note 1. Within the Entry Age Normal -the Individual Entry Age Actuarial Cost methodology is used.

Supplemental Contributions

The General Laws (Section 36-10-2(a) 1 and 2) also require, in addition to the contributions provided for by the funding policy, for each fiscal year in which the actuarially determined state contribution rate for state employees and teachers is lower than that for the prior fiscal year, the governor shall include an appropriation to that system equivalent to twenty percent (20%) of the rate reduction to be applied to the actuarial accrued liability. The amounts to be appropriated shall be included in the annual appropriation bill and shall be paid by the general treasurer into the retirement system. The retirement system's actuary shall not adjust the computation of the annual required contribution for the year in which supplemental contributions are received; such contributions once made may be treated as reducing the actuarial liability remaining for amortization in the next following actuarial valuation to be performed. For fiscal year 2013, $2,312,058 was contributed to the System in accordance with this provision of the General Laws.

The General Laws also require that for any fiscal year in which the State's actual general revenues exceed estimated amounts, the difference shall be paid to the ERS plan upon completion and release of the State's audited financial statements. The amount paid to the System in fiscal year 2013 related to the State's fiscal year 2012 actual general revenues exceeding budgeted amounts by $12,943,629.

Beginning in fiscal year 2013, the Retirement Security Act provides for additional contributions to the System based on 5.5% of the value of contracts where the services performed by the contractor were previously performed by state employees. A supplemental contribution of $434,677 was paid to the System pursuant to Section 42-149-3.1 of the General Laws.

For fiscal year 2013, the General Laws required various supplemental contributions to the ERS defined benefit pension plan as described above. These supplemental contributions are in addition to the annual required contribution amounts to ERS as determined by the actuary. Because ERS is a cost-sharing plan, fiduciary net position, including the effects of the supplemental contributions, is allocated between both state employee and teacher covered groups. Accordingly, no net pension asset has been reflected on the State's Statement of Net Position as it is not directly attributable to any one participating employer.

Defined Contribution Plan

The State of Rhode Island Defined Contribution Retirement Plan (the "Plan") is a defined contribution (money purchase) plan that operates under Section 401(a) of the Internal Revenue Code. The Plan was established under Rhode Island General Law section 36-10.3-2 and was placed under the management of the Retirement Board. The Retirement Board is the Plan administrator and Plan trustee. The law authorizes the State Investment Commission to select the appropriate third-party administrator for the Plan and to adopt Plan, trust, and/or custodial documents subject to certain guidelines outlined in the statute. The State Investment Commission is responsible for implementing the investment policy of the Plan and selecting the investment options available to members. TIAA-CREF serves as record keeper for the Plan and Plan assets are held by J.P. Morgan as investment custodian.

Plan members – The plan covers members of the Employees' Retirement System of Rhode Island (ERS), excluding legislators, correction officers and MERS general police and fire employees who participate in Social Security. For covered employees, participation in the defined contribution plan is mandatory. Judges and state police officers are also excluded from the Plan.

Plan vesting provisions – The total amount contributed by the member, including associated investment gains and losses, shall immediately vest in the member's account and is non-forfeitable. The total amount contributed by the employer, including associated investment gains and losses, vests with the member and is non-forfeitable upon completion of three (3) years of contributory service. Service credit under ERS or MERS prior to July 1, 2012 is credited to the member for vesting purposes.

Member accounts – Each member's account is credited with the member and employer's contribution and an allocation of the plan's earnings. Allocations are based on a relationship of the member's account balance in each investment fund to the total of all account balances in that fund. The retirement benefit to which a member is entitled is the benefit that can be provided from the member's account.

Forfeitures – Non-vested employer contributions are forfeited upon termination of employment. Such forfeitures can be used by employers to offset future remittances to the plan.

Contributions – the plan's benefits are funded by contributions from the participants and the employer, as specified in Rhode Island General Law 36-10.3-4 and 36-10.3-5. Eligible state employees and teachers and MERS general employees that participate in Social Security contribute 5% of the member's compensation. Employers contribute to these member's individual accounts an amount equal to 1% of the member's compensation.

Teachers and MERS general employees not covered by social security must contribute 7% of their compensation; employers contribute to these member's individual accounts an amount equal to 3% of the member's compensation. MERS police and fire employees not covered by social security must contribute 3%; employers contribute to these member's individual accounts an amount equal to 3% of the member's compensation.

Investment options – Member and employer contributions may be invested in a variety of investment options broadly diversified with distinct risk and return characteristics. The investment options provide opportunities to diversify across the risk-return spectrum with a range of investment choices within varied asset classes.

The investment programs are managed by TIAA-CREF and have various investment strategies.

Retirement benefits – Benefits may be paid to a member after severance from employment, death, Plan termination, or upon a deemed severance from employment for participants performing qualified military service. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which you attain age 70 ½ or terminate employment, if later. Members have the option to receive benefit payments in the form of a Single Life Annuity, Two Life Annuity, Lump Sum Benefit, or Installments. These payments are subject to any restrictions in the investment vehicles.

Other

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan. Eligible employees who have reached the age of 30, and who have two (2) years of service are required to participate in either the Teachers Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. Eligible employees must contribute at least 5% of their gross biweekly earnings. The University and Colleges contribute 9% of the employees' gross biweekly earnings. Total expenses by the institutions for such annuity contracts amounted to approximately $16,136,000 during the year ended June 30, 2013.

The Rhode Island Public Transit Authority has a defined benefit pension plan for all employees, for which eligibility to participate begins immediately upon employment. Benefits vest upon completion of ten years of service. Authority employees are eligible to retire upon attainment of age 62 and 5 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. At January 1, 2013, the most recent valuation date, the total actuarial accrued liability was $121,499,238 and the actuarial value of assets was $84,503,097. The Authority contributed 100% of its annual pension cost, totaling $7,772,257, for fiscal year 2013 and had a net pension obligation of $1,726,343 at June 30, 2013.

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

Note 15. Other Post-Employment Benefits

A. Plan Descriptions

The Rhode Island State Employees' and Electing Teachers OPEB System (the "System") acts as a common investment and administrative agent for other post-employment benefits provided for the six groups/plans listed below:

- Certain state employees and employees of the following component units or related organizations: Narragansett Bay Commission, RI Airport Corporation and RI Economic Development Corporation
- Certain certified public school teachers
- Judges
- State police officers

- Legislators
- Certain employees of the Board of Education (BOE)

Members of the System must meet the eligibility and services requirements set forth in the RI General Laws or other governing documents.

Although the assets of the six plans are commingled for investment purposes, each plan's assets are accounted for separately and may be used only for the payment of benefits to the members of that plan, in accordance with the terms of that plan.

The System's financial statements are included as Trust Funds within the Fiduciary Funds. The System is administered by the State of Rhode Island OPEB Board and was authorized, created and established under Chapter 36-12.1 of the RI General Laws. The Board was established under Chapter 36-12.1 as an independent board to hold and administer, in trust, the funds of the OPEB system. The Board began operations and the Trust was established effective July 1, 2010.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans and a description of the benefit structures. The report may be obtained by writing to the State Controller's Office, 1 Capitol Hill Providence, RI 02903.

A summary of the principal provisions of the plans follow:

	State Employees	Judicial	State Police	Legislators	BOE Plan
Plan type	Cost Sharing Multiple Employer	Single employer	Single employer	Single employer	Cost Sharing Multiple Employer
Eligibility	Members of ERS meeting eligibility criteria.	Retired judges.	Retired members of the State Police.	Retired legislators.	Members of the BOE Alternative Retirement Plan as defined in RI G.L. 16-17.1-1 and 2 meeting eligibility criteria.
Plan benefits	Retiree plan for members and dependents until Medicare eligible; subsequently eligible for Medicare supplement.	May purchase active employee plan for member and dependents until age 65. At 65 must enroll in Medicare supplement.	Active employee plan for member and dependents until age 65; at that age coverage ceases if Medicare eligible.	May purchase active employee plan for member and dependents until age 65. At 65 must enroll in Medicare supplement.	For employees retiring after June 21, 1998 the Board pays a portion of the post 65 Tier II benefits depending on the years of service and the retiree's age. Those employees who retired previously have different benefits.

Note - Retired teachers can purchase coverage for themselves and dependents at the active or early retiree rate, as applicable until age 65, when they must enroll in a Medicare supplement plan.

RIGL Sections 16-17.1-1 and 2, 36-10-2, 36-12.1, 36-12-2.2 and 36-12-4 govern the provisions of the System, and they may be amended in the future by action of the General Assembly.

B. Funding Policy, Funding Status and Funding Progress

The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly. Beginning in fiscal year 2011, the State and other participating employers were required by law to fund the plans on an actuarially determined basis. For the fiscal year ended June 30, 2013, the State and other participating employers paid $58,223,000 into the plans.

C. Annual OPEB Cost and Net OPEB Obligation

The participating employers recognized an expense equal to a) the annual required contribution of the employer (ARC), which was actuarially determined, plus b) interest on the net OPEB obligation at the beginning of the fiscal year, where applicable, less c) the ARC adjustment, where applicable (discounted present value of the OPEB liability at the beginning of the fiscal year). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The annual OPEB cost for the year, the amount actually paid on behalf of the plans and the changes in the net OPEB obligation are as follows (dollar amounts expressed in thousands):

	State Employees	Teachers	Judicial	State Police	Legislators	BOE
Date of Actuarial Valuation	06/30/09	06/30/09	06/30/09	06/30/09	06/30/09	06/30/09
Annual required contribution as a percent of payroll	6.86%	N/A	7.19%	33.18%	0.00%	2.69%
Annual required contribution	$ 45,800	$ 2,321	$ 778	$ 6,218	$ 0	$ 3,106
Plus: Interest on net OPEB obligation at beginning of year	0	N/A	144	419	0	0
Less: Adjustment to ARC	0	N/A	120	350	0	0
Annual OPEB cost	45,800	2,321	802	6,287	0	3,106
Participating State and/or other employer contributions	45,800	2,321	778	6,218	0	3,106
Increase in OPEB obligation	0	0	24	69	0	0
Net OPEB obligation at beginning of year, as restated	0	0	2,867	8,381	0	0
Net OPEB obligation at end of year	$ 0	$ 0	$ 2,891	$ 8,450	$ 0	$ 0

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation were as follows (dollar amounts expressed in thousands):

Plan	Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State Employees	2011	41,120	100.00%	-
	2012	44,235	100.00%	-
	2013	45,800	100.00%	-
Teachers	2011	2,333	100.00%	-
	2012	2,321	100.00%	-
	2013	2,321	100.00%	-
Judicial	2011	1,014	97.23%	2,839
	2012	810	96.53%	2,867
	2013	802	97.01%	2,891
State Police	2011	4,295	98.13%	8,302
	2012	5,920	98.66%	8,381
	2013	6,287	98.91%	8,450
Legislators	2011	1,541	98.62%	*
	2012	799	97.34%	*
	2013	0	NA	-
BOE	2011	2,869	100.00%	-
	2012	2,884	100.00%	-
	2013	3,106	100.00%	-

* - Restated, see Note 18F.

The table below displays the funded status of each plan at June 30, 2011, the most recent actuarial valuation date (dollar amounts expressed in thousands):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
State Employees	$ 11,545	$ 728,207	$ 716,662	1.6%	$ 600,273	119.4%
Teachers	2,040	11,512	9,472	17.7%	n/a	n/a
Judicial	841	2,610	1,769	32.2%	10,813	16.4%
State Police	1,488	81,759	80,271	1.8%	17,384	461.8%
Legislators	1,442	1,443	1	99.9%	1,615	0.1%
BOE	3,189	53,751	50,562	5.9%	125,340	40.3%

Covered payroll and the UAAL as a percentage of covered payroll are not presented for teachers since the required contribution by the State is for the Tier I subsidy for teachers who have elected to participate in the State's Retiree Health Care Benefit Plan.

D. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in the actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plans by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not exceeding thirty years.

The Annual Required Contributions for fiscal year 2013 were determined based on the June 30, 2009 valuations for all plans.

As of the June 30, 2009 actuarial valuation, the Unfunded Actuarial Accrued Liability (UAAL) was amortized by a level (principal and interest combined) percent of payroll contribution for each component unit employer. The UAAL was determined using the actuarial value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL for all plans, except teachers, is being amortized over the remainder of a closed 30-year (or shorter) period from June 30, 2006. The remaining amortization period at June 30, 2009 is 27 years. The UAAL for teachers is being amortized as a level dollar amount over an 8-year period from June 30, 2007.

For the June 30, 2009 valuation the actuarial assumptions include a 5.0% discount rate, a health care cost trend assumption of 9% progressively declining to 4.5% after 10 years, and salary growth assumption rates ranging between 4.5% and 13.25%. Other assumptions, including those relating to rates of termination, rates of retirement, percent married, and retiree health care election rates, were based on the most recent experience study for the Employees' Retirement System of Rhode Island as well as on anticipated experience changes in conjunction with the adopted retirement plan changes enacted through legislation.

The most recent actuarial valuations of the plans were performed as of June 30, 2011.

A number of changes in OPEB specific actuarial assumptions were made between the June 30, 2009 and June 30, 2011 valuations. These changes include reflecting new assumptions adopted by the Employees Retirement System of Rhode Island (ERSRI), and the State Police Retirement Benefits Trust of Rhode Island (SPRBT), changes to the OPEB specific assumptions, and changes to reflect the potential excise tax under the Patient Protection and Affordable Care Act.

Changes from the ERSRI and SPRBT experience studies include changes to the retirement and disability rates for ERSRI and changes to salary expectations and mortality for both ERSRI and SPRBT.

Changes to the OPEB specific assumptions include a change in the medical trend assumption of 9% decreasing to 4.5% in 8 years to 9% decreasing to 4.0% in 10 years, a change in the Medicare election rate for Legislators from 75% electing Medicare to 100% electing Medicare and the addition of the assumption that current retired Teachers over age 65 in the Early Retiree Plan are assumed to not be eligible for Medicare.

The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2018. The excise tax is 40% of costs above a threshold. The actual actuarial assumptions used in the most recent valuation assume that the plans will be subject to the excise tax as early as 2018.

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. During fiscal year 2014, the State will establish a health reimbursement account (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. The System's actuary has updated the June 30, 2011 actuarial valuation to reflect the effect on the Actuarial Accrued Liability resulting from this change and the updated amounts are reflected in the valuation table on the preceding page.

The following table summarizes the actuarial methods and assumptions used in the most recent actuarial valuation:

Summary of Actuarial Methods and Assumptions as of June 30, 2011 valuation

	Plan					
	State Employees	Teachers	Judicial	State Police	Legislators	Board of Education
Valuation Date	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011
Plan Type	Cost sharing multiple employer	Single Employer (1)	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
Actuarial Cost Method	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age
Amortization Method	Level Percent of Payroll – Closed	Level Dollar	Level Dollar	Level Percent of Payroll – Closed	Level Dollar	Level Percent of Payroll – Closed
Equivalent Single Remaining Amortization Period	25 years	4 years	25 years	25 years	25 years	25 years
Asset Valuation Method	Four year smoothed market	Four year smoothed market	Four year smoothed market	Four year smoothed market	Four year smoothed market	Four year smoothed market
Actuarial Assumptions						
Investment Rate of Return	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Projected Salary Increases	4.00% to 7.0%	N/A	4.00%	4.00% to 12.0%	4.25% to 8.50%	4.00% to 7.00%
Valuation Health Care Cost Trend Rate	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021

Note 1 – The Teachers plan accounts for the Tier I subsidy funded by the State for Teachers electing to participate and retiring before October 1, 2008.

Note 2 – The actuarial assumptions do not include a separate general inflation rate assumption.

Certain other component units have other post-employment benefit plans. For information regarding these plans, please refer to the component units' separately issued financial reports.

Note 16. Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Department of Administration, pursuant to Chapter 36-13 of the General Laws, administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Plan distributions are normally available to employees at the later of age 59 or retirement and mandatory distributions must commence once the individual reaches age 70½. The plan also allows for distributions for qualifying events such as termination, death or "unforeseeable emergency."

Current Internal Revenue Service regulations require that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors. The plan assets also may be held in annuity contracts or custodial accounts, which are treated as trusts.

The State does not serve in a trustee capacity. Accordingly, the plan assets are not included in the State's financial statements.

Note 17. Risk Management

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

The State has entered into agreements with commercial insurance companies for comprehensive insurance coverage on State property to protect the State against loss from fire and other risks. Furthermore, the State is required by the General Laws to provide insurance coverage on all motor vehicles owned by the State and operated by State employees in the sum of $100,000 per person and $300,000 per accident for personal injury and $20,000 for property damage. During fiscal year 2013, and the two preceding fiscal years, no settlements exceeded insured coverage limits.

The State also has a contract with an insurance company to provide health care benefits to active and retired employees. For coverage provided to active employees, the State retains the risk of loss. Retirees that are Medicare eligible may choose Medicare supplement coverage that is either premium based (State retains no risk of loss) or a self-insured plan option. Except for the premium based coverage provided to certain Medicare eligible retirees, the State reimburses the company for the costs of all claims paid plus administrative fees. The estimated liability for incurred but not reported (IBNR) claims at June 30, 2013 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	Liability at July 1	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30
Health Insurance Funds				
Unpaid claims	$ 13,780	$ 204,161	$ 202,505	$ 15,436

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 18. Other Information

A. Elimination Entries

When the governmental fund statements and the internal service fund statements are combined into one column for governmental activity on the government-wide financial statements, interfund balances and activity should be eliminated. The following are the eliminations (expressed in thousands) that were made:

	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 9,953	$ 1,437	$ 11,390	$ (16,015)	$ (4,625)
Loans to other funds	100,114		100,114	(100,114)	
Total assets	$ 110,067	$ 1,437	$ 111,504	$ (116,129)	$ (4,625)
Liabilities					
Due to other funds	$ 15,714	$ 301	$ 16,015	$ (16,015)	$
Loans from other funds	94,153	5,961	100,114	(100,114)	
Total liabilities	$ 109,867	$ 6,262	$ 116,129	$ (116,129)	$
Program revenue					
General government	$	$ 273,183	$ 273,183	$ (273,183)	
Public safety		11,264	11,264	(11,264)	
Expenses					
General government		(273,012)	(273,012)	273,012	
Public safety		(11,435)	(11,435)	11,435	
Net revenue (expenses)	$	$	$	$	$
Transfers					
Operating transfers in	$ 592,804	$ 7,400	$ 600,204	$ (266,400)	$ 333,804
Operating transfers out	(264,571)	(1,829)	(266,400)	266,400	
Net transfers	$ 328,233	$ 5,571	$ 333,804	$	$ 333,804

	Total Business-type Activities		Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 5,826	$	$ 5,826	$ (1,201)	$ 4,625
Total assets	$ 5,826	$	$ 5,826	$ (1,201)	$ 4,625
Liabilities					
Due to other funds	$ 1,201	$	$ 1,201	$ (1,201)	$
Total liabilities	$ 1,201	$	$ 1,201	$ (1,201)	$
Transfers					
Operating transfers in	$ 46,227	$	$ 46,227	$ (46,227)	$
Operating transfers out	(380,031)		(380,031)	46,227	(333,804)
Net transfers	$ (333,804)	$	$ (333,804)	$	$ (333,804)

B. Related Party Transactions

On April 25, 2013, the State transferred custody, control and supervision of the Jamestown and the Sakonnet River Bridges and related land and improvements from the Department of Transportation to the R.I. Turnpike and Bridge Authority. Ownership and title of the two bridges remains with the State.

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

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC) 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.

During fiscal year 2013, the State transferred land reclaimed from the Interstate 195 relocation project and the Washington Bridge project to the I-195 Redevelopment District Commission (I-195 RDC). The value of the land was reported in the State's financial statements as a capital contribution at the historical cost of $343 per acre, for a total of $7,203. Significant improvements to the land are being funded by the state to complete redevelopment of the land for sale. In April 2013, the R.I. Economic Development Corporation (RIEDC) issued conduit debt obligations on behalf of the I-195 RDC totaling $38,400,000. In connection with this issuance there were financing fees of approximately $1.494 million, which were paid principally by the State. This payment is reported as a transfer out to the I-195 RDC in the State's financial statements.

In November 2004, the voters of Rhode Island authorized the issuance of $30 million in general obligation debt for the construction of a new residence hall at Rhode Island College (RIC). Of this amount, $20 million will be repaid to the State. The residence hall was finished and in service by September 2007, at which time RIC began collecting revenues to pay for its share of the debt service. Debt service obligation is to be split two-thirds to RIC and one-third to the State for all payments after September 2007. RIC will repay the State for the debt service paid on its behalf on a straight-line basis, amortized over the remaining life of the bonds, which carry rates ranging from 3-5% and a life of nineteen years beginning in fiscal year 2009.

C. Budgeting, Budgetary Control, and Legal Compliance

Budget Preparation

An annual budget is adopted on a basis consistent with generally accepted accounting principles. The budget encompasses the General, Intermodal Surface Transportation and Temporary Disability Insurance Funds as well as selective portions of certain other funds. Preparation and submission of the budget is governed by the State Constitution and the Rhode Island General Laws. The budget, as enacted, contains a complete plan of proposed expenditures from all sources of funds (general, federal, restricted, and transfers in). Revenues upon which the budget plan is based are determined as part of the State's Revenue Estimating Conference. The Conference, held twice each year, results in a consensus estimate of revenues for the next fiscal year and an update of prior revenue estimates for the current fiscal year.

As required by the Constitution and the Rhode Island General Laws, annual appropriations are limited to 97.0 percent of estimated general revenues. The remaining 3.0 percent is contributed to the Budget Reserve Account until such account equals 5.0 percent of total general revenues and opening surplus. Excess contributions to the Budget Reserve Account are transferred to the Rhode Island Capital Plan Fund to be used for capital projects.

The annual budget is adopted on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

Budgetary Controls

The legal level of budgetary control, i.e., the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch.

Budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations, accounting system controls to limit expenditures in excess of authorized amounts, and budgetary monitoring controls.

D. Significant Transactions with Component Units

The significant transactions with the discretely presented component units are presented (expressed in thousands) below:

Significant transactions between primary government and component units

	(Revenue) Expense	Description
Governmental activities		
General		
R.I. Higher Education Assistance Authority	$ 5,693	Operating assistance
R.I. Economic Development Corporation	15,075	Operating and capital assistance
University of Rhode Island	58,186	Operating assistance
Rhode Island College	38,541	Operating assistance
Community College of Rhode Island	44,517	Operating assistance
Central Falls School District	46,399	Operating assistance
R.I. Public Transit Authority	5,442	Operating assistance
IST		
R.I. Public Transit Authority	40,860	Operating assistance
I-195 Redistricting Commision	(38,400)	Purchase of land
Bond Capital		
Rhode Island College	10,159	Construction, improvement or purchase of assets
R. I. Capital Plan		
University of Rhode Island	11,666	Construction, improvement or purchase of assets
Total Governmental Activities	$ 238,138	

E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2013:

- Assessed Fringe Benefits ($3,163,000)
- Central Utilities ($250,000)
- State Telecommunications ($148,000)
- Records Center ($111,000)
- Capitol Police ($88,000)

The deficits will be eliminated through charges for services in fiscal year 2014.

F. Restatements – Net Position and Fund Balances

Restatements of June 30, 2012 net position/fund balances (expressed in thousands) are in the table below:

	Governmental Activities	Discretely Presented Component Units	Governmental Funds
Balances previously reported at June 30, 2012			
Net position	$ 1,418,495	$ 2,811,840	
Fund balance			$ 966,946
Restatement due to:			
(1) *GASB 61 implementation - changes in financial reporting entity*		(975,699)	
(2) *Correction of errors*	26,545	(17,804)	
(3) *Restatement of Net OPEB Obligation*	2,137		
(4) *Recognition of Tobacco Settlement Revenues (TSRs)*	23,524		23,524
(5) *Adjustments to Carrying Value of Capital Assets*	70,247		
June 30, 2012 net position/fund balance, as restated	$ 1,540,948	$ 1,818,337	$ 990,470

(1) *GASB 61 implementation - changes in financial reporting entity* - As discussed in Note 1 in fiscal year 2013 the State implemented GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. The following entities are no

longer considered component units as they do not present the potential to provide a financial benefit or impose a financial burden on the State:

- Rhode Island Student Loan Authority
- Narragansett Bay Commission
- Rhode Island Health and Educational Building Corporation
- Rhode Island Clean Water Finance Agency
- The College Crusade of Rhode Island

In addition, the Rhode Island Public Telecommunications Authority is no longer a component unit as its operations have been assumed by the Rhode Island PBS Foundation.

(2) *Correction of errors* - The State issued certain capital lease obligations for energy conservation projects on behalf of the University of Rhode Island (URI) and the Community College of Rhode Island (CCRI). URI and CCRI are required to repay the State for debt service from the energy cost savings related to the projects. The State did not recognize the asset in its financial statements until fiscal year 2013. The beginning net position of the discretely presented component units was restated by ($17,804,000). URI did not recognize the liability in its financial statements until fiscal year 2013.

(3) Restatement of Net OPEB Obligation – The beginning net position of the governmental activities was increased by $2,137,000 due to the elimination of the net OPEB obligation reported for legislators' OPEB plan at June 30, 2012. The obligation was eliminated after corrections and changes in assumptions by the actuary in a more current valuation showed the plan to be fully funded with no annual required contribution amount.

(4) *Recognition of Tobacco Settlement Revenues (TSRs)* - The Tobacco Settlement Financing Corporation revised its recognition of amounts due for TSRs based on the shipment of cigarettes instead when cash was received. The TSFC's beginning net position was restated for this change.

(5) Adjustments to Carrying Value of Capital Assets - During fiscal year 2013, $70,247,000 was recorded as a prior period adjustment related to capital assets. Approximately $185,000 was attributable to the cost of software development projects that was not recorded in prior fiscal years. $1,374,000 was adjusted due to construction in progress projects that, upon completion, fell below the State's capitalization threshold. The balance of $71,436,000 represents additions to infrastructure assets for elements of project costs that were not previously recognized.

Note 19. Subsequent Events

Primary Government

In October 2013 the State issued $53,150,000 of General Obligation Bonds. The bonds mature in 2014 through 2033 and will be used for a variety of purposes including transportation infrastructure projects and affordable housing initiatives.

On December 17, 2013, the ERSRI Board approved actuarial valuations as of June 30, 2013 for the ERS plan. The valuations develop the employer contribution rates for fiscal year 2016. The funded status of the ERS plan as of June 30, 2013 compared to June 30, 2012 valuations is detailed in the table below:

	Funded ratios based on actuarial valuation performed as of:	
	June 30, 2012	June 30, 2013
ERS - state employees	56.3%	56.2%
ERS - teachers	58.8%	58.1%

The actuary made no significant changes in actuarial assumptions for the 2013 valuation.

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. During fiscal 2014, the State will establish a health reimbursement account (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. The System's actuary has modified the actuarially required contributions for fiscal 2014 developed as of the June 30, 2011 valuation to reflect these changes.

Component Units

On July 18, 2013, R. I. Resource Recovery Corporation (RIRRC) received notification from a third-party of its intent to sue for alleged violations of the Clean Air Act ("CAA"). The notification alleges, inter alia, that quantities of landfill gas have been escaping from the Central Landfill for years and also names the owner/operator of the gas collection system as part of the intended suit. Under the CAA citizens can bring suit to enjoin violations of the emissions standards and can seek redress and civil penalties for such violations. On December 16, 2013, the complaint was filed in U.S. District Court. The complaint requests that the Court order the defendants to comply with the Clean Air Act, remedy the alleged violations and pay civil penalties. RIRRC has notified its pollution liability insurance carrier of the potential for the lawsuit; RIRRC, as named additional insured, has also notified the owner/operator of the gas collection system's pollution liability insurance carrier of the potential for a claim.

On August 19, 2013, the R.I. Turnpike and Bridge Authority began collecting tolls on the Sakonnet River Bridge in accordance with the FY2014 Rhode Island State Budget, which includes an article that states the toll will be temporarily set at $0.10 through April 1, 2014. The status of tolling on the Sakonnet River Bridge will be finalized in fiscal year 2014 by the General Assembly.

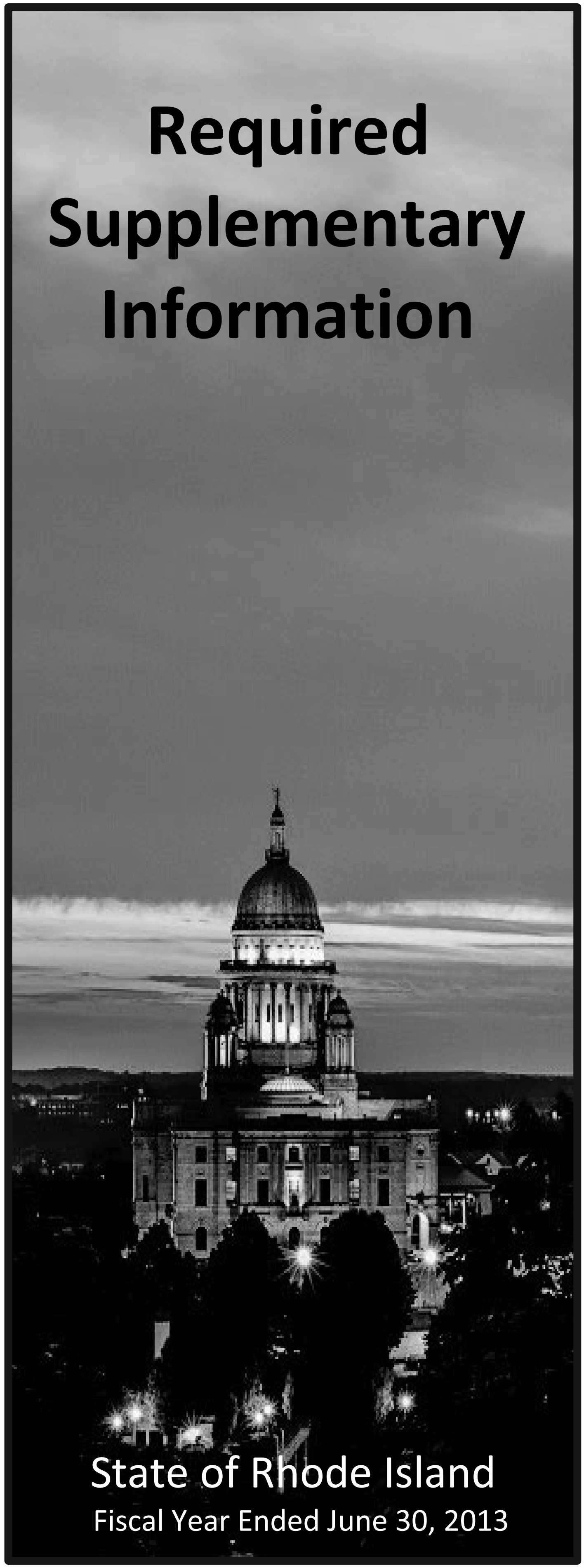
On October 1, 2013, the R.I. Housing and Mortgage Finance Corporation redeemed or refunded the following bonds: Homeownership Opportunity Bonds in the amount of $42,560,000 and Home Funding Bonds in the amount of $5,660,000.

Subsequent to June 30, 2013 legislation was enacted that increased the percentage of net terminal income payable to Newport Grand LLC under the Newport Grand Master Contract. The commission payable to Newport Grand was increased by 2.25% for the period July 1, 2013 through June 30, 2015.

On November 19, 2013, the R.I. Economic Development Corporation (RIEDC) issued bonds in the amount of $32,755,000 with maturity dates of July 1, 2014 through July 1, 2028 with various interest rates. These consist of Airport Revenue Refunding Bonds, 2013 Series B (Non-AMT) in the amount of $30,700,000, and Airport Revenue Refunding Bonds, 2013 Series C (AMT) in the amount of $2,055,000.

Also on November 19, 2013, the RIEDC refunded the following bonds: Airport Revenue Bonds, 1998 Series B in the amount of $32,060,000 and Airport Revenue Bonds, 2003 Series A in the amount of $6,020,000.

Required Supplementary Information



State of Rhode Island

Fiscal Year Ended June 30, 2013

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, 2013
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
General Revenues:				
Personal Income Tax	$ 1,080,857	$ 1,075,300	$ 1,085,765	$ 10,465
General Business Taxes:				
Business Corporations	133,251	137,000	131,828	(5,172)
Public Utilities Gross Earnings	100,100	98,300	99,641	1,341
Financial Institutions	1,700	12,800	12,595	(205)
Insurance Companies	89,825	93,600	92,745	(855)
Bank Deposits	2,100	2,500	2,877	377
Health Care Provider Assessment	42,207	41,400	41,569	169
Sales and Use Taxes:				
Sales and Use	886,720	872,500	878,866	6,366
Motor Vehicle	47,759	51,100	49,431	(1,669)
Motor Fuel	1,100	800	438	(362)
Cigarettes	138,054	131,800	132,516	716
Alcohol	12,200	12,000	12,176	176
Other Taxes:				
Inheritance and Gift	35,149	30,200	28,489	(1,711)
Racing and Athletics	1,200	1,200	1,171	(29)
Realty Transfer Tax	5,900	7,100	7,399	299
Total Taxes *(1)*	2,578,122	2,567,600	2,577,506	9,906
Departmental Revenue	342,874	363,400	356,832	(6,568)
Total Taxes and Departmental Revenue	2,920,996	2,931,000	2,934,338	3,338
Other Sources:				
Other Miscellaneous	4,440	5,665	4,166	(1,499)
Lottery	387,553	380,160	379,225	(935)
Unclaimed Property	7,900	7,000	6,269	(731)
Total Other Sources	399,893	392,825	389,660	(3,165)
Total General Revenues	3,320,889	3,323,825	3,323,998	173
Federal Revenues	2,228,396	2,280,602	2,129,847	(150,755)
Restricted Revenues	230,810	267,604	220,983	(46,621)
Other Revenues	67,431	70,531	62,372	(8,159)
Total Revenues *(2)*	5,847,526	5,942,562	5,737,200	(205,362)
Expenditures *(4)*:				
General government	685,522	748,219	667,461	80,758
Human services	3,172,288	3,106,870	3,042,755	64,115
Education	1,387,751	1,390,392	1,360,183	30,209
Public safety	484,846	509,058	463,758	45,300
Natural resources	92,067	98,009	70,145	27,864
Total Expenditures *(2)*	5,822,474	5,852,548	5,604,302	$ 248,246
Transfer to Vehicle Replacement Revolving Fund			7,350	
Transfer of Excess Budget Reserve to RI Capital Fund			84,624	
Transfer of Excess Revenue to Employees' Retirement System			12,944	
Total Expenditures and Transfers	$ 5,822,474	$ 5,852,548	5,709,220	
Change in Fund Balance			27,980	
Fund balance - beginning			373,154	
Fund balance - ending			$ 401,134	

(continued)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Expenditures by Source:				
General Revenues	$ 3,295,836	$ 3,233,811	$ 3,216,046	$ 17,765
Federal Funds	2,228,395	2,280,602	2,132,188	148,414
Restricted Receipts	230,812	267,604	196,799	70,805
Other Funds	67,431	70,531	59,269	11,262
	$ 5,822,474	$ 5,852,548	$ 5,604,302	$ 248,246

General Fund - Reconciliation of Budget Results to Changes in Fund Balance:

Budgeted Surplus:		
Total Revenue - Final Budget	$ 5,942,562	
Total Expenditures - Final Budget	5,852,548	
Final Budget - Projected Surplus (3)		$ 90,014
Final Budget and Actual - Results		
Total Revenues - Variance (Actual Revenue less than Budget)	$ (205,362)	
Total Expenditures - Variance (Actual Expenditures less than Budget)	248,246	
Surplus resulting from operations compared to final budget		$ 42,884
Total General Fund Surplus - Fiscal Year Ended June 30, 2013		$ 132,898
Transfer to Vehicle Replacement Revolving Fund		(7,350)
Transfer of Excess Revenue to Employees' Retirement System		(12,944)
Transfer of Excess Budget Reserve to RICAP Fund		(84,624)
Net Change in General Fund - Fund Balance		$ 27,980
Fund Balance, Beginning		373,154
Fund Balance, Ending		$ 401,134

Notes:

(1) Transfers from the Historic Tax Credit Special Revenue Fund reported as "Other Financing Sources" on the General Fund have been allocated to General Revenue Tax Categories on this schedule to align with the State's legally adopted budget format.

(2) Certain revenue and expenditure amounts classified as "Other Financing Sources (Uses)" have been reclassified within the budgetary comparison schedule to align with the State's legally adopted budgetary format.

(3) RI General Law section 35-3-20.1, titled "Limitation on state spending", mandates that expenditure appropriations shall not be greater than 97.0% of estimated general revenue for the fiscal year ending June 30, 2013.

(4) Debt service expenditures are included in the above respective categories:

General government	$ 163,365
Education	30,054
Public safety	24
	$ 193,443

(continued)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

Reconciliation of Fund Balance - Financial Reporting Perspective to Budgetary Perspective

	Fund Balance Reported in the Financial Statements	Budgetary Perspective: Fund Balance Not Available for Appropriation in Fiscal 2014		Budgetary Perspective: Fund Balance Available for Appropriation in Fiscal 2014	
Restricted	$ 282,137	$ 282,137		$	
Committed	4,035	4,035			
Assigned	105,639	10,842	*(a)*	94,797	*(b)*
Unassigned	9,323			9,323	*(c)*
Total Fund Balance	$ 401,134	$ 297,014		$ 104,120	

(a) Assigned fund balance not available for appropriation in fiscal 2014 includes (1) centralized cost allocation surplus that requires offset through fiscal 2014 centralized charges and (2) general revenue appropriations carried forward by the Governor, Judiciary, and Legislature.

(b) Assigned fund balance available for appropriation in fiscal 2014 includes fiscal 2013 ending surplus amounts of $93.4 million appropriated as resources in the 2014 enacted budget, and fund balance amounts encumbered at June 30, 2013.

(c) Remaining fund balance available for appropriation.

(concluded)

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Expressed in Thousands)
Intermodal Surface Transportation Fund
For the Fiscal Year Ended June 30, 2013

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	$ 137,286	$ 135,038	$ 134,465	$ (573)
Departmental restricted revenue	999	1,010	1,044	34
Federal grants	362,341	316,970	272,597	(44,373)
Other revenues	110	175	174	(1)
Total revenues	500,736	453,193	408,280	(44,913)
Revenues and other Financing Sources (unbudgeted):				
Miscellaneous revenue			5,476	
Transfer from I-195 Redevelopment Commission			38,400	
Total revenues			452,156	
Other Financing Sources:				
Transfers from RI Capital Plan and Bond Capital Funds (State FHWA Match)			56,513	
Other transfers			1,000	
Total Other Financing Sources			57,513	
Total Revenues and Other Financing Sources			509,669	
Expenditures (budgeted):				
Central Management				
Federal Funds	10,515	12,008	5,305	6,703
Gasoline Tax	1,353	1,501	1,605	(104)
Total - Central Management	11,868	13,509	6,910	6,599
Management and Budget				
Gasoline Tax	1,938	1,439	1,662	(223)
Total - Management and Budget	1,938	1,439	1,662	(223)
Infrastructure-Engineering-GARVEE/ Motor Fuel Tax Bonds				
Federal Funds	342,945	297,440	263,891	33,549
Federal Funds-Stimulus	8,881	7,522	3,311	4,211
Restricted Receipts	999	1,010	973	37
Gasoline Tax	54,201	52,725	53,655	(930)
Motor Fuel Tax Residuals	4,076	2,659		2,659
Land Sale Revenue	22,354	24,224	5,039	19,185
Total - Infrastructure - Engineering	433,456	385,580	326,869	58,711
Infrastructure - Maintenance				
Gasoline Tax	39,567	40,354	38,340	2,014
Non-Land Surplus Property	10	50		50
Outdoor Advertising	100	125		125
Total - Infrastructure - Maintenance	39,677	40,529	38,340	2,189
Total Expenditures (budgeted)	$ 486,939	$ 441,057	$ 373,781	$ 67,276
Expenditures and Financing Uses (unbudgeted):				
Infrastructure Expenditures - State Match funded by RI Capital Plan and Bond Capital Funds			56,513	
Infrastructure Expenditures - GARVEE			5,527	
Transfers to General Fund - Gas Tax			40,817	
Total Expenditures and Financing Uses (unbudgeted)			102,857	
Total Expenditures and Other Financing Uses			476,638	
Net change in fund balance			33,031	
Fund balance, beginning			108,679	
Fund balance, ending			$ 141,710	

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
Pension Trusts
June 30, 2013
(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)
06/30/2012		$ 6,167,491	$ 10,670,343	$ 4,502,851	57.8%	$ 1,641,383	274.3%
06/30/2011		6,220,099	10,581,304	4,361,206	58.8%	1,635,802	266.6%
06/30/2010	*	6,405,209	10,499,318	4,094,109	61.0%	1,619,484	252.8%

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)
06/30/2012		$ 84,294	$ 94,032	$ 9,738	89.6%	$ 23,670	41.1%
06/30/2011		73,152	74,186	1,034	98.6%	19,712	5.2%
06/30/2010	*	65,760	73,049	7,288	90.0%	19,715	37.0%

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)
06/30/2012		$ 43,429	$ 52,085	$ 8,657	83.4%	$ 8,823	98.1%
06/30/2011		40,106	46,594	6,488	86.1%	8,475	76.6%
06/30/2010	*	38,074	46,642	8,567	81.6%	7,461	114.8%

* Restated to reflect pension reform legislation enacted on November 18, 2011.

Rhode Island Judicial Retirement Fund 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)
06/30/2012	**	$ -	$ 16,387	$ 16,387	0.0%	$ 1,231	1331.6%

** Plan was effective July 1, 2012.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
Other Postemployment Benefits
June 30, 2013
(Expressed in Thousands)

State Employees Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	$ 11,545	$ 728,207	$ 716,662	1.6%	$ 600,273	119.4%
06/30/2009	0	673,640	673,640	0.0%	574,569	117.2%
06/30/2007	0	679,538	679,538	0.0%	626,145	108.5%

Teachers Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	$ 2,040	$ 11,512	$ 9,472	17.7%	NA	NA
06/30/2009	0	13,529	13,529	0.0%	NA	NA
06/30/2007	0	10,243	10,243	0.0%	NA	NA

Judicial Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	$ 841	$ 2,610	$ 1,769	32.2%	$ 10,813	16.4%
06/30/2009	0	8,665	8,665	0.0%	9,395	92.2%
06/30/2007	0	14,024	14,024	0.0%	9,888	141.8%

State Police Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	$ 1,488	$ 81,759	$ 80,271	1.8%	$ 17,384	461.8%
06/30/2009	0	67,079	67,079	0.0%	16,725	401.1%
06/30/2007	0	54,620	54,620	0.0%	15,977	341.9%

Legislators Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	$ 1,442	$ 1,443	$ 1	99.9%	$ 1,615	0.1%
06/30/2009	0	11,752	11,752	0.0%	1,612	729.0%
06/30/2007	0	29,764	29,764	0.0%	1,592	1869.6%

Board of Education Health Care Insurance Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	$ 3,189	$ 53,751	$ 50,562	5.9%	$ 125,340	40.3%
06/30/2009	0	58,476	58,476	0.0%	106,665	54.8%
06/30/2007	0	57,881	57,881	0.0%	110,092	52.6%

See Notes to Required Supplementary Information.

Budget and Actual

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund and certain special revenue funds. The annual budget is prepared on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding original or final budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

The budget to actual comparison for the General Fund on pages 122 through 124 is summarized and does not present budget and actual amounts detailed at the legal level of budgetary control. 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. A separate schedule presenting such amounts at the detailed legal level of budgetary control is available on the State Controller's website, http://controller.admin.ri.gov/index.php.

The comprehensive annual budget includes transportation function expenditures, the majority of which are reflected in the IST Fund for financial reporting purposes. The IST Fund major fund financial statements include transportation related activity of the various transportation funding sources including gas tax revenues, federal funds, GARVEE and Motor Fuel Bonds, and the proceeds of bonds issued by the I-195 Redevelopment District which were transferred to the IST fund to be utilized for infrastructure projects. The budget to actual comparison schedule for the IST fund on page 125 is presented at the legal level of budgetary control consistent with the legally adopted budget. Not all the activity reported within the IST fund financial statements is budgeted. Unbudgeted activity has been separately identified in the budget to actual comparison schedule to facilitate reconciliation to the IST fund financial statements.

The original budget includes the amounts in the applicable appropriation act, general revenue appropriations carried forward by the Governor, and any unexpended balances designated by the General Assembly.

Schedules of Funding Progress - Pensions

1. Actuarial Assumptions and Methods

The information presented in the required supplementary information schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation, June 30, 2012 follows (Also, see Note 19 – Subsequent Events):

Summary of Actuarial Assumptions Used in the June 30, 2012 Valuations					
	ERS		SPRBT	JRBT	RIJRFT
	State Employees	*Teachers*			
Actuarial Cost Method	Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.				
Amortization Method	Level Percent of Payroll – Closed				Level Dollar
Equivalent Single Remaining Amortization Period	23 years				16 years
Asset Valuation Method	5 Year Smoothed Market				
Actuarial Assumptions					
Investment Rate of Return	7.50%	7.50%	7.50%	7.50%	4.00%
Projected Salary Increases	4.00% to 7.00%	4.00% to 12.75%	4.00% to 12.00%	4.00%	4.00%
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%
Cost of Living Adjustments: COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to be applied to the first $25,000 of benefits, indexed over time. COLA is delayed until the later of Social Security eligibility age or 3 years after retirement except for State Police, for which, the COLA is delayed until the later of age 55 or 3 years after retirement. A COLA of 2% is assumed only every five years until the plans achieve an 80% collective funded status in accordance with the law. It is assumed that the plans will not achieve the targeted 80% funded status for 15 years.					

2. Schedules of Funding Progress

Changes affecting the June 30, 2012 actuarial valuation:

The assumptions for the Employees' Retirement System, Judicial Retirement Benefits Trust, and the State Police Retirement Benefits Trust are consistent with the 2011 valuation, with the exception of certain assumption changes that resulted from the enactment of the Rhode Island Retirement Security Act of 2011.

The method used to determine the actuarial value of assets is the five-year smoothed market method. A small adjustment was made to the method used to smooth investment gains and losses to allow gains and losses to offset each other immediately. This modification will reduce future volatility in the actuarial value of assets while ensuring that the actuarial value always trends directly towards the market value of assets. In addition, a minor modification to the retirement rate assumption was also made for the plans.

The assumptions used in the Rhode Island Judicial Retirement Fund Trust are consistent with those listed in the Judicial Retirement Benefits Trust; however, the investment return assumption used within this valuation is 4.00%. This rate was selected because the plan is not currently advance funded. Consistent with generally accepted accounting principles, a plan that is not prefunded should use a lower investment assumption than a prefunded plan. The investment return assumption should reflect the expected return on assets that will be used to pay benefits. This plan is for a closed group of individuals and the amortization payment has been calculated based on level-dollar amortization with a 16-year amortization period.

Changes affecting the June 30, 2011 actuarial valuation:

The retirement rates were modified to be consistent with the retirement eligibility changes instituted by the Rhode Island Retirement Security Act of 2011. Members that were assumed to retire prior to the Act, but before the earliest allowable age under the Act, are assumed to retire once eligible.

For future cost of living benefit adjustments, the benefit adjustments are assumed to be suspended for approximately 16 years, except for the intermittent adjustment every fifth year.

Changes affecting the June 30, 2010 actuarial valuation *(as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011)**:***

The June 30, 2010 valuations (as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011) reflect comprehensive changes to plan member benefit provisions which are effective beginning July 1, 2012. The June 30, 2010 valuations also reflect material changes to certain actuarial assumptions.

The revised member benefit provisions become effective on July 1, 2012. These include changes in service period accrual rates, retirement eligibility age, and future cost of living adjustments. Additionally, the unfunded accrued liability is now amortized over a twenty-five year period from June 30, 2010 compared to the 30 year period from June 30, 1999 employed in prior actuarial valuations.

The Individual Entry Age Cost Method is used in the June 30, 2010 actuarial valuations. Prior valuations utilized the Ultimate Normal Cost methodology where normal cost was determined based on the benefits applicable to new hires under the replacement benefit structure resulting from prior pension reform measures. The annual investment rate of return was lowered from 8.25% to 7.5%.

The post-termination mortality rates for non-disabled state employees and members of the MERS, State Police and Judicial plans were previously based on the 1994 Group Annuity Mortality Tables. New mortality tables have been constructed and adopted with adjustments for these employees using the RP-2000 Combined Healthy for Males and Females with White Collar adjustments, projected with Scale AA from 2000 for non-disabled individuals.

The post-termination mortality rates used for non-disabled teachers in the June 30, 2009 and June 30, 2010 valuations were both based on tables developed by ERSRI's actuary based on teacher experience. The rates used in the June 30, 2010 valuation for male teachers were lowered to 97% of the rates in these tables based on male teacher experience, projected with Scale AA from 2000 from 100% of the actuary's table based on male teacher experience used in the June 30, 2009 valuation. The rates used in the June 30, 2010 valuation for female teachers were lowered to 92% of the rates used in the actuary's tables based on female teacher experience, projected with Scale AA from 2000 from 95% of the actuary's table based on female teacher experience used in the June 30, 2009 valuation.

The post-termination mortality rates for disabled members of all ERSRI plans are based on the PBGC table Va for males and table VIa for females. The rates used in the June 30, 2010 valuation for disabled males eligible for social security disability benefits were lowered to 60% of PBGC table Va from 65% of this table in the June 30, 2009 valuation. The rates used in the June 30, 2010 valuation for disabled females eligible for social security disability benefits were lowered to 60% of PBGC table VIa from 100% of this table in the June 30, 2009 valuation.

The pre-retirement mortality rates for all members of the ERSRI plans were previously based on the 1994 Group Annuity Mortality Tables. The rates used in the June 30, 2010 valuation for these employees were based on the RP-2000 Combined Tables with white collar adjustment for males and females. The tables were adjusted for each individual plan.

The inflation assumption rate was decreased from 3% to 2.75% and the projected salary increase assumptions were also decreased compared to the prior valuation. The assumption for cost of living adjustments subject to the Consumer Price Index (for those not eligible to retire on September 30, 2009) was decreased from 2.5% to 2.35%.

Schedules of Funding Progress - Other Postemployment Benefits

1. Actuarial Assumptions and Methods

The information presented in the required supplementary information schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation, June 30, 2011, follows (Also, see Note 19 – Subsequent Events):

Summary of Actuarial Methods and Assumptions as of June 30, 2011 Valuations

	Plan					
	State Employees	**Teachers**	**Judicial**	**State Police**	**Legislators**	**Board of Education**
Valuation Date	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011
Plan Type	Cost sharing multiple employer	Single Employer (1)	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
Actuarial Cost Method	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age
Amortization Method	Level Percent of Payroll – Closed	Level Dollar	Level Dollar	Level Percent of Payroll – Closed	Level Dollar	Level Percent of Payroll – Closed
Equivalent Single Remaining Amortization Period	25 years	4 years	25 years	25 years	25 years	25 years
Asset Valuation Method	4 Year Smoothed Market	4 Year Smoothed Market	4 Year Smoothed Market	4 Year Smoothed Market	4 Year Smoothed Market	4 Year Smoothed Market
Actuarial Assumptions						
Investment Rate of Return	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Projected Salary Increases	4.00% To 7.00%	N/A	4.00%	4.00% To 12.00%	4.25% To 8.50%	4.00% To 7.00%
Valuation Health Care Cost Trend Rate	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021

Note 1 – The Teachers plan accounts for the Tier I subsidy funded by the State for Teachers electing to participate and retiring before October 1, 2008.

2. Schedules of Funding Progress

Changes affecting the June 30, 2011 Actuarial Valuation:

A number of changes in actuarial assumptions were made between the June 30, 2009 and June 30, 2011 valuations. These changes include reflecting new assumptions adopted by the Employees Retirement System of Rhode Island (ERSRI) and the State Police Retirement Benefits Trust of Rhode Island (SPRBT), changes to the OPEB specific assumptions as well as the provisions of the Retirement Security Act, which was enacted on November 18, 2011 and included comprehensive pension reform measures. The June 30, 2011 valuation also reflects the potential excise tax under the Patient Protection and Affordable Care Act.

Changes from the ERSRI and SPRBT experience studies include changes to the retirement and disability rates and salary expectations. In addition, new mortality assumptions were adopted for all plans which provide for future mortality improvement by using generational mortality.

The significant decrease in the unfunded actuarial accrued liability for the Judicial and Legislator plans is primarily due to retirement eligibility changes resulting from enactment of the Retirement Security Act and an increase in the Medicare election rate.

Changes to the OPEB specific assumptions include a change in the medical trend assumption from 9% decreasing to 4.5% in 8 years to 9% decreasing to 4.0% in 10 years, a change in the Medicare election rate for Legislators from 75% electing Medicare to 100% electing Medicare and the addition of the assumption that current retired Teachers over age 65 in the Early Retiree Plan are assumed to not be eligible for Medicare.

The June 30, 2011 actuarial valuation employs a four-year smoothed market methodology for the determination of the actuarial value of assets. In addition, the Judicial and Legislator plans changed from a level percent of payroll amortization method to the level dollar method.

The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2018. The excise tax is 40% of costs above a threshold. The actuarial assumptions used in the most recent valuation assume that the plans will be subject to the excise tax as early as 2018.

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System’s plan covering state employees. During fiscal year 2014, the State will establish a health reimbursement account (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. The System’s actuary has updated the June 30, 2011 actuarial valuation to reflect the effect on the Actuarial Accrued Liability resulting from this change and the updated amounts are reflected in the table above.

Changes affecting the June 30, 2009 Actuarial Valuation:

With the creation of the trust effective July 1, 2010, the State Employees and Board of Education plans met the requirements of cost-sharing multiple employer plans. These plans were previously considered agent multiple-employer plans absent the creation of the trust.

The following changes in actuarial assumptions were made between the June 30, 2007 and June 30, 2009 valuations. These changes include an increase in the investment return assumption from 3.566% to 5.00%, a change in the medical trend assumption from 10% decreasing to 4.5% in 7 years to 9% decreasing to 4.5% in 9 years except for the Board of Education Plan. For the Board of Education Plan, the medical trend assumption changed from 9% decreasing to 4.5% in ten years to 9% decreasing to 4% in ten years. In addition, the wage inflation assumption was changed to 0% for two years before reverting to 4.5% to reflect the current economic environment.

Economic Information

The information contained herein was developed from reports provided by Federal and State agencies, which is believed to be reliable and may be relevant in evaluating the economic and financial condition and prospects of the State of Rhode Island. The demographic information and statistical data, which have been obtained from the sources indicated, do not necessarily present all factors that may have a bearing on the State's fiscal and economic affairs. All information is presented on a calendar-year basis unless otherwise indicated. Sources of information are indicated in the text or immediately following the charts and tables. Although the State considers the sources to be reliable, the State has made no independent verification of the information presented herein and does not warrant its accuracy.

Overview

Population Characteristics. Rhode Island experienced a population increase of 1.1 percent between 1999 and 2013. The U.S. Census Bureau estimated that Rhode Island's population increased by 0.1 percent in 2013 as compared to 2012. The 2013 United States census estimate for Rhode Island was 1,051,511 or 1.9 percent less than the 1,071,504 estimated in 2003. In contrast, the total United States population is estimated to have increased by 8.9 percent between 2003 and 2013.

Personal Income and Poverty. Per capita real personal income levels in Rhode Island had lagged that of the United States for the 1999 to 2000 period. In 2001, Rhode Island per capita real personal income surpassed U.S. per capita real personal income and has remained above U.S. per capita real personal income since that time. Rhode Island per capita real personal income in 2013 was $43,850 versus U.S. real per capita personal income of $41,547 both are in terms of 2009 dollars. In addition, Rhode Island has maintained a poverty rate below the national average. Over the 1998 – 2012 period Rhode Island's average poverty rate was 11.6 percent versus the U.S. average poverty rate of 13.0 percent.

Employment. According to the U.S. Department of Labor's Bureau of Labor Statistics, total Rhode Island nonfarm employment fell at a rate of 4.5 percent in 2009, 0.3 percent in 2010 but increased by 0.5 percent in 2011 and 1.1 percent in 2012 and 1.2 percent in 2013. The average annual growth rate for Rhode Island nonfarm employment for the 1999 to 2013 period was 0.2 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 and Leisure, Hospitality & Other 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 31.4 percent of its residents over the age of 25 having received a Bachelor's degree or a Graduate or Professional degree according to the U.S. Department of Commerce's Census Bureau (American Community Survey 1-Year Estimates). In addition, per pupil spending on public elementary and secondary education in Rhode Island has been significantly higher than the national average since the 1996 - 1997 academic year. For 2010 - 2011 Rhode Island spent 43.2 percent more per pupil than the national average.

Population Characteristics

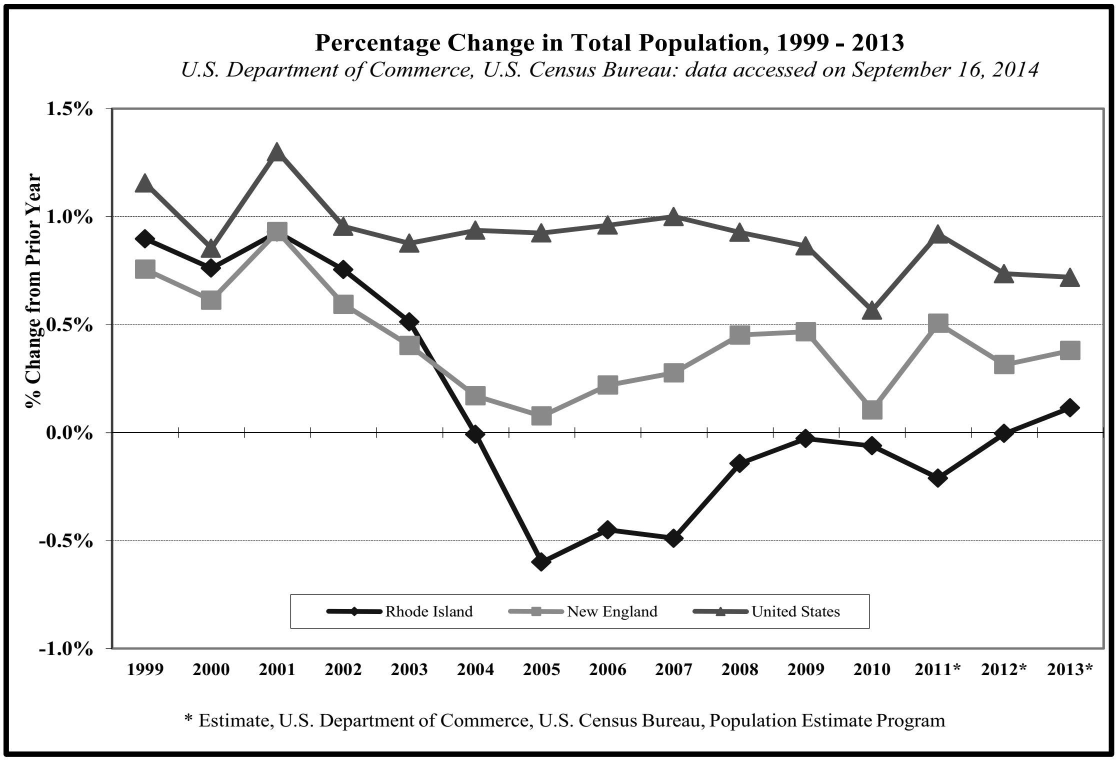
Between 2003 and 2013 Rhode Island's population decreased by 1.9 percent, compared to a 3.0 percent increase for the New England region, and a 8.9 percent increase for the United States. As the following chart indicates, the percentage change in Rhode Island's population in 1999 was greater than that of the New England region. The growth rate of Rhode Island's population was 0.9 percent for that period compared to New England's growth rate of 0.8 percent. Rhode Island's population growth rate was slightly higher than that of the New England region over the 2000 through 2004 period, at 2.2 percent compared to 2.1 percent for New England as a whole. The 2010 U.S. Census indicates that Rhode Island's population decreased by 0.1 percent from 2009, which is lower than that of New England's growth rate of 0.1 percent. The average population growth in Rhode Island for the 2010 to 2013 period decreased by less than 0.1 percent, lagging the New England region which experienced an average population growth of 0.3 percent over the same period. With respect to the United States, Rhode Island's population growth has been both lower and more erratic. Over the 2003 to 2013 period, the United States' population average growth rate was 0.9 percent compared to Rhode Island's population average growth rate of -0.1 percent. The 2012 and 2013 estimated population for Rhode Island remains relatively stable and is estimated to have decreased by less than 0.1 percent in 2012 followed by an increase of 0.1 percent in 2013, which would be the first year of positive population growth in the state since 2003. New England and the United States 2012 and 2013 estimated population growth rates are increasing at a slow rate. New England's 2012 and 2013 estimated population growth is projected at 0.3 percent and 0.4 percent respectively and the United States estimated population growth is 0.7 percent for both 2012 and 2013.

Population, 1999 - 2013
(in thousands)

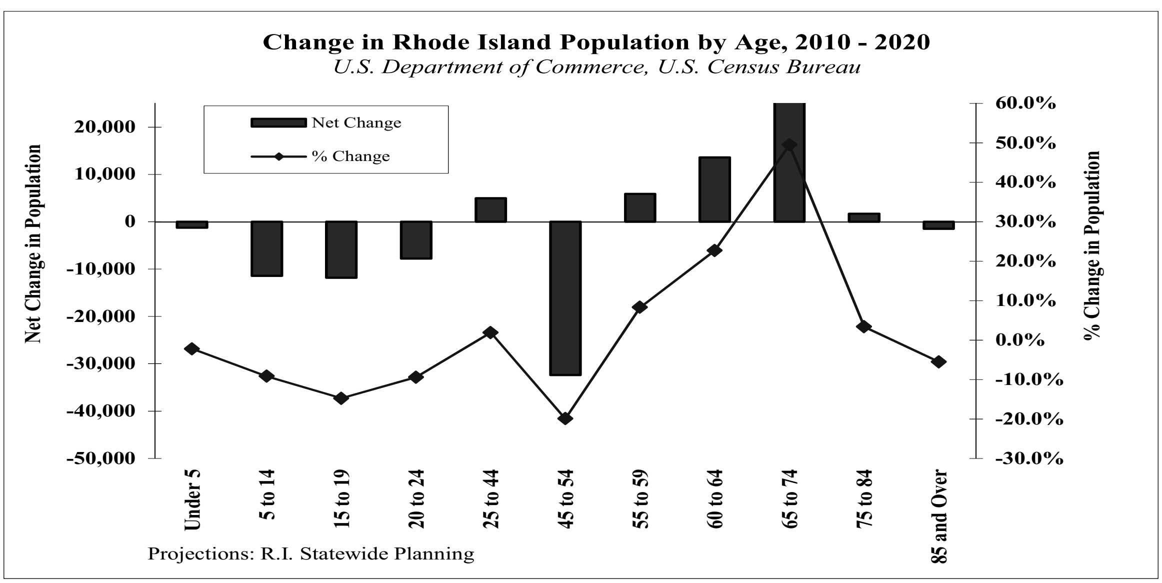
	Rhode Island		**New England**		**United States**	
Year	**Total**	**% Change**	**Total**	**% Change**	**Total**	**% Change**
1999	1,040	0.9%	13,838	0.8%	279,040	1.2%
2000	1,048	0.8%	13,923	0.6%	281,422	0.9%
2001	1,058	0.9%	14,052	0.9%	285,082	1.3%
2002	1,066	0.8%	14,135	0.6%	287,804	1.0%
2003	1,072	0.5%	14,192	0.4%	290,326	0.9%
2004	1,071	0.0%	14,216	0.2%	293,046	0.9%
2005	1,065	-0.6%	14,227	0.1%	295,753	0.9%
2006	1,060	-0.5%	14,259	0.2%	298,593	1.0%
2007	1,055	-0.5%	14,298	0.3%	301,580	1.0%
2008	1,054	-0.1%	14,363	0.5%	304,375	0.9%
2009	1,053	0.0%	14,430	0.5%	307,007	0.9%
2010	1,053	-0.1%	14,445	0.1%	308,746	0.6%
2011	1,050	-0.2%	14,518	0.5%	311,583	0.9%
2012	1,050	0.0%	14,563	0.3%	313,874	0.7%
2013	1,052	0.1%	14,619	0.4%	316,129	0.7%

U.S. Department of Commerce, U.S. Census Bureau, Population Estimate Program:
data accessed on September 16, 2014

The chart below displays the growth rate changes shown in the table above. Note the volatility in the population growth rate for Rhode Island as compared to the New England region and the United States.

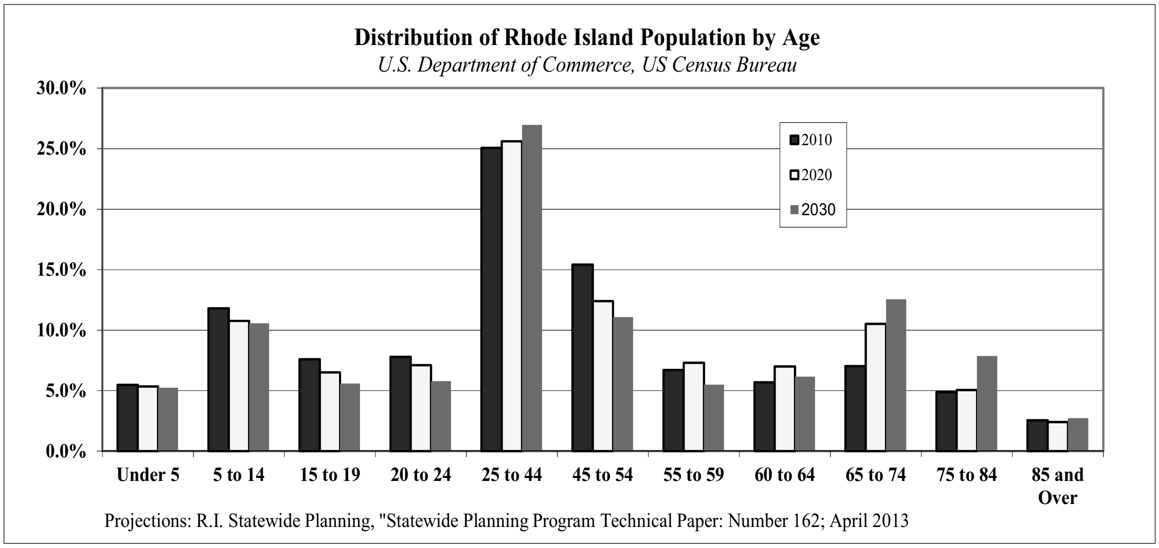


The following chart shows the projected net change in Rhode Island's population between 2010 and 2020 by age group. Note that, like the rest of the country, Rhode Island has seen a sharp change in the age distribution of its population in accordance with the chronological advancement of the "baby boom" generation. The upswing in Rhode Islanders in the "55 to 74" age group is a reflection of this fact.



Between 2010 and 2020 Rhode Island is expected to see substantial changes to the state's age distribution. As the "baby boom" generation continues to age, the state will see a sizeable increase in its older population (i.e., 55 to 74) and a decrease in the youth, young adult and adolescent populations (i.e., 5 to 24). In addition, Rhode Island is projected to see a sizeable loss in the middle aged population (i.e. 45 to 54).

The chart below shows the projected population for Rhode Island in 2030. In 2030, Rhode Island Statewide Planning projects the population to be distributed more heavily in the "65 to 85" age group while the percentage of people in the "5 to 24" and "45 to 64" age groups decline from 2020 levels. The median age for Rhode Islanders in 2010 was 39.4 years. In 2020, the median age for Rhode Islanders is projected to decrease to 39.2 years but increase to 40.7 years by 2030 based on the U.S. Census Bureau's projections from the 2010 Census.



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 has exceeded that of the United States since 2001. In 2013, Rhode Island per capita nominal personal income was $47,012 relative to $44,543 for the United States. Note that Rhode Island per capita nominal personal income has trailed that of the New England region from 1999 through 2013 by an average of $6,693. In fact, the gap between Rhode Island per capita nominal personal income and New England per capita nominal personal income declined for the years 2000 – 2003 but has since grown and settled at an average difference of $6,999 for the period 2004 – 2013. In 2011, the gap was $7,264 which is slightly more than the gap of $7,129 that existed in 2000. In 2012 the gap increased further when Rhode Island per capita nominal personal income was $7,721 less than that of New England. The per capita nominal income gap between New England and Rhode Island for 2013 declined relative to 2012 for the first time since 2010 from $7,721 to $7,627.

From 1998 – 2000, Rhode Island per capita real income growth trailed that of the United States. The average annual percentage change in real personal income growth for the 2001 to 2013 period in Rhode Island was 1.6 percent which is greater than the 1.1 percent average growth for New England and the 1.0 percent average growth for the United States during this time frame. Rhode Island per capita real income growth reached 3.5 percent in 2006 before declining to 2.5 percent in 2007 and -0.5 percent in 2008. In 2009, Rhode Island saw negative per capita real income growth but not as severe as New England or the United States. For 2011 and 2012, Rhode Island's per capita real personal income growth was 1.4 percent and 0.9 percent respectively while the United States experienced 2.7 percent and 1.5 percent growth in those years. New England saw personal income growth of 2.4 percent in 2011 and 1.4 percent in 2012. In 2013, Rhode Island experienced real per capita personal income growth of 1.3 percent while New England and the United States saw growth of 0.8 percent and 0.7 percent respectively marking the first year since 2010 that Rhode Island's real personal income growth exceeded that of both New England and the United States.

Per Capita Personal Income, 1999 - 2013										
	Nominal Income* (in current dollars)				Real Income (in 2009 dollars)			Percentage Change in Real Income		
Year	R.I.	N.E.	U.S.	PCE Deflator^	R.I.	N.E.	U.S.	R.I.	N.E.	U.S.
1999	27,741	33,581	28,333	81.1%	34,202	41,402	34,932	1.5%	3.0%	2.4%
2000	29,552	36,682	30,399	83.1%	35,550	44,127	36,569	3.9%	6.6%	4.7%
2001	31,528	38,199	31,512	84.7%	37,209	45,083	37,190	4.7%	2.2%	1.7%
2002	32,636	38,233	31,779	85.9%	38,005	44,523	37,007	2.1%	-1.2%	-0.5%
2003	33,958	39,132	32,652	87.6%	38,777	44,685	37,285	2.0%	0.4%	0.8%
2004	35,578	41,306	34,272	89.7%	39,662	46,047	38,206	2.3%	3.0%	2.5%
2005	36,613	42,971	35,860	92.2%	39,700	46,593	38,883	0.1%	1.2%	1.8%
2006	38,915	46,036	38,100	94.7%	41,081	48,598	40,221	3.5%	4.3%	3.4%
2007	40,877	48,325	39,758	97.1%	42,099	49,768	40,946	2.5%	2.4%	1.8%
2008	41,902	49,336	40,835	100.1%	41,876	49,305	40,810	-0.5%	-0.9%	-0.3%
2009	41,275	48,089	39,327	100.0%	41,275	48,089	39,327	-1.4%	-2.5%	-3.6%
2010	43,007	49,478	40,238	101.7%	42,307	48,673	39,583	2.5%	1.2%	0.7%
2011	44,634	51,898	42,299	104.1%	42,882	49,861	40,638	1.4%	2.4%	2.7%
2012	45,877	53,597	43,741	106.0%	43,276	50,559	41,261	0.9%	1.4%	1.5%
2013	47,012	54,640	44,543	107.2%	43,850	50,964	41,547	1.3%	0.8%	0.7%

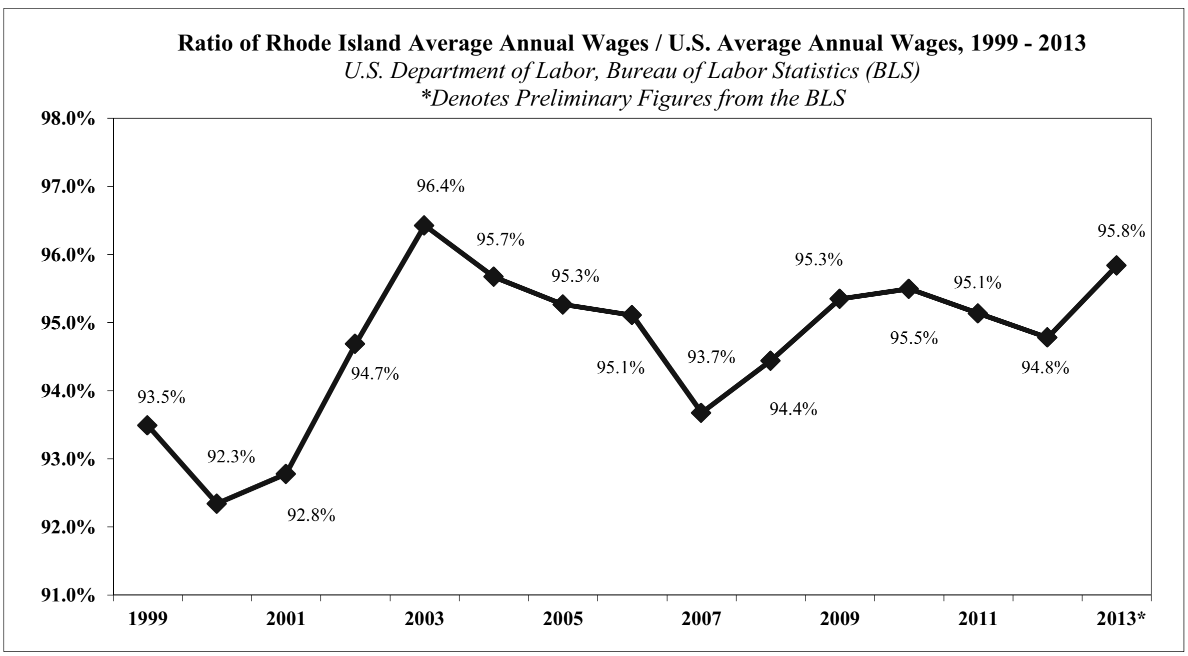
*U.S. Department of Commerce, Bureau of Economic Analysis, U.S. Department of Commerce, U.S. Census Bureau
Per Capita Personal Income is calculated by taking Personal Income/Total Population
^ U.S. Department of Commerce Bureau of Economic Analysis, Table 2.3.4 Price Indexes for Personal Consumption Expenditure by Major Type of Product [Index number, 2009=100]

Average Annual Pay. Average annual pay has grown steadily in Rhode Island over the past fifteen years. Average annual pay is computed by dividing total annual payrolls of employees covered by unemployment insurance programs by the average monthly number of these employees. Although average annual pay has increased consistently for the last fifteen years, the ratio of pay levels in Rhode Island to the United States has been on a downward trend since 2003 rebounding for the first time in 2008. In 1998, average annual pay in Rhode Island was 94.4 percent of the national average. By 2000, the ratio had fallen to 92.3 percent. For 2002, average annual pay in Rhode Island rebounded to 94.7 percent of U.S. average annual pay. This was followed by a further increase to 96.4 percent in 2003 at $36,415 for Rhode Island versus $37,765 for the United States as a whole. From 2004 - 2007 average annual pay in Rhode Island again fell as a percentage of average annual pay in the U.S.; however, from 2008-2010 Rhode Island has actually seen greater increases in average annual pay than the United States. In 2011 and 2012 Rhode Island average annual pay again slightly decreased as a percentage of average annual pay in the U.S. In 2012, growth in Rhode Island average annual pay decreased by 0.2 percentage points from 2011 consistent with the growth in U.S. average annual pay which also decreased by 0.2 percentage points. In 2013, Rhode Island’s average annual pay growth remained relatively flat at 2.2 percent when compared to 2012. In addition, the ratio of Rhode Island’s average annual pay increased to 95.8 percent, the highest reported since the peak in 2003 of 96.4 percent from 1999 – 2013. The relationship between Rhode Island and U.S. average annual pay is shown in the table below.

Average Annual Pay, 1999 - 2013 (in current dollars)					
	Annual Pay			Percentage Change	
Year	R.I.	U.S.	R.I. / U.S.	R.I.	U.S.
1999	31,169	33,340	93.5%	3.4%	4.4%
2000	32,615	35,320	92.3%	4.6%	5.9%
2001	33,603	36,219	92.8%	3.0%	2.5%
2002	34,810	36,764	94.7%	3.6%	1.5%
2003	36,415	37,765	96.4%	4.6%	2.7%
2004	37,651	39,354	95.7%	3.4%	4.2%
2005	38,751	40,677	95.3%	2.9%	3.4%
2006	40,454	42,535	95.1%	4.4%	4.6%
2007	41,646	44,458	93.7%	2.9%	4.5%
2008	43,029	45,563	94.4%	3.3%	2.5%
2009	43,439	45,559	95.3%	1.0%	0.0%
2010	44,645	46,751	95.5%	2.8%	2.6%
2011	45,705	48,043	95.1%	2.4%	2.8%
2012	46,716	49,289	94.8%	2.2%	2.6%
2013*	47,730	49,804	95.8%	2.2%	1.0%

*Denotes Preliminary Figures from the Bureau of Labor Statistics
U.S. Department of Labor, Bureau of Labor Statistics; Quarterly Census of Employment and Wages

The chart below plots the ratio of Rhode Island average annual wages to U.S. average annual wages over 1999 – 2013.



Consumer Prices. The following table presents consumer price index trends for the Northeast region and the United States for the period between 1999 and 2013. 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 1999 to 2013, the consumer price index in the Northeast generally exceeded that for the United States. During this period, the percent change in consumer price inflation in the Northeast region has been less than for the United States in each of the following years 1999, 2007, 2011, 2012 and 2013. In 2000 and 2001 the consumer price inflation rate in the Northeast region was approximately equal to that of the United States. In 2002 - 2006, the consumer price inflation rate in the Northeast region exceeded that of the United States by 0.5 percentage points, 0.5 percentage points, 0.8 percentage points, 0.3 percentage points, and 0.4 percentage points respectively. In 2009 –

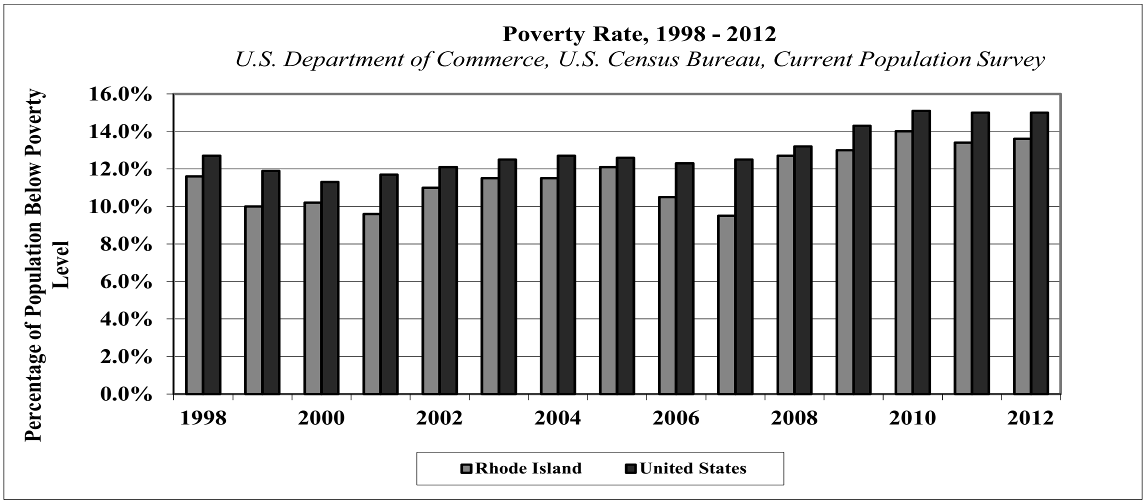
2012 the rate averaged 0.1 percentage points above the United States. In 2013 the rate was 0.1 percentage point below the United States.

Consumer Price Index for All Urban Consumers (CPI-U), 1999 - 2013					
	CPI-U		Ratio	Pct. Change	
Year	**Northeast**	**U.S.**	**Northeast/U.S.**	**Northeast**	**U.S.**
1999	173.5	166.6	104.1%	2.1%	2.2%
2000	179.4	172.2	104.2%	3.4%	3.4%
2001	184.4	177.1	104.1%	2.8%	2.8%
2002	188.2	179.9	104.6%	2.1%	1.6%
2003	193.5	184.0	105.2%	2.8%	2.3%
2004	200.2	188.9	106.0%	3.5%	2.7%
2005	207.5	195.3	106.3%	3.6%	3.4%
2006	215.0	201.6	106.7%	3.6%	3.2%
2007	220.5	207.3	106.4%	2.6%	2.9%
2008	229.3	215.3	106.5%	4.0%	3.8%
2009	229.3	214.5	106.9%	0.0%	-0.4%
2010	233.9	218.1	107.3%	2.0%	1.6%
2011	241.0	224.9	107.1%	3.0%	3.2%
2012	245.7	229.6	107.0%	2.0%	2.1%
2013	249.0	233.0	106.9%	1.4%	1.5%
U.S. Department of Labor, Bureau of Labor Statistics					

Poverty. From 1998 – 2012 Rhode Island's poverty rate has been below the poverty rate for the United States as a whole. The poverty rate is measured as the percent of a region's population that lives below the federal poverty level as determined by the U.S. Census Bureau's Current Population Survey. Between 1998 and 2012, the percentage of the Rhode Island population below the federal poverty line has varied from a low of 9.5 percent in 2007 to a high of 14.0 percent in 2010. During the same time period, the national poverty rate varied from a low of 11.3 percent in 2000 to a high of 15.1 percent in 2010. Interestingly, in the 2000, 2002, 2003, 2005, 2008, 2010 and 2012 periods, although Rhode Island's poverty rate had remained below that of the United States, the percentage change in Rhode Island's poverty rate had exceeded the percentage change in that of the U.S. These official poverty statistics are not adjusted for regional differences in the cost of living. The table below portrays the lower poverty rates in Rhode Island compared with the national average from 1998 through 2012.

Poverty Rate, 1998 - 2012					
			Ratio	Percentage Change	
Year	**R.I.**	**U.S.**	**R.I./U.S.**	**R.I.**	**U.S.**
1998	11.6	12.7	91.3%	-8.7%	-4.5%
1999	10.0	11.9	84.0%	-13.8%	-6.3%
2000	10.2	11.3	90.3%	2.0%	-5.0%
2001	9.6	11.7	82.1%	-5.9%	3.5%
2002	11.0	12.1	90.9%	14.6%	3.4%
2003	11.5	12.5	92.0%	4.5%	3.3%
2004	11.5	12.7	90.6%	0.0%	1.6%
2005	12.1	12.6	96.0%	5.2%	-0.8%
2006	10.5	12.3	85.4%	-13.2%	-2.4%
2007	9.5	12.5	76.0%	-9.5%	1.6%
2008	12.7	13.2	96.2%	33.7%	5.6%
2009	13.0	14.3	90.9%	2.4%	8.3%
2010	14.0	15.1	92.7%	7.7%	5.6%
2011	13.4	15.0	89.3%	-4.3%	-0.7%
2012	13.6	15.0	90.7%	1.5%	0.0%
U.S. Department of Commerce, U.S. Census Bureau, Current Population Survey					

The bar chart below plots the data from the above table and shows the Rhode Island poverty level and that of the United States from 1998 – 2012. It also illustrates the downward trend in the United States poverty rate from 1998 – 2000. Another takeaway from this chart is that the poverty level increased from the onset of the Great Recession in 2007 until 2010 for both Rhode Island and the United States.



Employment

The table below shows Rhode Island Nonfarm Employment for the 1999 to 2013 period. The table reflects the new North American Industrial Classification System (NAICS) composition of employment.

Rhode Island Nonfarm Employment by Industry, 1999 - 2013
Not Seasonally Adjusted

	Construction, Natural Resources & Mining		Manufacturing		Trade, Transportation & Utilities		Information, Financial Activities & Business Services		Educational & Health Services		Leisure, Hospitality & Other Services		Government		Nonfarm Employment	
Year	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change
1999	18,000	11.2%	72,175	-3.6%	75,658	1.3%	89,950	3.7%	82,317	0.8%	64,042	5.0%	63,383	0.7%	**465,525**	**1.6%**
2000	18,367	2.0%	71,192	-1.4%	79,600	5.2%	92,908	3.3%	83,233	1.1%	67,025	4.7%	64,392	1.6%	**476,717**	**2.4%**
2001	19,242	4.8%	67,767	-4.8%	79,300	-0.4%	93,958	1.1%	84,925	2.0%	68,008	1.5%	65,208	1.3%	**478,408**	**0.4%**
2002	19,625	2.0%	62,267	-8.1%	80,475	1.5%	92,967	-1.1%	88,008	3.6%	69,958	2.9%	66,083	1.3%	**479,383**	**0.2%**
2003	20,942	6.7%	58,658	-5.8%	80,767	0.4%	94,658	1.8%	90,975	3.4%	72,042	3.0%	66,208	0.2%	**484,250**	**1.0%**
2004	21,167	1.1%	56,983	-2.9%	80,225	-0.7%	98,433	4.0%	92,933	2.2%	73,208	1.6%	65,533	-1.0%	**488,517**	**0.9%**
2005	22,083	4.3%	54,908	-3.6%	80,100	-0.2%	100,200	1.8%	95,317	2.6%	73,517	0.4%	64,925	-0.9%	**491,025**	**0.5%**
2006	23,117	4.7%	52,692	-4.0%	79,750	-0.4%	102,467	2.3%	96,700	1.5%	73,225	-0.4%	64,942	0.0%	**492,867**	**0.4%**
2007	22,450	-2.9%	50,733	-3.7%	79,750	0.0%	101,442	-1.0%	98,450	1.8%	74,600	1.9%	64,433	-0.8%	**491,825**	**-0.2%**
2008	20,717	-7.7%	47,942	-5.5%	77,383	-3.0%	98,617	-2.8%	99,117	0.7%	73,767	-1.1%	63,475	-1.5%	**480,975**	**-2.2%**
2009	17,392	-16.0%	41,767	-12.9%	73,267	-5.3%	93,883	-4.8%	99,950	0.8%	71,125	-3.6%	62,067	-2.2%	**459,442**	**-4.5%**
2010	16,142	-7.2%	40,350	-3.4%	72,700	-0.8%	94,100	0.2%	101,400	1.5%	71,583	0.6%	61,725	-0.6%	**457,975**	**-0.3%**
2011	15,900	-1.5%	40,117	-0.6%	73,883	1.6%	95,217	1.2%	102,267	0.9%	72,542	1.3%	60,558	-1.9%	**460,458**	**0.5%**
2012	16,217	2.0%	39,617	-1.2%	74,633	1.0%	97,233	2.1%	103,267	1.0%	74,333	2.5%	60,125	-0.7%	**465,408**	**1.1%**
2013	16,300	0.5%	40,017	1.0%	73,925	-0.9%	99,900	2.7%	104,500	1.2%	75,942	2.2%	60,192	0.1%	**470,775**	**1.2%**

Data reflects twelve month average of nonseasonally adjusted data.
U.S. Department of Labor, Bureau of Labor Statistics; State and Area Employment, Hours, and Earnings

Between 1999 and 2013, total nonfarm employment in Rhode Island increased by 1.1 percent. During this time the sectors which experienced overall increases were Information, Financial Activities and Business Services, Educational and Health Services, and Leisure, Hospitality and Other Services which increased by 11.1 percent, 26.9 percent and 18.6 percent respectively. Total nonfarm employment growth from 1999 to 2000 averaged 2.0 percent. In 2001, Rhode Island employment growth saw a minimal increase of 0.4 percent with the 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 nonfarm employment grew by a rate of 1.0 percent and then began increasing at decreasing rates of 0.9 percent, 0.5 percent and 0.4 percent for 2004, 2005, and 2006 respectively. The first negative growth in nonfarm employment came in 2007 and continued through 2010 with decreases of 0.2 percent, 2.2 percent, 4.5 percent and 0.3 percent. In 2011 Rhode Island employment growth was 0.5 percent, the first positive growth in nonfarm employment since 2006. In 2012 and 2013, Rhode Island nonfarm employment grew by 1.1 percent and 1.2 percent respectively.

Non-farm Employment by Industry. The following table summarizes the changes in Rhode Island nonfarm employment by sector from 2003 to 2013. Total nonfarm employment decreased by 2.8 percent during this period, and the composition of total employment changed markedly. Employment declined on average by 17.8 percent in Manufacturing, Construction, Natural Resources and Mining, Trade, Transportation and Utilities and Government during this time period. Meanwhile, average employment growth for all other sectors increased 8.6 percent. The sector which saw the largest gain during this period was Educational & Health Services, which grew by 14.8 percent. Clearly, the Rhode Island economy underwent a significant restructuring during the 2003 to 2013 period, transforming further from a manufacturing and construction based economy to a service based economy.

Rhode Island Nonfarm Employment by Industry, 2003 & 2013

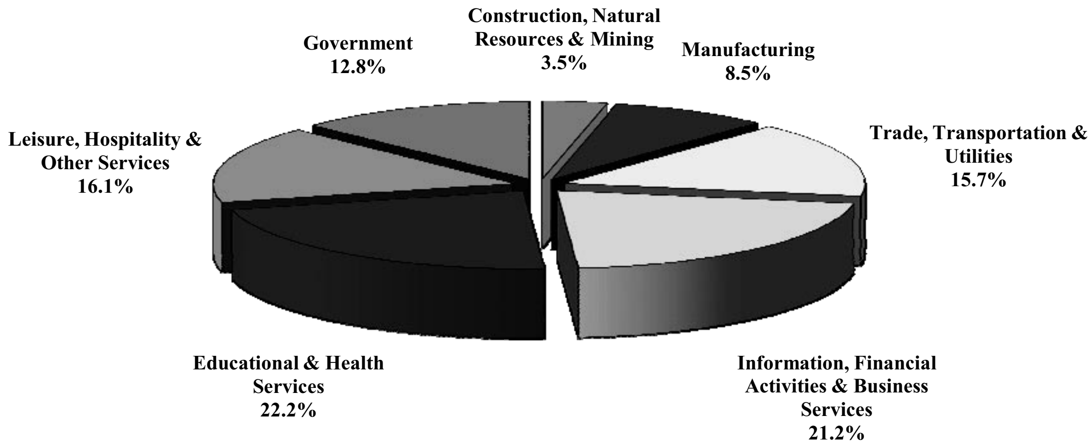
Employment Sector	2003	% of Total	2013	% of Total	% Change 2003-2013
Construction, Natural Resources & Mining	20,942	4.3%	16,300	3.5%	-22.2%
Manufacturing	58,658	12.1%	40,017	8.5%	-31.8%
Trade, Transportation & Utilities	80,767	16.7%	73,925	15.7%	-8.5%
Information, Financial Activities & Business Services	94,658	19.5%	99,900	21.2%	5.5%
Educational & Health Services	90,975	18.8%	104,500	22.2%	14.9%
Leisure, Hospitality & Other Services	72,042	14.9%	75,942	16.1%	5.4%
Government	66,208	13.7%	60,192	12.8%	-9.1%
Total Employment	484,250	100.0%	470,775	100.0%	-2.8%

Data reflects twelve month average of nonseasonally adjusted data
U.S. Department of Labor, Bureau of Labor Statistics; State and Area Employment, Hours, and Earnings

The pie chart illustrates the composition of Rhode Island employment after the further restructuring of the State's economy. The Educational and Health Services sector, with 22.2 percent of the nonfarm work force in 2013, is the largest employment sector in the Rhode Island economy, followed by Information, Financial Activities and Business Services, 21.2 percent, Trade, Transportation and Utilities, 15.7 percent, Leisure, Hospitality and Other Services, 16.1 percent, Government, 12.8 percent, Manufacturing, 8.5 percent, and Construction, Natural Resources and Mining, 3.5 percent.

Rhode Island Nonfarm Employment by Industry, 2013

U.S. Department of Labor, Bureau of Labor Statistics 2013



Manufacturing Employment. Like many industrial states, Rhode Island has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined between 1999 and 2013, falling by 44.5 percent. In 2012, total manufacturing employment decreased by 1.2 percent. In 2013, however, total manufacturing employment increased by 1.0 percent, marking the first year of positive growth in the 1999 through 2013 period. Between 1999 and 2000, the average percentage decline in manufacturing employment was 2.5 percent per year. With the national economy slipping into recession in March 2001, the rate of decline in manufacturing employment accelerated to 4.6 percent in 2001. This rate of decline accelerated further in 2002 to 8.2 percent. The rate of decline again decelerated to 2.9 percent in 2004 before increasing to -3.6 percent in 2005, -4.0 percent in 2006, -3.7 percent in 2007 and -5.5 percent in 2008. Consistent with the overall contraction in the national economy, the rate of decline in Rhode Island manufacturing employment increased to -12.9 percent in 2009 before decelerating to -3.4 percent in 2010. Manufacturing for non-durable goods and durable goods declined in 2011 and 2012. Non-durable goods saw negative growth of 0.4 percent and 0.6 percent for 2011 and 2012 respectively while durable goods saw negative growth of 0.7 percent and 1.6 percent for 2011 and 2012 respectively. Both manufacturing employment for non-durable goods and durable goods increased in 2013 by 0.5 percent and 1.3 percent respectively.

Manufacturing Establishment Employment in Rhode Island, 1999 - 2013

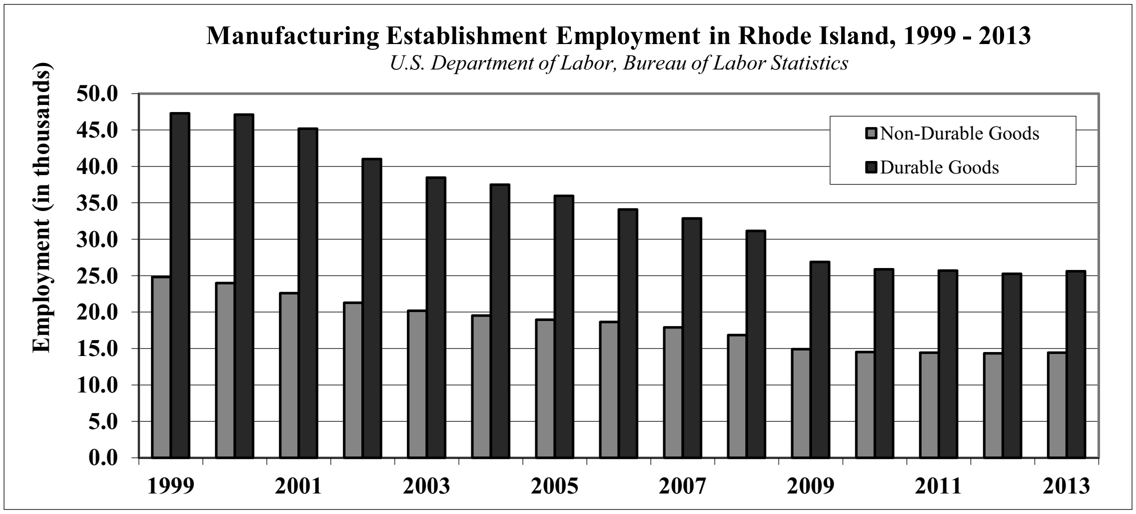
(In Thousands)*

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Non-Durable Goods	24.8	24.0	22.6	21.3	20.2	19.5	19.0	18.6	17.9	16.8	14.9	14.5	14.4	14.4	14.4
Percentage Change	-4.2%	-3.2%	-5.8%	-5.9%	-5.1%	-3.4%	-2.8%	-1.8%	-3.9%	-6.0%	-11.5%	-2.6%	-0.4%	-0.6%	0.5%
Durable Goods	47.3	47.1	45.2	41.0	38.5	37.5	36.0	34.1	32.8	31.1	26.9	25.9	25.7	25.3	25.6
Percentage Change	-3.4%	-0.4%	-4.0%	-9.3%	-6.2%	-2.6%	-4.1%	-5.2%	-3.6%	-5.2%	-13.6%	-3.8%	-0.7%	-1.6%	1.3%
Total Manufacturing Employment	72.1	71.1	67.8	62.3	58.7	57.0	54.9	52.7	50.7	47.9	41.8	40.4	40.1	39.6	40.0
Percentage Change	-3.7%	-1.4%	-4.6%	-8.2%	-5.8%	-2.9%	-3.6%	-4.0%	-3.7%	-5.5%	-12.9%	-3.4%	-0.6%	-1.2%	1.0%

U.S. Department of Labor, Bureau of Labor Statistics; State and Area Employment, Hours, and Earnings

*Not Seasonally Adjusted Data

Employment in the manufacture of non-durable goods declined in every year since 1999, with the exception of 2013. Despite a decline in non-durable goods and durable goods 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.)



Unemployment. Rhode Island's unemployment rate from 2001 to 2004 was lower than that of the United States. From 2006 to 2013, Rhode Island's unemployment rate rose above the United States by an average of 1.7 percentage points. 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 1999 and 2013.

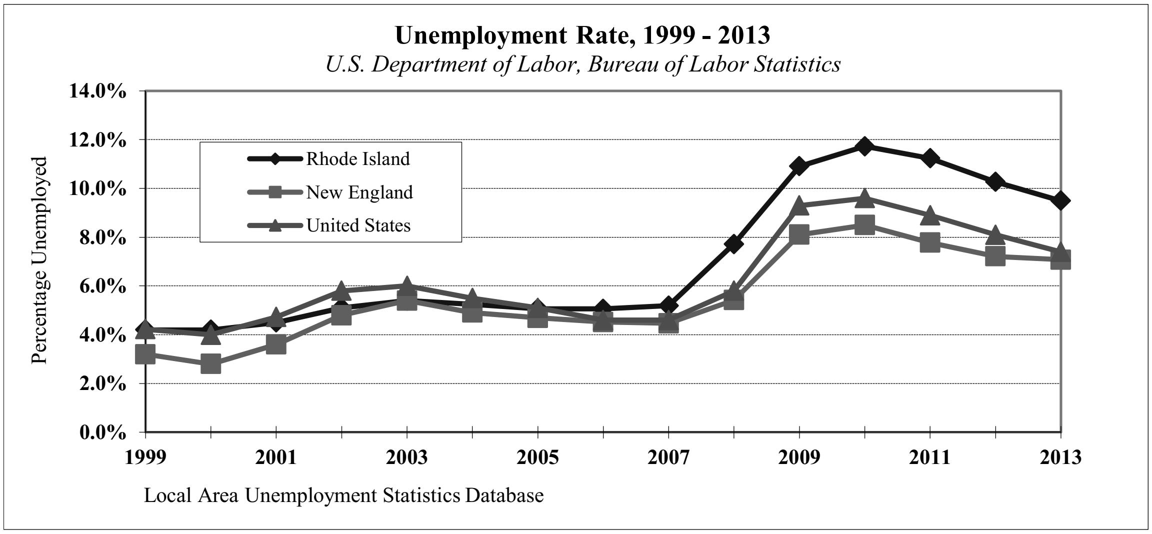
Annual Average Civilian Labor Force and Unemployment, 1999 - 2013
(in thousands)

	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.**
1999	541	7,327	139,368	23	234	5,880	4.2%	3.2%	4.2%	99.4%
2000	543	7,348	142,583	23	204	5,692	4.2%	2.8%	4.0%	105.0%
2001	545	7,424	143,734	25	266	6,801	4.5%	3.6%	4.7%	95.2%
2002	554	7,496	144,863	28	363	8,378	5.1%	4.8%	5.8%	87.9%
2003	564	7,508	146,510	30	407	8,774	5.4%	5.4%	6.0%	90.0%
2004	555	7,476	147,401	29	366	8,149	5.2%	4.9%	5.5%	94.7%
2005	561	7,516	149,320	28	353	7,591	5.1%	4.7%	5.1%	100.0%
2006	573	7,607	151,428	29	344	7,001	5.1%	4.5%	4.6%	109.6%
2007	574	7,646	153,124	30	342	7,078	5.2%	4.5%	4.6%	112.5%
2008	572	7,713	154,287	44	418	8,924	7.7%	5.4%	5.8%	133.6%
2009	566	7,736	154,142	62	628	14,265	10.9%	8.1%	9.3%	117.7%
2010	572	7,763	153,889	67	659	14,825	11.7%	8.5%	9.6%	121.9%
2011	563	7,737	153,617	63	601	13,747	11.2%	7.8%	9.0%	125.5%
2012	559	7,721	154,975	57	557	12,506	10.3%	7.2%	8.1%	127.3%
2013	556	7,702	155,389	53	545	11,460	9.5%	7.1%	7.4%	128.7%

U.S. Department of Labor, Bureau of Labor Statistics; Current Population Survey Database
U.S. Department of Labor, Bureau of Labor Statistics; Local Area Unemployment Statistics Database,
Data reflects twelve month average of nonseasonally adjusted data.

In 2013, the State's unemployment rate was 9.5 percent and New England's unemployment rate was 7.1 percent.

The chart below graphs the unemployment rates for Rhode Island, New England, and the United States over the 1999 to 2013 period. This graph portrays Rhode Island's laggard status with respect to New England as a whole. This relationship between the Rhode Island unemployment rate and that for the New England region has been consistent since the onset of the recession.



Unemployment Compensation Trust Fund. The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide benefits for eligible individuals when they are unemployed through no fault of their own. Benefits are paid from the Rhode Island Unemployment Compensation Trust Fund and financed through employer contributions.

Economic Base and Performance

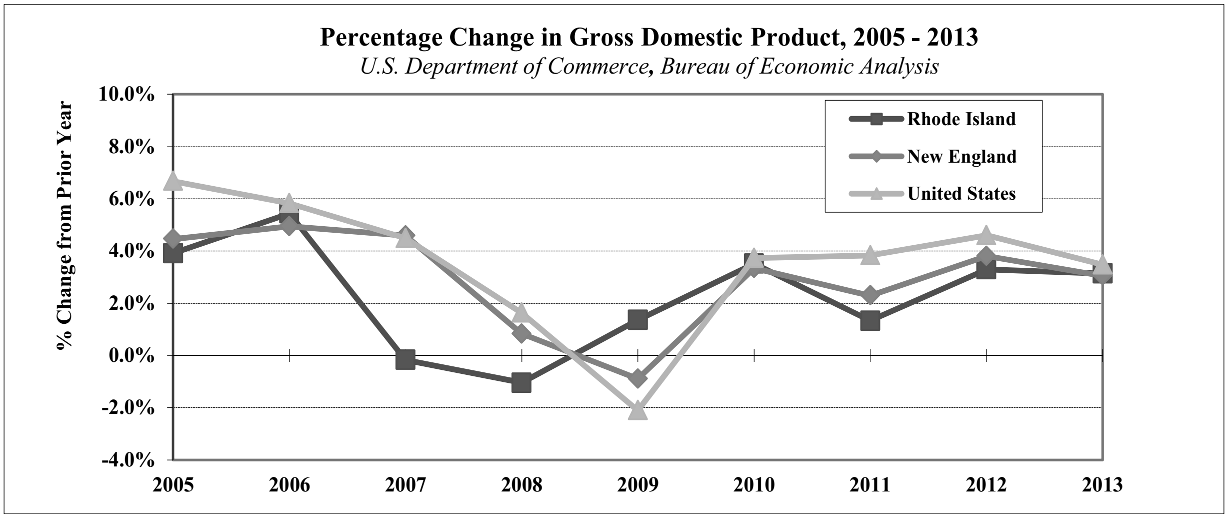
From 2005 – 2013, growth in Rhode Island Gross Domestic Product (GDP) was less than growth in United States GDP with the exception of 2009. Rhode Island GDP grew at a modest rate of 1.4 percent in 2009, which was greater than the negative 0.9 percent GDP growth in New England and the negative 2.1 percent GDP growth in the United States. The table below gives Gross Domestic Product in millions of dollars and the annual GDP growth rates for Rhode Island, New England and the United States from 2005 – 2013.

Gross Domestic Product, 2005 - 2013
(millions of current dollars)

	Rhode Island		New England		United States	
Year	**GDP**	**Change**	**GDP**	**Change**	**GDP**	**Change**
2005	45,079	3.9%	726,442	4.5%	13,023,633	6.7%
2006	47,530	5.4%	762,326	4.9%	13,782,387	5.8%
2007	47,450	-0.2%	797,294	4.6%	14,401,421	4.5%
2008	46,954	-1.0%	803,914	0.8%	14,636,247	1.6%
2009	47,592	1.4%	796,697	-0.9%	14,328,006	-2.1%
2010	49,265	3.5%	823,311	3.3%	14,862,637	3.7%
2011	49,921	1.3%	842,182	2.3%	15,431,583	3.8%
2012	51,566	3.3%	874,201	3.8%	16,141,152	4.6%
2013	53,184	3.1%	900,870	3.1%	16,701,415	3.5%

U.S. Department of Commerce. Bureau of Economic Analysis; Gross Domestic Product by State - All industry total
Advance Statistics for 2013 and Revised Statistics for 2005 - 2013

The graph below plots the percentage change in GDP for Rhode Island, New England and the United States from 2005 - 2013. As indicated by the graph Rhode Island GDP growth was substantially lower than that of New England and the United States during the onset of the recession until 2009 when Rhode Island's GDP growth was greater than both the U.S. and New England. In 2010, Rhode Island was able to maintain growth greater than New England but trailed the United States by approximately 0.2 percentage points. Rhode Island's GDP growth trailed that of New England and the United States in 2011 and 2012. In 2013, Rhode Island's GDP growth was approximately equal to New England and less than the United States by 0.4 percentage points.



Economic Base and Performance -- Sector Detail. The economy of Rhode Island is well diversified. The table below shows the contribution to Rhode Island Gross Domestic Product (GDP) of several industrial and non-industrial sectors. As is apparent, Rhode Island has experienced positive growth in most sectors from 2006 to 2013. Construction, Utilities and Manufacturing are the only industries to experience GDP decline over this time frame.

Gross Domestic Product by Industry in Rhode Island, 2006 - 2013
(millions of current dollars)

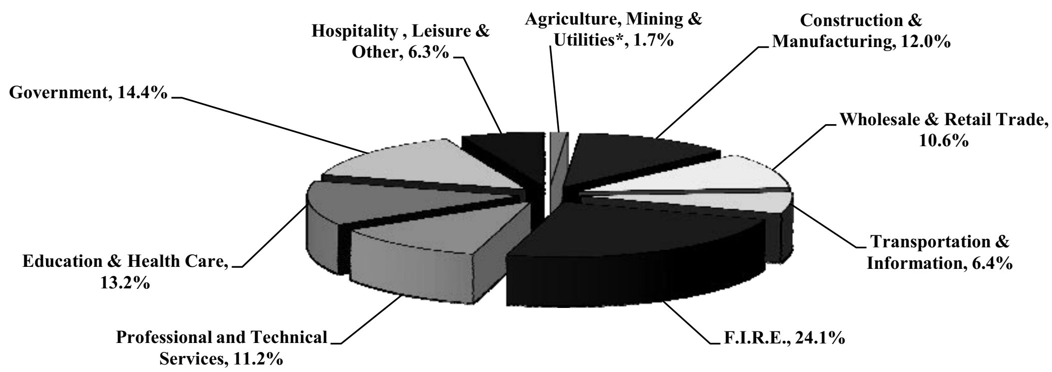
Industrial Sector	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Agriculture, forestry, fishing and hunting	95	85	79	75	86	86	86	95
Mining	28	32	39	44	30	25	40	29
Utilities	702	669	731	751	787	778	590	563
Construction	2,545	2,556	2,334	2,175	2,074	2,082	2,204	2,251
Manufacturing	4,918	4,218	4,223	3,724	4,033	3,969	3,999	4,114
Wholesale Trade	2,437	2,554	2,487	2,365	2,499	2,563	2,731	2,841
Retail Trade	2,780	2,796	2,666	2,607	2,723	2,711	2,765	2,805
Transportation and warehousing, excluding postal service	723	704	735	705	730	780	849	853
Information	1,905	1,844	1,943	2,060	2,365	2,680	2,708	2,547
Finance and insurance	3,957	3,850	2,808	4,117	4,000	3,813	4,325	4,594
Real estate, rental and leasing	6,820	7,138	7,175	7,535	7,559	7,674	7,918	8,231
Professional and technical services	2,548	2,499	2,702	2,542	2,586	2,665	2,756	2,872
Management of companies and enterprises	1,281	1,350	1,408	1,256	1,425	1,484	1,686	1,881
Administrative and waste services	1,146	1,218	1,246	1,200	1,311	1,345	1,415	1,535
Educational services	1,158	1,237	1,330	1,413	1,472	1,493	1,471	1,523
Health care and social assistance	4,366	4,450	4,736	4,954	5,160	5,170	5,286	5,482
Government	6,994	7,241	7,360	7,187	7,435	7,564	7,563	7,639
Hospitality , Leisure & Other	3,127	3,010	2,952	2,880	2,990	3,040	3,176	3,331
Total GDP*	**47,530**	**47,450**	**46,954**	**47,592**	**49,265**	**49,921**	**51,566**	**53,184**

U.S. Department of Commerce, Bureau of Economic Analysis; Gross Domestic Product by State
* Differences are attributed to rounding for 2007, 2009, 2011, 2012 and 2013

The pie chart below shows the share of total Rhode Island Gross Domestic Product in 2013 attributable to each of the industry sectors noted above.

GDP by Industry in Rhode Island, 2013

U.S. Department of Commerce, Bureau of Economic Analysis



*Does not include the $2.0 million total difference between Total GDP reported by the BEA and the sum across each Industrial Sector. It is assumed any difference is a direct result of non-disclosure for confidentiality purposes.

Finance, Insurance and Real Estate. This is the second largest sector of Rhode Island's economy in terms of number of dollars. F.I.R.E. contributed 24.1 percent of GDP in 2013. In 2013, F.I.R.E. accounted for $12.8 billion of the $53.18 billion total gross domestic product. For the period 2006 - 2013 this sector expanded by a respectable 19.0 percent.

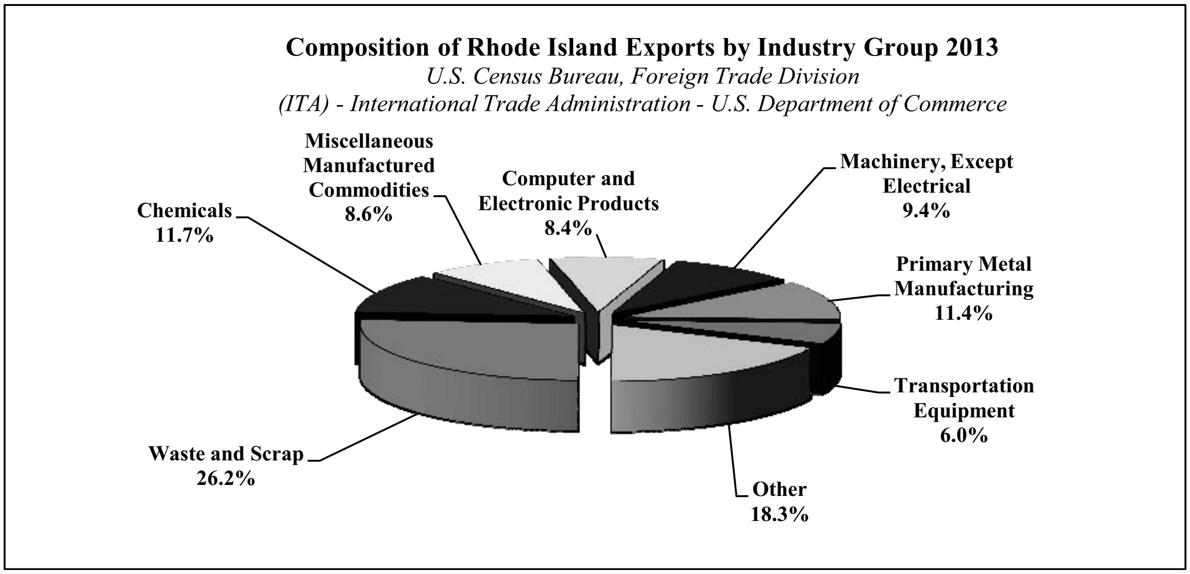
Construction and Manufacturing. In 2013, Construction and Manufacturing was the fourth largest sector of Rhode Island's economy at $6.4 billion, or 12.0 percent of the total Gross Domestic Product. This sector decreased by 14.7 percent from the 2006 level and in its percent contribution to GDP. In 2006, Construction and Manufacturing comprised a larger piece of GDP at 16.6 percent as compared to 12.0 percent for 2013.

Government. At 14.4 percent of GDP in 2013, the Government sector has grown at an average annual growth rate of 1.7 percent since 2006. Yet, due to the gains in other sectors, particularly F.I.R.E., Government contributes slightly less as a percentage of GDP in 2013 than it did in 2006. In 2006, the Government sector accounted for 14.7 percent of GDP. This sector grew by 4.5 percent in 2006, 3.5 percent in 2007, 1.6 percent in 2008, -2.4 percent in 2009, 3.5 percent in 2010, 1.7 percent in 2011 and zero percent in 2012. In 2013, the Government sector saw growth of 1.0 percent. In 2013, the Government sector contributed $7.64 billion of total gross state product compared to $7.56 billion in 2012.

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 2006, Services have remained an important sector accounting for 31.3 percent of Rhode Island's GDP in 2013, the largest portion. From 2006 to 2013, Services have grown by 22.0 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 2010 was $1.95 billion. This represented 4.0 percent of Rhode Island Gross Domestic Product of $49.3 billion. In 2012, Rhode Island's exports increased to $2.37 billion or 4.6 percent of Rhode Island Gross Domestic Product. In 2013, Rhode Island's exports fell to $2.16 billion, a decrease of 8.7 percent when compared to 2012 levels.



In 2013, the most important exports, as shown in the chart above, were waste and scrap, 26.2 percent; chemicals, 11.7 percent; primary metal manufacturing, 11.4 percent; machinery, except electrical, 9.4 percent; miscellaneous manufactured commodities, 8.6 percent; computers and electronic products, 8.4 percent; transportation equipment, 6.0 percent; and all other exports, 18.3 percent.

The table below provides greater detail of Rhode Island exports by industry (in thousands of dollars) for 2010 - 2013.

Rhode Island Exports by Industry, 2010 - 2013 (in thousands of dollars)	2010	2011	2012	2013
Total All Industries	1,948,784	2,288,561	2,370,058	2,162,792
Waste and Scrap	528,768	694,899	644,326	566,321
Chemicals	222,209	259,239	292,668	252,037
Primary Metal Manufacturing	161,024	291,827	263,270	246,766
Machinery, Except Electrical	165,819	171,124	250,008	203,658
Miscellaneous Manufactured Commodities	216,688	218,448	211,862	186,288
Computer and Electronic Products	172,535	151,135	177,172	182,021
Transportation Equipment	129,721	130,881	134,113	129,975
Plastics and Rubber Products	95,224	90,785	86,603	89,969
Electrical Equipment, Appliances and Component	64,646	68,339	71,722	97,951
Textiles and Fabrics	34,328	49,399	59,951	48,626
Fabricated Metal Products, NESOI	37,385	38,169	39,973	42,327
Fish - Fresh, Chilled or Frozen & Other Marine Products	27,916	28,653	25,966	31,835
Food Manufacturers	6,593	14,863	19,257	16,110
Special Classification Provisions, Nesoi	9,998	7,727	18,458	7,316
Paper	17,234	20,068	15,640	14,941
Printed Matter and Related Products, Nesoi	11,840	10,936	12,046	8,873
Textile Mill Products	8,142	10,362	11,610	10,520
Nonmetallic Mineral Products	5,183	6,771	9,548	9,587
Minerals and Ores	14,975	6,933	8,580	764
Furniture and Fixtures	6,002	4,640	5,152	6,187
Apparel Manufacturing Products	4,460	4,601	3,662	3,151
Leather and Allied Products	1,130	2,455	2,909	2,130
Petroleum and Coal Products	2,001	2,272	2,112	2,566
Used or Second-Hand Merchandise	3,003	2,390	1,884	1,908
Wood Products	773	568	953	477
Beverages and Tobacco Products	43	28	204	38
Agricultural Products	12	127	138	132
Forestry Products, Nesoi	580	502	133	155
Other Animals	395	324	49	90
Goods Ret. to Canada (Exp.); Goods Ret & Reimps (Imp.)	15	32	43	47
Oil and Gas	21	26	36	0
Newspapers, Books & Other Published Matter, Nesoi	122	40	5	25
(ITA) - International Trade Administration - U.S. Department of Commerce U.S. Census Bureau, Foreign Trade Division				

Housing

The following table shows the number of housing permits authorized on an annual basis in Rhode Island, New England, and the United States. In 2000 the number of housing permits authorized in Rhode Island decreased by 18.0 percent. In 2011, the number of housing permits authorized in Rhode Island decreased by 20.8 percent, compared to a decrease of 17.9 percent for New England and an increase of 3.5 percent for the United States. In 2012, the number of housing permits authorized increased by 5.5 percent in Rhode Island, compared to an increase of 36.1 percent for New England and an increase of 32.6 percent for the United States. The number of total housing permits authorized increased in 2013 for Rhode Island, New England and the United States by 19.9 percent, 19.3 percent and 19.3 percent respectively.

Housing Permits Authorized, 1999 - 2013
(seasonally adjusted)

Year	Rhode Island Total Permits	Rhode Island Percent Change	New England Total Permits	New England Percent Change	United States Total Permits	United States Percent Change
1999	3,238	22.1%	47,383	-1.1%	1,662,000	2.7%
2000	2,654	-18.0%	43,756	-7.7%	1,600,000	-3.7%
2001	2,402	-9.5%	42,929	-1.9%	1,639,000	2.4%
2002	2,602	8.3%	47,291	10.2%	1,750,000	6.8%
2003	2,445	-6.0%	48,419	2.4%	1,889,000	7.9%
2004	2,512	2.7%	56,129	15.9%	2,058,000	8.9%
2005	2,959	17.8%	56,812	1.2%	2,162,000	5.1%
2006	2,264	-23.5%	48,217	-15.1%	1,846,000	-14.6%
2007	1,926	-14.9%	36,486	-24.3%	1,391,000	-24.6%
2008	1,170	-39.3%	24,076	-34.0%	896,000	-35.6%
2009	916	-21.7%	17,313	-28.1%	582,000	-35.0%
2010	933	1.9%	20,500	18.4%	604,000	3.8%
2011	739	-20.8%	16,839	-17.9%	625,000	3.5%
2012	780	5.5%	22,910	36.1%	829,000	32.6%
2013	935	19.9%	27,342	19.3%	989,000	19.3%

Federal Reserve Bank of Boston, Regional Data New England Economic Indicators: Source: U.S. Census Bureau.

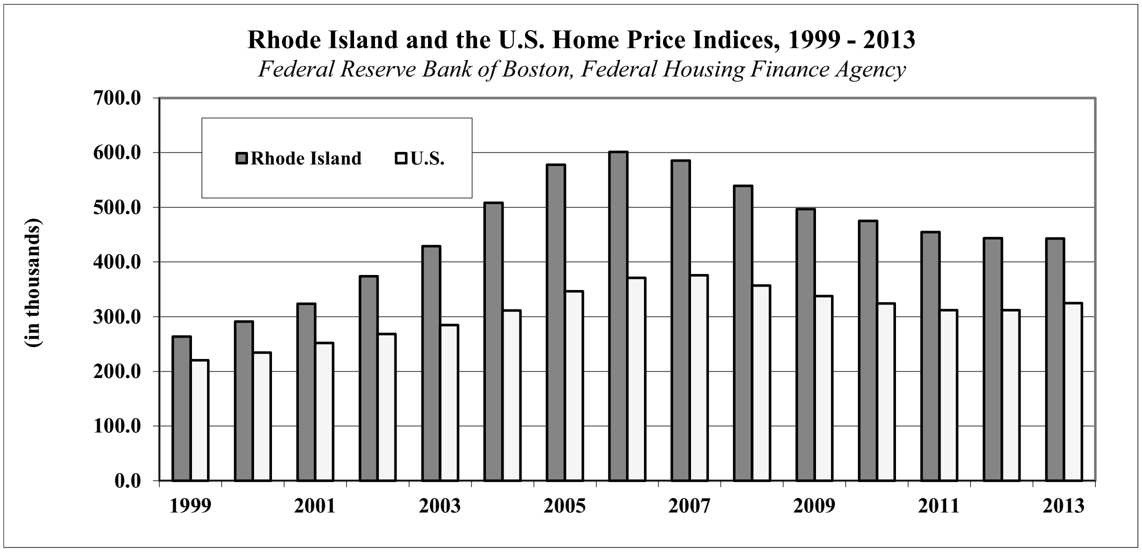
The home price index for Rhode Island and the United States (not seasonally adjusted) appears in the table below. The Rhode Island home price index increased relative to the U.S. average between 1999 through 2005, hitting a peak of 166.7 percent in 2005. Since then, the Rhode Island index has stayed well above but declined relative to the U.S. average and in 2013 it stands at 136.3 percent of the U.S. level.

Home Price Index
Rhode Island and the U.S, 1999 - 2013
(not seasonally adjusted, in thousands)

Year	R.I.	U.S.	R.I. Home Prices as a Percentage of the U.S.
1999	263.5	220.4	119.6%
2000	291.2	234.5	124.1%
2001	323.8	252.1	128.5%
2002	373.8	268.0	139.5%
2003	428.6	284.7	150.5%
2004	508.4	311.3	163.3%
2005	577.6	346.5	166.7%
2006	601.0	371.4	161.8%
2007	585.4	375.7	155.8%
2008	539.3	357.2	151.0%
2009	496.5	337.7	147.0%
2010	474.9	324.1	146.5%
2011	454.5	312.1	145.6%
2012	442.8	311.8	142.0%
2013	442.4	324.6	136.3%

Federal Reserve Bank of Boston, Source: Federal Housing Finance Agency

The chart below depicts the home price index data contained in the table above. The strength of the Rhode Island home price index when compared to the United State home price index is evident from the bars in the chart.



Military Contracts

According to usaspending.gov, the United States transparency portal on federal government spending, military contracts awarded to companies located in the State of Rhode Island in 2000 totaled $418 million. In 2003 military contract spending increased to $490 million, after two consecutive years when Rhode Island did not realize obligated contracts greater than $400 million. In both 2004 and 2005 contracts declined to $449 million and $411 million respectively but have remained virtually unchanged since then as a percentage of the total contracts awarded by the Department of Defense in the United States. By 2008, however, contracts awarded to Rhode Island companies had increased to $708 million. By 2012, the dollar amount of contracts awarded to Rhode Island companies decreased to $618 million from a high of $800 million in 2011 and increased again in 2013 to $679 million. Rhode Island's Department of Defense contract awards as a percentage of total U.S. contract awards has remained relatively steady from 2001-2013 with a range of 0.15 percent to 0.23 percent. 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 2000 and 2013. Since 2000, Rhode Island's share of New England contract awards has decreased from 4.79 percent to 2.72 percent of such awards in 2013.

Department of Defense Contract Awards, 2000 - 2013
(in millions)
Department of Defense, Contracts Awarded by State and for U.S.

Federal Fiscal Year	R.I.	N.E.	U.S.	R.I. Percentage of New England	R.I. Percentage of U.S.
2000	418	8,739	133,374	4.79%	0.31%
2001	283	11,084	145,218	2.56%	0.20%
2002	365	13,001	171,037	2.80%	0.21%
2003	490	17,575	212,859	2.79%	0.23%
2004	449	19,057	231,083	2.35%	0.19%
2005	411	20,872	270,868	1.97%	0.15%
2006	458	20,147	300,589	2.27%	0.15%
2007	594	23,315	333,663	2.55%	0.18%
2008	708	27,242	397,498	2.60%	0.18%
2009	670	29,503	373,208	2.27%	0.18%
2010	775	27,836	367,963	2.78%	0.21%
2011	800	32,085	374,160	2.49%	0.21%
2012	618	28,230	361,592	2.19%	0.17%
2013	679	25,003	308,241	2.72%	0.22%

www.usaspending.gov

Human Resources

Public Elementary and Secondary Education. 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 elementary and secondary education. In fact, per pupil spending in Rhode Island has been significantly higher than the national average since 1996. The ratio of Rhode Island spending to the national average has varied from 129.9 percent in 1996-97 to a high of 144.3 percent in 2007-08. For the 2010-11 academic year Rhode Island spent 43.2 percent more on public elementary and secondary education than the United States. Rhode Island spent $16,346 per pupil in comparison to a per pupil national average of $11,418. The following table shows expenditures per pupil for Rhode Island and the United States since the 1996-97 academic year. It should be noted that the data is from the National Center for Education Statistics using average daily attendance.

Current Expenditure per Pupil in Public Elementary and Secondary Schools
Academic Years 1996-97 - 2010-11
(Based on Average Daily Attendance)

Academic Year	Rhode Island	United States	Ratio (R.I./U.S.)
1996-97	8,307	6,393	129.9%
1997-98	8,627	6,676	129.2%
1998-99	9,049	7,013	129.0%
1999-00	9,646	7,394	130.5%
2000-01	10,116	7,904	128.0%
2001-02	10,552	8,259	127.8%
2002-03	11,377	8,610	132.1%
2003-04	12,279	8,900	138.0%
2004-05	12,685	9,316	136.2%
2005-06	13,917	9,778	142.3%
2006-07	14,674	10,336	142.0%
2007-08	15,843	10,982	144.3%
2008-09	16,211	11,239	144.2%
2009-10	16,243	11,427	142.1%
2010-11	16,346	11,418	143.2%

U.S. Department of Education, National Center for Education Statistics; Unadjusted Dollars

For the academic year 2010-2011, Rhode Island per pupil expenditures was the eighth highest in the nation. The following table shows each of the fifty states and the District of Columbia ranked in terms of average expenditure per pupil.

National Ranking of Expenditure per Pupil in Public Elementary and Secondary Schools
Academic Year 2010-11
(Based on Average Daily Attendance)

Ranking	State	Expenditure	Ranking	State	Expenditure
	United States	**11,418**			
1	District of Columbia	21,304	27	Iowa	10,924
2	New York	20,491	28	Kansas	10,909
3	Alaska	18,352	29	Oregon	10,497
4	New Jersey	17,654	30	Kentucky	10,469
5	Wyoming	17,126	31	Washington	10,402
6	Connecticut	16,932	32	Missouri	10,348
7	Vermont	16,661	33	Arkansas	10,332
8	**Rhode Island**	**16,346**	34	Indiana	9,924
9	Maryland	15,064	35	South Carolina	9,730
10	Massachusetts	14,991	36	Colorado	9,709
11	Maine	14,406	37	Georgia	9,577
12	Pennsylvania	14,072	38	California	9,540
13	New Hampshire	13,964	39	South Dakota	9,431
14	Delaware	13,228	40	Texas	9,418
15	Illinois	13,180	41	Florida	9,394
16	Hawaii	12,603	42	New Mexico	9,356
17	Wisconsin	12,515	43	Tennessee	9,315
18	West Virginia	12,505	44	Alabama	9,296
19	Ohio	12,484	45	Nevada	9,035
20	Nebraska	12,151	46	Arizona	8,646
21	Montana	11,599	47	North Carolina	8,492
22	Michigan	11,560	48	Mississippi	8,436
23	Louisiana	11,500	49	Oklahoma	8,165
24	Minnesota	11,368	50	Idaho	7,155
25	North Dakota	11,356	51	Utah	6,851
26	Virginia	11,123			

U.S. Department of Education, National Center for Education Statistics; Unadjusted Dollars

Public and Private Post-Secondary Education. Growth in educational attainment for Rhode Island is important for productivity gains along with ensuring the trend towards a more educated labor force. Rhode Island has maintained steady growth in the number of degrees conferred and total fall enrollment at its public and private colleges and universities. The average rate of growth was 1.0 percent for total fall enrollment and the number of degrees conferred at Rhode Island institutions of higher education between 1998 and 2012.

According to the U.S. Department of Education's National Center for Education Statistics, in fall 2012 the total fall enrollment of part-time and full-time students in Rhode Island institutions of higher education was 83,952. Total fall enrollment for Rhode Island has increased every year since 1998 except for 2011 and 2012. Relative to the United States, Rhode Island's growth rate has lagged the United States total fall enrollment growth rate with the exception of 1998, 2003, and 2005. In 2012, both the United States and Rhode Island experienced a decline in total fall enrollment for the first time in consecutive years from 1998 – 2012. Rhode Island's total fall enrollment compared to the United States total fall enrollment in institutions of higher education is depicted in the table below.

Total Fall Enrollment 1998-2012				
Academic	Rhode Island		United States	
Year	Total Enrollment	% Change	Total Enrollment	% Change
1998	73,970	2.6%	14,506,967	0.0%
1999	74,821	1.2%	14,791,224	2.0%
2000	75,450	0.8%	15,312,289	3.5%
2001	77,235	2.4%	15,927,987	4.0%
2002	77,417	0.2%	16,611,711	4.3%
2003	79,085	2.2%	16,900,471	1.7%
2004	80,377	1.6%	17,272,044	2.2%
2005	81,382	1.3%	17,487,475	1.2%
2006	81,734	0.4%	17,758,870	1.6%
2007	82,900	1.4%	18,248,128	2.8%
2008	83,893	1.2%	19,102,814	4.7%
2009	84,673	0.9%	20,427,711	6.9%
2010	85,110	0.5%	21,016,126	2.9%
2011	84,644	-0.5%	20,994,113	-0.1%
2012	83,952	-0.8%	20,642,819	-1.7%
U.S. Department of Education, National Center for Education Statistics				

In addition to total fall enrollment growth, Rhode Island has experienced growth in the number of degrees conferred every year over the past decade with the exception of 2009-2010, which was the first year of decline since the 2000-2001 academic year. Rhode Island's growth rate lagged that of the United States, between the 2006-2007 academic year and the 2011-2012 academic year. The average growth rate for this period in Rhode Island was 1.5 percent while the United States saw an average growth rate of 4.1 percent, a difference of 2.6 percentage points. In the 2011-2012 academic year, Rhode Island institutions of higher education conferred 1.6 percent more degrees than in the 2010-2011 academic year. In 2012, Rhode Island institutions of higher education conferred 17,862 degrees and certificates.

Earned Degrees Conferred *(by level of degree)* 1997-2012												
Academic	Rhode Island						United States					
Year	Associates	Bachelors	Masters	Doctoral	Total	% Change	Associates	Bachelors	Masters	Doctoral	Total	% Change
1997-98	3,592	8,169	1,929	479	**14,169**	**-2.2%**	558,555	1,184,406	430,164	124,608	**2,297,733**	**0.4%**
1998-99	3,591	8,396	1,942	481	**14,410**	**1.7%**	559,954	1,200,303	439,986	122,516	**2,322,759**	**1.1%**
1999-00	3,550	8,402	1,864	523	**14,339**	**-0.5%**	564,933	1,237,875	457,056	124,865	**2,384,729**	**2.7%**
2000-01	3,582	8,283	1,928	500	**14,293**	**-0.3%**	578,865	1,244,171	468,476	124,611	**2,416,123**	**1.3%**
2001-02	3,557	8,845	2,079	491	**14,972**	**4.8%**	595,133	1,291,900	482,118	124,858	**2,494,009**	**3.2%**
2002-03	3,516	9,108	2,056	496	**15,176**	**1.4%**	632,912	1,348,503	512,645	126,834	**2,620,894**	**5.1%**
2003-04	3,540	9,251	2,171	570	**15,532**	**2.3%**	665,301	1,399,542	558,940	131,419	**2,755,202**	**5.1%**
2004-05	3,573	9,472	2,223	561	**15,829**	**1.9%**	696,660	1,439,264	574,618	139,920	**2,850,462**	**3.5%**
2005-06	3,831	9,686	2,146	655	**16,318**	**3.1%**	713,066	1,485,242	594,065	143,722	**2,936,095**	**3.0%**
2006-07	3,822	9,982	2,230	632	**16,666**	**2.1%**	728,114	1,524,092	604,607	150,680	**3,007,493**	**2.4%**
2007-08	3,692	10,265	2,240	685	**16,882**	**1.3%**	750,164	1,563,069	625,023	155,021	**3,093,277**	**2.9%**
2008-09*	4,029	10,291	2,375	703	**17,398**	**3.1%**	787,325	1,601,368	656,784	159,720	**3,205,197**	**3.6%**
2009-10	3,590	10,647	2,396	746	**17,379**	**-0.1%**	849,452	1,650,014	693,025	158,558	**3,351,049**	**4.6%**
2010-11	3,461	10,863	2,545	709	**17,578**	**1.1%**	942,327	1,715,913	730,635	163,765	**3,552,640**	**6.0%**
2011-12	3,537	11,014	2,566	745	**17,862**	**1.6%**	1,017,538	1,791,046	754,229	170,062	**3,732,875**	**5.1%**
U.S. Department of Education, National Center for Education Statistics												
* For years reported between 1997 and 2009 Doctoral degrees incorporate professional degrees that were reported seperately prior to 2009.												

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DEPARTMENT OF ADMINISTRATION

Marc A Leonetti, State Controller
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Providence, RI 02908-5890

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August 29, 2014

TO: The Honorable Raymond E. Gallison Jr., Chairperson
House Committee on Finance

The Honorable Daniel DaPonte, Chairperson
Senate Committee on Finance

FROM: Marc A. Leonetti, CPA, State Controller

RE: **FY 2014 CLOSING STATEMENTS – PRELIMINARY UNAUDITED**

Enclosed are the Fiscal Year 2014 preliminary unaudited closing statements as required by Section 35-6-1 (8) (a) of the Rhode Island General Laws.

Listed below is a summary of notable results contained in the preliminary statements:

- The General Fund surplus balance is $68 million.
- General revenues were $20.3 million more than estimated.
- General revenue expenditures were $16.1 million less than budgeted.
- The budget reserve and cash stabilization account is fully funded with a balance of $177 million.
- The Rhode Island Capital Fund available balance is $124.4 million.

As required by law, I will identify any changes to these preliminary statements when the audited statements are issued.

MAL/pk
Enclosure

Cc: Sharon Reynolds Ferland, House Fiscal Advisor
Stephen Whitney, Senate Fiscal Advisor
Thomas A. Mullaney, Executive Director/State Budget Officer
Steven T. Hartford, Director, Department of Administration
The Honorable Lincoln Chafee, Governor

Table of Contents

State of Rhode Island
Surplus Analysis (Preliminary)
For the Fiscal Year Ended June 30, 2014

Opening surplus	$	104,119,715
Reappropriations from prior year		7,052,524
General revenues		3,436,302,230
Total available		3,547,474,469
General revenue expenditures		3,336,277,849
Transfer to Accelerated Depreciation Fund		10,000,000
Reappropriations carried forward to FY 2015		7,378,665
Transfer to RI Employees' Retirement System		19,653,121
Subtotal		3,373,309,635
Net		174,164,834
Transfers to Budget Reserve		106,212,658
Closing surplus	$	67,952,176

State of Rhode Island
General Revenue Report - Summary (Preliminary)
For the Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance	Percent Variance
PERSONAL INCOME TAX	$ 1,103,200,000	$ 1,115,512,527	$ 12,312,527	1.12%
GENERAL BUSINESS TAXES:				
Business Corporations	117,100,000	115,226,852	(1,873,148)	-1.60%
Public Utilities Gross Earnings	108,000,000	101,382,220	(6,617,780)	-6.13%
Financial Institutions	13,500,000	21,983,833	8,483,833	62.84%
Insurance Companies	106,000,000	102,356,841	(3,643,159)	-3.44%
Bank Deposits	2,400,000	2,471,553	71,553	2.98%
Health Care Provider Assessment	41,800,000	42,131,464	331,464	0.79%
SALES AND USE TAXES:				
Sales and Use	907,000,000	916,083,253	9,083,253	1.00%
Motor Vehicle	52,300,000	52,407,813	107,813	0.21%
Motor Fuel	500,000	523,920	23,920	4.78%
Cigarettes	139,100,000	139,461,685	361,685	0.26%
Alcohol	17,600,000	18,252,450	652,450	3.71%
OTHER TAXES:				
Inheritance and Gift	38,100,000	43,592,370	5,492,370	14.42%
Racing and Athletics	1,200,000	1,176,869	(23,131)	-1.93%
Realty Transfer Tax	8,000,000	7,961,816	(38,184)	-0.48%
Total Taxes	2,655,800,000	2,680,525,466	24,725,466	0.93%
Departmental Revenue	359,160,861	360,333,833	1,172,972	0.33%
Total Taxes and Departmentals	3,014,960,861	3,040,859,299	25,898,438	0.86%
OTHER SOURCES:				
Other Miscellaneous	8,480,419	6,391,686	(2,088,733)	-24.63%
Lottery	380,700,000	376,327,121	(4,372,879)	-1.15%
Unclaimed Property	11,900,000	12,724,124	824,124	6.93%
Total Other Sources	401,080,419	395,442,931	(5,637,488)	-1.41%
Total General Revenues	$ 3,416,041,280	$ 3,436,302,230	$ 20,260,950	0.59%

State of Rhode Island
General Revenue Expenditures - Budget vs Actual (Preliminary)
For the Fiscal Year Ended June 30, 2014

	Final Appropriation	Expenditures	Variance
General Government			
Department of Administration	$ 263,297,699.00	$ 259,268,918.34	$ 4,028,780.66
Department of Business Regulation	8,689,930.00	8,526,388.94	163,541.06
Department of Labor and Training	8,548,019.00	8,027,720.44	520,298.56
Legislature	38,654,217.00	34,498,447.74	4,155,769.26
Office of Lieutenant Governor	946,501.00	957,446.12	(10,945.12)
Department of State	6,417,569.00	6,196,251.28	221,317.72
Treasury Department	2,557,317.00	2,384,819.98	172,497.02
Commission for Human Rights	1,146,066.00	1,138,859.08	7,206.92
Board of Elections	1,738,894.00	1,573,261.61	165,632.39
Rhode Island Ethics Commission	1,575,940.00	1,541,741.13	34,198.87
Governor's Office	4,132,646.00	3,975,743.61	156,902.39
Department of Revenue	100,056,480.00	99,768,361.95	288,118.05
Subtotal - General Government	**437,761,278.00**	**427,857,960.22**	**9,903,317.78**
Human Services			
Office of Health & Human Services	848,374,650.00	840,381,329.55	7,993,320.45
Department of Children, Youth, and Families	152,201,575.00	154,719,226.33	(2,517,651.33)
Department of Health	23,459,058.00	23,469,936.77	(10,878.77)
Department of Human Services	93,870,288.00	93,465,357.91	404,930.09
Department of Beh Health, Dev Dis & Hosp.	201,089,816.00	197,865,467.24	3,224,348.76
Office of the Child Advocate	575,477.00	544,230.91	31,246.09
RI Commission On Deaf and Hard of Hearing	389,267.00	375,548.91	13,718.09
Governor's Commission on Disabilities	356,352.00	339,528.77	16,823.23
Office of the Mental Health Advocate	483,716.00	485,004.96	(1,288.96)
Subtotal - Human Services	**1,320,800,199.00**	**1,311,645,631.35**	**9,154,567.65**

State of Rhode Island
General Revenue Expenditures - Budget vs Actual (Preliminary)
For the Fiscal Year Ended June 30, 2014

	Final Appropriation	Expenditures	Variance
Education			
Dept. of Elementary and Secondary Education	960,297,587.00	959,927,061.17	370,525.83
Board of Governors for Higher Education	4,990,572.00	4,943,725.11	46,846.89
Rhode Island State Council on the Arts	1,310,508.00	1,310,473.32	34.68
Rhode Island Atomic Energy Commission	856,770.00	859,902.85	(3,132.85)
RI Higher Education Assistance Authority	4,333,323.00	4,333,323.00	0.00
Historical Preservation and Heritage Comm.	1,340,796.00	1,282,682.72	58,113.28
Community College of Rhode Island	46,272,942.00	46,342,810.09	(69,868.09)
Rhode Island College	42,444,134.00	42,502,220.07	(58,086.07)
University of Rhode Island	85,173,031.00	85,386,125.40	(213,094.40)
Subtotal - Education	**1,147,019,663.00**	**1,146,888,323.73**	**131,339.27**
Public Safety			
Department of Attorney General	23,795,794.00	23,235,529.51	560,264.49
Department of Corrections	186,632,042.00	188,152,166.48	(1,520,124.48)
Judicial Department	91,405,406.00	91,551,391.03	(145,985.03)
Militia of State	3,565,037.00	3,461,473.69	103,563.31
Public Safety	94,263,873.00	96,048,578.07	(1,784,705.07)
Office of Public Defender	10,860,411.00	10,742,068.50	118,342.50
Subtotal - Public Safety	**410,522,563.00**	**413,191,207.28**	**(2,668,644.28)**
Natural Resources			
Environmental Management	34,136,120.00	34,534,166.53	(398,046.53)
Coastal Resources Management Council	2,158,736.00	2,160,560.23	(1,824.23)
Subtotal - Natural Resources	**36,294,856.00**	**36,694,726.76**	**(399,870.76)**
Total	**$ 3,352,398,559.00**	**$ 3,336,277,849.34**	**$ 16,120,709.66**

State of Rhode Island
Total Expenditures - Budget vs Actual (Preliminary)
For the Fiscal Year Ended June 30, 2014

	Final Appropriation	Expenditures	Variance
Administration			
Central Management			
General Revenues	$ 2,341,475.00	$ 2,067,574.92	$ 273,900.08
Office of Digital Excellence	815,540.00	541,121.57	274,418.43
Total-Central Management	3,157,015.00	2,608,696.49	548,318.51
Legal Services			
General Revenues	2,312,716.00	2,389,418.58	(76,702.58)
Accounts and Control			
General Revenues	3,737,539.00	3,733,014.19	4,524.81
Auditing			
General Revenues	1,336,254.00	1,336,730.65	(476.65)
Office of Management and Budget			
General Revenues	3,815,900.00	3,308,788.39	507,111.61
Restricted Receipts	315,939.00	228,055.01	87,883.99
Total-Office of Management & Budget	4,131,839.00	3,536,843.40	594,995.60
Purchasing			
General Revenues	2,783,321.00	2,818,185.25	(34,864.25)
Federal Funds	78,307.00	83,027.47	(4,720.47)
Other Funds	315,291.00	180,517.75	134,773.25
Total-Purchasing	3,176,919.00	3,081,730.47	95,188.53
Human Resources			
General Revenues	8,011,385.00	7,804,455.47	206,929.53
Federal Funds	727,534.00	714,339.16	13,194.84
Restricted Receipts	432,599.00	432,848.70	(249.70)
Other Funds	1,531,358.00	1,487,536.25	43,821.75
Total-Human Resources	10,702,876.00	10,439,179.58	263,696.42
Personnel Appeal Board			
General Revenues	75,036.00	68,511.38	6,524.62
Facilities Management			
General Revenues	30,278,327.00	31,068,326.15	(789,999.15)
Federal Funds	1,131,678.00	1,172,020.64	(40,342.64)
Restricted Receipts	452,889.00	350,946.26	101,942.74
Other Funds	3,255,133.00	3,760,095.51	(504,962.51)
Total-Facilities Management	35,118,027.00	36,351,388.56	(1,233,361.56)
Capital Projects and Property Management			
General Revenues	1,264,433.00	1,250,703.74	13,729.26
Federal Funds- Stimulus		74,034.69	(74,034.69)
Total-Capital Projects and Property Management	1,264,433.00	1,324,738.43	(60,305.43)
Information Technology			
General Revenues	18,778,279.00	18,828,807.74	(50,528.74)
Federal Funds	6,522,188.00	5,821,315.05	700,872.95
Restricted Receipts	5,136,195.00	4,536,067.74	600,127.26
Other Funds	2,793,138.00	2,565,511.13	227,626.87
Total-Information Technology	33,229,800.00	31,751,701.66	1,478,098.34
Library and Information Services			
General Revenues	1,003,405.00	972,213.77	31,191.23
Federal Funds	1,369,157.00	1,139,112.69	230,044.31
Restricted Receipts	653.00	693.83	(40.83)
Total-Library and Information Services	2,373,215.00	2,112,020.29	261,194.71

	Final Appropriation	Expenditures	Variance
Planning			
General Revenues	4,683,717.00	4,349,467.13	334,249.87
Federal Funds	15,029,843.00	8,295,245.97	6,734,597.03
Other Funds			
Federal Highway-PL Systems Planning	3,727,488.00	1,821,780.96	1,905,707.04
Air Quality Modeling	22,875.00	11,135.80	11,739.20
Total-Planning	23,463,923.00	14,477,629.86	8,986,293.14
General			
General Revenues			
Rhode Island Commerce Corporation	4,545,572.00	4,535,350.00	10,222.00
RICC-Airport Corporation Impact Aid	1,025,000.00	1,007,420.00	17,580.00
RICC-EPScore (Research Alliance)	1,150,000.00	1,150,000.00	
Innovative Matching Grant	500,000.00	500,000.00	
Miscellaneous Grants/Payments	146,049.00	146,049.00	
Slater Centers of Excellence	1,000,000.00	1,000,000.00	
Torts-Court Awards	400,000.00	298,543.77	101,456.23
I-195 Commission	1,175,679.00	559,777.52	615,901.48
Current Care/Health Information Exchange	450,000.00	422,373.00	27,627.00
RI Film & Television Office	308,965.00	303,299.17	5,665.83
State Employees/Teachers Retiree Health Subsidy	2,321,057.00	2,321,057.00	
Resource Sharing and State Library Aid	8,773,398.00	8,772,790.36	607.64
Library Construction Aid	2,500,666.00	2,500,665.40	0.60
Federal Funds	4,345,555.00		4,345,555.00
Restricted Receipts	2,638,568.00	2,093,934.84	544,633.16
Rhode Island Capital Plan			
Statehouse Renovations	1,622,468.00	1,328,812.66	293,655.34
DoIT Enterprise Operations Center	356,350.00	158,929.42	197,420.58
Cranston Street Armory	100,000.00	194,250.94	(94,250.94)
Cannon Building	603,987.00	435,488.70	168,498.30
Zambarano Building Rehabilitation	1,593,080.00	1,533,368.69	59,711.31
Pastore Center Rehab. DOA	2,517,000.00	1,131,578.63	1,385,421.37
Old State House	532,000.00	34,497.50	497,502.50
State Office Building	823,936.00	577,203.52	246,732.48
Old Colony House	362,605.00	284,132.90	78,472.10
William Powers Building	2,500,000.00	687,776.26	1,812,223.74
Pastore Center Fire Code Compliance	648,545.00	608,500.89	40,044.11
Pastore Center Utilities Systems Upgrade	1,100,000.00	167,719.50	932,280.50
Pastore Center Power Plant	1,764,516.00	1,105,483.82	659,032.18
Replacement of Fueling Tanks	650,000.00	383,679.00	266,321.00
Environmental Compliance	154,000.00	76,072.17	77,927.83
Big River Management Area	285,811.00	211,067.24	74,743.76
Pastore Center Building Demolition	1,336,877.00	1,007,721.74	329,155.26
Washington County Government Center	460,000.00	109,055.97	350,944.03
Veterans Memorial Auditorium	5,544,805.00	5,687,780.31	(142,975.31)
Pastore Center Parking	600,884.00	118,869.28	482,014.72
Pastore Center Water Tanks	300,000.00	83,600.00	216,400.00
Pastore Cottages Rehabilitation	622,328.00	48,463.68	573,864.32
Health Laboratory Feasibility Study	124,393.00	104,392.50	20,000.50
Dunkin Donuts Center	925,000.00	596,579.75	328,420.25
Ladd Center Building Demolition	1,008,208.00	668,670.64	339,537.36
I-195 Commission	280,789.00	280,862.19	(73.19)
Harrington Hall Renovations	1,180,000.00	983,690.42	196,309.58
Virks	300,000.00	180,525.13	119,474.87

State of Rhode Island
Total Expenditures - Budget vs Actual (Preliminary)
For the Fiscal Year Ended June 30, 2014

	Final Appropriation	Expenditures	Variance
Zambarano Wood Chip Boiler	32,838.00		32,838.00
Mathias	1,250,000.00	1,003,764.41	246,235.59
Veterans Land Purchase	3,962,000.00	3,217,743.66	744,256.34
Chaplin Health Laboratory	300,000.00	45,399.00	254,601.00
Rhode Island Convention Center Authority	1,058,531.00	948,815.38	109,715.62
Total-General	66,181,460.00	49,615,755.96	16,565,704.04
Debt Service Payments			
General Revenues	153,910,999.00	153,701,140.28	209,858.72
Federal Funds	2,667,399.00	2,664,188.05	3,210.95
Restricted Receipts	2,085,249.00	2,263,012.34	(177,763.34)
Transportation Debt Service	30,486,688.00	30,486,573.51	114.49
Investment Receipts-Bond Funds	100,000.00	31,845.00	68,155.00
COPS-DLT Building-TDI	271,653.00	273,990.27	(2,337.27)
DLT: WIF Supplemental Funding		975.82	(975.82)
Total-Debt Service Payments	189,521,988.00	189,421,725.27	100,262.73
Energy Resources			
General Revenues		151,231.60	(151,231.60)
Federal Funds	571,165.00	(112,298.33)	683,463.33
Federal Fund-Stimulus	5,710,235.00	5,503,231.45	207,003.55
Restricted Receipts	5,692,539.00	4,737,641.36	954,897.64
Total-Energy Resources	11,973,939.00	10,279,806.08	1,694,132.92
Construction Permitting, Approvals and Licensing			
General Revenues	1,416,575.00	1,361,902.31	54,672.69
Restricted Receipts	1,395,987.00	1,256,148.75	139,838.25
Total-Construction Permitting, Approvals and Licensing	2,812,562.00	2,618,051.06	194,510.94
Rhode Island Health Benefits Exchange			
Federal Funds	52,428,676.00	47,348,145.07	5,080,530.93
Personnel Savings			
General Revenues	2,436,412.00		2,436,412.00
Federal Funds	1,136,887.00		1,136,887.00
Restricted Funds	230,300.00		230,300.00
Other Funds	1,688,862.00		1,688,862.00
Total-Personnel Savings	5,492,461.00		5,492,461.00
Grand Total-Administration	452,490,678.00	412,495,086.98	39,995,591.02
Business Regulation			
Central Management			
General Revenues	1,221,398.00	1,220,052.16	1,345.84
Banking Regulation			
General Revenues	1,467,694.00	1,437,465.10	30,228.90
Restricted Receipts	75,000.00	57,998.71	17,001.29
Total-Banking Regulation	1,542,694.00	1,495,463.81	47,230.19
Securities Regulation			
General Revenues	935,148.00	828,131.72	107,016.28
Restricted Receipts	3,500.00	2,155.78	1,344.22
Total-Securities Regulation	938,648.00	830,287.50	108,360.50

State of Rhode Island
Total Expenditures - Budget vs Actual (Preliminary)
For the Fiscal Year Ended June 30, 2014

	Final Appropriation	Expenditures	Variance
Insurance Regulation			
General Revenues	3,707,952.00	3,682,415.88	25,536.12
Restricted Receipts	1,282,740.00	1,175,731.38	107,008.62
Total-Insurance Regulation	4,990,692.00	4,858,147.26	132,544.74
Office of the Health Commissioner			
General Revenues	500,175.00	501,668.31	(1,493.31)
Federal Funds	3,958,494.00	2,038,840.64	1,919,653.36
Restricted Receipts	10,500.00	2,874.15	7,625.85
Total-Office of the Health Commissioner	4,469,169.00	2,543,383.10	1,925,785.90
Board of Accountancy			
General Revenues	16,654.00	5,037.09	11,616.91
Commercial Licensing, Racing and Athletics			
General Revenues	584,695.00	598,514.17	(13,819.17)
Restricted Receipts	556,616.00	445,235.09	111,380.91
Total-Commercial Licensing, Racing and Athletics	1,141,311.00	1,043,749.26	97,561.74
Board of Design Professionals			
General Revenues	256,214.00	253,104.51	3,109.49
Grand Total-Business Regulation	14,576,780.00	12,249,224.69	2,327,555.31
Labor and Training			
Central Management			
General Revenues	91,078.00	79,654.00	11,424.00
Restricted Receipts	587,010.00	475,454.85	111,555.15
Rhode Island Capital Plan			
Center General Asset Protection	325,069.00	141,815.05	183,253.95
Center General Roof	751,412.00	717.00	750,695.00
Total-Central Management	1,754,569.00	697,640.90	1,056,928.10
Workforce Development Services			
General Revenues	749,175.00	295,164.88	454,010.12
Federal Funds	29,917,002.00	19,744,201.74	10,172,800.26
Restricted Receipts	12,462,251.00	8,304,589.26	4,157,661.74
Other Funds	40,250.00	(30,992.53)	71,242.53
Total-Workforce Development Services	43,168,678.00	28,312,963.35	14,855,714.65
Workforce Regulation and Safety			
General Revenues	3,004,733.00	3,004,733.00	
Income Support			
General Revenues	4,316,501.00	4,261,522.90	54,978.10
Federal Funds	29,017,126.00	18,110,130.89	10,906,995.11
Federal Funds-Stimulus-UI	40,132,481.00	33,827,424.44	6,305,056.56
Restricted Receipts	2,146,838.00	1,836,279.93	310,558.07
Job Development Fund	31,105,360.00	18,024,015.97	13,081,344.03
Other Funds			
Temporary Disability Insurance Fund	181,062,417.00	170,174,314.54	10,888,102.46
Employment Security Fund	242,117,017.00	224,339,770.74	17,777,246.26
Total-Income Support	529,897,740.00	470,573,459.41	59,324,280.59
Injured Workers Services			
Restricted Receipts	8,941,031.00	8,035,080.97	905,950.03
Labor Relations Board			
General Revenues	386,532.00	386,645.66	(113.66)
Grand Total- Labor and Training	587,153,283.00	511,010,523.29	76,142,759.71
Department of Revenue			
Director of Revenue			

State of Rhode Island
Total Expenditures - Budget vs Actual (Preliminary)
For the Fiscal Year Ended June 30, 2014

	Final Appropriation	Expenditures	Variance
General Revenues	1,061,663.00	1,047,014.24	14,648.76
Office of Revenue Analysis			
General Revenues	520,437.00	523,018.45	(2,581.45)
Lottery Division			
Lottery Funds	334,762,784.00	318,214,809.68	16,547,974.32
Rhode Island Capital Plan			
Lottery Building Renovations	306,750.00	23,372.67	283,377.33
Total- Lottery Division	335,069,534.00	318,238,182.35	16,831,351.65
Municipal Finance			
General Revenues	1,899,593.00	1,704,060.19	195,532.81
Taxation			
General Revenues	17,385,508.00	17,359,089.09	26,418.91
Federal Funds	1,285,544.00	1,201,828.14	83,715.86
Restricted Receipts	872,059.00	832,713.83	39,345.17
Other Funds			
Motor Fuel Tax Evasion	43,232.00	39,438.37	3,793.63
Temporary Disability Insurance	945,981.00	884,557.56	61,423.44
Total-Taxation	20,532,324.00	20,317,626.99	214,697.01
Registry of Motor Vehicles			
General Revenues	18,263,796.00	18,399,936.97	(136,140.97)
Federal Funds	560,647.00	453,987.82	106,659.18
Restricted Receipts	14,763.00	14,763.00	
Rhode Island Capital Plan			
Safety & Emission Lift Replacement	300,000.00	4,800.00	295,200.00
Total-Registry of Motor Vehicles	19,139,206.00	18,873,487.79	265,718.21
State Aid			
General Revenues			
Distressed Communities Relief Fund	10,384,458.00	10,384,458.00	
Payment in Lieu of Tax Exempt Properties	35,080,409.00	35,080,410.00	(1.00)
Motor Vehicle Excise Tax Payments	10,000,000.00	10,000,000.00	
Property Revaluation Program	460,616.00	436,537.01	24,078.99
Municipal Aid	5,000,000.00	4,833,838.00	166,162.00
Restricted Receipts	908,983.00	848,624.35	60,358.65
Total-State Aid	61,834,466.00	61,583,867.36	250,598.64
Grand Total- Department of Revenue	440,057,223.00	422,287,257.37	17,769,965.63
Legislature			
General Revenues	38,654,217.00	34,498,447.74	4,155,769.26
Restricted Receipts	1,568,000.00	1,183,250.00	384,750.00
Total-Legislature	40,222,217.00	35,681,697.74	4,540,519.26
Lieutenant Governor			
General Revenues	946,501.00	957,446.12	(10,945.12)
Federal Funds	1,594,324.00	1,583,196.63	11,127.37
Restricted Receipts	135,000.00	132,647.72	2,352.28
Total- Lieutenant Governor	2,675,825.00	2,673,290.47	2,534.53

State of Rhode Island
Total Expenditures - Budget vs Actual (Preliminary)
For the Fiscal Year Ended June 30, 2014

	Final Appropriation	Expenditures	Variance
Secretary of State			
Administration			
General Revenues	2,208,612.00	2,197,843.08	10,768.92
Corporations			
General Revenues	2,256,828.00	2,139,633.42	117,194.58
State Archives			
General Revenues	101,141.00	101,102.37	38.63
Restricted Receipts	506,413.00	445,381.51	61,031.49
Total-State Archives	607,554.00	546,483.88	61,070.12
Elections & Civics			
General Revenues	838,806.00	752,911.57	85,894.43
Federal Funds	50,163.00	16,039.73	34,123.27
Total-Elections & Civics	888,969.00	768,951.30	120,017.70
State Library			
General Revenues	518,088.00	519,444.49	(1,356.49)
Office of Public Information			
General Revenues	494,094.00	485,316.35	8,777.65
Restricted Receipts	13,431.00	10,839.87	2,591.13
Total-Office of Public Information	507,525.00	496,156.22	11,368.78
Grand Total- Secretary of State	6,987,576.00	6,668,512.39	319,063.61
General Treasurer			
Treasury			
General Revenues	2,359,170.00	2,188,519.67	170,650.33
Federal Funds	271,278.00	274,509.08	(3,231.08)
Restricted Receipts	40,246.00	40,000.00	246.00
Temporary Disability Insurance Fund	210,277.00	200,433.74	9,843.26
Total-Treasury	2,880,971.00	2,703,462.49	177,508.51
State Retirement System			
Restricted Receipts			
Administrative Expense-State Retirement System	9,834,963.00	8,568,410.23	1,266,552.77
Retirement-Treasury Investment Operations	1,049,908.00	1,039,095.37	10,812.63
Defined Contribution-Administration	255,889.00	198,883.49	57,005.51
Total-State Retirement System	11,140,760.00	9,806,389.09	1,334,370.91
Unclaimed Property			
Restricted Receipts	22,513,362.00	23,504,944.56	(991,582.56)
Crime Victim Compensation Program			
General Revenues	198,147.00	196,300.31	1,846.69
Federal Funds	579,751.00	577,685.86	2,065.14
Restricted Receipts	1,403,312.00	1,250,955.45	152,356.55
Total-Crime Victim Compensation Program	2,181,210.00	2,024,941.62	156,268.38
Grand Total-General Treasurer	38,716,303.00	38,039,737.76	676,565.24
Board of Elections			
General Revenues	1,588,894.00	1,573,261.61	15,632.39
Public Financing of General Elections	150,000.00		150,000.00
Total-Board of Elections	1,738,894.00	1,573,261.61	165,632.39
Rhode Island Ethics Commission			
General Revenues	1,575,940.00	1,541,741.13	34,198.87
Office of Governor			
General Revenues	3,882,646.00	3,908,115.00	(25,469.00)

State of Rhode Island
Total Expenditures - Budget vs Actual (Preliminary)
For the Fiscal Year Ended June 30, 2014

	Final Appropriation	Expenditures	Variance
Contingency Fund	250,000.00	67,628.61	182,371.39
Total-Office of Governor	4,132,646.00	3,975,743.61	156,902.39
Commission for Human Rights			
General Revenues	1,146,066.00	1,138,859.08	7,206.92
Federal Funds	317,367.00	350,720.79	(33,353.79)
Total-Commission for Human Rights	1,463,433.00	1,489,579.87	(26,146.87)
Public Utilities Commission			
Federal Funds	90,574.00	101,000.16	(10,426.16)
Federal Fund-Stimulus	114,482.00	106,575.15	7,906.85
Restricted Receipts	8,313,871.00	6,616,307.23	1,697,563.77
Total-Public Utilities Commission	8,518,927.00	6,823,882.54	1,695,044.46
Office of Health and Human Services			
Central Management			
General Revenues	26,520,423.00	26,591,465.10	(71,042.10)
Federal Funds	100,392,600.00	98,271,070.31	2,121,529.69
Federal Funds- Stimulus	537,780.00	241,613.65	296,166.35
Restricted Receipts	967,069.00	912,069.00	55,000.00
Total-Central Management	128,417,872.00	126,016,218.06	2,401,653.94
Medical Assistance			
General Revenue			
Managed Care	290,901,796.00	278,384,988.22	12,516,807.78
Hospitals	100,504,779.00	102,634,703.07	(2,129,924.07)
Nursing Facilities	138,681,600.00	139,840,815.79	(1,159,215.79)
House and Community Based Services	40,126,400.00	44,767,663.64	(4,641,263.64)
Other Services	43,367,283.00	42,653,429.10	713,853.90
Pharmacy	51,609,526.00	50,986,163.30	623,362.70
Rhody Health	155,662,843.00	154,522,101.33	1,140,741.67
Affordable Care Act Transition Program	1,000,000.00		1,000,000.00
Federal Funds			
Managed Care	319,098,204.00	313,006,601.17	6,091,602.83
Hospitals	104,341,277.00	105,905,786.58	(1,564,509.58)
Nursing Facilities	140,918,400.00	141,696,097.04	(777,697.04)
Home and Community Based Services	40,773,600.00	45,373,601.33	(4,600,001.33)
Other Services	235,446,673.00	205,402,494.57	30,044,178.43
Pharmacy	(232,679.00)	(698,660.04)	465,981.04
Rhody Health	159,537,157.00	163,793,407.53	(4,256,250.53)
Special Education	19,000,000.00	19,157,214.35	(157,214.35)
Restricted Receipts	11,586,044.00	11,656,149.94	(70,105.94)
Total-Medical Assistance	1,852,322,903.00	1,819,082,556.92	33,240,346.08
Grand Total-Office of Health and Human Services	1,980,740,775.00	1,945,098,774.98	35,642,000.02

State of Rhode Island
Total Expenditures - Budget vs Actual (Preliminary)
For the Fiscal Year Ended June 30, 2014

	Final Appropriation	Expenditures	Variance
Children, Youth, and Families			
Central Management			
General Revenues	4,613,569.00	4,859,361.71	(245,792.71)
Federal Funds	2,263,032.00	3,075,146.18	(812,114.18)
Total-Central Management	6,876,601.00	7,934,507.89	(1,057,906.89)
Children's Behavioral Health Services			
General Revenues	6,565,243.00	5,841,515.14	723,727.86
Federal Funds	7,038,348.00	5,836,496.23	1,201,851.77
Rhode Island Capital Plan			
NAFI Center	394,806.00	217,839.91	176,966.09
Various Repairs and Improvements	355,000.00	52,678.92	302,321.08
Total-Children's Behavioral Health Services	14,353,397.00	11,948,530.20	2,404,866.80
Juvenile Correctional Services			
General Revenues	24,505,316.00	25,661,969.03	(1,156,653.03)
Federal Funds	300,614.00	291,997.33	8,616.67
Federal Funds-Stimulus	26,379.00	26,374.74	4.26
Rhode Island Capital Plan			
Vocational Building-RITS	265,770.00	265,732.64	37.36
Generators-Rhode Island Training School		17,477.00	(17,477.00)
Total-Juvenile Correctional Services	25,098,079.00	26,263,550.74	(1,165,471.74)
Child Welfare			
General Revenues	105,497,257.00	108,522,823.39	(3,025,566.39)
18 to 21 Year Olds	10,820,190.00	9,633,557.06	1,186,632.94
Federal Revenue	49,164,582.00	50,574,904.40	(1,410,322.40)
18 to 21 Year Olds	1,745,997.00	1,451,733.00	294,264.00
Federal Funds-Stimulus	446,340.00	346,266.19	100,073.81
Restricted Receipts	2,448,750.00	2,762,995.14	(314,245.14)
Rhode Island Capital Plan			
Fire Code Upgrade	50,000.00	47,055.45	2,944.55
Total-Child Welfare	170,173,116.00	173,339,334.63	(3,166,218.63)
Higher Education Incentive Grants			
General Revenues	200,000.00	200,000.00	
Grand Total- Children, Youth, and Families	216,701,193.00	219,685,923.46	(2,984,730.46)
Health			
Central Management			
General Revenues	480,309.00	463,860.37	16,448.63
Federal Funds	7,768,120.00	7,615,681.29	152,438.71
Restricted Receipts	4,243,354.00	3,571,660.00	671,694.00
Total-Central Management	12,491,783.00	11,651,201.66	840,581.34
State Medical Examiner			
General Revenues	1,854,801.00	2,421,239.84	(566,438.84)
Federal Funds	141,336.00	121,081.64	20,254.36
Total-State Medical Examiner	1,996,137.00	2,542,321.48	(546,184.48)

State of Rhode Island
Total Expenditures - Budget vs Actual (Preliminary)
For the Fiscal Year Ended June 30, 2014

	Final Appropriation	Expenditures	Variance
Environmental and Health Services Regulation			
General Revenues	9,342,182.00	8,817,730.89	524,451.11
Federal Funds	6,395,691.00	5,156,121.68	1,239,569.32
Restricted Receipts	3,588,469.00	3,621,890.26	(33,421.26)
Total-Environmental and Health Services Regulation	19,326,342.00	17,595,742.83	1,730,599.17
Health Laboratories			
General Revenues	6,067,222.00	6,276,113.88	(208,891.88)
Federal Funds	2,198,930.00	2,157,121.87	41,808.13
Federal Funds- Stimulus	6,500.00	2,874.89	3,625.11
Total-Health Laboratories	8,272,652.00	8,436,110.64	(163,458.64)
Public Health Information			
General Revenues	1,537,643.00	1,523,043.52	14,599.48
Federal Funds	2,704,642.00	2,071,508.38	633,133.62
Federal Funds- Stimulus	174,026.00	174,020.37	5.63
Total-Public Health Information	4,416,311.00	3,768,572.27	647,738.73
Community and Family Health & Equity			
General Revenues	2,555,756.00	2,410,254.75	145,501.25
Federal Funds	38,599,244.00	32,857,016.95	5,742,227.05
Federal Fund-Stimulus	1,016,227.00	594,702.73	421,524.27
Restricted Receipts	25,173,195.00	22,072,606.14	3,100,588.86
Other Funds			
Safe and Active Commuting	129,062.00	56,184.04	72,877.96
Total-Community and Family Health & Equity	67,473,484.00	57,990,764.61	9,482,719.39
Infectious Disease and Epidemiology			
General Revenues	1,621,145.00	1,557,693.52	63,451.48
Federal Funds	4,890,718.00	5,027,727.44	(137,009.44)
Restricted Receipts	5,995.00	5,994.32	0.68
Total-Infectious Disease and Epidemiology	6,517,858.00	6,591,415.28	(73,557.28)
Grand Total- Health	120,494,567.00	108,576,128.77	11,918,438.23
Human Services			
Central Management			
General Revenues	5,489,084.00	5,389,809.92	99,274.08
Federal Funds	4,863,535.00	4,576,629.77	286,905.23
Restricted Receipts	522,542.00	580,000.00	(57,458.00)
Total-Central Management	10,875,161.00	10,546,439.69	328,721.31
Child Support Enforcement			
General Revenues	2,363,847.00	2,292,840.24	71,006.76
Federal Funds	5,942,282.00	4,888,416.57	1,053,865.43
Total-Child Support Enforcement	8,306,129.00	7,181,256.81	1,124,872.19
Individual and Family Support			
General Revenues	22,782,013.00	22,506,493.41	275,519.59
Federal Funds	131,634,379.00	108,175,429.52	23,458,949.48
Federal Fund-Stimulus	11,748,163.00	3,607,974.34	8,140,188.66
Restricted Receipts	340,431.00	260,946.35	79,484.65
Rhode Island Capital Plan			
Blind Vending Facilities	183,083.00	183,083.00	
Food Stamp Bonus Funding	409,338.00	409,338.08	(0.08)
Intermodal Surface Transportation Fund	4,732,925.00	4,009,851.99	723,073.01
Total-Individual and Family Support	171,830,332.00	139,153,116.69	32,677,215.31

State of Rhode Island
Total Expenditures - Budget vs Actual (Preliminary)
For the Fiscal Year Ended June 30, 2014

	Final Appropriation	Expenditures	Variance
Veterans' Affairs			
General Revenues	19,611,335.00	19,615,079.19	(3,744.19)
Federal Funds	8,675,562.00	8,246,074.76	429,487.24
Restricted Receipts	1,734,140.00	1,387,085.62	347,054.38
Total-Veterans' Affairs	30,021,037.00	29,248,239.57	772,797.43
Health Care Eligibility			
General Revenues	7,833,565.00	8,167,013.32	(333,448.32)
Federal Funds	10,265,243.00	10,285,320.96	(20,077.96)
Total-Health Care Eligibility	18,098,808.00	18,452,334.28	(353,526.28)
Supplemental Security Income Program			
General Revenues	18,399,100.00	18,338,047.52	61,052.48
Rhode Island Works			
General Revenues			
Child Care	9,668,635.00	9,673,578.50	(4,943.50)
TANF/Family Independence Program		(35,543.37)	35,543.37
Federal Funds	75,461,672.00	75,623,151.15	(161,479.15)
Total-Rhode Island Works	85,130,307.00	85,261,186.28	(130,879.28)
State Funded Programs			
General Revenues			
General Public Assistance	1,895,412.00	1,825,019.26	70,392.74
Federal Funds	300,998,066.00	286,225,696.68	14,772,369.32
Total-State Funded Programs	302,893,478.00	288,050,715.94	14,842,762.06
Elderly Affairs			
General Revenues			
General Revenues	5,826,339.00	5,691,719.92	134,619.08
RIPAE			
Safety and Care of the Elderly	958.00	1,300.00	(342.00)
Federal Funds	12,004,928.00	10,772,646.89	1,232,281.11
Restricted Receipts	213,652.00	127,011.55	86,640.45
Total- Elderly Affairs	18,045,877.00	16,592,678.36	1,453,198.64
Grand Total-Human Services	663,600,229.00	612,824,015.14	50,776,213.86
Department of Behavioral Healthcare, Developmental Disabilities and Hospitals			
Central Management			
General Revenues	975,443.00	1,160,679.76	(185,236.76)
Federal Funds	549,409.00		549,409.00
Total-Central Management	1,524,852.00	1,160,679.76	364,172.24
Hospital and Community System Support			
General Revenues	1,579,817.00	2,033,747.14	(453,930.14)
Restricted Receipts	916,722.00		916,722.00
Rhode Island Capital Plan			
Medical Center Rehabilitation	563,000.00	574,903.21	(11,903.21)
Community Facilities Fire Code	400,000.00	163,068.63	236,931.37
Total-Hospital and Community System Support	3,459,539.00	2,771,718.98	687,820.02
Services for the Developmentally Disabled			
General Revenues	109,987,649.00	111,468,573.60	(1,480,924.60)
Federal Funds	112,910,734.00	111,795,766.73	1,114,967.27
Restricted Receipts	1,959,450.00	1,958,091.77	1,358.23

	Final Appropriation	Expenditures	Variance
Rhode Island Capital Plan			
DD Private Waiver	184,565.00	87,359.59	97,205.41
Regional Center Repair/Rehabilitation	350,000.00	286,973.38	63,026.62
MR Community Facilities/Access to Independence	399,989.00	399,989.00	
Total-Services for the Developmentally Disabled	225,792,387.00	225,934,688.77	(142,301.77)
Behavioral Healthcare Services			
General Revenues	39,375,952.00	37,656,056.39	1,719,895.61
Federal Funds	57,212,683.00	58,732,655.21	(1,519,972.21)
Federal Fund-Stimulus		(165,513.02)	165,513.02
Restricted Receipts	125,000.00	125,000.00	
Rhode Island Capital Plan			
MH Community Facilities Repairs	320,000.00	297,499.79	22,500.21
MH Housing Development-Thresholds	800,000.00	800,000.00	
Substance Abuse Asset Protection	100,000.00	98,096.83	1,903.17
Total-Behavioral Healthcare Services	97,933,635.00	97,543,795.20	389,839.80
Hospital and Community Rehabilitation Services			
General Revenues	49,170,955.00	45,546,410.35	3,624,544.65
Federal Funds	49,228,227.00	55,953,084.74	(6,724,857.74)
Restricted Receipts	6,550,268.00	6,376,409.80	173,858.20
Rhode Island Capital Plan			
Zambarano Building and Utilities	150,000.00	112,319.54	37,680.46
Hospital Consolidation	1,600,000.00	1,818,173.50	(218,173.50)
BHDDH Administration Buildings	3,140,000.00	2,913,936.56	226,063.44
MR Community Facilities	1,014,831.00	921,154.58	93,676.42
Total-Hospital and Community Rehabilitation Services	110,854,281.00	113,641,488.82	(2,787,207.82)
Grand Total-Department of Behavioral Healthcare, Developmental Disabilities and Hospitals	439,564,694.00	441,052,371.53	(1,487,677.53)
Office of the Child Advocate			
General Revenues	575,477.00	544,230.91	31,246.09
Federal Funds	50,000.00	39,470.86	10,529.14
Total-Office of the Child Advocate	625,477.00	583,701.77	41,775.23
Commission on the Deaf and Hard of Hearing			
General Revenues	389,267.00	375,548.91	13,718.09
Restricted Receipts	80,000.00	23,955.86	56,044.14
Total-Commission on the Deaf and Hard of Hearing	469,267.00	399,504.77	69,762.23
Governor's Commission on Disabilities			
General Revenues	356,352.00	339,528.77	16,823.23
Federal Funds	156,330.00	50,798.73	105,531.27
Restricted Receipts	15,930.00	6,897.88	9,032.12
Rhode Island Capital Plan			
Handicapped Accessibility	550,000.00	474,319.75	75,680.25
Total-Governor's Commission on Disabilities	1,078,612.00	871,545.13	207,066.87
Office of Mental Health Advocate			
General Revenue	483,716.00	485,004.96	(1,288.96)
Elementary and Secondary Education			
Administration of the Comprehensive Education Strategy			
General Revenues	19,089,216.00	18,944,453.89	144,762.11
Federal Funds	198,644,718.00	177,491,819.77	21,152,898.23

	Final Appropriation	Expenditures	Variance
Federal Fund-Stimulus	16,940,917.00	12,721,400.76	4,219,516.24
RTTT LEA Share	11,232,745.00	11,787,038.27	(554,293.27)
Restricted Receipts	1,183,412.00	1,024,570.26	158,841.74
HRIC Adult Education Grants	3,800,000.00	3,799,986.18	13.82
Rhode Island Capital Plan			
State-Owned East Providence	175,000.00	175,000.00	
State-Owned Cranston	872,583.00	872,583.00	
State-Owned Warwick	535,040.00	35,040.00	500,000.00
State-Owned Woonsocket	200,000.00	863.07	199,136.93
Total-Administration of the Comprehensive Education Strategy	252,673,631.00	226,852,755.20	25,820,875.80
Davies Career and Technical School			
General Revenues	12,792,048.00	12,788,885.65	3,162.35
Federal Funds	1,367,259.00	1,282,552.82	84,706.18
Federal Fund-Stimulus	166,014.00	103,264.58	62,749.42
Restricted Receipts	2,917,851.00	2,579,206.77	338,644.23
Rhode Island Capital Plan			
Davies Roof Repairs	330,000.00	279,499.36	50,500.64
Davies HVAC	1,022,536.00	105,190.42	917,345.58
Davies Asset Protection	1,226,038.00	167,447.86	1,058,590.14
Total-Davies Career and Technical School	19,821,746.00	17,306,047.46	2,515,698.54
RI School for the Deaf			
General Revenues	5,904,572.00	5,922,740.87	(18,168.87)
Federal Funds	306,355.00	303,802.57	2,552.43
Federal Fund-Stimulus	166,544.00	115,286.19	51,257.81
Restricted Receipts	533,629.00	314,378.55	219,250.45
Other Funds	59,000.00	31,572.18	27,427.82
Total-RI School for the Deaf	6,970,100.00	6,687,780.36	282,319.64
Metropolitan Career and Technical School			
General Revenues	11,085,049.00	11,085,049.00	
Rhode Island Capital Plan			
Met School East Bay	5,482,642.00	5,389,466.51	93,175.49
MET Asset Protection	100,000.00	99,497.91	502.09
MET School HVAC	1,339,343.00	703,106.05	636,236.95
Total-Metropolitan Career and Technical School	18,007,034.00	17,277,119.47	729,914.53
Education Aid			
General Revenues	724,817,489.00	724,772,009.60	45,479.40
Restricted Receipts	18,159,000.00	17,811,644.82	347,355.18
Permanent School Fund-Education Aid	241,000.00	241,000.00	
Total-Education Aid	743,217,489.00	742,824,654.42	392,834.58
Central Falls School District			
General Revenues	38,399,591.00	38,399,591.00	
Housing Aid			
General Revenues	67,663,036.00	67,663,036.00	
Teachers' Retirement			
General Revenues	80,546,586.00	80,351,295.16	195,290.84
Grand Total-Elementary and Secondary Education	1,227,299,213.00	1,197,362,279.07	29,936,933.93
Public Higher Education			
Office of Higher Education			
General Revenues	4,990,572.00	4,943,725.11	46,846.89
Federal Funds	5,032,194.00	5,204,666.53	(172,472.53)
Total Office of Higher Education	10,022,766.00	10,148,391.64	(125,625.64)
University of Rhode Island			

State of Rhode Island
Total Expenditures - Budget vs Actual (Preliminary)
For the Fiscal Year Ended June 30, 2014

	Final Appropriation	Expenditures	Variance
General Revenues			
General Revenues	63,963,701.00	64,176,770.00	(213,069.00)
State Crime Lab	1,023,546.00	1,023,546.00	
Debt Service	20,185,784.00	20,185,809.40	(25.40)
University and College Funds			
University and College Funds	606,204,431.00	605,521,607.00	682,824.00
Debt-Dining Services	1,115,665.00	1,110,655.00	5,010.00
Debt-Educational and General	3,182,012.00	3,182,971.00	(959.00)
Debt-Health Services	136,182.00	135,877.00	305.00
Debt-Housing Loan Funds	10,686,457.00	10,613,599.00	72,858.00
Debt-Memorial Union	305,608.00	317,503.00	(11,895.00)
Debt-Ryan Center	2,804,071.00	2,796,573.00	7,498.00
Debt-Alton Jones Services	115,462.00	102,407.00	13,055.00
Debt-Parking Authority	945,026.00	945,696.00	(670.00)
Debt-Sponsored Research	84,037.00	90,258.00	(6,221.00)
Debt-Energy Conversation	2,404,200.00	2,403,160.77	1,039.23
Rhode Island Capital Plan Funds			
Asset Protection	7,357,500.00	7,357,500.00	
Fire and Safety Protection	10,100,000.00	4,928,688.40	5,171,311.60
New Chemistry Building	703,810.00	703,810.00	
Nursing Education Center	1,800,000.00	483,286.14	1,316,713.86
Biotechnology Center	270,220.00	89,119.70	181,100.30
Fine Arts Center Advanced Planning	55,231.00	55,231.00	
Total-University of Rhode Island	733,442,943.00	726,224,067.41	7,218,875.59
Rhode Island College			
General Revenues			
General Revenues	38,889,909.00	38,947,991.21	(58,082.21)
Debt Service	3,554,225.00	3,554,228.86	(3.86)
Other Funds			
University and College Funds	110,202,881.00	106,825,121.00	3,377,760.00
Debt-Education and General	886,640.00	894,574.29	(7,934.29)
Debt-Housing	2,050,004.00	2,021,934.31	28,069.69
Debt-Student Center and Dining	172,078.00	162,147.37	9,930.63
Debt-Student Union	234,113.00	232,949.49	1,163.51
Debt-G.O. Debt Service	1,638,017.00	1,638,017.00	
Rhode Island Capital Plan			
Asset Protection	3,250,741.00	2,458,467.39	792,273.61
RIC Infrastructure Modernization	4,000,000.00	3,406,346.61	593,653.39
New Art Center Advanced Planning	103,162.00	103,161.80	0.20
Total-Rhode Island College	164,981,770.00	160,244,939.33	4,736,830.67

State of Rhode Island
Total Expenditures - Budget vs Actual (Preliminary)
For the Fiscal Year Ended June 30, 2014

	Final Appropriation	Expenditures	Variance
Community College of Rhode Island			
General Revenues			
General Revenues	44,433,286.00	44,503,149.10	(69,863.10)
Debt Service	1,839,656.00	1,839,660.99	(4.99)
Restricted Receipts	702,583.00		702,583.00
Other Funds			
University and College Funds	102,435,812.00	100,639,243.00	1,796,569.00
Debt-Bookstore	28,443.00	28,443.00	
CCRI Debt Service- Energy Conservation	805,925.00	805,925.00	
Rhode Island Capital Plan			
Asset Protection	2,093,500.00	2,141,805.85	(48,305.85)
Knight Campus Renewal	125,000.00	47,229.50	77,770.50
Total-Community College of Rhode Island	152,464,205.00	150,005,456.44	2,458,748.56
Grand Total-Public Higher Education	1,060,911,684.00	1,046,622,854.82	14,288,829.18
RI State Council on the Arts			
General Revenues			
Operating Support	405,934.00	405,899.32	34.68
Grants	904,574.00	904,574.00	
Federal Funds	796,680.00	686,229.96	110,450.04
Other Funds			
Art for Public Facilities	632,536.00	284,245.00	348,291.00
Total-RI State Council on the Arts	2,739,724.00	2,280,948.28	458,775.72
RI Atomic Energy Commission			
General Revenues	856,770.00	859,902.85	(3,132.85)
Federal Funds	60,724.00	12,301.18	48,422.82
Other Funds			
URI Sponsored Research	257,977.00	215,791.06	42,185.94
Rhode Island Capital Plan			
RINSC Asset Protection	50,000.00	45,769.72	4,230.28
Total-RI Atomic Energy Commission	1,225,471.00	1,133,764.81	91,706.19
RI Higher Education Assistance Authority			
General Revenues			
Needs Based Grants and Work Opportunity	4,186,323.00	4,186,323.00	
Authority Operations and Other Grants	147,000.00	147,000.00	
Federal Funds	12,316,514.00	10,244,455.51	2,072,058.49
Other Funds			
Tuition Savings Program-Need Based Grant and Work Opportunity	8,000,000.00	8,000,000.00	
Tuition Savings Program-Administration	330,082.00	295,894.14	34,187.86
Total-RI Higher Education Assistance Authority	24,979,919.00	22,873,672.65	2,106,246.35

State of Rhode Island
Total Expenditures - Budget vs Actual (Preliminary)
For the Fiscal Year Ended June 30, 2014

	Final Appropriation	Expenditures	Variance
RI Historical Preservation and Heritage Commission			
General Revenues	1,340,796.00	1,282,682.72	58,113.28
Federal Funds	2,175,422.00	522,900.19	1,652,521.81
Restricted Receipts	457,820.00	45,107.99	412,712.01
Other Funds			
RIDOT Project Review	68,689.00	15,014.99	53,674.01
Rhode Island Capital Plan			
Eisenhower House Asset Protection	180,000.00	134,578.75	45,421.25
Total-RI Historical Preservation and Heritage Commission	4,222,727.00	2,000,284.64	2,222,442.36
Attorney General			
Criminal			
General Revenues	14,206,652.00	14,316,426.87	(109,774.87)
Federal Funds	2,821,912.00	1,641,801.36	1,180,110.64
Restricted Receipts	15,320,805.00	5,326,536.22	9,994,268.78
Total-Criminal	32,349,369.00	21,284,764.45	11,064,604.55
Civil			
General Revenues	5,333,959.00	4,911,218.72	422,740.28
Restricted Receipts	635,870.00	574,379.92	61,490.08
Total-Civil	5,969,829.00	5,485,598.64	484,230.36
Bureau of Criminal Identification			
General Revenues	1,524,225.00	1,374,942.34	149,282.66
Federal Funds	7,178.00	7,178.00	
Total-Bureau of Criminal Identification	1,531,403.00	1,382,120.34	149,282.66
General			
General Revenues	2,730,958.00	2,632,941.58	98,016.42
Rhode Island Capital Plan			
Building Renovations and Repairs	241,805.00	224,570.82	17,234.18
Total-General	2,972,763.00	2,857,512.40	115,250.60
Grand Total-Attorney General	42,823,364.00	31,009,995.83	11,813,368.17
Corrections			
Central Management			
General Revenues	8,199,118.00	7,960,326.68	238,791.32
Federal Funds	654,778.00	217,868.65	436,909.35
Federal Funds-Stimulus		(0.05)	0.05
Total-Central Management	8,853,896.00	8,178,195.28	675,700.72
Parole Board			
General Revenues	1,277,621.00	1,176,147.66	101,473.34
Federal Funds	38,000.00	37,999.30	0.70
Total-Parole Board	1,315,621.00	1,214,146.96	101,474.04
Custody and Security			
General Revenues	117,730,177.00	120,491,061.10	(2,760,884.10)
Federal Funds	971,539.00	818,145.17	153,393.83
Total-Custody and Security	118,701,716.00	121,309,206.27	(2,607,490.27)

State of Rhode Island
Total Expenditures - Budget vs Actual (Preliminary)
For the Fiscal Year Ended June 30, 2014

	Final Appropriation	Expenditures	Variance
Institutional Support			
General Revenues	15,926,690.00	15,309,595.28	617,094.72
Rhode Island Capital Plan			
Asset Protection	4,292,068.00	3,014,631.57	1,277,436.43
General Renovations-Maximum	1,878,624.00	1,830,912.47	47,711.53
General Renovations-Women's	866,857.00	267,738.26	599,118.74
Bernadette Guay Roof	90,000.00	24,576.00	65,424.00
Women's Bathroom Renovations	116,148.00	69,995.80	46,152.20
ISC Exterior Envelope and HVAC	440,327.00	139,388.68	300,938.32
Minimum Security Kitchen Expansion	50,000.00		50,000.00
Medium Infrastructure	400,000.00	297,675.00	102,325.00
D-Building State Match-Reintegration C	220,022.00	120,120.51	99,901.49
Total-Institutional Support	24,280,736.00	21,074,633.57	3,206,102.43
Institutional Based Rehab/Pop Mgmt			
General Revenues	9,204,908.00	9,037,666.36	167,241.64
Federal Funds	782,065.00	664,327.52	117,737.48
Federal Funds-Stimulus	83.00	68.69	14.31
Restricted Receipts	28,864.00	27,600.00	1,264.00
Total-Institutional Based Rehab/Pop Mgmt	10,015,920.00	9,729,662.57	286,257.43
Healthcare Services			
General Revenues	19,423,660.00	19,205,059.32	218,600.68
Community Corrections			
General Revenues	14,869,868.00	14,972,310.08	(102,442.08)
Federal Funds	117,253.00	96,165.42	21,087.58
Restricted Receipts	37,289.00	25,783.50	11,505.50
Total-Community Corrections	15,024,410.00	15,094,258.83	(69,848.83)
Grand Total-Corrections	197,615,959.00	195,805,162.80	1,810,796.20
Judiciary			
Supreme Court			
General Revenues	26,122,469.00	26,145,098.11	(22,629.11)
Defense of Indigent	3,542,240.00	3,611,651.96	(69,411.96)
Federal Funds	190,651.00	168,518.19	22,132.81
Restricted Receipts	3,408,472.00	2,815,051.45	593,420.55
Rhode Island Capital Plan			
Judicial HVAC	622,271.00	559,912.00	62,359.00
Judicial Complexes Asset Protection	832,719.00	810,928.69	21,790.31
Murray Judicial Complex Cell Block	730,293.00	716,535.47	13,757.53
Total-Supreme Court	35,449,115.00	34,827,695.87	621,419.13
Judicial Tenure and Discipline			
General Revenues	115,054.00	107,833.51	7,220.49
Superior Court			
General Revenues	21,929,881.00	21,736,161.18	193,719.82
Federal Funds	139,161.00	104,170.62	34,990.38
Restricted Receipts	302,378.00	205,100.00	97,278.00
Total-Superior Court	22,371,420.00	22,045,431.80	325,988.20
Family Court			
General Revenues	18,992,837.00	19,638,172.87	(645,335.87)
Federal Funds	2,080,771.00	2,714,173.19	(633,402.19)
Total-Family Court	21,073,608.00	22,352,346.06	(1,278,738.06)

State of Rhode Island
Total Expenditures - Budget vs Actual (Preliminary)
For the Fiscal Year Ended June 30, 2014

	Final Appropriation	Expenditures	Variance
District Court			
General Revenues	12,122,347.00	11,985,945.68	136,401.32
Restricted Receipts	292,802.00	177,459.39	115,342.61
Total-District Court	12,415,149.00	12,163,405.07	251,743.93
Traffic Tribunal			
General Revenues	8,580,578.00	8,326,527.72	254,050.28
Workers' Compensation Court			
Restricted Receipts	7,834,530.00	7,228,824.25	605,705.75
Grand Total-Judiciary	107,839,454.00	107,052,064.28	787,389.72
Military Staff			
National Guard			
General Revenues	1,676,813.00	1,676,222.31	590.69
Federal Funds	14,494,013.00	12,436,634.55	2,057,378.45
Restricted Receipts	563,000.00	150,113.04	412,886.96
Rhode Island Capital Plan			
AMC Roof Replacement	140,000.00	142,315.30	(2,315.30)
State Armories Fire Code Compliance	35,000.00	26,869.07	8,130.93
Federal Armories Fire Code Compliance	4,100.00	370.13	3,729.87
Asset Protection	642,898.00	503,979.99	138,918.01
Benefit Street Arsenal Rehabilitation	425,000.00	12,740.00	412,260.00
Logistics/Maintenance Facility Fire Code Compliance	10,000.00	1,207.74	8,792.26
Command Readiness Center Addition	168,458.00	158,864.91	9,593.09
Burrillville Regional Training Institute	30,290.00	8,140.00	22,150.00
Camp Fogarty Armory Roof	406,367.00	393,771.50	12,595.50
Emergency Management Building	29,643.00	25,754.59	3,888.41
Hurricane Sandy Cleanup	1,588,702.00	359,435.11	1,229,266.89
Total-National Guard	20,214,284.00	15,896,418.24	4,317,865.76
Emergency Management			
General Revenues	1,888,224.00	1,785,251.38	102,972.62
Federal Funds	26,836,109.00	16,269,139.12	10,566,969.88
Restricted Receipts	208,058.00	151,083.24	56,974.76
Total-Emergency Management	28,932,391.00	18,205,473.74	10,726,917.26
Grand Total-Military Staff	49,146,675.00	34,101,891.98	15,044,783.02
Public Safety			
Central Management			
General Revenues	1,185,437.00	1,169,750.36	15,686.64
Federal Funds	4,714,459.00	4,032,983.81	681,475.19
Federal Funds-Stimulus	73,809.00	47,054.38	26,754.62
Restricted Receipts	20,000.00	(7,299.59)	27,299.59
Total-Central Management	5,993,705.00	5,242,488.96	751,216.04
E-911 Emergency Telephone System			
General Revenues	5,444,296.00	5,361,045.17	83,250.83

	Final Appropriation	Expenditures	Variance
State Fire Marshal			
General Revenues	2,725,661.00	2,725,747.67	(86.67)
Federal Funds	521,668.00	29,628.45	492,039.55
Restricted Receipts	408,755.00	244,022.08	164,732.92
Rhode Island Capital Plan			
Fire Academy	216,500.00	109,012.92	107,487.08
Quonset Development Corp	55,367.00	96,950.20	(41,583.20)
Total- State Fire Marshal	3,927,951.00	3,205,361.32	722,589.68
Security Services			
General Revenues	20,796,340.00	20,823,906.52	(27,566.52)
Municipal Police Training Academy			
General Revenues	236,404.00	213,895.40	22,508.60
Federal Funds	290,400.00	239,206.64	51,193.36
Restricted Receipts	60,000.00	(135.03)	60,135.03
Total-Municipal Police Training Academy	586,804.00	452,967.01	133,836.99
State Police			
General Revenues	63,875,735.00	65,754,232.95	(1,878,497.95)
Federal Funds	4,989,020.00	2,139,242.26	2,849,777.74
Federal Funds-Stimulus	155,000.00	109,815.70	45,184.30
Restricted Receipts	12,365,000.00	3,823,569.15	8,541,430.85
Rhode Island Capital Plan			
Barracks and Training	257,317.00	115,137.72	142,179.28
Headquarters Repairs/Renovation	208,000.00	94,971.31	113,028.69
State Microwave Tower Installations	21,377.00	21,377.00	
Parking Area Improvements	362,967.00	144,591.01	218,375.99
HQ Expansion	437,044.00	304,193.91	132,850.09
Traffic Enforcement-Municipal Training	134,500.00	5,269.85	129,230.15
Lottery Commission Assistance	1,309,229.00	1,224,480.93	84,748.07
Airport Corporation	189,149.00	196,479.14	(7,330.14)
Road Construction Reimbursement	2,935,000.00	2,590,703.49	344,296.51
Total-State Police	87,239,338.00	76,524,064.42	10,715,273.58
Grand Total-Public Safety	123,988,434.00	111,609,833.40	12,378,600.60
Office of Public Defender			
General Revenues	10,860,411.00	10,742,068.50	118,342.50
Federal Funds	257,086.00	175,612.20	81,473.80
Total-Office of Public Defender	11,117,497.00	10,917,680.70	199,816.30
Environmental Management			
Office of Director			
General Revenues	4,480,377.00	4,462,809.78	17,567.22
Permit Streamlining	33,414.00	355.00	33,059.00
Federal Funds	150,000.00		150,000.00
Federal Funds- Stimulus	355,000.00	355,010.59	(10.59)
Restricted Receipts	3,323,980.00	2,582,386.88	741,593.12
Total-Office of the Director	8,342,771.00	7,400,562.25	942,208.75
Natural Resources			

State of Rhode Island
Total Expenditures - Budget vs Actual (Preliminary)
For the Fiscal Year Ended June 30, 2014

	Final Appropriation	Expenditures	Variance
General Revenues	18,358,626.00	18,960,675.04	(602,049.04)
Federal Funds	26,207,894.00	13,357,321.35	12,850,572.65
Restricted Receipts	6,667,318.00	2,946,251.91	3,721,066.09
Other Funds			
DOT Recreational Projects	1,615,355.00	890,209.30	725,145.70
Blackstone Bikepath Design	2,060,087.00	417,091.04	1,642,995.96
Transportation MOU	78,579.00		78,579.00
Rhode Island Capital Plan			
Dam Repair	1,300,000.00	1,707,413.42	(407,413.42)
Fort Adams Rehabilitation	100,000.00	102,143.67	(2,143.67)
Fort Adams America's Cup	1,883,558.00	1,508,043.12	375,514.88
Recreational Facilities Improvement	2,790,000.00	2,233,440.66	556,559.34
Galilee Piers Upgrade	1,751,310.00	1,858,473.04	(107,163.04)
Newport Piers	50,000.00		50,000.00
Rocky Point Acquisition/Renovations	100,000.00	32,964.40	67,035.60
Blackstone Valley Bike Path	90,830.00	90,830.00	
Natural Resources Office/Visitor's Center	276,440.00	276,440.00	
Total-Natural Resources	63,329,997.00	44,381,296.95	18,948,700.05
Environmental Protection			
General Revenues	11,263,703.00	11,110,326.71	153,376.29
Federal Funds	10,687,442.00	8,519,483.78	2,167,958.22
Restricted Receipts	8,910,152.00	7,849,277.03	1,060,874.97
Other Funds			
Transportation-MOU	165,000.00	50,353.50	114,646.50
Retrolift Heavy-Duty Diesel Vehicles	260,000.00	158,414.00	101,586.00
Total-Environmental Protection	31,286,297.00	27,687,855.02	3,598,441.98
Grand Total-Environmental Management	102,959,065.00	79,469,714.22	23,489,350.78
Coastal Resources Management Council			
General Revenues	2,158,736.00	2,160,560.23	(1,824.23)
Federal Funds	1,663,733.00	1,575,593.16	88,139.84
Federal Fund-Stimulus	552,222.00	551,588.25	633.75
Restricted Receipts	250,000.00	170,000.00	80,000.00
Total-Coastal Resources Management Council	4,624,691.00	4,457,741.64	166,949.36
Transportation			
Central Management			
Federal Funds	11,399,987.00	7,544,043.65	3,855,943.35
Other Funds			
Gasoline Tax	1,693,712.00	1,233,193.06	460,518.94
Total-Central Management	13,093,699.00	8,777,236.71	4,316,462.29
Management and Budget			
Other Funds			
Gasoline Tax	2,165,981.00	(317,211.99)	2,483,192.99
Total-Management and Budget	2,165,981.00	(317,211.99)	2,483,192.99
Infrastructure-Engineering-GARVEE/Motor Fuel Tax Bonds			

State of Rhode Island
Total Expenditures - Budget vs Actual (Preliminary)
For the Fiscal Year Ended June 30, 2014

	Final Appropriation	Expenditures	Variance
Federal Funds	330,905,561.00	273,081,796.96	57,823,764.04
Federal Funds-Stimulus	12,721,989.00	2,587,633.41	10,134,355.59
Restricted Receipts	6,868,950.00	7,219,852.07	(350,902.07)
Other Funds			
Gasoline Tax	53,137,998.00	54,315,488.28	(1,177,490.28)
Land Sale Revenue	9,100,081.00	333,119.06	8,766,961.94
Rhode Island Capital Plan			
RIPTA Land and Building	219,261.00	58,207.70	161,053.30
Pawtucket/Central Falls Train Station		(22,792.31)	22,792.31
Highway Project Match Plan	7,736,360.00	7,736,360.00	
Total-Infrastructure-Engineering-GARVEE/Motor Fuel Tax Bonds	420,690,200.00	345,309,665.17	75,380,534.83
Infrastructure Maintenance			
Other Funds			
Gasoline Tax	43,904,532.00	43,154,886.35	749,645.65
Non-Land Surplus Property	50,000.00		50,000.00
Outdoor Advertising	325,000.00		325,000.00
Rhode Island Capital Plan			
Portsmouth Facility	500,000.00	640,502.35	(140,502.35)
Cherry Hill/Lincoln Facility	481,007.00	481,007.00	
Maintenance Facilities Improvement	490,254.00	373,193.37	117,060.63
East Providence Facility	150,000.00	(19,081.43)	169,081.43
Salt Storage Facilities	671,435.00	185,677.91	485,757.09
Train Station Maintenance and Repair	97,874.00	32,226.00	65,648.00
Maintenance Facilities Fire Alarms	17,187.00		17,187.00
Maintenance Equipment Replacement	2,000,000.00	2,000,000.00	
Total-Infrastructure Maintenance	48,687,289.00	46,848,411.55	1,838,877.45
Grand Total-Transportation	484,637,169.00	400,618,101.44	84,019,067.56
Statewide Totals			
General Revenues	3,352,398,559.00	3,336,277,849.34	16,120,709.66
Federal Funds	2,929,987,677.00	2,669,424,031.32	260,563,645.68
Restricted Receipts	278,713,493.00	221,479,095.24	57,234,397.76
Other Funds	1,909,099,572.00	1,806,283,590.34	102,815,981.66
	$ 8,470,199,301.00	$ 8,033,464,566.24	$ 436,734,734.76

State of Rhode Island
Total Expenditures - Budget vs Actual (Preliminary)
For the Fiscal Year Ended June 30, 2014

Internal Service Funds	Final Appropriation	Expenditures	Variance
State Assessed Fringe Benefit Internal Service Fund	35,697,809.00	34,569,745.42	1,128,063.58
Administration Central Utilities Internal Service Fund	14,238,457.00	14,491,088.31	(252,631.31)
State Central Mail Internal Service Fund	5,519,803.00	5,608,978.36	(89,175.36)
State Telecommunications Internal Service Fund	4,053,438.00	2,686,254.07	1,367,183.93
State Automotive Fleet Internal Service Fund	13,405,358.00	12,841,126.02	564,231.98
Capitol Police Internal Service Fund	1,019,921.00	715,569.23	304,351.77
Health Insurance Internal Service Fund	250,127,757.00	226,868,455.90	23,259,301.10
Other Post-Employment Benefits Fund			
Retired Employees Health Fund	49,208,783.00	39,700,368.44	9,508,414.56
BOE Retiree Health Fund	2,536,462.00	1,988,721.63	547,740.37
Teacher Retiree Health Fund	7,531,279.00	6,749,883.86	781,395.14
State Police Retiree Health Fund	3,073,102.00	3,263,275.93	(190,173.93)
Legislative Retiree Health Fund	772,532.00	525,363.79	247,168.21
Judicial Retiree Health Fund	931,493.00	324,716.26	606,776.74
Corrections Central Distribution Center	7,271,465.00	5,730,676.45	1,540,788.55
Correctional Industries Internal Service Fund	7,590,505.00	4,333,386.17	3,257,118.83
Secretary of State Record Center Internal Service Fund	866,291.00	870,627.33	(4,336.33)
Surplus Property Internal Service Fund	2,500.00	1,199.81	1,300.19

State of Rhode Island
State Budget Reserve and Cash Stabilization Account (Preliminary)
For the Fiscal Year Ended June 30, 2014

Balance, beginning	$	171,959,317
Calculated transfer from General Fund		106,212,658
		278,171,975
Legal limit		177,021,097
Amount to be transferred to RI Capital Fund		101,150,878
Balance, ending	$	177,021,097

State of Rhode Island
RI Capital Fund Summary (Preliminary)
For the Fiscal Year Ended June 30, 2014

Balance forward	$ 126,516,425.55
Transferred from Budget Stabilization Account	101,150,878.00
Bond premium	3,320,979.11
Investment earnings	135,360.26
Total available	231,123,642.92
Expenditures:	106,778,186.32
Total expenditures	106,778,186.32
Available balance	$ 124,345,456.60

Distribution of Available Balance:

AG	Description	
	Unallotted balance in RI Capital Fund	$ 92,584,681.23
014	Asset Protection - Military Staff	138,918.01
014	State Armories Fire Code Comp.	8,130.93
014	Federal Armories Fire Code	3,729.87
014	Logistics/Maintenance Fire Code Compliance	8,792.26
014	AMC Roof Replacement	(2,315.30)
014	Command Center Readiness Addition	9,593.09
014	Emergency Management Building	3,888.41
014	Burrillville Regional Training I	22,150.00
014	Benefit Street Arsenal Rehabilitation	412,260.00
014	Camp Fogarty Armory Roof	12,595.50
014	Hurricane Sandy Cleanup	1,229,266.89
022	Handicapped Accessibility	75,680.25
027	Eisenhower House Asset Protection	45,421.25
052	Asset Protection - Atomic Energy Commission	4,230.28
066	AG Building Repairs	17,234.18
068	State House Renovations	293,655.34
068	Information Operations Center	197,420.58
068	Cranston Street Armory	(94,250.94)
068	Cannon Building	168,498.30
068	Pastore Center Rehab - DOA Portion	1,385,421.37
068	Zambarano Buildings	59,711.31
068	Old State House	497,502.50
068	State Office Building	246,732.48
068	Veterans Auditorium	(142,975.31)
068	Old Colony House	78,472.10
068	Washington County Government Center	350,944.03
068	William Powers Building	1,812,223.74
068	Pastore Center Fire Code Compliance	40,044.11
068	Pastore Center Water Utility System	216,400.00
068	Pastore Center Power Plant	659,032.18
068	Replacement of Fueling Tanks	266,321.00
068	Environmental Compliance	77,927.83
068	Pastore Center Electric Utility Upgrade	932,280.50
068	Ladd Center Building Demolition	339,537.36
068	Pastore Center Building Demolition	329,155.26
068	Health Laboratory Feasibility Study	20,000.50
068	Virks Building Renovations	119,474.87
068	Chapin Health Laboratory	254,601.00
068	Pastore Center Parking	482,014.72
068	Big River Management Area	74,743.76
068	Zambarano Wood Chip Boiler	32,838.00
068	Pastore Cottages Rehabilitation	573,864.32
068	I - 195 Commission	(73.19)
068	Rhode Island Convention Center Authority	109,715.62
068	Dunkin Donuts Center	328,420.25
068	Veterans Auditorium Land Purchase	744,256.34
068	Mathias Building Renovations	246,235.59
068	Harrington Hall Renovations	196,309.58
070	Maintenance Facility Improvements	117,060.63
070	RIPTA - Land And Buildings	161,053.30
070	East Providence Maintenance Facility	169,081.43
070	Salt Storage Facilities	485,757.09
070	DOT Maintenance Facilities - Fire Alarms	17,187.00
070	Portsmouth Facility	(140,502.35)
070	Train Station Maintenance and Repairs	65,648.00
072	Davies School Roof Repair	50,500.64
072	Davies School HVAC	917,345.58
072	Davies School Elevators	1,058,590.14
072	Met School - East Bay Feasibility Study	93,175.49
072	State Owned Schools - Warwick Repairs	500,000.00
072	State Owned Schools - Woonsocket Repairs	199,136.93
072	Met School Asset Protection	502.09
072	Met HVAC	636,236.95
073	Center General Building Roof	750,695.00
073	Asset Protection - Labor and Training	183,253.95
074	Dam Repair	(407,413.42)
074	Fort Adams Rehabilitation	(2,143.67)
074	Recreational Facilities Improvement	556,559.34
074	Galilee Pier Upgrades	(107,163.04)
074	Newport Pier Upgrades	50,000.00
074	Fort Adams America's Cup	375,514.88
074	Rocky Point Acquisition/Renovation	67,035.60
076	Medical Center Rehabilitation	(11,903.21)
076	Community Facilities Fire Code	236,931.37
076	DD Private Waiver Comm. Fire Code	97,205.41
076	Regional Center Repair/Rehabilitation	63,026.62
076	DD Community Facilities Repair	22,500.21
076	Zambarano Buildings	37,680.46
076	Hospital Consolidation	(218,173.50)
076	Eleanor Slater, Barry & Simpson Halls Renovations	226,063.44
076	Substance Abuse Asset Protection	1,903.17
076	MR Community Facilities-Capital Repair	93,676.42
077	Asset Protection	1,277,436.43
077	Maximum - General Renovations	47,711.53
077	Roof/Masonry Renovations - Women	599,118.74
077	Women's Bath Renovations	46,152.20
077	Bernadette Guay Work Release Roof	65,424.00
077	D - Building State Match - Reintegration	99,901.49
077	ISC Exterior Envelope And HVAC	300,938.32
077	Minimum Security Kitchen Expansion	50,000.00
077	Medium Infrastructure	102,325.00
079	Youth Group Homes - Fire Code Upgrades	2,944.55
079	NAFI Center	176,966.09
079	Various Repairs And Improvements To YDC An	302,321.08
079	Vocational Building - RITS	37.36
079	Generators - Rhode Island Training School	(17,477.00)
080	Safety & Emissions Lift Replacement	295,200.00
080	Lottery Building Renovations	283,377.33
081	State Police Barrack/Training Academy Renovations	142,179.28
081	Supply and Intelligence Buildings	113,028.69
081	Parking Area Improvements	218,375.99
081	Fire Academy	107,487.08
081	Headquarters Annex Renovations	132,850.09
086	Fire and Safety Protection	5,171,311.60
086	Nursing & Associates Health Building	1,316,713.86
086	URI Bio-Tech Building	181,100.30
087	Asset Protection - RIC	792,273.61
087	New Art Center Advance Planning	0.20
087	RIC Infrastructure Modernization	593,653.39
088	Asset Protection - CCRI	(48,305.85)
088	Knight Campus Renewal	77,770.50
099	Judicial Complexes Asset Protection	21,790.31
099	Judicial Complexes - HVAC	62,359.00
099	Murray Judicial Complex Cell Block	13,757.53
		$ 124,345,456.60

These balances are only carried forward by reappropriation by the Governor.

APPENDIX B

Date of Delivery

State of Rhode Island and Providence Plantations
State House
82 Smith Street
Providence, Rhode Island 02903

Re: $11,650,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Pastore Center Energy Conservation Project – 2014 Series A) (the "Certificates")

Ladies and Gentlemen:

We have acted as Bond Counsel to the State of Rhode Island and Providence Plantations (the "State") in connection with the issuance of the Certificates and the related execution of a Sublease Agreement dated as of November 1, 2014 (the "Sublease") by and between The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee (hereinafter defined) as lessor (the "Lessor") and the State, as lessee (the "Lessee"), and a Lease Agreement dated as of November 1, 2014 by and between the State, as lessor, and The Bank of New York Mellon Trust Company, N.A. in its capacity as Trustee (hereinafter defined) as lessee (the "Lease"). The Lessor has established a grantor trust (the "Trust") pursuant to a Declaration of Trust dated as of November 1, 2014 (the "Declaration of Trust") wherein The Bank of New York Mellon Trust Company, N.A., shall act as trustee (the "Trustee") and pursuant to which the Lessor's interest in and to the Lease Payments (defined in the Sublease) and other amounts received pursuant to the Sublease has been granted to the Trust for the benefit of the owners (the "Certificate Owners") of the Certificates issued pursuant to the Declaration of Trust.

In such capacity, we have examined the Declaration of Trust, the Sublease, the Lease, the Official Statement dated October 30, 2014, relating to the sale of the Certificates (the "Official Statement"), and such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations of the State and its officials, and upon certified proceedings and other certificates of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under the law in effect on the date hereof:

1. The Sublease and the Lease have each been duly authorized, executed and delivered by the Lessee and are legal, valid, binding obligations of the Lessee, enforceable in accordance with their terms.

2. The Declaration of Trust has been duly authorized, executed and delivered by the Lessor and the obligations of the Trustee thereunder have been accepted by the Trustee and constitute legal, valid, and binding and enforceable obligations of the Trustee in accordance with the terms of the Declaration of Trust.

3. The Certificates have been duly authorized, executed, issued and delivered by the Trustee pursuant to the Declaration of Trust and are legal, valid, binding and enforceable in accordance with their terms.

4. The portion of payments made by the Lessee under the Sublease (the "Lease Payments") designated as interest and distributable to the Certificate Owners to the extent such payments are appropriated by the State and received by the Certificate Owners (the "Interest") is excludable from gross income of such Certificate Owners for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and such portion of the Lease Payments designated as Interest on the Certificates will not be treated as an item of tax preference for purposes of computing the federal alternative minimum tax. However, the portion of the Lease Payments designated as Interest on the Certificates will be taken into account in computing an adjustment made in determining a corporate Certificate Owner's minimum tax based on such Certificate Owner's adjusted current earnings. The opinions set forth in this paragraph are subject to the condition that the State comply with all requirements of the Code that must be satisfied subsequent to the issuance described herein in order that the Interest be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Such requirements include, but may not be limited to, requirements regarding the use, expenditure and investment of proceeds of the Certificates and the payment of rebates to the United States which must be continuously satisfied subsequent to the issuance of the Certificates in order for the portion of the Lease Payments designated as Interest on the Certificates to remain excludable from gross income for federal income tax purposes. Failure by the State to comply with certain of such requirements may cause the Interest to be come included in gross income for federal tax purposes retroactive to the date of issuance. We express no opinion regarding any other federal tax consequences arising with respect to the issuance. We are also of the opinion that the portion of Lease Payments distributable as Interest on the Certificates is excludable from State of Rhode Island personal income taxation to the extent such Interest is excludable from gross income for federal income tax purposes. However, such amounts may be included in the measure of Rhode Island estate taxes and certain corporate and business taxes. We express no opinion regarding any other Rhode Island tax consequences arising with respect to the issuance or any tax consequences arising with respect to the issuance under the laws of any state other than Rhode Island.

We express no opinion as to the exclusion from gross income for federal income tax purposes of the portion of the Lease Payments distributable to the Certificate Owners as Interest on the Certificates in the event of non-appropriation by the State of the Lease Payments. In addition, we express no opinion as to the effect that termination of the Sublease may have upon the treatment for federal or state income tax purposes of amounts received by Certificate Owners.

The opinions as to enforceability of the Sublease, the Lease, the Declaration of Trust and the Certificates contained in paragraphs one, two, and three above are qualified in that the enforceability thereof is subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws in effect from time to time which might affect the rights of creditors and further in that the enforceability thereof may be limited by the application of general principles of equity.

With respect to the due authorization, execution and delivery by, and enforceability against the Lessor and the Trustee of the Lease and the Declaration of Trust, we have relied on the opinion of even date of counsel to the Lessor and the Trustee. With respect to the due authorization, execution and delivery by, and enforceability against, the Lessee of the Sublease and the Lease, we have relied on the opinion of even date herewith of the Attorney General of the State of Rhode Island.

This opinion is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreement, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion letter to reflect any future actions, facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretation thereof, that may hereafter occur, or for any reason whatsoever.

The rights of the holders of the Certificates and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

Date of Delivery

State of Rhode Island and Providence Plantations
State House
82 Smith Street
Providence, Rhode Island 02903

Re: $7,465,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Rhode Island College Energy Conservation Project – 2014 Series B) (the "Certificates")

Ladies and Gentlemen:

We have acted as Bond Counsel to the State of Rhode Island and Providence Plantations (the "State") in connection with the issuance of the Certificates and the related execution of a Sublease Agreement dated as of November 1, 2014 (the "Sublease") by and between The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee (hereinafter defined) as lessor (the "Lessor") and the State, as lessee (the "Lessee"), and a Lease Agreement dated as of November 1, 2014 by and between the State, as lessor, and The Bank of New York Mellon Trust Company, N.A. in its capacity as Trustee (hereinafter defined) as lessee (the "Lease"). The Lessor has established a grantor trust (the "Trust") pursuant to a Declaration of Trust dated as of November 1, 2014 (the "Declaration of Trust") wherein The Bank of New York Mellon Trust Company, N.A., shall act as trustee (the "Trustee") and pursuant to which the Lessor's interest in and to the Lease Payments (defined in the Sublease) and other amounts received pursuant to the Sublease has been granted to the Trust for the benefit of the owners (the "Certificate Owners") of the Certificates issued pursuant to the Declaration of Trust.

In such capacity, we have examined the Declaration of Trust, the Sublease, the Lease, the Official Statement dated October 30, 2014, relating to the sale of the Certificates (the "Official Statement"), and such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations of the State and its officials, and upon certified proceedings and other certificates of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under the law in effect on the date hereof:

1. The Sublease and the Lease have each been duly authorized, executed and delivered by the Lessee and are legal, valid, binding obligations of the Lessee, enforceable in accordance with their terms.

2. The Declaration of Trust has been duly authorized, executed and delivered by the Lessor and the obligations of the Trustee thereunder have been accepted by the Trustee and constitute legal, valid, and binding and enforceable obligations of the Trustee in accordance with the terms of the Declaration of Trust.

3. The Certificates have been duly authorized, executed, issued and delivered by the Trustee pursuant to the Declaration of Trust and are legal, valid, binding and enforceable in accordance with their terms.

4. The portion of payments made by the Lessee under the Sublease (the "Lease Payments") designated as interest and distributable to the Certificate Owners to the extent such payments are appropriated by the State and received by the Certificate Owners (the "Interest") is excludable from gross income of such Certificate Owners for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and such portion of the Lease Payments designated as Interest on the Certificates will not be treated as an item of tax preference for purposes of computing the federal alternative minimum tax. However, the portion of the Lease Payments designated as Interest on the Certificates will be taken into account in computing an adjustment made in determining a corporate Certificate Owner's minimum tax based on such Certificate Owner's adjusted current earnings. The opinions set forth in this paragraph are subject to the condition that the State comply with all requirements of the Code that must be satisfied subsequent to the issuance described herein in order that the Interest be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Such requirements include, but may not be limited to, requirements regarding the use, expenditure and investment of proceeds of the Certificates and the payment of rebates to the United States which must be continuously satisfied subsequent to the issuance of the Certificates in order for the portion of the Lease Payments designated as Interest on the Certificates to remain excludable from gross income for federal income tax purposes. Failure by the State to comply with certain of such requirements may cause the Interest to be come included in gross income for federal tax purposes retroactive to the date of issuance. We express no opinion regarding any other federal tax consequences arising with respect to the issuance. We are also of the opinion that the portion of Lease Payments distributable as Interest on the Certificates is excludable from State of Rhode Island personal income taxation to the extent such Interest is excludable from gross income for federal income tax purposes. However, such amounts may be included in the measure of Rhode Island estate taxes and certain corporate and business taxes. We express no opinion regarding any other Rhode Island tax consequences arising with respect to the issuance or any tax consequences arising with respect to the issuance under the laws of any state other than Rhode Island.

We express no opinion as to the exclusion from gross income for federal income tax purposes of the portion of the Lease Payments distributable to the Certificate Owners as Interest on the Certificates in the event of non-appropriation by the State of the Lease Payments. In addition, we express no opinion as to the effect that termination of the Sublease may have upon the treatment for federal or state income tax purposes of amounts received by Certificate Owners.

The opinions as to enforceability of the Sublease, the Lease, the Declaration of Trust and the Certificates contained in paragraphs one, two, and three above are qualified in that the enforceability thereof is subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws in effect from time to time which might affect the rights of creditors and further in that the enforceability thereof may be limited by the application of general principles of equity.

With respect to the due authorization, execution and delivery by, and enforceability against the Lessor and the Trustee of the Lease and the Declaration of Trust, we have relied on the opinion of even date of counsel to the Lessor and the Trustee. With respect to the due authorization, execution and delivery by, and enforceability against, the Lessee of the Sublease and the Lease, we have relied on the opinion of even date herewith of the Attorney General of the State of Rhode Island.

This opinion is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreement, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion letter to reflect any future actions, facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretation thereof, that may hereafter occur, or for any reason whatsoever.

The rights of the holders of the Certificates and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

Date of Delivery

State of Rhode Island and Providence Plantations
State House
82 Smith Street
Providence, Rhode Island 02903

Re: $30,380,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Information Technology Project – 2014 Series C) (the "Certificates")

Ladies and Gentlemen:

We have acted as Bond Counsel to the State of Rhode Island and Providence Plantations (the "State") in connection with the issuance of the Certificates and the related execution of a Sublease Agreement dated as of November 1, 2014 (the "Sublease") by and between The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee (hereinafter defined) as lessor (the "Lessor") and the State, as lessee (the "Lessee"), and a Lease Agreement dated as of November 1, 2014 by and between the State, as lessor, and The Bank of New York Mellon Trust Company, N.A. in its capacity as Trustee (hereinafter defined) as lessee (the "Lease"). The Lessor has established a grantor trust (the "Trust") pursuant to a Declaration of Trust dated as of November 1, 2014 (the "Declaration of Trust") wherein The Bank of New York Mellon Trust Company, N.A., shall act as trustee (the "Trustee") and pursuant to which the Lessor's interest in and to the Lease Payments (defined in the Sublease) and other amounts received pursuant to the Sublease has been granted to the Trust for the benefit of the owners (the "Certificate Owners") of the Certificates issued pursuant to the Declaration of Trust.

In such capacity, we have examined the Declaration of Trust, the Sublease, the Lease, the Official Statement dated October 30, 2014, relating to the sale of the Certificates (the "Official Statement"), and such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations of the State and its officials, and upon certified proceedings and other certificates of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under the law in effect on the date hereof:

1. The Sublease and the Lease have each been duly authorized, executed and delivered by the Lessee and are legal, valid, binding obligations of the Lessee, enforceable in accordance with their terms.

2. The Declaration of Trust has been duly authorized, executed and delivered by the Lessor and the obligations of the Trustee thereunder have been accepted by the Trustee and constitute legal, valid, and binding and enforceable obligations of the Trustee in accordance with the terms of the Declaration of Trust.

3. The Certificates have been duly authorized, executed, issued and delivered by the Trustee pursuant to the Declaration of Trust and are legal, valid, binding and enforceable in accordance with their terms.

4. The portion of payments made by the Lessee under the Sublease (the "Lease Payments") designated as interest and distributable to the Certificate Owners to the extent such payments are appropriated by the State and received by the Certificate Owners (the "Interest") is excludable from gross income of such Certificate Owners for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and such portion of the Lease Payments designated as Interest on the Certificates will not be treated as an item of tax preference for purposes of computing the federal alternative minimum tax. However, the portion of the Lease Payments designated as Interest on the Certificates will be taken into account in computing an adjustment made in determining a corporate Certificate Owner's minimum tax based on such Certificate Owner's adjusted current earnings. The opinions set forth in this paragraph are subject to the condition that the State comply with all requirements of the Code that must be satisfied subsequent to the issuance described herein in order that the Interest be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Such requirements include, but may not be limited to, requirements regarding the use, expenditure and investment of proceeds of the Certificates and the payment of rebates to the United States which must be continuously satisfied subsequent to the issuance of the Certificates in order for the portion of the Lease Payments designated as Interest on the Certificates to remain excludable from gross income for federal income tax purposes. Failure by the State to comply with certain of such requirements may cause the Interest to be come included in gross income for federal tax purposes retroactive to the date of issuance. We express no opinion regarding any other federal tax consequences arising with respect to the issuance. We are also of the opinion that the portion of Lease Payments distributable as Interest on the Certificates is excludable from State of Rhode Island personal income taxation to the extent such Interest is excludable from gross income for federal income tax purposes. However, such amounts may be included in the measure of Rhode Island estate taxes and certain corporate and business taxes. We express no opinion regarding any other Rhode Island tax consequences arising with respect to the issuance or any tax consequences arising with respect to the issuance under the laws of any state other than Rhode Island.

We express no opinion as to the exclusion from gross income for federal income tax purposes of the portion of the Lease Payments distributable to the Certificate Owners as Interest on the Certificates in the event of non-appropriation by the State of the Lease Payments. In addition, we express no opinion as to the effect that termination of the Sublease may have upon the treatment for federal or state income tax purposes of amounts received by Certificate Owners.

The opinions as to enforceability of the Sublease, the Lease, the Declaration of Trust and the Certificates contained in paragraphs one, two, and three above are qualified in that the enforceability thereof is subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws in effect from time to time which might affect the rights of creditors and further in that the enforceability thereof may be limited by the application of general principles of equity.

With respect to the due authorization, execution and delivery by, and enforceability against the Lessor and the Trustee of the Lease and the Declaration of Trust, we have relied on the opinion of even date of counsel to the Lessor and the Trustee. With respect to the due authorization, execution and delivery by, and enforceability against, the Lessee of the Sublease and the Lease, we have relied on the opinion of even date herewith of the Attorney General of the State of Rhode Island.

This opinion is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreement, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion letter to reflect any future actions, facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretation thereof, that may hereafter occur, or for any reason whatsoever.

The rights of the holders of the Certificates and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS • Lease Participation Certificates (Pastore Center Energy Conservation Project - 2014 Series A), Lease Participation Certificates (Rhode Island College Energy Conservation Project - 2014 Series B) and Lease Participation Certificates (Information Technology Project - 2014 Series C)

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