NEW ISSUE/BOOK-ENTRY-ONLY

Ratings: Moody's: "Aa2"
Standard & Poor's: "AA"
Fitch: "AA"
See "RATINGS" herein

In the opinion of Partridge Snow & Hahn LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the $175,155,000 State of Rhode Island General Obligation Bonds Consolidated Capital Development Loan of 2015, Refunding Series A (the "Bonds") is excludable from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is includable in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds is free from taxation by the State of Rhode Island (the "State") or any political subdivision or other instrumentality of the State, although the income therefrom may be included in the measure of Rhode Island estate taxes and certain Rhode Island corporate and business taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on the Bonds. See "TAX STATUS" and APPENDIX B – "Proposed Form of Legal Opinion" herein.

$175,155,000
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
General Obligation Bonds
Consolidated Capital Development Loan of 2015, Refunding Series A

Dated: Date of Delivery — Due: August 1, as shown on the inside cover

The Bonds will be issued as fully registered bonds and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. Purchases of the Bonds will be made in book-entry form only, in denominations of $5,000 or any integral multiple thereof, and no physical delivery of the Bonds will be made to purchasers. So long as Cede & Co. is the registered owner of the Bonds, principal and semiannual interest are payable to DTC by U.S. Bank National Association, as Paying Agent. Interest on the Bonds will be payable on February 1, 2016 and semi-annually thereafter on August 1 and February 1 of each year. The Bonds constitute general obligations of the State for the payment of which the full faith and credit of the State will be pledged. The Bonds are subject to redemption prior to maturity as described herein.

The Bonds are offered when, as and if issued by the State and delivered to the Underwriters, subject to the approval of legality by Partridge Snow & Hahn LLP, Providence, Rhode Island, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the State by Adler Pollock & Sheehan P.C., Providence, Rhode Island, as Disclosure Counsel. Certain matters will be passed upon for the Underwriters by their counsel, Moses Afonso Ryan Ltd. Delivery of the Bonds through the facilities of DTC is expected on or about July 29, 2015.

Raymond James **Citigroup**

BofA Merrill Lynch **J. P. Morgan** **Janney Montgomery Scott**

Oppenheimer & Co. **Roosevelt & Cross Incorporated** **TD Securities**

July 22, 2015

Maturity Schedule
Maturities, Amounts, Interest Rates, Yields and CUSIPs†

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	CUSIP†
2016	$7,585,000	2.00%	0.31%	76222RSG8
2017	24,770,000	4.00	0.79	76222RSH6
2018	10,220,000	5.00	1.11	76222RSJ2
2019	855,000	3.00	1.33	76222RSK9
2019	20,780,000	5.00	1.33	76222RST0
2020	5,375,000	5.00	1.59	76222RSL7
2021	12,440,000	5.00	1.91	76222RSM5
2022	6,790,000	5.00	2.22	76222RSN3
2023	6,375,000	3.00	2.42	76222RSP8
2023	13,735,000	5.00	2.42	76222RSU7
2024	21,350,000	5.00	2.58	76222RSQ6
2025	3,000,000	3.00	2.73	76222RSR4
2025	10,000,000	4.00	2.73	76222RSX1
2025	11,845,000	5.00	2.73	76222RSV5
2026	17,280,000	5.00	2.87*	76222RSS2
2027	2,755,000	3.00	3.08	76222RSW3

*Priced at the stated yield to the August 1, 2025 optional redemption date at a redemption price of 100%.

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† CUSIP® is a registered trademark of the American Bankers Association (the "ABA"). CUSIP-based identifiers are assigned by CUSIP Global Services. CUSIP Global Services is managed on behalf of the ABA by Standard & Poor's, a division of Standard & Poor's Financial Services LLC. The CUSIP numbers have been assigned by an independent company not affiliated with the State and are included solely for the convenience of the holders of the Bonds. Neither the Underwriters, the Financial Advisor nor the State is responsible for the selection or uses of the CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds 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 Bonds.

No dealer, broker, salesperson or other person has been authorized by the State or the Underwriters of the Bonds 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 Bonds 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 Bonds 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 Bonds to certain dealers (including dealers depositing such Bonds into investment trusts) at prices lower than the public offering prices shown on the inside cover hereof.

Upon issuance, the Bonds will not be registered under the Securities Act of 1933, as amended, in reliance upon exemptions contained in such Act. The Bonds will not be listed on any stock or other securities exchange. Any registration or qualification of the Bonds in accordance with applicable provisions of securities laws of the states in which the Bonds 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 Bonds 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 "DESCRIPTION OF THE BONDS – 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 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, their responsibility 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. 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 parties referred to above or that the other information or opinions are correct as of any time subsequent to the date hereof.

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

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

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.

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

CONSTITUTIONAL OFFICERS

Governor ....Gina M. Raimondo
Lieutenant Governor ....Daniel J. McKee
General Treasurer ....Seth Magaziner
Attorney General..Peter F. Kilmartin
Secretary of State ....Nellie M. Gorbea

APPOINTED OFFICIALS

Director of Administration...Michael DiBiase
Director of Office of Management and Budget ....Jonathan Womer
Budget Officer ....Thomas A. Mullaney
State Controller ....Marc A. Leonetti
Auditor General ....Dennis E. Hoyle

BOND COUNSEL

Partridge Snow & Hahn LLP, Providence, Rhode Island

DISCLOSURE COUNSEL

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

FINANCIAL ADVISOR

FirstSouthwest, Lincoln, Rhode Island

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OFFICIAL STATEMENT

$175,155,000
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
General Obligation Bonds
Consolidated Capital Development Loan of 2015, Refunding Series A

INTRODUCTION

The purpose of this Official Statement, including the cover and inside cover pages and appendices hereto, is to set forth certain information concerning the State of Rhode Island and Providence Plantations (the "State" or "Rhode Island") and its $175,155,000 General Obligation Bonds Consolidated Capital Development Loan of 2015, Refunding Series A (the "Bonds"), dated their date of delivery. The proceeds of the Bonds will be used to refund certain outstanding bonds of the State (the "Refunded Bonds"). See "PLAN OF REFUNDING" and APPENDIX C — "Table of Refunded Bonds" herein.

SECURITY FOR THE BONDS

The Bonds when duly issued will constitute valid general obligations of the State and the full faith and credit of the State will be pledged for the payment of the principal of and interest on each of the Bonds as the same shall become due.

Each Bond when issued and paid for will constitute a contract between the State and the owner thereof. The General Laws of Rhode Island provide that the General Treasurer may pay debt service on State debt without the need for an annual appropriation (as would be required for other payments from the State treasury). Moreover, each act under which the Bonds are issued expressly provides an appropriation from the treasury of a sum sufficient to pay the annual principal and interest due on the Bonds to the extent the same is not otherwise provided.

Enforcement of a claim for payment of principal of or interest on the Bonds may be subject to the provisions of Federal or State statutes, if any, heretofore or hereafter enacted extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied and to the exercise of judicial discretion in accordance with equitable principles.

SOURCES AND USES OF FUNDS

The following table sets forth estimated sources and uses of funds for the Bonds.

Sources	
Par Amount of Bonds	$175,155,000.00
Net Original Issue Premium	23,803,969.25
Total Sources	$198,958,969.25
Uses	
Deposit to Refunding Escrow Funds	$198,004,446.14
Costs of Issuance[1]	344,691.50
Underwriters' Discount	609,831.61
Total Uses	$198,958,969.25

[1]Includes legal, printing, financial advisor and other costs.

PURPOSE AND PLAN OF REFUNDING

The purpose of the Bonds is to restructure debt service for a portion of the State's outstanding General Obligation debt to achieve savings in fiscal years 2016 and 2017 to provide resources for economic development initiatives, including approximately $20,000,000 for school building construction and $64,500,000 for a variety of programs under the Executive Office of Commerce, as well as approximately $15,744,797 of additional savings in fiscal year 2017 for, subject to General Assembly approval, school building construction and/or various programs under the Executive Office of Commerce, while still achieving overall savings on a present value basis.

The State, upon delivery of the Bonds, will enter into separate refunding escrow agreements (the "Refunding Escrow Agreements") with the paying agents, as refunding trustees (the "Refunding Trustees") for the Refunded Bonds. The Refunding Escrow Agreements will provide for the deposit of the net proceeds of the Bonds with the Refunding Trustees in separate accounts (the "Refunding Escrow Funds"). The State, in addition to depositing certain cash into the escrows, will acquire and deposit into the escrows non-callable direct obligations of the United States of America (the "Government Obligations"). The Refunding Escrow Agreements will require that maturing principal of and interest on the Government Obligations, plus any initial cash deposit, be held in trust in such accounts solely for the payment of the principal of and redemption premium, if any, and interest on the Refunded Bonds. For a list of the outstanding series of bonds of the State to be refunded through the proceeds of the Bonds, see APPENDIX C – "Table of Refunded Bonds" herein.

DESCRIPTION OF THE STATE

See APPENDIX A – "Information Statement of the State of Rhode Island and Providence Plantations," dated July 14, 2015 for a description of the State, its budgetary process and financial profile. A pension settlement was reached effective July 1, 2015 with respect to substantially all of the litigation challenging the legality of the Rhode Island Retirement Security Act and other State pension reform legislation for which the State would have financial responsibility. For further details regarding the litigation settled, the pension settlement and the litigation which has not been settled, see the sections entitled "Pension Litigation" and "The Pension Settlement" on pages A-142 through A-146 in APPENDIX A – "Information Statement of the State of Rhode Island and Providence Plantations" dated July 14, 2015.

DESCRIPTION OF THE BONDS

General

Pursuant to Section 35-8-21 of the General Laws of the State, the Bonds will constitute the Consolidated Capital Development Loan of 2015, Refunding Series A.

The Bonds will be dated the date of delivery and will bear interest at the rates set forth on the inside cover page hereof. Interest on the Bonds will be payable on February 1, 2016 and semi-annually thereafter on August 1 and February 1 of each year. So long as The Depository Trust Company ("DTC"), or its nominee Cede & Co., is the Bondholder, such payments will be made directly to such Bondholder. Disbursement of such payments to Beneficial Owners (as defined herein) will be the responsibility of the DTC Participants and Indirect Participants, as more fully described herein. Interest is computed on the basis of a 360-day year consisting of twelve 30-day months. Principal of the Bonds will be payable as set forth on the inside cover page hereof.

Redemption

Optional Redemption of the Bonds. The Bonds maturing on and before August 1, 2025 are not subject to optional redemption prior to their stated dates of maturity. The Bonds maturing on and after August 1, 2026 are subject to optional redemption prior to their stated dates of maturity on and after August 1, 2025 at the option of the State, as a whole or in part at any time (by lot or DTC), in any order of maturity designated by the State, at the redemption price of 100% of the principal amount of Bonds to be redeemed, together with interest accrued and unpaid to the redemption date.

Notice of Redemption. Notice of redemption of the Bonds and the numbers and other designations of Bonds to be redeemed, shall be given not more than 60 days nor less than 30 days prior to the date set for redemption by mailing a copy of such notice to the Bondholders. Notice having been given as specified above, the Bonds so called for redemption shall be due and payable on the redemption date and interest from and after such date shall cease to accrue thereon. If any Bond is to be redeemed in part, upon such redemption the State will issue, at its expense, for the unredeemed balance of such Bond, a new Bond of the same Series, interest rate and maturity in any of the authorized denominations.

The State, so long as a book-entry system with DTC is used for determining beneficial ownership of the Bonds, shall send any notice of redemption to DTC, or its nominee, as registered owner of the Bonds (see "Book-Entry-Only System" below). Transfer of such notice to DTC's Participants is the responsibility of DTC. Transfer of such notice to Beneficial Owners by Participants is the responsibility of the Participants and other nominees of Beneficial Owners of the Bonds. Any failure of DTC to mail such notice to any Participant will not affect the validity of the redemption of the Bonds. The State can make no assurances that DTC, the Participants or other nominees of the Beneficial Owners of the Bonds will distribute such redemption notices to the Beneficial Owners of the Bonds, or that they will do so on a timely basis, or that DTC will act as described in this Official Statement.

Book-Entry-Only System

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

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

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

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

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

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

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

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

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

Neither the State, the Underwriters, 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 Bonds; (ii) the delivery to any Participant, Beneficial Owner of the Bonds or other person, other than DTC, of any notice with respect to the Bonds; (iii) the payment to any Participant, Beneficial Owner of the Bonds or other person, other than DTC of any amount with respect to the principal of, premium, if any, or interest on, the Bonds; (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 Bonds are redeemed in part.

Record Date

The record date for the Bonds will be the close of business of the fifteenth day prior to the date on which an interest payment is due, or if such day is not a business day of the Paying Agent, the next preceding day which is a regular business day of the Paying Agent.

RATINGS

The Bonds have been assigned ratings by Moody's Investors Service ("Moody's"), Standard and Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("Standard and Poor's") and Fitch Ratings ("Fitch") (collectively, the "Rating Agencies"). The ratings assigned by Moody's, Standard and Poor's and Fitch are "Aa2," "AA" and "AA," respectively.

Such ratings reflect only the respective views of such organizations, and an explanation of the significance of each such rating may be obtained from the rating agency furnishing the same. There is no assurance that the ratings given the Bonds 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 ratings may have an adverse effect on the market price of the Bonds.

LEGAL MATTERS

The legality of the Bonds will be approved by Partridge Snow & Hahn LLP, Providence, Rhode Island, Bond Counsel. A copy of the opinion of Bond Counsel in substantially the form to be delivered at closing is included herein as APPENDIX B. The State will be advised on certain legal matters by Adler Pollock & Sheehan P.C., Providence, Rhode Island, as Disclosure Counsel. Certain matters will be passed upon for the Underwriters by their counsel, Moses Afonso Ryan Ltd.

TAX STATUS

In the opinion of Partridge Snow & Hahn LLP, Bond Counsel to the State ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is includable in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The State has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these covenants.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is free from taxation by the State or any political subdivision or other instrumentality of the State, although the Bonds and the income therefrom may be included in the measure of certain Rhode Island corporate and business taxes. Bond Counsel has not opined as to other Rhode Island tax consequences arising with respect to the Bonds. Prospective Bondholders should be aware, however, that the Bonds may be included in the measure of Rhode Island estate taxes, and the Bonds and the interest thereon may be included in the measure of certain Rhode Island corporate and business taxes. Bond Counsel has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than Rhode Island. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX B hereto.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and Rhode Island income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Bondholder's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Bondholder. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Prospective Bondholders 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 Bonds being subject directly or indirectly to federal income taxation, or otherwise prevent Bondholders from realizing the full benefit provided under current federal tax law of the exclusion of interest on the Bonds 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 Bonds. Prospective Bondholders are urged to consult their own tax advisors with respect to any such legislation, interpretation or development.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from Rhode Island income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and holders of the Bonds should consult with their own tax advisors with respect to such consequences.

LITIGATION

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

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

FINANCIAL ADVISOR

The State has retained FirstSouthwest (the "Financial Advisor") to serve as its financial advisor in connection with the issuance of the Bonds. The Financial Advisor has not independently verified any of the information contained in this Official Statement and makes no guarantee as to its completeness or accuracy. The

Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds, and receipt by the State of payment therefor. The State may engage the Financial Advisor to perform other services, including without limitation, providing certain investment services with regard to the investment of Bond proceeds.

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 the Bonds 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 Bonds 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 Bonds:

(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 Bonds or other material events affecting the tax status of the Bonds;

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

(h) Bond calls, if material, and tender offers;

(i) Defeasances;

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

(k) Rating changes;

(l) Bankruptcy, insolvency, receivership or similar event of the State[*]; and

(m) 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.

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

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 Bonds, 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 Bonds, (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 the Bonds, (d) to modify the content, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of any applicable state legislation responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, 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 Bonds, 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 Bonds 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 Bonds, 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 Bonds, 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 Bonds, any registered owner or beneficial owner of the Bonds, any municipal securities broker or dealer, any potential purchaser of the Bonds, 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 Bonds.

Except as noted below in the following two paragraphs, 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 Ratings Agencies during the past five years for those national bond insurers who have provided bond

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[*] 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.

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 ratings changes with respect to such ratings changes, they 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.

In addition, the State may be deemed to have failed to file in a timely manner a notice regarding an unintentional principal payment delinquency relating to the State's Lease Participation Certificates (School of the Deaf Project – 2009 Series C). The State discovered on July 2, 2015 and notified the Trustee for the certificates that a mandatory sinking fund payment was due on April 1, 2015 from a review of the certificate documents after having been previously advised by the Trustee for the certificates no payment was due on April 1, 2015. Notice of the unintentional delinquent payment was filed by the State on July 6, 2015, four days after the delinquent payment was discovered by the State but three months after the unintentional delinquency actually occurred under the certificate documents. The payment had been appropriated by the State in the FY 2015 budget but not made because of the incorrect information from the Trustee that no payment was due on April 1, 2015. The payment was made by the State to the Trustee on July 13, 2015. The redemption has been scheduled by the Trustee for August 3, 2015. See the section entitled "Unintentional Late Principal Payment on an Obligation Subject to Annual Appropriation" in APPENDIX A – "Information Statement of the State of Rhode Island and Providence Plantations" dated July 14, 2015 for further details.

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.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

AMTEC Corporation of Avon, Connecticut and Ross & Company, PLLC (an independent Certified Public Accountant) of Louisville, Kentucky (together, the "Verification Agent"), will deliver to the State, on or before the settlement date of the Bonds, its verification report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by the Underwriters on behalf of the State. Included in the scope of the report will be a verification of the mathematical accuracy of (i) the mathematical computations of the adequacy of the cash and the maturing principal amounts of and interest earned on the Governmental Obligations, to be placed in the Refunding Escrow Funds to pay when due, pursuant to stated maturity or call for redemption, as the case may be, the principal of and interest on the Refunded Bonds and (ii) the mathematical computations of the yield on the Government Obligations purchased with a portion of the proceeds of the sale of the Bonds. Bond Counsel has relied upon such information set forth in the accountants' report in concluding that, subject to the condition that the State comply with certain covenants made to satisfy pertinent requirements of the Code under present law, interest on the Bonds is not includable in gross income of the Beneficial Owners for federal income tax purposes, and will not be treated as an item of tax preference in computing the alternative minimum tax for individuals and corporations. See "TAX STATUS" herein.

The verification performed by the Verification Agent will be solely based upon data, information and documents provided to the Verification Agent by the Underwriters. The Verification Agent's report of its verification will state that the Verification Agent has no obligation to update the report because of events occurring, or data or information coming to their attention, subsequent to the date of the report.

UNDERWRITING

The Bonds are being purchased by Raymond James & Associates, Inc., as representative of the Underwriters shown on the cover page hereof (the "Underwriters"). The aggregate offering price of the Bonds to the public is $198,958,969.25 and the Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the State at a purchase price of $198,349,137.64.

The Underwriters have further agreed, subject to certain conditions, to reoffer the Bonds at no greater than the initial public offering prices stated on the inside cover page hereof. The bond purchase agreement provides that the Underwriters will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the bond purchase agreement.

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup Global Markets Inc. may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Bonds.

TD Securities (USA) LLC, one of the underwriters, has entered into a negotiated dealer agreement with TD Ameritrade for the retail distribution of certain securities offerings, including the Bonds, at the original price. Pursuant to said dealer agreement, TD Ameritrade may purchase Bonds from TD Securities (USA) LLC at the original issue prices less a negotiated portion of the selling concession applicable to any of the Bonds that TD Ameritrade sells.

J.P. Morgan Securities LLC ("JPMS"), one of the underwriters of the Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

ADDITIONAL INFORMATION

Information with respect to the State and a detailed description of the State's financial condition are set forth in the State's Information Statement dated July 14, 2015, and the Basic Financial Statements of the State, as of and for the year ended June 30, 2014, both of which have been prepared and furnished by the State and which are included in APPENDIX A.

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

The Official Statement is submitted only in connection with the sale of the Bonds 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/ Seth Magaziner
General Treasurer

By: /s/ Michael DiBiase
Director of Administration

Dated: July 22, 2015

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APPENDIX A

INFORMATION STATEMENT OF THE STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

DATED: July 14, 2015

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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, the new Executive Office of Commerce, 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 Bureau of Audits, which examines the books of account of all State departments and agencies and determines which such audits shall be performed in accordance with a risk based evaluation. The Department is also responsible for programs relating to library aid, as well as building code administration.

The 2012 General Assembly approved the creation of two new offices within the Department of Administration. The first, the Office of Management and Budget, incorporated 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, oversees 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 will commence in the summer of 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.

In 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. The FY 2016 Appropriations act includes legislation officially establishing the health exchange as a division within the Department of Administration and authorizes the establishment of an assessment on insurance premiums to fund the majority of its operating expenses, with general revenue appropriated to cover the balance.

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. The Department also operates the state laboratory and the Medical Examiner's Office.

Education

Education includes Elementary and Secondary Education and Higher Education, as well as arts funding, historical 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.

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

Council on Post-Secondary Education. The Council on Post-Secondary Education is 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 Council holds title to all public higher education institutions of the State, which include the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island (collectively, the "State Colleges"). While there is institutional autonomy, the Council is responsible for general supervision of public higher education, including adoption and submittal of the State higher education budget, property acquisition and management and approval of organizational and curriculum structures. The Commissioner of Postsecondary Education is appointed by the Council to serve as chief executive officer of the Council and chief administrative officer of the Office of Postsecondary Commissioner. The Council has 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, 2015 totals $238,630,000.

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.

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 33 cents per gallon motor fuel tax, which was raised 2 cents per gallon from 30 cents per gallon in the FY 2010 Enacted Budget and by an additional one cent on July 1, 2015. 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 2016, the 33 cents per gallon motor fuel tax and the 1.0 cent UST fee will be allocated as follows: 17.25 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; 3.5 cents to the Rhode Island Turnpike and Bridge Authority for maintenance expense, capital expenditures and debt service; 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.

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, 2015, there was $244,870,000 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. It should also be noted that the State intends to provide $25 million in FY 2016 from State debt restructuring to fund infrastructure improvements and other incentives relating to the I-195 land to attract new world-class institutions, employers and other assets to the I-195 land.

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 $489.5 million in FY 2015. 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 continues to present challenges and certain of the Blue Ribbon Panel funding strategies are being 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 could not exceed ten cents ($0.10) through 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.

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 created 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 removed 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 transferred 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 made additional changes that resulted 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 of Rhode Island, 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 audited financial statements was $176.7 million. The projected balance at the end of FY 2015 is $184.9 million.

In November 2006, the voters of the State approved an amendment to the Rhode Island Constitution that has restricted, as of July 1, 2007, the use of excess funds in the Rhode Island Capital 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. Since FY 2013, spending has been limited to 97.0 percent and the Budget Reserve Account 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, 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 final closing report issued by the State Controller indicates that $13.8 million would be transferred for FY 2014, however, as part of the FY 2016 Budget submission, the Governor requested that transfer of surplus revenues from FY 2014 to the State Retirement Fund not be made and that these resources be made available for use in the supplemental FY 2015 Budget. As part of the enacted FY 2016 Appropriations Act, the General Assembly repealed this statute, such that surplus revenues will no longer be transferred to the State Retirement Fund.

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/State Budget Office 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, estimated to be 90 percent of total costs. As of March 6, 2015, 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. To date, the State has reimbursed $18,744,833.57.

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, estimated to be 75 percent of total costs. As of March 6, 2015, 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. To date, the State has reimbursed $8,247,621.44.

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, estimated to be 75 percent of total costs. As of June 26, 2015, the RI Emergency Management Agency collected data on damage and costs incurred by various municipalities, State agencies, tribes and eligible public nonprofits totaling approximately $7,710,490.71. To date, the State has been reimbursed $6,264,801.72.

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, estimated to be 75 percent of the total. 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 June 26, 2015, the Rhode Island Emergency Management Agency has collected data on damage and cost incurred by State agencies, municipalities, tribes and eligible public nonprofits totaling $7,439,822.46. To date, the State has been reimbursed $6,044,850.53.

Blizzard of 2015: On January 26-27, 2015, the northeast section of the United States experienced a significant snow event that resulted in the Governor declaring a state of emergency in Rhode Island and shutting down the state, including State government operations, for most of a 24-hour period. The Rhode Island Emergency Management Agency is collecting data on damage and costs incurred by State agencies, municipalities and others for submission of a request for a disaster declaration by FEMA. On April 5, 2015, The President signed a disaster declaration for all five Rhode Island counties. The State expects to be reimbursed for 75 percent of the costs it incurred once FEMA starts processing reimbursements. These payments are not included in the FY 2016 budget.

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

On January 9, 2015, the Commission issued its report to the Governor and General Assembly. According to the executive summary, 22 plans are still in critical status. The Commission made 11 recommendations, most with broad or general consensus. Recommendations with broad consensus include: establishing an oversight board, expanding proposed budget language in the municipal disclosure process, continued funding of the municipal incentive aid program, and continued monitoring of OPEB plans. There was general consensus for expanding legislation requiring fiscal impact statements, requiring an annual funding notice, studying the feasibility of administering a voluntary program to invest plan assets, developing a voluntary MERS pathway and consideration of funding improvement plans for OPEB. Recommendations to expand the criteria for oversight under the fiscal stability act and establishing a state-wide OPEB trust had less consensus among the commission members but were nevertheless recommended and included as items for further study and discussion.

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 cities 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 not 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 not 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.

The Budget Commission crafted a five year plan for the City that if adhered to, will maintain structural stability in the City. On March 19, 2015, the Budget Commission voted to request the Director of Revenue disband the Commission. Subsequent to the Commission's request, the Director of Revenue approved of the Commission disbanding and 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 March 20, 2015. The State provides 50 percent of the funding for this position.

Coventry (Anthony) Fire District

The Coventry Fire District has stated that the district has a current operating deficit, as well as a cumulative deficit from prior years. On June 17, 2015, the voters of the district voted (i) to reject a supplemental tax increase of $600,000 and (ii) to dissolve the district by the end of this year. The fire district board is currently assessing its legal options, and the State of Rhode Island has not intervened pursuant to the Fiscal Stability Act.

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. In December 2014, the fire district filed for Chapter 9 bankruptcy. The Receiver continues to negotiate with unions and other creditors in order to restore financial stability. On June 1, 2015, the Receiver for the fire district notified the Court of outstanding challenges that remain in submitting a viable restructuring plan. The next status conference with the Court is scheduled for July 22, 2015.

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 2016, not including aid to State-operated schools, the State appropriated $820.3 million in education aid to local school districts and charter schools through the funding formula ($848.1 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 $14.3 million for these categories in FY 2016.

There are also a handful of aid categories still being funded that pre-date the funding formula. In the FY 2016 budget State general aid support of $6.2 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 ended on May 31, 2015. The State appropriated $70.9 million for this category in the FY 2016 enacted budget. In addition, the FY 2016 enacted budget includes $20.0 million from debt restructuring savings anticipated in FY 2016 and FY 2017 for a new program to be administered by the School Building Authority within the Department of Elementary and Secondary Education for direct loans and grants to school districts for repairs and renovations to school buildings. A related program will provide approximately $2.6 million in FY 2016 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 2016 enacted budget includes $92.8 million based on projected FY 2015 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 2016, the enacted budgets have 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 2016 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 went 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 2016: Central Falls, East Providence, North Providence, Pawtucket, Providence, West Warwick and Woonsocket.

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 for the Distressed Communities Relief Fund have been included in the FY 2013 through FY 2016 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 \$8.8 million are included in the FY 2016 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 2016, an amount of \$14.3 million is estimated to be distributed. 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 2016, the meals and beverage tax is estimated at \$24.1 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. In FY 2016, an amount of \$9.0 million is estimated to be distributed.

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 2016.

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 2015 or FY 2016 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 was 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 municipal incentive aid is 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, FY 2015 and FY 2016 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 submitted a funding improvement plan (FIP) for all three of its locally-administered pension plans. The Town was initially not eligible to receive the Incentive Aid for FY 2014 and FY 2015 because the funding improvement plan for the Coventry School Pension Plan (non-certified school employees) had not been approved by the local governing body. The Town, working with the school department, trustees, and unions signed a memorandum of agreement with the parties which was approved by the governing body. Since the Town reached an agreement and the Town Council accepted responsibility for this plan, the Town received the incentive aid for FY 2014 and FY 2015 in May 2015.

The Town of Johnston is also not currently eligible for incentive aid for FY 2015 because they did not fund 100 percent of its ARC as required by the guidelines established by the Pension Study Commission.

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 2014 reflect audited revenues. For a discussion of FY 2014 revenues, see "General Revenues - Final FY 2014 Audited General Revenues". For a discussion of FY 2015 revenues as revised, see "General Revenues – FY 2015 Enacted Revenues". For a discussion of FY 2016 enacted revenues approved by the General Assembly, see "General Revenues – FY 2016 Enacted Revenues".

Major Sources of State Revenue

Tax Revenues: In FY 2014, 76.0 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 59.2 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 had 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 were 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 replaced 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 and a personal and dependent exemption amount to arrive at taxable income. Both the enhanced standard deduction and the personal and dependent exemption amounts are subject to phase-out for high income taxpayers. 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. Under the reformed personal income tax system, eight tax credits may be taken against the computed Rhode Island tax liability. The tax credits allowed under the reformed personal income tax system are: a partially refundable earned income tax credit (since made fully refundable), 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.

In the 2011 Session, 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 enabled the Division of Lottery to offset lottery winnings in excess of $600 against taxes owed to the State. Finally, the General Assembly passed 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 enacted two proposals pertaining to the personal income tax. The first proposal discontinued the Division of Taxation's 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 a proposal to create a special investigative tax unit in the Division of Taxation. 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 General Assembly also enacted a proposal 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. Finally, the General Assembly 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 allowed 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 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 was 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 was January 1, 2014 for assets placed into service on or after that date. The Department of Revenue predicted 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 revenue proposals. These proposals included (i) 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; (ii) the creation of a statewide taskforce designed to combat employee misclassification; (iii) a state employee tax compliance program; and (iv) the establishment of a registration block on "new" vehicle registrations for those individuals who are delinquent on State taxes. In addition to these accepted proposals, the 2014 General Assembly passed three additional pieces of legislation. The first initiative established a personal income tax compliance project for local employees and public officials. 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. 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. Finally, in the 2014 Session, the General Assembly passed H-8246 which became law on July 12, 2014. This law reduced 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.

In the 2015 Session, the General Assembly adopted, in full or in part, all of Governor Raimondo's FY 2016 recommended proposals to alter personal income tax revenues. The Governor's first proposal was to exempt taxable Social Security benefits from Rhode Island income tax for all single, married separate, and head of household filers whose adjusted gross income was $50,000 a year or less, and for all married joint and widower filers whose adjusted gross income was $60,000 a year or less. The General Assembly increased these threshold amounts to $80,000 and $100,000 respectively and limited the exemption of taxable Social Security benefits from Rhode Island income tax to only those taxpayers that have reached their full Social Security retirement age by the tax year in which the exemption is claimed. It is anticipated that the exemption of taxable Social security benefits from the Rhode Island income tax will decrease FY 2016 general revenues by $9.4 million. The Governor's second proposal was to increase the percentage of the federal earned income tax credit that could be used against a taxpayer's Rhode Island tax liability from 10.0 percent to 12.5 percent effective January 1, 2016 and thereafter. The General Assembly accepted this proposal and included a revenue loss of $3.1 million in the FY 2016 enacted budget. The Governor's third proposal was to allow the Division of Taxation to enter into performance based contracts with third party vendors to assist in developing new personal income tax compliance programs. The General Assembly concurred with this initiative and it is anticipated to increase personal income tax revenues by $962,500 in FY 2016.

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. Audited 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. Audited 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 0.14 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 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 enacted 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 passed 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 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 established 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 is no longer be in compliance with the Streamlined Sales and Use Tax Agreement (SSUTA). 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 an 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 passed legislation to provide for a tax amnesty 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 reduced the amount of medical marijuana that a compassion center can have available for sale at any given time and applied 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 now three licensed compassion centers operating in the state. 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 legislation to exempt 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 to repeal of the sales tax on the sale of all 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 approved 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 approved the addition of ten new revenue officer positions in the Division of Taxation to assist in the collection of delinquent taxes. In addition, the 2014 General Assembly passed two proposals, one to include 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. The 2014 General Assembly also enacted legislation to extend the exemption of all wine and spirits from the statutory 7.0 percent sales and use tax to June 30, 2015.

In the 2015 Session, the General Assembly modified the Governor's proposal to exempt the sale of electricity, natural gas, and heating fuels to all businesses from the sales and use tax. The Governor proposed to phase-in this exemption over a five-year period. The General Assembly opted to fully exempt such sales from the sales and use tax effective July 1, 2015 and included a reduction in sales and use tax revenues of $24.4 million in the FY 2016 enacted budget to reflect this change. In addition, the 2015 General Assembly accepted the Governor's FY 2016 budget proposal to increase the cigarette excise tax stamp rate from $3.50 a pack to $3.75 a pack effective August 1, 2015. It is anticipated that the proposal will increase sales and use tax revenues by $656,228 in the General Assembly's FY 2016 enacted budget. Further, the General Assembly approved the Governor's plan permitting businesses to perform self-audits for use tax. Businesses enter into an agreement with the Division of taxation to perform self-audits and voluntarily declare unreported or underreported sales or use taxes and receive reduced interest and penalties on those underpaid taxes. The General Assembly included increased sales and use tax revenues of $500,000 in the FY 2016 budget as a result of this proposal. Finally, the General Assembly accepted the Governor's proposal to expand the State's lodging taxes. These proposals include (i) expanding the definition of rentals subject to the 7.0 percent sales and use tax and the 1.0 percent local hotel tax to include the rental of an entire house, condominium, or other residential unit for a period of less than one full month per lessee yielding an estimated increase in sales and use tax revenues of $5.4 million; (ii) requiring on-line resellers of lodging accommodations to pay all state lodging taxes, the sales and use tax, the local hotel tax and the 5.0 percent state hotel tax, on the final retail price paid by the purchaser of the lodging accommodations resulting in an increase of sales and use tax revenues of $820,662; and (iii) expanding all state lodging taxes to the short term rental of unlicensed lodging accommodations, such as individual rooms for rent in a house, condominium or other residential unit for less than one consecutive month by a specific lessee generating an estimated increase in sales and use tax revenues of $851,512 in the enacted FY 2016 budget. Finally, in the 2015 Session, the General Assembly made permanent the restructuring of alcohol taxes that was enacted into law in the 2013 Session. Specifically, the FY 2016 enacted budget includes a sales and use tax exemption on purchases of all wine and spirits in perpetuity. This exemption was set to sunset on June 30, 2015. The General Assembly included a decrease of $14.3 million in sales and use tax revenues in the FY 2016 enacted budget as a result of this change.

The sales and use tax totaled $916.0 million, or 26.7 percent, of the State's audited FY 2014 total general revenues. Audited 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 0.26 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 was set at a rate of 9.0 percent from July of 1989 to December of 2014. The rate was lowered to 7.0 percent for tax years beginning after December 31, 2014. 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 repealed the exemption of limited partnerships and limited liability partnerships from the corporate minimum tax. Rhode Island's corporate minimum tax was $500 for the period from January 1, 2004 to December 31, 2015. Additionally, the General Assembly established a separate top 100 delinquent business taxpayers list. Finally, the General Assembly enacted 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. Additionally, in the 2012 Session, the General Assembly approved a tax amnesty program, 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.

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 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. 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 approved a 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 2014 General Assembly also passed legislation that implemented combined reporting with single sales factor apportionment and market based sourcing of income for all C-corporations. As part of this reform of the business corporation tax, the General Assembly also 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 franchise tax. All of these changes were effective for tax years beginning after December 31, 2014. In 2014, the General Assembly also passed into law 14 S-2343 on June 23, 2014 which added 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 the business corporation tax. Finally, 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.

In the 2015 Session, the General Assembly enacted into law a reduction in the corporate minimum tax from $500 per entity per year to $450. The General Assembly included decreased business corporation tax revenues of $1.62 million in the FY 2016 enacted budget to reflect this change.

Business corporations tax revenues totaled $114.2 million, or 3.3 percent, of the State's audited FY 2014 total general revenues. Audited 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 was reset to 5.5 percent of gross revenues due to 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 no longer levies the health care provider assessment on residential facilities for the developmentally disabled.

The State also levies a tax on the gross revenues of nursing homes. In 2003, the gross earnings 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 established a separate top 100 delinquent business taxpayers list. The General Assembly enacted 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 approved a tax amnesty program, as outlined in the section on the Personal Income Tax above.

In the 2013 Session, the General Assembly passed legislation 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 approved a proposal 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. In addition, the General Assembly enacted legislation that will provide a more in-depth review process associated with the determination of financial eligibility for long-term care patients in nursing homes.

In the 2015 Session, the General Assembly partially accepted Governor Raimondo's recommendation to reduce Medicaid payments to nursing homes. These payments are part of the taxable gross patient revenues on which the health care provider assessment is levied. The rate reduction applied to nursing homes was reduced from 2.5 percent to 2.0 percent. The General Assembly included a revenue loss of $863,024 in the FY 2016 enacted budget as a result of this initiative.

The health care provider assessment accounted for approximately $42.1 million, or 1.2 percent of the State's audited FY 2014 total general revenues. The dollar amount increased for the health care provider assessment between audited 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 required 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 approved a tax amnesty program, 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 audited 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 audited 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 the gross premiums on insurance contracts written during the previous calendar year to Rhode Island individuals or businesses. The same tax applies to an out-of-state insurance company, but the tax cannot be less than that which would be levied by the State or foreign (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 premiums 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 became 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 approved a tax amnesty program, as outlined in the section on the Personal Income Tax above. Also 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

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) thereby expanding the base of gross premiums subject to the insurance companies gross premiums tax. Additionally, the General Assembly's enacted into law in the 2014 session an increase in 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 adopted five changes to insurance companies gross premiums taxes. These changes included (i) a managed care rate decrease; (ii) an initiative to reduce the number of high utilizers of health care services; (iii) a hospital rate freeze; (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; and (v) the implementation of utilization reviews for imaging services. The 2014 General Assembly also passed legislation to accelerate the recertification process for RIte Care eligibility under the Affordable Care Act. Finally, in the 2014 Session, the General Assembly passed H-8246 which became law on July 12, 2014. This law reduced 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.

In the 2015 Session, the General Assembly accepted the Governor's proposal to make changes to Medicaid expenditures which will impact the managed care capitation rates beginning July 1, 2015. Medicaid payments represent part of the taxable gross premiums revenue base of affected health plans, thus, because of reduced Medicaid payments it is anticipated that in the FY 2016 enacted budget insurance companies gross premiums tax revenues will be reduced by $871,584.

Insurance companies gross premiums tax revenues totaled approximately $102.4 million, or 3.0 percent, of the State's audited 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 audited 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. Motion picture production tax credits can be used to offset the tax liability incurred under the financial institutions tax.

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 financial institutions tax accounted for approximately $16.6 million, or 0.5 percent of the State's audited FY 2014 total general revenues. The dollar amount and share of total general revenues increased for financial institutions excise tax revenues between audited 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 audited FY 2014 total general revenues. Both the dollar amount of bank deposits taxes and the share of total general revenues decreased slightly between audited 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 and prior to January 1, 2010, 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 adopted a tax amnesty program, 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. The amount of the estate tax credit was indexed to the CPI for all Urban Consumers as of September 30 of the prior calendar year with the indexation to occur on January 1, 2016 and each January 1st thereafter.

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

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

The cigarette stamp excise tax rate has increased consistently over the last two decades. In FY 1998, the cigarette stamp excise tax was raised to 71 cents per pack of 20 cigarettes from 61 cents per pack. The cigarette stamp 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 stamp 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 excise tax rate increased from $2.46 a pack to $3.46 a pack. On July 1, 2012, the cigarette stamp excise tax rate was increased from $3.46 per pack of 20 cigarettes to $3.50 per pack.

The rate of tax on the wholesale price of cigars, pipe tobacco, and other tobacco products has also risen over the past ten years, although not as frequently as the cigarette stamp excise 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. On April 10, 2009 the other tobacco products tax was increased from 40.0 percent to 80.0 percent of the wholesale price. 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 amended 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. The change in definition for little cigars subjected 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 General Assembly passed legislation to create four (4) Tax Investigator positions in the Division of Taxation to fully staff its tobacco tax enforcement task force.

In the 2015 Session, the General Assembly accepted the Governor's FY 2016 budget recommendation to increase the cigarette stamp excise tax rate from $3.50 per pack of 20 cigarettes to $3.75 per pack effective August 1, 2015. Inclusive of the increase on existing floor stock and the new cigarette stamp excise tax rate, this proposal is estimated to increase cigarette tax revenues by $6.5 million in FY 2016.

Cigarettes tax revenues accounted for approximately $139.5 million, or 4.1 percent, of the State's audited FY 2014 total general revenues. The dollar amount of cigarettes tax revenues and its share of total general revenues increased between audited 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 for operating or propelling motor vehicles 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 had 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 had 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 will 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 audited total general revenues. Effective July 1, 2009, the State's General Fund no longer receives any of the revenues generated by the State's 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. 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 that established 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 is 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 were 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 enacted into law an increase in 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 adopted an increase in the alcohol excise taxes for beer and malt, high proof distilled spirits and still wine. For beer and malt, the excise tax was 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 was increased from $3.75 per gallon to $5.40 per gallon. For still wine, the excise tax was 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 the tax increases was July 1, 2013.

In the 2014 Session, the General Assembly passed legislation that extended the increased alcohol excise taxes for beer and malt, high proof distilled spirits and still wine from April 1, 2015 until June 30, 2015. In addition, the 2014 General Assembly enacted 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 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 is deposited into the Housing Resources Commission's restricted receipt account and is used to provide for the lead hazard abatement program, housing rental subsidy, and homeless prevention and housing retention assistance. 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 does not have a general revenue impact.

In the 2015 Session, the General Assembly accepted the Governor Raimondo's FY 2016 budget proposal to apply the real estate conveyance tax on sales of a controlling interest in a real estate company where a real estate company is a business that is primarily engaged in the holding, selling or leasing of real estate. The General Assembly included an increase in real estate transfer tax revenues of $710,937 in the enacted FY 2016 budget as a result of this proposal. Further, in the 2015 Session, the General Assembly enacted and the Governor signed into law legislation that made permanent the restructuring of alcohol taxes that was enacted into law in the 2013 Session. For beer and malt, the excise tax is $3.30 per barrel. For high proof spirits, those spirits that contain 15 percent or more alcohol, the excise tax is $5.40 per gallon. For still wine, the excise tax is $1.40 per gallon. The excise taxes on low proof distilled spirits and sparkling wine were unchanged by the General Assembly. These rates were to sunset on June 30, 2015. The General Assembly included an increase of $6.4 million in alcohol excise tax revenues in the FY 2016 enacted budget as a result of this change.

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

Departmental Receipts. All departmental receipts revenues comprised 10.5 percent of total general revenues in audited FY 2014. Among the sub-categories of departmental receipts, licenses and fees were 79.1 percent of total departmental receipts in 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. It should be noted that motor vehicle title fees were transferred from license and fees to the Rhode Island Highway Maintenance Account due to legislation passed by the General Assembly in the 2014 session.

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. Previously, 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 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 and 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. 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. The 2015 General Assembly reinstituted the hospital licensing fee at a rate of 5.862 percent of FY 2014 net patient revenues and 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 3.693 percent. Increasing the hospital licensing fee rate to 5.862 percent and updating the base to FY 2014 net patient revenues increases the FY 2016 hospital licensing fee receipts by $11.8 million from the FY 2015 hospital licensing fee of $157.2 million. The payment of the FY 2016 hospital licensing fee will occur in July 2016.

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 are 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 increased both the estate tax filing fee and the letter of good standing fee from $25.00 to $50.00. In addition, the General Assembly applied 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 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 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 enacted into law a modification to Rhode Island's compassion center statute that reduced the amount of medical marijuana that compassion centers can have available for sale at any given time and applied more stringent regulations on the distribution of medical marijuana by compassion centers. Also, in the 2012 Session, the General Assembly passed legislation that expanded the definition of beverage containers subject to the State's $0.04 per case litter control permit fee to include 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 eliminated the Rhode Island Department of Environmental Management's municipal wastewater treatment testing program. 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 General Assembly eliminated the Division of Motor Vehicles accident report filing requirement and the Department of Labor and Training's hazardous substance right to know fee.

In the 2014 Session, the General Assembly agreed to implement a utilization review procedure for imaging services which reduced the revenues collected by the Department of Revenue from the imaging services surcharge. 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. 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 control inspection sticker fee from general revenue to the Rhode Island Highway Maintenance Account effective July 1, 2015. The General Assembly also increased the emission control inspection sticker fee from $39 to $55 with the additional $16 per emission control inspection sticker issued being deposited directly into the Rhode Island Highway Maintenance Account. The 2014 General Assembly enacted legislation that increased 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.

In the 2015 Session, the Governor proposed and the General Assembly agreed to eliminate the 2.0 percent surcharge on net patient revenues from imaging services and outpatient health care facilities. Under current law, a monthly surcharge of 2.0 percent is imposed upon the net patient revenue received by every outpatient health care facility and every imaging services provider. The General Assembly included a reduction in general revenue of $2.3 million in the enacted FY 2016 budget as a result of this change. In addition the Governor proposed and the General Assembly agreed to eliminate licensing requirements for 27 professional licenses issued by the Department of Business Regulation, the Department of Health, the Department of Elementary and Secondary Education, and the Department of Environmental Management. A total reduction of $272,336 was included in the FY 2016 enacted budget as a result of this directive.

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 a 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 services departmental 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 adopted a tax amnesty program, as outlined in the section on the Personal Income Tax above. In the 2013 Session, the General Assembly enacted the establishment of a special investigative tax unit in the Division of Taxation. The special investigative tax unit 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 passed legislation to require that all municipalities use the State approved universal summons for red light violations issued via photo enforcement.

In the 2014 Session, the General Assembly agreed to add ten (10) new revenue officer positions within the Division of Taxation to assist in the collection of delinquent taxes. The 2014 General Assembly also enacted 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 also passed a bill that relieves municipalities operating automated traffic violation monitoring systems 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.

The 2015 General Assembly passed legislation that was introduced by Governor Raimondo to allow the Division of Taxation to enter into performance based contracts with third party vendors to assist in developing new compliance programs. The General Assembly included $787,500 more in interest and penalties on overdue taxes in the fines and penalties component of departmental receipts in the FY 2016 enacted budget.

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 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. In the 2011 Session, the General Assembly accepted a grant from 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. In the 2012 Session, the General Assembly adopted a tax amnesty program, as outlined in the section on the Personal Income Tax above. Additionally in the 2012 Session, the General Assembly eliminated the Rhode Island Department of Environmental Management's well drilling program. In the 2013 Session, the General Assembly enacted a measure that discontinued the netting of bank fees against gross investment earnings, 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 2013 General Assembly also applied 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. The 2014 General Assembly also enacted legislation exempting all of the revenues deposited in the Jobs Development Fund from the 10.0 percent indirect cost recovery charge. In the 2015 Session, the General Assembly adopted three proposals. The first transferred the State's share of the 5.0 percent state hotel tax and the Statewide Tourism District's share of the 5.0 percent state hotel tax from general revenues to the Rhode Island Commerce Corporation. The second transferred the Urban Institute Work Support Strategies grant from general revenues to restricted receipts. The third exempted two new and four existing restricted receipts accounts from the 10.0 percent indirect cost recovery. The 2015 General Assembly included a revenue reduction of $4.3

million in the miscellaneous revenues component of departmental receipts as a result of these three initiatives in the FY 2016 budget.

Departmental receipts revenues were $360.7 million of the State's audited FY 2014 total general revenues of $3.430 billion. Audited 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 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 by eliminating the percentage of Lincoln Park net terminal income that was allocated to the dog kennel owners and splitting this share 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 froze 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.

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, provided for promotional points programs, instituted a marketing program for each facility to be operated jointly with the Division of Lottery, decreased the State percentage of the net terminal income generated at Newport Grand, and increased 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 required 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 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 authorized, 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 became law on June 30, 2011. While the Narragansett Indian Tribe filed a complaint against the State of Rhode Island in the Rhode Island Superior Court on or about September 28, 2011, challenging, *inter alia*, the constitutionality of the Rhode Island Casino Gaming Act ("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 Rhode Island Superior Court found that the Narragansett Indian Tribe had not sustained their burden of proving beyond a reasonable doubt that the Act is facially unconstitutional. The Narragansett Indian Tribe filed a notice of appeal of that decision with the Rhode Island Supreme Court. 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 or about March 4, 2015, the Rhode Island Supreme Court issued a decision upholding the Superior Court's decision. The remaining issues in the case relating to whether the state "operates" Twin River and Newport Grand facilities remain pending in the Superior Court.

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 was 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 2020, casino gaming in Massachusetts will reduce Twin River gross gaming revenues by 37.3 percent from its FY 2014 level of $462.4 million and reduce Newport Grand gross gaming revenues by 53.2 percent from its FY 2014 level of $44.7 million. These declines in Twin River and Newport Grand gross gaming revenues are estimated to reduce the State's revenues from these facilities by $121.0 million in FY 2020 vis-à-vis the amount the State received from these two facilities in FY 2014. 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, the General Assembly passed into law a referendum 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". The Revenue Protection Act (i) required 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) required 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) gave the Director of Lottery the authority to enforce the provisions of the law and allowed 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 provided 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.

The State's share of net table game revenues generated at Twin River declined from 18 percent to 16 percent effective July 1, 2014. 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.

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 reduced the State's share of Twin River's NTI on a dollar-for-dollar basis. The enhanced payment to the Town of Lincoln expired on June 30, 2012. 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 in the casino industry in the Northeast, the voters of Massachusetts voted 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. This referendum was defeated, so gaming in Massachusetts is proceeding as planned. 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. Both MGM Resorts International and Wynn Resorts have made payments to the Commonwealth of Massachusetts for the destination resort casino licenses awarded as has Penn National Gaming paid its $25.0 million to the Commonwealth of Massachusetts for its license. Penn National Gaming's slot parlor in Plainville, MA opened on June 24, 2015. With regards to the southeastern Massachusetts resort casino license, the Gaming Commission voted to give developers in New Bedford and Somerset until May 4, 2015 to complete their applications. Developers for the New Bedford site met that deadline joining developers for a site in Brockton, Massachusetts with a completed application submitted to the Gaming Commission. The developers for the Somerset site asked for a further extension of the time needed to submit an application. In the interim, both the voters of Brockton and the voters of New Bedford approved local referendums allowing a destination resort casino to be located in their cities.

The 2014 General Assembly enacted legislation to amend the master contract with Twin River to increase 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. To date, Twin River has not availed itself of the second tier of the marketing program although the State expects it to do so in FY 2016 and thereafter.

The General Assembly passed legislation in the 2014 session that increased Newport Grand's share of the video lottery net terminal income generated at the facility by two and one-quarter (2.25) percentage points effective for the period July 1, 2014 through June 30, 2015. The increase in Newport Grand's share of net terminal income produced by the VLTs located at the facility reduced on a dollar-for-dollar basis the State's share of video lottery net terminal income and thus reduced general revenues by the same amount.

The 2014 General Assembly also enacted a bill that provided 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 was also subject to approval of a referendum on the State level at the November 2014 general election that would have amended 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 would have increased 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 would have reduced the State's share of the same on a dollar for dollar basis. The referendum was approved at the statewide level, but was not approved by voters in the City of Newport and therefore did not become law.

Newport Entertainment and Leisure, LLC, ("Newport"), a Rhode Island limited liability company, entered into an Asset Purchase Agreement ("Agreement") with Newport Grand LLC, also a Rhode Island limited liability company, on or about December 31, 2013 for the purpose of Newport acquiring the Newport Grand located at 150 Admiral Kalbfus Road in Newport, Rhode Island.

Upon the defeat of expanded gaming at Newport Grand in the November 2014 election, Twin River Management Group, Inc. ('TRMG"), a Delaware corporation and Newport Entertainment and Leisure, LLC entered into an agreement under the terms of which the asset purchase agreement entered between Newport Entertainment and Leisure, LLC and Newport Grand LLC would be assigned to TRMG and TRMG would obtain the rights and obligations as the Buyer under that agreement. Shortly after announcing its intent to seek permission to transfer ownership of Newport Grand, LLC to TRMG in March, 2015, TRMG announced that it had obtained an option to purchase approximately forty five (45) acres of land in the northern part of Tiverton, Rhode Island approximately 400 feet from the Massachusetts border and that subsequent to its acquisition of the Newport Grand facility, it intends to seek permission to transfer the Newport Grand facility to that location in Tiverton. TRMG's goal is to better compete with the imminent threat of casinos in Massachusetts by offering both video lottery and table games at the Tiverton property. In order to transfer the Newport Grand facility to Tiverton, there would have to be state-wide voter approval and approval by the voters in Tiverton as well as regulatory approval by the Department of Business Regulation and the Department of Revenue Division of Lotteries. It is anticipated that the state-wide and local referendum would be on the ballot in the fall of 2016.

On or about April 24, 2015, Premier Entertainment II, LLC, a Delaware limited liability corporation of which TRMG is the sole member, ("Premier") filed a Facility Permit Ownership Transfer Application ("Application") with the Department of Business Regulation ("DBR") seeking to transfer the facility permit for Newport Grand to Premier. DBR and the Rhode Island Department of Revenue Division of Lotteries ("Lottery") retained the services of Blum, Shapiro & Company to assist them and the Gaming Enforcement Unit ("GEU") of the Rhode Island State Police with necessary financial due diligence with respect to the proposed transfer. The GEU also conducted certain due diligence investigatory activities in connection with the proposed transfer. In addition, DBR and the Lottery retained the law firm of Willkie Farr & Gallagher to provide legal advice with respect to regulatory compliance and other legal matters related to the proposed transfer. On or about June 4, 2015, DBR issued a Notice of Departmental Hearing, scheduling a hearing on the Application for June 25, 2015. A hearing officer conducted a hearing on June 25, 2015; thereafter on June 29, 2015 a decision ("Decision") subject to certain conditions requested by DBR and set forth in the Decision was issued by the hearing officer. The Director of DBR entered an Order adopting that recommendation on June 29, 2015. On or about July 1, 2015, Premier filed an Application for a Lottery Sales Agent License with the Lottery for the Newport Grand facility. Simultaneous with a closing on the proposed transfer of the Newport Grand facility to Premier, the Regulatory Agreement between DBR and the Lottery and Twin River Worldwide Holdings, Inc., TRMG and UTGR will be amended and the Master Video Lottery Terminal Contract by and between Newport Grand Jai Alai, LLC and the Lottery (as amended) will be assigned and the appropriate parties will enter into a Fourth Amendment to that Master Video Lottery Contract. Although the relevant documents between Newport and Premier established a June 30, 2015 closing date for the proposed transfer, as of July 2, 2015 the parties continued to work on certain outstanding issues that need to be resolved prior to a closing. It is not yet known when a closing on the proposed transaction will occur.

The 2015 General Assembly enacted with the Governor's approval several changes modifying operating requirements for Newport Grand in light of its proposed acquisition and relocation by Premier. The legislation suspends the requirement that Newport Grand maintain 180.0 full-time equivalent (FTE) positions and reduces the required positions to 100.0 FTEs. The total required FTEs at the facility would revert back to 180.0 positions in the event that Newport Grand is licensed to host video lottery games and table games at a facility relocated outside of the City of Newport. The enacted legislation makes a technical change to allow the new owners of Newport Grand's assets to continue to operate the facility under a pari-mutuel designation. Finally, the General Assembly reinstituted the enhanced share of video lottery net terminal income for the owners of Newport Grand albeit at a rate of one and nine-tenths (1.9) percentage points effective July 1, 2015 through June 30, 2017. Unlike the previous increase in Newport Grand's share of net terminal income, the funds garnered from the 1.9 percentage point enhanced share must be applied exclusively to marketing expenditures for the facility. It is estimated that this increase in Newport Grand's share of the NTI generated at the facility will reduce the State's share of net terminal income by $760,000 in the General Assembly's enacted FY 2016 budget.

The lottery transfer to the General Fund totaled $376.3 million which accounted for 11.0 percent of the State's audited 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 audited 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 audited 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 was $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 audited 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 to the General Fund by June 30, 2014. The transfer was available as general revenue and was 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.

In the 2015 session, the General Assembly did not enact any legislation to augment FY 2016 total general revenues from one-time sources.

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 audited FY 2014 total general revenues. For FY 2013, these amounts were $4.2 million and 0.1 percent, respectively.

Restricted Receipts. In FY 2016, the State is projected to spend $245.5 million 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 2016, the State is projected to spend $2.947 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 included $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 was adopted at the May 1st meeting of the May 2015 Revenue Estimating Conference. 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 2014 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 modest changes to the consensus outlook adopted at the November 2014 Conference.

With respect to the Rhode Island economy, Moody's Analytics noted that the state's economy is closing the gap with the New England region, but both the region and the Ocean State are falling short of the national pace of expansion. Moody's did note, however, that a major positive for the state as a whole is the manufacturing sector, which has outperformed neighboring states due to relatively smaller levels of exposure to foreign trade. Moody's Analytics pointed out that Rhode Island is still not "out of the woods" as the state still has not fully recouped those jobs lost during the Great Recession. Supplemental information to this was provided indicating that failure to fully recover the jobs lost during the recession has less to do with the actual improvement in the state's economy and more to do with the significance of the economic downturn and the residual impact that Rhode Island has faced from it over the last several years. Moody's Analytics also noted that consumer related industries such as leisure and hospitality, education and healthcare services, and other services have accounted for all the employment growth Rhode Island has experienced over the past year. It is important to note, that Moody's Analytics mentioned that construction activity in the housing market has continued to struggle in Rhode Island so far in 2015. As noted by Moody's Analytics, the deceleration in construction activity appears to be caused from increases in the volume of foreclosed properties hitting the market. Also noted in their quarterly narrative in May 2015, Moody's Analytics mentioned that once this spike in foreclosure inventory is worked down, the key drags on Rhode Island's housing market will only be the softening labor market for construction and the continual delayed release of pent-up household formation. Moody's Analytics noted during their testimony at the May 2015 Revenue Estimating Conference that the delay in pent-up household formation for younger individuals in the U.S. is primarily caused from elevated levels of student loan debt which is forcing those individuals to live with their parents for longer periods of time than they otherwise would have if they did not have this debt load.

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 6.3 percent in March 2015. The March 2015 unemployment rate of 6.3 percent was markedly higher than the U.S. rate of 5.5 percent and the Massachusetts unemployment rate of 4.8 but slightly below Connecticut's unemployment rate of 6.4 percent. The total amount of Rhode Island employed residents increased year-over-year by 7,700. In addition, there was a decline in the amount of unemployed workers by 11,200. Therefore, the observed labor force contraction of 3,500 individuals reflected some movement of individuals actively looking for work electing to exit the labor force, however, the majority of these workers have chosen to re-enter the work force. Rhode Island's resident employment figure peaked at 547,300 in January 2007. Rhode Island resident employment in March 2015 totaled 517,100, or 30,200 off the peak. As of May 2015, Rhode Island's unemployment rate had decreased to 5.9 percent and Rhode Island has now fallen outside the top ten for highest unemployment rates in the country. Rhode Island resident employment had increased to 523,350 in May 2015 and the number of unemployed workers had fallen to 33,068.

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 36.8 percent between the first quarter of 2014 and the first quarter of 2015.

DLT reported that between August 2009 and March 2015, the state regained a net of 25,600 jobs, or 50.2 percent of the jobs lost from the peak of employment in January 2007 to the trough of employment levels in November 2011. The composition of the jobs recovered is as follows: 9,700 or 37.9 percent in the middle wage group (i.e., $30,000 - $59,999 in annual income), 9,600 or 37.5 percent in the low-wage group (i.e., $30,000 and below in annual income), and 6,300 or 24.6 percent in the high wage group (i.e., $60,000 and above in annual income).

Between March 2014 and March 2015, Rhode Island establishment employment increased overall by 4,900 jobs. The change in employment breaks down as follows (all employment data is seasonally adjusted):

Sector	Jobs Change	Sector	Jobs Change
Leisure & Hospitality	1,400	Professional & Business Services	-
Other Services	1,300	Natural Resource & Mining	-
Manufacturing	1,200	Information	(100)
Education and Health Services	1,000	Construction	(200)
Financial Activities	400	Government	(200)
Trade, Transportation & Utilities	100	**Total Non-Farm**	**4,900**

The principals at the May 2015 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 4,510 jobs in FY 2015 and 7,240 jobs in FY 2016. Employment growth is expected to average 1.0 percent for the FY 2016 – FY 2020 forecast period. Personal income growth is anticipated to be positive in FY 2015 and FY 2016, at 3.5 percent and 5.0 percent, respectively, with the peak in personal income growth taking place in FY 2017 at 5.5 percent before consistent declines in personal income growth for the FY 2018 - FY 2020 period. Personal income growth is forecasted to average 4.3 percent over the FY 2016 – FY 2020 period. Wage and salary growth is expected to follow a similar pattern to personal income growth, with growth of 3.1 percent in FY 2015 and 6.0 percent in FY 2016. Wage and salary growth is projected to remain at 6.0 percent in FY 2017. Wage and salary growth is forecasted to average 4.7 percent in the FY 2016 – FY 2020 forecast period. The State's unemployment rate is projected to be 6.7 percent in FY 2015 before falling to 6.0 percent in FY 2016. Rhode Island's unemployment rate is expected to steadily decline throughout the forecast horizon before settling at 5.2 percent in FY 2019 and FY 2020.

The consensus economic forecast through FY 2020 as adopted by the conferees at the May 2015 Revenue Estimating Conference is shown in the following table.

	May 2015 Consensus Economic Forecast					
Forecast Metric	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
Non-Farm Employment (Thousands)	479.5	486.7	495.3	499.1	501.6	502.9
Growth Rates (%)						
Non-Farm Employment	1.0	1.5	1.8	0.8	0.5	0.3
Personal Income	3.5	5.0	5.5	4.3	3.5	3.2
Wages and Salaries	3.1	6.0	6.0	4.3	3.9	3.3
Dividends, Interest, and Rent	2.5	6.7	9.4	6.7	3.1	2.3
Percentage Rates (%)						
Unemployment	6.7	6.0	5.5	5.3	5.2	5.2
Consumer Price Index (U.S.)	0.8	1.9	2.6	2.7	2.6	2.3
Ten Year U.S. Treasury Notes	2.3	3.1	4.1	4.6	4.4	4.4
Three Month U.S. Treasury Bills	0.0	0.7	2.2	3.0	3.3	3.4

Significant revisions downward can be seen for FY 2015 and FY 2016 in the May 2015 Consensus Economic Forecast (CEF) when compared to the November 2014 CEF. Rates of growth in personal income, wages and salaries, and dividends, interest and rent were all revised downward in the May 2015 CEF. Specifically, personal income growth was revised downward by 0.6 percentage points in FY 2015 and 1.0 percentage point in FY 2016. Moody's Analytics forecast a downward revision to dividends, interest and rent growth by 0.3 percentage points in FY 2015 and 2.3 percentage points in FY 2016. The forecasted growth rate for Rhode Island's wages and salaries was revised downward by 1.8 percentage points in FY 2015 and 0.9 percentage points in FY 2016 from the November 2014 CEF. Further, weaker than expected non-farm employment growth in the state can be seen through the downward revision of 1,400 jobs in FY 2015 and 5,800 jobs in FY 2016 from the November 2014 CEF. The unemployment rate, however, was revised downward by 0.6 percentage points in FY 2015 and 0.2 percentage points in FY 2016 in the May 2015 CEF relative to the November 2014 CEF. The May 2015 CEF presented a significant revision downward to CPI-U at the national level by 1.1 percentage points in FY 2015 and 0.4 percentage points in FY 2016. Moody's Analytics forecast for ten year U.S. Treasury notes was also revised down significantly by 0.6 percentage points in FY 2015 and 0.9 percentage points in FY 2016. Moody's Analytics forecast provided slight modifications for three month U.S. Treasury bills rate in FY 2015 and FY 2016. The changes from the November 2014 CEF made in the May 2015 CEF on a state fiscal year basis can be seen in the following table.

	May 2015 REC vs. November 2014 REC Consensus Economic Forecast					
Forecast Metric	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
Non-Farm Employment (Thousands)	-1.4	-5.8	-5.5	-4.7	-2.8	-1.1
Growth Rates (%)						
Non-Farm Employment	-0.4	-0.9	0.1	0.2	0.4	0.3
Personal Income	-0.6	-1.0	0.2	0.4	0.4	0.3
Wages and Salaries	-1.8	-0.9	0.0	0.1	0.5	0.4
Dividends, Interest, and Rent	-0.3	-2.3	0.6	1.2	-0.1	-0.4
Percentage Rates (%)						
Unemployment	-0.6	-0.2	0.0	0.0	0.0	0.0
Consumer Price Index (U.S.)	-1.1	-0.4	-0.1	-0.2	-0.1	-0.1
Ten Year U.S. Treasury Notes	-0.6	-0.9	-0.7	0.0	-0.1	-0.1
Three Month U.S. Treasury Bills	0.0	-0.2	-0.4	-0.2	-0.1	-0.1

GENERAL REVENUES

FY 2014 Audited Revenues

Audited FY 2014 total general revenues of $3.430 billion were up $106.3 million compared to audited FY 2013 total general revenues of $3.324 billion, which translates into a growth rate of 3.2 percent. Audited FY 2014 total general revenues were 0.4 percent more than the final enacted FY 2014 total general revenue estimate of $3.416 billion, a surplus of $14.2 million.

Audited FY 2014 total taxes and departmental receipts were 0.7 percent more than the final enacted FY 2014 estimate of $3.015 billion, a surplus of $19.9 million. Audited FY 2014 total taxes and departmental receipts of $3.035 billion were up $100.5 million compared to audited FY 2013 total taxes and departmental receipts of $2.934 billion, which translates into a growth rate of 3.4 percent.

Audited 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. Audited 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.

Audited FY 2014 revenues for total taxes were 0.7 percent more than the final enacted FY 2014 estimate of $2.656 billion, a surplus of $18.3 million. Audited FY 2014 total taxes revenues of $2.674 billion were up $96.6 million compared to audited FY 2013 total taxes revenues of $2.578 billion, which translates into a growth rate of 3.7 percent.

Audited 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. Audited 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. Audited FY 2014 business corporations tax revenues were 2.5 percent less than the final enacted FY 2014 estimate of $117.1 million, a shortfall of $2.9 million. Audited FY 2014 business corporations tax revenues of $114.2 million were down $17.6 million compared to audited FY 2013 business corporations tax revenues of $131.8 million, which translates into a growth rate of -13.4 percent.

Audited 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. Audited 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.

Audited FY 2014 financial institutions tax revenues were 23.0 percent more than the final enacted FY 2014 estimate of $13.5 million, an excess of $3.1 million. Audited FY 2014 financial institutions tax revenues of $16.6 million were up $4.0 million compared to audited FY 2013 financial institutions tax revenues of $12.6 million, which translates into a growth rate of 31.9 percent.

Audited 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. Audited 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.

Audited 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. Audited 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.

Audited FY 2014 health care provider assessment revenues were 0.8 percent more than the final enacted FY 2014 estimate, an excess of $331,465. Audited 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.

Audited 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. Audited 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.

Audited 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. Audited 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.

Audited 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. Audited 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. Audited 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. Audited FY 2014 cigarettes tax revenues of $139.5 million were up $6.9 million compared to audited FY 2013 cigarettes tax revenues of $132.5 million, a growth rate of 5.2 percent.

Audited FY 2014 alcohol excise tax revenues were 3.7 percent more than the final enacted FY 2014 estimate, a surplus of $652,450. Audited 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.

Audited 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.

Audited 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. Audited 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.

Audited 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. Audited 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.

Audited 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. Audited 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.

Audited FY 2014 total departmental receipts were 0.4 percent more than the final enacted FY 2014 estimate of $359.2 million, an excess of $1.5 million. Audited FY 2014 total departmental receipts of $360.3 million were up $3.8 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.

Audited 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 included $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 audited FY 2014 general revenues. Audited 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 audited 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 audited 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 audited 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 audited 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 Final Enacted Revenues

The General Assembly's final enacted FY 2015 budget estimates general revenues of $3.617 billion, an increase of 5.4 percent from the audited FY 2014 level of $3.430 billion. The General Assembly's final enacted FY 2015 budget is comprised of $3.617 billion of revenue estimated at the May 2015 Revenue Estimating Conference (REC) and $1.1 million of changes to these adopted estimates.

The largest source of final enacted FY 2015 general revenues is the personal income tax, with estimated revenues of $1.227 billion, an increase of $111.3 million or 10.0 percent more than audited FY 2014 personal income tax revenues. Final enacted FY 2015 personal income tax revenues are projected to comprise 33.9 percent of total final enacted FY 2015 general revenue. The final 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.

Final enacted sales and use tax revenues are a total of $954.0 million in FY 2015, an increase of 4.1 percent, or $38.0 million, from audited FY 2014 revenues. Sales and use taxes are expected to contribute 26.4 percent to final enacted total general revenues in FY 2015.

Motor vehicle operator license and vehicle registration fees are $49.9 million in the final enacted FY 2015 budget, a decrease of $2.5 million or 4.8 percent below audited FY 2014 motor vehicle operator license and vehicle registration fees. Final enacted FY 2015 motor carrier fuel use taxes are $(200,000), a decrease of 138.2 percent, or $(723,920) over audited FY 2015 revenues. Motor vehicle license and fee revenues are projected to make up 1.4 percent of final enacted FY 2015 total general revenues while motor carrier fuel use taxes are expected to comprise less than 0.01 percent of final FY 2015 total general revenues.

Cigarettes and other tobacco products tax revenues are expected to total $136.9 million in the FY 2015 final enacted budget, a decrease of $2.6 million or 1.8 percent less than audited FY 2014 cigarettes tax revenues. The General Assembly's final enacted FY 2015 estimate for cigarettes and other tobacco products tax revenue are anticipated to contribute 3.8 percent to total general revenues in FY 2015.

Final enacted FY 2015 alcohol tax revenues are $18.8 million or 3.0 percent more than audited FY 2014 alcohol excise tax revenues of $18.3 million. Final enacted FY 2015 alcohol excise tax revenues are estimated to comprise 0.5 percent of final enacted FY 2015 total general revenues.

General Business taxes are projected to comprise 12.1 percent of total general revenues in the FY 2015 final enacted budget. Business corporations tax revenues are expected to yield $143.2 million or 25.4 percent more than the audited FY 2014 level and comprise 4.0 percent of total general revenues in the FY 2015 final enacted budget.

The health care provider assessment is enacted at $44.3 million in the General Assembly's FY 2015 final enacted budget, an increase of 5.1 percent from the audited FY 2014 levels. The FY 2015 final enacted estimate for the health care provider assessment is $2.2 million more than FY 2014 audited revenues and are anticipated to constitute 1.2 percent of the final enacted total for FY 2015 general revenues.

Insurance companies gross premium taxes are estimated at $123.1 million in the FY 2015 final enacted budget, an increase of 20.3 percent, or $20.7 million, from audited FY 2014 levels. Insurance companies gross premiums tax revenues are expected to represent 3.4 percent of final enacted FY 2015 total general revenues. The final enacted FY 2015 insurance companies gross premiums 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 insurance companies gross premiums taxes.

FY 2015 final enacted financial institutions tax revenues total $22.0 million or 32.4 percent more than audited FY 2014 financial institutions tax revenues. FY 2015 final enacted financial institutions tax revenues are expected to constitute 0.6 percent of total general revenues in FY 2015 final enacted budget. The final 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 final enacted bank deposits taxes total $1.9 million and comprise 0.1 percent of total final enacted FY 2015 general revenues. The final enacted FY 2015 estimate for bank deposits taxes is 23.1 percent less than audited FY 2014 bank deposit tax revenues of $2.5 million.

The General Assembly's final enacted FY 2015 public utilities gross earnings tax revenue estimate is 2.2 percent more than audited FY 2014 public utilities gross earnings tax revenues. Final enacted FY 2015 public utilities gross earnings tax revenues are estimated at $103.6 million and make up 2.9 percent of total final enacted general revenues. The final 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 final enacted FY 2015 budget does not include any additional general revenue from the statutorily imposed excise tax on controlled substances, which is $48,188 less than the revenues generated from the excise tax on controlled substances realized in audited FY 2014.

The final enacted total for other tax revenues in FY 2015 is $41.6 million. This amount is equal to approximately 1.2 percent of total final enacted general revenues in FY 2015. Estate and transfer taxes, the largest component of other tax revenues, are estimated by the General Assembly at $31.5 million for FY 2015, a decrease of $12.1 million or 27.7 percent from audited FY 2014 amounts. Final enacted FY 2015 estate and transfer taxes are expected to constitute 0.9 percent of total final enacted general revenues in FY 2015. Final enacted FY 2015 realty transfer tax revenues are $9.0 million or 13.0 percent more than audited FY 2014 real estate transfer tax revenues. Racing and athletics tax revenues are estimated at $1.1 million in the final enacted FY 2015 budget, a decrease of 6.5 percent from audited FY 2014 levels. Realty transfer tax revenues are expected to constitute 0.2 percent of final enacted total general revenues in FY 2015 while final enacted FY 2015 racing and athletics tax revenues are estimated to be less than 0.1 percent of the same.

Final enacted FY 2015 departmental receipts are estimated at $350.9 million in FY 2015, or 2.7 percent less than audited FY 2014 departmental receipts revenues of $360.7 million. Departmental receipts revenues are expected to comprise 9.7 percent of total general revenues in FY 2015 final enacted budget. The General Assembly's FY 2015 Final Enacted Budget enacts a revenue enhancement of $275,400 as a result of the Office of Attorney General's settlement with Verizon/Sprint over erroneous billing practices. The General Assembly also enacted an increase in the hospital licensing fee at a rate of 5.745 percent applied to hospital FY 2013 net patient revenues. The hospital licensing fee rate of 5.745 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 3.677 percent. Passage of the hospital licensing fee rate increase will augment general revenue by $1.1 million in FY 2015 over enacted FY 2015 revenues. Finally, the General Assembly passed legislation to transfer the Urban Institute grant for work force strategies to restricted receipts. This transfer is estimated to reduce departmental receipt revenues by $364,341 in the final enacted FY 2015 budget.

The final enacted FY 2015 estimate for the other sources component of total general revenues is $400.0 million, an increase of $4.5 million or 1.1 percent more than audited FY 2014 other sources general revenues of $396.4 million. Final enacted other sources revenues are expected to comprise 11.1 percent of total enacted general revenues for FY 2015.

The General Assembly's final enacted FY 2015 estimate for other miscellaneous revenues is $2.7 million higher than the audited FY 2014 level of $6.4 million, an increase of 42.1 percent. Final enacted other miscellaneous revenues are expected to comprise 0.3 percent of total final enacted general revenues for FY 2015.

The final enacted FY 2015 estimate for the lottery transfer is 0.6 percent, or $2.3 million, more than the audited FY 2014 lottery transfer. In FY 2015, the final enacted lottery transfer is $378.6 million with $56.5 million generated by traditional and monitor games, $309.2 million generated by the video lottery terminals installed at Newport Grand and Twin River and $12.9 million produced by the table games located at Twin River.

The final category of general revenues is the unclaimed property transfer. In FY 2015, the final enacted transfer amount is $12.3 million, a decrease of $424,124 or 3.3 percent from the audited FY 2014 unclaimed property transfer. The unclaimed property transfer is estimated to make up 0.3 percent of FY 2015 final enacted total general revenues.

FY 2016 Enacted Revenues

The General Assembly's enacted FY 2016 budget estimates total general revenues of $3.544 billion, a decrease of $73.0 million or -2.0 percent from the final enacted FY 2015 estimate of total general revenues. The General Assembly's enacted total general revenues estimate is comprised of $3.417 billion of revenue estimated at the May 2015 Revenue Estimating Conference and $127.0 million of changes to these revised estimates.

The largest source of enacted FY 2016 general revenues is the personal income tax, with estimated receipts of $1.216 billion, $12.5 million less than the May 2015 REC revised estimate for FY 2016 or growth of -0.9 percent from the final enacted FY 2015 amount. This revenue decrease is the result of exempting taxable Social Security benefits from Rhode Island income tax for certain taxpayers, increasing the allowable percentage of the federal earned income tax credit that can be used against a taxpayer's Rhode Island tax liability, and allowing the Division of Taxation to enter into contingency contracts with third party vendors to assist in administering new personal income tax compliance programs. It is estimated that the exempting of taxable Social Security benefits for certain taxpayers will reduce personal income tax revenue in FY 2016 by $9.4 million. The increase in the allowable federal earned income tax credit percentage is estimated to decrease personal income tax revenues in FY 2016 by $3.1 million and the initiative to allow the state Tax Administrator to enter into compliance contracts with outside vendors is estimated to increase enacted FY 2016 personal income tax revenues by $962,500. Personal income tax receipts are expected to comprise 34.3 percent of enacted total general revenues in FY 2016.

General business taxes are projected to represent 12.1 percent of enacted total general revenues in the FY 2016 budget year. Business corporations tax revenues are expected to yield $136.4 million, a decrease of $1.6 million from the revised FY 2016 estimate agreed to at the May 2015 REC. This decrease is the result of reducing the corporate minimum tax from $500 per entity per year to $450. The estimated growth rate in business corporations taxes over the final enacted FY 2015 estimate is -4.8 percent or a decrease of $6.8 million. Business corporations tax revenues are expected to comprise 3.8 percent of enacted total general revenues in FY 2016.

Insurance companies gross premiums tax revenues are projected to reach $125.2 million in the enacted FY 2016 budget. This amount is $871,584 less than the FY 2016 estimate for insurance companies gross premiums tax revenues adopted at the May 2015 Revenue Estimating Conference. This decrease is the result of decreases in Medicaid capitation rates which reduce the premiums received from Medicaid insurance policies. The growth rate in enacted FY 2016 insurance companies gross premiums tax revenues over the FY 2015 final enacted estimate is 1.7 percent or $2.1 million. Insurance companies gross premiums tax revenues are expected to comprise 3.5 percent of enacted total general revenues in FY 2016.

Health care provider assessment revenues are expected to total $44.9 million in the enacted FY 2016 budget, a decrease of $863,024 from the FY 2016 estimate adopted at the May 2015 REC. This decrease is a result of reduced Medicaid payments to nursing homes. Health care provider assessment revenues in enacted FY 2016 are projected to be 1.4 percent more than in the final enacted FY 2015 budget and comprise 1.3 percent of enacted total general revenues in FY 2016.

FY 2016 enacted revenues for the public utilities gross earnings tax, the financial institutions tax, and the bank deposits tax are estimated at the same levels for FY 2016 as were adopted at the May 2015 Revenue Estimating Conference. The respective FY 2016 enacted growth rates for these taxes relative to the FY 2015 final enacted estimates are 1.1 percent, -25.0 percent, and 5.3 percent respectively. Public utilities gross earnings tax revenues are expected to comprise 3.7 percent of enacted total general revenues in FY 2016 and be $1.1 million more than in the FY 2015 final enacted budget. Financial institutions tax revenues are expected to comprise 0.6 percent of enacted total general revenues in FY 2016 and be $5.5 million less than estimated for the final enacted FY 2015 budget. Bank deposits tax revenues are expected to comprise less than 0.1 percent of enacted total general revenues in FY 2016 and be $100,000 more than in the FY 2015 final enacted budget.

Sales and use tax collections are expected to yield $969.5 million in the enacted FY 2016 budget, or $30.5 million less than the estimate adopted for FY 2016 at the May 2015 Revenue Estimating Conference. This decrease is the result of the General Assembly's exempting of two currently taxable items effective July 1, 2015: (i) sales of electricity, natural gas and heating fuels to non-manufacturing commercial users (manufacturers and residential users are already exempt under current law); and (ii) sales of all wine and spirits by holders of Class A liquor licenses. These sales and use tax exemptions are expected to decrease sales and use tax revenues by $38.7 million in FY 2016. Partially offsetting these decreases, is the inclusion of increased sales and use taxes of $656,228 from an increase in the cigarette stamp excise tax rate; increased sales taxes of $7.1 million from the expansion of the State's sales taxes to the rental of vacation homes, currently unlicensed room rentals and on-line resellers of lodging accommodations; and $500,000 of use taxes from the Division of Taxation's self-audit for use tax program for businesses. The General Assembly's FY 2016 enacted estimate for sales and use taxes yields growth of 1.6 percent, $15.5 million, over the FY 2015 final enacted estimate. Sales and use tax revenues are anticipated to contribute 27.4 percent of enacted total general revenues in FY 2016.

Motor vehicle operator license and vehicle registration fees are enacted at $36.5 million in FY 2016, a decrease of $2.6 million from the $39.1 million that was adopted at the May 2015 REC. This decrease is due to the delay of the issuance of new reflective license plates until July 2016. The FY 2016 enacted estimate for motor vehicle operator license vehicle registration fees is $13.4 million or 26.8 percent less than the final enacted FY 2015 estimate for the same. This reduction is due to the current law requirement that 25 percent of motor vehicle operator license and vehicle registration fees be transferred to the Rhode Island Highway Maintenance Account effective July 1, 2015. Motor vehicle operator license and vehicle registration fee revenues are estimated to comprise 1.0 percent of enacted total general revenues in FY 2016.

Motor carrier fuel use tax revenues are estimated to be $500,000 in FY 2016, the same as the estimate adopted at the May 2015 Revenue Estimating Conference and $700,000 more than the estimate included in the FY 2015 final enacted budget. Motor carrier fuel use tax revenues are expected to contribute less than 0.1 percent to enacted total general revenues in FY 2016.

Cigarettes tax revenues are estimated to total $140.8 million in the enacted FY 2016 budget, an increase of $6.5 million from the estimate adopted at the May 2015 REC. This increase is the result of an increase in the cigarette stamp excise tax rate from $3.50 per pack of 20 cigarettes to $3.75 per pack effective August 1, 2015. The enacted FY 2016 cigarettes tax revenue estimate is 2.8 percent, or $3.9 million, more than the cigarettes tax revenue estimate included in the FY 2015 final enacted budget. Cigarettes tax revenues are expected to comprise 4.0 percent of enacted total general revenues in FY 2016.

Alcohol excise Tax revenues are projected at $18.8 million in the FY 2016 enacted budget, an increase of $6.4 million from the May 2015 REC adopted estimate. This increase is the result of the permanent extension of increased excise tax rates on beer and malt, high proof spirits, and still wine that were enacted in the FY 2014 budget effective for July 1, 2013 and thereafter. The General Assembly's FY 2016 enacted estimate for alcohol tax revenues indicates growth of 0.2 percent over the FY 2015 final enacted estimate for alcohol tax revenues of $18.8 million. Alcohol excise tax revenues are expected to comprise 0.5 percent of enacted total general revenues in FY 2016.

Estate and transfer tax revenues are estimated at $20.4 million in enacted FY 2016, the same amount adopted at the May 2015 Revenue Estimating Conference. The FY 2016 enacted estimate for inheritance and gift taxes is 35.2 percent, or $11.1 million, less than the FY 2015 final enacted estimate and reflects more fully the impact of converting the state's estate and transfer tax from a threshold exemption structure to a credit system that was passed in the 2014 session of the General Assembly. Estate and transfer tax revenues are forecasted to make up 0.6 percent of total general revenues in the FY 2016 enacted budget. FY 2016 enacted racing and athletics tax revenues are estimated at $1.1 million the same as the FY 2016 estimate adopted at the May 2015 Revenue Estimating Conference. The FY 2016 estimate is also equal to the final enacted FY 2015 estimate. Racing and athletics tax revenues are projected in the FY 2016 enacted budget to comprise less than 0.1 percent of total general revenues.

FY 2016 enacted realty transfer tax revenues are projected to yield $10.2 million or $710,937 more than the estimate adopted at the May 2015 Revenue Estimating Conference. This increase is the result of expanding the application of the real estate conveyance tax to sales of a controlling interest in a real estate company. Enacted FY 2016 real estate transfer taxes are $1.2 million, or 13.5 percent greater than in the FY 2015 final enacted budget and are anticipated to comprise 0.3 percent of total general revenues in the FY 2016 enacted budget.

Enacted FY 2016 departmental receipts revenues are expected to generate $162.9 million more than the FY 2016 estimate adopted at the May 2015 REC. Inclusive of the General Assembly's enacted changes to departmental receipts revenues, total departmental receipts revenues are enacted at $357.2 million in FY 2016, or 10.1 percent of total general revenues. The enacted FY 2016 estimate for departmental receipts revenues is $6.4 million, or 1.8 percent, more than the final enacted departmental receipts revenue estimate for FY 2015. In the licenses and fees category of departmental receipts, $166.5 million more revenue is forecast due primarily to the General Assembly's reinstatement of the hospital licensing fee for one year at a rate of 5.862 percent levied on hospital fiscal year 2014 net patient revenues. The FY 2016 enacted departmental receipts revenues figure includes the following changes to the departmental receipts estimate adopted at the May 2015 Revenue Estimating Conference:

- An increase of $169.1 million from reinstituting the hospital licensing fee;
- A decrease of $2.3 million from repealing the 2.0 percent surcharge on net patient revenues of imaging services providers and outpatient health care facilities;
- A decrease of $272,336 from eliminating the licensing requirement for 27 professional licenses issued by the Department of Business Regulation, the Department of Health, the Department of Elementary and Secondary Education, and the Department of Environmental Management;
- An increase of $787,500 from allowing the Division of Taxation to enter into contingency fee contracts with third party vendors to assist in administering new tax compliance programs;
- A decrease of $3.8 million from transferring the state's share of the 5.0 percent state hotel tax and the Statewide tourism district's share of the 5.0 percent state hotel tax from general revenues to the Rhode Island Commerce Corporation;
- A decrease of $408,000 from transferring the Urban Institute Work Support Strategies grant from general revenues to restricted receipts; and
- A decrease of $58,510 from fully exempting six restricted receipts accounts from the State's 10.0 percent indirect cost recovery charge.

The FY 2016 enacted revenues for the other sources component of general revenues totals $343.1 million, a decrease of $760,000 compared to the revenue estimate adopted at the May 2015 REC for FY 2016. The change in other sources component of general revenues is attributed to the increase in Newport Grand's share of the net terminal income generated at the facility, reducing the State's share of net terminal income. The other sources component of general revenues is expected to comprise 9.7 percent of enacted total general revenues in FY 2016.

Other miscellaneous revenues are anticipated to generate $1.4 million in FY 2016, the same level that was adopted at the May 2015 REC. Other miscellaneous revenues are 84.6 percent, or $7.7 million less than the amount included in the FY 2015 final enacted budget and are expected to comprise less than 0.1 percent of enacted total general revenues in FY 2016.

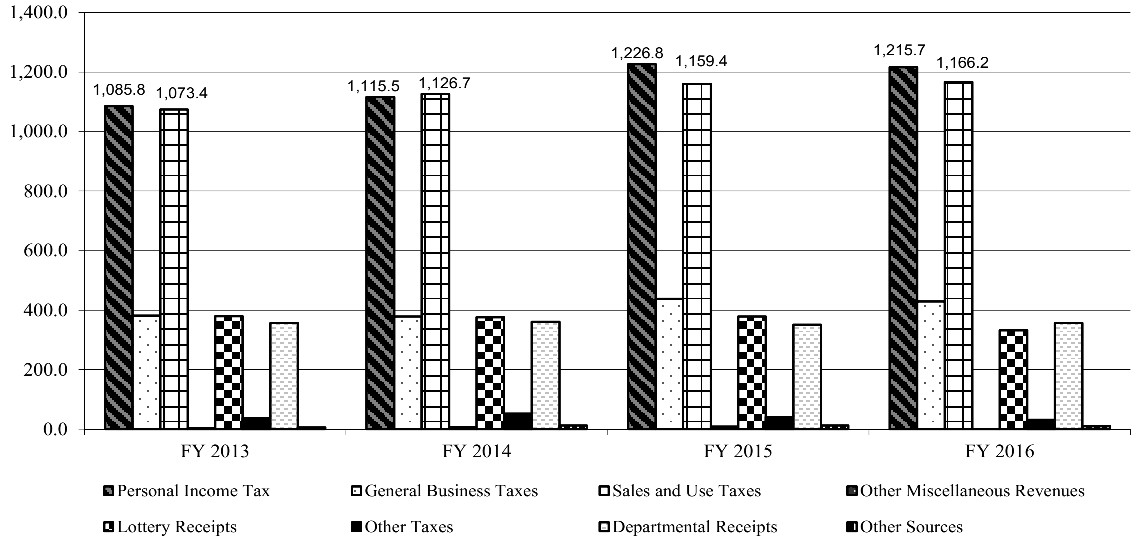
Within the gas tax transfer component of other sources of general revenues, the enacted FY 2016 budget shows no change from the FY 2015 final enacted estimate. Effective July 1, 2009, the state's general fund no longer receives any of the revenues generated by the state's motor fuel tax. It should be noted that the state's motor fuel tax increased from $0.32 per gallon to $0.33 per gallon effective July 1, 2015.

The enacted FY 2016 lottery transfer is $46.9 million less than the final enacted FY 2015 estimate, a decrease of 12.4 percent. The overwhelming majority of the difference in the lottery transfer between the enacted FY 2016 budget and the FY 2015 final enacted budget reflects the onset of casino gaming at the Plainridge Park Casino in Plainville, Massachusetts beginning June 24, 2015 and thereafter. The General Assembly's enacted FY 2016 estimate for the lottery transfer is $760,000 less than the estimate adopted at the May 2015 Revenue Estimating Conference due to the reinstatement of the enhanced share of video lottery net terminal income for the owners of Newport Grand at a rate of 1.9 percentage points. In the FY 2015 final enacted budget, the enhanced share video lottery net terminal income provided to the owners of Newport Grand was 2.25 percentage points. This enhancement expired as of June 30, 2015. In FY 2016, the lottery transfer is expected to be $331.7 million with $54.9 million generated by traditional and monitor games, $263.3 million generated by the video lottery terminals installed at Newport Grand and Twin River and $13.5 million produced by the table games located at Twin River. The lottery transfer is projected to comprise 9.4 percent of enacted total general revenues in FY 2016.

The final category of general revenues is the unclaimed property transfer. In enacted FY 2016, this transfer is expected to decrease by $2.3 million, or 18.7 percent, from the final enacted FY 2015 estimate of $12.3 million. The unclaimed property transfer is projected to be $10.0 million in enacted FY 2016, the same level that was adopted at the May 2015 REC and make up 0.3 percent of FY 2016 enacted total general revenues.

The following chart shows the sources of general revenues for the period FY 2013 – FY 2016. 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 2013 and FY 2014 are derived from the State's Comprehensive Annual Financial Reports for FY 2013 and FY 2014 prepared by the State Controller and post audited by the Auditor General. The general revenue amount reflected for FY 2015 is the final enacted estimate. The general revenue amount for FY 2016 is the amount reflected in the enacted FY 2016 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 2013 through 2016 and expenditures for the fiscal years 2013 through 2016. General Fund data on expenditures for FY 2013 and FY 2014 are derived from the State's Comprehensive Annual Financial Reports prepared by the State Controller and post audited by the Auditor General. The expenditures for FY 2015 and FY 2016 reflect those contained in the FY 2015 Revised Budget and FY 2016 Budget enacted by the General Assembly and signed into law by the Governor on June 30, 2015. 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 2013 and FY 2014 reflect the audited actual revenues as reported by the State Controller. The FY 2015 enacted 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. The FY 2015 revised and FY 2016 enacted revenues are those adopted by the Conferees at the May 2015 Revenue Estimating Conference and any statutory changes approved by the General Assembly as part of the FY 2016 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 2013 Actual	FY 2014 Actual	FY 2015 Enacted	FY 2015 Final Enacted	FY 2016 Enacted
Personal Income Tax	$ 1,085,765,261	$ 1,115,512,527	$ 1,167,700,000	$ 1,226,800,000	$ 1,215,737,125
General Business Taxes					
Business Corporations	131,827,907	114,215,409	112,800,000	143,200,000	136,380,000
Public Utilities Gross Earnings	99,640,815	101,382,220	103,600,000	103,600,000	104,700,000
Financial Institutions	12,594,921	16,610,639	16,000,000	22,000,000	16,500,000
Insurance Companies	92,744,945	102,356,841	113,600,000	123,100,000	125,228,416
Bank Deposits	2,877,325	2,471,553	2,500,000	1,900,000	2,000,000
Health Care Provider Assessment	41,568,589	42,131,465	43,200,000	44,300,000	44,936,976
Sales and Use Taxes					
Sales and Use	878,866,074	916,035,065	955,000,000	954,000,000	969,531,938
Motor Vehicle	49,431,495	52,407,813	49,900,000	49,900,000	36,538,048
Motor Fuel	438,255	523,920	500,000	(200,000)	500,000
Cigarettes	132,516,310	139,461,685	136,800,000	136,900,000	140,780,254
Alcohol	12,176,109	18,252,450	19,000,000	18,800,000	18,839,500
Controlled Substances	-	48,188	-	-	-
Other Taxes					
Inheritance and Gift	28,489,275	43,592,370	27,000,000	31,500,000	20,400,000
Racing and Athletics	1,171,108	1,176,869	1,100,000	1,100,000	1,100,000
Realty Transfer	7,399,222	7,961,816	8,800,000	9,000,000	10,210,937
Total Taxes	**$ 2,577,507,611**	**$ 2,674,140,830**	**$ 2,757,500,000**	**$ 2,865,900,000**	**$ 2,843,383,194**
Departmental Receipts	**356,831,653**	**360,678,655**	**348,935,659**	**350,585,054**	**$ 357,236,271**
Taxes and Departmentals	**$ 2,934,339,264**	**$ 3,034,819,485**	**$ 3,106,435,659**	**$ 3,216,485,054**	**$ 3,200,619,465**
Other Sources					
Other Miscellaneous	4,166,214	6,391,686	9,065,990	9,360,400	1,397,000
Lottery	379,224,715	376,327,121	383,300,000	378,600,000	331,740,000
Unclaimed Property	6,268,627	12,724,124	11,000,000	12,300,000	10,000,000
Other Sources	**$ 389,659,556**	**$ 395,442,931**	**$ 403,365,990**	**$ 400,260,400**	**$ 343,137,000**
Total General Revenues	**$ 3,323,998,820**	**$ 3,430,262,416**	**$ 3,509,801,649**	**$ 3,616,745,454**	**$ 3,543,756,465**

FY 2015 General Revenue Changes to Enacted

	Original Enacted Revenues *July 2014*	November 2014 REC *November 2014*	Governor Recommended *March 2015*	May 2015 REC *May 2015*	Total Enacted Revenue Enhancements *June 2015*	Final Enacted Revenues *June 2015*
Personal Income Tax	$ 1,157,132,269	$ 1,167,700,000	$ 1,167,700,000	$ 1,226,800,000	**$ -**	$ 1,226,800,000
General Business Taxes						
Business Corporations	118,811,698	112,800,000	112,800,000	143,200,000	-	143,200,000
Public Utilities Gross Earnings	112,000,000	103,600,000	103,600,000	103,600,000	-	103,600,000
Financial Institutions	11,500,000	16,000,000	16,000,000	22,000,000	-	22,000,000
Insurance Companies	115,503,704	113,600,000	113,600,000	123,100,000	-	123,100,000
Bank Deposits	2,400,000	2,500,000	2,500,000	1,900,000	-	1,900,000
Health Care Provider Assessment	42,137,188	43,200,000	43,200,000	44,300,000	-	44,300,000
Sales and Use Taxes						
Sales and Use	939,619,684	955,000,000	955,000,000	954,000,000	-	954,000,000
Motor Vehicle	49,500,000	49,900,000	49,900,000	49,900,000	-	49,900,000
Motor Fuel	500,000	500,000	500,000	(200,000)	-	(200,000)
Cigarettes	135,800,000	136,800,000	136,800,000	136,900,000	-	136,900,000
Alcohol	17,442,085	19,000,000	19,000,000	18,800,000	-	18,800,000
Other Taxes						
Estate and Transfer	27,009,849	27,000,000	27,000,000	31,500,000	-	31,500,000
Racing and Athletics	1,100,000	1,100,000	1,100,000	1,100,000	-	1,100,000
Realty Transfer	8,500,000	8,800,000	8,800,000	9,000,000	-	9,000,000
Total Taxes	**$ 2,738,956,477**	**$ 2,757,500,000**	**$ 2,757,500,000**	**$ 2,865,900,000**	**$ -**	**$ 2,865,900,000**
Departmental Receipts	**$ 351,671,912**	**$ 349,300,000**	**$ 348,935,659**	**$ 349,800,000**	**$ 785,054**	**$ 350,585,054**
Taxes and Departmentals	**$ 3,090,628,389**	**$ 3,106,800,000**	**$ 3,106,435,659**	**$ 3,215,700,000**	**$ 785,054**	**$ 3,216,485,054**
Other Sources						
Other Miscellaneous	7,475,000	7,800,000	9,065,990	9,085,000	275,400	9,360,400
Lottery	384,500,000	383,300,000	383,300,000	378,600,000	-	378,600,000
Unclaimed Property	10,500,000	11,000,000	11,000,000	12,300,000	-	12,300,000
Other Sources	**$ 402,475,000**	**$ 402,100,000**	**$ 403,365,990**	**$ 399,985,000**	**$ 275,400**	**$ 400,260,400**
Total General Revenues	**$ 3,493,103,389**	**$ 3,508,900,000**	**$ 3,509,801,649**	**$ 3,615,685,000**	**$ 1,060,454**	**$ 3,616,745,454**

FY 2016 General Revenue Changes to Estimated

	Initial Estimated Revenues *November 2014*	Governor Recommended *March 2015*	May 2015 REC *May 2015*	Enacted Revenue Enhancements *June 2015*	Original Enacted *June 2015*
Personal Income Tax	$ 1,216,600,000	$ 1,210,669,294	$ 1,228,200,000	$ (12,462,875)	$ 1,215,737,125
General Business Taxes					
Business Corporations	119,100,000	119,456,347	138,000,000	(1,620,000)	136,380,000
Public Utilities Gross Earnings	105,000,000	105,000,000	104,700,000		104,700,000
Financial Institutions	16,500,000	15,628,416	16,500,000		16,500,000
Insurance Companies	116,000,000	116,000,000	126,100,000	(871,584)	125,228,416
Bank Deposits	2,500,000	2,500,000	2,000,000		2,000,000
Health Care Provider Assessment	44,300,000	43,276,416	45,800,000	(863,024)	44,936,976
Sales and Use Taxes					
Sales and Use	1,000,000,000	1,003,373,471	1,000,000,000	(30,468,062)	969,531,938
Motor Vehicle	39,600,000	50,229,883	39,100,000	(2,561,952)	36,538,048
Motor Fuel	500,000	500,000	500,000		500,000
Cigarettes	134,200,000	140,685,281	134,300,000	6,480,254	140,780,254
Alcohol	13,000,000	13,000,000	12,400,000	6,439,500	18,839,500
Other Taxes					
Estate and Transfer	19,200,000	19,200,000	20,400,000		20,400,000
Racing and Athletics	1,100,000	1,100,000	1,100,000		1,100,000
Realty Transfer	9,300,000	9,995,970	9,500,000	710,937	10,210,937
Statewide Property Tax	0	11,761,679	-		-
Total Taxes	**$ 2,836,900,000**	**$ 2,862,376,757**	**$ 2,878,600,000**	**$ (35,216,806)**	**$ 2,843,383,194**
Departmental Receipts	**199,300,000**	**351,034,350**	**$ 194,300,000**	**$ 162,936,271**	**$ 357,236,271**
Taxes and Departmentals	**$ 3,036,200,000**	**$ 3,213,411,107**	**$ 3,072,900,000**	**$ 127,719,465**	**$ 3,200,619,465**
Other Sources					
Other Miscellaneous	1,081,000	40,811,000	1,397,000		1,397,000
Lottery	334,800,000	334,800,000	332,500,000	(760,000)	331,740,000
Unclaimed Property	8,100,000	8,100,000	10,000,000		10,000,000
Other Sources	**$ 343,981,000**	**$ 383,711,000**	**$ 343,897,000**	**$ (760,000)**	**$ 343,137,000**
Total General Revenues	**$ 3,380,181,000**	**$ 3,597,122,107**	**$ 3,416,797,000**	**$ 126,959,465**	**$ 3,543,756,465**

Expenditures from All Funds

	FY 2013 Actual	FY 2014 Actual	FY 2015 Enacted	FY 2015 Final Revised	FY 2016 Enacted
General Government					
Administration	$376,882,855	$412,495,073	$425,765,956	$456,786,617	$368,031,640
Business Regulation	14,707,298	12,249,226	$12,976,430	$13,817,345	$14,620,512
Labor and Training	651,866,244	511,348,590	$511,579,990	$488,707,875	$443,730,008
Revenue	348,801,260	422,287,255	$460,214,642	$447,477,238	$423,207,249
Executive Office of Commerce	0	0	$0	$221,314	$74,924,345
Legislature	37,045,498	35,681,698	$38,016,750	$40,748,731	$41,154,944
Lieutenant Governor	1,243,608	2,673,290	$1,089,434	$1,064,842	$1,192,621
Secretary of State	7,313,841	6,668,513	$8,366,955	$7,935,146	$7,986,884
General Treasurer	42,696,505	38,039,736	$35,241,893	$40,769,417	$39,094,693
Board of Elections	1,846,513	1,573,262	$4,145,127	$4,656,199	$1,818,305
Rhode Island Ethics Commission	1,500,568	1,541,741	$1,581,205	$1,618,883	$1,644,876
Governor's Office	4,024,335	3,975,744	$4,527,562	$4,655,727	$4,903,467
Commission for Human Rights	1,454,143	1,489,579	$1,480,179	$1,542,465	$1,548,010
Public Utilities Commission	7,130,573	6,823,882	$8,459,886	$8,430,886	$8,684,685
Subtotal - General Government	**$1,496,513,241**	**$1,456,847,589**	**$1,513,446,009**	**$1,518,432,685**	**$1,432,542,239**
Health and Human Services					
Office of Health & Human Services (1)	$1,663,295,783	$1,945,613,900	$2,391,411,846	$2,366,140,844	$2,387,903,953
Children, Youth, and Families	210,554,312	219,685,921	$210,636,391	$225,388,934	$216,592,410
Health	103,167,181	108,576,130	$122,645,570	$125,993,525	$121,401,905
Human Services (1)	631,829,247	613,340,811	$649,786,890	$626,692,236	$622,403,505
Behavioral Healthcare, Developmental Disabilities and Hospitals	437,129,468	445,714,460	$365,509,826	$373,191,765	$370,945,694
Governor's Commission on Disabilities	447,357	871,546	$1,508,802	$1,322,596	$428,524
Commission On Deaf and Hard of Hearing	371,083	399,505	$474,279	$478,741	$491,883
Office of the Child Advocate	610,133	583,702	$661,817	$683,154	$717,273
Office of the Mental Health Advocate	340,722	485,005	$495,010	$506,078	$508,251
Subtotal - Human Services	**$3,047,745,286**	**$3,335,270,980**	**$3,743,130,431**	**$3,720,397,873**	**$3,721,393,398**
Education					
Elementary and Secondary	$1,171,742,290	$1,197,362,280	$1,246,096,357	$1,249,608,269	$1,308,490,695
Higher Education - Board of Governors	1,008,387,638	1,061,770,203	$1,080,789,192	$1,075,676,716	$1,090,159,436
RI Council on the Arts	3,094,687	2,280,949	$2,914,959	$2,972,986	$4,036,698
RI Atomic Energy Commission	1,230,680	1,133,765	$1,271,174	$1,605,088	$1,337,169
Higher Education Assistance Authority	25,054,892	22,873,672	$23,946,961	$15,832,630	$0
Historical Preservation and Heritage Comm.	1,876,982	2,000,284	$5,909,976	$6,085,081	$3,956,703
Public Telecommunications Authority	784,886	0	-	-	-
Subtotal - Education	**$2,212,172,055**	**$2,287,421,153**	**$2,360,928,619**	**$2,351,780,770**	**$2,407,980,701**

Expenditures from All Funds

	FY 2013 Actual	FY 2014 Actual	FY 2015 Enacted	FY 2015 Final Revised	FY 2016 Enacted
Public Safety					
Attorney General	$25,023,767	$31,009,997	$36,791,685	$39,992,612	$34,035,317
Corrections	189,506,984	195,805,164	$209,326,500	$206,546,663	$211,025,689
Judicial	105,381,333	107,052,063	$105,669,516	$110,722,314	$116,299,126
Military Staff (2)	17,667,282	17,832,753	$18,454,074	$18,893,837	$19,408,098
Rhode Island Emergency Management Agency (2)	-	-	20,622,227	23,770,923	$18,537,918
Public Safety	103,867,362	111,609,833	$126,554,846	$123,509,784	$123,725,416
Office Of Public Defender	10,651,421	10,917,680	$11,379,680	$11,102,211	$11,700,347
Subtotal - Public Safety	**$452,098,149**	**$474,227,490**	**$528,798,528**	**$534,538,344**	**$534,731,911**
Natural Resources					
Environmental Management	$67,572,786	$79,469,714	$103,811,527	$106,654,264	$99,304,621
Coastal Resources Management Council	4,667,950	4,457,741	$4,959,681	$9,923,794	$5,669,383
Subtotal - Natural Resources	**$72,240,736**	**$83,927,455**	**$108,771,208**	**$116,578,058**	**$104,974,004**
Transportation					
Transportation	$431,023,967	$417,748,153	$525,120,546	$489,454,123	$463,816,478
Subtotal - Transportation	**$431,023,967**	**$417,748,153**	**$525,120,546**	**$489,454,123**	**$463,816,478**
Total	**$7,711,793,434**	**$8,055,442,820**	**$8,780,195,341**	**$8,731,181,853**	**$8,665,438,731**

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

(2) In 2015, the Rhode Island Emergency Management Agency was split off from the Military Staff, effective July 1, 2014.

Expenditures from General Revenues

	FY 2013 Actual	FY 2014 Actual	FY 2015 Enacted	FY 2015 Final Revised	FY 2016 Enacted
General Government					
Administration	$260,904,556	$259,268,901	$268,843,237	$250,073,307	$197,494,291
Business Regulation	8,610,843	8,526,389	$9,013,477	$8,802,653	$9,236,495
Labor and Training	7,730,995	8,027,721	$8,669,103	$8,718,217	$8,324,769
Revenue	94,786,540	99,768,361	$107,798,690	$107,304,673	$113,198,446
Executive Office of Commerce	0	0	$0	$221,314	$60,840,542
Legislature	35,681,738	34,498,448	$36,429,671	$39,233,413	$39,474,071
Lieutenant Governor	942,140	957,446	$1,015,084	$1,007,208	$1,127,621
Secretary of State	6,810,969	6,196,251	$7,337,203	$7,296,007	$6,951,530
General Treasurer	2,532,414	2,384,819	$2,432,105	$2,417,151	$2,420,250
Board of Elections	1,846,488	1,573,262	$4,145,127	$4,656,199	$1,818,305
Rhode Island Ethics Commission	1,500,568	1,541,741	$1,581,205	$1,618,883	$1,644,876
Governor's Office	4,024,335	3,975,744	$4,527,562	$4,655,727	$4,903,467
Commission for Human Rights	1,131,840	1,138,859	$1,193,083	$1,231,773	$1,252,174
Public Utilities Commission	-	-	-	-	-
Subtotal - General Government	**$426,503,426**	**$427,857,942**	**$452,985,547**	**$437,236,525**	**$448,686,837**
Health and Human Services					
Office of Health & Human Services (1)	$772,296,683	$839,589,446	$904,633,663	$926,069,661	$909,934,065
Children, Youth, and Families	150,929,977	154,719,224	$148,707,146	$159,341,580	$152,587,731
Health	24,068,601	23,469,936	$22,957,920	$22,829,506	$25,835,956
Human Services (1)	97,459,617	92,107,740	$96,328,781	$94,847,483	$98,271,683
Behavioral Healthcare, Developmental Disabilities and Hospitals	196,900,069	200,160,407	$167,536,873	$173,300,573	$172,488,711
Governor's Commission on Disabilities	337,427	339,529	$358,275	$357,141	$383,056
Commission On Deaf and Hard of Hearing	371,083	375,549	$394,279	$398,741	$411,883
Office of the Child Advocate	578,085	544,231	$611,817	$633,154	$672,273
Office of the Mental Health Advocate	340,722	485,005	$495,010	$506,078	$508,251
Subtotal - Human Services	**$1,243,282,264**	**$1,311,791,067**	**$1,342,023,764**	**$1,378,283,917**	**$1,361,093,609**
Education					
Elementary and Secondary	$928,462,807	$959,927,061	$1,004,400,123	$1,002,758,930	$1,067,719,085
Higher Education - Board of Governors	172,678,735	179,174,880	$190,954,911	$188,230,069	$196,304,956
RI Council on the Arts	1,561,217	1,310,474	$1,483,075	$1,491,068	$1,863,052
RI Atomic Energy Commission	829,034	859,903	$913,197	$907,737	$957,170
Higher Education Assistance Authority	5,693,317	4,333,323	$147,000	$147,000	$0
Historical Preservation and Heritage Comm.	1,242,950	1,282,682	$1,320,610	$1,206,107	$1,380,972
Public Telecommunications Authority	799,077	0	-	-	-
Subtotal - Education	**$1,111,267,137**	**$1,146,888,323**	**$1,199,218,916**	**$1,194,740,911**	**$1,268,225,235**

Expenditures from General Revenues

	FY 2013 Actual	FY 2014 Actual	FY 2015 Enacted	FY 2015 Final Revised	FY 2016 Enacted
Public Safety					
Attorney General	$22,301,954	$23,235,530	$23,607,146	$24,360,068	$25,193,210
Corrections	184,044,974	188,152,167	$187,745,480	$196,263,428	$200,225,250
Judicial	87,871,336	91,551,391	$91,636,668	$94,058,445	$96,031,046
Military Staff (2)	3,548,304	3,461,473	$1,842,096	$2,164,935	$2,065,434
Rhode Island Emergency Management Agency (2)	-	-	1,959,858	1,861,076	$1,766,002
Public Safety	90,408,367	96,048,576	$95,294,034	$98,287,230	$97,060,493
Office Of Public Defender	10,472,687	10,742,068	$11,130,816	$10,948,671	$11,621,977
Subtotal - Public Safety	**$398,647,622**	**$413,191,205**	**$413,216,098**	**$427,943,853**	**$433,963,412**
Natural Resources					
Environmental Management	$34,140,929	$34,534,163	$35,540,105	$36,105,322	$37,586,385
Coastal Resources Management Council	2,205,036	2,160,560	$2,185,538	$2,312,843	$2,433,260
Subtotal - Natural Resources	**$36,345,965**	**$36,694,723**	**$37,725,643**	**$38,418,165**	**$40,019,645**
Transportation					
Transportation	-	-	-	-	-
Subtotal - Transportation	-	-	-	-	-
Total	**$3,216,046,414**	**$3,336,423,260**	**$3,445,169,968**	**$3,476,623,371**	**$3,551,988,738**

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

(2) In 2015, the Rhode Island Emergency Management Agency was split off from the Military Staff, effective July 1, 2014.

Expenditures from Federal Funds

	FY 2013 Actual	FY 2014 Actual	FY 2015 Enacted	FY 2015 Final Revised	FY 2016 Enacted
General Government					
Administration	$48,041,755	$72,702,362	$51,493,455	$89,252,942	$43,302,629
Business Regulation	4,698,165	2,038,842	$2,021,830	$2,469,508	$2,795,240
Labor and Training	151,039,255	72,019,823	$42,183,672	$51,882,281	$38,164,061
Revenue	1,951,612	1,655,815	$5,113,145	$6,089,666	$1,315,154
Executive Office of Commerce	0	0	$0	$0	$10,983,803
Legislature	-	-	-	-	-
Lieutenant Governor	301,468	1,583,196	$74,350	$40,134	$65,000
Secretary of State	2,541	16,040	-	$34,123	-
General Treasurer	1,027,164	852,195	$870,338	$902,766	$891,955
Board of Elections	25	0	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	-	-	-	-
Commission for Human Rights	322,303	350,720	$287,096	$310,692	$295,836
Public Utilities Commission	281,102	207,575	$87,733	$87,733	$90,000
Subtotal - General Government	**$207,665,390**	**$151,426,568**	**$102,131,619**	**$151,069,845**	**$97,903,678**
Health and Human Services					
Office of Health & Human Services (1)	$879,749,357	$1,093,456,235	$1,470,870,303	$1,424,270,855	$1,462,232,758
Children, Youth, and Families	56,817,343	61,602,917	$56,568,664	$62,202,837	$58,927,126
Health	54,360,133	55,777,861	$65,094,393	$69,625,405	$65,752,434
Human Services (1)	523,431,013	513,984,570	$547,332,819	$524,207,412	$517,462,308
Behavioral Healthcare, Developmental Disabilities and Hospitals	229,691,069	228,621,075	$181,157,004	$185,561,701	$182,605,186
Governor's Commission on Disabilities	101,893	50,799	$141,350	$305,524	$35,459
Commission On Deaf and Hard of Hearing	-	-	-	-	-
Office of the Child Advocate	32,048	39,471	$50,000	$50,000	$45,000
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	**$1,744,182,856**	**$1,953,532,928**	**$2,321,214,533**	**$2,266,223,734**	**$2,287,060,271**
Education					
Elementary and Secondary	$214,304,994	$203,805,167	$208,495,934	$214,845,235	$203,962,314
Higher Education - Board of Governors	4,015,957	5,204,666	$5,092,287	$5,099,787	$15,092,544
RI Council on the Arts	713,635	686,230	$799,348	$735,546	$775,353
RI Atomic Energy Commission	132,451	12,301	$0	$351,171	54,699
Higher Education Assistance Authority	10,977,121	10,244,455	$15,465,693	$7,293,103	$0
Historical Preservation and Heritage Comm.	538,626	522,900	$2,183,588	$2,259,795	$2,075,393
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	**$230,682,784**	**$220,475,719**	**$232,036,850**	**$230,584,637**	**$221,960,303**

Expenditures from Federal Funds

	FY 2013 Actual	FY 2014 Actual	FY 2015 Enacted	FY 2015 Final Revised	FY 2016 Enacted
Public Safety					
Attorney General	$1,390,205	$1,648,980	$1,634,631	$2,679,629	$1,291,777
Corrections	1,950,008	1,834,575	$1,654,703	$2,009,400	$1,337,381
Judicial	3,411,809	2,986,862	$1,909,247	$3,409,568	$3,431,136
Military Staff (2)	11,106,469	12,436,636	$14,779,178	$14,518,597	$15,361,864
Rhode Island Emergency Management Agency (2)	-	-	18,273,640	21,438,224	$16,551,541
Public Safety	5,960,830	6,597,933	6,894,275	$8,272,348	$6,764,072
Office Of Public Defender	178,734	175,612	248,864	$153,540	$78,370
Subtotal - Public Safety	**$23,998,055**	**$25,680,598**	**$45,394,538**	**$52,481,306**	**$44,816,141**
Natural Resources					
Environmental Management	$18,300,658	$22,231,819	$31,859,611	$34,034,773	$29,307,477
Coastal Resources Management Council	2,021,633	2,127,181	1,774,143	$7,110,951	$2,614,348
Subtotal - Natural Resources	**$20,322,291**	**$24,359,000**	**$33,633,754**	**$41,145,724**	**$31,921,825**
Transportation					
Transportation	$295,553,335	$300,726,956	$352,114,755	$309,680,767	$263,615,422
Subtotal - Transportation	**$295,553,335**	**$300,726,956**	**$352,114,755**	**$309,680,767**	**$263,615,422**
Total	**$2,522,404,711**	**$2,676,201,769**	**$3,086,526,049**	**$3,051,186,013**	**$2,947,277,640**

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

(2) In 2015, the Rhode Island Emergency Management Agency was split off from the Military Staff, effective July 1, 2014.

Expenditures from Restricted Receipts

	FY 2013 Actual	FY 2014 Actual	FY 2015 Enacted	FY 2015 Final Revised	FY 2016 Enacted
General Government					
Administration	$7,165,104	$15,899,348	$36,398,746	$33,430,042	$28,853,407
Business Regulation	1,398,290	1,683,995	$1,941,123	$2,545,184	$2,588,777
Labor and Training	36,663,287	36,675,422	$41,540,583	$51,418,162	$21,495,150
Revenue	1,730,219	1,696,101	$4,000,819	$2,309,433	$3,894,326
Executive Office of Commerce	0	0	$0	$0	$2,800,000
Legislature	1,363,760	1,183,250	$1,587,079	$1,515,318	$1,680,873
Lieutenant Governor	-	132,648	-	$17,500	-
Secretary of State	500,331	456,222	$529,752	$541,262	$599,108
General Treasurer	38,966,029	34,602,288	$31,718,842	$37,230,506	$35,263,670
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	-	-	-	-
Commission for Human Rights	-	-	-	-	-
Public Utilities Commission	6,849,471	6,616,307	$8,372,153	$8,343,153	$8,594,685
Subtotal - General Government	**$94,636,491**	**$98,945,581**	**$126,089,097**	**$137,350,560**	**$105,769,996**
Health and Human Services					
Office of Health & Human Services (1)	$11,249,743	$12,568,219	$15,907,880	$15,800,328	$15,737,130
Children, Youth, and Families	2,448,750	2,762,996	$2,448,750	$2,840,143	$2,838,967
Health	24,703,887	29,272,149	$34,593,257	$33,469,564	$29,813,515
Human Services (1)	7,232,941	2,355,044	$1,797,309	$3,074,518	$2,076,036
Behavioral Healthcare, Developmental Disabilities and Hospitals	6,039,273	8,459,502	$9,608,663	$8,790,976	$9,180,797
Governor's Commission on Disabilities	5,217	6,898	$9,177	$9,931	$10,009
Commission On Deaf and Hard of Hearing	-	23,956	$80,000	$80,000	$80,000
Office of the Child Advocate	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	**$51,679,811**	**$55,448,764**	**$64,445,036**	**$64,065,460**	**$59,736,454**
Education					
Elementary and Secondary	$23,405,069	$25,529,786	$26,953,972	$27,384,533	$28,948,926
Higher Education - Board of Governors	596,538	630,618	$644,000	$644,000	$653,200
RI Council on the Arts	-	-	-	-	-
RI Atomic Energy Commission	-	-	-	-	-
Higher Education Assistance Authority	-	-	-	-	-
Historical Preservation and Heritage Comm.	42,137	45,108	$434,910	$428,630	$428,630
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	**$24,043,744**	**$26,205,512**	**$28,032,882**	**$28,457,163**	**$30,030,756**

Expenditures from Restricted Receipts

	FY 2013 Actual	FY 2014 Actual	FY 2015 Enacted	FY 2015 Final Revised	FY 2016 Enacted
Public Safety					
Attorney General	$923,413	$5,900,916	$11,249,908	$12,702,915	$7,250,330
Corrections	52,723	53,383	$398,879	$404,403	$47,058
Judicial	10,393,917	10,426,434	$10,773,601	$11,820,152	$11,336,944
Military Staff (2)	359,161	301,196	$442,800	$438,300	$323,300
Rhode Island Emergency Management Agency (2)	-	-	221,729	216,680	$220,375
Public Safety	3,076,402	4,060,157	12,863,854	$9,215,075	$11,176,346
Office Of Public Defender	-	-	-	-	-
Subtotal - Public Safety	**$14,805,616**	**$20,742,086**	**$35,950,771**	**$34,797,525**	**$30,354,353**
Natural Resources					
Environmental Management	$12,009,000	$13,377,916	$15,934,989	$16,478,862	$18,354,537
Coastal Resources Management Council	219,000	170,000	250,000	$250,000	$250,000
Subtotal - Natural Resources	**$12,228,000**	**$13,547,916**	**$16,184,989**	**$16,728,862**	**$18,604,537**
Transportation					
Transportation	$973,230	$7,202,773	$12,352,761	$2,250,000	$1,000,000
Subtotal - Transportation	**$973,230**	**$7,202,773**	**$12,352,761**	**$2,250,000**	**$1,000,000**
Total	**$198,366,892**	**$222,092,632**	**$283,055,536**	**$283,649,570**	**$245,496,096**

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

(2) In 2015, the Rhode Island Emergency Management Agency was split off from the Military Staff, effective July 1, 2014.

Expenditures from Other Funds

	FY 2013 Actual	FY 2014 Actual	FY 2015 Enacted	FY 2015 Final Revised	FY 2016 Enacted
General Government					
Administration	$60,771,440	$64,624,462	$69,030,518	$84,030,326	$98,381,313
Business Regulation	-	-	-	-	-
Labor and Training	456,432,707	394,625,624	$419,186,632	$376,689,215	$375,746,028
Revenue	250,332,889	319,166,978	$343,301,988	$331,773,466	$304,799,323
Executive Office of Commerce	0	0	$0	$0	$300,000
Legislature	-	-	-	-	-
Lieutenant Governor	-	-	-	-	-
Secretary of State	-	-	500,000	63,754	$436,246
General Treasurer	170,898	200,434	$220,608	$218,994	$518,818
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	-	-	-	-
Commission for Human Rights	-	-	-	-	-
Public Utilities Commission	-	-	-	-	-
Subtotal - General Government	**$767,707,934**	**$778,617,498**	**$832,239,746**	**$792,775,755**	**$780,181,728**
Health and Human Services					
Office of Health & Human Services (1)	-	-	-	-	-
Children, Youth, and Families	358,242	600,784	$2,911,831	$1,004,374	$2,238,586
Health	34,560	56,184	$0	$69,050	$0
Human Services (1)	3,705,676	4,893,457	$4,327,981	$4,562,823	$4,593,478
Behavioral Healthcare, Developmental Disabilities and Hospitals	4,499,057	8,473,476	$7,207,286	$5,538,515	$6,671,000
Governor's Commission on Disabilities	2,820	474,320	$1,000,000	$650,000	$0
Commission On Deaf and Hard of Hearing	-	-	-	-	-
Office of the Child Advocate	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	**$8,600,355**	**$14,498,221**	**$15,447,098**	**$11,824,762**	**$13,503,064**
Education					
Elementary and Secondary	$5,569,420	$8,100,266	$6,246,328	$4,619,571	$7,860,370
Higher Education - Board of Governors	831,096,408	876,760,039	$884,097,994	$881,702,860	$878,108,736
RI Council on the Arts	819,835	284,245	$632,536	$746,372	$1,398,293
RI Atomic Energy Commission	269,195	261,561	$357,977	$346,180	$325,300
Higher Education Assistance Authority	8,384,454	8,295,894	$8,334,268	$8,392,527	$0
Historical Preservation and Heritage Comm.	53,269	149,594	$1,970,868	$2,190,549	$71,708
Public Telecommunications Authority	(14,191)	0	-	-	-
Subtotal - Education	**$846,178,390**	**$893,851,599**	**$901,639,971**	**$897,998,059**	**$887,764,407**

Expenditures from Other Funds

	FY 2013 Actual	FY 2014 Actual	FY 2015 Enacted	FY 2015 Final Revised	FY 2016 Enacted
Public Safety					
Attorney General	$408,195	$224,571	$300,000	$250,000	$300,000
Corrections	3,459,279	5,765,039	$19,527,438	$7,869,432	$9,416,000
Judicial	3,704,271	2,087,376	$1,350,000	$1,434,149	$5,500,000
Military Staff (2)	2,653,348	1,633,448	$1,390,000	$1,772,005	$1,657,500
Rhode Island Emergency Management Agency (2)	-	-	167,000	254,943	$0
Public Safety	4,421,763	4,903,167	11,502,683	$7,735,131	$8,724,505
Office Of Public Defender	-	-	-	-	-
Subtotal - Public Safety	**$14,646,856**	**$14,613,601**	**$34,237,121**	**$19,315,660**	**$25,598,005**
Natural Resources					
Environmental Management	$3,122,199	$9,325,816	$20,476,822	$20,035,307	$14,056,222
Coastal Resources Management Council	222,281	-	750,000	250,000	$371,775
Subtotal - Natural Resources	**$3,344,480**	**$9,325,816**	**$21,226,822**	**$20,285,307**	**$14,427,997**
Transportation					
Transportation	$134,497,402	$109,818,424	$160,653,030	$177,523,356	$199,201,056
Subtotal - Transportation	**$134,497,402**	**$109,818,424**	**$160,653,030**	**$177,523,356**	**$199,201,056**
Total	**$1,774,975,417**	**$1,820,725,159**	**$1,965,443,788**	**$1,919,722,899**	**$1,920,676,257**

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

(2) In 2015, the Rhode Island Emergency Management Agency was split off from the Military Staff, effective July 1, 2014.

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 2017 through FY 2020, which were based on the FY 2016 recommended budget and revenue forecasts from May 2015, forecasted deficits of $97.9 million for FY 2017, $207.1 million for FY 2018, $244.4 million for FY 2019 and $304.7 million for FY 2020. 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 Audited Closing

The State Controller's Office issued its final closing report for FY 2014 on December 29, 2014. The report showed a general revenue surplus of $67.8 million. General revenue receipts were $14.2 million more than estimated and spending was $16.0 million less than budgeted. The Budget Reserve and Cash Stabilization account was fully funded at $176.7 million.

As reflected in the Free Surplus table, a surplus of $59.2 million was projected for FY 2014, so the final surplus of $67.8 million was $8.6 million better than expected.

FY 2015 Final Revised Budget

The FY 2015 final Revised Budget was enacted by the General Assembly and signed into law by the Governor on June 30, 2015. The FY 2015 final Revised Budget increased general revenue expenditures by $31.5 million, including reappropriations of $7.4 million for total spending of $3.477 billion. On an all funds basis, the budget decreases by $49.0 million for total spending of $8.731 billion. The final revised budget includes additional funding for increased Medicaid caseload projections of $21.0 million as estimated at the May Caseload Estimating Conference; funding for compounded cost of living adjustments provided to state employees in April 2014 and October 2014 that were not funded in the enacted budget; additional funding for increased operational costs at the Departments of Children, Youth and Families, Corrections and Public Safety; offset by savings of over $27 million in debt service due to refunding savings, better interest rates on recent issues than budgeted and delay in the issuance of some debt.

In addition to the revenues estimated at the May 2015 Revenue Estimating Conference, the FY 2015 Revised Budget accounted for additional revenues from a change in the hospital licensing fee rate ($1.15 million); the transfer of a private grant from general revenue to restricted receipts (-$0.4 million) and a settlement received by the Attorney General's office ($0.3 million).

FY 2016 Enacted Budget

The FY 2016 enacted budget provides for general revenue expenditures of $3.552 billion, an increase of $75.4 million over the FY 2015 revised budget of $3.477 billion for total spending. The initial projected deficit for FY 2016 was $166.0 million and was adjusted upward to $190.4 million subsequent to the November Revenue and Caseload Estimating Conferences. The May Revenue and Caseload Estimating Conferences resulted in additional revenues of $143.4 million over FY 2015 and FY 2016 and reduced costs for caseloads of $14.9 million. On an all funds basis, the FY 2016 enacted budget is $8.665 billion, a decrease of $65.7 million from the FY 2015 revised budget.

The FY 2016 enacted budget invests heavily in economic development through the newly created Executive Office of Commerce and the existing Rhode Island Commerce Corporation (Commerce RI). The Governor recommended a refinancing and restructuring of general obligation bond debt to achieve up front debt service savings in fiscal years 2016 and 2017 totaling approximately $84.0 million that will be invested in a number of economic development initiatives, some of which include:

- I - 195 Development Fund – The I-195 Fund would provide the state with additional tools to attract new world-class institutions, employers and other assets to the I-195 land. The budget includes $25.0 million to support infrastructure improvements and other incentives to promote this important economic development resource. Funds will not be used for a stadium or sport-related complex.

- Small Business Assistance Initiative – Unlike its neighboring states, Rhode Island lacks a state-backed small business loan fund. The Governor proposes $5.2 million to capitalize loan programs and other forms of assistance for small businesses. This fund will leverage private sources of funding to create a sustainable source of capital for Rhode Island small businesses.

- Innovation Initiative – The budget recommends $1.0 million over two years to support promising companies in areas as advanced industries, technology, and other strategically important sectors. The Innovation Initiative will support the creation of incubator space and other forms of assistance for innovative young companies.

- First Wave Fund – The budget includes $5.0 million to provide state economic development officials with flexibility when working with businesses interested in locating to or expanding in Rhode Island. The First Wave Fund will allow officials to make critical investments, resolve complex negotiating issues and obtain technical and legal support when closing transactions.

- Affordable Housing – The budget proposes $3.0 million to finance the production and preservation of affordable housing for young workers, seniors and other residents. Projects will be prioritized if they can move to construction quickly and leverage federal affordable housing tax credit dollars.

In the Medical Assistance program, there are a number of savings proposals designed to contain the Medicaid program's expenditure growth in both FY 2016 and subsequent years. First, reductions to all Medicaid managed care capitation (i.e. monthly cost per member) rates, effective July 1, 2015, for savings totaling $4.7 million in general revenue. Rates will be negotiated so as to reduce average annual growth in these rates by 0.9 percent relative to the increases assumed at the May 2015 CEC. Second, the enacted budget includes general revenue savings of $11.7 million for eliminating scheduled FY 2016 hospital payment rate increase(s) and imposing a 2.5 percent reduction to payment rates; savings of $17.7 million for the elimination of the FY 2016 nursing facility rate increase and a 2.0 percent reduction to payment rates; and various other initiatives that strengthen program integrity, maximize leveraging of federal funds, and rationalize the delivery of out-of plan services for children with special healthcare needs.

The Governor established the Working Group to Reinvent Medicaid on February 26, 2015, via Executive Order 15-08. The working group developed a plan to foster innovation and improve Medicaid so those who need it most receive the best care at lower costs. The group included a diverse set of community leaders with unique expertise in health care, business, and public health policy. Through a series of public meetings across the state, they heard from patients, caregivers, doctors, nurses, hospitals, nursing homes, community health centers, behavioral health providers, and other health policy leaders to fully understand the challenges facing Rhode Island's Medicaid system. The group developed a plan to improve the quality of care Rhode Islanders receive and reduce the costs for Rhode Island taxpayers. More information about the Working Group's efforts can be found at http://reinventingmedicaid.ri.gov/.

The enacted budget includes $8.2 million in statewide savings related to personnel and employee benefits ($5.0 million), utility costs ($1.0 million), contract management ($2.0 million) and various other savings ($225,000).

The enacted budget fully funds the fifth year of the education funding formula, but level funds most other aid to local governments. A one-time, $5.0 million, increase to the PILOT program, financed with a one-time resource in FY 2015, was not recommended to continue in FY 2016 by the Governor, but the General Assembly restored this funding in the final enacted budget.

FY 2016 General Revenue Budget Surplus

	FY 2013 Audited[1]	FY 2014 Audited[2]	FY 2015 Enacted[3]	FY 2015 Revised[4]	FY 2016 Enacted[5]
Surplus					
Opening Surplus	$115,187,511	$104,119,715	$59,210,130	$67,806,737	$118,565,420
Adjustment to Opening Surplus	-	-	-	14,221,136	-
Reappropriated Surplus	7,726,521	7,052,524	-	7,378,665	-
Subtotal	**$122,914,032**	**$111,172,239**	**$59,210,130**	**$89,406,538**	**$118,565,420**
General Taxes	2,577,507,611	2,674,140,830	2,738,956,476	$2,738,956,476	2,878,600,000
Revenue estimators' revision	-	-	-	$126,943,523	-
Changes to the Adopted Estimates	-	-	-	-	(35,216,806)
Subtotal	**$2,577,507,611**	**$2,674,140,830**	**$2,738,956,476**	**$2,865,899,999**	**$2,843,383,194**
Departmental Revenues	356,831,653	360,678,655	351,671,912	$351,671,912	194,300,000
Revenue estimators' revision		-	-	($1,871,912)	
Changes to Adopted		-	-	785,054	162,936,271
Subtotal	**$356,831,653**	**$360,678,655**	**$351,671,912**	**$350,585,054**	**$357,236,271**
Other Sources					
Other Miscellaneous	4,166,214	6,391,686	7,475,000	7,475,000	1,397,000
Revenue estimators' revision	-	-	-	1,610,000	-
Changes to Adopted	-	-	-	275,400	
Lottery	379,224,715	376,327,121	384,500,000	384,500,000	332,500,000
Revenue estimators' revision	-	-	-	(5,900,000)	-
Changes to Adopted	-	-	-	-	(760,000)
Unclaimed Property	6,268,627	12,724,124	10,500,000	10,500,000	10,000,000
Revenue estimators' revision		-	-	1,800,000	-
Subtotal	**$389,659,556**	**$395,442,931**	**$402,475,000**	**$400,260,400**	**$343,137,000**
Total Revenues	**$3,323,998,820**	**$3,430,262,416**	**$3,493,103,388**	**$3,616,745,453**	**$3,543,756,465**
Transfer to Budget Reserve	**(103,175,590)**	**(106,031,464)**	**(106,569,406)**	**(110,963,200)**	**(109,869,657)**
Total Available	**$3,343,737,262**	**$3,435,403,191**	**$3,445,744,113**	**$3,595,188,791**	**$3,552,452,229**
Actual/Enacted Expenditures	$3,216,046,418	$3,336,423,288	$3,445,169,968	$3,445,169,968	$3,551,988,738
Reappropriations	-		-	7,378,665	-
Caseload Conference Changes	-	-	-	20,139,945	-
Other Changes in Expenditures	-	-	-	3,934,793	-
Total Expenditures	**$3,216,046,418**	**$3,336,423,288**	**$3,445,169,968**	**$3,476,623,371**	**$3,551,988,738**
Total Ending Balances	**$127,690,844**	**$98,979,903**	**$574,145**	**$118,565,420**	**$463,491**
Transfer to Other Funds [6]	**($16,518,605)**	**($23,794,501)**	**$0**	**$0**	**$0**
Reappropriations	(7,052,524)	(7,378,665)			
Free Surplus	**$104,119,715**	**$67,806,737**	**$574,145**	**$118,565,420**	**$463,491**
Budget Reserve and Cash Stabilization Account	**$171,959,317**	**$176,719,107**	**$177,615,676**	**$184,938,666**	**$183,116,094**

[1] Derived from the State Controller's final closing report for FY 2013, dated January 6, 2014, reflecting a surplus of $104,119,715.

[2] Derived from the State Controller's final closing report for FY 2014, dated December 29, 2014, reflecting a surplus of $67,806,737.

[3] Reflects the FY 2015 budget enacted by the General Assembly and signed into law by the Governor on June 19, 2014.

[4] Reflects the enacted revenues and expenditures adjusted for revenue and caseload estimates adopted at the May 2015 Revenue and Caseload Estimating Conferences and adjustments to revenues and expenditures enacted by the General Assembly.

[5] Reflects the FY 2016 budget enacted by the General Assembly and signed into law by the Governor on June 30, 2015.

[6] Reflects restricted General Fund balances transferred to the Accelerated Depreciation Fund and projected transfer of surplus revenues to the State Retirement Fund.

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, 2014 were completed on December 29, 2014.

As part of the auditing process for the fiscal year ended June 30, 2014, the Auditor General observed certain deficiencies in the State's controls over financial reporting and the administration of federal programs, which will be reported in the Auditor General's "Single Audit Report" for that fiscal year. The State's Fiscal 2014 Single Audit Report was completed on March 31, 2015 and is available on the Office of the Auditor General's website at http://www.oag.ri.gov/reports.html. The nature and types of findings included in the Auditor General's Single Audit Report for fiscal year 2014 are substantially similar to those reported in previous Single Audit reports. The State has, and will continue to, dedicate substantial resources to resolving these issues in a timely manner.

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, 2015, net tax supported debt was estimated to be 3.41 percent of personal income, and annual debt service was 6.33 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, 2015, 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 2016.

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
2016	- *	0.0

* No issuance is currently planned or authorized at this time for FY 2016.

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 June 30, 2015, authorized but unissued direct debt totaled $392,075,000 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 June 30, 2015, the State had $1.023 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 2016 through FY 2035.

Outstanding Debt Service Payments
General Obligation Bonds *

Fiscal Year	Principal	Interest	Total Debt Service
2016	83,720,000	47,859,056	131,579,056
2017	87,665,000	43,870,135	131,535,135
2018	81,000,000	39,980,916	120,980,916
2019	76,905,000	36,114,954	113,019,954
2020	71,610,000	32,718,055	104,328,055
2021	76,215,000	29,316,713	105,531,713
2022	68,225,000	25,873,729	94,098,729
2023	70,180,000	22,525,702	92,705,702
2024	62,070,000	19,330,358	81,400,358
2025	56,960,000	16,427,400	73,387,400
2026	59,115,000	13,567,223	72,682,223
2027	46,360,000	10,885,615	57,245,615
2028	47,005,000	8,468,446	55,473,446
2029	32,155,000	6,372,018	38,527,018
2030	33,660,000	4,598,112	38,258,112
2031	22,695,000	2,757,681	25,452,681
2032	23,835,000	1,622,087	25,457,087
2033	12,835,000	780,911	13,615,911
2034	7,240,000	333,466	7,573,466
2035	3,445,000	82,578	3,527,578
	$ 1,022,895,000	**$ 363,485,156**	**$ 1,386,380,156**

* Reflects full fiscal year general obligation tax supported debt service for bonds issued as of June 30, 2015. 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 June 30, 2015 that have been approved by voter referenda.

Authorized but Unissued Direct Debt

Purpose	Statutory Authorization	Authorized but Unissued Debt as of June 30, 2015
Direct Debt:		
Open Space Recreation, Bay & Watershed Protection	Ch. 595-P.L. of 2004	500,000
Higher Education	Ch. 23-P.L. of 2010	10,000,000
Veterans' Home	Ch. 241-P.L. of 2012	75.500,000
Higher Education	Ch. 241-P.L. of 2012	38,000,000
Environmental Management	Ch. 241-P.L. of 2012	11,000,000
Clean Water Finance Agency	Ch. 241-P.L. of 2012	9,075,000
Higher Education	Ch. 145-P.L. of 2014	125,000,000
Creative and Cultural Economy	Ch. 145-P.L. of 2014	35,000,000
Clean Water, Open Space, and Healthy Communities	Ch. 145-P.L. of 2014	53,000,000
Mass Transit Hub Infrastructure	Ch. 145-P.L. of 2014	35,000,000
Total Direct Debt		**$392,075,000**

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 June 30, 2015, there was no outstanding or authorized but unissued guaranteed debt. However, the State has agreed to appropriate or borrow and pay to the Rhode Island Industrial Recreational Building Authority any amounts required up to $60,000,000 to service eligible mortgage loans for industrial and/or recreational projects insured under the Industrial Recreational Building Mortgage Insurance Fund that are in default and for which funds in the Industrial Recreational Building Mortgage Insurance Fund are insufficient (see the discussion regarding the Rhode Island Industrial Recreational Building Authority under the section entitled "State Agencies and Authorities").

Extinguishments of Debt Authorization

Chapter 438 of the Public Laws of 1988, which took effect on December 31, 1991, provides that any special act of the State which authorizes the issuance of general obligation bonds or notes of the State, which has a balance that remains unissued, and is seven (7) years old or older is invalid as to that portion which remains unissued. Notwithstanding, the General Assembly may, by special act, extend any authorization for a period of one (1) to five (5) years upon a petition of the Department of Administration. Such extension may be granted more than one (1) time. Upon a certification of the General Treasurer to the Governor as to debt authorizations described above the authorization shall not be deemed or counted toward the authorized but unissued debt of the State. Since December 31, 1991, the State has extinguished a total of $82,483,209, 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, 2015, $170,000 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, 2015, $2,865,000 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, 2015, $5,710,000 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, 2015, there were $11,905,000 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, 2015, $58,340,000 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, 2015, there was $31,875,000 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, 2015, there was $13,320,000 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 Detention 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, 2015, there was $32,270,000 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 April 2013, an additional $9,170,000 was issued for a new integrated tax system and technology improvements in local education agencies. In October 2014, an additional $30,380,000 was issued for the tax system and local education agency's technology. As of June 30, 2015, there was $42,865,000 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, 2015, there was $14,950,000 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, 2015, there was $24,005,000 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, 2015, there was $132,390,000 of such Bonds outstanding. In May 2015, the State entered into a payment agreement with the Rhode Island Commerce Corporation relating to the issuance of revenue bonds in the amount of $75,000,000 to also provide funds to reimburse the State for Historic Structures Tax Credits from time to time presented by taxpayers. As of June 30, 2015, there was $75,000,000 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, 2015, there was $3,025,000 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. In October 2014, an additional $19,115,000 was issued for Department of Administration and Rhode Island College projects. As of June 30, 2015, there was $55,195,000 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, 2015, 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 2015 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. As of June 30, 2015, there was $59,675,000 of such revenue bonds outstanding.

During the fiscal year ended June 30, 2015, the State transferred $8,635,000 million to the Rhode Island Commerce Corporation to satisfy debt service obligations related to 38 Studios. The FY 2016 enacted budget includes $12.5 million to cover scheduled debt service payments, along with reserve funds on hand, in November 2015 and May 2016.

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 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 $4,400,394. After payment of fees, costs and expenses, the net amount from the settlement of $3,196,769 was paid to the Bank of New York Mellon Trust Company, as trustee for the bondholders of the 38 Studios debt. The FY 2015 revised budget accounts for this settlement payment, which reduced the required general revenue appropriation by a like amount.

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.

Unintentional Late Principal Payment on an Obligation Subject to Annual Appropriation

In 2009, the State had entered into a lease agreement and related documents with Wells Fargo Bank, N.A., as Trustee, pursuant to which $30,425,000 of certificates of lease participation were issued on June 25, 2009 for the construction of a new School for the Deaf. The certificates of participation were issued as a series of certificates in various principal amounts maturing on April 1 during the years 2010 through 2029, except for the years 2015, 2020 and 2025. Certain of the certificates of participation maturing on April 1, 2016 were subject to redemption prior to maturity from a sinking fund installment due on April 1, 2015 in the principal amount of $1,180,000. Although the State had appropriated the payment in the FY 2015 budget, the State unintentionally failed to make the principal portion of the April 1, 2015 mandatory sinking fund redemption payment because of incorrect information furnished to the State by the Trustee that a principal payment was not due on April 1, 2015. The State discovered on July 2, 2015 from its own review of the certificate of lease participation documentation that a mandatory sinking fund payment was actually due on April 1, 2015 and had not been made. The Trustee was notified of the situation and the State has made the delinquent mandatory sinking fund payment, together with accrued interest to the date of payment, to the Trustee on July 13, 2015. The redemption has been scheduled by the Trustee to occur on August 3, 2015 pursuant to the 30-day certificate call notice forwarded by the Trustee to holders of the lease participation certificates maturing April 1, 2016 being redeemed as required by the certificate of lease participation documentation. Since the Trustee was unaware that its records were incorrect as to the existence of a mandatory sinking fund payment due April 1, 2015, notice of non-payment on the matter was never provided by the Trustee to the State, nor did the Trustee provide the 30-day certificate call notice of the April 1, 2015 redemption to holders of the certificates to be redeemed, as required in the declaration of trust through which the certificates of lease participation were issued. The State intends to implement policies so that the situation will not arise again.

The delinquent mandatory sinking fund payment has resulted in an event of default under the declaration of trust for the certificates. As a result of the existence of such event of default, the Trustee is to provide notice to the holders of the certificates and the insurer regarding the event of default and shall declare all principal and interest due on the certificates outstanding immediately due and payable. The principal amount currently outstanding on the certificates is $25,185,000. However, the declaration of trust also provides that if the delinquent payment has been duly paid and all existing defaults made good at any time after any such acceleration, and before the subleasing of the property by the Trustee, then such payment shall constitute a waiver of such default and an automatic rescission and annulment of such declaration of acceleration. As noted above, the delinquent mandatory sinking fund payment has been made by the State to the Trustee on July 13, 2015 and shall be paid to the holders of the certificates to be redeemed on August 3, 2015, the date scheduled for redemption by the Trustee.

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, 2015, 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	$11,950,000
Nursing Education Center Debt Authorizations	$36,000,000
Garrahy Courthouse Garage Debt Authorization	$45,000,000
Commerce Corporation – Historic Structures Tax Credit Fund	$131,200,000
Total Authorized But Unissued Debt Subject to Annual Appropriation	$229,900,000

It is expected that the Rhode Island Commerce Corporation will issue additional debt in 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 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, 2015, $19.165 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, 2015, $7,345,000 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 $81.2 million as of May 31, 2015. This was an increase of $31.2 million from June 30, 2014 when the fund balance was ($49.98) 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 May 31, 2015 the Department repaid $946.6 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 fully repaid its federal loans on November 6, 2014 and eliminated the federal tax credit reductions for 2014. The Department borrowed $20.6 million in CY 2015 as authorized by federal law in order to meet its cash flow needs to finance the cost of unemployment benefit payments. This loan was completely repaid on May 5, 2015 with no further borrowing required going forward.

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 2015. 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[1]	16.3	133.4	242.6
2015 (through June 30, 2015)[2]	81.2	20.6	20.6

[1] Unaudited as of December 31, 2014 including outstanding federal loans
[2] Unaudited as of May 31, 2015 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, $133.4 million in 2014 and $20.6 million in CY 2015. This loan was completely repaid on May 5, 2015. It is expected that no additional borrowing will be needed. 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. In September 2014, the Department paid $2.3 million in interest for the October 1, 2013 to September 30, 2014 period. The Department expects to pay $34,169 in interest for the October 1, 2014 to September 30, 2015 period by September 30, 2015. 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 assessment ended as 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 fully repaid its federal loans on November 6, 2014 relieving employers of a 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.

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. In CY 2015, the taxable wage base rose by $600 to $21,200 for most employers and $22,700 for employers with the highest negative reserve account percentages.

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

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

The State fully repaid 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. These changes will also enable the Employment Security Fund to rebuild its reserves to a projected $120 million by the end of CY 2015. 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 has continued to be maintained by the Authority. Tolls on the Claiborne Pell (Newport) Bridge were the primary source of the Authority's revenues prior to July 1, 2014. The outstanding balance of the 2003A issue of taxable refunding bonds is $9,015,000 at June 30, 2015.

On April 28, 2010, the Authority issued $50,000,000 Revenue Bonds, Series 2010A secured by tolls and other revenues arising from the Claiborne Pell Bridge 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, 2015.

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, the Jamestown Verrazzano Bridge and the Route 138 connecting highway from Route 1A to the Claiborne Pell (Newport) 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, and $12,705,159.46 was received by the Authority for the period July 1, 2014 through May 29, 2015.

On February 13, 2013, the Authority issued a revenue bond anticipation note in the amount of $30,000,000 pursuant to the authorization contained in the enacted FY 2011 Budget. On November 14, 2014 the Authority refinanced said note by the issuance of a motor fuel tax revenue bond and issued an additional motor fuel tax revenue bond anticipation note with a maximum draw of $30,000,000 pursuant to said authorization. The multi-draw note has been fully drawn as of June 24, 2015 with a $30,000,000 balance. The total outstanding principal debt is $60,000,000 under said $68,100,000 authorization.

In the enacted FY 2016 budget, the General Assembly approved the Authority's issuance of not more than an additional $65,000,000 of revenue bonds to be secured by toll, transfers of motor fuel taxes and/or other revenues, for the purpose of providing funds to finance the renovation, renewal, repair, rehabilitation, retrofitting, upgrading and improvement of the Pell Bridge, the Jamestown Verrazzano Bridge, the Sakonnet River Bridge, Mount Hope Bridge, and other projects authorized under Chapter 12 Title 24 of the General Laws, replacement of the components thereof, working capital, capitalized interest, a debt service reserve and the costs of issuing and insuring the bonds.

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. See "*State Retirement Systems"* for financial impact on the Commission of challenges to, and settlement of, State pension reform.

The Commission also maintains a non-union defined contribution plan, which is a profit-sharing plan for its non-union employees pursuant to 401(a) of the Internal Revenue Code. The profit-sharing plan is a defined contribution, single-employer pension plan. As of June 30, 2014, there were 125 active participants. Contributions are discretionary and established annually and may be amended by the Board of Commissioners.

In addition, the Commission maintains a defined benefit plan for its non-union employees pursuant to 401(a) of the Internal Revenue Code. The plan is a single-employer, defined benefit pension plan. At December 31, 2014, there were 113 active employees, 11 retired employees and 24 vested terminations/inactive employees. The contribution requirements of the plan participants and NBC are established and may be amended by the Board. NBC plans to contribute an actuarially determined amount.

For the Commission, the first annual financial report under the new Government Accounting Standards Board ("GASB") standards will be for the fiscal year ending June 30, 2015. Calculations and the format of disclosures under GASB 67 and 68 will be different than under GASB 25 and 27. Copies of Statements 67 and 68, and a plain language summary, are currently available from GASB.

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.

The Commission has filed its audited financial statements for the fiscal year ended June 30, 2014 with the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access System which may be accessed online at emma.msrb.org.

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, 2015, the Authority had outstanding mortgage agreements and other commitments for $11,380,054 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, 2015, the Fund had a cash and cash equivalents balance of $2,552,747. 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, 2015, the outstanding loan guarantee was $3,920,146.

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, 2015, the Corporation had an outstanding principal balance of conduit debt of $42,826,129. 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 $11,380,054 as of June 30, 2015.

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 are 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. During April, 2015, the Authority issued its Refunding Revenue Bonds 2015 Series A in an aggregate amount of $31,900,000 for the purpose of refunding the Authority's outstanding Refunding Revenue Bonds, 2005 Series A and refunding a portion of the Authority's outstanding Refunding Revenue Bonds 1993 Series B and to pay costs of issuance. The final principal and interest payment for the 1993 Series B occurred on May 15, 2015. The bonds mature between 2015 and 2023 and bear interest at rates ranging from 2.00% to 5.00%. This refunding resulted in savings in debt service in FY 2015 of $3,452,078.

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, 2015, the Authority had $215,210,000 in principal of outstanding debt (excluding interest) consisting of the following issues:

- 2006 Series A - $ 78,965,000
- 2009 Series A - $ 67,210,000

- 2013 Series A - $ 37,135,000
- 2015 Series - $ 31,900,000

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, 2015 totals $32,863,670.

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-three 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-three 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. On May 31, 2015, the Corporation had approximately $84,513,336 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 $86,000,000 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 to 1) 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. If ownership and/or control of the Gas Collection System is transferred to RIRRC or a third party contractor prior to September 25, 2015, the amount is increased from $107,143 to $250,000.

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 waived the amount in full.

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. On October 25, 2013. the City filed a five count Complaint with the Superior Court, i.e., Declaratory Relief, Violation of the SUO, Breach of Contract, Public and Private Nuisance and Injunctive Relief. There has been no substantive activity since this filing.

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.

On March 9, 2015, a class action complaint and demand for jury trial was filed in Providence /Bristol County Superior Court. This complaint alleges that the Corporation and the third party owner/operator of the gas collection system caused material injury to Plaintiff's property as a result of pollutants, air contaminants and noxious odors through negligence and nuisance. 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 2015, the Corporation has paid approximately $70,215,000 to the State's General Fund. The enacted FY2016 budget does not include any transfer from the Corporation to the General Fund.

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, 2015, there was $14,037,956 in outstanding State general obligation bonds attributable to the Authority.

The FY 2016 Budget includes a one-time $2 million grant to the Authority to assist with revenue shortfalls. In addition, commencing in FY 2016, the Authority will receive five percent (5%) of all available proceeds deposited into the Rhode Island Highway Maintenance Account.

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, 2015, the total aggregate principal amount outstanding under all conduit debt obligations was estimated to be $937,695,672. 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, 2015, the outstanding balance was $11,600,179.

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, 2015, the outstanding balance was $7,564,626.

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 2015, the State's expenditure for this purpose was $3,190,276.

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, 2015, the outstanding balance was $7,345,000.

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, 2015, there was $17,940,000 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, 2015, $58,340,000 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, 2015, there was $244,870,000 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. In May 2015, the Corporation entered into a loan agreement with a financial institution for an additional $75,000,000 for this program. As of June 30, 2015, there was $132,390,000 of such revenue bonds outstanding.

In June 2015, the Corporation issued revenue bonds in the amount of $75,000,000 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, 2015 there was $75,000,000 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 2015, the State transferred $8.635 million to the Rhode Island Commerce Corporation to satisfy debt service obligations related to 38 Studios. The FY 2016 enacted budget includes $12.5 million to cover scheduled debt service payments, along with reserve funds on hand, in November 2015 and May 2016.

As of June 30, 2015, there was $59,675,000 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 $3,250,000 remains outstanding as of June 30, 2015. 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, 2015 was $5,316,334.

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, 2015, 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.

It should also be noted that the State intends to provide $25 million in FY 2016 from State debt restructuring to fund infrastructure improvements and other incentives relating to the I-195 land to attract new world-class institutions, employers and other assets to the I-195 land.

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, Condor Airlines, and TACV – Cabo Verde Airlines executed Non-Signatory Agreements.

The term of the Signatory Airline Agreement extends through June 30, 2015, which is in the process of being 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, 2015 and 2014 was $495 thousand and $2.020 million, respectively.

RIAC issued General Airport Revenue Bonds (GARBs) in 1993, 1998 and 2000. RIAC issued General Airport Revenue Refunding Bonds in 2003. All of these bonds currently have no balance outstanding either due to being paid off or refunded.

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, 2015 and 2014 was $0 and $1.190 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%. As referenced below, $48.625 million of these bonds were refunded during fiscal year 2015. The balance outstanding as of June 30, 2015 and 2014 was $0 and $48.72 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, 2015 and 2014 was $97.655 million and $101.92 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, 2015 and June 30, 2014 was $39.145 million and $41.81 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, 2015 and June 30, 2014 was $29.713 and $ 11.7 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, 2015 and June 30, 2014 was $31.725 million and $32.755 million, respectively.

In November 2014, RIAC and the RI Commerce Corporation made filings with the United States Securities and Exchange Commission under the Municipalities Continuing Disclosure Cooperation (MCDC) initiative indicating that the corporations may not have filed notices of rating downgrades in a timely manner.

On March 23, 2015, RIAC issued $42.98 million in Series A Direct Placement Airport Revenue Refunding Bonds to enable the defeasance of $48.625 million in 2004 Series A General Airport Revenue Refunding Bonds. The 2015 Series A refund issue matures annually from 2015 through 2024 with an interest rate of 2%. The outstanding balance was $42.98 million as of June 30, 2015.

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 $46.11 million and $46.87 million as of June 30, 2015 and 2014, 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, 2015 and June 30, 2014 was $41.541 million for both years.

Current Operations and Financial Situation

Condor Airlines has started regularly scheduled seasonal service to Frankfurt, Germany. Flights which started in June 2015 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.

TACV – Cabo Verde Airlines has started regularly scheduled year-round nonstop service to Praia, Cabo Verde. Flights which started in June 2015 will operate 2 to 3 times per week on a Boeing B757/200. This new international service will give New England area travelers the only nonstop service to this unique destination from anywhere in the U.S.

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, 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. Based on preliminary, unaudited financial statements, the total outstanding indebtedness, including unamortized bond premium/discount, of the Corporation at June 30, 2015 was $1,353,535,323 consisting of $1,253,340,323 of long-term bonds and notes and $100,195,000 of short-term or convertible-option bonds and notes. Included in the total outstanding is $86,774,500 in bonds, which are secured in part by capital reserve funds which have aggregated to $25,597,349 on June 30, 2015. Under provisions similar to those governing Commerce RI, 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 May 31, 2015, the Authority held $336,584,279 in Federal Family Education Loans that were insured by the Rhode Island Higher Education Assistance Authority and other Guarantors. The Authority also held on May 31, 2015, $383,836,371 in state based private education loans. As of May 31, 2015 the Authority had $627,202,000 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. **Note**: The FY 2016 enacted budget has eliminated RIHEAA and merged its functions into the Office of the Post-Secondary Commissioner and the Treasury.

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 and municipal road and bridge projects. The Rhode Island General Assembly recently enacted House Bill No. 5900, which the Governor signed into law on June 30, 2015. The Legislation expands the Agency's financing power beyond the existing clean water, drinking water, and municipal road and bridge financing programs. Pursuant to the Legislation, the Agency will serve as a centralized hub for existing and new infrastructure financing initiatives, with a focus on energy efficiency and renewable energy projects. The

Legislation also establishes, that effective September 1, 2015, the Agency will be known as the Rhode Island Infrastructure Bank.

The Agency is empowered to issue revenue bonds and notes, which are not guaranteed by the State. As of June 30, 2015, the Agency has issued bonds in the aggregate amount of $1,333,174,000 to fund $1,470,970,462 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, 2015 is $492,040,000 in the clean water state revolving fund (CWSRF wastewater projects), $82,888,000 for seven conduit financings and $171,790,000 in the drinking water state revolving fund. Also, in years 1997 through 2015, the Agency made a total of $68,433,660 in direct loans (loans issued without bond financing) out of the CWSRF, a total of $72,194,789 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, six loans out of the Agency's operating fund totaling $22,998,005 and $18,618,515 in loans out of the Municipal Road and Bridge Program.

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, 2015 was $0.

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. The final payment of WRBC debt was paid on March 1, 2015, so this transfer of duties will be finalized by June 30, 2015.

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 was $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 filed a motion for summary judgment and the Judge ruled in favor of the Corporation on January 15, 2015. The Plaintiff's appealed the Superior Court ruling to the RI Supreme Court. The Parties subsequently settled and on the morning of March 19, 2015, a stipulation of dismissal with prejudice and withdrawal of appeal were filed with the court. As a result, the Corporation proceeded with the transaction, which closed on March 19, 2015 with the issuance of $620,935,000 of bonds. The State received a payment of $36 million from this refunding transaction, of which $26.0 million was deposited to the Information Technology Investment Fund, $5.0 million was transferred to the Municipal Road and Bridge Program Revolving Fund and $5.0 million was deposited to the State's General Fund.

There is a pending 2004 Non-participating Manufacturers Adjustment Arbitration that is waiting for an arbitration panel to be seated. If the State loses during this arbitration, the Corporation will be at risk of losing up to the State's entire share of the 2004 TSR payment which was over $45 million.

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 June 13, 2015, the State had 15,150 paid employees. This equates to approximately 13,744.7 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 3,798 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 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.

As of July 7, 2015, twelve 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 three 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 RIBCO bargaining unit it represents (the RIBCO Professional Unit has ratified a new contract as described above). The RI State Employed Physicians Association union is in continued negotiations with the State. The Judiciary continues to negotiate with the respective unions under its jurisdiction.

As of July 7, 2015, the Arbitration Panel in the RI Troopers Association interest arbitration has issued a decision and award for the contract period of May 1, 2013 to April 30, 2016. The panel has awarded annual salary increases of 3.5% for the period May 1, 2013 to April 30, 2014; 3.0% for the period May 1, 2014 to April 30, 2015; and 3.5% for the period May 1, 2015 to April 30, 2016. The award also granted a one-time electronic devices stipend of $500 payable in January 2016; requires pay in money rather than compensatory time for overtime hours worked in excess of 42 hours per week; and changes personal days awarded from 2 to 3 per year and not contingent upon the discharge of sick leave. The State is currently assessing whether it will appeal all or part of the arbitration award.

The general salary increase payments made in FY 2015 under the collective bargaining agreement amounted to approximately $25 million. No appropriation for these general salary increases was provided for in the FY 2015 enacted budget, but the final revised budget for FY 2015 provided the necessary funding for these salary increases. The FY 2016 enacted budget fully funded these salary increases.

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. A settlement regarding lawsuits filed by various unions and retiree groups concerning these changes was approved by the General Assembly as part of the FY 2016 Appropriations Act. Details on these changes and the settlement are provided below under “State Retirement Systems”.

As of June 13, 2015, there were 13,744.7 FTE positions filled, 1,356.0 less than the authorized amount in the FY 2015 Revised 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, made 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, 2014 actuarial valuation are approximately $4.35 billion and $408.5 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, 2014 is 57.4% for State employees and 59.6% 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 (C.A. No. 10-2859). 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 (C.A. Nos. 12-3166, 12-3167, 12-3168, 12-3169 and 12-3579).

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 January 2, 2013, the Court ordered the parties to participate in mediation (the "2013-2014 Mediation"). 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 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 2013-2014 Mediation 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 (C.A. No. KC 14-0345). 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.

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 remained 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 and the International Brotherhood of Police Officers, Local 201 (Cranston Police), which had been parties to the original lawsuits challenging RIRSA filed separate lawsuits in Rhode Island Superior Court challenging RIRSA and withdrew from the original suits (C.A. 14-4343 and 14-4768).

The eight cases were consolidated with the litigation challenging the 2009 and 2010 reform. As in the challenge in the 2009-2010 reform, the parties filed motions to continue the trial until January 2016, which were denied, and the plaintiffs filed Petitions for Issuance of a Writ of Certiorari and Supporting Memorandum of Law with the Rhode Island Supreme Court, to which the Defendants joined. A conference was held with a single justice of the Rhode Island Supreme Court on March 2, 2015, and on March 5, 2015 the full court denied the petition.

On March 9, 2015, the court entered an order appointing former Rhode Island Supreme Court Chief Justice Frank J. Williams to serve as Master with duties, including "addressing all discovery issues, motions, and assisting the parties in narrowing and/or resolving disputed issues by agreement, subject to further approval by the Court." On April 2, 2015, the Special Master presented an interim report to the Court stating that a settlement has been reached in five of the nine consolidated pension cases. The Special Master reported that the proposed settlement would impact 58,901 employees. The Court set a deadline of April 13, 2015 for the settling parties to memorialize the terms of the settlement and for the settling plaintiffs to file a Class Action Complaint for Settlement Purposes, as well as a corresponding Motion for Class Certification and for Preliminary Approval of the Settlement. The Court granted the Motion for Class Certification and notice was given to the class of a fairness hearing, which was held on May 20, 21, 22, 26 and 27, 2015. On June 9, 2015, the Court issued its decision confirming certification of the plaintiff and defendant classes, confirming the appointment of the plaintiff and defendant class representatives and approving of the proposed settlement as fair, reasonable and adequate.

Thereafter, the General Assembly passed legislation to carry out the settlement, which was enacted into law on June 30, 2015. Accordingly, the Court entered final judgment on July 8, 2015 in the Class Action and in C.A. Nos. 10-2859, 12-3166, 12-3167, 12-3168, 12-3579, KC 14-0345.

With respect to the three non-settling cases (C.A. Nos. 12-3169, 14-4343 and 14-4768), the Court vacated the April 20, 2015 trial date and will hold a status conference on July 29, 2015 to address outstanding issues, including pending dispositive motions, discovery motions and a trial date for those cases.

On July 7, 2015, a retiree filed a *pro se* appeal on the final judgment to the Rhode Island Supreme Court. The State intends to vigorously defend the matter on appeal. An appeal in the case does not affect the implementation of the legislation enacted to carry out the settlement. The deadline for any further appeals of the final judgment is July 28, 2015.

On September 8, 2014, an additional 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. Defendants have answered the complaint in that action. This case was not consolidated with the other nine cases and remains pending.

For a discussion of the pension settlement and the impact of the pension settlement upon the pension reform and the cases which have not been settled, see the section titled: "The Pension Settlement" under "STATE RETIREMENT SYSTEMS –Other Recent Pension Related Events."

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.

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 $5,866,249 as of FY 2015. 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 2016 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 258 State police officers and their beneficiaries hired prior to July 31, 1987 are funded by the State on a pay-*a*s-you-go basis and have an annualized cost of $16,560,776 as of FY 2016.

The FY 2016 Appropriations Act includes a provision to authorize the creation of a new State Police Pension Trust Fund to support the pensions of the current pay-as-you-go cohort of troopers. This new trust fund is to be seeded with a one-time payment of $15.0 million from the Google Settlement funds received by the State Police from the Department of Justice. The use of these funds for this purpose is pending approval from the

Department of Justice. If such approval is not granted, the new Trust Fund will not be established. The FY 2016 appropriation for the pay-as-you-go pensions includes savings of $1.0 million from the prospective establishment of the new Trust Fund. If the Fund is not established, this funding will need to be restored.

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, 2014 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 February 28, 2015 and the actual percentage and fair value of the assets in the portfolio at February 28, 2015

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	38.00%	46.80%	$3,848
Equity Hedge Funds	8.00%	7.60%	$625
Private Equity	7.00%	6.70%	$545
Core Fixed Income	15.00%	14.70%	$1,134
Absolute Return Hedge Funds	7.00%	6.80%	$554
Real Estate	8.00%	4.60%	$401
Other Real Return Assets	9.00%	8.80%	$703
Cash, Overlay and Money Market	3.00%	3.20%	$125
Infrastructure	5.00%	1.00%	$171

Source: Data provided by the General Treasurer's Office as of May 31, 2015.

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, 2014 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	11,103	11,301	2,898	25,302	3.75%
ERS Teachers	10,838	13,266	3,040	27,144	3.75%
Total By Type	21,941	24,567	5,938	52,446	

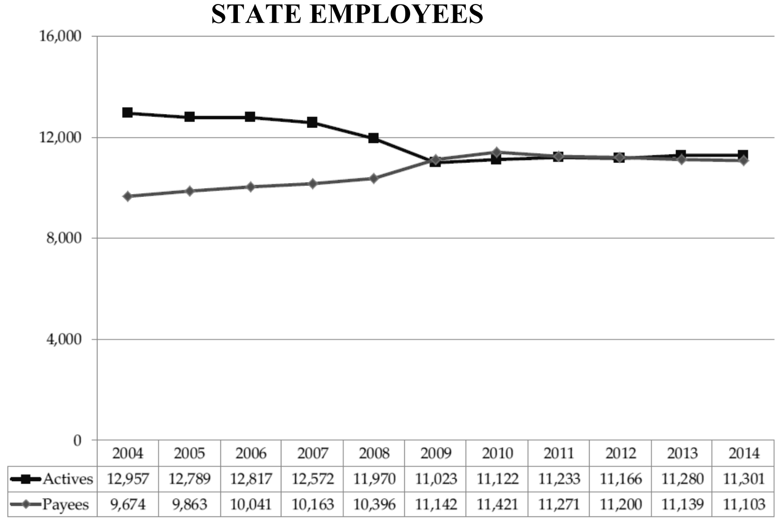
Source: ERSRI Actuarial Valuation Report as of June 30, 2014 (Executive Summary, pages 2-3).

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.

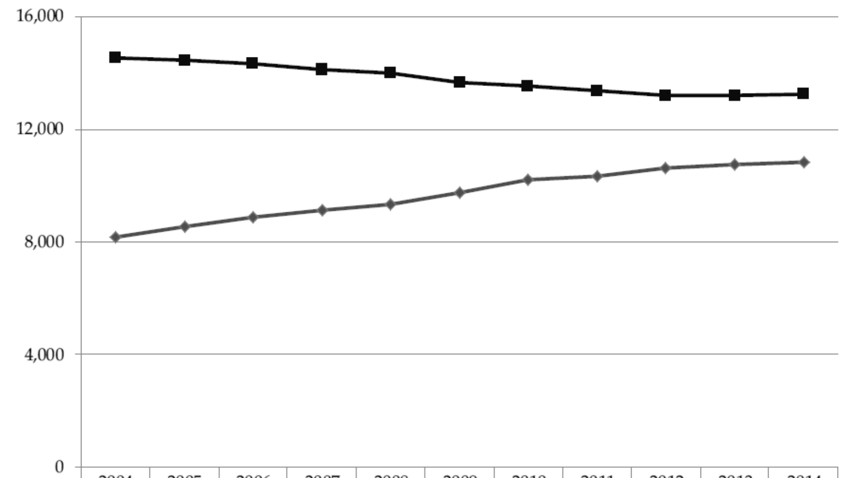
Chart R-1 below provides a graphical representation of active membership and retiree and beneficiary data for State employees and teachers from 2004 through 2014.

CHART R-1
MEMBERSHIP TRENDS

STATE EMPLOYEES



TEACHERS



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Actives	14,556	14,469	14,343	14,146	13,999	13,689	13,530	13,381	13,212	13,193	13,266
Payees	8,179	8,565	8,873	9,118	9,337	9,749	10,213	10,347	10,622	10,776	10,838

Source: ERSRI Actuarial Valuations as from June 30, 2004 to June 30, 2014 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 22.90% of salary in FY 2014.

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 67 (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 2014, 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, 2014 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, 2014
1. Market value of assets at beginning of year (prior to adjustment)	$ 2,346,851,689
2. Net new investments	
a. Contributions	$ 179,949,171
b. Benefits paid	(325,448,685)
c. Refunds	(4,909,197)
d. Transfers	303,047
e. Subtotal	(150,105,664)
3. Market value of assets at end of year	$ 2,520,281,249
4. Net earnings (3-1-2) (includes misc revenues)	$ 323,535,224
5. Assumed investment return rate for fiscal year	7.50%
6. Expected return	$ 170,384,914
7. Excess return (4-6)	$ 153,150,310

8. Development of amounts to be recognized as of June 30, 2014:

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)
2010	$ 0	$ 0	$ 0	1	$ 0	$ 0
2011	0	0	0	2	0	0
2012	(64,205,525)	64,205,525	0	3	0	0
2013	0	0	0	4	0	0
2014	153,150,310	(64,205,525)	88,944,785	5	17,788,957	71,155,828
Total	$ 88,944,785	$ 0	$ 88,944,785		$ 17,788,957	$ 71,155,828

9. Actuarial value of assets as of June 30, 2014 (Item 3 - Item 8)	$ 2,449,125,421
10. Ratio of actuarial value to market value	97.2%

*Values of $0 result from the beginning balance being offset by future gains or losses in the opposite direction.

Source: ERSRI Actuarial Valuation Report as of June 30, 2014 (Section C - Table 8A, page 19).

*Note: There is no Table R-3.

TABLE R-5
DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS
(TEACHERS)

	Year Ending June 30, 2014
1. Market value of assets at beginning of year	$ 3,601,811,359
2. Net new investments	
a. Contributions	$ 234,305,733
b. Benefits paid	(478,700,303)
c. Refunds	(5,153,759)
d. Transfers	(290,471)
e. Subtotal	(249,838,800)
3. Market value of assets at end of year	$ 3,875,901,034
4. Net earnings (3-1-2) (includes misc revenues)	$ 523,928,475
5. Assumed investment return rate for fiscal year	7.50%
6. Expected return	$ 260,766,897
7. Excess return (4-6)	$ 263,161,578

8. Development of amounts to be recognized as of June 30, 2014:

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)
2010	$ 0	$ 0	$ 0	1	$ 0	$ 0
2011	0	0	0	2	0	0
2012	(95,976,178)	95,976,178	0	3	0	0
2013	0	0	0	4	0	0
2014	263,161,578	(95,976,178)	167,185,400	5	33,437,080	133,748,320
Total	$ 167,185,400	$ 0	$ 167,185,400		$ 33,437,080	$ 133,748,320

9. Actuarial value of assets as of June 30, 2014 (Item 3 - Item 8)	$ 3,742,152,714
10. Ratio of actuarial value to market value	96.5%

*Values of $0 result from the beginning balance being offset by future gains or losses in the opposite direction.

Source: ERSRI Actuarial Valuation Report as of June 30, 2014 (Section C - Table 8B, page 20).

Unfunded Actuarial Accrued Liability

The UAAL is the difference between the (i) Actuarial Accrued Liability and (ii) Actuarial Value of Assets. In other words, the UAAL represents the value of benefits accrued under the Plans that are not presently funded by assets in the Plans. One of the key purposes of the Actuarial Valuation is to determine a Plan's funding progress or overall health by examining how the Plan's assets compare with its liabilities. See "Actuaries and the Actuarial Valuation" above. The UAAL and the Funded Ratio are used to measure the financial health of defined-benefit plans. From year to year, if the UAAL decreases and the Funded Ratio increases, a defined-benefit plan's ability to meet future obligations is showing progress. If such progress continues, it should be able to meet its future obligations when due. Conversely, an increasing UAAL and decreasing Funded Ratio indicates that a plan is less healthy and that its assets may 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, consistent with the Plans' funding methodology. 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, 2014, the UAAL for State employees was revised from $1,817,229,418 to $1,919,956,450 and the Actuarial Funded Ratio went from 57.4% to 56.1% as a result of the enactment of Article 21 of the FY2015 Budget relating to the mediated settlement of certain portions of the pension litigation. As of June 30, 2014, the UAAL for teachers went from $2,534,436,925 to $2,682,443,552 and the Actuarial Funded Ratio went from 59.6% to 58.2% also as a result of the enactment of Article 21.

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								
6/30/2005	$ 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(1)	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(2)	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(3)	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%
6/30/2013(5)	2,411,057,214	4,266,053,163	1,854,995,949	56.5	664,118,904	279.3	2,346,851,689	55.0%
6/30/2014	2,449,125,421	4,266,354,839	1,817,229,418	57.4	675,204,750	269.1	2,520,281,249	59.1%
6/30/2014 (6)	2,449,125,421	4,369,081,872	1,919,956,450	56.1	675,204,750	284.4	2,520,281,249	57.7%
TEACHERS								
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(1)	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(2)	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(3)	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(4)	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%
6/30/2013(5)	3,697,787,537	6,265,311,945	2,567,524,408	59.0	963,525,547	266.5	3,601,811,359	57.5%
6/30/2014	3,742,152,714	6,276,589,639	2,534,436,925	59.6	982,565,406	257.9	3,875,901,034	61.8%
6/30/2014 (6)	3,742,152,714	6,424,596,267	2,682,443,552	58.2	982,565,406	273.0	3,875,901,034	60.3%

Source: For fiscal years 2005-2010, 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) Reflects adoption of the Rhode Island Public Laws, Chapter 23, Article 16 (Bill Number H 7397 Aaa) (2010).
(2) 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.
(3) Restated June 30, 2010 actuarial value after change to actuarial assumptions but before the Rhode Island Retirement Security Act of 2011
(4) Restated June 30, 2010 actuarial value after reflecting the Rhode Island Retirement Security Act of 2011.
(5) June 30, 2013 actuarial value after changes of actuarial assumptions
(6) Restated after reflecting Article 21 of the FY2015 budget

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)								
6/30/2005	$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%
6/30/2014	104,781,384	109,621,747	4,840,363	95.6%	20,814,621	23.3%	109,678,379	100.1%
6/30/2014 (6)	104,781,384	110,791,327	6,009,943	95.5%	20,814,621	28.9%	109,678,379	99.0%
JRBT (JUDGES)								
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%
6/30/2013(5)	47,640,773	54,429,531	6,788,758	87.5%	8,975,536	75.6%	46,989,257	86.3%
6/30/2014	53,830,516	57,251,698	3,421,182	94.0%	9,309,572	36.8%	56,172,243	98.1%
6/30/2014 (6)	53,830,516	57,504,663	3,674,147	93.6%	9,309,572	39.5%	56,172,243	97.7%

Source: For fiscal years 2005-2009, 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.

(5) Restated to reflect recommended salary scale assumption

(6) Restated after reflecting Article 21 of the FY2015 budget

Determination of Employer's Contributions & Historical Contribution Rates

Employer contributions to the plans are determined actuarially consistent with the State's General Laws and actuarial assumptions adopted by the Board of the Employees' Retirement System.

The State computes its required contribution on a level percent of payroll approach. Under this approach, 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 revised State's calculated contribution rates as a result of the enactment of Article 21 in the FY2015 budget for State employees and teachers as of June 30, 2014. The payroll growth rate used in the amortization calculations is determined by the Retirement Board and does not include any allowance for membership growth. See "Actuarial Assumptions" below.

TABLE R-8
DEVELOPMENT OF CONTRIBUTION RATE (STATE EMPLOYEES)

		June 30, 2014	June 30, 2013	
		New Provisions (1)	New Assumptions (2)	Valuation Result (3)
1.	Compensation			
	(a) Supplied by ERSRI	$ 653,343,732	$ 649,998,544	$ 649,998,544
	(b) Adjusted for one-year's pay increase	675,204,750	664,118,904	667,334,976
2.	Actuarial accrued liability	4,369,081,872	4,266,053,163	4,289,814,909
3.	Actuarial value of assets	2,449,125,422	2,411,057,214	2,411,057,214
4.	Unfunded actuarial accrued liability (UAAL) (2 - 3)	1,919,956,450	1,854,995,949	1,878,757,695
5.	Remaining amortization period at valuation date	21	22	22
6.	Contribution effective for fiscal year ending:	June 30, 2017	June 30, 2016	June 30, 2016
7.	Payroll projected for two-year delay	719,806,244	707,988,109	718,323,539
8.	Amortization of UAAL	148,447,335	138,524,012	135,241,094
9.	Normal cost			
	(a) Total normal cost rate	8.96%	8.69%	9.06%
	(b) Employee contribution rate	4.24%	4.25%	4.25%
	(c) Employer normal cost rate (a - b)	4.72%	4.44%	4.81%
10.	Employer contribution rate as percent of payroll			
	(a) Employer normal cost rate	4.72%	4.44%	4.81%
	(b) Amortization payments (8 / 7)	20.62%	19.57%	18.83%
	(c) Total (a + b)	25.34%	24.01%	23.64%
11.	Estimated employer contribution amount (7 * 10(c))	$ 182,398,902	$ 169,987,945	$ 169,811,685

Source: ERSRI Actuarial Valuation Report as of June 30, 2014 (Section C – Table 1A, page 10).

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, 2014	June 30, 2013	
		New Provisions	New Assumptions	Valuation Result
		(1)	(2)	(3)
1.	Compensation			
	(a) Supplied by ERSRI	$ 951,892,247	$ 936,234,816	$ 936,234,816
	(b) Adjusted for one-year's pay increase	982,565,406	963,525,547	970,541,509
2.	Actuarial accrued liability	6,424,596,267	6,265,311,945	6,363,735,720
3.	Actuarial value of assets	3,742,152,715	3,697,787,537	3,697,787,537
4.	Unfunded actuarial accrued liability (UAAL) (2 - 3)	2,682,443,552	2,567,524,408	2,665,948,183
5.	Remaining amortization period at valuation date	25	22	22
6.	Contribution effective for fiscal year ending:	June 30, 2017	June 30, 2016	June 30, 2016
7.	Payroll projected for two-year delay	1,042,403,639	1,022,204,253	1,044,696,946
8.	Amortization of UAAL	196,493,086	196,038,417	193,446,060
9.	Normal cost			
	(a) Total normal cost rate	8.03%	7.77%	8.37%
	(b) Employee contribution rate	3.75%	3.75%	3.75%
	(c) Employer normal cost rate (a - b)	4.28%	4.02%	4.62%
10.	Employer contribution rate as percent of payroll			
	(a) Employer normal cost rate	4.28%	4.02%	4.62%
	(b) Amortization payments (8 / 7)	18.85%	19.18%	18.52%
	(c) Total (a + b)	23.13%	23.20%	23.14%
11.	Estimated employer contribution amount (7 * 10(c))	$ 241,107,962	$ 237,151,387	$ 241,742,873

Source: ERSRI Actuarial Valuation Report as of June 30, 2014 (Section C – Table 1B, page 11).

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, is set forth in Section 36-10-2 of the RIGL. The State has made 100% of its ARC to the Plans for each of the past nineteen 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 nineteen 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
2014		151,077,997	100	76,700,915	100	121,167,934	100

Source: For fiscal years 2005-2014, see Audited Financial Statements of ERSRI for the Fiscal Year ended June 30, 2014 (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. The amount paid to the Retirement System in fiscal year 2014 related to the State's fiscal year 2012 actual general revenues exceeding budgeted amounts by $168,605.

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 for Fiscal 2013. For Fiscal 2014, supplemental contribution of 414,958 was paid to the retirement system pursuant to Section 42-149-3.1 of the General Laws

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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		
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%
2014	2017	23.78%
2014	2017	25.34% [(4)]
Teachers		
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%
2014	2017	22.76%
2014	2017	23.13% [(4)]

Source: ERSRI Actuarial Valuation Report as of June 30, 2014 (Section C - Table 11B, page 24).
(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
(4) June 30, 2014 actuarial value based on the enactment Article 21 in the FY2015 budget

The following table provides an analysis of the change in the employer ARC from the June 30, 2013 Actuarial Valuation to the revised June 30, 2014 Actuarial Valuation as a result of the enactment of Article 21 in the FY2015 budget:

TABLE R-12
ANALYSIS OF CHANGE IN EMPLOYER COST

Basis	State Employees	Teachers
(1)	(2)	(3)
1. Employer contribution rates from prior valuation	23.64%	23.14%
2. Impact of changes, gains and losses		
a. Non-salary liability experience (gain)/loss	0.04%	-0.25%
b. Salary (gain)/loss	-0.43%	-0.20%
c. Total payroll growth (gain)/loss	0.33%	0.21%
d. Investment experience (gain)/loss	-0.16%	-0.21%
e. Changes in assumptions/methods	0.36%	0.07%
f. Changes in plan provisions	1.56%	0.37%
g. Total	1.70%	-0.01%
3. Employer contribution rates from current valuation	25.34%	23.13%

Source: ERSRI Actuarial Valuation Report as of June 30, 2014 (Section C - Table 11A, page 23).

(1) The employer contribution rate is a percentage of payroll.

TABLE R-13
PROSPECTIVE FUNDING STATUS (ERS)[(1)(2)]

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							
6/30/2014	$2,449.1	$4,369.1	$1,920.0	56.1%	$157.5	$2,520.3	57.7%
6/30/2015	2,490.9	4,402.0	1,911.1	56.6%	164.9	2,544.3	57.8%
6/30/2016	2,543.1	4,434.7	1,891.6	57.3%	182.7	2,578.7	58.1%
6/30/2017	2,614.4	4,489.1	1,874.7	58.2%	182.5	2,632.2	58.6%
6/30/2018	2,682.7	4,518.0	1,835.3	59.4%	182.4	2,682.7	59.4%
6/30/2019	2,733.6	4,545.3	1,811.7	60.1%	185.6	2,733.6	60.1%
6/30/2020	2,788.8	4,571.3	1,782.5	61.0%	188.8	2,788.8	61.0%
6/30/2021	2,848.4	4,595.9	1,747.5	62.0%	194.8	2,848.4	62.0%
6/30/2022	2,912.6	4,615.7	1,703.1	63.1%	200.6	2,912.6	63.1%
6/30/2023	2,985.2	4,634.3	1,649.1	64.4%	206.2	2,985.2	64.4%
TEACHERS							
6/30/2014	$3,742.2	$6,424.6	$2,682.4	58.2%	$222.1	$3,875.9	60.3%
6/30/2015	3,817.5	6,469.4	2,651.9	59.0%	234.1	3,917.8	60.6%
6/30/2016	3,915.1	6,522.1	2,607.0	60.0%	241.3	3,982.0	61.1%
6/30/2017	4,025.7	6,619.9	2,594.2	60.8%	240.9	4,059.1	61.3%
6/30/2018	4,134.9	6,675.9	2,541.0	61.9%	241.5	4,134.9	61.9%
6/30/2019	4,217.2	6,735.7	2,518.5	62.6%	246.2	4,217.2	62.6%
6/30/2020	4,308.6	6,797.3	2,488.7	63.4%	248.1	4,308.6	63.4%
6/30/2021	4,406.5	6,860.3	2,453.8	64.2%	253.4	4,406.5	64.2%
6/30/2022	4,509.2	6,919.4	2,410.2	65.2%	258.8	4,509.2	65.2%
6/30/2023	4,624.5	6,982.0	2,357.5	66.2%	264.8	4,624.5	66.2%

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

(2) The projections include the provisions enacted under Article 21 in the 2015 budget.

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, 2014	June 30, 2014
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percentage, closed	Level percentage, closed
Remaining amortization period	21 years	25 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*	3.50% to 6.50%	3.50% to 13.50%
*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, 2014 (Notes to Required Supplementary Information, Section C - Table 5, page 16).

(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 2014, 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 were reflected in the June 30, 2014 valuation, which was approved 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

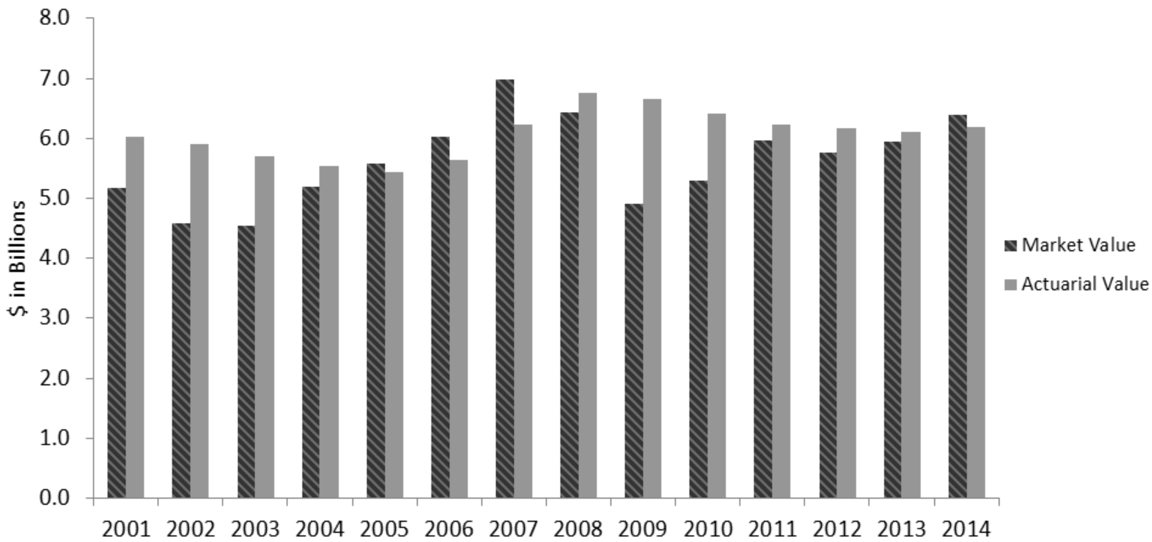
Year Ending June 30 of	Market	Actuarial (1)
1995	17.0%	10.2%
1996	13.7%	13.7%
1997	19.1%	19.1%
1998	16.1%	16.5%
1999	10.1%	14.7%
2000	9.1%	8.8%
2001	-11.0%	4.9%
2002	-8.4%	0.9%
2003	2.6%	-0.8%
2004	18.7%	0.4%
2005	11.4%	1.8%
2006	11.6%	7.4%
2007	18.2%	13.0%
2008	-5.8%	10.7%
2009	-20.1%	2.4%
2010	14.0%	0.8%
2011	19.5%	2.1%
2012	1.4%	3.9%
2013	11.0%	6.1%
2014	14.9%	8.2%
Average Returns:		
Last 5 Years	12.0%	4.2%
Last 10 Years	6.9%	5.6%
Since 1995	7.5%	7.1%

Source: ERSRI Actuarial Valuation Report as of June 30, 2014 (page 22 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 2014.

CHART R-2
MARKET VALUE OF ASSETS VS. ACTUARIAL VALUE OF ASSETS



Source: Data From Actuarial Valuations as of June 30, 2001 through 2014.

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 (C.A. No. 10-2859). The 2005 reforms were not challenged. The defendant State officials filed a Motion for Summary Judgment on the claims set forth in the Amended Complaint, which was heard on July 18, 2011. Prior to the hearing, the parties stipulated that the only issue that would be presented to the Court during the hearing on the Motion would concern whether the statute created a contract between the state and its participants. The parties agreed that in the event that the Court concluded that the statute did create a contract, the remaining issues of whether the contract had been impaired and whether any such impairment was legally justified would be briefed and argued at a later date. On September 13, 2011, the Superior Court issued its decision in which it ruled that pension plan participants have a contractual right based on an implied-in-fact contract theory. Consistent with the parties' stipulation, the Court did not decide whether that contract had been impaired or whether any such impairment was legally justified. The defendants State officials believe the Superior Court's ruling was legally wrong. On October 3, 2011, Defendants filed a Petition for Issuance of a Writ of Certiorari and Supporting Memorandum of Law with the Rhode Island Supreme Court. Defendants also filed a motion through which they requested that the Supreme Court expedite its review of the Petition for Issuance of a Writ of Certiorari. On November 22, 2011, the Supreme Court denied the petition for Writ of Certiorari. On January 2, 2013, the Court ordered the parties to participate in mediation (the "2013-2014 Mediation"). As noted below, the 2013-2014 Mediation ended without a settlement agreement. The Court scheduled initially the trial to begin in September 2014, and then continued it to April, 2015. The Defendants moved for a jury trial and to consolidate the challenge to the 2009 and 2010 reform with the challenges to the 2011 reform described more fully below (except the action brought by the Rhode Island State Troopers Association). Both motions were granted. The parties filed motions to continue the trial until January 2016, which were denied, and the plaintiffs filed Petitions for Issuance of a Writ of Certiorari and Supporting Memorandum of Law with the Rhode Island Supreme Court, to which the Defendants joined. A conference was held with a single justice of the Rhode Island Supreme Court on March 2, 2015, and on March 5, 2015 the full court denied the petition.

On March 9, 2015, the court entered an order appointing former Rhode Island Supreme Court Chief Justice Frank J. Williams to serve as Master with duties, including "addressing all discovery issues, motions, and assisting the parties in narrowing and/or resolving disputed issues by agreement, subject to further approval by the Court." On April 2, 2015, the Special Master presented an interim report to the Court stating that a settlement has been reached in five of the nine consolidated pension cases, including the challenge to the 2009 and 2010 legislation. The Special Master reported that the proposed settlement would impact 58,901 employees. The Court set a deadline of April 13, 2015 for the settling parties to memorialize the terms of the settlement and for the settling plaintiffs to file a Class Action Complaint for Settlement Purposes, as well as a corresponding Motion for Class Certification and for Preliminary Approval of the Settlement. The Court granted the Motion for Class Certification and notice was given to the class of a fairness hearing, which was held on May 20, 21, 22, 26 and 27, 2015. On June 9, 2015, the Court issued its decision confirming certification of the plaintiff and defendant classes, confirming the appointment of the plaintiff and defendant class representatives and approving of the proposed settlement as fair, reasonable and adequate.

Thereafter, the General Assembly passed legislation to carry out the settlement, which was enacted into law on June 30, 2015. Accordingly, the Court entered final judgment on July 8, 2015 in the Class Action and in C.A. Nos. 10-2859, 12-3166, 12-3167, 12-3168, 12-3579 and KC 14-0345.

On July 7, 2015, a retiree filed a *pro se* appeal on the final judgment to the Rhode Island Supreme Court. The State intends to vigorously defend the matter on appeal. An appeal in the case does not affect the implementation of the legislation enacted to carry out the settlement. The deadline for any further appeals of the final judgment is July 28, 2015.

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.

For a discussion of the pension settlement and the impact of the pension settlement upon the pension reform and the cases which have not been settled, see the section titled: "The Pension Settlement" under "STATE RETIREMENT SYSTEMS –Other Recent Pension Related Events."

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.

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 January 2, 2013, the Court ordered the parties to participate in mediation (the "2013-2014 Mediation"). 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 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 Rhode Island General Assembly.

As a result of the voting and pursuant to the terms of the proposed settlement, the settlement process ended. Under terms of the proposed settlement, if any one of the six groups voting 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 2013-2014 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 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* (C.A. No. KC 14-0345).

On May 9, 2014, after the Superior Court was informed that the 2013-2014 Mediation was unsuccessful, the Court denied each of defendants' motions for more definite statements and also their motions to dismiss.

The six cases proceeded through 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, Cranston Firefighters, IAFF Local 1363, AFL-CIO and the International Brotherhood of Police Officers, Local 201 (Cranston Police), which had been a parties to the original lawsuits challenging RIRSA filed separate lawsuits in Rhode Island Superior Court challenging RIRSA and withdrew from the original suits (C.A. Nos. 14-4343 and 14-4768).

The eight cases were consolidated with the litigation challenge the 2009 and 2010. As in the challenge to the 2009-2010 reform, the parties filed motions to continue the trial until January 2016, which were denied, and the plaintiffs filed Petitions for Issuance of a Writ of Certiorari and Supporting Memorandum of Law with the Rhode Island Supreme Court, to which the Defendants joined. A conference was held with a single justice of the Rhode Island Supreme Court on March 2, 2015, and on March 5, 2015 the full court denied the petition.

On March 9, 2015, the court entered an order appointing former Rhode Island Supreme Court Chief Justice Frank J. Williams to serve as Master with duties, including "addressing all discovery issues, motions, and assisting the parties in narrowing and/or resolving disputed issues by agreement, subject to further approval by the Court." On April 2, 2015, the Special Master presented an interim report to the Court stating that a settlement has been reached in five of the nine consolidated pension cases. The Special Master reported that the proposed settlement would impact 58,901 employees. The Court set a deadline of April 13, 2015 for the settling parties to memorialize the terms of the settlement and for the settling plaintiffs to file a Class Action Complaint for Settlement Purposes, as well as a corresponding Motion for Class Certification and for Preliminary Approval of the Settlement. The Court granted the Motion for Class Certification and notice was given to the class of a fairness hearing, which was held on May 20, 21, 22, 26 and 27, 2015. On June 9, 2015, the Court issued its decision confirming certification of the plaintiff and defendant classes, confirming the appointment of the plaintiff and defendant class representatives and approving of the proposed settlement as fair, reasonable and adequate.

Thereafter, the General Assembly passed legislation to carry out the settlement, which was enacted into law on June 30, 2015. Accordingly, the Court entered final judgment on July 8, 2015in the Class Action and in C.A. Nos. 10-2859, 12-3166, 12-3167, 12-3168, 12-3579, KC 14-0345.

On July 7, 2015, a retiree filed a *pro se* appeal on the final judgment to the Rhode Island Supreme Court. The State intends to vigorously defend the matter on appeal. An appeal in the case does not affect the implementation of the legislation enacted to carry out the settlement. The deadline for any further appeals of the final judgment is July 28, 2015.

With respect to the three non-settling cases (C.A. Nos. 12-3169, 14-4343 and 14-4768), the Court vacated the April 20, 2015 trial date and will hold a status conference on July 29, 2015 to address outstanding issues, including pending dispositive motions, discovery motions and a trial date for those cases.

On September 8, 2014, an additional 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. Defendants have answered the complaint in that action. This action was not consolidated with the other nine cases and remains pending.

As a result of the RIRSA legislation, the unfunded liability of $6.8 billion for state employees and teachers in the June 30, 2011 valuation for ERSRI has been reduced to $4.4 billion as reported in the June 30, 2011 valuation. Also, the projected employer contribution has been reduced from $622 million as reported in the 2010 actual valuation report to $380 million as reported in the June 30, 2011 valuation.

For a discussion of the pension settlement and the impact of the pension settlement upon the pension reform and the cases which have not been settled, see the section titled: "The Pension Settlement" under "STATE RETIREMENT SYSTEMS – Other Recent Pension Related Events."

The Pension Settlement

The pension settlement, effective July 1, 2015, allows the 58,901 employees impacted to receive increases in their benefits, while at the same time still retaining a significant portion of the savings expected from the pension reforms. In connection with the settlement, the General Assembly enacted Article 21 in the revised FY 2015 budget, which makes certain changes to all plans administered by ERSRI as contemplated by the settlement. Set forth below is a summary of the following changes that Article 21 makes to all of the plans administered by ERSRI, except where noted separately:

- A one-time 2% COLA payable immediately to all applicable retirees /beneficiaries that retired on or before June 30, 2012 on the first $25,000 of pension benefit without the contingency of being 80% funded or the investment return. This does not impact the indexing of the $25,000 for future years.

- Two one-time $500 stipends payable to all current retirees/beneficiaries that retired on or before July 1, 2015. One payable 60 days following enactment of the changes and the final one payable one year later.

- The COLA formula will become 50% of the COLA using the previous 5-year average of investment returns, with a maximum increase of 4%; and 50% of the previous Schedule B COLA, which is the previous year's CPI-U with a maximum increase of 3%, for a total maximum increase of 3.50%.

- The COLA payment will be contingent on the individual plan being 80% funded. However, every 4th year, if the COLA has been suspended for three consecutive years, the COLA may occur even if the plan is less than 80% funded.

- For current retirees/beneficiaries that retired on or before July 1, 2015, the $25,000 COLA cap will be increased to $40,000 (indexed) for any COLA payable based on the every 4th year provision (any COLA suspended based on less than 80% funding ratio).

- For State workers, teachers, and general MERS active members with 20 years of service as of June 30, 2012, they will receive future accruals (post July 1, 2015) at a rate of 2% per year and no longer participate in the defined contribution plan. The members will keep their DC balances as of 6/30/2015. For this accrual, these employees will pay higher member contribution rates. For State workers and teachers, the member contribution rate will be 11% of pay. For general MERS, the member contribution will be 8.25% or 9.25% depending on whether the unit has a COLA provision.

- For State workers, teachers, and general MERS active members with more than 10 years of service (but less than 20 years of service) as of June 30, 2012, there will be an additional employer contribution of 0.25% if the member has between 10 and 15 years of service and 0.50% if the member has between 15 and 20 years of service.

- For State workers, teachers, and general MERS active members who earn less than $35,000 per year, the administrative fee in the defined contribution plan will be waived.

- All current and future State workers, teachers, and general MERS active members will be eligible to retire with full benefits at the earlier of their current RIRSA date or upon the attainment of age 65 with 30 years of service, age 64 with 31 years of service, age 63 with 32 years of service, or age 62 with 33 years of service.

- For members who will be impacted by the RIRSA part-time anti-spiking rule, if the highest 5-year average calculation is less than the $35,000 indexed, the pension will be based on the greater of the following: (i) highest 10 year average earnings, or (2) highest 5-year earnings with an indexed $35,000 cap.

- The early retirement reduction for employees who choose to retire before eligible for full unreduced benefits will be based on the following schedule: 9% for year 1, 8% for year 2, and 7% for each year thereafter.

- For correctional officers active as of June 30, 2012 with fewer than 25 years of service as of that date, the benefit accrual will be 3% per year for years 31-35.

- For MERS police & fire employees, current and future members can retire with full benefits at the earlier of their current RIRSA retirement age or at the attainment of age 50 with at least 25 years of service or the attainment of any age and 27 years of service. Members will pay an additional 2.00% member contribution rate beginning July 1, 2015.

- For MERS Police & Fire, active members (including future hires), members who retire after July 1, 2015 and after attaining age 57 with 30 years of service will have a benefit equal to the greater of their current benefit and one calculated based on a 2.25% multiplier for all years of service.

Overall it is estimated that the combination of these changes, as well as the other provisions of the settlement, based upon the actuarial analysis performed by Gabriel Roeder Smith & Company, the State's actuarial consultants, as set forth in a letter dated June 10, 2015 to certain State officials, will result in (i) a $290 million increase in the UAAL as of June 30, 2014 on a combined basis and (ii) a $14.7 million increase in combined employer contributions for the 2017 fiscal year. Despite such increases, the pension settlement, as reflected by the enactment of Article 21, is estimated to preserve approximately 90% of the savings anticipated from the pension reforms.

While the employees that are members of the unions that brought the non-settled consolidated cases (C.A. Nos. 12-3169, 14-4343 and14-4769) will receive the same benefits afforded to the settling parties, neither those cases nor the case commenced by the Rhode Island State Troopers Association and Rhode Island Troopers Association ex-rel. Kevin M. Grace and Ernest E. Adams (the " State Troopers Lawsuit") have settled. The State intends to vigorously contest these remaining lawsuits. However, the employees raising claims under the three consolidated cases that did not settle are municipal employees for which the State would not have funding responsibility and while the State Trooper Lawsuit also only challenges the constitutionality of RIRSA (prior to the amendments) the benefits at issue there are ones paid from and pertaining to SPRBT rather than benefits paid from any of the other ERSRI plans.

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). .

Due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 67 – Financial Reporting for Pension Plans in fiscal 2014, the System has presented the accounting measures of the net pension liability (asset) for each of the defined benefit plans. Calculation of the net pension liability (asset) of the plans is performed by the actuary in accordance with GASB requirements. This accounting measure of the net pension liability (asset) of each plan is different from the actuarial valuations performed for funding purposes and the determination of annual actuarially determined contributions to each of the defined benefit plans. One of the principal differences is that the accounting measure of the net pension liability at June 30, 2014 utilizes each plan's fiduciary net position, which reflects the fair value of investments at that date. For funding purposes, the actuarial valuation uses the actuarial value of assets, which reflects a five-year smoothed asset valuation.

The components of the net pension liability of the employers participating in the various plans of the System at June 30, 2014 were as follows:

	ERS		TSB	State Police	JRBT	RIJRFT	MERS	
	State Employees	Teachers					General employees	Police & Fire
Fiscal year ended June 30, 2014								
Total pension liability	$4,302,186,206	$6,309,901,411	$ 169,601,073	$113,017,758	$ 59,933,761	$17,505,869	$1,083,524,263	$526,361,185
Plan Fiduciary net position	2,520,281,249	3,875,901,033	293,921,803	109,678,381	56,172,243	318,023	947,202,644	446,542,303
Employers' Net Pension Liability	$1,781,904,957	$2,434,000,378	$(124,320,730)	$ 3,339,377	$ 3,761,518	$17,187,846	$ 136,321,619	$ 79,818,882
Plan Fiduciary Net Position as a percentage of total pension liability	58.6%	61.4%	173.3%	97.0%	93.7%	1.8%	87.4%	84.8%

The total pension liability and net pension liability are based on an actuarial valuation performed as of June 30, 2013, rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2014 using generally accepted actuarial principles.

The discount rate used to measure the total pension liability of the plans was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

For the RIJRFT plan, the State has not opted to make actuarially determined employer contributions and based on those assumptions, the pension plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Consequently, for the RIJRFT plan, the municipal bond index rate, based on the 20-year Bond Buyer GO Index, (4.29% and 4.63% at June 30, 2014 and June 30, 2013, respectively) was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the net pension liability (asset) of the employers calculated using the discount rate of 7.5 percent, as well as what the employers' net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

	1.00% Decrease (6.50%)		Current Discount Rate (7.5%)		1.00% Increase (8.50%)	
ERS - State employees	$	2,200,811,036	$	1,781,904,957	$	1,354,409,975
ERS - Teachers	$	3,048,284,669	$	2,434,000,378	$	1,807,111,545
TSB	$	(106,541,085)	$	(124,320,730)	$	(142,097,813)
SPRBT	$	13,684,330	$	3,339,377	$	(7,214,487)
JRBT	$	9,317,070	$	3,761,518	$	(1,905,894)
MERS - General Employees	$	240,247,377	$	136,321,619	$	30,270,160
MERS - Police and Fire	$	129,356,048	$	79,818,882	$	29,273,349

Additional information regarding GASB Statement 67 for the ERSRI June 30, 2014 Audited Financial Statements may be found at http://www.oag.state.ri.us/reports/Retire2014.pdf .

The State will implement the provisions of GASB Statement No. 68 in its fiscal 2015 financial statements. This will include recognition of the net pension liability, pension expense, and deferred inflows and outflows of resources for all defined benefit pension plans covering its employees. These amounts will be reflected in the State's government-wide financial statements. Beginning balances will be restated as required by the provisions of GASB Statement No. 68.

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 67:	Governmental Accounting Standards Board Statement No. 67 - 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 (reports are updated every other year), 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 2016 is 5.97%, 33.39%, 1.53% 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 were 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 $59.8 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 2014 which are attached hereto in Exhibit A.

LITIGATION

The State, its Departments, agencies, 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.

However, the following pending litigations, the potential exposure for which is greater than $5,000,000, should be noted.

Pension Litigation

Challenges to the 2009 and 2010 Pension Reform

A number of unions representing state employees and teachers filed a lawsuit in State court in May 2010 initially challenging and attempting to block the 2009 pension reforms enacted by the General Assembly and later amended the suit to include 2010 reforms (C.A. No. 10-2859). The 2005 reforms were not challenged. The defendant State officials filed a Motion for Summary Judgment on the claims set forth in the Amended Complaint, which was heard on July 18, 2011. Prior to the hearing, the parties stipulated that the only issue that would be presented to the Court during the hearing on the Motion would concern whether the statute created a contract between the state and its participants. The parties agreed that in the event that the Court concluded that the statute did create a contract, the remaining issues of whether the contract had been impaired and whether any such impairment was legally justified would be briefed and argued at a later date. On September 13, 2011, the Superior Court issued its decision in which it ruled that pension plan participants have a contractual right based on an implied-in-fact contract theory. Consistent with the parties' stipulation, the Court did not decide whether that contract had been impaired or whether any such impairment was legally justified. The defendants State officials believe the Superior Court's ruling was legally wrong. On October 3, 2011, Defendants filed a Petition for Issuance of a Writ of Certiorari and Supporting Memorandum of Law with the Rhode Island Supreme Court. Defendants also filed a motion through which they requested that the Supreme Court expedite its review of the Petition for Issuance of a Writ of Certiorari. On November 22, 2011, the Supreme Court denied the petition for Writ of Certiorari. On January 2, 2013, the Court ordered the parties to participate in mediation (the "2013-2014 Mediation"). As noted below, the 2013-2014 Mediation ended without a settlement agreement. The Court scheduled initially the trial to begin in September 2014, and then continued it to April, 2015. The Defendants moved for a jury trial and to consolidate the challenge to the 2009 and 2010 reform with the challenges to the 2011 reform described more fully below (except the action brought by the Rhode Island State Troopers Association). Both motions were granted. Other pre-trial motions were filed by the parties, and the court ruled in favor of the plaintffs with regard to cross motions in limine regarding the burden of proof. The parties filed motions to continue the trial until January 2016, which were denied, and the plaintiffs filed Petitions for Issuance of a Writ of Certiorari and Supporting Memorandum of Law with the Rhode Island Supreme Court, to which the Defendants joined. A conference was held with a single justice of the Rhode Island Supreme Court on March 2, 2015, and on March 5, 2015 the full court denied the petition. Accordingly, trial will begin on April 20, 2015.

On March 9, 2015, the court entered an order appointing former Rhode Island Supreme Court Chief Justice Frank J. Williams to serve as Master with duties, including "addressing all discovery issues, motions, and assisting the parties in narrowing and/or resolving disputed issues by agreement, subject to further approval by the Court." On April 2, 2015, the Special Master presented an interim report to the Court stating that a settlement has been reached in five of the nine consolidated pension cases, including the challenge to the 2009 and 2010 legislation. The Special Master reported that the proposed settlement would impact 58,901 employees. The Court set a deadline of April 13, 2015 for the settling parties to memorialize the terms of the settlement and for the settling plaintiffs to file a Class Action Complaint for Settlement Purposes, as well as a corresponding Motion for Class Certification and for Preliminary Approval of the Settlement. The Court granted the Motion for Class Certification and notice was given to the class of a fairness hearing, which was held on May 20, 21, 22, 26 and 27, 2015. On June 9, 2015, the Court issued its decision confirming certification of the plaintiff and defendant classes, confirming the appointment of the plaintiff and defendant class representatives and approving of the proposed settlement as fair, reasonable and adequate.

Thereafter, the General Assembly passed legislation to carry out the settlement, which was enacted into law on June 30, 2015. Accordingly, the Court entered final judgment on July 8, 2015 in the Class Action and in C.A. Nos. 10-2859, 12-3166, 12-3167, 12-3168, 12-3579 and KC 14-0345.

On July 7, 2015, a retiree filed a *pro se* appeal on the final judgment to the Rhode Island Supreme Court. The State intends to vigorously defend the matter on appeal. An appeal in the case does not affect the implementation of the legislation enacted to carry out the settlement. The deadline for any further appeals of the final judgment is July 28, 2015.

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.

For a discussion of the pension settlement and the impact of the pension settlement upon the pension reform and the cases which have not been settled, see the section titled: "The Pension Settlement" under "STATE RETIREMENT SYSTEMS –Other Recent Pension Related Events."

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.

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 January 2, 2013, the Court ordered the parties to participate in mediation (the "2013-2014 Mediation"). 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 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 Rhode Island General Assembly.

As a result of the voting and pursuant to the terms of the proposed settlement, the settlement process ended. Under terms of the proposed settlement, if any one of the six groups voting 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 2013-2014 Mediation 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 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* (C.A. No. KC 14-0345).

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 also their motions to dismiss.

The six cases proceeded through 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, Cranston Firefighters, IAFF Local 1363, AFL-CIO and the International Brotherhood of Police Officers, Local 201 (Cranston Police), which had been parties to the original lawsuits challenging RIRSA filed separate lawsuits in Rhode Island Superior Court challenging RIRSA and withdrew from the original suits. The State intends to vigorously contest the lawsuits (C.A. Nos. 14-4343 and 14-4768).

The eight cases were consolidated with the litigation challenging the 2009 and 2010 reform. As in the challenge to the 2009-2010 reform the parties filed motions to continue the trial until January 2016, which were denied, and the plaintiffs filed Petitions for Issuance of a Writ of Certiorari and Supporting Memorandum of Law with the Rhode Island Supreme Court, to which the Defendants joined. A conference was held with a single justice of the Rhode Island Supreme Court on March 2, 2015, and on March 5, 2015 the full court denied the petition. .

On March 9, 2015, the court entered an order appointing former Rhode Island Supreme Court Chief Justice Frank J. Williams to serve as Master with duties, including "addressing all discovery issues, motions, and assisting the parties in narrowing and/or resolving disputed issues by agreement, subject to further approval by the Court." On April 2, 2015, the Special Master presented an interim report to the Court stating that a settlement has been reached in five of the nine consolidated pension cases, including the challenge to the 2009 and 2010 legislation. The Special Master reported that the proposed settlement would impact 58,901 employees. The Court set a deadline of April 13, 2015 for the settling parties to memorialize the terms of the settlement and for the settling plaintiffs to file a Class Action Complaint for Settlement Purposes, as well as a corresponding Motion for Class Certification and for Preliminary Approval of the Settlement. The Court granted the Motion for Class Certification and notice was given to the class of a fairness hearing, which was held on May 20, 21, 22, 26 and 27, 2015. On June 9, 2015, the Court issued its decision confirming certification of the plaintiff and defendant classes, confirming the appointment of the plaintiff and defendant class representatives and approving of the proposed settlement as fair, reasonable and adequate.

Thereafter, the General Assembly passed legislation to carry out the settlement, which was enacted into law on June 30, 2015. Accordingly, the Court entered final judgment on July 8, 2015 in the Class Action and in C.A. Nos. 10-2859, 12-3166, 12-3167, 12-3168, 12-3579 and KC 14-0345.

On July 7, 2015, a retiree filed a *pro se* appeal on the final judgment to the Rhode Island Supreme Court. The State intends to vigorously defend the matter on appeal. An appeal in the case does not affect the implementation of the legislation enacted to carry out the settlement. The deadline for any further appeals of the final judgment is July 28, 2015.

With respect to the three non-settling cases (C.A. Nos. 12-3169, 14-4343 and 14-4768), the Court vacated the April 20, 2015 trial date and will hold a status conference on July 29, 2015 to address outstanding issues, including pending dispositive motions, discovery motions and a trial date for those cases.

On September 8, 2014, an additional 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. Defendants have answered the complaint in that action. This case has not been consolidated with the other nine cases and remains pending.

As a result of the RIRSA legislation, the unfunded liability of $6.8 billion for state employees and teachers in the June 30, 2011 valuation for ERSRI has been reduced to $4.4 billion as reported in the June 30, 2011 valuation. Also, the projected employer contribution has been reduced from $622 million as reported in the 2010 actual valuation report to $380 million as reported in the June 30, 2011 valuation. 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. The unfunded liability and the projected employer contribution as reported in the June 30, 2014 actuarial valuation is approximately $4.35 billion and $408.5 million, respectively.

For a discussion of the pension settlement and the impact of the pension settlement upon the pension reform and the cases which remain unsettled, see the section titled: "The Pension Settlement" under "STATE RETIREMENT SYSTEMS –Other Recent Pension Related Events."

Other Litigation

The Retiree chapter of Council 94, AFSCME, recently filed a Complaint in Rhode Island Superior Court alleging breach of contract and unconstitutionality in connection with a change to retiree health benefits. The case is in its early stages, but could result in a significant shift in state resources.

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 case will likely be argued in the 2015-2016 judicial term.

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. This case is in the discovery phase.

Subsequent to the approval of a referendum in November 2012 authorizing table games at Twin River Casino, the constitutionality of that legislation was 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 statute is constitutional, and has remanded the case to the Superior Court to continue the Declaratory Judgment action regarding "operation" of the facilities. The State does not believe that the Tribe's lawsuit seeking a declaratory judgment will be successful, but if the Tribe were to prevail, there could be a significant impact to the revenue derived from gaming. The defense of the litigation itself is expected to be costly.

The Department of Children, Youth and Families ("DCYF") was sued by Children's Rights of New York, which alleged constitutional and statutory violations in its foster care programs. Children's Rights sought 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. The State 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 was entered in favor of the State on April 30, 2014. Childrens' Rights filed an appeal to the United States Court of Appeals for the First Circuit. That Court upheld the appeal and has remanded the case to the District of Rhode Island for additional discovery and further litigation.

The Department of Children, Youth and Families was also sued by a family (*Provorse v DCYF*) for damages they claim because of the adoption of their daughter. They claim that DCYF knew that the child had severe disabilities and failed to tell them. In addition to the over $2.0 million demand, there may be exposure for pre-trial interest, which is now exceeding 100 percent.

In 2010 IRIE, a program providing residential services to teenagers in DCYF care, filed suit against DCYF alleging that it was not paid for providing services to the infants/toddlers of the teenagers in its residential program. IRIE initially filed suit under a theory of unjust enrichment, however in 2012 the Superior Court allowed IRIE to amend in legal theories of breach of contract, conspiracy, and tortuous interference with business. The court did not permit these new theories to relate back to the initial filing of the complaint. The Plaintiff seeks $2,908,650, plus interest and costs. A motion to dismiss some of the claims is pending.

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 tens of 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 quantified. The State filed a motion to dismiss, which was denied by the Rhode Island US District Court. The case is now in the discovery phase and if no settlement is reached, the case will go to trial in 2017.

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, 2014, 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
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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, 2014, 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 deferred outflows and 1% of the revenues of the governmental activities and 1% of the assets and 2% of the revenues of the aggregate remaining fund information;

- the Convention Center Authority, a major fund, which also represents 63% of the assets and deferred outflows and 2% of the revenues of the business-type activities;

- the HealthSource RI Trust, an agency fund, and the Ocean State Investment Pool, an external investment trust, which collectively represent 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.

The financial statements for these entities 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.

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

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, 2014, 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(S) and 18(F), the State implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This resulted in adjustments to beginning net position and changes in financial statement presentation.

As described in Note 1(S), the State will adopt GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans – an amendment to GASB Statement No. 27* in fiscal 2015. Implementation of this standard in the next fiscal year will result in a significant restatement of beginning governmental activities net position at July 1, 2014.

As described in Note 13, various lawsuits have been filed challenging legislatively enacted pension reforms, which are pending in Superior Court. An adverse judgment to the State resulting from these challenges could significantly increase both the unfunded liability of the defined benefit plans included within the pension trust funds and the State's annual actuarially determined 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-4 through Exhibit A-24, the Budgetary Comparison Schedules on pages Exhibit A-115 through Exhibit A-118, and the Schedules of Funding Progress on pages Exhibit A-119 through Exhibit A-120 be presented to supplement the basic financial statements. Such information, although not a part of the basic

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

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 will issue our report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report will be included in the State's 2014 *Single Audit Report*. 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 18, 2014

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, 2014. 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 plus deferred outflows of resources of the State exceeded total liabilities plus deferred inflows of resources on June 30, 2014 by $1,971.4 million. This amount is presented as "net position" on the Statement of Net Position for the Total Primary Government. Of this amount, ($1,505.8) million was reported as unrestricted net position (deficit), $833.1 million as restricted net position, and $2,644.1 million as net investment in capital assets.

- **Changes in Net Position:** In the Statement of Activities, the State's total net position increased by $291.3 million in fiscal year 2014. Net position of governmental activities increased by $181.0 million compared to an increase of $284.8 million in fiscal year 2013.

  This year to year reduction in the change in net position for governmental activities is primarily attributable to a greater rate of increase in net expenses for governmental activities which increased by $191.1 million as compared with an increase in general revenues and transfers of $70.8 million. Expenses in the general government and human services areas rose due in part to programs initiated as a result of the Affordable Care Act and the recognition of a liability relating to a moral obligation of the State under the Job Creation Guaranty Program as discussed in Note 7 H. Net position of the business-type activities increased by $110.3 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 that were successful in increasing the financial strength of the fund.

Fund Financial Statements

Governmental Funds

- The State's governmental funds reported a combined ending fund balance of $1,011.3 million, a decrease of $46.5 million in comparison with the previous fiscal year. This is primarily a result of the Intermodal Surface Transportation Fund and capital projects funds included in Other Governmental Funds expending debt proceeds from prior years' debt issuances.

- As of June 30, 2014, the State's General Fund reported an ending fund balance of $395.4 million, a decrease of $5.8 million as compared to the prior year. This change was caused by a number of factors including a significant reduction in the assigned category resulting from a decrease in fund balance carried forward to fund subsequent year operations.

- As of June 30, 2014, the State's Intermodal Surface Transportation Fund reported an ending fund balance of $118.4 million, a decrease of $23.3 million as compared to the prior year. The decrease was mainly due to spending bond proceeds from prior years' issuances for road and bridge construction and rehabilitation projects.

Proprietary Funds

- The Rhode Island State Lottery transferred $376.3 million to the General Fund in support of general revenue expenditures during the fiscal year, a decrease of $2.9 million in comparison with the previous fiscal year.

- The Employment Security Fund ended the fiscal year with a net position of $27.9 million, an increase of $109.2 million from fiscal year 2013. This favorable change is primarily attributable to a significant reduction in benefits paid due to the improving employment level in the State.

- The R.I. Convention Center Authority ended the fiscal year with a net position deficiency of ($57.6) million, a deficit decrease of $0.4 million compared with the prior year. The Authority has historically had a net position deficiency, because the amount of debt related to capital assets has exceeded the net book value of the capital assets and 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 $1,971.4 million at the end of fiscal year 2014, compared to $1,680.1 million (as restated) at the end of the prior fiscal year. Governmental activities reported unrestricted net position (deficit) of ($1,498.7) 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, 2014
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013 *	2014	2013 *	2014	2013 *
Current and other assets	$ 1,914,572	$ 2,045,690	$ 118,971	$ 124,171	$ 2,033,543	$ 2,169,861
Capital assets	3,683,740	3,490,408	162,001	169,267	3,845,741	3,659,675
Total assets	5,598,312	5,536,098	280,972	293,438	5,879,284	5,829,536
Deferred outflows of resources	26,723		6,819		33,542	
Long-term liabilities outstanding	2,580,071	2,621,233	225,965	386,108	2,806,036	3,007,341
Other liabilities	1,010,133	1,062,240	97,159	52,955	1,107,292	1,115,195
Total liabilities	3,590,204	3,683,473	323,124	439,063	3,913,328	4,122,536
Deferred inflows of resources	28,076	26,883			28,076	26,883
Net position (deficit):						
Net investment in capital assets	2,706,209	2,486,783	(62,060)	(67,394)	2,644,149	2,419,389
Restricted	799,274	775,758	33,795	8,340	833,069	784,098
Unrestricted	(1,498,728)	(1,436,799)	(7,068)	(86,571)	(1,505,796)	(1,523,370)
Total net position (deficit) as restated	$ 2,006,755	$ 1,825,742	$ (35,333)	$ (145,625)	$ 1,971,422	$ 1,680,117

* Restated

As indicated above, the State reported a balance in unrestricted net position (deficit) of ($1,505.8) million as of June 30, 2014 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, 2014 approximately $592.0 million of general obligation bonds related to such projects were outstanding.

Examples of these uses of general obligation bond proceeds include, but are not limited to, the following:

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

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

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

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

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

Other debt that is not for the State's acquisition of capital assets is as follows:

- Tobacco Settlement Asset-Backed Bonds and Accreted Interest - The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued $882.4 million of Tobacco Asset-Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent Decree and Final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof, and the State has no obligation to satisfy any deficiency or default of any payment of the bonds. As of June 30, 2014 approximately $744.8 million of principal and $101.7 million of accreted interest are included in the State's debt.

- Historic Tax Credit Bonds - In fiscal year 2009 the R.I. Commerce Corporation (RICC), 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, 2014, approximately $74.4 million is outstanding.

- The State has entered into certain capital lease agreements, Certificates of Participation (COPS), the proceeds of which are to be used, for example, 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, 2014, approximately $207.6 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 $291.3 million during fiscal year 2014. Total revenues of $7,486.3 million increased by $263.7 million compared to fiscal year 2013. The favorable results were aided by increased general revenues due primarily to greater tax collections due to the improving economy and rising operating grants which, in part, related to federal assistance provided to begin or expand programs under the Affordable Care Act (ACA). The State's expenses, which cover a wide range of services, increased by $342.8 million. This net increase, which occurred primarily in the general government and human services categories, was caused by a number of factors including significant expenditures for initiatives under the ACA and the recognition of a liability relating to a moral obligation of the State under the Job Creation Guaranty Program as discussed in Note 7 H. Offsetting these costs were significant savings in employment insurance costs attributable to a decline in unemployment levels in the State.

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.

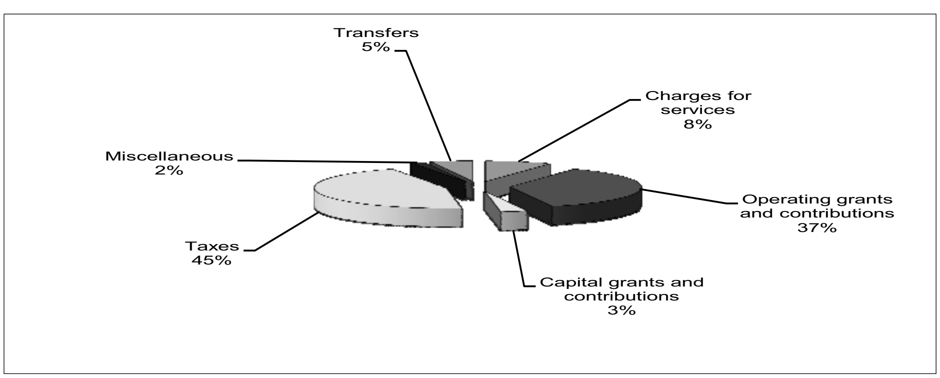
State of Rhode Island's Changes in Net Position
For the Fiscal Year Ended June 30, 2014
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	$ 547,589	$ 551,500	$ 1,127,206	$ 1,055,070	$ 1,674,795	$ 1,606,570
Operating grants and contributions	2,403,772	2,211,800	53,146	166,164	2,456,918	2,377,964
Capital grants and contributions	228,649	190,551			228,649	190,551
General revenues:						
Taxes	2,980,387	2,870,969			2,980,387	2,870,969
Interest and investment earnings	4,852	4,893	109	117	4,961	5,010
Miscellaneous	109,351	146,997	31,208	24,490	140,559	171,487
Total revenues	6,274,600	5,976,710	1,211,669	1,245,841	7,486,269	7,222,551
Program expenses:						
General government	736,911	625,081			736,911	625,081
Human services	3,302,590	3,038,841			3,302,590	3,038,841
Education	1,399,347	1,364,575			1,399,347	1,364,575
Public safety	478,826	473,580			478,826	473,580
Natural resources	80,690	76,730			80,690	76,730
Transportation	298,626	300,639			298,626	300,639
Interest and other charges	129,421	129,714			129,421	129,714
Lottery			462,153	397,625	462,153	397,625
Convention Center			49,255	48,437	49,255	48,437
Employment insurance			257,145	396,909	257,145	396,909
Total expenses	6,426,411	6,009,160	768,553	842,971	7,194,964	6,852,131
Excess (deficiency) before transfers	(151,811)	(32,450)	443,116	402,870	291,305	370,420
Transfers	332,824	333,804	(332,824)	(333,804)		
Change in net position	181,013	301,354	110,292	69,066	291,305	370,420
Net position (deficit) - Beginning	1,842,302	1,418,495	(143,514)	(212,580)	1,698,788	1,205,915
Cumulative effect of prior period adjustments	(16,560)	122,453	(2,111)		(18,671)	122,453
Net position (deficit) - Beginning, as restated	1,825,742	1,540,948	(145,625)	(212,580)	1,680,117	1,328,368
Net position (deficit) - Ending	$ 2,006,755	$ 1,842,302	$ (35,333)	$ (143,514)	$ 1,971,422	$ 1,698,788

See Note 18 F for an explanation of the restatement.

Chart 1 depicts the State's sources of revenues from Governmental Activities for the fiscal year ended June 30, 2014.

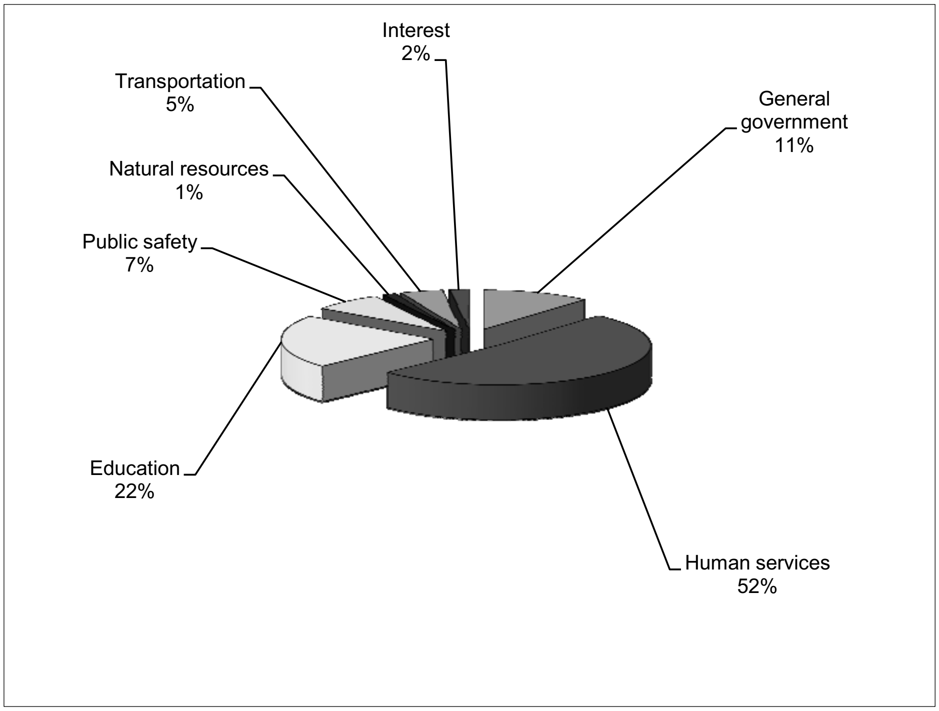
Chart 1 - Revenues and Transfers - Governmental Activities



The relative mix of revenue and transfers by source for governmental activities remained fairly constant in fiscal year 2014 versus the prior fiscal year. Taxes continued to represent the largest source of revenue at 45% of the total while operating grants and contributions represented 37% of the total in fiscal year 2014.

Chart 2 depicts the purposes that program expenses related to Governmental Activities were expended for during the fiscal year ended June 30, 2014.

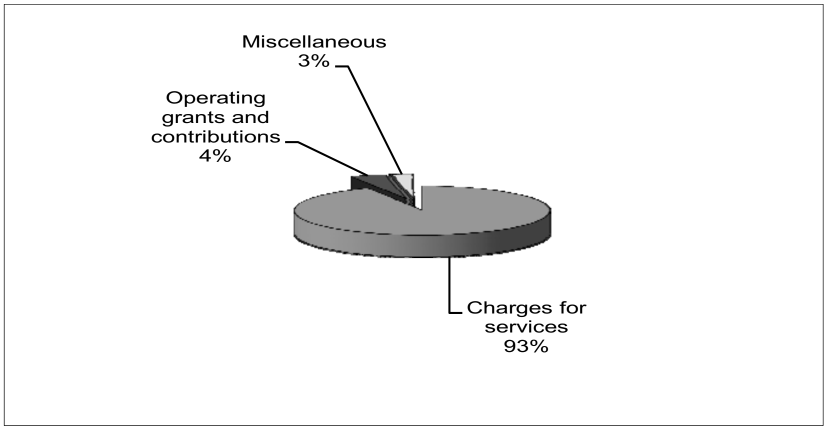
Chart 2 - Program Expenses - Governmental Activities



The relative mix of program expenses - governmental activities remained about the same in fiscal year 2014 as the prior fiscal year. A slight increase from 51% to 52% occurred in the percent of total spending that is directed towards human services programs due, in part, to expansion of programs under the Affordable Care Act.

Chart 3 depicts the State's sources of revenues from Business Type Activities for the fiscal year ended June 30, 2014.

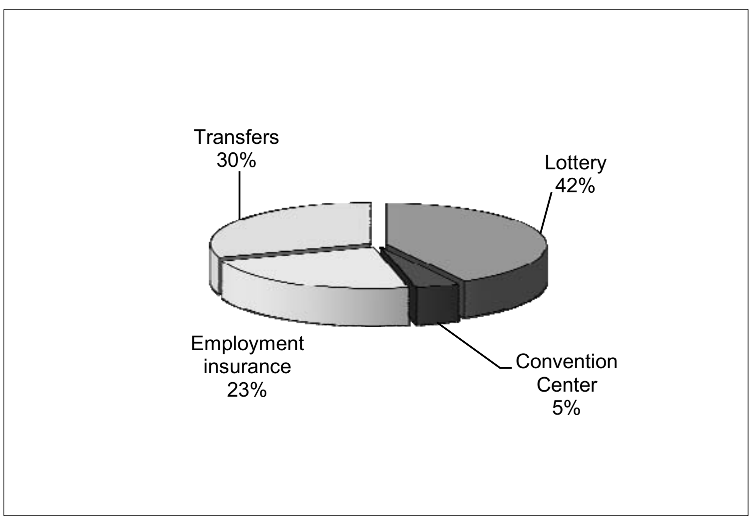
Chart 3 - Revenues – Business Type Activities



Operating grants and contributions declined from 13% to 4% of total revenues - business type activities in fiscal year 2014 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, 2014.

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 2014 such payments represented 23% of total business type expenses and transfers as compared to 34% in fiscal year 2013.

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 $1,011.3 million, a decrease of $46.5 million from June 30, 2013. A breakdown of the components follows (expressed in thousands):

			Increase (decrease) from 2013	
	2014	2013	Change	Percent
Governmental Funds				
Nonspendable	$ 174	$ 174	$	
Restricted	913,284	942,335	(29,051)	-3.08%
Unrestricted				
Committed	22,682	4,198	18,484	440.30%
Assigned	72,005	105,894	(33,889)	-32.00%
Unassigned	3,165	5,210	(2,045)	-39.25%
Total	$ 1,011,310	$ 1,057,811	$ (46,501)	-4.40%

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.

- 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 significant decrease in the assigned portion of the unrestricted fund balance is primarily attributable to a reduction in the amount of the year end fund balance earmarked by the legislature as a resource in the subsequent fiscal year's budget. At June 30, 2013 this amount was approximately $94,797,000 compared to approximately $60,614,000 at June 30, 2014.

- The increase in the committed portion of the unrestricted fund balance is primarily a result of a significant increase from approximately $169,000 at June 30, 2013 to approximately $13,795,000 at June 30, 2014 in the excess of actual revenues over estimated revenues transferred to the Employees' Retirement System pursuant to the General Laws. See Note 8 for more information.

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):

			Increase (decrease) from 2013	
	2014	2013	Change	Percent
Restricted	$ 297,617	$ 282,137	$ 15,480	5.49%
Unrestricted				
Committed	18,564	4,035	14,529	360.07%
Assigned	72,005	105,639	(33,634)	-31.84%
Unassigned	7,193	9,323	(2,130)	-22.85%
Total	$ 395,379	$ 401,134	$ (5,755)	-1.43%

Revenues and transfers of the General Fund totaled $6,051.7 million in fiscal year 2014, an increase of $314.5 million or 5.48%, 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 2013	
	2014	2013	Amount	Percent
Taxes:				
Personal income	$ 1,109,702	$ 1,083,011	$ 26,691	2.46%
Sales and use	1,126,729	1,073,428	53,301	4.97%
General business	377,361	375,014	2,347	0.63%
Other	52,731	37,060	15,671	42.29%
Subtotal	2,666,523	2,568,513	98,010	3.82%
Federal grants	2,345,942	2,129,847	216,095	10.15%
Restricted revenues	216,142	220,983	(4,841)	-2.19%
Licenses, fines, sales, and services	330,565	323,308	7,257	2.24%
Other general revenues	60,458	57,537	2,921	5.08%
Subtotal	2,953,107	2,731,675	221,432	8.11%
Total revenues	5,619,630	5,300,188	319,442	6.03%
Transfer from Lottery	376,327	379,225	(2,898)	-0.76%
Other transfers	55,722	57,787	(2,065)	-3.57%
Total revenue and other sources	$ 6,051,679	$ 5,737,200	$ 314,479	5.48%

Personal income taxes increased modestly between fiscal year 2013 and fiscal year 2014. Final payments, payments made with a return and extension payments, decreased by 15.0%. This decrease was due primarily to federal tax law changes that occurred at the end of tax year 2012 and induced taxpayers to shift the realization of capital gains from tax year 2013 into tax year 2012. As a result, final payments were stimulated in fiscal year 2013 and depressed in fiscal year 2014. Personal income tax withholding payments showed solid growth of 3.9% in fiscal year 2014 while personal income tax estimated payments experienced a minimal gain of 1.0%. The increase in withholding tax payments was coincidental with the State's improving economy.

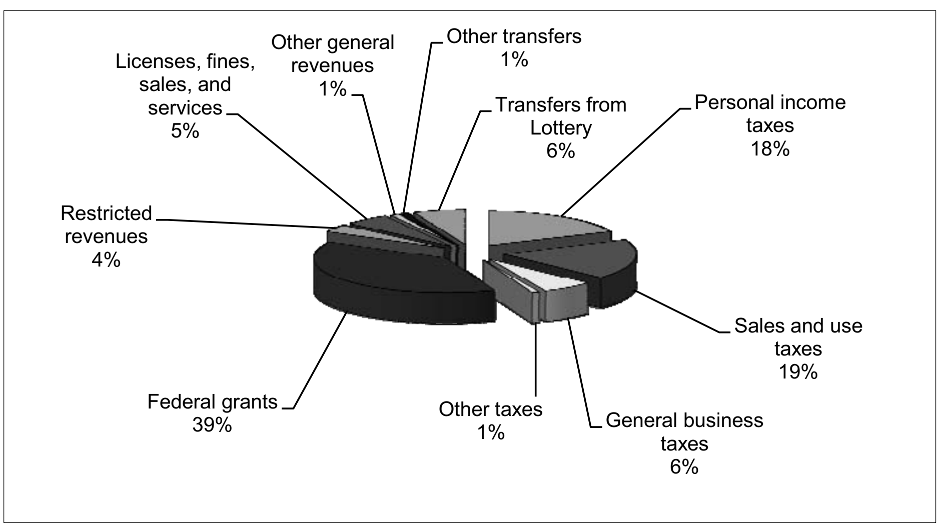
The State's unemployment rate continued its downward trajectory which, according to Moody's Analytics, fell from 9.8% in fiscal year 2013 to 9.0% in fiscal year 2014. Personal income tax refunds and adjustments fell by 2.5% in fiscal year 2014 compared to fiscal year 2013, helping to bolster net personal income tax revenues received by the State. Sales and use taxes exhibited strong year-over-year growth at 5.0%, a further indication of the State's improving economy, particularly in the housing sector and consumer durables such as motor vehicles.

General business taxes grew modestly, aided in part by increased insurance company gross premiums tax revenues that resulted from the implementation of the Affordable Care Act in the state, including the expansion of Medicaid to childless adults with incomes above 138% of the federal poverty level. In addition, fiscal year 2014 financial institutions tax revenues were up 74.5% over fiscal year 2013 amounts. Other taxes showed exceptional growth in fiscal year 2014 led by estate and transfer tax revenues which were $15.1 million more than in fiscal year 2013, an increase of 53.0%.

Finally, R.I. Lottery's transfer to the General Fund was down 0.8% in fiscal year 2014 from fiscal year 2013 due to declines in sales of traditional lottery products and a downturn in gross gaming revenue from video lottery terminals installed at the State's two casino type gaming facilities. The latter may be reflective of increased competition in the northeast gaming market during fiscal year 2014.

Chart 5 depicts the General Fund's revenues and other sources for the fiscal year ended June 30, 2014.

Chart 5 – Revenues and Other Sources – General Fund



Expenditures and other uses totaled $6,057.4 million in fiscal year 2014, an increase of $348.2 million, or 6.10%, 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 2013	
	2014	2013	Amount	Percent
General government	$ 488,707	$ 470,328	$ 18,379	3.91%
Human services	3,325,538	3,042,705	282,833	9.30%
Education	1,357,630	1,330,128	27,502	2.07%
Public safety	478,108	463,734	14,374	3.10%
Natural resources	76,118	70,145	5,973	8.52%
Debt Service:				
Principal	117,975	125,148	(7,173)	-5.73%
Interest	67,113	68,295	(1,182)	-1.73%
Total expenditures	5,911,189	5,570,483	340,706	6.12%
Transfers	146,245	138,737	7,508	5.41%
Total expenditures and other uses	$ 6,057,434	$ 5,709,220	$ 348,214	6.10%

The significant increase in the Human Services function is primarily attributable to the implementation of the Affordable Care Act and the new HealthSource RI health benefits exchange. Within the Medicaid program, new enrollees resulted in a significant increase in federally funded expenses. In addition, there were increases in costs under the regular Medicaid program due to caseload increases and also in the Managed Care and Rhody Health Partners programs.

The primary driver of increases in the Education function is the continued transition to the new Education Funding Formula, which required over $33.0 million in additional funding in fiscal year 2014.

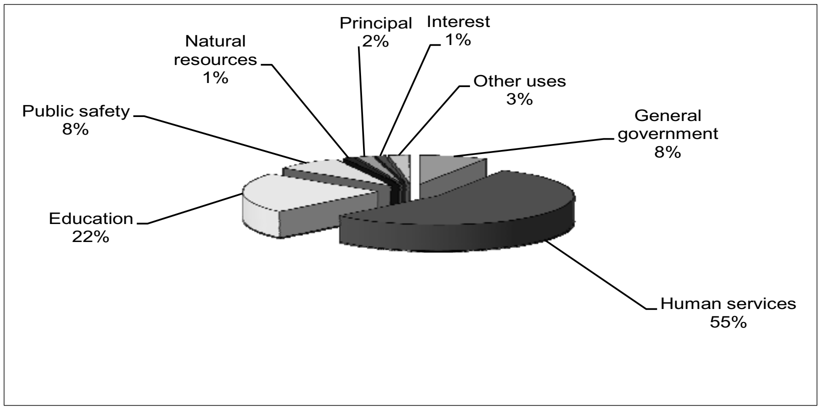
Within the General Government function, the HealthSource RI program, which falls under the Department of Administration, expended over $25.5 million more in fiscal year 2014 as they continued the development of the health benefits exchange and provided funding for the Unified Health Infrastructure Project (UHIP).

Within the Public Safety function, the Department of Public Safety expended about $5.0 million from the Google Settlement received through the US Department of Justice. In addition, expenditures for the Department of Corrections were higher due to additional overtime costs.

Debt service expenditures decreased due to savings from a refinancing of prior debt issuances and due to lower new debt issuances in recent years than in the past.

Chart 6 depicts the General Fund's Expenditures and Other Uses for the fiscal year ended June 30, 2014.

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 surface 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):

			Increase (decrease)	
	2014	2013	Change	Percent
Restricted	$ 118,426	$ 145,473	$ (27,047)	-18.59%
Unrestricted				
Committed	4,039	95	3,944	4151.58%
Assigned		255	(255)	-100.00%
Unassigned (deficit)	(4,028)	(4,113)	85	2.07%
Total	$ 118,437	$ 141,710	$ (23,273)	-16.42%

The decrease in fund balance for the IST Fund at June 30, 2014 is primarily attributable to the use of bond proceeds from prior years' issuances for various road and bridge construction and rehabilitation projects.

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 an increase of $35.0 million between the original budget and the final budget. General revenue appropriations decreased from the original budget by $7.4 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	$ 1,109,155	$ 1,103,200	$ 1,115,513	$ 12,313
General business	384,426	388,800	379,168	(9,632)
Sales and use	1,088,875	1,116,500	1,126,729	10,229
Other taxes	40,500	47,300	52,731	5,431
Departmental revenue	348,708	359,161	360,679	1,518
Other sources:				
Lottery transfer	394,100	380,700	376,327	(4,373)
Unclaimed property	9,700	11,900	12,724	824
Miscellaneous	5,545	8,480	6,392	(2,088)
Total revenues and other sources	3,381,009	3,416,041	3,430,263	14,222
Expenditures and other uses:				
General government	440,356	437,761	427,858	9,903
Human services	1,317,927	1,320,800	1,311,791	9,009
Education	1,152,557	1,147,020	1,146,888	132
Public safety	411,984	410,523	413,191	(2,668)
Natural resources	36,931	36,295	36,695	(400)
Total expenditures and other uses	3,359,755	3,352,399	3,336,423	15,976
Excess of revenues and other sources over expenditures and other uses	$ 21,254	$ 63,642	$ 93,840	$ 30,198

The strong positive variance between the fiscal year 2014 actual revenues to the fiscal year 2014 original budget for personal income taxes was due to two factors: $26.3 million less in personal income tax refunds actually being paid out in fiscal year 2014 vs. what was estimated when the original fiscal year 2014 budget was enacted in July 2013 and a significant change in the actual personal income tax net accrual posted for fiscal year 2014 vs. the estimated personal income tax net accrual for fiscal year 2014, a swing of $12.9 million in revenues. These two positive changes in fiscal year 2014 actual revenues relative to the fiscal year 2014 original budget were offset in part by actual personal income tax final payments falling short of the original budget amount by 15.4%. Actual fiscal year 2014 general business taxes also came in below the estimate contained in the original budget and was due primarily to actual business corporation tax revenues coming in well below the estimated amount included in the original budget. Sales and use tax revenues actually received in fiscal year 2014 outperformed estimated sales and use tax revenues included in the fiscal year 2014 original budget due to stronger than anticipated cigarette and other tobacco products excise tax revenues and general sales and use tax revenues exceeding the estimated general sales and use tax revenues included in the original budget. Finally, the actual fiscal year 2014 Lottery transfer to the General Fund lagged the estimated Lottery transfer to the General Fund contained in the fiscal year 2014 original budget as both actual traditional lottery products revenues and video lottery net terminal income fell nearly $23.0 million short of the estimated revenues included in the fiscal year 2014 original budget. This shortfall was offset in part by actual net table game revenues transferred to the General Fund exceeding the estimate included in the original budget.

The positive expenditure variance in the General Government function of approximately $9.9 million was primarily in two agencies, Administration and the Legislature. Within Administration, the majority of the positive variance, $2.4 million, was due to the General Assembly budgeting funding for the two percent

(2.0%) cost of living adjustment provided to most state employees in April 2014 centrally in the Administration budget instead of allocating these funds to each agency. In addition, several programs had surpluses due to funding enacted for specific projects remaining unspent at year end, which was subsequently approved by the Governor for reappropriation to fiscal year 2015. These included, $280,000 for a classification and compensation study; $527,000 for the implementation of an e-permitting system; $615,900 for the I-195 Commission; and $223,000 for the Housing Rental Subsidy program. In the Legislature's budget, the positive variance was primarily in the grants category, where funds may be committed but not fully expended within the fiscal year. Under Rhode Island law, the entire surplus for the Legislature is reappropriated to fiscal year 2015.

The positive variance in the Human Services function of approximately $9.0 million was due to a positive variance of $8.0 million in the Office of Health and Human Services (OHHS) and a $3.2 million surplus in the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH), offset by a $2.5 million deficit in the Department of Children, Youth and Families (DCYF). 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 2014. The BHDDH positive variance was due to underspending in the Medicaid program and better than anticipated federal reimbursements in the Hospital program.

The DCYF deficit was primarily due to the System of Care Networks exceeding their contracts due to additional children being placed in settings outside the home and in out-of-state placements, which are much more costly than in-state. Often the determination of a placement is made by the Courts and is outside the control of the Department.

The negative variance in the Public Safety function is primarily due to deficits in the Department of Corrections ($1.5 million) and in the Department of Public Safety ($1.8 million). The Corrections deficit was primarily in overtime expenses in the Institutional Custody and Security program due to staffing shortages in the Correctional Officer ranks, that are the result of the Department delaying a new training class due to a Department of Justice lawsuit on hiring practices. The Department of Public Safety deficit was primarily in overtime expenses in the State Police program. Federal rules and laws mandate overtime, namely the "Garcia Rule," which dictates how police officers are paid overtime if they exceed a certain number of hours in a given work cycle.

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, 2014, amounts to $3,845.7 million, net of accumulated depreciation of $2,503.6 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was approximately 5.08% of net book value (as restated). This increase is primarily caused by investments in the construction and rehabilitation of highways and bridges as well as other infrastructure.

Actual expenditures to purchase or construct capital assets were $362.0 million for the year. Of this amount $228.6 million was used to construct or reconstruct highways. Depreciation charges for the year totaled $181.0 million.

State of Rhode Island's Capital Assets as of June 30, 2014
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Capital assets not being depreciated or amortized						
Land	$ 388,033	$ 375,225	$ 45,558	$ 45,558	$ 433,591	$ 420,783
Works of Art	2,389	2,389			2,389	2,389
Intangibles	166,716	161,777			166,716	161,777
Construction in progress*	456,371	591,406	44	445	456,415	591,851
Total capital assets not being depreciated or amortized	1,013,509	1,130,797	45,602	46,003	1,059,111	1,176,800
Capital assets being depreciated or amortized						
Land improvements	3,700	3,700			3,700	3,700
Buildings*	723,688	712,593	234,384	234,384	958,072	946,977
Building improvements*	270,378	270,378			270,378	270,378
Equipment*	265,842	253,088	30,147	27,079	295,989	280,167
Intangibles	14,040	14,040	175	175	14,215	14,215
Infrastructure*	3,747,835	3,295,847			3,747,835	3,295,847
	5,025,483	4,549,646	264,706	261,638	5,290,189	4,811,284
Less: Accumulated depreciation or amortization*	2,355,252	2,190,035	148,307	138,374	2,503,559	2,328,409
Total capital assets being depreciated or amortized	2,670,231	2,359,611	116,399	123,264	2,786,630	2,482,875
Total capital assets (net)	$ 3,683,740	$ 3,490,408	$ 162,001	$ 169,267	$ 3,845,741	$ 3,659,675

*Certain fiscal year 2013 balances have been restated.

In fiscal year 2014, the State completed several significant capital projects, including new facilities to house The Metropolitan Career and Technical Center in Newport and a number of significant road and bridge infrastructure initiatives.

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 $2,235.5 million, of which $1,074.8 million is general obligation debt, $415.9 million is special obligation debt and $744.8 million is debt of the blended component units. Additionally, accreted interest of $101.7 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 $102.5 million during fiscal year 2014. This decrease consists of a $29.2 million decrease in general obligation debt, a decrease of $52.8 million in special obligation debt, and a decrease of $20.5 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 $349.6 million and are discussed in Note 7.

The State's assigned general obligation bond ratings are as follows: AA (Stable) by Standard & Poor's Ratings Services (S&P), Aa2 (Stable) by Moody's Investor Service, Inc. and AA (Stable) by Fitch Ratings. The State does not have any debt limitation.

Bonds authorized by the voters that remain unissued as of June 30, 2014 amounted to $191.4 million; other obligations that are authorized but unissued totaled $358.5 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 2015 Budget

The first quarter report for fiscal year 2015 prepared by the State Budget Office contains estimates of annual expenditures based upon analysis of expenditures through the first quarter of fiscal year 2015, as well as caseload and medical assistance expenditure estimates and revenue estimates adopted at the November 2014 Caseload and Revenue Estimating Conferences. The fiscal year 2015 balance, based upon these assumptions, is estimated to reflect a $34.5 million general revenue deficit in the General Fund.

The Budget Office continues to review department and agency fiscal year 2015 expenditure plans in conjunction with the fiscal year 2016 budget process. All changes recommended by the Governor in the fiscal year 2015 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 February 2015.

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 $15.8 million more than enacted for fiscal year 2015. Taxes are expected to exceed enacted estimates by $18.5 million, while departmental revenues and other sources, including lottery revenues, are expected to be less than enacted estimates by $2.7 million. The November Revenue Estimating Conference estimates that revenues will be $3,508.9 million as compared with the enacted estimate of $3,493.1 million for fiscal year 2015.

The November Caseload Estimating Conference estimates reflect, in comparison to the fiscal year 2015 enacted budget, increased general revenue funding for fiscal year 2015 of $37 million. This is due to a number of factors including increased costs for hospitals, long term care, managed care and pharmaceuticals.

Lottery Revenue

The General Fund derives more than 6.2% of general revenue from the Rhode Island Lottery.

The Lottery's gaming operations currently compete with casinos in nearby Connecticut. In addition, Massachusetts's law makers passed legislation allowing three resort-style casinos and one slot parlor in the State. Massachusetts has divided the State into three regions and accepted license applications for each. The regions include Eastern Massachusetts (region A), Western Massachusetts (region B), and Southeastern Massachusetts (region C) as category 1 resort-style casino licenses. The Western Massachusetts (region B) category 1 license was awarded in June 2014 and the Eastern Massachusetts (region A- Greater Boston) category 1 license was awarded in September 2014. The category I license award in Southeastern Massachusetts (region C) is anticipated to be awarded in August 2015. Additionally, a category 2 slots only license was awarded in February 2014. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

The General Laws delineating the allocation of net table game revenue between Twin River Casino and the State included modification of the commission percentage for Twin River Casino and the Town of Lincoln subsequent to the first full year that video lottery net terminal income decreases after the implementation of table games. For the fiscal year ending June 30, 2014, net terminal income at Twin River decreased from the prior year. This results in the State's share of fiscal year 2015 net table game revenue decreasing by 2% to 16%, and an additional 1% going to Twin River and an additional 1% going to the Town of Lincoln. The additional 1% to the Town of Lincoln is payable through June 30, 2018 when this 1% will be paid to Twin River.

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.

In fiscal year 2015 the State will be implementing 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. This Statement will require the State to restate opening net position as of July 1, 2014 to recognize its share of net pension obligation. The restatement is expected to reduce net position of the primary government by approximately $2.4 billion as of July 1, 2014.

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, 2013 has determined the State's net unfunded actuarial liability for all six plans included in the Rhode Island State Employees' and Electing Teachers OPEB System to be $714.1 million. Based on a discount rate of 5.0%, the State and other participating employers' annual required contribution was $62.8 million. For fiscal year 2014, the State funded the retiree health care program in accordance with law by contributing the actuarially required contribution. At June 30, 2014 the OPEB Trust's net position was $109.7 million.

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 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.

Transportation Funding Initiatives

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 fiscal year 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 fiscal year 2016, 75.0 percent in fiscal year 2017 and 100.0 percent in fiscal year 2018. In total, these changes will result in an estimated increase in resources for transportation infrastructure of over $70.0 million by fiscal year 2018 and thereafter.

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. Because several State law enforcement agencies participated in the investigation, the State was awarded $110 million of this forfeiture. As of June 30, 2014 the State had spent approximately $10.7 million of the total award and will be able to use the balance of the award in future years. The funds must 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, and unfunded pension and OPEB obligations. 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 and continues to oversee the City's financial affairs.

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.

State of Rhode Island and Providence Plantations
Statement of Net Position
June 30, 2014
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business - Type Activities	Totals	Component Units
Assets				
Current assets:				
Cash and cash equivalents	$ 818,184	$ 23,356	$ 841,540	$ 295,879
Funds on deposit with fiscal agent	107,488	187	107,675	
Investments				12,401
Receivables (net)	614,958	82,967	697,925	73,601
Restricted assets:				
Cash and cash equivalents		5,892	5,892	253,535
Investments	70,128		70,128	29,276
Receivables (net)				1,442
Other assets				35,728
Due from primary government				13,607
Due from component units	4,466		4,466	255
Internal balances	(2,608)	2,608		
Due from other governments and agencies	174,327	1,257	175,584	2,071
Inventories	1,812	696	2,508	10,472
Other assets	6,840	490	7,330	6,240
Total current assets	1,795,595	117,453	1,913,048	734,507
Noncurrent assets:				
Investments				181,801
Receivables (net)	18,385		18,385	47,945
Due from other governments and agencies	19,407		19,407	
Restricted assets:				
Cash and cash equivalents				76,708
Investments				372,963
Other assets				1,479,434
Due from component units	50,561		50,561	1,394
Capital assets - nondepreciable	1,013,509	45,602	1,059,111	245,258
Capital assets - depreciable (net)	2,670,231	116,399	2,786,630	1,646,806
Derivative instruments	28,072		28,072	
Other assets	2,552	1,518	4,070	160,047
Total noncurrent assets	3,802,717	163,519	3,966,236	4,212,356
Total assets	5,598,312	280,972	5,879,284	4,946,863
Deferred outflows of resources	26,723	6,819	33,542	6,430
Liabilities				
Current Liabilities:				
Accounts payable	555,673	17,490	573,163	100,143
Due to primary government				4,466
Due to component units	13,607		13,607	255
Due to other governments and agencies				230
Accrued expenses		4,484	4,484	
Unearned revenue	81,049		81,049	
Other current liabilities	112,683	358	113,041	224,120
Current portion of long-term debt	247,121	66,920	314,041	209,101
Obligation for unpaid prize awards		7,907	7,907	
Total current liabilities	1,010,133	97,159	1,107,292	538,315
Noncurrent Liabilities:				
Due to primary government				50,561
Net pension obligation	3,470		3,470	
Net OPEB obligation	8,485		8,485	54,463
Unearned revenue		5,590	5,590	15,215
Due to component units				1,394
Notes payable	3,475		3,475	17,449
Loans payable				45,689
Obligations under capital leases	202,246		202,246	5,806
Compensated absences	10,036	287	10,323	22,806
Bonds payable	2,257,063	220,088	2,477,151	1,992,828
Other liabilities	95,296		95,296	323,204
Total noncurrent liabilities	2,580,071	225,965	2,806,036	2,529,415
Total liabilities	3,590,204	323,124	3,913,328	3,067,730
Deferred inflows of resources	28,076		28,076	82
Net position (deficit)				
Net investment in capital assets	2,706,209	(62,060)	2,644,149	1,207,805
Restricted for:				
Budget reserve	176,719		176,719	
Capital Projects	116,487		116,487	
Debt	116,569	5,892	122,461	227,431
Assistance to other entities	98,114		98,114	
Employment insurance programs	155,232	27,903	183,135	
Other	135,979		135,979	177,036
Nonexpendable	174		174	102,052
Unrestricted	(1,498,728)	(7,068)	(1,505,796)	171,157
Total net position (deficit)	$ 2,006,755	$ (35,333)	$ 1,971,422	$ 1,885,481

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, 2014
(Expressed in Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
					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	$ 736,911	$ 212,275	$ 115,455	$ 414	$ (408,767)	$	$ (408,767)	$
Human services	3,302,590	229,047	1,949,303	4,230	(1,120,010)		(1,120,010)	
Education	1,399,347	27,617	210,181	50	(1,161,499)		(1,161,499)	
Public safety	478,826	44,192	38,286	3,664	(392,684)		(392,684)	
Natural resources	80,690	27,259	20,010	7,749	(25,672)		(25,672)	
Transportation	298,626	7,199	70,537	212,542	(8,348)		(8,348)	
Interest and other charges	129,421				(129,421)		(129,421)	
Total governmental activities	6,426,411	547,589	2,403,772	228,649	(3,246,401)		(3,246,401)	
Business-type activities:								
State lottery	462,153	837,951				375,798	375,798	
Convention center	49,255	25,097				(24,158)	(24,158)	
Employment security	257,145	264,158	53,146			60,159	60,159	
Total business-type activities	768,553	1,127,206	53,146			411,799	411,799	
Total primary government	$ 7,194,964	$ 1,674,795	$ 2,456,918	$ 228,649	(3,246,401)	411,799	(2,834,602)	
Component units:	$ 1,258,999	$ 723,871	$ 439,095	$ 87,702				(8,331)
General Revenues:								
Taxes:								
Personal income					1,111,799		1,111,799	
General business					380,950		380,950	
Sales and use					1,126,481		1,126,481	
Gasoline					137,542		137,542	
Other					223,615		223,615	
Interest and investment earnings					4,852	109	4,961	32,325
Miscellaneous revenue					108,398	31,208	139,606	20,028
Gain on sale of capital assets					953		953	
Transfers (net)					332,824	(332,824)		
Total general revenues and transfers					3,427,414	(301,507)	3,125,907	52,353
Change in net position					181,013	110,292	291,305	44,022
Net position (deficit) - beginning as restated					1,825,742	(145,625)	1,680,117	1,841,459
Net position (deficit) - ending					$ 2,006,755	$ (35,333)	$ 1,971,422	$ 1,885,481

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

Major Funds

Governmental

General Fund – the operating fund of the State, which 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, bond proceeds, and certain motor vehicle registration and licensing surcharges, 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 revenue earned, expenses incurred (including depreciation), and/or net income is appropriate for capital maintenance, public policy, management control and 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 Veterans Memorial Auditorium 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, 2014
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 410,771	$ 24,776	$ 337,044	$ 772,591
Funds on deposit with fiscal agent		89,546	17,942	107,488
Restricted investments			70,128	70,128
Receivables (net)	541,653	14,311	70,287	626,251
Due from other funds	3,972			3,972
Due from component units		1,040		1,040
Due from other governments and agencies	138,553	52,440		190,993
Loans to other funds	19,553		50,647	70,200
Other assets	831			831
Total assets	$ 1,115,333	$ 182,113	$ 546,048	$ 1,843,494
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
Accounts payable	482,513	28,915	25,298	536,726
Due to other funds		1,119	6,101	7,220
Due to component units	3,395	5,534	4,679	13,608
Loans from other funds	50,647		12,193	62,840
Unearned revenue	81,049			81,049
Other liabilities	84,822	10,973	283	96,078
Total liabilities	702,426	46,541	48,554	797,521
Deferred inflows of resources	17,528	17,135		34,663
Fund Balances				
Nonspendable			174	174
Restricted	297,617	118,426	497,241	913,284
Unrestricted				
Committed	18,564	4,039	79	22,682
Assigned	72,005			72,005
Unassigned	7,193	(4,028)		3,165
Total fund balances	395,379	118,437	497,494	1,011,310
Total liabilities, deferred inflows of resources and fund balances	$ 1,115,333	$ 182,113	$ 546,048	$ 1,843,494

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, 2014
(Expressed in Thousands)

Fund balance - total governmental funds			$ 1,011,310
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	6,032,630	
	Accumulated depreciation	(2,351,655)	
			3,680,975
Deferred outflows of resources			26,723
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	(76,334)	
	Bonds payable	(2,337,179)	
	Net premium/discount	(62,717)	
	Obligations under capital leases	(207,595)	
	Premium	(16,611)	
	Interest payable	(20,828)	
	Other liabilities	(120,742)	
			(2,842,006)
Other long-term assets and unearned revenue are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
	Receivables	2,740	
	Due from component units	53,987	
	Derivative instruments	28,072	
	Other assets	2,552	
	Unavailable revenue	34,663	
			122,014
Deferred inflows of resources			(28,076)
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.			35,815
Net position - total governmental activities			$ 2,006,755

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, 2014
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	$ 2,666,523	$ 137,542	$ 170,951	$ 2,975,016
Licenses, fines, sales, and services	330,565		2,090	332,655
Departmental restricted revenue	216,142	7,172		223,314
Federal grants	2,345,942	284,736		2,630,678
Income from investments	650	350	3,809	4,809
Other revenues	59,808	3,248	52,748	115,804
Total revenues	5,619,630	433,048	229,598	6,282,276
Expenditures:				
Current:				
General government	488,707		168,119	656,826
Human services	3,325,538			3,325,538
Education	1,357,630		273	1,357,903
Public safety	478,108			478,108
Natural resources	76,118		9	76,127
Transportation		381,875	1,941	383,816
Capital outlays			139,848	139,848
Debt service:				
Principal	117,975	37,005	21,905	176,885
Interest and other charges	67,113	18,967	36,583	122,663
Total expenditures	5,911,189	437,847	368,678	6,717,714
Excess (deficiency) of revenues over (under) expenditures	(291,559)	(4,799)	(139,080)	(435,438)
Other financing sources (uses):				
Bonds and notes issued			53,150	53,150
Proceeds from refundings			78,700	78,700
Premium			14,719	14,719
Transfers in	432,049	25,479	108,548	566,076
Payment to refunded bonds escrow agent			(91,991)	(91,991)
Transfers out	(146,245)	(43,953)	(41,519)	(231,717)
Total other financing sources (uses)	285,804	(18,474)	121,607	388,937
Net change in fund balances	(5,755)	(23,273)	(17,473)	(46,501)
Fund balances - beginning	401,134	141,710	514,967	1,057,811
Fund balances - ending	$ 395,379	$ 118,437	$ 497,494	$ 1,011,310

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, 2014
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ (46,501)
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	360,267	
Depreciation expense	(170,728)	
		189,539
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	176,885	
Debt defeased in refunding	84,220	
Accrued interest and other charges	(16,116)	
Proceeds from sale of debt	(131,850)	
Deferral of premium/discount	(14,719)	
Amortization of premium/discount	12,449	
Deferral of refunding costs	6,168	
Amortization of refunding costs	(1,488)	
		115,549
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	2,058	
Program expenses	(76,792)	
Program revenue	(8,373)	
Capital grant revenue	1,743	
General revenue - taxes	5,371	
General revenue-miscellaneous	(6,469)	
		(82,462)
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.		4,888
Change in net position - total governmental activities		$ 181,013

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, 2014
(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	$ 18,564	$ 3,686	$ 1,106	$ 23,356	$ 45,593
Restricted cash and cash equivalents		5,892		5,892	
Funds on deposit with fiscal agent			187	187	
Receivables (net)	6,543	1,119	75,305	82,967	7,094
Due from other funds		1,072	2,077	3,149	1,323
Due from other governments and agencies			1,257	1,257	
Inventories	696			696	1,812
Other assets	45	445		490	5,994
Total current assets	25,848	12,214	79,932	117,994	61,816
Noncurrent assets:					
Capital assets - nondepreciable		45,602		45,602	
Capital assets - depreciable (net)	460	115,939		116,399	2,765
Other assets		1,518		1,518	
Total noncurrent assets	460	163,059		163,519	2,765
Total assets	26,308	175,273	79,932	281,513	64,581
Deferred outflows of resources					
Deferred loss on advance debt refunding		6,819		6,819	
Liabilities					
Current liabilities:					
Accounts payable	12,522	4,963	5	17,490	18,949
Due to other funds	541			541	683
Due to other governments and agencies			52,024	52,024	
Loans from other funds					7,360
Accrued expenses	4,484			4,484	
Unearned revenue	625	3,269		3,894	
Other current liabilities	358			358	1,774
Notes payable		43		43	
Bonds payable		10,750		10,750	
Compensated absences	209			209	
Obligation for unpaid prize awards	7,907			7,907	
Total current liabilities	26,646	19,025	52,029	97,700	28,766
Noncurrent liabilities:					
Unearned revenue	5,000	590		5,590	
Bonds payable		220,088		220,088	
Compensated absences	287			287	
Total noncurrent liabilities	5,287	220,678		225,965	
Total liabilities	31,933	239,703	52,029	323,665	28,766
Net Position (Deficit)					
Net investment in capital assets	460	(62,520)		(62,060)	2,765
Restricted for:					
Debt		5,892		5,892	
Employment insurance programs			27,903	27,903	
Unrestricted	(6,085)	(983)		(7,068)	33,050
Total net position (deficit)	$ (5,625)	$ (57,611)	$ 27,903	$ (35,333)	$ 35,815

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, 2014
(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	$	$ 24,677	$ 264,158	$ 288,835	$ 299,293
Lottery sales	242,786			242,786	
Video lottery, net	507,057			507,057	
Table games	88,108			88,108	
Federal grants			53,146	53,146	
Miscellaneous		420		420	
Total operating revenues	837,951	25,097	317,304	1,180,352	299,293
Operating expenses:					
Personal services	9,438	15,542		24,980	12,240
Supplies, materials, and services	306,642	11,049		317,691	280,522
Prize awards, net of prize recoveries	145,959			145,959	
Depreciation and amortization	114	10,021		10,135	169
Benefits paid			247,138	247,138	
Total operating expenses	462,153	36,612	247,138	745,903	292,931
Operating income (loss)	375,798	(11,515)	70,166	434,449	6,362
Nonoperating revenues (expenses):					
Interest revenue	108	1		109	44
Other nonoperating revenue	1,023		30,185	31,208	17
Interest expense		(12,643)	(3,024)	(15,667)	
Other nonoperating expenses			(6,983)	(6,983)	
Total nonoperating revenue (expenses)	1,131	(12,642)	20,178	8,667	61
Income (loss) before transfers	376,929	(24,157)	90,344	443,116	6,423
Transfers in	23	24,575	19,559	44,157	
Transfers out	(376,327)		(654)	(376,981)	(1,535)
Change in net position	625	418	109,249	110,292	4,888
Net position (deficit) - beginning. as restated	(6,250)	(58,029)	(81,346)	(145,625)	30,927
Net position (deficit) - ending	$ (5,625)	$ (57,611)	$ 27,903	$ (35,333)	$ 35,815

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, 2014
(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 gaming activities	$ 838,122	$	$	$ 838,122	$
Cash received from customers		25,397	261,489	286,886	300,393
Cash received from grants			53,630	53,630	
Cash payments for gaming activities	(447,910)			(447,910)	
Cash payments to suppliers	(4,287)	(11,581)		(15,868)	(278,716)
Cash payments to employees	(9,332)	(15,412)		(24,744)	(12,918)
Cash payments for benefits			(247,228)	(247,228)	
Other operating revenue (expense)			99	99	17
Net cash provided by (used for) operating activities	376,593	(1,596)	67,990	442,987	8,776
Cash flows from noncapital financing activities:					
Loan from federal government			150,116	150,116	
Payment of interest on loan from federal government			(5,005)	(5,005)	
Loans from other funds					4,552
Loans to other funds					(10,871)
Repayment of loans to other funds					9,660
Repayment of loans from other funds					(3,153)
Transfers in		25,352	21,484	46,836	
Transfers out	(376,881)		(583)	(377,464)	(1,535)
Net transfers from (to) fiscal agent			(234,035)	(234,035)	
Net cash provided by (used for) noncapital financing activities	(376,881)	25,352	(68,023)	(419,552)	(1,347)
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(10,248)		(10,248)	
Interest paid on capital obligations		(13,041)		(13,041)	
Acquisition of capital assets	(172)	(2,876)		(3,048)	(617)
Net cash provided by (used for) capital and related financing activities	(172)	(26,165)		(26,337)	(617)
Cash flows from investing activities:					
Interest on investments	109	1		110	44
Net cash provided by investing activities	109	1		110	44
Net increase (decrease) in cash and cash equivalents	(351)	(2,408)	(33)	(2,792)	6,856
Cash and cash equivalents, July 1	18,915	11,986	1,139	32,040	38,737
Cash and cash equivalents, June 30	$ 18,564	$ 9,578	$ 1,106	$ 29,248	$ 45,593
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	375,798	(11,515)	70,166	434,449	6,362
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	114	10,021		10,135	169
Other revenue (expense) and transfers in (out)	398		70	468	19
Net changes in assets and liabilities:					
Receivables, net	783	(432)	(2,246)	(1,895)	878
Inventory	3			3	(117)
Prepaid items	(3)	18		15	615
Due to / due from transactions	(83)			(83)	
Accounts and other payables	(1,422)	(420)		(1,842)	1,527
Accrued expenses	273			273	(677)
Unearned revenue	3	732		735	
Prize awards payable	729			729	
Total adjustments	795	9,919	(2,176)	8,538	2,414
Net cash provided by (used for) operating activities	$ 376,593	$ (1,596)	$ 67,990	$ 442,987	$ 8,776

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 plans 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 the 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, 2014
(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	$ 5,971	$	$	$ 18,285
Deposits held as security for entities doing business in the State				58,207
Advance held by claims processing agent	775			
Receivables				
Contributions	32,876			
Due from state for teachers	15,714			
Miscellaneous	933	2		3,158
Total receivables	49,523	2		3,158
Prepaid expenses	1,800			
Investments, at fair value				
Equity in short-term investment fund		5,315		
Equity in pooled trust	8,314,739			
Other investments	277,480		2,605	
Total investments	8,592,219	5,315	2,605	
Total assets	8,650,288	5,317	2,605	$ 79,650
Liabilities				
Accounts payable	7,612			2,994
Incurred but not reported claims	2,466			
Unearned revenue	3,033			
Deposits held for others				76,656
Total liabilities	13,111			$ 79,650
Net position				
Held in trust for:				
Pension benefits	8,527,503			
Other postemployment benefits	109,674			
Pool participants		5,317		
Other			2,605	
Total net position	$ 8,637,177	$ 5,317	$ 2,605	

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, 2014
(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	$ 197,079	$	$
Employer contributions	404,169		
Supplemental employer contributions	584		
State contributions for teachers	76,701		
Interest on service credits purchased	309		
Service credit transfer payments	13		
From participants		557	
Total contributions	678,855	557	
Amortization of unearned revenue	3,033		
Other income	718		
Investment income			
Net appreciation in fair value of investments	1,082,967		278
Interest	63,282	21	
Dividends	14,414		40
Other investment income	10,030		121
	1,170,693	21	439
Less: investment expense	14,622	13	
Net income from investing activities	1,156,071	8	439
Total additions	1,838,677	565	439
Deductions			
Retirement benefits	898,547		
Death benefits	3,464		
Distributions	2,643	8,636	101
Refund of contributions	12,526		
Administrative expense	8,651		
Service credit transfers	13		
OPEB benefits	52,334		
Total deductions	978,178	8,636	101
Change in net position:			
Pension benefits	816,945		
Other postemployment benefits	43,554		
Other		(8,071)	338
Net position - beginning	7,776,678	13,388	2,267
Net position - ending	**$** 8,637,177	**$** 5,317	**$** 2,605

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, 2014
(Expressed in Thousands)

	RIAC	RICC	I-195 RDC	RIPTA	RITBA
Assets					
Current Assets:					
Cash and cash equivalents	$ 43,345	$ 3,873	$ 77	$ 7,088	$ 2,360
Investments				1,569	
Receivables (net)	8,221	1,662		4,524	106
Restricted assets:					
Cash and cash equivalents	21,774	19,772			5,554
Investments	2,258	3,134			12,110
Receivables (net)	1,439	3			
Other assets	46				607
Due from primary government		61	94	5,750	645
Due from other governments					
Due from other component units		7			
Inventories				1,849	234
Other assets	664	76	44	158	133
Total current assets	77,747	28,588	215	20,938	21,749
Noncurrent Assets:					
Investments		1,807		934	7,005
Receivables (net)	262	3,687			
Restricted assets:					
Cash and cash equivalents	40,961	9,612			
Investments	14,704	23,925			4,789
Other assets		1,088			
Capital assets - nondepreciable	80,296	129		16,100	250
Capital assets - depreciable (net)	443,029	50		142,360	159,532
Due from other component units		697			
Other assets, net of amortization	1,612		214		
Total noncurrent assets	580,864	40,995	214	159,394	171,576
Total assets	658,611	69,583	429	180,332	193,325
Deferred outflows of resources	5,388				
Liabilities					
Current liabilities:					
Accounts payable	6,400	163	104	5,607	6,471
Due to primary government				1,047	133
Due to other component units	63				
Due to other governments					
Other liabilities	19,663	2,688	148	6,037	3,783
Current portion of long-term debt	10,111	6,548		25	27,720
Total current liabilities	36,237	9,399	252	12,716	38,107
Noncurrent liabilities:					
Due to primary government	2,020			14,058	907
Due to other component units					
Unearned revenue		14,473			
Notes payable	45				
Loans payable	41,541				
Obligations under capital leases					
Net OPEB obligation				44,043	
Other liabilities		6,156		9,556	
Compensated absences				398	
Bonds payable	281,769	26,510	38,400		58,273
Total noncurrent liabilities	325,375	47,139	38,400	68,055	59,180
Total liabilities	361,612	56,538	38,652	80,771	97,287
Deferred inflows of resources					82
Net position (deficit)					
Net investment in capital assets	212,905	179		143,355	74,696
Restricted for:					
Debt					18,271
Other	44,099				
Other nonexpendable		4,901			
Unrestricted	45,383	7,965	(38,223)	(43,794)	2,989
Total net position (deficit)	$ 302,387	$ 13,045	$ (38,223)	$ 99,561	$ 95,956

(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, 2014
(Expressed in Thousands)

	URI	RIC	CCRI	Other Component Units	Totals
Assets					
Current Assets:					
Cash and cash equivalents	$ 127,936	$ 20,336	$ 16,930	$ 73,934	$ 295,879
Investments				10,832	12,401
Receivables (net)	33,825	6,552	4,010	14,701	73,601
Restricted assets:					
Cash and cash equivalents				206,435	253,535
Investments				11,774	29,276
Receivables (net)					1,442
Other assets				35,075	35,728
Due from primary government	3,907	269		2,881	13,607
Due from other governments				2,071	2,071
Due from other component units				248	255
Inventories	3,158	500	891	3,840	10,472
Other assets	1,107	8	131	3,919	6,240
Total current assets	169,933	27,665	21,962	365,710	734,507
Noncurrent Assets:					
Investments	142,588	26,090	2,864	513	181,801
Receivables (net)	27,803	4,560	25	11,608	47,945
Restricted assets:					
Cash and cash equivalents	346	315	4,948	20,526	76,708
Investments				329,545	372,963
Other assets	21,776	1,127	784	1,454,659	1,479,434
Capital assets - nondepreciable	22,192	12,959	9,110	104,222	245,258
Capital assets - depreciable (net)	576,202	118,772	66,527	140,334	1,646,806
Due from other component units				697	1,394
Other assets, net of amortization	2,415	18		155,788	160,047
Total noncurrent assets	793,322	163,841	84,258	2,217,892	4,212,356
Total assets	963,255	191,506	106,220	2,583,602	4,946,863
Deferred outflows of resources				1,042	6,430
Liabilities					
Current liabilities:					
Accounts payable	42,665	7,925	2,465	28,343	100,143
Due to primary government	1,715	936	635		4,466
Due to other component units				192	255
Due to other governments			210	20	230
Other liabilities	16,416	3,519	4,069	167,797	224,120
Current portion of long-term debt	10,985	4,855	4,300	144,557	209,101
Total current liabilities	71,781	17,235	11,679	340,909	538,315
Noncurrent liabilities:					
Due to primary government	15,590	13,696	4,290		50,561
Due to other component units				1,394	1,394
Unearned revenue				742	15,215
Notes payable		1,240		16,164	17,449
Loans payable	846			3,302	45,689
Obligations under capital leases	5,600			206	5,806
Net OPEB obligation				10,420	54,463
Other liabilities	12,912	4,284	18	290,278	323,204
Compensated absences	17,273	1,786	791	2,558	22,806
Bonds payable	225,033	17,634	2,677	1,342,532	1,992,828
Total noncurrent liabilities	277,254	38,640	7,776	1,667,596	2,529,415
Total liabilities	349,035	55,875	19,455	2,008,505	3,067,730
Deferred inflows of resources					82
Net position (deficit)					
Net investment in capital assets	372,006	97,404	67,759	239,501	1,207,805
Restricted for:					
Debt				209,160	227,431
Other	79,828	6,488	2,449	44,172	177,036
Other nonexpendable	79,329	16,102	1,720		102,052
Unrestricted	83,057	15,637	14,837	83,306	171,157
Total net position (deficit)	$ 614,220	$ 135,631	$ 86,765	$ 576,139	$ 1,885,481

(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, 2014
(Expressed in Thousands)

	RIAC	RICC	I-195 RDC	RIPTA	RITBA	URI	RIC	CCRI	Other Component Units	Totals
Expenses	$ 81,657	$ 24,552	$ 1,214	$ 119,844	$ 27,854	$ 489,822	$ 141,982	$ 120,985	$ 251,089	$ 1,258,999
Program revenues:										
Charges for services	66,112	2,640	13	33,031	20,332	312,002	70,253	40,215	179,273	723,871
Operating grants and contributions		1,395	1,322	63,940		161,961	65,881	80,516	64,080	439,095
Capital grants and contributions	18,248			5,671		48,386	12,393	2,475	529	87,702
Total program revenues	84,360	4,035	1,335	102,642	20,332	522,349	148,527	123,206	243,882	1,250,668
Net (Expenses) Revenues	2,703	(20,517)	121	(17,202)	(7,522)	32,527	6,545	2,221	(7,207)	(8,331)
General revenues:										
Interest and investment earnings	68	2,490		8	753	15,443	3,865	446	9,252	32,325
Miscellaneous revenue	39	15,495		930	764		907	619	1,274	20,028
Total general revenue	107	17,985		938	1,517	15,443	4,772	1,065	10,526	52,353
Change in net position	2,810	(2,532)	121	(16,264)	(6,005)	47,970	11,317	3,286	3,319	44,022
Net position (deficit) - beginning as restated	299,577	15,577	(38,344)	115,825	101,961	566,250	124,314	83,479	572,820	1,841,459
Net position (deficit) - ending	$ 302,387	$ 13,045	$ (38,223)	$ 99,561	$ 95,956	$ 614,220	$ 135,631	$ 86,765	$ 576,139	$ 1,885,481

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, the Central Falls School District and The Metropolitan Regional Career and Technical Center 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; or
- 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 Veterans 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; therefore RICCA's total debt outstanding, including leases, is expected to be repaid entirely with the resources of the State. 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 occurred previous to the effective date of GASB 48 and as a result, is not accounted for as a sale of future revenues. 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. RIPRC provides services exclusively to the State. 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 (DPCUs) 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 Commerce Corporation (RICC)

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. RICC has the power to issue tax-exempt bonds to accomplish its corporate purpose. Until June 30, 2013 the corporation was known as the R.I. Economic Development Corporation. The RICC 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 RICC's activities are largely supported by State appropriations and the RICC 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. Commerce Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.commerceri.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 to the State. The commission issued debt and utilized the proceeds to reimburse the State for the fair value of the land acquired. 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, R. I. Commerce 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 State 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, and 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 (the "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 attending 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 General Assembly may, but is not required to, appropriate funding of 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.commerceri.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.commerceri.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. 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.

The Metropolitan Regional Career and Technical Center

The Metropolitan Regional Career and Technical Center ("The Met") is a state funded, local education agency established by the R.I. Department of Education under the Rhode Island General Laws. The Met serves approximately 900 students statewide in grades 9-12. It is governed by a board of trustees that is appointed by the State's Board of Education. The Met is funded primarily through State appropriations and federal grant funds. In addition, it conducts its operations in facilities that are owned by the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, The Metropolitan Regional Career and Technical Center, 325 Public Street, Providence, RI 02905.

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, Teachers' Survivors Benefit Plan, FICA Alternative Retirement Income Security Program, 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 addition, in fiscal year 2014 an agency fund was established to account for the HealthSource RI Trust. The Trust was created for the purpose of collecting health and dental insurance premium payments from qualified employers and individuals and paying such premiums to insurance carriers for plans offered through the HealthSource RI health benefits exchange established under Section 1311 of the Patient Protection and Affordable Care Act.

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 and deferred outflows, liabilities and deferred inflows, resources/revenues, **or** expenditures/expenses of that fund are at least 10% of the respective total for all funds of that type, **and**

- Total assets and deferred outflows, liabilities and deferred inflows, resources/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, bond proceeds, and certain motor vehicle registration and licensing surcharges, 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. Management considers this a major fund regardless of the above criteria.

Proprietary funds:

Rhode Island Lottery

The R.I. Lottery, 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 Veterans 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. Management considers this a major fund regardless of the above criteria.

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, and deferred gains and losses 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 and deferred amounts on refundings are generally deferred and amortized over the term of the bonds using the interest method.

Bond premiums and discounts are presented as adjustments to the face amount of the bonds payable. Deferred gains and losses on refundings are presented as either deferred inflows of resources or deferred outflows of resources.

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 7E).

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 Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources are defined as a consumption of net position by the State that is applicable to a future reporting period. Deferred inflows of resources are defined as an acquisition of net position by the State that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets, and deferred inflows of resources decrease net position, similar to liabilities.

The components of the deferred outflows of resources and deferred inflows of resources related to the primary government and its discretely presented component units as of June 30, 2014 are as follows (expressed in thousands):

	Governmental Activities	Business-Type Activities	Primary Government	Component Units
Deferred outflows of resources:				
Deferred loss on refunding of debt	$ 26,723	$ 6,819	$ 33,542	$ 6,430
Total deferred outflows of resources	$ 26,723	$ 6,819	$ 33,542	$ 6,430
Deferred inflows of resources:				
Derivatives	$ 28,072	$	$ 28,072	$
Deferred gain on refunding of debt	4		4	82
Total deferred inflows of resources	$ 28,076	$	$ 28,076	$ 82

The components of the deferred outflows of resources and deferred inflows of resources related to the governmental funds as of June 30, 2014 are as follows (expressed in thousands):

	General Fund	IST Fund	Other Governmental Funds	Total Governmental Funds
Deferred inflows of resources:				
Taxes	$ 9,473	$	$	$ 9,473
Other general revenue	8,055			8,055
Federal revenue		17,135		17,135
Total deferred inflows of resources	$ 17,528	$ 17,135	$	$ 34,663

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.

- 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, 2014, the State adopted the following new accounting standards issued by GASB:

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that require that certain items no longer be reported in statements of net position since they do not meet the definition of assets, liabilities, deferred outflows of resources, or deferred inflows of resources. In addition, the standard requires that certain items previously reported as assets or liabilities be reported as deferred inflows or outflows of resources. As required by the Statement, effective July 1, 2013, bond issuance costs are expensed as incurred and gains or losses on debt refunding are reported as a deferred inflow of resources or a deferred outflow of resources, respectively. Previously, bond issuance costs were deferred and amortized over the life of the related debt and deferred gains or losses on advance debt refundings were reported as a component of bonds payable. Due to the adoption of the standard, the net position at July 1, 2013 has been restated. See Note 18F for details about the restatement.

The following GASB statements that are effective for the fiscal year ending June 30, 2014 had little or no effect on the State's financial statements.

GASB Statement No. 66 – *Technical Corrections – 2013 – an amendment to GASB No. 10 and No. 62*.

GASB Statement No. 67 – *Financial Reporting for Pension Plans – an amendment to GASB Statement No. 25*. This Statement relates to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The Statement addresses accounting and financial reporting for the activities of such pension plans.

The Employees' Retirement System (ERS) is the administrator for six defined benefit pension plans that are subject to Statement No. 67. The ERS's Statement No. 67-compliant stand-alone financial statements can be obtained by writing to the Employees' Retirement System, 50 Service Ave., Warwick, RI 02886.

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.

The State will adopt the following new accounting pronouncements in future years:

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 the fiscal year ending June 30, 2015 and the State will be required to restate opening net position as of July 1, 2014 to recognize its share of the net pension obligation. The restatement is expected to reduce the net position of the primary government-governmental activities by approximately $2.4 billion as of July 1, 2014.

GASB Statement No. 69 – *Government Combinations and Disposals of Governmental Operations*.

GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The requirements of this statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. The benefit will be achieved without the imposition of significant additional costs. The provisions of this standard will be applied simultaneously with the provisions of Statement 68.

T. Change in Reporting Entity

On an annual basis the State considers the provisions of 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.* After a review of potential component units conducted in fiscal year 2014 it was determined that The Metropolitan Regional Career and Technical Center ("The Met") presents the potential to provide a financial benefit or impose a financial burden on the State. The State, acting through the Department of Education, appoints The Met's Board of Trustees. In addition, the State provides significant funding for operations. The State also finances, constructs and has title to The Met's facilities.

See Note 18F regarding restatements of prior period net position for the State's discretely presented component units resulting from the change in the State's reporting entity resulting from the addition of The Met as a component unit.

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, 2014 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 2a-7. While investment in the pool is not guaranteed or fully collateralized, certain investments within the pool are collateralized. At June 30, 2014, of the $499.3 million invested, $221.8 million was either a US Government or Agency Security ($52.4 million) or a Collateralized Repurchase Agreement ($169.4 million).

With the exception of $568,190 in bank balances of the R.I. Convention Center Authority, as of June 30, 2014 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, 2014 are as follows:

Pooled cash equivalents (at amortized cost)		
Financial company commercial paper	$	238,678
Other commercial paper		13,494
Asset backed commercial paper		9,998
Government agency repurchase agreement		90,375
Other repurchase agreements		79,000
Treasury debt		30,614
Certificates of deposit		5,000
Government agency debt		21,767
Other Municipal Debt		2,407
Other notes		6,000
Other Instruments		2,000
Total investments		499,333
Plus: other assets in excess of other liabilities		161
Total investment pool		499,494
Funds held by fiduciary funds and discretely presented component units		
Less:		
Amounts categorized as funds on deposit with fiscal agent		5,959
Amounts held by fiduciary trust funds:		
Pension trusts		170,358
OPEB trust		3,427
RIPTA health fund		686
Amounts held by discretely presented component units:		
URI		10,127
RIHEAA		7
RIIRBA		2,856
Amounts held for external parties		5,317
Primary government pooled cash equivalents		300,757
Other primary government cash equivalents and investments		
Repurchase agreements		1,651
Financial company commercial paper		52,649
Government agency debt		17,479
Money Market Mutual Funds		6,704
Total primary government cash equivalents and investments	$	379,240
Cash equivalents and investments	$	379,240
Cash		538,320
Total cash, cash equivalents and investments	$	917,560
Statement of Net Position		
Cash and cash equivalents	$	841,540
Restricted cash and cash equivalents		5,892
Restricted investments		70,128
Total cash, cash equivalents and investments	$	917,560

The State's restricted investments, equaling $70,128,000 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, 2014, 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	$ 238,696	$ 238,678	$ 75,246	$ 109,457	$ 42,977	$ 10,998	$
Other Commercial Paper	13,496	13,494	7,499		5,995		
Asset Backed Commercial Paper	9,999	9,998	4,000	5,998			
Gov't Agency Repurchase Agreements	90,375	90,375	90,375				
Other Repurchase Agreements	79,009	79,000	58,000	5,000	16,000		
Treasury Debt	30,616	30,614	12,606	8,008	6,004	3,996	
Certificates of Deposit	5,000	5,000	5,000				
Government Agency Debt	21,774	21,767		3,000		9,999	8,768
Other Municipal Debt	2,407	2,407		2,407			
Other Notes	6,000	6,000		1,000	5,000		
Other Instruments	2,000	2,000	2,000				
Grand Total	$ 499,372	$ 499,333	$ 254,726	$ 134,870	$ 75,976	$ 24,993	$ 8,768

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	$ 52,649	$ 52,649	$ 0	$ 0	$ 0
Government agency debt	17,479	17,479	0	0	0
Money Market Mutual Funds	6,704	6,704	0	0	0
Repurchase agreements	1,651	1,651	0	0	0
Cash equivalents and investments	$ 78,483	$ 78,483	$ 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, 2014, information about the State's exposure to credit risk for cash equivalents and investments (expressed in thousands) is as follows:

Pooled Cash Equivalents:

Investment Type	At Fair Value	Total Amortized Cost	Quality Ratings (1) (At Amortized Cost) A-1+	A-1	A-2
Financial Company Commercial Paper	$ 238,696	$ 238,678	$ 89,972	$ 146,706	$ 2,000
Other Commercial Paper	13,496	13,494	5,995		7,499
Asset Backed Commercial Paper	9,999	9,998		9,998	
Gov't Agency Repurchase Agreements	90,375	90,375	88,375	2,000	
Other Repurchase Agreements	79,009	79,000	4,000	75,000	
Treasury Debt	30,616	30,614	30,614		
Certificates of Deposit	5,000	5,000		3,000	2,000
Government Agency Debt	21,774	21,767	21,767		
Other Municipal Debt	2,407	2,407	2,407		
Other Notes	6,000	6,000	5,000		1,000
Other Instruments	2,000	2,000		2,000	
Grand Total	**$ 499,372**	$ 499,333	$ 248,130	$ 238,704	$ 12,499

1- Moody's Investor Service, except where not available Standard & Poor's ratings are used.

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	**$** 17,479	Government Agency	P-1	Not Applicable
Money market mutual funds				
Fidelity Institutional Money Market Gvt. Port Class III	6,495	Money Market	Aaa-mf	52
Goldman Sachs Treasury Instruments Fund	4	Money Market	Aaa-mf	47
Wells Fargo Advantage 100% Treasury Money Market Fund	205	Money Market	Aaa-mf	55
Commercial Paper				
Banco Santander Chile Commercial Paper	52,649	Commercial Paper	P-1	Not Applicable
	$ 76,832			

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, 2014 and the breakdown by maturity are as follows:

Investment Type	Fair Value	Investment Maturities (in Years) Less Than 1	1-5	6-10	More Than 10
Money Market Mutual Funds	$ 101,789	$ 101,789	0	0	0
Investment Contracts	5,699	5,699	0	0	0
Investments	$ 107,488	$ 107,488	$ 0	$ 0	$ 0

The 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	$	2,174	Aaa-mf	55
Federated Govt. Obligation Tax Managed Fund		13,014	Aaa-mf	48
Fidelity Institutional Money Market Gvt. Port Class III		38,293	Aaa-mf	52
First American Government Obligations Fund		39,181	Aaa-mf	40
Wells Fargo Advantage 100% Treasury Money Market Fund		589	Aaa-mf	55
Morgan Stanley Prime Portfolio		2,579	Aaa-mf	28
Ocean State Investment Pool		5,959	N/A	N/A
Investment Contracts				
FSA Capital Management GIC		5,699	N/A	N/A
	$	107,488		

Funds on deposit with fiscal agent also include approximately $187 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	$	44,788	9.20%
Money Market Funds	First American Government Obligations Fund		39,181	8.05%
Commercial Paper	Banco Santander Chile Commercial Paper		52,649	10.82%

C. Pension Trusts

The Employees' Retirement System (ERS) consists of six plans: the Employees' Retirement System, Municipal Employees' Retirement System (MERS), State Police Retirement Board Trust (SPRBT), Judicial Retirement Board Trust (JRBT), Rhode Island Judicial Retirement Fund Trust (RIJRFT), and Teachers' Survivors Benefit Plan (TSBP).

Cash Deposits and Cash Equivalents

At June 30, 2014, the carrying amount of the ERS cash deposits was $2,385,000 and the bank balance was $2,653,000. 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, $886,000, and the remainder representing interest-bearing collateralized bank deposits totaling $1,767,000, 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, 2014 (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. In January 2014, the assets of the RIJFRT were added to the pool for investment purposes only. The assets of the TSBP had previously been pooled with the assets of the ERS.

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, 2014 (expressed in thousands):

Pooled Investment Trust - Investment Type	Fair Value
Cash and Cash Equivalents	$ 21,476
Foreign Currencies	1,246
Money Market Mutual Fund	319,976
U.S. Government Securities	557,956
U.S. Government Agency Securities	351,280
Collateralized Mortgage Obligations	18,802
Corporate Bonds	422,341
Term Loans	341,055
International Government Bonds	112,541
Domestic Equity Securities	824
International Equity Securities	272
Commingled Funds - Domestic Equity	2,055,284
Commingled Funds - International Equity	2,035,354
Private Equity	544,763
Real Estate Limited Partnerships and Commingled Funds	252,953
Hedge Funds	1,154,573
Derivative Investments	122
Investments at Fair Value	$ 8,190,818
Receivable for investments sold	240,732
Payable for investments purchased	(226,011)
Total	$ 8,205,539

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, 2014, 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, 2014 (expressed in thousands):

Investment Type		Fair Value	Effective Duration
U.S. Government Securities	$	557,956	4.26
U.S. Government Agency Securities		351,280	3.69
Collateralized Mortgage Obligations		18,802	2.17
Corporate Bonds		422,341	6.24
International Government Bonds		112,541	3.93
Term Loans		341,055	0.52
Total Fixed Income	$	1,803,975	3.78

The ERS had investments at June 30, 2014 totaling $170,358,479 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The ERS's investment accounted for 34% of the total OSIP at June 30, 2014.

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 $149,616,358 in a short-term money market mutual fund that held investments with a weighted average maturity of 66 days at June 30, 2014.

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 prepayments by mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments.

Credit Risk

The ERS 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, 2014 is as follows (expressed in thousands):

Rating	Collateralized Mortgage Obligations	U.S. Government Agency Obligations	Corporate Bonds	International Government Bonds	Term Loans
Aaa	$ 10,967	$ 351,280	$ 17,791	$ 26,910	$
Aa	1,908		15,267	78,171	
A	4,723		73,407	4,437	
Baa	1,204		241,986	3,022	4,490
Ba			23,885		93,173
B			40,299		169,973
Caa			8,380		20,697
Ca			97		
Not rated			1,229		52,722
Fair Value	$ 18,802	$ 351,280	$ 422,341	$ 112,540	$ 341,055

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, 2014, 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, 2014, was as follows (expressed in thousands):

Currency	Commingled Funds	Currency	Equities	Private Equity	International Bonds	Term Loans	Derivatives	Total
Australian Dollar	$ 108,320	$ 71	$	$	$ 3,350	$	$	$ 111,741
Austrian Schilling	3,802							3,802
Belgian Franc	17,177							17,177
Brazilian Real	45,281							45,281
Canadian Dollar	156,740	(40)	192	14,879	4,677		(47)	176,401
Chilean Peso	6,985							6,985
Chinese Yuan	58,822							58,822
Colombian Peso	4,562							4,562
Czech Republic Koruna	1,111							1,111
Danish Krone	21,100							21,100
Egyptian Pound	898							898
Euro Currency	430,187	55		81,777	36,652	137	206	549,014
Great Britain Pound	290,003	(192)	80		46,702		10	336,603
Hong Kong Dollar	66,590	1,158					109	67,857
Hungarian Forint	1,000							1,000
Indian Rupee	31,622							31,622
Indonesia Rupiah	11,097							11,097
Israeli Shekel	7,470							7,470
Japanese Yen	290,584	(39)			8,263		(230)	298,578
Malaysian Ringgit	17,564							17,564
Mauritian Rupee	322							322
Mexican Peso	23,154							23,154
New Zealand Dollar	1,994							1,994
Norwegian Krone	12,116							12,116
Peruvian Nouveau Sol	1,437							1,437
Philippine Peso	4,473							4,473
Polish Zloty	7,591							7,591
Qatari Real	1,659							1,659
Russian Ruble	24,582							24,582
Singapore Dollar	19,259							19,259
Swedish Krona	42,500	(109)					5	42,396
Swiss Franc	130,683							130,683
South African Rand	34,362	342					3	34,707
South Korean Won	70,889							70,889
Taiwan Dollar	55,334							55,334
Thailand Baht	9,644							9,644
Turkish Lira	7,774							7,774
United Arab Emirates Dirham	1,836							1,836
Total	$ 2,020,524	$ 1,246	$ 272	$ 96,656	$ 99,644	$ 137	$ 56	$ 2,218,535
US Dollar	14,830							
Commingled Fund Total	$ 2,035,354							

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, 2014 (expressed in thousands):

Investment Derivative Instruments	Change in fair value included in investment income	Fair value at June 30, 2014	Notional amount
Fixed income futures - long	$ 610	$ (5)	$ 48,493
Index futures - long	664	261	28,129
Index futures - short	(736)	(676)	(79,324)
Credit default swap	24	86	2,990
Interest rate swaps	464	456	4,950
	$ 1,026	$ 122	
Foreign Currency Forward Contracts:			
Pending payable (liability)		$ (1,406)	

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, 2014 was $113,240. 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.

Interest rate swaps can be used to manage interest rate risk and increase returns in the fixed income or term loan portion of the portfolio.

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 Plans

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, 2014 are as follows (expressed in thousands):

Investment Type	Fair Value	% of Total	Duration (years)	Weighted Average Maturity (days)
Annuities				
TIAA Stable Value	$ 3,278	1.2%		
TIAA Real Estate-variable annuity	1,345	0.5%		
Total	$ 4,623	1.7%		
Money Market				
Vanguard Prime Money Market Fund Investor Class	$ 306	0.1%		57
Fixed Income Funds				
Pimco Real Return Institutional Class	2,189	0.8%	6.78	
Vanguard Total Bond Market Index Signal Class	1,687	0.6%	5.62	
Total	$ 3,876	1.4%		
Target Retirement Funds				
Vanguard Target Retirement 2010 Trust II	5,428	2.0%		
Vanguard Target Retirement 2015 Trust II	21,377	7.7%		
Vanguard Target Retirement 2020 Trust II	38,902	14.0%		
Vanguard Target Retirement 2025 Trust II	41,117	14.8%		
Vanguard Target Retirement 2030 Trust II	40,834	14.7%		
Vanguard Target Retirement 2035 Trust II	38,719	14.0%		
Vanguard Target Retirement 2040 Trust II	30,335	10.9%		
Vanguard Target Retirement 2045 Trust II	22,252	8.0%		
Vanguard Target Retirement 2050 Trust II	11,827	4.3%		
Vanguard Target Retirement 2055 Trust II	2,646	1.0%		
Vanguard Target Retirement 2060 Trust II	280	0.1%		
Vanguard Target Retirement Income Trust II	1,720	0.6%		
Total	$ 255,437	92.1%		
Equity Mutual Funds				
TIAA-CREF International Equity Index Fund Institutional	1,437	0.5%		
TIAA-CREF Social Change Equity Institutional	82	0.0%		
Vanguard 500 Index Fund Signal Class	5,727	2.1%		
Vanguard Emerging Markets Stock Index Signal Class	1,232	0.4%		
Vanguard Mid-Cap Index Fund Signal Class	2,414	0.9%		
Vanguard Small Cap Index Fund Signal Class	2,254	0.8%		
Total	$ 13,146	4.7%		
Total	$ 277,388	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, 2014, 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.

The assets of the FICA Alternative Retirement Income Security Program are primarily invested in an array of Vanguard Target Retirement Funds that are selected based on the age of the participant. At June 30, 2014, all assets and securities were registered in the name of TIAA-CREF as the record keeper for the benefit of plan members and were held in the possession of TIAA-CREF's custodian, J.P. Morgan Bank.

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, 2014, the carrying amount of the OPEB System's cash deposits was approximately $158,000 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, 2014, the System's cash deposits were either federally insured or collateralized.

In addition, at June 30, 2014, the System also had cash equivalent investments consisting of approximately $3,427,000 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The System's investment accounted for 0.7% of the total investment in OSIP at June 30, 2014. 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, 2014 (expressed in thousands):

Investment Type		Fair Value
Money Market Mutual Fund	$	2,256
US Government Securities		12,302
US Government Agency Securities		11,704
Collateralized Mortgage Obligations		638
Corporate Bonds		10,792
Commingled Funds - Domestic Equity		71,303
		108,995
Net investment receivable		204
Investments at Fair Value	$	109,199

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, 2014 (expressed in thousands):

Investment Type		Fair Value	Effective Duration
US Government Agency Securities	$	11,704	3.66
US Government Securities		12,302	5.47
Collateralized Mortgage Obligations		638	4.37
Corporate Bonds		10,792	7.40
Total Fixed Income	$	35,436	5.11

The OPEB System's investment in Dreyfus Institutional Cash Advantage Fund, a money market mutual fund, had an average maturity of 47 days at June 30, 2014.

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, 2014 is as follows (expressed in thousands):

Rating(1)	Collateralized Mortgage Obligations	US Government Agency Obligations	Corporate Bonds
Aaa	$ 638	$ 11,704	$ -
Aa			438
A			2,424
Baa			7,632
Ba			298
Fair Value	$ 638	$ 11,704	$ 10,792

(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, 2014, 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 approximately $2,605,000 in the Fidelity Balanced Fund as of June 30, 2014.

F. Agency Funds

As of June 30, 2014, 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, 2014 Morgan Stanley & Co. Inc. long-term debt was rated Baa1 by Moody's and A- by Standard & Poor's. At June 30, 2014 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, 2014 JP Morgan Chase Bank, N.A. long-term debt was rated A2 by Moody's and A- by Standard & Poor's. At June 30, 2014 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, 2014 (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	$ 471,015	$ 374,021	$ 1,826	$ 846,862	$ 193,734	$ 55,027
Less: Allowance for Uncollectibles	105,811	106,785	923	213,519		
Governmental receivables, net	365,204	267,236	903	633,343	193,734	55,027
Business-type receivables	75,964	32,665		108,629	1,257	
Less: Allowance for Uncollectibles	4,078	21,584		25,662		
Business-type receivables, net	71,886	11,081		82,967	1,257	
Receivables, Net of Allowance for Uncollectibles	437,090	278,317	903	716,310	194,991	55,027
Less: Current Portion						
Governmental receivables	355,731	259,181	46	614,958	174,327	4,466
Business-type receivables	71,886	11,081		82,967	1,257	
Noncurrent Receivables, Net	$ 9,473	$ 8,055	$ 857	$ 18,385	$ 19,407	$ 50,561

Note 5. Intra-Entity Receivables and Payables

Intra-entity receivables and payables as of June 30, 2014 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	$ 3,972	$	Reimbursement for operating expenses
Intermodal Surface Transportation		1,119	Transportation funding
Non-Major Funds			
RI Temporary Disability Insurance		979	Debt service and administrative costs
Bond Capital		3,209	State match for transportation
RI Capital Plan		1,279	Primarily for transportation State match
Certificates of Participation		602	Fees restricted for COPS debt service
Permanent School		32	Payment of operating expenses
Total Non-Major Funds		6,101	
Total Governmental	3,972	7,220	
Proprietary Funds			
Enterprise			
RI Lottery		541	Net income owed to General Fund
RI Convention Center Authority	1,072		Project funding
Employment Security Trust	2,077		Benefit reimbursements
Total Enterprise	3,149	541	
Internal Service	1,323	683	Settlement of services rendered
Total primary government	$ 8,444	$ 8,444	

Note 6. Capital Assets

The capital asset activity of the reporting entity for the year ended June 30, 2014 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	$ 375,225	$ 12,884	$ (76)	$ 388,033
Works of Art	2,389			2,389
Intangibles	161,777	4,941	(2)	166,716
Construction in progress *	591,406	313,172	(448,207)	456,371
Total capital assets not being depreciated or amortized	1,130,797	330,997	(448,285)	1,013,509
Capital assets being depreciated or amortized:				
Land improvements	3,700			3,700
Buildings *	712,593	11,196	(101)	723,688
Building Improvements	270,378			270,378
Furniture and equipment	253,088	18,526	(5,772)	265,842
Intangibles	14,040			14,040
Infrastructure	3,295,847	451,988		3,747,835
Total capital assets being depreciated or amortized	4,549,646	481,710	(5,873)	5,025,483
Less accumulated depreciation or amortization for:				
Land improvements	3,439	34		3,473
Buildings	225,184	15,101	(57)	240,228
Building Improvements	184,072	7,219		191,291
Furniture and equipment	220,178	12,646	(5,623)	227,201
Intangibles	12,974	712		13,686
Infrastructure	1,544,188	135,185		1,679,373
Total accumulated depreciation or amortization	2,190,035	170,897	(5,680)	2,355,252
Total capital assets being depreciated or amortized, net	2,359,611	310,813	(193)	2,670,231
Governmental activities capital assets, net	$ 3,490,408	$ 641,810	$ (448,478)	$ 3,683,740

* Beginning balances have been restated

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

General government	$ 8,622
Human services	6,197
Education	3,573
Public safety	12,090
Natural resources	5,286
Transportation	135,129
Total depreciation or amortization expense - governmental activities	$ 170,897

Business-type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 45,558	$	$	$ 45,558
Construction in progress	445	890	(1,291)	44
Total capital assets not being depreciated	46,003	890	(1,291)	45,602
Capital assets being depreciated:				
Buildings	234,384			234,384
Machinery and equipment	27,079	3,268	(200)	30,147
Intangibles	175			175
Total capital assets being depreciated	261,638	3,268	(200)	264,706
Less accumulated depreciation for:				
Buildings	117,478	8,176		125,654
Machinery and equipment	20,881	1,932	(200)	22,613
Intangibles	15	25		40
Total accumulated depreciation	138,374	10,133	(200)	148,307
Total capital assets being depreciated, net	123,264	(6,865)		116,399
Business-type activities capital assets, net	$ 169,267	$ (5,975)	$ (1,291)	$ 162,001

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land	$ 110,365	$ 9,109	$	$ 119,474
Construction in progress *	125,128	111,817	(111,411)	125,534
Other	250			250
Total capital assets not being depreciated or amortized	235,743	120,926	(111,411)	245,258
Capital assets being depreciated or amortized:				
Buildings	1,897,306	87,696		1,985,002
Land improvements	197,562	18,370		215,932
Machinery and equipment *	409,508	21,577	(15,844)	415,241
Infrastructure	189,749	23,185	(3,314)	209,620
Total capital assets being depreciated or amortized	2,694,125	150,828	(19,158)	2,825,795
Less accumulated depreciation or amortization for:				
Buildings	678,376	62,207	(288)	740,295
Land improvements	119,104	5,810		124,914
Machinery and equipment *	237,682	28,387	(14,964)	251,105
Infrastructure	55,494	7,731	(550)	62,675
Total accumulated depreciation or amortization	1,090,656	104,135	(15,802)	1,178,989
Total capital assets being depreciated or amortized, net	1,603,469	46,693	(3,356)	1,646,806
Total capital assets, net	$ 1,839,212	$ 167,619	$ (114,767)	$ 1,892,064

* 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, 2014 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)	$ 1,103,945	$ 131,850	$ (161,045)	$ 1,074,750	$ 87,480	$ 987,270
RICC Grant Anticipation Revenue Bonds	311,645		(32,615)	279,030	34,160	244,870
RICC Rhode Island Motor Fuel Tax Revenue Bonds	66,510		(3,985)	62,525	4,185	58,340
Tobacco Settlement Asset-Backed Bonds	765,161		(20,340)	744,821		744,821
Accreted interest on TSFC bonds	83,051	18,603		101,654		101,654
RICC Historic Tax Credit Bonds	90,575		(16,175)	74,400	17,010	57,390
Net unamortized premium/discount	58,619	14,719	(10,620)	62,718		62,718
Bonds Payable, net	2,479,506	165,172	(244,780)	2,399,898	142,835	2,257,063
Obligation under capital leases (see section E)	232,975		(25,380)	207,595	21,960	185,635
Net unamortized premium/discount	18,441		(1,830)	16,611		16,611
Obligation under capital leases, net	251,416		(27,210)	224,206	21,960	202,246
Job Creation Guaranty Program Obligation (see section H)	2,500	82,673	(2,500)	82,673	8,383	74,290
Compensated absences (see section K)	80,298	67,153	(69,802)	77,649	67,613	10,036
Net pension obligation (see note 14)	1,816	1,654		3,470		3,470
Net OPEB Obligation (see note 15 C)	11,341	35	(2,891)	8,485		8,485
Special obligation notes (see section C)	6,675		(1,565)	5,110	1,635	3,475
Other Long-term Liabilities						
Pollution remediation (see section I)	9,507	932	(5,917)	4,522	932	3,590
Other (see section N)	26,442	3,764	(9,027)	21,179	3,763	17,416
Total Governmental Long-term Liabilities	$ 2,869,501	$ 321,383	$ (363,692)	$ 2,827,192	$ 247,121	$ 2,580,071
Business-type Activities						
Revenue bonds (see section B)	$ 236,960	$	$ (10,060)	$ 226,900	$ 10,750	$ 216,150
Net unamortized premium/discount	5,099		(1,161)	3,938		3,938
Revenue bonds, net	242,059		(11,221)	230,838	10,750	220,088
Notes payable (see section C)	231		(188)	43	43	
Unearned Revenue (see section N)	9,377	732	(625)	9,484	3,894	5,590
Compensated absences (see section K)	390	325	(219)	496	209	287
Due to Other Governments and Agencies (see Section J)	155,276	57	(103,309)	52,024	52,024	
Total Business-type Long-term Liabilities	$ 407,333	$ 1,114	$ (115,562)	$ 292,885	$ 66,920	$ 225,965
Component Units						
Bonds payable (see section B)	$ 2,204,445	$ 170,945	$ (304,049)	$ 2,071,341	$ 93,087	$ 1,978,254
Net unamortized premium/discount	15,811	1,250	(1,738)	15,323	749	14,574
Bonds Payable, net	2,220,256	172,195	(305,787)	2,086,664	93,836	1,992,828
Notes payable (see section C)	97,977	302,739	(292,815)	107,901	90,452	17,449
Loans payable (see section D)	43,607	3,631	(636)	46,602	913	45,689
Obligations under capital leases	8,027		(1,120)	6,907	1,101	5,806
Net OPEB obligation	46,877	7,678	(92)	54,463		54,463
Compensated absences (see section K)	32,622	1,370	(1,638)	32,354	9,548	22,806
Due to primary government (see section M)	59,904	1,167	(6,043)	55,028	4,467	50,561
Due to Other Governments and Agencies (see section J)	114		(94)	20	20	
Unearned Revenue (see section N)	13,727	6,517	(102)	20,142	4,927	15,215
Due to Component Units	1,815		(228)	1,587	193	1,394
Other Long-term liabilities						
Arbitrage rebate (see section L)	1,700		(435)	1,265		1,265
Pollution remediation (see section I)	16,904	2,917		19,821	1,486	18,335
Other liabilities (see section N)	288,057	26,017	(3,629)	310,445	6,841	303,604
Total Component Units Long-term Liabilities	$ 2,831,587	$ 524,231	$ (612,619)	$ 2,743,199	$ 213,784	$ 2,529,415

The State implemented GASB Statement 65; therefore, all beginning balances for bonds payable were restated (see note 18F).

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 18F.

B. Bonds Payable

At June 30, 2014, 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
2015	$ 142,835	$ 71,768	$ 10,750	$ 12,229	$ 93,087	$ 79,757
2016	148,945	65,056	11,300	11,673	75,120	77,995
2017	156,225	57,771	11,285	11,182	79,466	75,415
2018	148,470	50,327	10,955	10,620	79,820	72,549
2019	117,335	42,905	11,505	10,064	83,118	69,571
2020 - 2024	454,380	136,799	73,335	40,355	426,440	297,137
2025 - 2029	245,065	52,098	63,875	18,944	414,297	203,143
2030 - 2034	253,565	7,416	27,385	7,147	353,735	119,381
2035 - 2039		116,156	6,510	395	263,930	55,261
2040 - 2044	371,700	69,694			134,345	21,853
2045 - 2049					53,740	7,501
2050 - 2054	197,006	2,637,174 *			14,243	486
	$ 2,235,526	$ 3,307,164	$ 226,900	$ 122,609	$ 2,071,341	$ 1,080,049

* 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, 2014 the State issued $53,150,000 of general obligation bonds with interest rates ranging from 0.45% to 5.06%, maturing from 2015 through 2034. $12,500,000 of these bonds is taxable. Also, the State issued $78,700,000 of refunding bonds with interest rates ranging from 2.00% to 5.00%, maturing from 2015 through 2026. These bonds, combined with the premium of $11,184,000 and other sources of $2,689,000, were used to advance refund $84,220,000 of bonds with interest rates from 3.70% to 5.00% and maturities from 2015 to 2026. The economic gain was approximately $6,742,000 with a net present value savings of approximately $4,057,000.

At June 30, 2014, general obligation bonds authorized by the voters and unissued amounted to $191,402,195. 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 - $35,200,000, (2) Information Technology Improvements Certificates of Participation - $36,130,000 (3) Nursing Education Center Debt - $36,000,000 and (4) Garrahy Courthouse Garage Debt - $45,000,000.

Historic Tax Credit Bonds - In fiscal year 2009 the R.I. Commerce Corporation (RICC), 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 RICC 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.

RICC Grant Anticipation Bonds and Rhode Island Motor Fuel Tax Revenue Bonds - RICC, 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 RICC 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 2014 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, 2014, TSFC utilized $20,340,000 of excess collections to early redeem an equal amount of outstanding bonds. Pledged tobacco revenues were sufficient to fund fiscal 2014 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, 2014, outstanding bond and note indebtedness totaled $226,943,000.

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 (DDC). The revenue bonds are secured by all rents receivable, if any, under a lease agreement between the RICCA and the State covering all property purchased by the RICCA. The agreement also covers a mortgage on facilities and land financed by the proceeds of the revenue bonds and amounts held in various accounts into which bond proceeds were deposited. Minimum annual lease payments by the State are equal to the gross debt service of RICCA. In the event of an operating deficit (excluding depreciation), annual lease payments may be increased by the amount of the deficit. The obligation of the State to pay such rentals is subject to and dependent upon annual appropriations of such payments being made by the Rhode Island General Assembly for such purpose. Those appropriations are made in connection with the State's annual budgetary process and are therefore dependent upon the State's general financial resources and factors affecting such resources. In addition, outstanding indebtedness is insured under certain financial guaranty insurance policies.

All outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required for certain bonds over various years through 2027 at the principal amount of the bonds. Certain bonds may be redeemed early, at the option of RICCA, at amounts ranging from 100% to 102% of the principal balance.

Each of the RICCA's Bond Resolutions contains certain restrictive covenants. During fiscal year 2014, the RICCA was unable to fund the Operating Reserve requirement and Renewal and Replacement component of the restrictive covenants pursuant to its indentures.

During July 2013, RICCA and the State entered into two agreements that provide for appropriations from the Rhode Island Capital Plan Fund (RICAP) for the purpose of funding the renewal and replacement requirement included in the 2006 Series A Bonds (DDC) and funding renovations and repairs to the RICCA through June 30, 2018. Under the agreement for the DDC, RICCA was authorized to receive funding of $925,000 in fiscal year 2014 and annual appropriations of $1,387,500 through fiscal year 2018. Under the agreement for the RICCA, RICCA was authorized to receive funding of $1,000,000 in fiscal year 2014, 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. During fiscal year 2014 RICCA received appropriations for the DDC totaling $596,580 and appropriations for the RICCA totaling $939,103.

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, 2014 revenue bonds outstanding were approximately as follows: URI - $227,192,000 RIC - $17,738,000 and CCRI - $2,836,000.

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 general aviation airports to repay approximately $238,095,000 in airport revenue bonds. Proceeds from the bonds were used for various airport improvement projects. Amounts available to pay debt service per the Master Indenture, including pledged passenger facility charges, was approximately $38,243,000 for the year ended June 30, 2014. Principal and interest payments for the year ended June 30, 2014 were approximately $21,208,000.

RIAC has pledged facility revenues related to the InterLink Facility, net of specified operating expenses, to repay $46,870,000 in First Lien Special Facility Bonds. Proceeds from the bonds were used for the construction of the InterLink Facility. Facility revenues, including interest income, net of specified operating expenses, were approximately $5,885,000 for the year ended June 30, 2014. Principal and interest payments per the terms of the indenture of trust on the First Lien Special Facility Bonds for the year ended June 30, 2014 was approximately $3,096,000.

I-195 Redevelopment District Commission

In April 2013, RICC issued Economic Development Revenue Bonds 2013 Series A, and Economic Development Bonds 2013 Series B (federally taxable) in the aggregate principal amounts of $37,440,000 and $960,000, respectively. The I-195 Redevelopment District Commission (I-195 RDC) is the obligor for both Series A and Series B Bonds. The 2013 Series A Bonds mature in April 2033 and the 2013 Series B Bonds mature in April 2019. Both bond series currently bear interest at the lesser of 7.75% or the 30-Day London InterBank Offered Rate (LIBOR) (0.15% at June 30, 2014) plus applicable margin.

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 general obligation bonds were rated AA and Aa2 by S&P and Moody's, respectively, as of October 2013, which is the most recent date for which bond rating information is available. As such, at June 30, 2014, the 2013 Series A Bonds bore interest at 1.15%, and the 2013 Series B Bonds bore interest at 1.30%.

Concurrent with the issuance of the 2013 Series A and B Bonds, the Commission, RICC, and a 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 RICC on either April 1, 2023 or April 1, 2028. Also concurrently, the State entered into a separate Rate Cap Agreement with the bank for each series, under which the bank agreed to pay the State interest on a monthly basis at 30-Day LIBOR (0.15% at June 30, 2014) 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 and the 2013 Series B bonds through maturity. The interest rate for the Series A Bonds and the Series B Bonds is capped at 6.75% and 6.85%, respectively.

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 RICC 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. To the extent that the Commission has insufficient funds to meet its payment obligations under the bonds, it shall seek appropriations from the State; however, there are no assurances that the State will appropriate amounts to fund the Commission's payment obligations.

R.I. Turnpike and Bridge Authority

At June 30, 2014, the R. I. Turnpike and Bridge Authority (RITBA) had revenue bonds outstanding with principal amounts totaling $61,735,000. 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

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, 2014 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.	$ 5,110

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 2014 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, 2014 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.	$ 1,346
R.I. Resource Recovery note payable to the host municipality with an interest rate of 1.4%, payable in equal installments over the next 14 years.	1,500
R.I. Housing and Mortgage Finance Corporation bank notes and lines of credit, 1.22% to 6.25% interest, payable through 2043.	79,904
R.I. Turnpike and Bridge Authority Bond Anticipation Note maturing on February 7, 2015 at interest at the thirty-day London InterBank Offered Rate plus an applicable margin rate based on RITBA's debt rating payable monthly.	25,000
R.I. Airport Corporation note payable at 4.15% interest, payable through 2015	151
	107,901
Less: current portion	(90,452)
	$ 17,449

D. Loans Payable

Discretely Presented Component Units

In June 2006, the R.I. Airport Corporation (RIAC), R.I. Commerce Corporation (RICC), 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 was to reimburse RICC and RIDOT and to provide funding to RIAC for a portion of eligible project costs related to the now completed InterLink Facility Project. 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 RICC (the borrower per the Agreement), and debt service payments commenced in fiscal year 2012 with a final maturity in fiscal year 2042. Such repayments are payable solely from the net revenues derived from the InterLink Facility. As of June 30, 2014, RIAC had approximately $41,541,000 in borrowings under this agreement. Interest payments on the TIFIA loan for the year ended June 30, 2014 were approximately $2,185,000.

The remaining balance consists of loans payable by the University of Rhode Island, the Quonset Development Corporation, and the Metropolitan Regional Career and Technical Center of approximately $1,040,000, $3,907,000, and $114,000, 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, 2014 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.

The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2014:

Fiscal Year Ending June 30	Total
2015	$ 31,078
2016	30,638
2017	30,735
2018	25,219
2019	25,314
2020 - 2024	97,546
2025 - 2029	19,790
Total future minimum lease payments	260,320
Amount representing interest	(52,725)
Present value of future minimum lease payments	$ 207,595

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, 2014, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	$ 154,600
Certificates of Participation	86,685
R.I. Convention Center Authority	3,095
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	127,555
R.I. Commerce Corporation	8,320
R.I. Turnpike and Bridge Authority	34,895

G. Conduit Debt

The R.I. Industrial Facilities Corporation and the R.I. Commerce 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, 2014 was $73,000,000 and $903,700,000 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. Job Creation Guaranty Program – Moral Obligations

The Job Creation Guaranty Program (JCGP) was established by the General Assembly in 2010 for the purpose of promoting economic development in the State and authorized the issuance of a maximum of $125 million of obligations by the RI Commerce Corporation (RICC).

In November 2010, the RICC issued $75 million of taxable revenue bonds under the JCGP. 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 were to be used in the event that 38 Studios failed to make any required loan payments. In accordance with the enabling legislation and the agreement between the RICC, the trustee and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, the RICC 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. The RICC 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. It is not certain at this time what the value of the pledged assets is. It is estimated that the total remaining debt service on the bonds, after considering any existing reserves held by the trustee, will be approximately $82.7 million. The maturity dates on the bonds range from 2014 to 2020 with maximum annual debt service of approximately $12.5 million. The General Assembly made appropriations for fiscal years 2014 and 2015 to restore the shortfall in the Capital Reserve Fund. The fiscal year 2015 enacted budget includes an appropriation of $12.3 million, which together with remaining amounts available in the Capital Reserve Fund, will be used to pay the principal and interest on the bonds due in fiscal year 2015.

The State has recorded a liability of $82.7 million relating to its moral obligation to the 38 Studios bondholders under the JCGP at June 30, 2014. This amount represents the current estimate of the amount of probable loss by the State. Such amount, although recorded as a liability for financial statement purposes, is still subject to annual appropriation by the General Assembly. The estimated liability will be reduced in future years as the related debt is extinguished.

In November 2012, the RICC sued various individuals and entities involved with the loan to 38 Studios including principals of 38 Studios, former employees of the RICC and various advisors to the RICC 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. A settlement was reached with two of the defendants and, after expenses, a net recovery of approximately $3.2 million was received in August of 2014. The net amount of the settlement was paid to the trustee for the benefit of the bondholders and will be used to pay a portion of the fiscal year 2015 debt service. To the extent there are additional recoveries resulting from the lawsuit, such amounts, net of legal fees, would be available to reduce amounts, if any, appropriated by the State to fund the Capital Reserve Fund and pay debt service on the bonds.

On August 27, 2014, a bank sent a notice of nonpayment to RICC in accordance with RICC's guaranty (the Guaranty) of a term loan advanced by the bank to another borrower under the JCGP. In accordance with its moral obligations under the Guaranty, RICC made payment of the amount sought by the bank (the Advance) and subsequently made demand upon the borrower to pay RICC for such Advance. The approximate amount of the term loan for which RICC provided the Guaranty is $3.30 million. On December 17, 2014, RICC submitted a certificate to the Governor of the State of Rhode Island identifying a deficiency arising under a term loan extended by the bank, in the amount of $2.25 million. The amount of any estimated loss related to the State's moral obligation for this borrower under the JCGP is not presently determinable.

The General Assembly repealed the authority for the RICC to guarantee further loans under the JCGP during the 2013 legislative session.

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, 2014, 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 under this loan was approximately $48,660,000 on June 30, 2014. Interest accrued beginning January 1, 2011 and is payable on October 1 of each year. The amount outstanding was paid in full in November 2014.

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.

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 $799,274,000 of restricted net position, of which $276,129,000 is restricted by enabling legislation. The net position that is restricted by enabling legislation is included in the Employment Insurance Programs 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):

Governmental Funds - Fund Balance

	Major Funds			
	General Fund	IST Fund	Other Funds	Total
Fund Balances:				
Nonspendable:				
Permanent Fund Principal	$	$	$ 174	$ 174
Restricted for:				
Budget Reserve and Cash Stabilization	176,719			176,719
Purposes specified by enabling legislation	120,898			120,898
Debt Service		20,305	94,530	114,835
Capital Projects			239,480	239,480
Temporary Disability Insurance			155,232	155,232
Historic Tax Credit Redemption			5,486	5,486
Transportation-Infrastructure		98,121		98,121
Education			1,840	1,840
Other			673	673
Committed to:				
Transportation-Maintenance		4,039	79	4,118
Employees' Retirement System Transfer	13,794			13,794
Other	4,770			4,770
Assigned to:				
Subsequent Years Expenditures	67,992			67,992
Other	4,013			4,013
Unassigned:	7,193	(4,028)		3,165
Totals	$ 395,379	$ 118,437	$ 497,494	$ 1,011,310

Article IX of the State Constitution requires the maintenance of a State Budget Reserve and Cash Stabilization Account (the “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 2014, 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.

According to the State Constitution and related enabling laws the Reserve, or any portion thereof, may be appropriated by a majority of the members of the General Assembly “in the event of an emergency involving the health, safety or welfare of the citizens of the State”. The Reserve may also be appropriated by a majority of the members of the General Assembly “to fund any unanticipated general revenue deficit caused by a general revenue shortfall” in any given year. As general revenue estimates are adjusted several times each year, including at the May Revenue Estimating Conference, significant shortfalls between the final estimated revenue amounts and actual revenues for a fiscal year have been very rare. In fact, since its inception the Reserve has been accessed only once in fiscal year 2009 to address an unexpected severe revenue shortfall. This shortfall resulted from the effects of the Great Recession, which severely impacted the State with little warning. 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 $13,794,501 which is reflected in the committed category of fund balance in the table above. The transfer will be made in fiscal year 2015 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 deferred inflows of resources. 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	$ 1,109,702	$ 1,111,799
General Business Taxes:		
Business Corporations	113,808	113,873
Public Utilities Gross Earnings	101,382	101,967
Financial Institutions	16,611	19,606
Insurance Companies	100,957	100,980
Bank Deposits	2,472	2,472
Health Care Provider Assessment	42,131	42,052
Sub-total - General Business Taxes	377,361	380,950
Sales and Use Taxes:		
Sales and Use	916,083	915,806
Motor Vehicle	52,408	52,408
Motor Fuel	524	520
Cigarettes	139,462	139,495
Alcoholic Beverages	18,252	18,252
Sub-total - Sales and Use Taxes	1,126,729	1,126,481
Other Taxes:		
Inheritance and Gift	43,592	43,440
Racing and Athletics	1,177	1,177
Realty Transfer	7,962	8,047
Sub-total - Other Taxes	52,731	52,664
Total - General Fund	2,666,523	2,671,894
Intermodal Surface Transportation Fund		
Gasoline	137,542	137,542
Other Governmental Funds	170,951	170,951
Total Taxes	$ 2,975,016	$ 2,980,387

Note 10. Transfers

Transfers for the fiscal year ended June 30, 2014 are presented below (expressed in thousands):

	Transfers	Description
Governmental Activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	$ 42,028	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,907	Administrative cost reimbursement
Historic Tax Credit	7,617	Reimbursement for tax credits claimed
Bond Capital	511	Interest earnings transfer
RI Capital Plan	3,005	Reimbursement for capital expenditures
Business-Type Activities		
Lottery	376,327	Net income transfer
Employment Security	654	Administrative cost reimbursement
Intermodal Surface Transportation		
General Fund	1,889	Infrastructure funding
Bond Capital	15,854	Infrastructure funding
RI Capital Plan	7,736	Infrastructure funding
Nonmajor Funds		
COPs		
General	2,030	Debt service
RI Capital Plan		
General	101,272	Transfer statutory excess in budget reserve
Bond Capital	3,321	Premium on new bonds
RI Public Rail Corporation		
Intermodal Surface Transportation	1,925	Operating assistance
Total Governmental Activities	566,076	
Business-Type Activities		
Lottery Fund		
RI Capital Plan	23	Capital Improvement
Convention Center		
General	23,030	Debt service
RI Capital Plan	1,545	Capital Improvement
Employment Security		
General	18,024	Debt service
Assessed Fringe Benefits	1,535	Reimbursement for State employees' unemployment compensation
Total transfers primary government	$ 610,233	

Note 11. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately $13,493,000 for the fiscal year ended June 30, 2014. 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, 2014:

Fiscal Year Ending June 30	
2015	$ 12,318
2016	9,007
2017	4,532
2018	3,794
2019	3,534
2020 - 2024	4,970
Total	$ 38,155

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

Note 12. Commitments

Primary Government

The primary government is committed at June 30, 2014 under various contractual obligations for infrastructure construction projects and other capital projects, which will be principally financed with debt proceeds, Rhode Island Capital Plan funds and federal grants. The total of commitments outstanding for the most significant category, infrastructure construction projects, is approximately $427 million at June 30, 2014.

The primary government is also committed at June 30, 2014 under contracts to develop and implement a number of software systems. These projects 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, 2014 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. Commerce Corporation (RICC), 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, 2014, $3,560,000 was paid to the developer.

The RICC 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 2014. 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 2014, Twin River was authorized and issued approximately $33.4 million in promotional points to facility patrons.

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 (61.02% for fiscal year 2014). 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). The Master Contract is being amended to reflect recently enacted legislation regarding the Lottery's reimbursement to UTGR for allowable marketing expenses not to exceed an additional $3 million multiplied by the Lottery's percentage of net terminal income. The reimbursement of marketing expenses by the Lottery occurs after UTGR has incurred an additional $4 million in qualified 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 2014, Newport Grand was authorized and issued approximately $5.4 million in promotional points to facility patrons.

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 (59.23% for fiscal year 2014). 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. Approximately $6.458 million was expended in fiscal year 2014 and construction is expected to be complete by December 2017.

In addition, RIAC is constructing a Deicer Management System. In fiscal year 2014, approximately $15.710 million was expended on the Deicer Management System. The project includes online monitoring and diversion of deicing stormwater to comply with the Rhode Island Pollutant Discharge Elimination System (RIPDES) permit issued by the Rhode Island Department of Environmental Management (RIDEM). The improvements prevent the discharge of deicing runoff to surface waters when the concentration exceeds the RIPDES permit limits.

As of June 30, 2014, RIAC is obligated for the completion of certain airport improvements under commitments of approximately $35 million, which are expected to be funded from current available resources and future operations.

R.I. Turnpike and Bridge Authority

During 2013, R.I. Turnpike and Bridge Authority entered into contracts totaling $40,900,000, for Phase II of the steel repairs and painting on the Claiborne Pell Bridge, which is expected to take two to three years to complete. As of June 30, 2014, remaining commitments on these contracts total $25,550,000.

R.I. Resource Recovery Corporation

Landfill closure and post-closure:

The EPA established closure and post-closure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. The landfill operated by the RIRRC has been segregated into six distinct phases. Phases I, II and III were closed by the RIRRC in prior years, while Phase IV reached capacity during fiscal year 2012, with final capping completed during fiscal year 2014. In 2005, the RIRRC began landfilling in Phase V. As of June 30, 2014 the RIRRC has not begun landfilling in phase VI.

A liability for closure and post-closure care of $61,115,203 as of June 30, 2014 has been recorded in the statement of net position, as summarized by Phases below:

	Year ended June 30, 2014
Phase I	$ 9,552,725
Phase II and III	5,599,995
Phase IV	9,767,277
Phase V	36,195,206
	$ 61,115,203

Phase VI has been licensed by RIDEM, however is not open to receive waste as of June 30, 2014.

As of June 30, 2014, the remaining total estimated current cost to be recognized in the future as landfill closure and post-closure care expense, the estimated percent of landfill capacity used and the estimated remaining years for accepting waste are as follows:

	Estimated remaining costs to be recognized	Estimated capacity used	Estimated remaining years for accepting waste
Phase V	$ 8,852,230	80.35%	2.2 years

As of June 30, 2014 the RIRRC revised its estimate for future pollution remediation and landfill closure and post-closure care costs. The revised estimate resulted in a $10,556,887 increase of the corresponding liability from $70,379,581 at June 30, 2013 to $80,936,468 at June 30, 2014 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 statements of net position as of June 30, 2014 is $41,525,803 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.

The pollution remediation obligation for the year ended June 30, 2014 is as follows:

Balance, June 30, 2013	Additions	Reductions	Balance, June 30, 2014	Current Portion
$ 16,904,094	$ 2,917,171	$ 0	$ 19,821,265	$ 1,485,622

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 $42,365,530 as of June 30, 2014.

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 $19,821,000 as of June 30, 2014.

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 $263,000 as of June 30, 2014.

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. During fiscal year 2014, RIDEM approved the work completed by RIRRC and the final amount of $156,000 was released.

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 was approved by RIDEM during fiscal year 2014.

R.I. Public Transit Authority

The R.I. Public Transit Authority is committed under various contracts in the amount of $3,660,734 at June 30, 2014.

R.I. Industrial-Recreational Building Authority

At June 30, 2014, 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, 2014 are $14,930,000.

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, 2012 the private sector entity defaulted on its payments to the bond holder and the Authority assumed responsibility for making the debt payments. The payments are being 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, 2014, 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 $2,242,000 and $5,886,000 and has determined the best estimate within this range to be $2,355,633. The Authority has accrued an insured commitment payable of $2,355,633 equal to the estimated loss at June 30, 2014. The current portion of the insured commitment 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 is 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 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.

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 the 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 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 groups voting 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. 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 proceeded through 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, 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.

Finally, on September 8, 2014, an eighth 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.

On December 2, 2014, the judge presiding over the case in the Superior Court ruled for a trial by jury commencing April 2015.

An adverse judgment to the State rendered in the pension litigation could significantly increase both the unfunded liability of the plans within the ERSRI and the State's actuarially determined contribution (ADC).

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 market share loss 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 Proceeding for calendar years 2007, 2008, 2009, 2010, 2011 and 2012.

From April 2005 through April 2014, many of the tobacco manufacturers participating in the MSA either withheld all or portions of their payments due or remitted their payments to an escrow account, disputing the calculations of amounts due under the agreement. These manufacturers assert that the calculations of the amounts due failed to apply the NPM Adjustment. The Corporation's share of these disputed payments has yet to be determined for deposit year 2014.

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"). On November 3, 2011, the PMs decided not to contest Rhode Island's diligent enforcement for Year 2003; thus, for purposes of the NPM Adjustment, RI was considered diligent. 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. Hearings were held for those contested States that did not join the term sheet, and final arbitration awards for those states were issued in September 2013. While the 2003 Arbitration has concluded, the 2004 Arbitration has not yet commenced.

Twenty-eight (28) MSA States and Territories ("NSS"), including Rhode Island, 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 Corporation in the future. Due to these uncertainties regarding the ultimate realization of the remaining amount of these disputed payments, they have not been recognized as revenue in the accompanying financial statements. The Corporation and the other affected parties are taking actions prescribed in the MSA to arrive at a resolution of these matters. Depending on the outcome of future NPM adjustment arbitrations and any potential MSA litigation that may arise, the Corporation may not have adequate financial resources to service its debt obligations.

Lottery

The Lottery's master contracts with its video lottery facility operators contain revenue protection provisions in the event that existing video lottery facility operators incur revenue losses caused by new gaming ventures within the State.

The Lottery's gaming operations could be adversely impacted by enacted legislation in Massachusetts allowing three casinos and one slot parlor in that state. Massachusetts has divided the state into three regions and accepted license applications for three category 1 resort style casinos. In addition, a category 2 slots only license was awarded in February 2014. The Western Massachusetts (region B) category 1 license was awarded in June 2014 and the region A Greater Boston category 1 license was awarded in September 2014. The region C Southeastern Massachusetts category 1 license is anticipated to be awarded in August 2015. The region C Southeastern Massachusetts category 1 licenses were recently opened to new applicants. Depending on the resulting location of the facilities within Massachusetts, lottery revenues in Rhode Island could decrease.

The Narragansett Indian Tribe is suing for injunctive and declaratory relief seeking to have the 2011 and 2012 Casino Acts ("Acts") allowing table games at Twin River to be declared unconstitutional, as well as seeking relief enjoining operations at Twin River and Newport Grand, alleging that both entities act in a manner contrary to the constitution, i.e., they are not "state operated." The Supreme Court affirmed a finding by the Superior Court that the Narragansett Tribe had standing to raise the constitutionality issues. The Superior Court dismissed that portion of the complaint that seeks to have the Acts declared unconstitutional. The plaintiff's filed an appeal of that decision in the Rhode Island Supreme Court. The parties filed briefs with the Rhode Island Supreme Court with respect to that aspect of the case in November, 2014. The issue of constitutionality was then argued in the Supreme Court on December 4, 2014. At this time it is not known when the Supreme Court will issue a decision on that aspect of the case (The issue related to injunctive relief remains pending in the Superior Court). While the lawsuit does not seek monetary damages, the lawsuit does seek attorney fees which could be substantial. Moreover, since the lawsuit challenges the constitutionality of the Acts and seeks to enjoin the operation of table games and the general operations of Twin River and Newport Grand, if successful, the lawsuit could have a significant effect on Rhode Island's third largest annual source of revenue.

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 2014, 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, 2013 was issued in March 2014. That report identified approximately $14.3 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 2014 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.

During fiscal 2014, the State began determining eligibility for the Medical Assistance Program through the Unified Health Infrastructure Project (UHIP) system. The UHIP system was designed to validate applicant data against an array of federal and state data sources as a key control over its underlying eligibility determinations. UHIP system interfaces, as designed, were not fully operational in fiscal 2014 due to implementation delays or technical issues encountered during phase 1 of the system implementation. The impact of these system issues on federal program compliance is not currently determinable.

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, 2014, 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 $131,970,558 outstanding in bonds, which are secured in part by capital reserve funds which have aggregated to $31,113,556 on June 30, 2014. 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. Commerce Corporation (RICC)

The State has recorded a liability of $82.7 million relating to its moral obligation to the 38 Studios bondholders under the Job Creation Guaranty Program at June 30, 2014. This amount represents the current estimate of the amount of probable loss by the State. Such amount, although recorded as a liability for financial statement purposes, is still subject to annual appropriation by the General Assembly. See Note 7H for more details.

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 intends to 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 to predict the time period over which such services would be required, and to what extent those responsibilities will continue to constitute a substantive activity for the Authority.

The Rhode Island General Assembly passed legislation that added language to RIHEAA's enabling legislation, titled – Reserve Funds: "To assure continued solvency of the authority, the authority's operating fund shall be used solely for the ordinary operating expenses of the authority. Furthermore, it is the intent of the General Assembly that these funds eventually be used to increase financial assistance to Rhode Island students in the form of scholarships and grants." The RIHEAA Board has had discussions about the new legislative language and is in the process of developing proposals and programs that are consistent with the legislature's intent.

In December of 2013, the U.S. Congress passed the Bipartisan Budget Act of 2013. One of the provisions of the Act was to reduce the Guaranty Agency (GA) revenue derived from the rehabilitation of defaulted student loans by approximately 50%, effective July 1, 2014. Revenues from loan rehabilitations constitute the major source of income for most GAs, and this reduction will have major implications on the ability of GAs to operate profitably, especially as portfolio balances decline over time, RIHEAA's management and Board are involved in the ongoing process of evaluating the changes described above and options for future operations.

R.I. Housing and Mortgage Finance Corporation (RIHMFC)

As of June 30, 2014, the RIHMFC may borrow up to a maximum of $90,000,000 under various revolving loan agreements expiring between July 2014 and August 2015. 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, 2014 is $45,913,248.

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

A. Defined Benefit Plans

Plan Descriptions

The State, through the Employees' Retirement System (ERS), administers six 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 Teachers' Survivors Benefit Plan (TSB), a multiple-employer cost sharing plan, provides survivors benefits to teachers who do not participate in Social Security. 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 or amortized 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. The fair value of mutual fund investments reflects the published closing net asset value as reported by the fund manager.

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 and real estate investments) are generally valued based on audited December 31 net asset values adjusted for (1) cash flows for the period January 1 to June 30 (which principally include additional investments and partnership distributions), and (2) significant changes in fair value as determined or estimated by the general partners as of June 30. The general partners estimate the fair value of the underlying investments held by the partnership periodically. Publicly traded investments held by the partnerships are valued based on quoted market prices. If not publicly traded, the fair value is determined by the general partner. Financial Accounting Standards Board, ASC Topic 820, *Fair Value Measurements and Disclosures,* requires private equity and real estate limited partnership general partners to value non-publicly traded assets at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information.

Private equity and real estate investments represented 6.6% and 3.1%, respectively, of the total reported fair value of all ERS investments at June 30, 2014. Of the underlying holdings within private equity investments, approximately 21% 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 69% 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 25% 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 year 2014 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, 2011. The fiscal year 2014 Annual Required Contribution for the Judicial Retirement Fund Trust 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, 2014 and the actuarial assumptions and methods used in the actuarial valuation of the plans used to determine such pension cost 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	23.05%	14.45%	27.28%	$1,695
Plan members - state employees	3.75%	8.75%	8.75% and 12.00%	8.75% and 12.00%
State contribution for teachers	8.03% to 8.42%			
Annual pension cost	$227,778	$3,331	$2,544	$1,654
Contributions made - state employees	$151,077	$3,331	$2,544	$0
Contribution made - teachers	$76,701			
Actuarial valuation date	June 30, 2011	June 30, 2011	June 30, 2011	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	24 years	24 years	24 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 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.			

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	$1,695
Interest on net pension obligation	73
Adjustment to annual required contribution	(114)
Annual pension cost	1,654
Contributions made	-
Increase in net pension obligation	1,654
Net pension obligation, beginning of year	1,816
Net pension obligation, end of year	$3,470

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation (In Thousands)
Employees' Retirement System	6/30/12	233,834	100%	-
	6/30/13	207,319	100%	-
	6/30/14	227,778	100%	-
State Police Retirement Benefits Trust	6/30/12	5,333	100%	-
	6/30/13	2,103	100%	-
	6/30/14	3,331	100%	-
Judicial Retirement Benefits Trust	6/30/12	1,718	100%	-
	6/30/13	1,752	100%	-
	6/30/14	2,544	100%	-
RI Judicial Retirement Fund Trust	6/30/13	1,816	0%	1,816
	6/30/14	1,654	0%	3,470

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 the most recent actuarial valuation date which was June 30, 2014 for all plans except the RIJRFT, the most recent actuarial valuation for which was as of June 30, 2013:

	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	$ 2,449,125,421	$ 4,266,354,839	$ 1,817,229,418	57.41%	$ 675,204,750	269.14%
Teachers	3,742,152,714	6,276,589,639	2,534,436,925	59.62%	982,565,406	257.94%
SPRBT	104,781,384	109,621,747	4,840,363	95.58%	20,814,621	23.25%
JRBT	53,830,516	57,251,698	3,421,182	94.02%	9,309,572	36.75%
RIJRFT	152,910	16,908,455	16,755,545	0.90%	1,255,256	1334.83%

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, 2014 actuarial valuation follows:

	ERS				
	State Employees	Teachers	SPRBT	JRBT	RIJBFT
Valuation Date	6/30/2014	6/30/2014	6/30/2014	6/30/2014	6/30/2013
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	21 years	21 years	21 years	21 years	15 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	3.50% to 6.50%	3.50% to 13.50%	3.75% to 8.00%	3.50%	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.

B. 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 2014 no contribution to the System was required 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 2014 related to the State’s fiscal year 2013 actual general revenues, as adjusted, exceeding budgeted amounts by $169 thousand.

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 $415 thousand was paid to the System pursuant to Section 42-149-3.1 of the General Laws.

For fiscal year 2014, 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.

C. 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.

Net investment income within the defined contribution plan is reported on a net-of-fees basis.

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.

D. FICA Alternative Retirement Income Security Program

The State of Rhode Island FICA Alternative Retirement Income Security Program (the "FARP") is a defined contribution (money purchase) plan that operates under Section 401(a) of the Internal Revenue Code. The FARP was established under Rhode Island General Law section 36-7-33.1 and was placed under the management of the State's Department of Administration (DOA), who also serves as the FARP plan sponsor. The FARP took effect on December 15, 2013. TIAA-CREF serves as record keeper for the FARP and FARP assets are held by J.P. Morgan as investment custodian.

Plan members – Eligible members of the FARP are any part-time, seasonal, or temporary employees of the State of Rhode Island, hired after July 1, 2013, who are ineligible for participation in the Employees' Retirement System of Rhode Island (ERSRI). With the exception of the One-Time Opt-Out Exception described below, participation in the FARP is mandatory for these employees. Part-time, seasonal, or temporary employees hired prior to July 1, 2013, and who do not participate in the ERSRI may opt to continue contributing to Social Security for the duration of their continuous employment.

One-time opt-out provision – The FARP contains a provision which allows a FARP-eligible employee, hired after July 1, 2013, to opt-out or elect to not participate in the FARP. An employee who opts to not participate will continue to make FICA contributions and the State will continue to make FICA contributions on behalf of the employee. An employee who opts to not participate in the FARP may subsequently, without penalty, choose to participate in the FARP; this election is irrevocable as long as the employee is a FARP-eligible employee.

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 State does not make matching contributions to the FARP.

Member accounts – Each member's account is credited with the member'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.

Contributions – FARP benefits are funded by contributions from the participants as specified in RI General Law section 36-7-33.1. FARP participants make mandatory payroll deduction contributions to the FARP equal to 7.5% of the employee's gross wages for each pay period.

Investment options – Member and employer contributions must be invested in one of the Vanguard Target Retirement Trusts, which are age-appropriate.

Retirement benefits – Benefits may be paid to a member after termination from employment, death, total disability, or upon attaining age 59 ½. In the case of termination, a 10% IRS penalty upon withdrawal will apply if the member is younger than 55 years of age. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which the member attains age 70 ½ or terminates employment, if later.

E. 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 $16,856,000 during the year ended June 30, 2014.

The Rhode Island Public Transit Authority has a funded pension plan for all employees, for which eligibility to participate begins immediately upon employment. Benefits vest upon completion of ten years of service. Authority employees are eligible to retire upon attainment of age 62 and 5 years of 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, 2014, the most recent valuation date, the total actuarial accrued liability was $145,529,964 and the actuarial value of assets was $101,419,199. The Authority contributed 100% of its annual pension cost, totaling $7,328,561, for fiscal year 2014 and had a net pension obligation of $1,709,957 at June 30, 2014.

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 Commerce 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 02908.

A summary of the principal provisions of the plans follows:

	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, 2014, the State and other participating employers paid $59,785,000 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	06/30/11	06/30/11	06/30/11	06/30/11	06/30/11	06/30/11
Annual required contribution as a percent of payroll	7.49%	N/A	0.12%	39.00%	0.00%	2.65%
Annual required contribution	$ 49,072	$ 2,797	$ 13	$ 7,839	$ 0	$ 3,095
Plus: Interest on net OPEB obligation at beginning of year	0	N/A	0	422	0	0
Less: Adjustment to ARC	0	N/A	0	388	0	0
Annual OPEB cost	49,072	2,797	13	7,874	0	3,095
Participating State and/or other employer contributions	46,998	2,321	13	7,839	0	2,614
Credit For Portion of Residual Balance From Predecessor Fund	2,074	476	0	0	0	481
Increase in OPEB obligation	0	0	0	35	0	0
Net OPEB obligation at beginning of year	0	0	0	8,450	0	0
Net OPEB obligation at end of year	$ 0	$ 0	$ 0	$ 8,485	$ 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	2012	44,235	100.00%	-
	2013	45,800	100.00%	-
	2014	49,072	100.00%	-
Teachers	2012	2,321	100.00%	-
	2013	2,321	100.00%	-
	2014	2,797	100.00%	-
Judicial	2012	810	96.53%	2,867
	2013	802	97.01%	2,891
	2014	13	100.00%	-
State Police	2012	5,920	98.66%	8,381
	2013	6,287	98.91%	8,450
	2014	7,874	99.56%	8,485
Legislators	2012	799	97.34%	2,137
	2013	0	N/A	-
	2014	0	N/A	-
BOE	2012	2,884	100.00%	-
	2013	3,106	100.00%	-
	2014	3,095	100.00%	-

The table below displays the funded status of each plan at June 30, 2013, the most recent actuarial valuation date (dollar amounts expressed in thousands):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded (Overfunded) AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
State Employees	$ 39,527	$ 637,059	$ 597,532	6.2%	$ 671,762	88.9%
Teachers	3,230	12,569	9,339	25.7%	n/a	n/a
Judicial	2,151	1,054	(1,097)	204.1%	13,447	-8.2%
State Police	9,587	70,385	60,798	13.6%	17,748	342.6%
Legislators	2,202	1,549	(653)	142.2%	1,695	-38.5%
BOE	7,486	55,706	48,220	13.4%	113,375	42.5%

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 2014 were determined based on the June 30, 2011 valuations for all plans.

As of the June 30, 2011 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, 2011 is 25 years. The UAAL for teachers is being amortized as a level dollar amount over an 8-year period from June 30, 2007 and the remaining amortization period as of June 30, 2011 is 4 years.

For the June 30, 2011 valuation the actuarial assumptions include a 5.0% discount rate, a health care cost trend assumption of 9% progressively declining to 4% after 10 years, and salary growth assumption rates ranging between 4% and 12%. 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, 2013.

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 two most recent valuations 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 valuation table on the preceding page.

The table on the following page summarizes the actuarial methods and assumptions used in the most recent actuarial valuation.

Summary of Actuarial Methods and Assumptions as of June 30, 2013 valuation

	Plan					
	State Employees	**Teachers**	**Judicial**	**State Police**	**Legislators**	**Board of Education**
Valuation Date	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013
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 Percent of Payroll	Level Percent of Payroll – Closed	Level Percent of Payroll	Level Percent of Payroll – Closed
Equivalent Single Remaining Amortization Period	23 years closed	Determined by statutory contribution	30 years open	23 years closed	30 years open	23 years closed
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	3.50% to 6.50%	N/A	3.50%	3.50% to 11.5%	3.75% to 8.00%	3.50% to 6.50%
Valuation Health Care Cost Trend Rate	9% in 2014, grading to 3.5% in 2023	9% in 2014, grading to 3.5% in 2023	9% in 2014, grading to 3.5% in 2023	9% in 2014, grading to 3.5% in 2023	9% in 2014, grading to 3.5% in 2023	9% in 2014, grading to 3.5% in 2023

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 2014, 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, 2014 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 Internal Service Fund				
Unpaid claims	$ 15,436	$ 213,066	$ 212,174	$ 16,328

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.

The State has entered into contracts with managed care health plans to share in either the aggregate risk (loss) or gain (profit) incurred by the plans over the course of the contract year. Managed care expenditures represent a relatively large portion of the State's medical assistance expenditures.

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	$ 3,972	$ 1,323	$ 5,295	$ (7,903)	$ (2,608)
Loans to other funds	70,200		70,200	(70,200)	
Total assets	$ 74,172	$ 1,323	$ 75,495	$ (78,103)	$ (2,608)
Liabilities					
Due to other funds	$ 7,220	$ 683	$ 7,903	$ (7,903)	$
Loans from other funds	62,840	7,360	70,200	(70,200)	
Total liabilities	$ 70,060	$ 8,043	$ 78,103	$ (78,103)	$
Program revenue					
General government	$	$ 288,489	$ 288,489	$ (288,489)	
Public safety		10,804	10,804	(10,804)	
Expenses					
General government		(288,728)	(288,728)	288,728	
Public safety		(10,565)	(10,565)	10,565	
Net revenue (expenses)	$	$	$	$	$
Transfers					
Transfers in	$ 566,076	$	$ 566,076	$ (233,252)	$ 332,824
Transfers out	(231,717)	(1,535)	(233,252)	233,252	
Net transfers	$ 334,359	$ (1,535)	$ 332,824	$	$ 332,824

	Total Business-type Activities		Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 3,149	$	$ 3,149	$ (541)	$ 2,608
Total assets	$ 3,149	$	$ 3,149	$ (541)	$ 2,608
Liabilities					
Due to other funds	$ 541	$	$ 541	$ (541)	$
Total liabilities	$ 541	$	$ 541	$ (541)	$
Transfers					
Transfers in	$ 44,157	$	$ 44,157	$ (44,157)	$
Transfers out	(376,981)		(376,981)	44,157	(332,824)
Net transfers	$ (332,824)	$	$ (332,824)	$	$ (332,824)

B. Related Party Transactions

The State has 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. While maintenance responsibilities for the two bridges rest with the RITBA, ownership and title 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.

The State has 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. Commerce Corporation (RICC) 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 included in the General Government's expenses in the State's financial statements.

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.

The State's budget documents may be accessed at the following website: http://www.budget.ri.gov/.

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. Commerce Corporation	$ 14,948	Operating and capital assistance
University of Rhode Island	65,062	Operating assistance
Rhode Island College	38,930	Operating assistance
Community College of Rhode Island	44,703	Operating assistance
Central Falls School District	45,525	Operating assistance
R.I. Public Transit Authority	5,475	Operating assistance
IST		
R.I. Public Transit Authority	40,806	Operating assistance
Bond Capital		
University of Rhode Island	7,566	Construction, improvement or purchase of assets
Rhode Island College	6,243	Construction, improvement or purchase of assets
R. I. Capital Plan		
University of Rhode Island	14,052	Construction, improvement or purchase of assets
Rhode Island College	5,968	Construction, improvement or purchase of assets
Total Governmental Activities	$ 289,278	

E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2014:

- Assessed Fringe Benefits ($1,404,000)
- Central Utilities ($13,000)
- Central Mail ($270,000)
- State Telecommunications ($270,000)
- Records Center ($100,000)
- Capitol Police ($90,000)

The deficits will be eliminated through charges for services in fiscal year 2015.

F. Restatements – Net Position and Fund Balances

Restatements of June 30, 2013 net position/fund balances (expressed in thousands) are in the table below:

	Governmental Activities	Proprietary and Business-type Activities	Discretely Presented Component Units
Balances previously reported at June 30, 2013			
Net position	$ 1,842,302	$ (143,514)	$ 1,858,918
Fund balance			
Restatement due to:			
(1) *Implementation of GASB 65*	(13,183)	(2,111)	(22,753)
(2) *Change in financial reporting entity*			4,933
(3) *Correction of errors*	(1,405)		361
(4) *Adjustments to Carrying Value of Capital Assets*	(1,972)		
June 30, 2013 net position/fund balance, as restated	$ 1,825,742	$ (145,625)	$ 1,841,459

(1) The State implemented *GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities*. The implementation of this standard caused the restatement of the State's beginning

net position at July 1, 2013 primarily due to the immediate recognition of previously deferred bond issuance costs. See Note 1S for more details on this standard. Within the Business-type Activities, the RI Convention Center Authority, a major fund, restated beginning net position by $2.1 million. Within the discretely presented component units, the four major component units and the approximate amounts restated were as follows; University of Rhode Island ($10.5 million), R. I. Airport Corporation ($2.9 million), I-195 Redevelopment District Commission ($1.5 million), and R. I. Turnpike and Bridge Authority ($1.1 million).

(2) *Change in financial reporting entity* - The State added The Metropolitan Regional Career and Technical Center (The Met) as a component unit.

(3) Correction of errors – Tobacco Settlement Financing Corporation, a blended component unit, had previously calculated accreted interest as of the maturity date of the respective series of revenue bonds (June 01), rather than June 30th. The Rhode Island Public Transit Authority, a discretely presented component unit, had a correction to the amount of its accrued vacation liability.

(4) Adjustments to Carrying Value of Capital Assets – During fiscal year 2014, a net reduction of $1,972,514 was recorded as a prior period adjustment related to capital assets. Of this net amount a reduction of $3,250,163 was attributable to the adjustment of the carrying value of a software development project for costs that should not have been included in construction in progress in prior fiscal years. In addition, an increase of $1,277,649 was recorded in the carrying value of buildings due to the State's recognition in fiscal year 2014 of costs related to a State owned building constructed at The Met in a prior fiscal year.

Note 19. Subsequent Events

Primary Government

In November 2014 the State issued $208,240,000 of General Obligation Bonds. The Series B and C bonds in the amount of $46,125,000 mature in 2015 through 2034 and will be used for a variety of purposes including a new facility for the care of veterans, transportation infrastructure projects and affordable housing initiatives. The Series D bonds, in the amount of $162,115,000, refunded previous general obligation bonds.

In November 2014 the State issued $49,495,000 of Lease Participation Certificates. The proceeds will be used to fund energy conservation projects and technology initiatives. The Certificates mature in 2015 through 2029.

In November 2014 the voters of the State approved referenda to authorize the following general obligation bonds: (1) $125.0 million for a new College of Engineering building at the University of Rhode Island, (2) $30.0 million for grants to performance and cultural arts centers throughout the State, (3) $53.0 million for environmental and recreational projects, and (4) $35.0 million for Mass Transit Hub Infrastructure.

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. On October 1, 2014, the State established a health reimbursement account (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program.

On July 15, 2014, Tobacco Settlement Financing Corporation (TSFC) 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 TSFC's outstanding tobacco settlement asset-backed bonds, Series 2002A; 3) to fund the open market purchase of certain maturities of TSFC's outstanding tobacco settlement asset-backed bonds, Series 2007 accepted for purchase by TSFC; 4) to make deposits to the debt service reserve account with respect to the Series 2014 bonds; and, 5) to pay related cost of issuance of the Series 2014 bonds. On August 4, 2014, a holder of Series 2002 and Series 2007 bonds filed a complaint in Rhode Island Superior Court contending that the proposed 2014 transaction would violate State law and provisions in the 2007 indenture. TSFC filed a response and counterclaim on August 25, 2014 arguing that State law enacted by the 2014 General Assembly specifically authorizes this transaction and that provisions of the

2007 indenture are being followed as required. On August 29, 2014, the plaintiff filed a motion to amend their original compliant to add the State and future buyers of the Series 2014 bonds as additional defendants in the lawsuit. TSFC filed a response opposing the plaintiff's motion to amend, as well as a motion for partial judgment on the pleading contending that the plaintiff is barred from bringing any action under the 2007 indenture until all the 2002A bonds are paid in full. On September 29, 2014, the Judge ruled in favor of the plaintiff and allowed the motion to amend the original complaint. The TSFC has filed a motion for summary judgment, for which oral arguments were heard on December 8, 2014.

Pursuant to legislation passed by the General Assembly in the 2014 session, on August 21, 2014 the R.I. Refunding Bond Authority (RIRBA), a blended component unit which had been dormant for several years, entered into a loan with a bank for approximately $23.5 million. The loan bears interest at an annual rate of 1.087% and is repayable in three annual payments, beginning on August 1, 2015 and ending on August 1, 2017.

Approximately $21.8 million of the loan proceeds were transferred to an escrow account and used in September 2014 to retire certain outstanding debt of the Depositors Economic Protection Corporation (DEPCO) which had previously been defeased. DEPCO was formerly a blended component unit that was liquidated in 2004. The investments held in the DEPCO escrow account were transferred to an escrow account established in the name of the RIRBA. These investments are pledged as collateral for the loan and will be used to pay principal and interest on the bank loan as they come due.

As a result of this transaction, after paying costs of issuance, the RIRBA transferred to the State approximately $1.5 million which will be used as a resource in fiscal year 2015.

Discretely Presented Component Units

On October 30, 2014 the Rhode Island Housing and Mortgage Finance Corporation (RIHMFC) issued Series 65-T taxable Homeownership Opportunity Bonds (HOB) in the amount of $86,505,000. On October 31, 2014 these refunding bond proceeds were used to redeem $86,505,000 of HOB Series 49 and 50 bonds.

RIHMFC has been informed by the United States Department of Housing and Urban Development (HUD) that it may be required to reimburse HUD for certain funds that RIHMFC advanced under the federal Continuum of Care Program to the Urban League of Rhode Island in support of the Safe Haven program. Based upon the information available, RIHMFC does not believe that the final resolution of this matter will have a material impact on its operations, programs or financial condition.

HUD's Office of the Inspector General is conducting an ongoing review of the RIHMFC administration of the Home Investment Partnerships Program (HOME) for the period of March 1, 2010 through February 28, 2013. Based upon the information available, RIHMFC does not believe that the final resolution of this matter will have a material impact on its operations, programs or financial condition.

In November, 2014, the Rhode Island Turnpike and Bridge Authority refinanced its $30 million Series 2013A Bond Anticipation Note. The Series 2013A Bond Anticipation Note was paid off with the issuance of the Series 2014A/B Bond Anticipation Note with a principal amount of $60 million. $30 million paid off the Series 2013A Bond Anticipation Note and the balance of $30 million constituted proceeds to be used to fund additional capital projects that are in process.

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, 2014
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
General Revenues:				
Personal Income Tax	$ 1,109,155	$ 1,103,200	$ 1,115,513	$ 12,313
General Business Taxes:				
Business Corporations	141,300	117,100	114,215	(2,885)
Public Utilities Gross Earnings	94,900	108,000	101,382	(6,618)
Financial Institutions	4,300	13,500	16,611	3,111
Insurance Companies	98,816	106,000	102,357	(3,643)
Bank Deposits	2,500	2,400	2,472	72
Health Care Provider Assessment	42,611	41,800	42,131	331
Sales and Use Taxes:				
Sales and Use	887,202	907,000	916,083	9,083
Motor Vehicle	51,800	52,300	52,408	108
Motor Fuel	1,000	500	524	24
Cigarettes	130,700	139,100	139,462	362
Alcohol	18,173	17,600	18,252	652
Other Taxes:				
Inheritance and Gift	31,800	38,100	43,592	5,492
Racing and Athletics	1,200	1,200	1,177	(23)
Realty Transfer Tax	7,500	8,000	7,962	(38)
Total Taxes *(1)*	2,622,957	2,655,800	2,674,141	18,341
Departmental Revenue	348,708	359,161	360,678	1,517
Total Taxes and Departmental Revenue	2,971,665	3,014,961	3,034,819	19,858
Other Sources:				
Lottery	394,100	380,700	376,327	(4,373)
Unclaimed Property	9,700	11,900	12,724	824
Other Miscellaneous	5,545	8,480	6,392	(2,088)
Total Other Sources	409,345	401,080	395,443	(5,637)
Total General Revenues	3,381,010	3,416,041	3,430,261	14,221
Federal Revenues	2,337,828	2,522,694	2,345,942	(176,752)
Restricted Revenues	246,323	271,142	216,142	(55,000)
Other Revenues	66,002	65,234	59,334	(5,900)
Total Revenues *(2)*	6,031,163	6,275,111	6,051,679	(223,431)
Expenditures *(4)*:				
General government	699,866	765,754	686,282	79,472
Human services	3,292,477	3,412,937	3,325,539	87,398
Education	1,421,090	1,416,768	1,388,057	28,711
Public safety	495,101	516,767	479,997	36,770
Natural resources	101,374	99,242	76,118	23,124
Total Expenditures *(2)*	6,009,908	6,211,468	5,955,993	$ 255,475
Transfer of Excess Budget Reserve to RI Capital Fund			101,272	
Transfer of Fiscal 2013 Excess Revenue to Employees' Retirement System			169	
Total Expenditures and Transfers	$ 6,009,908	$ 6,211,468	6,057,434	
Change in Fund Balance			(5,755)	
Fund balance - beginning			401,134	
Fund balance - ending			$ 395,379	

(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, 2014
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Expenditures by Source:				
General Revenues	$ 3,359,755	$ 3,352,399	$ 3,336,423	$ 15,976
Federal Funds	2,337,827	2,522,694	2,347,940	174,754
Restricted Receipts	246,324	271,141	214,259	56,882
Other Funds	66,002	65,234	57,371	7,863
	$ 6,009,908	$ 6,211,468	$ 5,955,993	$ 255,475

General Fund - Reconciliation of Budget Results to Changes in Fund Balance:

Budgeted Surplus:		
Total Revenue - Final Budget	$ 6,275,111	
Total Expenditures - Final Budget	6,211,468	
Final Budget - Projected Surplus (3)		$ 63,643
Final Budget and Actual - Results		
Total Revenues - Variance (Actual Revenue less than Budget)	$ (223,432)	
Total Expenditures - Variance (Actual Expenditures less than Budget)	255,475	
Surplus resulting from operations compared to final budget		$ 32,043
Total General Fund Surplus - Fiscal Year Ended June 30, 2014		$ 95,686
Transfer of Fiscal 2013 Excess Revenue to Employees' Retirement System		(169)
Transfer of Excess Budget Reserve to RICAP Fund		(101,272)
Net Change in General Fund - Fund Balance		$ (5,755)
Fund Balance, Beginning		401,134
Fund Balance, Ending		$ 395,379

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, 2014.

(4) Debt service expenditures are included in the above respective categories:

General government	$ 157,586
Education	30,427
	$ 188,013

(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, 2014
(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 2015		Budgetary Perspective: Fund Balance Available for Appropriation in Fiscal 2015	
Restricted	$ 297,617	$ 297,617		$	
Committed	18,564	18,564			
Assigned	72,005	11,391	*(a)*	60,614	*(b)*
Unassigned	7,193			7,193	*(c)*
Total Fund Balance	$ 395,379	$ 327,572		$ 67,807	

(a) Assigned fund balance not available for appropriation in fiscal 2015 includes (1) centralized cost allocation surplus that requires offset through fiscal 2015 centralized charges and (2) general revenue appropriations carried forward by the Governor, Judiciary, and Legislature.

(b) Assigned fund balance available for appropriation in fiscal 2015 includes fiscal 2014 ending surplus amounts of $59.2 million appropriated as resources in the 2015 enacted budget, and fund balance amounts encumbered at June 30, 2014.

(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
Intermodal Surface Transportation Fund
For the Fiscal Year Ended June 30, 2014
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	$ 135,374	$ 153,538	$ 137,542	$ (15,996)
Departmental restricted revenue	8,010	6,869	7,172	303
Federal grants	311,762	355,028	284,736	(70,292)
Other revenues	300	375	54	(321)
Total revenues	455,446	515,810	429,504	(86,306)
Revenues and other Financing Sources (unbudgeted):				
Miscellaneous revenue			3,544	
Total revenues			433,048	
Other Financing Sources:				
Transfers from RI Capital Plan and Bond Capital Funds (State FHWA Match)			25,480	
Total Other Financing Sources			25,480	
Total Revenues and Other Financing Sources			458,528	
Expenditures (budgeted):				
Central Management				
Federal Funds	11,308	11,400	7,558	3,842
Gasoline Tax	1,456	1,694	1,233	461
Total - Central Management	12,764	13,094	8,791	4,303
Management and Budget				
Gasoline Tax	1,550	2,166	542	1,624
Total - Management and Budget	1,550	2,166	542	1,624
Infrastructure-Engineering-GARVEE/ Motor Fuel Tax Bonds				
Federal Funds	293,588	330,906	274,318	56,588
Federal Funds-Stimulus	6,866	12,722	2,582	10,140
Restricted Receipts	8,010	6,869	7,203	(334)
Gasoline Tax	53,062	53,138	53,138	
Land Sale Revenue	14,809	9,100	288	8,812
Total - Infrastructure - Engineering	376,335	412,735	337,529	75,206
Infrastructure - Maintenance				
Gasoline Tax	42,251	43,905	43,153	752
Non-Land Surplus Property	125	50		50
Outdoor Advertising	175	325		325
Total - Infrastructure - Maintenance	42,551	44,280	43,153	1,127
Total Expenditures (budgeted)	$ 433,200	$ 472,275	$ 390,015	$ 82,260
Expenditures and Financing Uses (unbudgeted):				
Infrastructure Expenditures - State Match funded by RI Capital Plan and Bond Capital Funds			32,141	
Infrastructure Expenditures - GARVEE			21,773	
Mission 360 Loan Program			459	
Transfers to General Fund - Gas Tax			37,413	
Total Expenditures and Financing Uses (unbudgeted)			91,786	
Total Expenditures and Other Financing Uses			481,801	
Net change in fund balance			(23,273)	
Fund balance, beginning			141,710	
Fund balance, ending			$ 118,437	

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
Pension Trusts
June 30, 2014
(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)
06/30/2014	$ 6,191,278	$ 10,542,944	$ 4,351,666	58.7%	$ 1,657,770	262.5%
06/30/2013	6,108,845	10,531,365 *	4,422,520 *	58.0% *	1,627,644	271.7% *
06/30/2012	6,167,491	10,670,343	4,502,851	57.8%	1,641,383	274.3%

*- Amounts were restated as a result of changes in actuarial assumptions.

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)
06/30/2014	$ 104,781	$ 109,622	$ 4,840	95.6%	$ 20,815	23.3%
06/30/2013	92,917	102,259	9,342	90.9%	19,904	46.9%
06/30/2012	84,294	94,032	9,738	89.6%	23,670	41.1%

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)
06/30/2014	$ 53,831	$ 57,252	$ 3,421	94.0%	$ 9,310	36.7%
06/30/2013	47,641	54,430 *	6,789 *	87.5% *	8,976	75.6% *
06/30/2012	43,429	52,085	8,657	83.4%	8,823	98.1%

*- Amounts were restated as a result of changes in actuarial assumptions.

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)
06/30/2013	$ 153	$ 16,908	$ 16,755	0.9%	$ 1,255	1335.1%
06/30/2012 **	-	16,387	16,387	0.0%	1,231	1331.2%

** 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, 2014
(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)
06/30/2013	$ 39,527	$ 637,059	$ 597,532	6.2%	$ 671,762	88.9%
06/30/2011	11,545	728,207	716,662	1.6%	600,273	119.4%
06/30/2009	-	673,640	673,640	0.0%	574,569	117.2%

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)
06/30/2013	$ 3,230	$ 12,569	$ 9,339	25.7%	NA	NA
06/30/2011	2,040	11,512	9,472	17.7%	NA	NA
06/30/2009	-	13,529	13,529	0.0%	NA	NA

Judicial Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Overfunded)/ Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2013	$ 2,151	$ 1,054	$ (1,097)	204.1%	$ 13,447	-8.2%
06/30/2011	841	2,610	1,769	32.2%	10,813	16.4%
06/30/2009	-	8,665	8,665	0.0%	9,395	92.2%

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)
06/30/2013	$ 9,587	$ 70,385	$ 60,798	13.6%	$ 17,748	342.6%
06/30/2011	1,488	81,759	80,271	1.8%	17,384	461.8%
06/30/2009	-	67,079	67,079	0.0%	16,725	401.1%

Legislators Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Overfunded)/ Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2013	$ 2,202	$ 1,549	$ (653)	142.2%	$ 1,695	-38.5%
06/30/2011	1,442	1,443	1	99.9%	1,615	0.1%
06/30/2009	-	11,752	11,752	0.0%	1,612	729.0%

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)
06/30/2013	$ 7,486	$ 55,706	$ 48,220	13.4%	$ 113,375	42.5%
06/30/2011	3,189	53,751	50,562	5.9%	125,340	40.3%
06/30/2009	-	58,476	58,476	0.0%	106,665	54.8%

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 124 through 126 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 127 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 as of the dates indicated in the schedules. Information about actuarial assumptions used in latest valuations can be found in Note 14.

2. Schedules of Funding Progress

Changes affecting the June 30, 2014 actuarial valuation:

There were a number of changes in the actuarial assumptions used in the June 30, 2014 valuation for the Employees' Retirement System. A flat 25% per year retirement probability for members eligible for retirement was made. In addition, if in the first year a member is eligible for an unreduced retirement they have more than 25 years of service or at least age 65, the probability of retiring is adjusted to 50% for state employees and 35% for teachers. Also, future expectations for wage inflation were lowered.

Changes affecting the June 30, 2013 actuarial valuation:

There were no changes in the actuarial assumptions used in the June 30, 2013 valuations for the Employees' Retirement System and the Judicial Retirement Benefits Trust. For the State Police Retirement Benefits Trust assumptions were the same as those used in the prior valuation with the exception of the assumption related to overtime compensation which was changed to assume all members will work 400 hours of overtime during their final averaging period.

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.

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, 2013, is included in Note 15.

2. Schedules of Funding Progress

Changes affecting the June 30, 2013 Actuarial Valuation:

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 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.

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. 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.

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 1.4 percent between 1999 and 2014. The U.S. Census Bureau estimated that Rhode Island's population increased by 0.2 percent in 2014 as compared to 2013. The 2014 United States census estimate for Rhode Island was 1,055,173 or 1.5 percent less than the 1,071,414 estimated in 2004. In contrast, the total United States population is estimated to have increased by 8.8 percent between 2004 and 2014.

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 2014 was $44,903 versus U.S. per capita real personal income of $42,412 (real personal income is in 2009 dollars). In addition, Rhode Island has maintained a poverty rate below the national average. Over the 1998 – 2013 period Rhode Island's average poverty rate was 11.7 percent versus the U.S. average poverty rate of 13.1 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 0.3 percent in 2010 but increased by 0.5 percent in 2011, 1.1 percent in 2012, 1.3 percent in 2013 and 1.3 percent in 2014. The increase in nonfarm employment of greater than 1.0 percent in the 2012 through 2014 period marks the first time in the last 16 years that such sustained growth has occurred for three consecutive years. The average annual growth rate for Rhode Island nonfarm employment for the 1999 to 2014 period was 0.3 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 in 2013 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 1997 - 1998 academic year. For 2011 - 2012 Rhode Island spent 45.0 percent more per pupil than the national average.

Population Characteristics

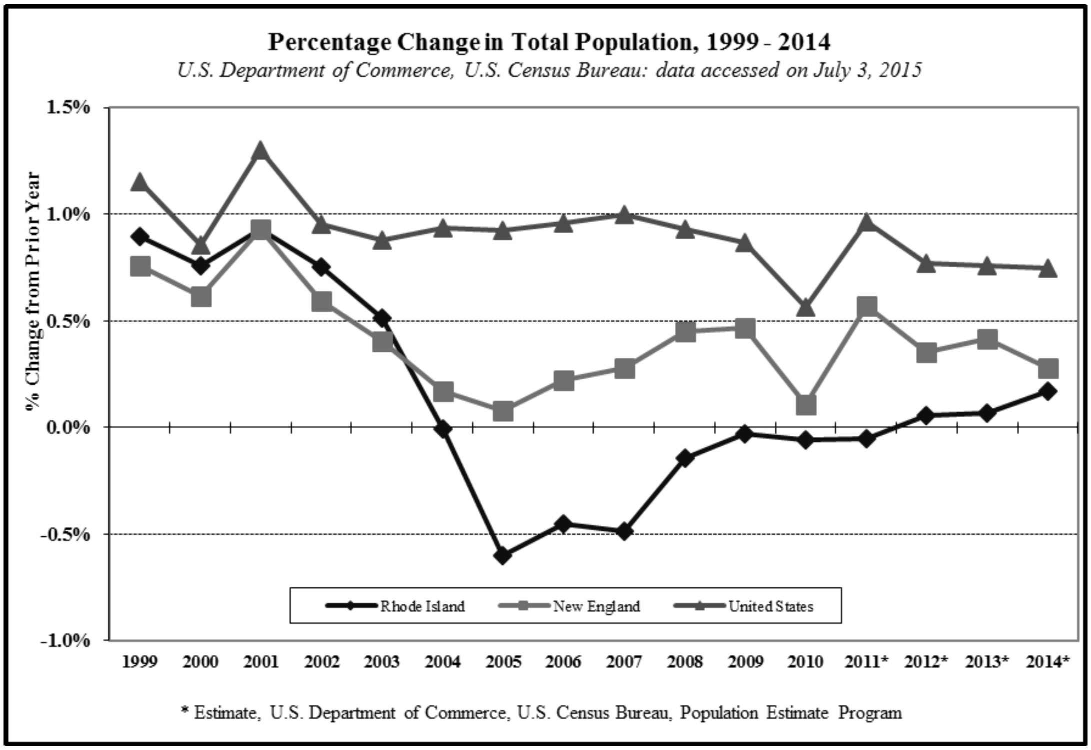
Between 2004 and 2014 Rhode Island's population decreased by 1.5 percent, compared to a 3.3 percent increase for the New England region, and a 8.8 percent increase for the United States. As the following chart indicates, the percentage change in Rhode Island's population in 1999 was greater than that 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 3.0 percent compared to 2.7 percent for New England as a whole. The 2010 U.S. Census indicates that Rhode Island's population 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 2014 period increased by 0.2 percent, lagging the New England region which experienced an average population growth of 1.6 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 2004 to 2014 period, the United States' average population growth rate was 0.9 percent compared to Rhode Island's average population growth rate of -0.1 percent. The 2013 and 2014 estimated population for Rhode Island remains relatively stable and is estimated to have increased by 0.1 percent in 2013 followed by an increase of 0.2 percent in 2014. New England and the United States 2013 and 2014 estimated population growth rates are increasing at a slow rate. New England's 2013 and 2014 estimated population growth is projected at 0.4 percent and 0.3 percent respectively and the United States estimated population growth is 0.8 percent and 0.7 percent for 2013 and 2014, respectively.

Population, 1999 - 2014
(in thousands)

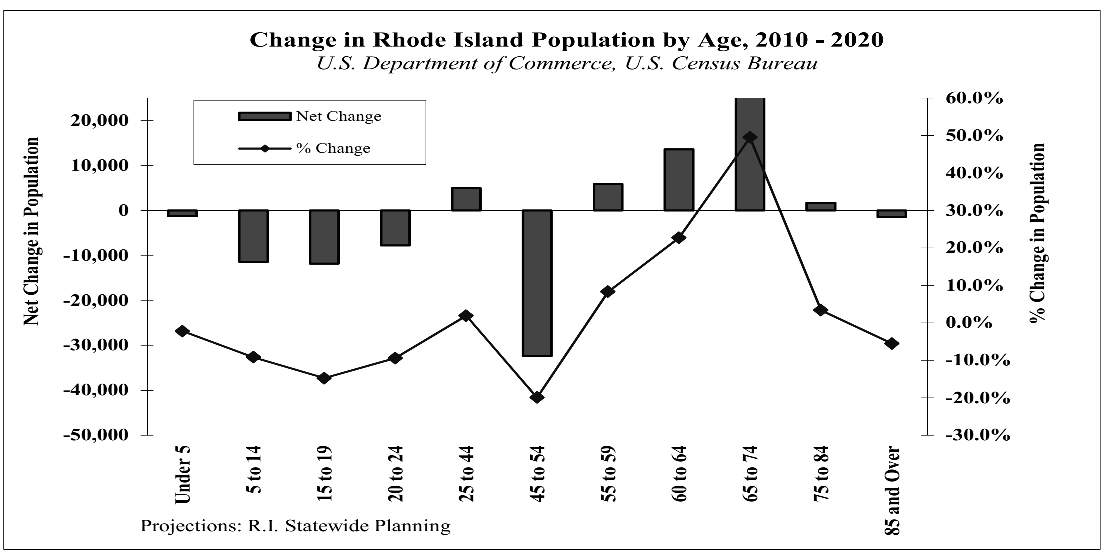
	Rhode Island		**New England**		**United States**	
Year	**Total**	**% Change**	**Total**	**% Change**	**Total**	**% Change**
1999	1,040	0.9%	13,838	0.8%	279,040	1.2%
2000	1,048	0.8%	13,923	0.6%	281,422	0.9%
2001	1,058	0.9%	14,052	0.9%	285,082	1.3%
2002	1,066	0.8%	14,135	0.6%	287,804	1.0%
2003	1,072	0.5%	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	1,052	-0.1%	14,527	0.6%	311,722	1.0%
2012	1,053	0.1%	14,579	0.4%	314,112	0.8%
2013	1,053	0.1%	14,640	0.4%	316,498	0.8%
2014	1,055	0.2%	14,681	0.3%	318,857	0.7%

U.S. Department of Commerce, U.S. Census Bureau, Population Estimate Program:
data accessed on July 3, 2015

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.

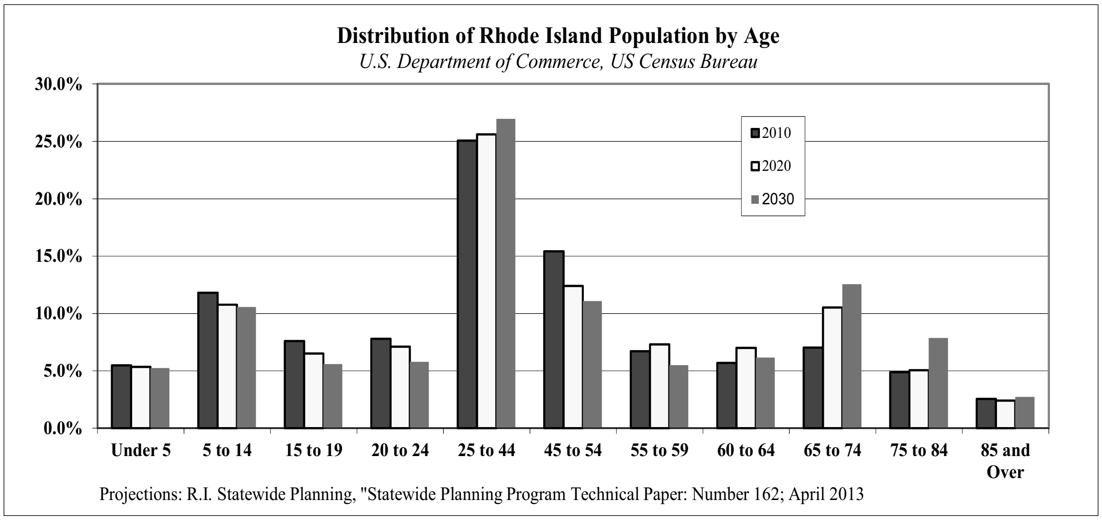


The following chart shows the projected net change in Rhode Island's population between 2010 and 2020 by age group. Note that, like the rest of the country, Rhode Island has seen a sharp change in the age distribution of its population in accordance with the chronological advancement of the "baby boom" 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 2014, Rhode Island per capita nominal personal income was $48,838 relative to $46,129 for the United States. Note that Rhode Island per capita nominal personal income has trailed that of the New England region from 1999 through 2014 by an average of $6,718. In fact, the gap between Rhode Island per capita nominal personal income and New England per capita nominal personal income declined for the years 2001 – 2003 but has since grown and settled at an average difference of $7,087 for the period 2004 – 2014. In 2012, the gap was $7,944 which is $1,234 more than the gap of $6,710 that existed in 2000. In 2013, the gap declined to $7,812 and declined further to $7,804 in 2014.

From 1998 – 2000, Rhode Island per capita real income growth trailed that of New England. The average annual percentage change in real personal income growth for the 2001 to 2014 period in Rhode Island was 1.5 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 1.0 percent and 1.8 percent respectively while the United States experienced 2.7 percent and 2.4 percent growth in those years. New England saw personal income growth of 2.3 percent in 2011 and 2.4 percent in 2012. In 2013 and 2014, Rhode Island experienced real per capita personal income growth of 0.4 and 2.7 percent respectively while New England and the United States saw growth of 0.0 percent and -0.1 percent respectively in 2013 and 2.2 and 1.8 percent respectively in 2014 marking the first years since 2010 that Rhode Island's real personal income growth exceeded that of both New England and the United States.

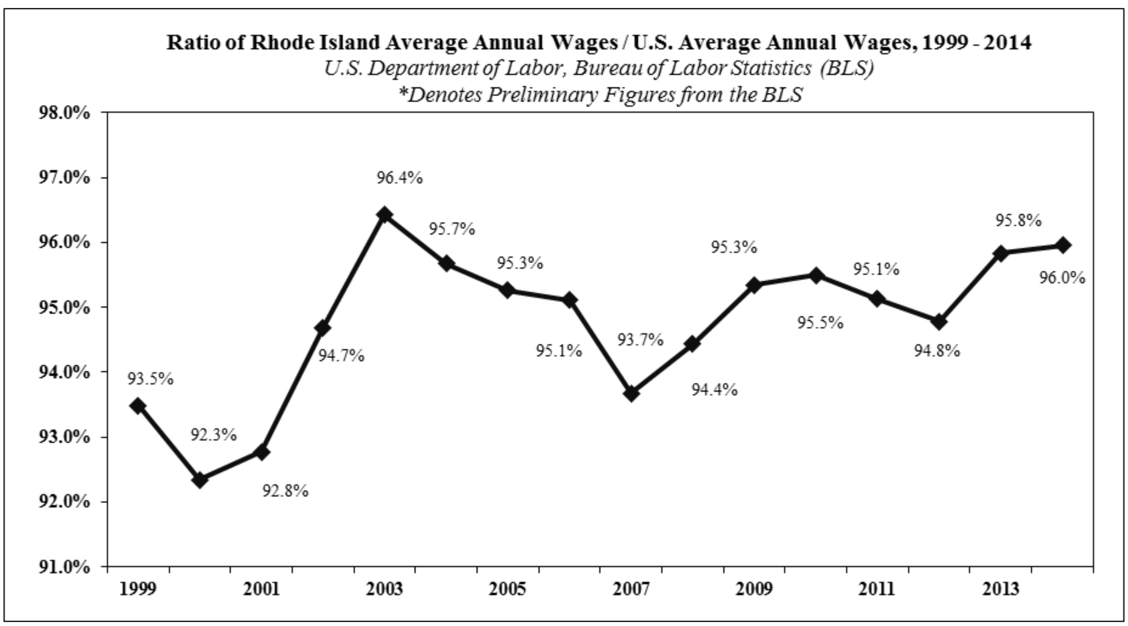
	Per Capita Personal Income, 1999 - 2014									
	Nominal Income* (in current dollars)				Real Income (in 2009 dollars)			Percentage Change in Real Income		
Year	**R.I.**	**N.E.**	**U.S.**	**PCE Deflator^**	**R.I.**	**N.E.**	**U.S.**	**R.I.**	**N.E.**	**U.S.**
1999	28,361	33,845	28,611	81.1%	34,967	41,728	35,275	3.7%	3.8%	3.4%
2000	30,257	36,967	30,668	83.1%	36,398	44,470	36,892	4.1%	6.6%	4.6%
2001	31,541	38,186	31,512	84.7%	37,225	45,067	37,190	2.3%	1.3%	0.8%
2002	32,656	38,218	31,780	85.9%	38,028	44,506	37,009	2.2%	-1.2%	-0.5%
2003	33,979	39,118	32,652	87.6%	38,800	44,669	37,286	2.0%	0.4%	0.7%
2004	35,600	41,275	34,272	89.7%	39,686	46,013	38,206	2.3%	3.0%	2.5%
2005	36,640	42,941	35,860	92.2%	39,728	46,561	38,882	0.1%	1.2%	1.8%
2006	38,944	46,006	38,100	94.7%	41,112	48,567	40,220	3.5%	4.3%	3.4%
2007	40,908	48,298	39,758	97.1%	42,131	49,741	40,945	2.5%	2.4%	1.8%
2008	41,938	49,329	40,835	100.1%	41,911	49,298	40,810	-0.5%	-0.9%	-0.3%
2009	41,327	48,126	39,348	100.0%	41,327	48,126	39,348	-1.4%	-2.4%	-3.6%
2010	43,017	49,467	40,220	101.7%	42,317	48,662	39,565	2.4%	1.1%	0.6%
2011	44,500	51,826	42,313	104.1%	42,753	49,792	40,652	1.0%	2.3%	2.7%
2012	46,155	54,099	44,166	106.1%	43,517	51,007	41,642	1.8%	2.4%	2.4%
2013	46,907	54,719	44,713	107.3%	43,702	50,980	41,658	0.4%	-0.1%	0.0%
2014	48,838	56,642	46,129	108.8%	44,903	52,078	42,412	2.7%	2.2%	1.8%

U.S. Department of Commerce, Bureau of Economic Analysis, U.S. Department of Commerce, U.S. Census Bureau
Per Capita Personal Income is calculated by taking Personal Income/Total Population
^ U.S. Department of Commerce Bureau of Economic Analysis, Table 2.3.4 Price Indexes for Personal Consumption Expenditure by Major Type of Product [Index number, 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 saw 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 growth in average annual pay. In 2014 Rhode Island's average annual pay growth increased to 3.2 percent, higher than the U.S. average annual pay growth of 3.1 percent. In addition, the ratio of Rhode Island's average annual pay increased to 96.0 percent, the highest reported since the peak in 2003 of 96.4 percent in the 1999 – 2014 period. The relationship between Rhode Island and U.S. average annual pay is shown in the table below.

Average Annual Pay, 1999 - 2014 (in current dollars)					
	Annual Pay		**Ratio**	**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	47,732	49,808	95.8%	2.2%	1.1%
2014	49,283	51,361	96.0%	3.2%	3.1%
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 – 2014.



Consumer Prices. The following table presents consumer price index trends for the Northeast region and the United States for the period between 1999 and 2014. 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 2014, 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, 2013 and 2014. 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 – 2013 the rate averaged 0.1 percentage points above the United States. In 2014 the rate was 0.2 percentage points below the United States.

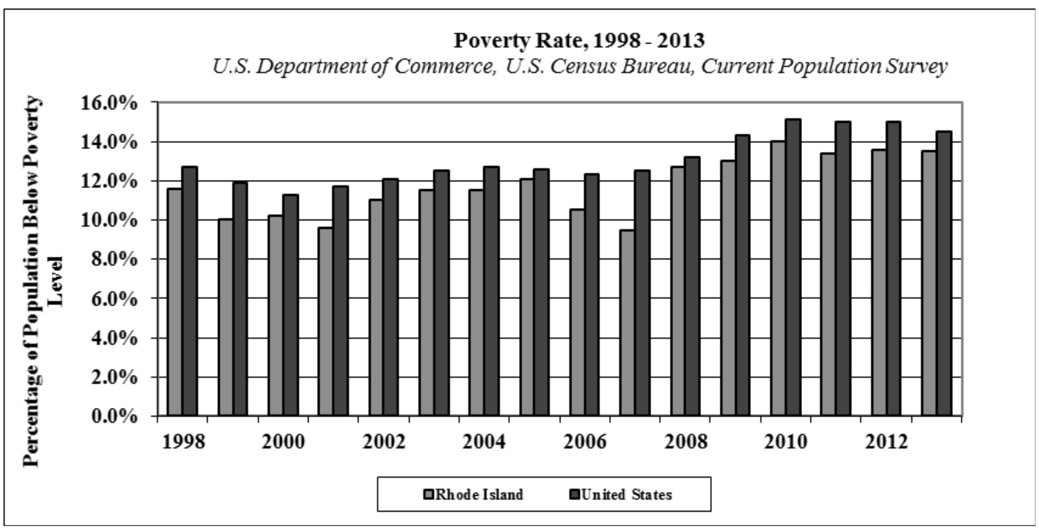
Consumer Price Index for All Urban Consumers (CPI-U), 1999 - 2014

	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%
2014	252.5	236.7	106.6%	1.4%	1.6%
U.S. Department of Labor, Bureau of Labor Statistics					

Poverty. From 1998 – 2013 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 (FPL) as determined by the U.S. Census Bureau's Current Population Survey. Between 1998 and 2013, 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 2013.

Poverty Rate, 1998 - 2013					
	Percent Below FPL		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%
2013	13.5	14.5	93.1%	-0.7%	-3.3%
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 – 2013. 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 2000 to 2014 period. The table reflects the new North American Industrial Classification System (NAICS) composition of employment.

Rhode Island Nonfarm Employment by Industry, 1999 - 2014 *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
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%	74,100	-0.7%	100,050	2.9%	104,600	1.3%	76,200	2.5%	60,192	0.1%	**471,500**	**1.3%**
2014	16,700	2.5%	40,900	2.2%	74,900	1.1%	101,900	1.8%	105,000	0.4%	77,900	2.2%	60,100	-0.2%	**477,400**	**1.3%**
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 2000 and 2014, total nonfarm employment in Rhode Island increased by 0.1 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 9.7 percent, 26.2 percent and 16.2 percent respectively. Total nonfarm employment growth in 2000 was 2.4 percent. In 2001, Rhode Island nonfarm 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 nonfarm 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 1.3 percent respectively with nonfarm employment growth continuing at 1.3 percent in 2014.

Non-farm Employment by Industry. The following table summarizes the changes in Rhode Island nonfarm employment by sector from 2004 to 2014. Total nonfarm employment decreased by 2.3 percent during this period, and the composition of total employment changed markedly. Employment declined on average by 16.1 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 7.6 percent. The sector which saw the largest gain during this period was educational & health services, which grew by 13.0 percent. Clearly, the Rhode Island economy underwent a significant restructuring during the 2004 to 2014 period, transforming further from a manufacturing and construction based economy to a service based economy.

Rhode Island Nonfarm Employment by Industry, 2004 & 2014					
Employment Sector	**2004**	**% of Total**	**2014**	**% of Total**	**% Change 2004-2014**
Construction, Natural Resources & Mining	21,167	4.3%	16,700	3.5%	-21.1%
Manufacturing	56,983	11.7%	40,900	8.6%	-28.2%
Trade, Transportation & Utilities	80,225	16.4%	74,900	15.7%	-6.6%
Information, Financial Activities & Business Services	98,433	20.1%	101,900	21.3%	3.5%
Educational & Health Services	92,933	19.0%	105,000	22.0%	13.0%
Leisure, Hospitality & Other Services	73,208	15.0%	77,900	16.3%	6.4%
Government	65,533	13.4%	60,100	12.6%	-8.3%
Total Employment	488,517	100.0%	477,400	100.0%	-2.3%

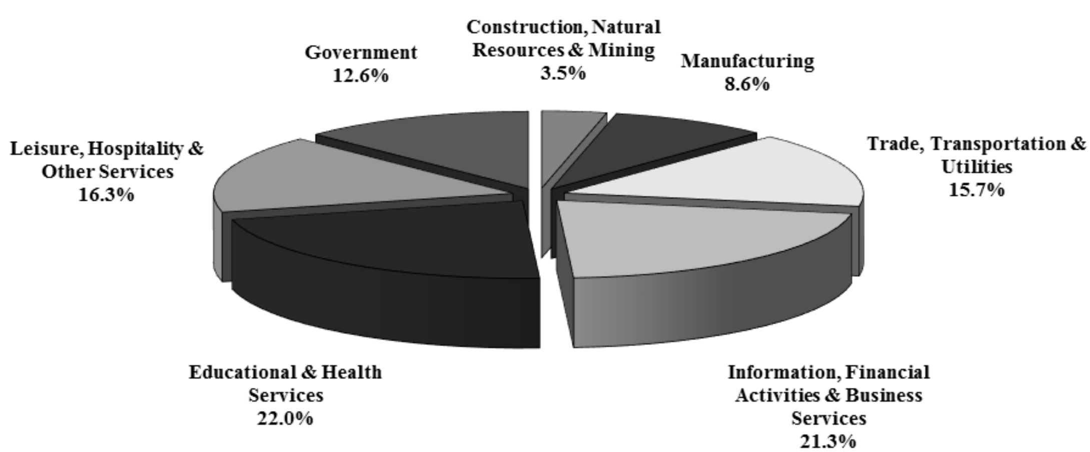
Data reflects twelve month average of non-seasonally adjusted data

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 22.0 percent of the nonfarm work force in 2014, is the largest employment sector in the Rhode Island economy, followed by information, financial activities and business services, 21.3 percent; trade, transportation and utilities, 15.7 percent; leisure, hospitality and other services, 16.3 percent; government, 12.6 percent; manufacturing, 8.6 percent; and construction, natural resources and mining, 3.5 percent.

Rhode Island Nonfarm Employment by Industry, 2014

U.S. Department of Labor, Bureau of Labor Statistics 2014



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 2000 and 2014, falling by 42.3 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. In 2014, growth in manufacturing employment accelerated to 2.2 percent. In 2000, the decline in manufacturing employment was 1.4 percent. With the national economy slipping into recession in March 2001, the rate of decline in manufacturing employment accelerated to 4.6 percent in 2001. This rate of decline accelerated further in 2002 to 8.2 percent. 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.

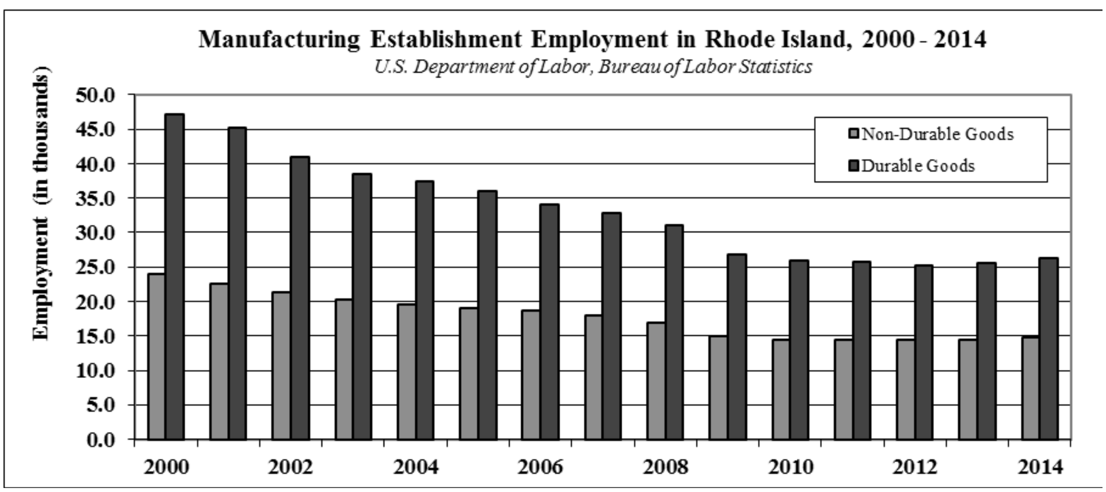
Consistent with the overall contraction in the national economy, the rate of decline in Rhode Island manufacturing employment increased to -12.9 percent in 2009 before decelerating to -3.4 percent in 2010. Manufacturing for non-durable goods and durable goods declined in 2011 and 2012. Non-durable goods 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 by 0.5 percent and 1.3 percent respectively in 2013 and 1.9 percent and 2.4 percent respectively in 2014.

Manufacturing Establishment Employment in Rhode Island, 2000 - 2014
(In Thousands)*

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Non-Durable Goods	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	14.7
Percentage Change	-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%	1.9%
Durable Goods	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	26.2
Percentage Change	-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%	2.4%
Total Manufacturing Employment	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	40.9
Percentage Change	-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%	2.2%

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 2000, with the exception of 2013 and 2014. 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.)

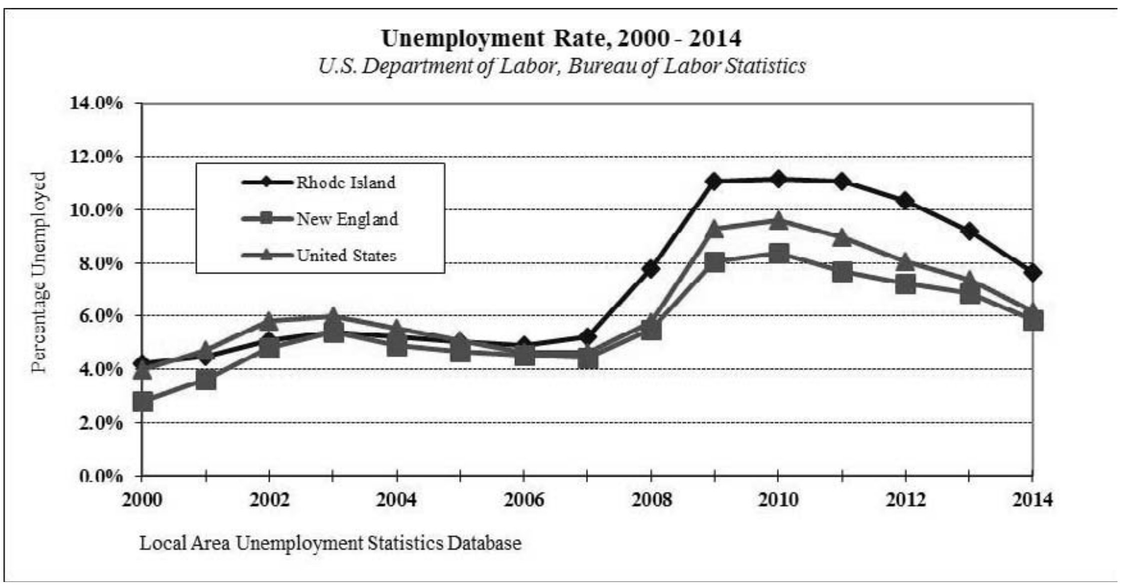


Unemployment. Rhode Island's unemployment rate from 2001 to 2004 was lower than that of the United States. From 2006 to 2014, Rhode Island's unemployment rate rose above the United States by an average of 1.6 percentage points. The following table compares the annual civilian labor force, the number unemployed, and the unemployment rate averages of Rhode Island, New England, and the United States between 1999 and 2014. In 2014, the State's unemployment rate was 7.7 percent and New England's unemployment rate was 5.9 percent.

Annual Average Civilian Labor Force and Unemployment, 2000 - 2014 (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.**
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	566	7,521	149,320	29	352	7,591	5.1%	4.7%	5.1%	99.8%
2006	573	7,605	151,428	28	345	7,001	4.9%	4.5%	4.6%	106.5%
2007	573	7,648	153,124	30	344	7,078	5.2%	4.5%	4.6%	113.2%
2008	570	7,704	154,287	44	426	8,924	7.8%	5.5%	5.8%	135.1%
2009	567	7,729	154,142	62	620	14,265	11.1%	8.0%	9.3%	119.3%
2010	567	7,751	153,889	63	649	14,825	11.2%	8.4%	9.6%	116.2%
2011	560	7,737	153,617	62	597	13,747	11.1%	7.7%	9.0%	123.8%
2012	558	7,728	154,975	58	559	12,506	10.4%	7.2%	8.1%	128.4%
2013	557	7,735	155,389	52	533	11,460	9.2%	6.9%	7.4%	124.6%
2014	553	7,785	155,922	42	458	9,617	7.7%	5.9%	6.2%	123.4%

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 non-seasonally adjusted data.

The chart below graphs the unemployment rates for Rhode Island, New England, and the United States over the 2000 to 2014 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

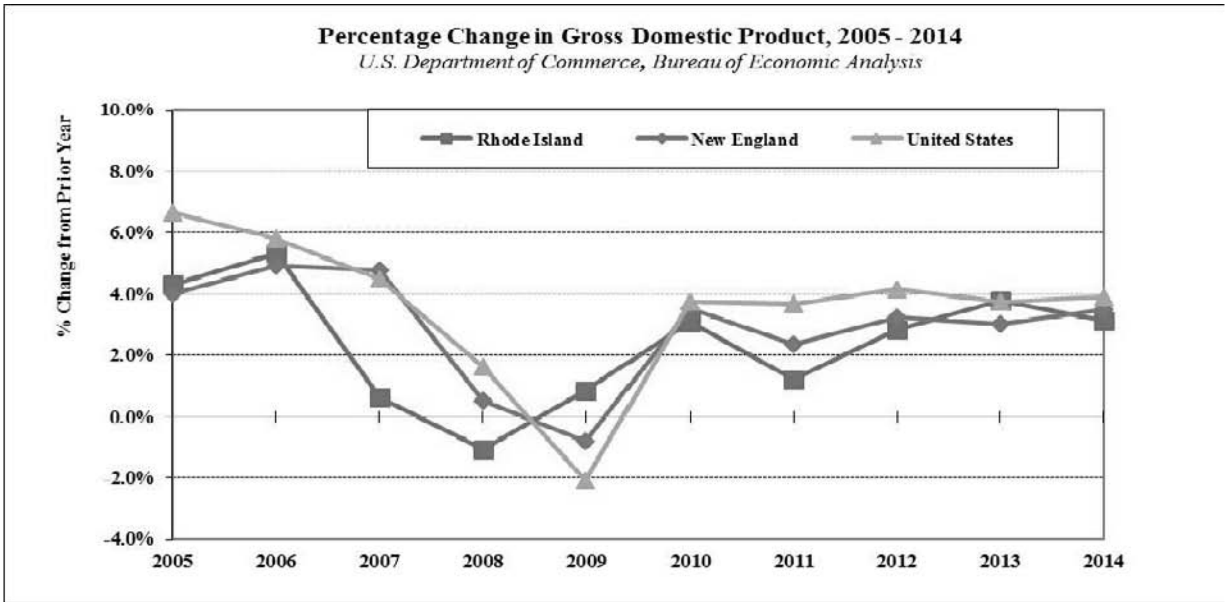
From 2005 – 2013, growth in Rhode Island Gross Domestic Product (GDP) was less than growth in United States GDP with the exception of 2009. Rhode Island GDP grew at a modest rate of 0.9 percent in 2009, which was greater than the negative 0.8 percent GDP growth in New England and the negative 2.1 percent 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 – 2014.

Gross Domestic Product, 2005 - 2014
(millions of current dollars)

	Rhode Island		**New England**		**United States**	
Year	**GDP**	**Change**	**GDP**	**Change**	**GDP**	**Change**
2005	45,250	4.3%	723,206	4.0%	13,022,458	6.7%
2006	47,659	5.3%	758,826	4.9%	13,781,347	5.8%
2007	47,958	0.6%	795,167	4.8%	14,399,635	4.5%
2008	47,450	-1.1%	799,308	0.5%	14,635,348	1.6%
2009	47,854	0.9%	792,927	-0.8%	14,329,566	-2.1%
2010	49,337	3.1%	820,973	3.5%	14,869,544	3.8%
2011	49,932	1.2%	840,420	2.4%	15,416,873	3.7%
2012	51,346	2.8%	867,593	3.2%	16,060,678	4.2%
2013	53,300	3.8%	893,812	3.0%	16,665,215	3.8%
2014	54,960	3.1%	924,937	3.5%	17,316,314	3.9%

U.S. Department of Commerce. Bureau of Economic Analysis; Gross Domestic Product by State - All industry total
Advance Statistics for 2015 and Revised Statistics for 1997 - 2013

The graph below plots the percentage change in GDP for Rhode Island, New England and the United States from 2005 - 2014. 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 GDP growth trailed both New England and the United States. 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 exceeded that of New England by 0.8 percentage points and was comparable to that of the United States. In 2014, Rhode Island's GDP growth fell below that of New England and the United States.



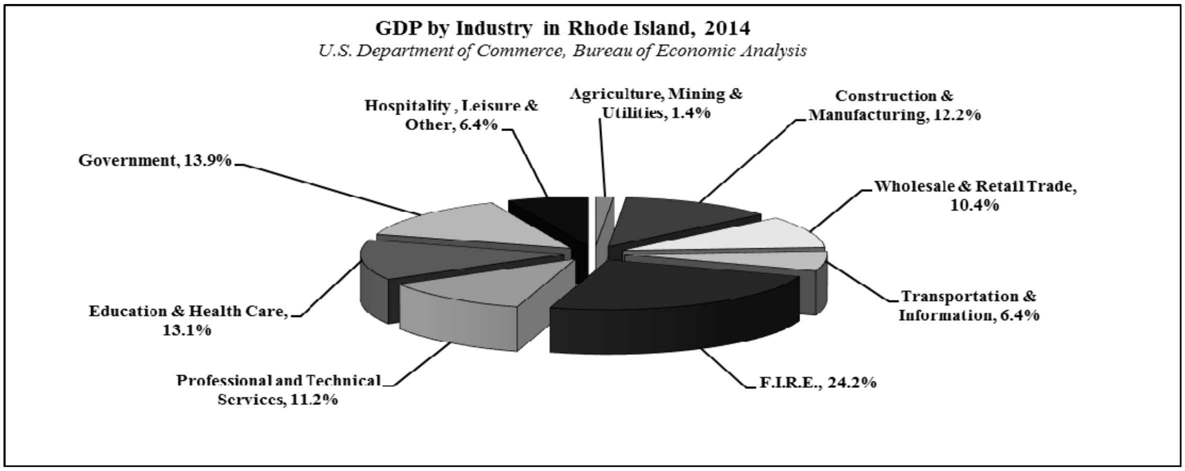
Economic Base and Performance -- Sector Detail. The economy of Rhode Island is well diversified. The table below shows the contribution to Rhode Island Gross Domestic Product (GDP) of several industrial and non-industrial sectors. As is apparent, Rhode Island has experienced positive growth in most sectors from 2006 to 2014. 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 - 2014
(millions of current dollars)

Industrial Sector	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Agriculture, forestry, fishing and hunting	95	85	79	74	84	83	83	81	(D)
Mining	28	32	39	44	30	24	35	26	(D)
Utilities	700	667	723	737	765	746	562	614	642
Construction	2,544	2,555	2,332	2,173	2,084	2,081	2,223	2,296	2,322
Manufacturing	4,926	4,216	4,247	3,753	4,029	3,865	3,882	4,248	4,372
Wholesale Trade	2,449	2,567	2,490	2,373	2,505	2,559	2,711	2,753	2,792
Retail Trade	2,777	2,793	2,652	2,598	2,718	2,690	2,776	2,791	2,922
Transportation and warehousing, excluding postal service	721	699	729	698	733	782	818	822	865
Information	1,951	1,916	2,066	2,117	2,340	2,594	2,649	2,607	2,656
Finance and insurance	3,877	4,114	2,989	4,108	3,951	3,917	4,375	4,876	5,070
Real estate, rental and leasing	6,859	7,182	7,288	7,663	7,634	7,717	7,838	8,047	8,224
Professional and technical services	2,545	2,496	2,698	2,541	2,588	2,630	2,715	2,809	2,981
Management of companies and enterprises	1,280	1,350	1,403	1,251	1,421	1,466	1,671	1,836	2,042
Administrative and waste services	1,144	1,215	1,241	1,198	1,310	1,318	1,398	1,508	1,554
Educational services	1,160	1,237	1,320	1,412	1,461	1,511	1,497	1,538	1,593
Health care and social assistance	4,428	4,517	4,783	4,993	5,213	5,204	5,286	5,476	5,618
Government	7,038	7,294	7,410	7,230	7,465	7,699	7,643	7,651	7,665
Hospitality , Leisure & Other	3,136	3,023	2,960	2,891	3,005	3,046	3,185	3,320	3,510
Total GDP*	**47,659**	**47,958**	**47,450**	**47,854**	**49,337**	**49,932**	**51,346**	**53,300**	**54,960**

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. Non-disclosure in 2014.

The pie chart below shows the share of total Rhode Island Gross Domestic Product in 2014 attributable to each of the industry sectors noted above.



Finance, Insurance and Real Estate (FIRE). This is the second largest sector of Rhode Island's economy in terms of number of dollars. FIRE contributed 24.2 percent of GDP in 2014. In 2013, FIRE accounted for $13.3 billion of the $54.96 billion total gross domestic product. For the period 2006 - 2014 this sector expanded by a respectable 23.8 percent.

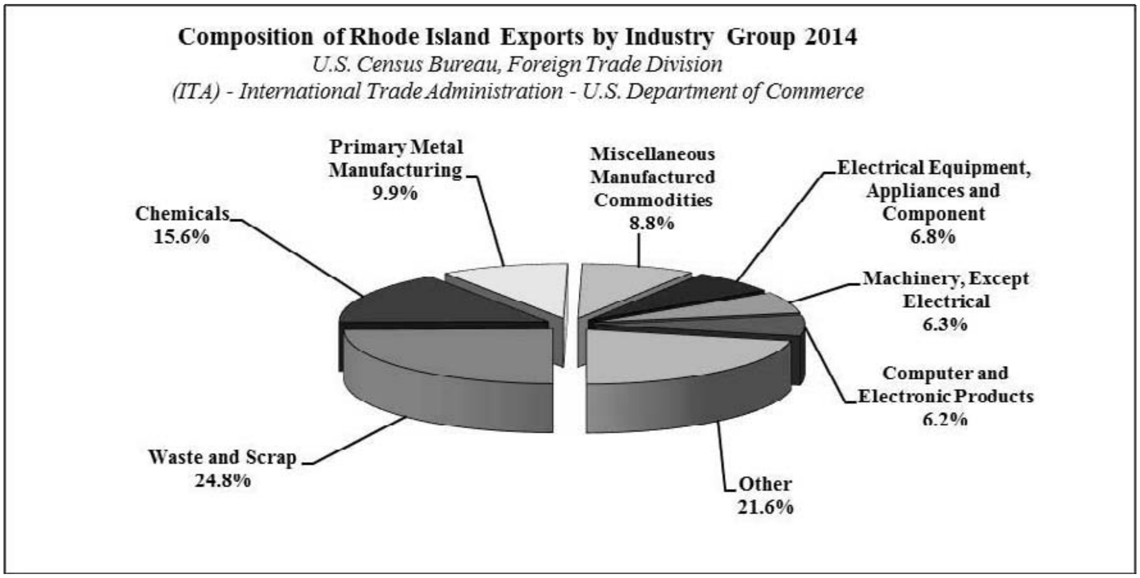
Construction and Manufacturing. In 2014, construction and manufacturing was the fourth largest sector of Rhode Island's economy at $6.7 billion, or 12.2 percent of the total Gross Domestic Product. This sector decreased by 10.4 percent from the 2006 level and in its percent contribution to GDP. In 2006, construction and manufacturing comprised a larger piece of GDP at 15.7 percent as compared to 12.2 percent for 2014.

Government. At 13.9 percent of GDP in 2014, the government sector has grown at an average annual growth rate of 1.4 percent since 2006. Yet, due to the gains in other sectors, particularly FIRE, government contributes nearly one percentage point less as a percentage of GDP in 2014 than it did in 2006. In 2006, the government sector accounted for 14.8 percent of GDP. This sector grew by 4.3 percent in 2006, 3.6 percent in 2007, 1.6 percent in 2008, -2.4 percent in 2009, 3.3 percent in 2010, 3.1 percent in 2011 and -0.7 percent in 2012. The government sector saw growth of 0.1 percent in 2013 and 0.2 percent in 2014. In 2014, the government sector contributed $7.67 billion of total gross state product compared to $7.65 billion in 2013.

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 31.5 percent of Rhode Island's GDP in 2014, the largest portion. From 2006 to 2014, services have grown by 26.3 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. For 2014, Rhode Island's exports rebounded to $2.39 billion or 4.4 percent of Rhode Island Gross Domestic Product. The year-over-year increase in Rhode Island exports was 10.7 percent in 2014.



In 2014, the most important exports, as shown in the chart above, were waste and scrap, 24.8 percent; chemicals, 15.6 percent; primary metal manufacturing, 9.9 percent; miscellaneous manufactured commodities, 8.8 percent; electrical equipment, appliances and components, 6.8 percent; machinery, except electrical, 6.3 percent; computers and electronic products, 6.2 percent; and all other exports, 21.6 percent.

The table below provides greater detail of Rhode Island exports by industry (in thousands of dollars) for 2010 - 2014.

Rhode Island Exports by Industry, 2010 - 2014
(in thousands of dollars)

	2010	2011	2012	2013	2014
Total All Industries	**1,948,784**	**2,288,561**	**2,370,058**	**2,162,792**	**2,393,843**
Waste and Scrap	528,768	694,899	644,326	566,321	593,463
Chemicals	222,209	259,239	292,668	252,037	374,518
Primary Metal Manufacturing	161,024	291,827	263,270	246,766	236,708
Miscellaneous Manufactured Commodities	216,688	218,448	211,862	186,288	210,735
Electrical Equipment, Appliances and Component	64,646	68,339	71,722	97,951	162,660
Machinery, Except Electrical	165,819	171,124	250,008	203,658	151,055
Computer and Electronic Products	172,535	151,135	177,172	182,021	147,504
Plastics and Rubber Products	95,224	90,785	86,603	89,969	94,392
Transportation Equipment	129,721	130,881	134,113	129,975	93,322
Used or Second-Hand Merchandise	3,003	2,390	1,884	1,908	80,822
Textiles and Fabrics	34,328	49,399	59,951	48,626	55,289
Fabricated Metal Products, NESOI	37,385	38,169	39,973	42,327	53,572
Fish - Fresh, Chilled or Frozen & Other Marine Products	27,916	28,653	25,966	31,835	38,181
Nonmetallic Mineral Products	5,183	6,771	9,548	9,587	21,671
Food Manufacturers	6,593	14,863	19,257	16,110	17,660
Paper	17,234	20,068	15,640	14,941	16,658
Textile Mill Products	8,142	10,362	11,610	10,520	12,758
Printed Matter and Related Products, Nesoi	11,840	10,936	12,046	8,873	10,017
Furniture and Fixtures	6,002	4,640	5,152	6,187	7,479
Special Classification Provisions, Nesoi	9,998	7,727	18,458	7,316	4,632
Petroleum and Coal Products	2,001	2,272	2,112	2,566	3,630
Apparel Manufacturing Products	4,460	4,601	3,662	3,151	3,039
Leather and Allied Products	1,130	2,455	2,909	2,130	2,037
Minerals and Ores	14,975	6,933	8,580	764	977
Wood Products	773	568	953	477	735
Other Animals	395	324	49	90	126
Agricultural Products	12	127	138	132	95
Forestry Products, Nesoi	580	502	133	155	81
Goods Ret. to Canada (Exp.); Goods Ret & Reimps (Imp.)	15	32	43	47	25
Beverages and Tobacco Products	43	28	204	38	3
Oil and Gas	21	26	36	0	0
Newspapers, Books & Other Published Matter, Nesoi	122	40	5	25	0

(ITA) - International Trade Administration - U.S. Department of Commerce
U.S. Census Bureau, Foreign Trade Division

Housing

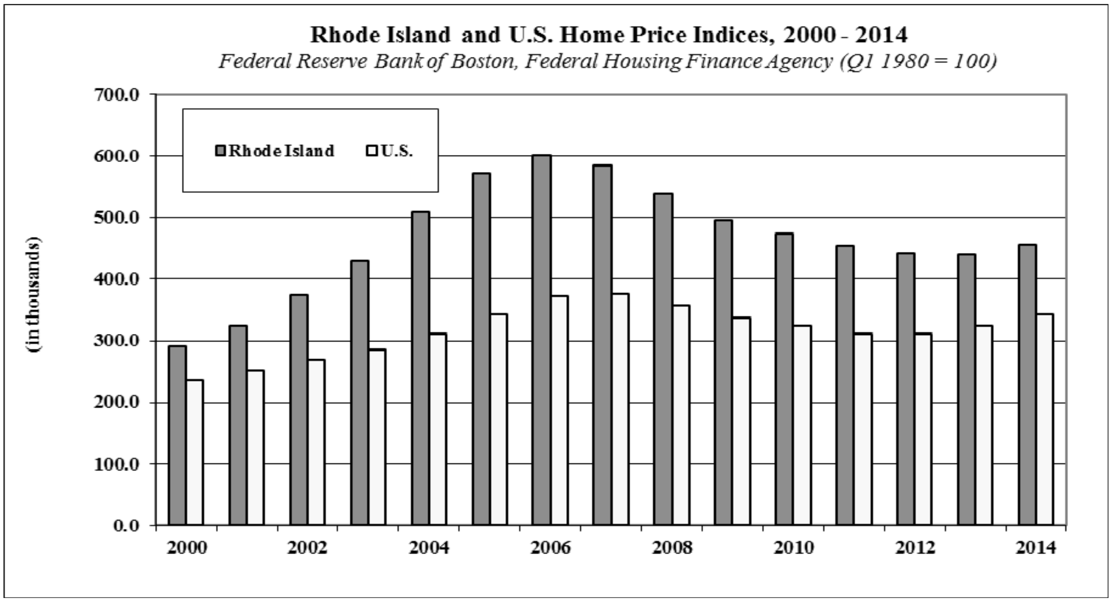
The following table shows the number of housing permits authorized on an annual basis in Rhode Island, New England, and the United States. In 2000 the number of housing permits authorized in Rhode Island decreased by 18.1 percent followed by an additional decline of 9.5 percent in 2001. Authorized housing permits in Rhode Island increased in 2002, decreased modestly in 2003 before increasing in 2005 by 2.7 percent and increasing in 2006 by 17.9 percent. The number of housing permits authorized in Rhode Island had a double digit percent decrease in each year from 2006 through 2009 before increasing by 2.0 percent in 2010. 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 in 2013 increased for Rhode Island, New England and the United States by 21.3 percent, 19.7 percent and 19.3 percent respectively. Authorized housing permits in Rhode Island fell 2.9 percent in 2014 while increasing in both New England and the U.S. as a whole.

Housing Permits Authorized, 2000 - 2014 (seasonally adjusted)						
	Rhode Island		New England		United States	
Year	Total Permits	Percent Change	Total Permits	Percent Change	Total Permits	Percent Change
2000	2,654	-18.1%	43,756	-7.7%	1,600,000	-3.7%
2001	2,402	-9.5%	42,930	-1.9%	1,639,000	2.4%
2002	2,602	8.3%	47,290	10.2%	1,750,000	6.8%
2003	2,445	-6.0%	48,420	2.4%	1,889,000	7.9%
2004	2,512	2.7%	56,130	15.9%	2,058,000	8.9%
2005	2,961	17.9%	56,818	1.2%	2,162,000	5.1%
2006	2,264	-23.5%	48,226	-15.1%	1,846,000	-14.6%
2007	1,925	-15.0%	36,502	-24.3%	1,391,000	-24.6%
2008	1,172	-39.1%	24,086	-34.0%	896,000	-35.6%
2009	914	-22.0%	17,315	-28.1%	582,000	-35.0%
2010	932	2.0%	20,601	19.0%	604,000	3.8%
2011	740	-20.6%	16,867	-18.1%	625,000	3.5%
2012	780	5.4%	22,844	35.4%	829,000	32.6%
2013	946	21.3%	27,354	19.7%	989,000	19.3%
2014	919	-2.9%	27,520	0.6%	1,023,000	3.4%
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 from 2000 through 2005, hitting a peak of 167.2 percent in 2005. Since then, the Rhode Island home price index has stayed above the U.S. home price index but has declined in nominal percent terms. In 2014, the ratio of the Rhode Island home price index to the U.S. home price index stood at 132.9 percent.

Home Price Index Rhode Island and the U.S, 2000 - 2014 (not seasonally adjusted, in thousands)			
Year	R.I.	U.S.	R.I. Home Prices as a Percentage of the U.S.
2000	291.2	234.5	124.2%
2001	323.9	252.1	128.5%
2002	373.9	268.0	139.5%
2003	428.7	284.7	150.6%
2004	508.6	311.3	163.4%
2005	571.7	341.9	167.2%
2006	601.3	371.4	161.9%
2007	585.4	375.6	155.8%
2008	539.0	356.9	151.0%
2009	496.1	337.3	147.1%
2010	474.5	323.6	146.6%
2011	454.0	311.5	145.7%
2012	442.1	311.1	142.1%
2013	441.3	323.8	136.3%
2014	454.8	342.2	132.9%
Federal Reserve Bank of Boston, Source: Federal Housing Finance Agency (Q1 1980 = 100)			

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 the 2004 through 2006 period, Department of Defense (DOD) contracts awarded to Rhode Island companies ranged from $411 million to $458 million. In 2007, defense contract awards to Rhode Island firms eclipsed $500 million for the first time at $594 million and have remained above $600 million each year thereafter. In 2008, DOD contract awards to Rhode Island companies surpassed $700 million for the first time. In 2011, DOD awarded contracts to Rhode Island businesses of $800 million, the first time that milestone was attained. In 2012 and 2013, the value of defense contracts received by Rhode Island companies fell back below $700 million at $618 million and $679 million respectively. In 2014, Rhode Island firms were awarded $825 million in DOD contracts, the highest nominal amount ever.

Rhode Island's DOD contract awards as a percentage of total U.S. contract awards declined from 2000 to 2006 when it bottomed out at of 0.15 percent to 0.23 percent. Since 2006, Rhode Island's share of total DOD contract awards has risen incrementally, with the exception of 2012, reaching a near peak of 0.29 percent in 2014. Since 2000, Rhode Island's share of New England DOD contract awards has decreased from 4.79 percent to 3.15 percent of such awards in 2014. The 2014 share percentage is the first time Rhode Island has eclipsed 3.0 percent of total New England DOD contracts awarded since 2000. 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 2014.

Department of Defense Contract Awards, 2000 - 2014 (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	709	27,235	397,618	2.60%	0.18%
2009	670	29,503	373,245	2.27%	0.18%
2010	775	27,701	368,181	2.80%	0.21%
2011	800	32,088	374,161	2.49%	0.21%
2012	618	28,232	361,744	2.19%	0.17%
2013	679	25,015	308,677	2.72%	0.22%
2014	825	26,198	284,385	3.15%	0.29%
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. Rhode Island's financial commitment to education 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 1997-98 academic year.

Current Expenditure per Pupil in Public Elementary and Secondary Schools Academic Years 1997-98 - 2011-12 (Based on Average Daily Attendance)			
Academic Year	Rhode Island	United States	Ratio (R.I./U.S.)
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	11,433	143.0%
2011-12	16,498	11,363	145.2%
U.S. Department of Education, National Center for Education Statistics; Unadjusted Dollars			

For the academic year 2011-2012, Rhode Island per pupil expenditures were 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 2011-2012
(Based on Average Daily Attendance)

Ranking	State	Expenditure	Ranking	State	Expenditure
	United States	**11,418**			
1	New York	20,881	27	Iowa	10,748
2	District of Columbia	20,399	28	Kansas	10,712
3	Alaska	19,134	29	Kentucky	10,700
4	New Jersey	18,197	30	Washington	10,427
5	Vermont	17,575	31	Arkansas	10,397
6	Connecticut	17,472	32	Oregon	10,386
7	Wyoming	17,228	33	Missouri	10,370
8	**Rhode Island**	16,498	34	Indiana	10,220
9	Massachusetts	15,607	35	South Carolina	9,796
10	Maryland	14,741	36	California	9,608
11	Delaware	14,253	37	Georgia	9,492
12	New Hampshire	14,215	38	Colorado	9,415
13	Maine	14,000	39	Tennessee	9,241
14	Pennsylvania	13,973	40	South Dakota	9,095
15	Illinois	13,459	41	New Mexico	9,066
16	Hawaii	12,735	42	Alabama	8,927
17	Ohio	12,271	43	Texas	8,862
18	Nebraska	12,263	44	North Carolina	8,828
19	West Virginia	11,982	45	Florida	8,825
20	Wisconsin	11,750	46	Nevada	8,677
21	North Dakota	11,643	47	Mississippi	8,623
22	Michigan	11,462	48	Oklahoma	8,281
23	Minnesota	11,424	49	Arizona	8,223
24	Virginia	11,385	50	Idaho	7,041
25	Louisiana	11,352	51	Utah	6,787
26	Montana	11,290			

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 experienced growth in the number of college degrees conferred in each year since 1998-1999 except 1999-2000, 2000-2001, and 2009-2010. The latter two years correspond to years when the U.S. economy was in recession which likely impacted out-of-state enrollment at Rhode Island's colleges and universities. Over this 15 year period, the average rate of growth in degrees conferred by Rhode Island institutions of higher education has been 1.7 percent. This compares to an average rate of growth in degrees conferred by U.S. colleges and universities of 3.4 percent for the same period.

As the table below shows, Rhode Island's growth rate in degrees conferred 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 2012-2013 academic year, Rhode Island institutions of higher education conferred 1.9 percent more degrees than in the 2011-2012 academic year, a rate of growth that exceeded the rate of growth for the

United States as a whole by 1.0 percentage point. In 2012-2013, Rhode Island institutions of higher education conferred 18,202 degrees and certificates with slightly more than 60 percent of these degrees being Bachelor degrees.

Earned Degrees Conferred

(by level of degree)

1998-199 to 2012-2013

Academic	Rhode Island						United States					
Year	Associates	Bachelors	Masters	Doctoral	Total	% Change	Associates	Bachelors	Masters	Doctoral	Total	% Change
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%**	943,506	1,716,053	730,922	163,827	**3,554,308**	**6.1%**
2011-12	3,537	11,013	2,566	745	**17,861**	**1.6%**	1,021,718	1,792,163	755,967	170,217	**3,740,065**	**5.2%**
2012-13	3,727	11,079	2,654	742	**18,202**	**1.9%**	1,006,961	1,840,164	751,751	175,038	**3,773,914**	**0.9%**

U.S. Department of Education, National Center for Education Statistics

* For years reported between 1998 and 2009 Doctoral degrees incorporate professional degrees that were reported seperately prior to 2009.

In contrast to degrees conferred, Rhode Island has seen a contraction in total fall enrollment at its public and private colleges and universities. According to the U.S. Department of Education's National Center for Education Statistics, in fall 2013 the total fall enrollment of part-time and full-time students in Rhode Island institutions of higher education was 83,460, a decrease of 0.6 percent from fall 2012. This marks the third consecutive year of declining fall enrollment in Rhode Island institutions of higher education. This pattern, however, mirrors the trend for the United States as a whole and likely reflects national factors impacting enrollment in higher education such as the expansion of on-line degree offerings, the increasing cost of higher education and/or demographic trends. Prior to fall 2011, total fall enrollment at Rhode Island colleges and universities had increased every year since 1999. 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, 2005, and 2012. In 2013, both the United States and Rhode Island experienced a decline in total fall enrollment with the United States' decline exceeding that of Rhode Island for the second consecutive year. 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 1999-2013				
Academic	Rhode Island		United States	
Year	Total Enrollment	% Change	Total Enrollment	% Change
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%	20,313,594	6.3%
2010	85,110	0.5%	21,019,438	3.5%
2011	84,647	-0.5%	21,010,590	0.0%
2012	83,952	-0.8%	20,642,819	-1.8%
2013	83,460	-0.6%	20,375,789	-1.3%
U.S. Department of Education, National Center for Education Statistics				

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APPENDIX B

PROPOSED FORM OF LEGAL OPINION

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APPENDIX B

[Date of Delivery]

State of Rhode Island and Providence Plantations
State House
Providence, Rhode Island

Re: $175,155,000 State of Rhode Island and Providence Plantations General Obligation Bonds, Consolidated Capital Development Loan of 2015, Refunding Series A (the "Bonds")

Ladies and Gentlemen:

We have acted as bond counsel to the State of Rhode Island and Providence Plantations (the "State") in connection with its issuance of the Bonds, representing various loans authorized by various acts of the General Assembly of the State and consolidated for issuance pursuant to Section 35-8-21 of the General Laws of the State. In that capacity, we have examined and are familiar with originals or copies, certified or otherwise identified to our satisfaction, of such records of the State, certificates of officials of the State and other documents and instruments, and have made such other investigation of facts and examination of Rhode Island and federal law, as we have deemed necessary or proper for the purpose of rendering this opinion. Capitalized terms used herein shall, unless otherwise specified, have the meanings set forth in the Certificate of Determination of the General Treasurer including Approval of Governor and Acknowledgment of Approval by the Secretary of State adopted ___________, 2015 (the "Certificate of Determination").

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certificates of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are further of the opinion that, under existing law:

1. The Bonds are valid and binding general obligations of the State and the full faith and credit of the State is pledged for the payment of the principal of and interest on the Bonds as the same shall come due.

2. The interest on the Bonds is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference for the purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Bonds

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will, however, be included in the calculation of adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. Other provisions of the Code may give rise to adverse federal income tax consequences to particular Bondholders. The scope of this paragraph of the opinion is limited to matters addressed above and no opinion is expressed hereby regarding other federal tax consequences that may arise due to ownership of the Bonds.

We call your attention to the fact that interest on the Bonds may become taxable retroactively to their date of issuance if the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the investment, expenditure and use of Bond proceeds and certain other amounts and to payments to the United States, are not met. The State has covenanted to take all lawful action necessary under the Code to continue the exclusion of interest on the Bonds from gross income, to the extent provided in the Code, and to refrain from taking any action which would cause interest on the Bonds to become includible in gross income.

We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

3. The Bonds are exempt from Rhode Island taxes, although the Bonds and the interest thereon may be included in the measure of Rhode Island estate taxes and certain business and corporate taxes.

It is to be understood that the rights of the holders of the Bonds 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 that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

APPENDIX C

TABLE OF REFUNDED BONDS

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APPENDIX C

TABLE OF REFUNDED BONDS

Issue	Maturity of Sinking Fund Payment Date	Rate	Par Amount	Call or Maturity Date	Call Price	CUSIP[†]
2004B	8/1/2015	5.000%	$3,355,000	8/1/2015	100	76222NGZ8
2005A	8/1/2015	5.000%	11,405,000	8/1/2015	100	76222NHN4
2005A	8/1/2016	5.000%	13,720,000	8/28/2015	100	76222NHQ7
2005A	8/1/2017	5.000%	12,190,000	8/28/2015	100	76222NHR5
2005A	8/1/2018	5.000%	4,275,000	8/28/2015	100	76222NHT1
2005D	7/15/2016	5.000%	10,940,000	8/28/2015	100	76222NKP5
2005E	11/1/2015	5.000%	4,365,000	11/1/2015	100	76222RAK8
2006A	8/1/2015	5.000%	6,535,000	8/1/2015	100	76222RBG6
2006A	8/1/2015	4.000%	1,560,000	8/1/2015	100	76222RBF8
2006B	8/1/2015	4.000%	360,000	8/1/2015	100	76222RRX2
2006B	8/1/2016	4.000%	975,000	8/1/2016	100	76222RBZ4
2006C	11/15/2015	5.000%	4,745,000	11/15/2015	100	76222RCW0
2006C	11/15/2016	5.000%	4,985,000	11/15/2016	100	76222RCX8
2007A	8/1/2015	5.000%	1,270,000	8/1/2015	100	76222RSC7
2007A	8/1/2016	5.000%	4,235,000	8/1/2016	100	76222RSD5
2007A	8/1/2017	5.000%	5,610,000	8/1/2017	100	76222RED0
2008B	2/1/2016	5.000%	3,640,000	2/1/2016	100	76222RFF4
2008B	2/1/2018	5.250%	3,980,000	2/1/2018	100	76222RFH0
2008D	2/1/2016	5.000%	1,635,000	2/1/2016	100	76222RGF3
2010A	10/1/2015	3.000%	3,960,000	10/1/2015	100	76222RGP1

[†] CUSIP® is a registered trademark of the American Bankers Association (the "ABA"). CUSIP-based identifiers are assigned by CUSIP Global Services. CUSIP Global Services is managed on behalf of the ABA by Standard & Poor's, a division of Standard & Poor's Financial Services LLC. The CUSIP numbers have been assigned by an independent company not affiliated with the State and are included solely for the convenience of the holders of the Refunded Bonds. Neither the Underwriters, the Financial Advisor nor the State is responsible for the selection or uses of the CUSIP numbers, and no representation is made as to their correctness on the Refunded Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed 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 Refunded Bonds.

TABLE OF REFUNDED BONDS (CONTINUED)

Issue	Maturity of Sinking Fund Payment Date	Rate	Par Amount	Call or Maturity Date	Call Price	CUSIP[†]
2010B	4/1/2016	5.000%	$1,555,000	4/1/2016	100	76222RHB1
2010B	4/1/2017	5.000%	1,635,000	4/1/2017	100	76222RHC9
2010B	4/1/2020	5.000%	3,020,000	4/1/2020	100	76222RHF2
2010B	4/1/2021	5.000%	1,910,000	4/1/2020	100	76222RHG0
2010B	4/1/2022	5.000%	2,005,000	4/1/2020	100	76222RHH8
2010B	4/1/2023	5.000%	2,110,000	4/1/2020	100	76222RHJ4
2010B	4/1/2024	5.000%	2,215,000	4/1/2020	100	76222RHK1
2010B	4/1/2026*	5.000%	2,415,000*	4/1/2020	100	76222RHM7
2010B	4/1/2027*	5.000%	2,535,000*	4/1/2020	100	76222RHM7
2010B	4/1/2028*	5.000%	2,665,000*	4/1/2020	100	76222RHM7
2011A	8/1/2015	5.000%	5,075,000	8/1/2015	100	76222RJJ2
2011A	8/1/2016	3.000%	1,305,000	8/1/2016	100	76222RJK9
2011A	8/1/2016	5.000%	4,015,000	8/1/2016	100	76222RKB7
2011A	8/1/2017	5.000%	5,150,000	8/1/2017	100	76222RKC5
2011A	8/1/2018	5.000%	3,980,000	8/1/2018	100	76222RKD3
2011A	8/1/2019	5.000%	5,495,000	8/1/2019	100	76222RKE1
2011A	8/1/2023	5.500%	4,960,000	8/1/2021	100	76222RKH4
2011A	8/1/2024	5.500%	7,865,000	8/1/2021	100	76222RJT0
2011A	8/1/2025	5.500%	8,310,000	8/1/2021	100	76222RJU7
2012A	8/1/2015	3.000%	2,245,000	8/1/2015	100	76222NKS9
2012A	8/1/2015	5.000%	3,210,000	8/1/2015	100	76222NLK5
2012B	10/15/2015	3.000%	2,930,000	10/15/2015	100	76222RMB5
2012B	10/15/2016	3.500%	3,025,000	10/15/2016	100	76222RMC3
2013A	10/15/2015	3.000%	1,335,000	10/15/2015	100	76222RMW9
2013A	10/15/2016	4.000%	1,375,000	10/15/2016	100	76222RMX7
2013A	10/15/2017	5.000%	1,425,000	10/15/2017	100	76222RMY5
2013A	10/15/2019	5.000%	1,575,000	10/15/2019	100	76222RNA6
2014B	11/1/2015	1.000%	1,060,000	11/1/2015	100	76222RPY2

* Sinking fund payments due on 2030 Term Bond.

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS • GENERAL OBLIGATION BONDS CONSOLIDATED CAPITAL DEVELOPMENT LOAN OF 2015, REFUNDING SERIES A

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