NEW ISSUES/BOOK ENTRY-ONLY

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

In the opinion of Hinckley, Allen & Snyder LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the State of Rhode Island General Obligation Bonds $58,835,000 Consolidated Capital Development Loan of 2016, Series A (Tax-Exempt) (the "Series A Bonds") and the $53,800,000 Consolidated Capital Development Loan of 2016, Refunding Series C (Tax-Exempt) (the "Series C Bonds") is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended. Interest on the Series A Bonds and the Series C Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Series A Bonds, the Series C Bonds and the $13,165,000 Consolidated Capital Development Loan of 2016, Series B (Federally Taxable) (the "Series B Bonds" and together with the Series A Bonds and the Series C Bonds, the "Bonds") is exempt from personal income taxation by the State of Rhode Island (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 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 Forms of Legal Opinion" herein.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
General Obligation Bonds

$58,835,000 Consolidated Capital Development Loan of 2016, Series A (Tax-Exempt)
$13,165,000 Consolidated Capital Development Loan of 2016, Series B (Federally Taxable)
$53,800,000 Consolidated Capital Development Loan of 2016, Refunding Series C (Tax-Exempt)

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

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 semi-annual interest are payable to DTC by U.S. Bank National Association, as Paying Agent. Interest on the Series A Bonds and the Series B Bonds will be payable on November 1, 2016 and semi-annually thereafter on May 1 and November 1 of each year. Interest on the Series C Bonds will be payable on August 1, 2016 and semi-annually thereafter on February 1 and August 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 Series A Bonds are subject to optional redemption prior to maturity as described herein.**

The Bonds are being offered for delivery when, as and if issued by the State, subject to prior sale, withdrawal or modification of the offer without notice and subject to the approving opinion of Hinckley, Allen & Snyder LLP, Providence, Rhode Island, Bond Counsel. Certain legal matters will be passed upon for the State by Taft & McSally LLP, Cranston, Rhode Island, as Disclosure Counsel. Public Resources Advisory Group, New York, New York, is serving as financial advisor for the State in this transaction. It is expected that the Bonds will be available for delivery in definitive form through the facilities of DTC in New York, New York on or about May 10, 2016.

The Bonds were awarded pursuant to electronic competitive bidding held via PARITY® on April 28, 2016, as described herein under "COMPETITIVE SALE OF THE BONDS" and pursuant to the respective Official Notice of Sale dated April 19, 2016 and attached hereto as Appendix D and Appendix E.

April 28, 2016

Maturity Schedule
Maturities, Amounts, Interest Rates, Yields or Prices and CUSIPs

$58,835,000 Consolidated Capital Development Loan of 2016, Series A (Tax-Exempt)

Maturity Date (May 1)	Amount	Rate	Yield/Price	CUSIP†	Maturity Date (May 1)	Amount	Rate	Yield/Price	CUSIP†
2017	$ 170,000	2.00%	0.590%	76222RTG7	2027	$3,685,000	3.00%	2.100%^	76222RTS1
2018	120,000	2.00	0.700	76222RTH5	2028	3,795,000	3.00	2.250^	76222RTT9
2019	125,000	2.00	0.850	76222RTJ1	2029	3,905,000	3.00	2.450^	76222RTU6
2020	130,000	2.00	0.990	76222RTK8	2030	4,025,000	3.00	2.650^	76222RTV4
2021	130,000	2.00	1.140	76222RTL6	2031	4,145,000	3.00	2.800^	76222RTW2
2022	2,885,000	5.00	1.310	76222RTM4	2032	4,270,000	3.00	2.950^	76222RTX0
2023	3,030,000	5.00	1.460	76222RTN2	2033	4,395,000	3.00	3.000	76222RTY8
2024	3,180,000	5.00	1.600	76222RTP7	2034	4,530,000	3.00	99.500	76222RTZ5
2025	3,340,000	5.00	1.760	76222RTQ5	2035	4,665,000	3.00	99.000	76222RUA8
2026	3,505,000	5.00	1.920	76222RTR3	2036	4,805,000	3.00	98.500	76222RUB6

^Yield calculated to the first optional redemption date of May 1, 2026.

$13,165,000 Consolidated Capital Development Loan of 2016, Series B (Federally Taxable)

Maturity Date (May 1)	Amount	Rate	Yield	CUSIP†
2017	$2,580,000	0.750%	0.720%	76222RUJ9
2018	2,595,000	1.250	1.010	76222RUK6
2019	2,625,000	1.375	1.220	76222RUL4
2020	2,660,000	1.625	1.520	76222RUM2
2021	2,705,000	1.750	1.600	76222RUN0

$53,800,000 Consolidated Capital Development Loan of 2016, Refunding Series C (Tax-Exempt)

Maturity Date (August 1)	Amount	Rate	Yield	CUSIP†
2017	$16,880,000	5.00%	0.610%	76222RUC4
2018	12,550,000	5.00	0.730	76222RUD2
2019	9,185,000	5.00	0.870	76222RUE0
2020	4,870,000	5.00	1.010	76222RUF7
2021	5,060,000	5.00	1.170	76222RUG5
2022	5,255,000	5.00	1.340	76222RUH3

† The CUSIP numbers above 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 Financial Advisor nor the State is responsible for the selection or use of the CUSIP numbers, and no representation is made as to their correctness on the 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 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. 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.

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.

Public Resources Advisory Group, 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, but the Financial Advisor does not guarantee the accuracy or completeness of such information. The inclusion of said sentence does not imply any such guarantee by any other party.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute "forward looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. 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
Acting State Controller .....……Peter Keenan
Auditor General .....……Dennis E. Hoyle

BOND COUNSEL

Hinckley, Allen & Snyder LLP, Providence, Rhode Island

DISCLOSURE COUNSEL

Taft & McSally LLP, Cranston, Rhode Island

FINANCIAL ADVISOR

Public Resources Advisory Group, New York, New York

OFFICIAL STATEMENT

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
General Obligation Bonds
$58,835,000 Consolidated Capital Development Loan of 2016, Series A (Tax-Exempt)
$13,165,000 Consolidated Capital Development Loan of 2016, Series B (Federally Taxable)
$53,800,000 Consolidated Capital Development Loan of 2016, Refunding Series C (Tax-Exempt)

INTRODUCTION

The purpose of this Official Statement, including the front 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 $58,835,000 General Obligation Bonds Consolidated Capital Development Loan of 2016, Series A (Tax-Exempt) (the "Series A Bonds"), its $13,165,000 General Obligation Bonds Consolidated Capital Development Loan of 2016, Series B (Federally Taxable) (the "Series B Bonds") and its $53,800,000 General Obligation Bonds Consolidated Capital Development Loan of 2016, Refunding Series C (Tax-Exempt) (the "Series C Bonds" and together with the Series A Bonds and the Series B Bonds, the "Bonds"), each dated their date of delivery. The proceeds of the Series A Bonds and the Series B Bonds will be used to finance certain authorized capital projects of the State. See "DESCRIPTION OF THE BONDS – Plan of Finance." The proceeds of the Series C 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.

The Bonds were sold through a competitive, electronic bidding process on April 28, 2016 in accordance with the terms of the respective Official Notice of Sale attached hereto as Appendix D and Appendix E. See "COMPETITIVE SALE OF THE BONDS".

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 Series A Bonds.

Sources	
Par Amount of Series A Bonds	$58,835,000.00
Net Original Issue Premium	4,826,091.65
Total Sources	$63,661,091.65
Uses	
Deposit to Bond Capital Fund [1]	$58,835,000.00
Deposit to Rhode Island Capital Plan Fund	1,680,804.19
Deposit to Rhode Island Municipal Road and Bridge Fund	2,637,541.41
Underwriters' Discount	507,746.05
Total Uses	$63,661,091.65

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

Sources	
Par Amount of Series B Bonds	$13,165,000
Original Issue Premium	54,765.05
Total Sources	$13,219,765.05
Uses	
Deposit to Bond Capital Fund [1]	$13,165,000.00
Deposit to Rhode Island Capital Plan Fund	36,246.33
Deposit to Rhode Island Municipal Road and Bridge Fund	11,471.97
Underwriters' Discount	7,046.75
Total Uses	$13,219,765.05

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

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

Sources	
Par Amount of Series C Bonds	$53,800,000.00
Original Issue Premium	6,212,544.15
Total Sources	$60,012,544.15
Uses	
Deposit to Refunding Escrow Fund	$59,727,322.52
Costs of Issuance[1]	168,475.63
Underwriters' Discount	116,746.00
Total Uses	$60,012,544.15

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

PLAN OF REFUNDING

The State, upon delivery of the Series C Bonds, will enter into a refunding escrow agreement (the "Refunding Escrow Agreement") with The Bank of New York Mellon Trust Company, N.A., as trustee for the Refunded Bonds (the "Refunding Trustee"). The Refunding Escrow Agreement will provide for the deposit of the net proceeds of the Series C Bonds with the Refunding Trustee in separate accounts (the "Refunding Escrow Funds"). The State, depending upon market conditions, in addition to or in lieu of depositing cash into the escrows, may acquire and deposit into the escrows non-callable direct obligations of the United States of America (the "Government Obligations"). The Refunding Escrow Agreement will require that maturing principal of and interest on the Government Obligations, if any, plus any initial cash deposit, be held in trust in such accounts 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 Series C 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 April 19, 2016 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 sections entitled "Pension Litigation" and the "Pension Settlement" on pages A-148 through A-153 in APPENDIX A — "Information Statement of the State of Rhode Island and Providence Plantations" dated April 19, 2016.

DESCRIPTION OF THE BONDS

General

Pursuant to Section 35-8-21 of the General Laws of the State, the Series A Bonds will constitute the Consolidated Capital Development Loan of 2016, Series A. The Series B Bonds will constitute the Capital Development Loan of 2016, Series B (Taxable). The Series C Bonds will constitute the Consolidated Capital Development Loan of 2016, Refunding Series C.

The Bonds will be dated their date of delivery and will bear interest at the rates set forth on the inside cover page hereof. Interest on the Series A Bonds and the Series B Bonds will be payable on November 1, 2016 and semi-annually thereafter on May 1 and November 1 of each year. Interest on the Series C Bonds will be payable on August 1, 2016 and semi-annually thereafter on February 1 and August 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 Series A Bonds. The Series A Bonds maturing on and before May 1, 2026 are not subject to optional redemption prior to their stated dates of maturity. The Series A Bonds maturing on and after May 1, 2027 are subject to optional redemption prior to their stated dates of maturity on and after May 1, 2026 at the option of the State, as a whole or in part at any time (by lot by DTC), in any order of maturity designated by the State, at the redemption price of 100% of the principal amount of Series A Bonds to be redeemed, together with interest accrued and unpaid to the redemption date.

Optional Redemption of the Series B Bonds and the Series C Bonds. The Series B Bonds and the Series C Bonds are not subject to optional redemption prior to their stated dates of maturity.

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. The State does not 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 each series 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 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 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.

Components by Authorization and Purpose for the Bonds

The Series A Bonds are composed of two (2) separate loans. The designation of the loans is specified by the various public laws of the State authorizing the issuance of the Series A Bonds, but each loan is a general obligation of the State without distinction among them as to payment or security. See "SECURITY FOR THE BONDS" herein. Proceeds of the Series A Bonds will be applied to the following individual loans, which in the aggregate reflect the issue amount of the Series A Bonds:

Amount	Loan
$22,900,000	State Capital Development Loan of 2012, Series E
$35,935,000	State Capital Development Loan of 2014, Series A
$58,835,000	

The Series B Bonds are composed of two (2) separate loans. The designation of the loans is specified by the various public laws of the State authorizing the issuance of the Series B Bonds, but each loan is a general obligation of the State without distinction among them as to payment or security. See "SECURITY FOR THE BONDS" herein. Proceeds of the Series B Bonds will be applied to the following individual loans, which in the aggregate reflect the issue amount of the Series B Bonds:

Amount	Loan
$10,000,000	State Capital Development Loan of 2010, Series B (Federally Taxable)
$3,165,000	State Capital Development Loan of 2014, Series B (Federally Taxable)
$13,165,000	

Plan of Finance

The Series A Bonds will be issued in the amounts, for the capital purposes and pursuant to the statutory authorities approved by the electorate of the State on the dates indicated in the following table:

Amount	Purpose	Statute	Referendum
$15,000,000	Veterans' Home	Chapter 241 of the P.L. of 2012	November 6, 2012
1,900,000	Clean Water Finance Agency (now known as Rhode Island Infrastructure Bank)	Chapter 241 of the P.L. of 2012	November 6, 2012
2,000,000	Farmland Development Rights	Chapter 241 of the P.L. of 2012	November 6, 2012
500,000	Historic/Passive Parks	Chapter 241 of the P.L. of 2012	November 6, 2012
500,000	State Land Acquisition – Open Space	Chapter 241 of the P.L. of 2012	November 6, 2012
2,000,000	Local Recreation Grants	Chapter 241 of the P.L. of 2012	November 6, 2012
1,000,000	Narragansett Bay & Watershed Restoration	Chapter 241 of the P.L. of 2012	November 6, 2012
7,500,000	Higher Education Facilities	Chapter 145 of the P.L. of 2014	November 4, 2014
12,335,000	Cultural Arts & the Economy Grant Program	Chapter 145 of the P.L. of 2014	November 4, 2014
1,000,000	State Preservation Grants Program	Chapter 145 of the P.L. of 2014	November 4, 2014
500,000	Mass Transit Hub Infrastructure	Chapter 145 of the P.L. of 2014	November 4, 2014
1,000,000	Flood Prevention	Chapter 145 of the P.L. of 2014	November 4, 2014
3,600,000	Roger Williams Park Zoo	Chapter 145 of the P.L. of 2014	November 4, 2014
5,000,000	Brownfields Remediation & Economic Development	Chapter 145 of the P.L. of 2014	November 4, 2014
5,000,000	Clean Water Finance Agency (now known as Rhode Island Infrastructure Bank)	Chapter 145 of the P.L. of 2014	November 4, 2014
$58,835,000			

The Series B Bonds will be issued in the amount, for the capital purpose and pursuant to the statutory authority approved by the electorate of the State on the dates indicated in the following table:

Amount	Purpose	Statute	Referendum
$10,000,000	Higher Education Facilities	Chapter 23 of the P.L. of 2010	November 2, 2010
$3,165,000	Cultural Arts & the Economy Grant Program	Chapter 145 of the P.L. of 2014	November 4, 2014
$13,165,000			

Authorized But Unissued Direct General Obligation Debt

The following table sets forth the amounts, purposes and statutory authorization of authorized but unissued general obligation direct debt of the State after the issuance of the Series A Bonds and the Series B Bonds which authorizations have been approved by referenda of the electors.

Purpose	Statutory Authorization	Authorized but Unissued Debt Prior to Issuance of the Bonds	Bonds Described Herein	Remaining Authorization after Issuance of the Bonds
Higher Education Facilities	Ch. 23-P.L. of 2010	$10,000,000	$10,000,000	$0
Higher Educational Facilities	Ch. 241-P.L. of 2012	38,000,000	0	38,000,000
Veterans' Home	Ch. 241-P.L. of 2012	75,500,000	15,000,000	60,500,000
Clean Water Finance Agency (now known as Rhode Island Infrastructure Bank)	Ch. 241-P.L. of 2012	9,075,000	1,900,000	7,175,000
Narragansett Bay & Watershed Restoration	Ch. 241-P.L. of 2012	3,000,000	1,000,000	2,000,000
State Land Acquisition – Open Space	Ch. 241-P.L. of 2012	500,000	500,000	0
Farmland Development Rights	Ch. 241-P.L. of 2012	2,000,000	2,000,000	0
Local Land Acquisition Grants	Ch. 241-P.L. of 2012	1,500,000	0	1,500,000
Local Recreation Grants	Ch. 241-P.L. of 2012	3,500,000	2,000,000	1,500,000
Historic/Passive Parks	Ch. 241-P.L. of 2012	500,000	500,000	0
Higher Education Facilities	Ch. 145-P.L. of 2014	125,000,000	7,500,000	117,500,000
Cultural Arts & the Economy Grant Program	Ch. 145-P.L. of 2014	30,000,000	15,500,000	14,500,000
State Preservation Grants Program	Ch. 145-P.L. of 2014	5,000,000	1,000,000	4,000,000
Mass Transit Hub Infrastructure	Ch. 145-P.L. of 2014	35,000,000	500,000	34,500,000
Brownfield Remediation & Economic Development	Ch. 145-P.L. of 2014	5,000,000	5,000,000	0
Flood Prevention	Ch. 145-P.L. of 2014	3,000,000	1,000,000	2,000,000
Farmland Acquisition	Ch. 145-P.L. of 2014	3,000,000	0	3,000,000
Local Recreation Grants	Ch. 145-P.L. of 2014	4,000,000	0	4,000,000
Roger Williams Park Zoo	Ch. 145-P.L. of 2014	15,000,000	3,600,000	11,400,000
Roger Williams Park	Ch. 145-P.L. of 2014	3,000,000	0	3,000,000
Clean Water Finance Agency	Ch. 145-P.L. of 2014	20,000,000	5,000,000	15,000,000
		$391,575,000	$72,000,000	$319,575,000

RATINGS

The Bonds have been assigned ratings by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's") and Fitch Ratings ("Fitch") (collectively, the "Rating Agencies"). The ratings assigned by Moody's, Standard & 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 Hinckley, Allen & Snyder 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 Taft & McSally LLP, Cranston, Rhode Island, as Disclosure Counsel.

TAX STATUS

Series A Bonds and Series C Bonds

In the opinion of Hinckley, Allen & Snyder 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 Series A Bonds and the Series C Bonds is excluded 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 Series A Bonds and the Series C Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included 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 Series A Bonds and the Series C 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 Series A Bonds and the Series C Bonds. Failure to comply with these requirements may result in interest on the Series A Bonds and the Series C Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series A Bonds and the Series C Bonds. The State has covenanted to comply with such requirements to ensure that interest on the Series A Bonds and the Series C 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 Series A Bonds and the Series C Bonds is exempt from personal income taxation by the State or any political subdivision or other instrumentality of the State, although the Series A Bonds and the Series C Bonds and the income therefrom may be included in the measure of certain Rhode Island estate taxes and corporate and business taxes. Bond Counsel has not opined as to other Rhode Island tax consequences arising with respect to the Series A Bonds and the Series C Bonds. Bond Counsel has not opined as to the taxability of the Series A Bonds and the Series C 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.

To the extent the issue price of any maturity of the Series A Bonds and the Series C Bonds is less than the amount to be paid at maturity of the Series A Bonds and the Series C Bonds (excluding amounts stated to be interest and payable at least annually over the term of the Series A Bonds and the Series C Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Series A Bonds and the Series C Bonds which is excluded from gross income for federal income tax purposes and is exempt from Rhode Island income taxes. For this purpose, the issue price of a particular maturity of the Series A Bonds and the Series C Bonds is the first price at which a substantial amount of such maturity of the Series A Bonds and the Series C Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series A Bonds and the Series C Bonds accrues daily over the term to maturity of such Series A Bonds and the Series C Bonds on the basis of a constant interest rate compounded semi-annually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series A Bonds and the Series C Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series A Bonds and the Series C Bonds. Bondholders should consult their own tax advisors with respect to the tax consequences of ownership of Series A Bonds and the Series C Bonds with original issue discount, including the treatment of purchasers who do not purchase such Series A Bonds and the Series C Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Series A Bonds and the Series C Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Series A Bonds and the Series C Bonds, or, in some cases, at the earlier redemption date of such Series A Bonds and the Series C 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 Series A Bonds and the Series C Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that 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 value of, or the tax status of interest on, the Series A Bonds and the Series C Bonds. Prospective holders of the Series A Bonds and the Series C Bonds are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Although Bond Counsel is of the opinion that interest on the Series A Bonds and the Series C Bonds is excludable from gross income for federal income tax purposes and is exempt from Rhode Island personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series A Bonds and the Series C 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 Series A Bonds and the Series C Bonds should consult with their own tax advisors with respect to such consequences.

Series B Bonds – Federally Taxable

Under existing law, interest on the Series B Bonds is included in gross income for federal income tax purposes. Bond Counsel expresses no opinion as to any other federal tax law consequences related to the ownership or disposition of, or accrual or receipt of interest on, the Series B Bonds.

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

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 Public Resources Advisory Group (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, 2016, 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) Bonds calls, if material;

(i) Tender offers;

(j) Defeasances;

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

(l) Rating changes;

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

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

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

(It should be noted, however, as of the date of this Official Statement, events of the types listed in clauses (b), (c), (d), (e) and (k) 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 may be 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 Bonds, (d) to modify the

[*] 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. It should be noted that the United States Bankruptcy Code is not applicable to states.

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

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

Rhode Island Commerce Corporation (formerly known as the 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.

[Also, the State inadvertently failed to file a notice of rating change occurring on June 16, 2014 related to the Grant Anticipation Bonds (R.I. Dept. of Transportation) Series 2003A, Series 2006A and Series 2009A issued through Rhode Island Commerce Corporation (formerly known as the Rhode Island Economic Development Corporation), which omission was discovered after the posting of the Preliminary Official Statement for this issue of Bonds and after the competitive sale of the Bonds. Such information was filed on May 3, 2016.][*]

In addition, the State may be deemed to have failed to file in a timely manner a notice regarding 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 that 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 form the trustee for the certificates 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 occurred on 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 April 19, 2016 for further details.

[While it may not be deemed a failure to comply in all material respects with is obligations under continuing disclosure agreements, the State filed Notices of Failure to File Annual Information on February 2, 2016 with respect to the Grant Anticipation Bonds (R.I. Dept. of Transportation) Series 2003A, Series 2006A and Series 2009A issued through Rhode Island Commerce Corporation (formerly known as the Rhode Island Economic Development Corporation), and Rhode Island Motor Fuel Tax Revenue Bonds issued in 2003, 2006 and 2009 through the Rhode Island Commerce Corporation (formerly known as the Rhode Island Economic Development Corporation), those Annual Reports were due on February 1, 2016 and were filed on February 3, 2016 and February 5, 2016, respectively. No 2003A Grant Anticipation Bonds are outstanding.]*

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.

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[*] The bracketed language was not included in the Preliminary Official Statement with respect to the Bonds dated April 19, 2016.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Samuel Klein and Company, Certified Public Accountants (the "Verification Agent"), will verify the accuracy of (i) the mathematical computations concerning the adequacy of the maturing principal amounts of and interest earned on the governmental obligations, together with other escrowed moneys, 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. 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 Series C Bonds is excludable from 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.

COMPETITIVE SALE OF THE BONDS

After competitive, electronic bidding held via PARITY® on April 28, 2016 the Series A Bonds and the Series C Bonds were awarded to Wells Fargo Bank, National Association ("Wells Fargo"). Information provided by Wells Fargo regarding the interest rates and reoffering yields of the Series A Bonds and the Series C Bonds are set forth on the inside cover of this Official Statement. The Series A Bonds are being purchased from the State by Wells Fargo at an aggregate price of $63,153,345.60, reflecting the principal amount of $58,835,000.00, plus net original issue premium of $4,826,091.65, less underwriter's discount of $507,746.05. The Series C Bonds are being purchased from the State by Wells Fargo at an aggregate price of $59,895,798.15, reflecting the principal amount of $53,800,000.00, plus original issue premium of $6,212,544.15, less underwriter's discount of $116,746.00.

After competitive, electronic bidding held via PARITY® on April 28, 2016 the Series B Bonds were awarded to J.P. Morgan Securities ("J.P. Morgan"). Information provided by J.P. Morgan regarding the interest rates and reoffering yields of the Series B Bonds are set forth on the inside cover of this Official Statement. The Series B Bonds are being purchased from the State by J.P. Morgan at an aggregate price of $13,212,718.30, reflecting the principal amount of $13,165,000.00, plus original issue premium of $54,765.05, less underwriter's discount of $7,046.75.

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 April 19, 2016 and the Basic Financial Statements of the State, as of and for the year ended June 30, 2015, 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: April 28, 2016

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APPENDIX A

INFORMATION STATEMENT OF THE STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

DATED: April 19, 2016

Appendix A
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STATE GOVERNMENT ORGANIZATION AND FINANCES

General Information

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

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

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

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

Principal Governmental Services

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

General Government

General Government includes those agencies that provide general administrative services to all other State agencies and those that carry out State licensure and regulatory functions. This function includes most elected officials, administrative agencies, including, but not limited to, the Department of Administration, the Department of Revenue, the Department of Labor and Training, the 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 Department of Administration also includes the Office of Energy Resources, which is responsible for coordinating all energy matters, including energy security, energy efficiency, renewable energy and natural gas. 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 30 megawatts of renewable energy. The first phase of the project began in late 2010 with preliminary work off of Block Island and actual construction began in the summer of 2015. The project is scheduled to become commercially operational no later than December 2016.

In FY 2013, the Rhode Island Health Benefits Exchange (known 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 included legislation officially establishing the health exchange as a division within the Department of Administration and authorized 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. The Department of Revenue incorporates several divisions and units, including the Division of Taxation, the Registry of Motor Vehicles, the Division of State Lottery, the Division of Municipal Finance and the Office of Revenue Analysis. Responsibility for certain programs relating to state aid are also under 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. The FY 2017 Budget includes a proposal to establish the Veterans' Affairs program as a stand-alone office with a new Cabinet level Director of Veterans' Affairs. The office would still be under the Department of Human Services structure for administrative and budgetary purposes.

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.

The FY 2015 Appropriations Act contained 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 education 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.

The Department of Public Safety is comprised of the following agencies: State Police, E-911 Emergency Telephone System, State Fire Marshal, Municipal Police Training Academy, Sheriffs, Capitol Police, and the Governor's Justice Commission. The Director of the Department of Public Safety also serves as the Superintendent of the Rhode Island State Police.

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 are 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.

Rhode Island General Law 39-18.1-4 created the Rhode Island Highway Maintenance Account within the Intermodal Surface Transportation Fund. Article 22 included in the FY 2012 Budget as enacted increased registration and license fees and dedicated those new revenues to transportation purposes, namely as a piece of the state match used towards the department's federal highway program. The Article prescribed a three-year, phased increase in registration and license fees, which began in FY 2014. Two-year registrations and drivers licenses would each be increased by $30 ($10 per year for three-years), while one-year registrations would be increased by $15 ($5 per year for three-years). Article 21, which was included in the FY 2015 Budget as enacted, allows for the flexibility to also use these funds towards eliminating the structural deficiencies of the state's road and bridge maintenance systems and infrastructure. This article also authorized the transfer of all existing vehicle registration and license

fees to the Rhode Island Highway Maintenance Account over a three year period, with 25 percent transferred in FY 2016, 75 percent in FY 2017 and 100 percent in FY 2018 and thereafter.

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).

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. The FY 2016 Appropriations Act also included an additional $25 million 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. 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 plan 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) and a portion of Route 138. To make up for the loss of toll revenue on the Sakonnet River Bridge, Article 21 transferred three and one-half cents ($0.035) per gallon 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.

In February 2016, the General Assembly enacted 16-H-7409Aaa and authorized the Department of Transportation to construct toll gantries at various locations along the interstate highways in Rhode Island. The revenues generated from these tolls will be deposited to the Rhode Island Bridge Replacement, Reconstruction and Maintenance Fund. Tolls will be assessed electronically only on vehicles classified by the Federal Highway Administration as Class 8 – single trailer, three or four axles up to and including Class 13 – seven or more axle multi-trailer trucks. The maximum toll amount for a one way border-to-border trip through Rhode Island shall not exceed $20.00 and the daily maximum amount of tolls collected upon the same individual large commercial truck shall not exceed $40.00. In addition, this legislation authorized the Department to borrow up to $300.0 million in GARVEE bonds, the repayment of which shall be derived from and secured by future distributions of federal highway trust funds due to the State. This debt is anticipated to be issue in whole or in part during the summer or fall of 2016.

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 Office of Management and Budget in 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 (REC), 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. The principals hear testimony from the State's outside economic consultant on economic forecasts for the United States and the State. 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. It should be noted that the Governor's proposed FY 2017 Budget includes a proposal to change the November meeting to within the last ten (10) days of January.

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 three (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.

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 General Fund 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. Since FY 2013, spending has been limited to 97.0 percent and the Budget Reserve Account capped at 5.0 percent of revenues. The balance of the Budget Reserve Account at the end of FY 2015 according to the audited financial statements was $185.4 million. The projected balance at the end of FY 2016 per the Governor's Supplement Budget is $188.2 million

Additionally, during the 2007 Session of the General Assembly, a law was enacted which required 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 and will instead remain in the General 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

March 2010 Floods: On March 29, 2010, the President signed a 'Declaration of Disaster' for all 5 counties in the State, as a result of severe storms and flooding on March 12, 2010. 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 90 percent of the total. As of January 1, 2016, the RI Emergency Management Agency collected data on damage and costs incurred

by various municipalities, State agencies, tribes and eligible nonprofits totaling approximately $25,872,372. To date, the State has drawn down $18,059,045.68 of Federal cost share. In addition, Individual Assistance was approved under the Individual and Household ONA Program, FEMA provision for DR-1894-RI. This was paid by FEMA directly to individual homeowners without RIEMA involvement. This grant will close when the final municipal projects are completed, documented and paid.

Hurricane Sandy: On November 3, 2012, the President signed a 'Declaration of Disaster' for Newport, Bristol and Washington Counties and on November 10, 2012 for Kent County. 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 January 1, 2016, the RI Emergency Management Agency collected data on damage and costs incurred by various municipalities, State agencies, tribes and eligible public nonprofits totaling approximately $8,724,507.06. To date, the State has drawn down $6,485,214.09 of Federal cost share.

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 certain 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 January 1, 2016, the Rhode Island Emergency Management Agency has collected data on damage and costs incurred by State agencies, municipalities, tribes and eligible public nonprofits totaling $7,663,103.49. To date, the State has drawn down $6,036,534.00 of Federal cost share.

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, estimated to be 75% of the total. On April 5, 2015, The President signed a disaster declaration for all five Rhode Island counties. As of January 1, 2016, the Rhode Island Emergency Management Agency has collected data on damage and cost incurred by State agencies, municipalities, tribes and eligible public nonprofits totaling $8,166,735.91. To date, the State has drawn down $7,374,586.02 of Federal cost share.

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 municipality 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 (20) 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 were still in critical status, but as of February 2016, this number has decreased to 20, based on an analysis by the Division of Municipal Finance. 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 (which will sunset in FY 2016), 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 Municipal Employees' Retirement System (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 is 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 Fiscal Stability 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 state 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 Fiscal Stability Act but the municipality had not been placed in a Chapter 9 bankruptcy. Under the 2013 amendments, the Fiscal Stability 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 Fiscal Stability 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. 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.

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 amended RIGL 45-9-6(a) and provided 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 amended RIGL 45-9-10(j) and provided 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, amended RIGL 45-9-1 et. seq., which extended 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 on July 1, 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 East Providence 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 of Revenue 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

At a meeting on May 21, 2015 with representatives of the Coventry Fire District, the Division of Municipal Finance and the Auditor General's Office, the district stated it an operating deficit, as well as a cumulative deficit from prior years. On June 17, 2015, the voters of the district had voted (i) to reject a supplemental tax increase of $600,000 and (ii) to dissolve the district as of December 31, 2015. The district has not been dissolved and subsequently, the district adopted a budget for FY 2016 that reduced the cumulative deficit from $1.3 million to $0.8 million. The State has not deemed it appropriate to exercise oversight under 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 ("CCFD") was under judicial receivership and had been scheduled for liquidation. Pursuant to the Fiscal Stability Act as amended, the Central Coventry Fire District was placed under the oversight of the State when the Director of Revenue appointed a Receiver on May 6, 2014 to work to achieve fiscal stability for the fire district. In December 2014, through the Receiver, the fire district filed for Chapter 9 bankruptcy. The Receiver negotiated with unions and other creditors in an attempt to restore financial stability. On June 1, 2015, the Receiver for the fire district notified the Court of outstanding challenges that remained with respect to preparing a viable restructuring plan.

The receivership was terminated effective October 1, 2015. Given the financial distress of the CCFD, the Acting Director of Revenue directed the Receiver to file a motion to dismiss the chapter 9 petition. The U.S. Bankruptcy Court for the District of Rhode Island granted the motion and the dismissal was effective on October 1, 2015. The receivership and legal costs, which were paid by the State, amounted to approximately $1.2 million. The Receiver and the Acting Director determined that for a number of reasons it was not likely that a viable restructuring plan could be achieved and successfully implemented. No reimbursement of these costs has been received and it is unlikely the CCFD will reimburse the State for these costs.

City of Providence

The City of Providence reported a cumulative deficit position of $13.5 million at June 30, 2015 ($8.7 million FY 2015 beginning cumulative deficit, $4.8 million FY2015 operating deficit). Pursuant to the requirement of R.I. General Laws 45-12-22.3, any accumulated year-end deficit shall be eliminated over no more than five years, in equal or diminishing amounts. The City submitted a deficit reduction plan on January 26, 2016, to eliminate the cumulative deficit of $13.5 million to the Office of the Auditor General. The plan submitted by the City projects eliminating the FY 2015 beginning cumulative deficit by the close of FY 2017 by reducing it by approximately $4.3 million per year for both FY 2016 and FY 2017. In addition, the plan projects that the City will eliminate the FY 2015 operating deficit over a five years period by reducing it annually by approximately $1.0 million per year, from FY 2017 through the close of FY 2021.

In a letter dated January 29, 2016, the Office of the Auditor General declared the plan generally acceptable and consistent with the statute and added certain requirements for the City to adhere to:

- Monthly status meetings with the Office of the Auditor General, Division of Municipal Finance, the City's Finance Director and other members of the City administration shall continue for the purpose of receiving updates on the City's budgetary compliance, financial situation, and progress in eliminating the deficit at least through the close of FY 2016.
- Upon determination that the City projects an unfavorable variance from the enacted fiscal year budget plan such that the planned "surplus" or deficit reduction amount may not be achieved, the City will develop a plan within 30 days to correct the budget imbalance and achieve the same targeted amount of deficit reduction for the fiscal year as outlined in the approved deficit reduction plan.

The City Council of the City of Providence adopted and approved the Deficit Reduction Plan as submitted to the Office of the Auditor General on March 8, 2016.

The City of Providence has received the first part (*Summary of Key Benchmarking Findings)* of an overall ten-year plan for the City prepared by the National Resource Network. Upon receipt by the State of the final report

as commissioned by the City of Providence on its current and long term fiscal health, the State will evaluate its conclusions.

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 2016 enacted budgets, as well as the Governor's FY 2017 proposed budget 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 in FY 2016 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 $2.7 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. An amount of $10.0 million is also included in the Governor's proposed FY 2017 budget.

The PILOT program authorizes the General Assembly to appropriate and distribute to communities amounts not to exceed 27 percent of the property taxes that would have been collected on tax exempt properties. 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. The Governor's FY 2017 proposed budget includes an amount of $42.0 million. 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. In the Governor's FY 2017 proposed budget, the following municipalities qualify to receive funds from the Distressed Communities Relief Fund: Central Falls, Cranston, East Providence, North Providence, Pawtucket, Providence, West Warwick, and Woonsocket. Since Cranston is newly qualifying for the program in FY 2017, they shall be paid 50 percent of current law requirements the first year it qualifies. The City of East Providence is falling out of the program in FY 2017. When any community falls out of the Distressed Communities Relief Fund, it shall receive a one-time payment of 50 percent of the prior year requirement exclusive of any reduction for first year qualification.

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 and is recommended to continue in the FY 2017 proposed Budget.

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 the FY 2016 enacted budget and in the FY 2017 proposed budget, an amount of $13.0 million has been included. 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 $25.2 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 $9.7 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 $1.0 million in FY 2016.

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. In the FY 2017 proposed budget, the Governor's does not recommend continuing this program beyond the FY 2016 sunset date.

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 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 and FY 2016 because the Town 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 is to 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 provided 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, the Auditor General and the Commissioner of Education 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 also 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 the Division of Municipal Finance, the Auditor General and the Commissioner of Education 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 Governor's proposed FY 2017 Budget, Article 15 proposes various amendments to state law impacting municipalities. Sections 1 and 2 of the budget article propose a municipal transparency portal and municipal data reporting, amending R.I. General Laws §45-12-22.2 and §44-35-10. The intent of this proposal is to improve current required reporting, unify the formatting of the reports, therefore simplifying the reporting, streamline the process for municipalities, and to make municipal data publicly available in a user-friendly manner. This will be accomplished through a newly created Municipal Transparency Portal, a new electronic interface that will be established on the Division of Municipal Finance's website where municipalities will post financial data directly.

The submission of the currently required quarterly reports will be reduced from four to three, and renamed to "budget-to-actual financial information"; the format of the new "budget-to-actual financial information" will be determined jointly by the Division of Municipal Finance, the Office of the Auditor General, and the Commissioner of Education, in conjunction with input and advice from the municipalities. Also, currently, there is no audited financial information in a matching format to that of any of the required municipal reporting. However, under this budget article of the proposed FY 2017 Budget, as part of the annual audited financial statements of a municipality, a municipal data report for the municipality's general fund will be submitted by the municipality through the use of the transparency portal. The data would be included in the municipality's financial statements as supplementary information.

The proposal also includes eliminating parts of the five-year-forecast report and requiring that the adopted budget survey report and the five-year-forecast be submitted to the Division of Municipal Finance through the use of the transparency portal.

Section 3 of the budget article proposes to make available municipal vendor contracts on the Divisions' website. The amendment to R.I. General Laws §42-142-4 is intended to make the Division's website even more user-friendly through the use of web based tools that potentially could enhance shared services amongst municipalities.

Section 4 of the budget article amends R.I. General Laws §45-13-12 and requires municipalities receiving state aid through the Distressed Communities Relief Fund to participate in the Income Tax Refund Offset Program. The intent of this proposal is to increase the collection of overdue taxes in those communities. The Income Tax Refund Offset Program is a debt collection program administered by the Division of Taxation. This program allows the Division of Taxation to intercept state income tax refunds and apply them to outstanding liabilities owed to municipal entities. Participating municipalities typically receive a large number of payments from delinquent taxpayers after the initial notification of this program to delinquent taxpayers. As of February 2016, eleven municipalities participate in the refund offset program. The municipalities are Bristol, Burrillville, Central Falls, Coventry, East Providence, Pawtucket, Providence, Richmond, Tiverton, West Warwick, and Woonsocket where a combined $1.8 million in delinquent liabilities has been collected since the program started. This amount does not reflect payment due to notification by those municipalities and only reflects the tax offset collected by the State.

Section 5 of the budget article proposes changes to the Revaluation Cycle, amending §44-5-11.5 and §44-5-11.6. Currently, municipalities are required to update their property values every third and sixth year and perform a complete physical on-site re-inspection and revaluation every ninth year. The amendment assumes a "5-10-15" schedule, with an update provided every fifth and tenth year, and a full revaluation every 15 years. This proposal would result in

cost savings for cities and towns. The change in schedule would be effective as of the December 31, 2017 assessment date.

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 2015 reflect audited revenues. For a discussion of FY 2015 revenues, see "General Revenues – Final FY 2015 Audited General Revenues." For a discussion of FY 2016 revenues, see "Revenue Estimates – Revised FY 2016 Revenue Estimates." A discussion of the FY 2017 revenue estimates adopted at the November 2015 Revenue Estimating Conference can be found in "Revenue Estimates – Adopted FY 2017 Revenue Estimates". Discussions of the Governor's recommended revenue changes for FY 2016 and FY 2017 are contained in "Revenue Estimates – Governor's Recommended FY 2016 Revenue Changes" and "Revenue Estimates – Governor's Recommended FY 2017 Revenue Changes," respectively.

Major Sources of State Revenue

Tax Revenues: In FY 2015, 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 60.2 percent of all audited FY 2015 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 this tax structure, Rhode Island income tax rates ranged from 3.75 percent to 9.9 percent of taxable income depending on taxable 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 as well as 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 income 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 Corporations 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 were: 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 the personal income tax system. The General Assembly passed into law the exemption of taxable Social Security benefits from Rhode Island income tax for individual filers with federal adjusted gross income of $80,000 or less and for joint filers with federal adjusted gross income of $100,000 or less provided that the taxpayer has reached full Social Security retirement age in 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 General Assembly also enacted legislation to increase the percentage of the federal earned income tax credit that can be used against a taxpayer's Rhode Island tax liability from 10.0 percent to 12.5 percent effective January 1, 2016 and thereafter. It is estimated that this proposal will reduce revenues by $3.1 million in FY 2016. Further, the General Assembly provided authorization to the Division of Taxation to enter into performance based contracts with third party vendors to assist in developing new personal income tax compliance programs. This authorization is estimated to increase personal income tax revenues by $962,500 in FY 2016. Finally, the General Assembly accepted the Governor's proposal to allow three new tax credits to be used against Rhode Island personal income tax liability. All three tax credits were part of the Governor's economic development incentives package that was accepted by the General Assembly. The newly allowed tax credits are: (i) the Stay Invested In Rhode Island Wavemaker Fellowship; (ii) Rebuild Rhode Island; and (iii) Rhode Island Qualified Jobs Incentive Program. Funding is appropriated in the FY 2016 Budget to support the Wavemaker and Rebuild RI programs, which will be used to reimburse the general fund for any tax credit amounts redeemed. The FY 2016 Budget also included a revenue loss of $1.0 million for the Qualified Jobs Incentive Program.

Rhode Island personal income tax revenues surpassed the billion dollar mark in a fiscal year for the first time in FY 2007. In FY 2015, personal income tax audited revenues totaled $1.228 billion or 33.7 percent of audited FY 2015 total general revenues. Audited FY 2015 personal income tax revenues were the highest amount received in the State's history and the fifth consecutive year that personal income tax revenues were above $1.0 billion. Audited FY 2015 personal income tax revenues increased by $112.1 million from audited FY 2014 revenues and increased in the share of total general revenues by 1.2 percentage points from audited FY 2014 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: (i) food for human consumption off the premises of the retailer, excluding food sold by restaurants, drive-ins or other eating places; (ii) clothing and most footwear that is sold for less than $250 per item; (iii) prescription medicines and medical devices; (iv) fuel used in the heating of homes and residential premises; (v) domestic water usage; (vi) gasoline and other motor fuels otherwise specifically taxed; (vii) 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; (viii) 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; (ix) sales of air and water pollution control equipment for installation pursuant to an order by the State Director of Environmental Management; and (x) 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 Streamlined Sales Tax Project. Effective January 1, 2007, Rhode Island became a full member of the Streamlined Sales and Use Tax Agreement (SSUTA). 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 participating in the SSUTA, 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: (i) package tour and scenic and sightseeing transportation services; (ii) prewritten computer software delivered electronically or by load and leave; (iii) patent medicines available without a prescription, including medical marijuana; and (iv) 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 another 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 (i) pet services providers other than providers of veterinary services and laboratory testing; (ii) taxicabs and other providers of road transportation services; and (ii) items of clothing and footwear that cost more than $250 per item. By instituting a threshold amount above which an item of clothing or footwear becomes taxable, the State is no longer in compliance with SSUTA. As of February 2016, the State remains out of compliance with SSUTA. A potential impact of this non-compliance is that the State may no longer receive voluntary remittances of sales and use tax revenues from remote sellers that are parties to the SSUTA. However, these voluntary remittances have continued to be made. Continued receipt of voluntary sales and use tax payments have been included in the estimated sales and use tax revenues since FY 2014. 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 were unconstitutional and 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 in the State's cigarette excise tax. One of the impacts of this tax increase was 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 made it possible for said licenses to be issued and subjected the retail sale of medical marijuana to the State's sales tax. Following this legislation, there were three licensed compassion centers that became eligible to operate 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 the sales tax on the sale of all wine and spirits 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 sales 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 exempted the sale of electricity, natural gas, and heating fuels to all businesses from the sales and use tax effective July 1, 2015. The FY 2016 enacted budget included a reduction in sales and use tax revenues of $24.4 million to reflect this change. In addition, the 2015 General Assembly increased the cigarette excise tax stamp rate from $3.50 a pack to $3.75 per 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 a plan to permit 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. The 2015 General Assembly also passed an expansion of the State's lodging taxes. These policy changes included: (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 and extended in the 2014 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 $963.4 million, or 26.5 percent, of the State's audited FY 2015 total general revenues. Audited FY 2015 sales and use tax revenues increased by $47.4 million from audited FY 2014 sales and use tax revenues and the share of total general revenues comprised of sales and use taxes fell by 0.2 percentage points from 26.7 percent in audited FY 2014 to 26.5 percent in FY 2015.

Business Corporations Tax. The business corporations 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 150.0 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 corporations 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 became 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 were intended to 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 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 enacted legislation to add 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 a law that 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 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 corporations tax revenues of $1.62 million in the FY 2016 enacted budget to reflect this change.

Business corporations tax revenues totaled $148.0 million, or 4.1 percent, of the State's audited FY 2015 total general revenues. Audited FY 2015 business corporations tax revenues increased by $33.8 million in both dollar terms and in the share of total general revenues from audited FY 2014 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 $44.1 million, or 1.2 percent of the State's audited FY 2015 total general revenues. Revenues from the health care provider assessment between audited FY 2015 and audited FY 2014 increased by $2.0 million while the share of total general revenues held constant 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 extended the Job Development Act tax rate reduction to public service corporations. The rate reduction allowed is 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 150.0 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 expansion of the Job Development Act rate reduction to public service corporations was made 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 above in the section, "Tax Revenues – Personal Income 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 public utilities gross earnings tax as well as other taxes.

The public utilities gross earnings tax accounted for approximately $104.0 million, or 2.9 percent, of the State's audited FY 2015 total general revenues. The dollar amount of public utilities gross earnings revenues increased by $2.6 million in audited FY 2015 from audited FY 2014 while the share of total general revenues accounted for by public utilities gross earnings tax revenues declined slightly between audited FY 2015 and audited FY 2014.

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 tax credit.

In the 2015 Session, the General Assembly passed legislation that made 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 FY 2016 insurance companies gross premiums tax revenues will be reduced by $871,584.

Insurance companies gross premiums tax revenues totaled approximately $120.3 million, or 3.3 percent, of the State's audited FY 2015 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 2015 and audited FY 2014.

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: (i) 9.0 percent of its net income of the preceding year; or,

(ii) $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 (i) 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 150.0 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 $22.7 million, or 0.6 percent of the State's audited FY 2014 total general revenues. The dollar amount of financial institutions excise tax revenues increased by $6.1 million between audited FY 2015 and audited FY 2014 while financial institutions tax revenues as a share of total general revenues also increased between the two fiscal years.

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 $2.3 million, or less than 0.1 percent, of the State's audited FY 2015 total general revenues. Both the dollar amount of bank deposits tax revenues and its share of total general revenues decreased slightly between audited FY 2015 and audited FY 2014.

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 occurred 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 $34.2 million, or 0.9 percent, of the State's audited FY 2015 total general revenues. The dollar amount of estate and transfer tax revenues and their share of total general revenues decreased between audited FY 2015 and audited FY 2014.

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. Finally, on August 1, 2015, the cigarette stamp excise tax rate was increased from $3.50 per pack of 20 cigarettes to $3.75 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 rather than the other tobacco products tax of 80.0 percent of the wholesale cost. Finally, the General Assembly passed legislation to create four 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 $138.0 million, or 3.8 percent, of the State's audited FY 2015 total general revenues. The dollar amount of cigarettes tax revenues and its share of total general revenues decreased between audited FY 2015 and audited FY 2014.

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 on the public roadways of the state other than fuel used: (i) for commercial fishing and other marine purposes other than operating pleasure craft; (ii) in engines, tractors, or motor vehicles not registered for use or used on public highways by lumbermen, water well drillers, and farmers; (iii) for the operation of airplanes; (iv) 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, (v) 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 2015 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 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 was added to the relevant registration and operator license transaction. For FY 2015, the surcharge increased to two thirds of the specified surcharge and was added to the relevant registration and operator license transaction. In FY 2016 the full surcharge amount is 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 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 transfers 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 these fees being transferred in FY 2017 and 100 percent of these 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 enacted into law the application of 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 FY 2016 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 excise taxes that was originally 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 had been set to sunset on June 30, 2015. The General Assembly included an increase of $6.4 million in alcohol excise tax revenues in FY 2016 as a result of this change.

Other taxes accounted for approximately $78.0 million, or 2.1 percent, of the State's audited FY 2015 total general revenues. FY 2015 other tax revenues decreased in both dollar terms and percentage share of total general revenues between audited FY 2015 and audited FY 2014.

Departmental Receipts. All departmental receipts revenues comprised 9.7 percent of total general revenues in audited FY 2015. Among the sub-categories of departmental receipts, licenses and fees were 78.7 percent of total departmental receipts in FY 2015.

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 hospital's 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 hospital's 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 hospital's 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 hospital's 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 hospital's 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 hospital 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 hospital 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 0.75 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: (i) motor vehicles dealers' license fees which increased from $100.00 to $300.00; (ii) motor vehicles manufacturers and distributors fees which increased from $200.00 to $300.00; and, (iii) 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 the following groups: (i) individuals seeking employment in licensed residential and child day care programs; (ii) child caregivers; (iii) individuals applying to adopt children; and, (iv) 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 General Assembly eliminated 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 FY 2016 as a result of this change. In addition, 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 FY 2016 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 hospitals in the state, 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 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 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 FY 2016.

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.

In 2016, the Office of the General Treasurer changed the policy with regard to the treatment of tax refund and other checks issued by the state that remain uncashed after a specified period of time. In the past, these checks were written off in June of the fiscal year and the amount of the checks written off were reverted back to general revenues. Effective for FY 2016 and thereafter, the Office of the General Treasurer will turn uncashed tax refund and other state issued checks over to the unclaimed property program rather than writing said checks off and reverting uncashed amounts to general revenues. The net impact of this change in policy is to reduce miscellaneous departmental receipts revenues by the amount of the checks transferred to the unclaimed property program less the 10 percent indirect cost recovery charge that is assessed against the unclaimed property program. In FY 2016, a total of $4.8 million of tax refund and other checks have been transferred to the unclaimed property program while approximately $500,000 of general revenues have been received from the assessment of the 10 percent indirect cost recovery charge on this transfer amount.

Departmental receipts revenues were $354.1 million, or 9.7 percent, of the State's audited FY 2015 total general revenues of $3.641 billion. Audited FY 2015 departmental receipts decreased on a nominal basis by $6.6 million and decreased as a percentage share of total general revenues by 0.8 percentage points when compared to audited FY 2014 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: (i) 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; (ii) payment of expenses incurred by the Lottery in the operation of the State lotteries; and, (iii) 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.

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

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

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

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

The 2010 General Assembly enacted legislation that amended the master video lottery terminal contracts for Twin River and Newport Grand. The amendments reduced the employment levels that each facility must have in order to extend the term of the contract, 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 projected 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 projected declines in Twin River and Newport Grand gross gaming revenues were 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. (See however, discussion below relating to the financial impact on Twin River of the opening of a slot parlor in Plainville, Massachusetts.)

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.

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. In addition, that legislation granted Twin River and Newport Grand an additional $750,000 in promotional points.

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 has proceeded 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. Despite initial predictions by Christiansen that that facility would reduce Twin River's

revenues by 15%, as of March, 2016 Twin River's revenues are only down by approximately 3.57% for the current fiscal year.

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.

On September 12, 2015 the Department of the Interior approved the Mashpee Wampanoag Tribe's ("Tribe") application to take certain land into trust. In November 2015, the Tribe acquired 115 acres of land in Taunton, Massachusetts; those acres were part of the 151 acres identified in the Tribe's September 12, 2015 application. On February 4, 2016, a civil lawsuit was filed by a group of Taunton residents against the Department of the Interior in the United States District Court in Boston, Massachusetts challenging the Department's decision to allow the Tribe's to take the land in trust. It is unclear what, if any, effect that lawsuit will have on the Massachusetts Gaming Commission's decision with respect to the issuance of a resort casino license in Region C. The Commission has tentatively scheduled March 31, 2016 as the date to make such a decision with respect to Region C.

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.

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 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.

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.

It should be noted that the Department of Revenue's Division of Lottery informed the State that 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.

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.

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. TRMG announced on July 24, 2015 that it had completed the acquisition of Newport Grand slots.

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 $ 859,000 in the General Assembly's enacted FY 2016 budget.

In November 2015, Christiansen completed an update to its November 2014 update of its original January 2012 study of the impact of casino gaming in Massachusetts on Rhode Island gaming revenues. In the 2015 update, Christiansen analyzed the reconfigured gaming at Twin River in Lincoln where there are 272 fewer video lottery terminals in operation, 12 more traditional table games and a poker room with 16 poker tables, a hotel at the Twin River Lincoln facility and the relocation of Newport Grand's video lottery terminal operations to a full casino located in Tiverton, RI. These Rhode Island gaming scenarios were analyzed with Massachusetts resort casinos

located in Springfield, MA, Everett, MA and Brockton, MA or Taunton, MA and a slots only facility located in Plainville, MA. The updated 2015 Christiansen study projected that impact of the slots only facility in Plainville, MA would have a lesser impact than originally projected primarily due to the reconfiguration of gaming at Twin River in Lincoln. In addition, the 2015 Christiansen study update found that the addition of a hotel at Twin River in Lincoln will increase gaming revenues generated from the video lottery terminals and the table games located at Twin River. The updated Christiansen study projected that the negative impact from resort casino gaming in southeastern Massachusetts will be significantly less with a resort casino located in Brockton, MA or a tribal casino located in Taunton, MA versus Fall River, MA as was analyzed in the 2014 Christiansen study update. Finally, the 2015 Christiansen study update projected that the transfer of the gaming operations at Newport Grand located in Newport, RI to a full casino located in Tiverton, RI would increase gaming revenues to the state provided that such a relocation receives approval via the passage of the state and local referenda discussed below. The 2015 Christiansen study did find, however, that, if there were a resort casino in Brockton, MA and a tribal casino in Taunton, MA, then the economic viability of a smaller full casino in Tiverton, RI would be doubtful to the point that such a casino would likely fail in the face of this level of competition.

In March 2016 the General Assembly passed, and the Governor subsequently signed into law, legislation authorizing referenda questions to appear on the November 2016 ballot with regards to transferring Newport Grand operations to the Tiverton site. The relocation plan will be allowed to move forward if the referenda is approved both statewide and in Tiverton. In addition, if the Newport Grand facility is relocated to Tiverton and operates 24 hours per day seven days a week, 1.45 percent of net terminal income will be paid to the Town of Tiverton. (Under prior law, the Newport Grand facility was not open 24 hours per day seven days a week and therefore the City of Newport's share of net terminal income was 1.01 percent.) Under the new law, the state's share of net table game revenue will be reduced from 16 percent to 15.5 percent to fund the 1 percent net table game revenue that will be paid under the law to the Town of Lincoln and the Town of Tiverton. The new law also guarantees the Town of Tiverton and the Town of Lincoln a minimum of three million dollars each year from the combination of net table game revenues and net terminal income. To the extent that either town does not receive that amount in any state fiscal year, then the state is required to make up the shortfall out of the state's share of net terminal income and net table game revenue. The guarantee continues in effect so long as both table games and video lottery games are offered at the gaming facilities. It is anticipated that the Town of Lincoln will not receive any payments from the state under this provision.

The lottery transfer to the General Fund totaled $381.9 million which accounted for 10.5 percent of the State's audited total general revenues in FY 2015. The dollar amount of the lottery transfer to the General Fund increased while its percentage share of total general revenue decreased between audited FY 2015 and audited FY 2014.

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. In 2016, the Office of the General Treasurer changed the policy with regard to the treatment of tax refund and other checks issued by the state that remain uncashed after a specified period of time. A detailed discussion of the impact of this change can be found in the miscellaneous departmental receipts component of "Departmental Receipts" above.

The unclaimed property transfer totaled $13.7 million in FY 2015 and accounted for 0.4 percent of the State's FY 2015 audited total general revenues. The dollar amount of the unclaimed property transfer increased while its share of total general revenue was stable between FY 2015 and FY 2014.

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 2015 was approximately $8.8 million, which accounted for 0.2 percent of the State's audited FY 2015 total general revenues. For FY 2014, these amounts were $6.4 million and 0.2 percent, respectively.

Restricted Receipts. In the FY 2016 revised budget, the State is projected to spend $288.8 million in restricted receipts, excluding transfers into the General Fund. In the FY 2017 proposed budget, as recommended by the Governor, the State is projected to spend $261.9 million in restricted receipts. 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 the FY 2016 revised budget, the State is projected to spend $3.114 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. In FY 2017, the Governor recommends $2.967 billion of revenues from the federal government.

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. From October 1, 2015 through September 30, 2016, the State's prevailing FMAP increased to 50.42 percent. From October 1, 2016 through September 30, 2017, the State's prevailing FMAP again increased to 51.02 percent. The FY 2016 enacted budget included $468.9 million in federal spending and the FY 2017 Governor's recommendation includes $466.8 million in total spending of which $454.7 million is federal funded and $12.1 million is state funded 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 is not 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, Rhode Island General Law § 35-16-5(e) 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."

During its November 2015 meeting, a forecast of the U.S. and Rhode Island economies was presented by Moody's Analytics. The Rhode Island Department of Labor and Training (DLT) also presented current employment and labor force trends in Rhode Island. The conferees heard the testimony from a Senior Economist for Moody's Analytics, and the Assistant Director for DLT's Labor Market Information unit.

The Revenue Estimating Conference adopted the economic forecast, shown at the end of this section, on November 2, 2015 through a consensus process informed by the testimony provided to the conferees. The updated economic forecast made changes to the consensus outlook adopted at the May 2015 Revenue Estimating Conference. These changes can also be seen at the end of this section.

In testimony to the principals of the November 2015 Revenue Estimating Conference, Moody's Analytics noted that the state's labor market is showing positive signs as the three month moving average year-over-year percentage change in non-farm employment growth based on the Bureau of Labor Statistics' household survey moved above 2.0 percent in 2015. In addition to non-farm employment growth, Moody's Analytics reported that Rhode Island personal income growth has begun to accelerate exceeding 4.0 percent growth year-over-year in FY 2015. This rate of growth was the second highest in New England trailing only Massachusetts. According to Moody's Analytics, the breadth of job creation in Rhode Island bears watching as five industry sectors had negative job growth year-over year in September 2015 while six industry sectors experienced positive job growth for the same period. This compares to the United States economy as a whole which had positive job growth in all 11 industry sectors. Based on an analysis conducted by Moody's Analytics, Rhode Island continued to underperform New England, the Northeast, and the United States as a whole in the growth in mid-wage jobs since January of 2010. Rhode Island did, however, outperform New England and the Northeast in the growth of high-wage jobs over this same time period. Finally, Moody's Analytics testified that new home sales in Rhode Island continue to lag

behind existing home sales and that mortgage credit quality in the state is "a lingering sore spot" when it comes to Rhode Island's housing market.

Moody's Analytics provided the principals of the November 2015 Revenue Estimating Conference with three major risks that the U.S. economy faces and how Rhode Island would be impacted by these risks.

- The first risk is the exposure of state economies to trade with China and its major trading partners. For the U.S. as a whole, exports to China and its major trading partners as a percentage of Gross State Product (GSP) is 2.7 percent while Rhode Island's exports to China and its major trading partners is 0.9 percent of state GSP. Thus, a significant economic slump in China will have less of an impact on Rhode Island than the U.S. as a whole and Massachusetts.
- The second risk is the exposure of state economies to equity holdings of households. For the U.S. as a whole, Moody's Analytics determined that direct and indirect equity holdings measured in thousands of dollars as of December 2014 were approximately $165,000 while for Rhode Island these holdings were $167,000. Thus, faced with a sharp reduction in equity values the wealth effect on Rhode Island should be in line with the U.S. as a whole and less significant than in Connecticut and Massachusetts each of which have direct and indirect household equity holdings of more than $176,000.
- The third risk is the exposure of state economies to a further slump in energy prices as measured by oil-related income as a percentage of total personal income. In this case, Rhode Island's exposure risk is considerably less than the U.S. as a whole based on 2014 data as Rhode Island oil-related income as a percentage of total personal income was 0.3 percent vs. 2.0 percent for the U.S. Based on this risk factor, Rhode Island's exposure was similar to that of all of the New England states.

When all three of these risk factors are combined in a weighted average with 40 percent weights on exports to China and its major trading partners and direct and indirect household equity holdings and a 20 percent weight on oil-related income as a percentage of total personal income, Rhode Island's economy is classified as at lower risk while both Connecticut and Massachusetts are classified as at near average risk.

Moody's Analytics noted that some of the conditions weighing down the housing market include increased foreclosures and the weak labor market, translating into a delayed release of pent-up household formation. A key risk to the November 2015 Consensus Economic Forecast is the growth in the housing market. Growth in the housing market is dependent on projected wage growth triggering the release of pent-up demand for household formation which, if unachieved, will make the forecast overly optimistic. On a positive note, Moody's Analytics stated that mortgage delinquency rates are almost back to prerecession levels. Stringent credit conditions have resulted in improved mortgage delinquency rates and the recent spike in foreclosure inventory should not be a cause for concern as Rhode Island consumers are in a stronger financial position to borrow. Additionally, Moody's Analytics reports that factory job gains earlier in the year as well as recent hiring in the financial services sector have kept the State's wage growth on par with the national average, an encouraging development given the uncertainty of potential abatement in federal spending levels for defense and other grants.

While testimony from Moody's Analytics gave a broad picture of Rhode Island's economic conditions as of November 2015, the Rhode Island Department of Labor and Training (DLT) presented a detailed analysis of Rhode Island's labor market. DLT reported that the Rhode Island unemployment rate was 5.4 percent in September 2015, the latest data available at the time of the Revenue Estimating Conference. This is down from 7.2 percent in September 2014. The 5.4 percent unemployment rate for September 2015 was the lowest it has been since August 2007 when the rate was 5.3 percent. For January 2016, Rhode Island's unemployment rate fell further to 5.3 percent, a decrease from the January 2015 unemployment rate of 6.5 percent. The January 2016 unemployment rate of 5.3 percent was the lowest recorded since August 2007 when the rate was also 5.3 percent.

Rhode Island's resident employment peaked at 547,300 in January 2007. Rhode Island resident employment in September 2015 totaled 522,530, or 24,770 below the peak, but 6,970 higher than in September 2014. According to the United States Bureau of Labor Statistics, for January 2016, Rhode Island resident employment totaled 522,412, or 24,888 below the January 2007 peak. BLS' data has January 2016 resident employment at 3,645 jobs above the reported amount of resident employment in January 2015. The BLS data shows that resident employment has decreased by 114 between September 2015 and January 2016.

DLT staff testified further that they expect to see revisions to the September 2015 job numbers reported by the Bureau of Labor Statistics (BLS). During the November 2015 REC, using a methodology developed by the

University of Massachusetts, DLT staff projected that total non-farm employment for September 2015 will be revised upward by 1,500 jobs to 483,600 from the official BLS published estimate of 482,100. The table below presents the detailed breakdown of this expected revision:

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

Source: RI Department of Labor and Training, Labor Market Information Unit, Quarterly Census of Employment and Current Employment Statistics (CES) data, Using methodology developed by the University of Massachusetts.

*Difference is a result of rounding

The revised total of Rhode Island establishment employment for 2015, based upon the BLS annual benchmark revisions, is a positive revision of 800 jobs. Thus, the published estimate of 487,700 was revised up to 488,500 in February 2016. The table below presents the detailed breakdown of this official benchmark revision:

Sector	Jobs Change	Sector	Jobs Change
Construction	1,900	Manufacturing	(400)
Trade, Transportation & Utilities	1,300	Professional & Business Services	(500)
Government	700	Other Services	(700)
Financial Activities	400	Education and Health Services	(800)
Information	200	Leisure & Hospitality	(1,300)
Natural Resource & Mining	-	**Total Non-Farm**	**800**

Source: Rhode Island Department of Labor and Training, Labor Market Information Unit, Current Employment Statistics, March 2015

As is evident from the two tables, the major difference in the DLT projected revisions and the BLS benchmark revisions were in the leisure and hospitality, education and health services and the information industry supersectors. Each of these industries, showed variances from the original DLT projection of at least 50 percent with the information industry changing from a negative revision based on DLT's methodology to a positive one using the BLS benchmark revision.

While there is no official measurement and dating of recessions at the state level, employment is usually used to gauge the cyclical status of the state economy. In FY 2015, total non-farm employment increased by 1.5 percent, the second consecutive fiscal year for which nonfarm employment growth has reached 1.5 percent and only the second time since FY 1991 that the State's nonfarm employment growth has been at least 1.5 percent for two consecutive fiscal years. Rhode Island has still not recovered all of the 39,800 jobs that were lost during the Great Recession but as of December 2015, 32,600 jobs had been added since Rhode Island employment had hit its trough in July and August of 2009.

In FY 2016, non-farm employment is expected to increase by 1.6 percent. Over the FY 2016 through FY 2021 period, Rhode Island's economy is expected to add 25,070 jobs, with Rhode Island surpassing its peak employment of 495,700 jobs reached in December 2006 sometime in FY 2017. It should be noted that growth rates in nonfarm employment indicate a positive trend from FY 2015's 1.5 percent growth to FY 2017's growth of 1.7 percent before rates of growth in nonfarm employment slow to 1.5 percent in FY 2018 and 1.1 percent in FY 2019. The consensus economic forecast indicates a continued decline in non-farm employment growth in FY 2020 and FY 2021 of 0.5 percent and 0.2 percent respectively.

The unemployment rate is projected to decline significantly from 6.7 percent in FY 2015 to 5.2 percent in FY 2017. Rhode Island's unemployment rate is expected to continue its downward trend falling to 5.0 percent by FY 2020 before ticking up to 5.1 percent in FY 2021. Even at this lower rate in FY 2021, Rhode Island's unemployment rate will be 0.2 percentage points higher than the State's unemployment rate of 4.9 percent achieved when the economy peaked in FY 2007.

Personal income growth is expected to be 4.7 percent in FY 2016 up slightly from the 4.6 percent growth in FY 2015. The November 2015 Revenue Estimating Conference's estimates for personal income growth show a positive upward trend from FY 2014 through FY 2017 peaking at 5.2 percent growth in FY 2017. It should be noted that for FY 2016 and FY 2017, the adopted estimates for personal income growth are below the adopted estimates from the May 2015 Revenue Estimating Conference for the same period. This projection indicates that personal income growth will be stronger than what was anticipated for the FY 2018 and FY 2019 period at the May 2015 Revenue Estimating Conference. The consensus economic forecast for FY 2020 and FY 2021 personal income growth, as testified to by Moody's Analytics at the November 2015 Revenue Estimating Conference, is equal to or slightly below the consensus economic forecast adopted at the May 2015 Revenue Estimating Conference. The FY 2016 projected growth rate for personal income is down 0.3 percentage points from what was adopted at the May 2015 Revenue Estimating Conference of 5.0 percent. For FY 2017 the adopted November 2015 Revenue Estimating Conference personal income growth estimate is also 0.3 percentage points below the 5.5 percent growth rate that was adopted in May 2015. Based on the November 2015 Revenue Estimating Conference, the personal income growth rate is expected to fall to 4.8 percent in FY 2018 and remain at or above 3.1 percent throughout the remainder of the forecast period.

Similarly, the November 2015 Revenue Estimating Conference estimates for FY 2016 growth in dividends, interest and rents indicate a sharp increase from FY 2015 growth of 3.9 percent with robust growth of 10.1 percent projected to occur in FY 2017, 8.0 percent in FY 2018 and an average growth rate of 2.3 percent for the FY 2019 through FY 2021 period. November 2015 Revenue Estimating Conference adopted wage and salary income growth was higher in FY 2015 relative to the projected growth adopted in May 2015 by 1.0 percentage point. For FY 2016 and FY 2017, the November 2015 Revenue Estimating Conference growth rates for wages and salaries were revised downward by 1.4 percentage points and 0.7 percentage points respectively when compared to the forecast adopted in May 2015. Wage and salary income growth is expected to see continued improvement in FY 2016 with projected growth of 4.6 percent, an increase of 0.5 percentage points from FY 2015. The rate of growth accelerates in FY 2017 to 5.3 percent before decelerating in FY 2018, FY 2019 and FY 2020 to 5.0 percent, 4.6 percent and 3.6 percent respectively. The downward trend in wage and salary income growth continues into FY 2021 with a projected growth rate of 3.0 percent.

The U.S. rate of inflation as measured by the Consumer Price Index for all urban consumers (CPI-U) is anticipated to increase to 1.2 percent in FY 2016 from 0.7 percent in FY 2015. In FY 2017 the growth in the CPI-U doubles to 2.4 percent before increasing to 3.0 percent in both FY 2018 and FY 2019. The forecast of CPI-U growth decelerates to 2.6 percent in FY 2019 and 2.4 percent in FY 2020 and FY 2021.

For FY 2016, the interest rate on three month Treasury bills is expected to rise slightly relative to FY 2015's 0.0 percent rate. In FY 2017, the interest rate on three month Treasury bills is expected to rise to 1.0 percent and increase again by 1.5 percentage points to approximately 2.5 percent in FY 2018. For FY 2019 and FY 2020, the interest rate on three month Treasury bills climbs to 3.2 percent and 3.3 percent respectively before stabilizing at 2.5 percent in FY 2021. The interest rate on ten year Treasury notes is expected to increase from 2.5 percent in FY 2016 to 3.6 percent in FY 2017 and continue to rise to 4.3 in FY 2018. The interest rate on ten year Treasury notes is anticipated to drift downward in FY 2019 to 4.2 percent and then decrease to 4.1 percent in FY 2020 and remain flat for FY 2021.

The Consensus Economic Forecast for the fiscal years 2016 through 2021 agreed upon by the conferees at the November 2015 Revenue Estimating Conference is shown in the following table.

The November 2015 Consensus Economic Forecast						
Rates of Growth (%)	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
Non-Farm Employment	1.6	1.7	1.5	1.1	0.5	0.2
Personal Income	4.7	5.2	4.8	3.8	3.2	3.1
Wage and Salary Income	4.6	5.3	5.0	4.6	3.6	3.0
Dividends, Interest and Rent	7.1	10.1	8.0	3.2	1.6	2.0
Nominal Rates (%)						
U.S. CPI-U	1.2	2.4	3.0	3.0	2.6	2.4
RI Unemployment Rate	5.6	5.2	5.0	5.0	5.0	5.1
Ten Year Treasury Notes	2.5	3.6	4.3	4.2	4.1	4.1
Three Month Treasury Bills	0.3	1.0	2.5	3.2	3.3	2.5

The differences between the November 2015 and the May 2015 Consensus Economic Forecasts (CEF) are show below. As is apparent from the table, the November 2015 Consensus Economic Forecast is generally lower in FY 2016 and FY 2017 than the May 2015 Consensus Economic Forecast with the exception of the Rhode Island unemployment rate and national level measures that are tied to inflation. Employment and income growth improves in FY 2018 through FY 2020 in the November 2015 CEF vis-à-vis the May 2015 CEF.

Percentage Point Changes from November 2015 To May 2015 Consensus Economic Forecasts					
Rates of Growth (%)	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
Non-Farm Employment	0.04	-0.12	0.75	0.64	0.24
Personal Income	-0.28	-0.32	0.50	0.36	0.01
Wage and Salary Income	-1.35	-0.69	0.62	0.78	0.37
Dividends, Interest and Rent	0.42	0.72	1.32	0.08	-0.65
Nominal Rates (%)					
U.S. CPI-U	-0.64	-0.12	0.24	0.38	0.26
RI Unemployment Rate	-0.46	-0.31	-0.27	-0.24	-0.22
Ten Year Treasury Notes	-0.61	-0.53	-0.32	-0.28	-0.30
Three Month Treasury Bills	-0.34	-1.17	-0.48	-0.15	-0.16

GENERAL REVENUES

Final FY 2015 Audited Revenues

Audited FY 2015 total general revenues of $3.641 billion were up $208.9 million compared to audited FY 2014 total general revenues of $3.430 billion, which translates into a growth rate of 6.1 percent. Audited FY 2015 total general revenues were 0.7 percent more than the final enacted FY 2015 total general revenue estimate of $3.617 billion, a surplus of $24.4 million.

Audited FY 2015 total taxes and departmental receipts were 0.6 percent more than the final enacted FY 2015 estimate of $3.217 billion, a surplus of $19.9 million. Audited FY 2015 total taxes and departmental receipts of $3.237 billion were up $200.0 million compared to audited FY 2014 total taxes and departmental receipts of $3.035 billion, which translates into a growth rate of 6.7 percent.

Audited FY 2015 other general revenue sources were 1.1 percent more than the final enacted FY 2015 estimate of $400.0 million, a surplus of $4.4 million. Audited FY 2015 other general revenue sources of $404.4 million were up $9.0 million compared to audited FY 2014 other general revenue sources of $395.4 million, which translates into a growth rate of 2.3 percent.

Audited FY 2015 revenues for total taxes were 0.6 percent more than the final enacted FY 2015 estimate of $2.866 billion, a surplus of $16.7 million. Audited FY 2015 total taxes revenues of $2.883 billion were up $206.5 million compared to audited FY 2014 total taxes revenues of $2.674 billion, which translates into a growth rate of 7.8 percent.

Audited FY 2015 personal income tax revenues were 0.1 percent more than the final enacted FY 2015 estimate of $1.227 billion, a surplus of $781,960. Audited FY 2015 personal income tax revenues of $1.228 billion were up $112.1 million compared to audited FY 2014 personal income tax revenues of $1.116 billion, which translates into a growth rate of 10.0 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 2015 business corporations tax revenues were 3.3 percent more than the final enacted FY 2015 estimate of $143.2 million, a surplus of $4.8 million. Audited FY 2015 business corporations tax revenues of $148.0 million were up $33.8 million compared to audited FY 2014 business corporations tax revenues of $114.2 million, which translates into a growth rate of 29.6 percent.

Audited FY 2015 public utilities gross earnings tax revenues were 0.3 percent more than the final enacted FY 2015 public utilities gross earnings tax revenue estimate of $103.6 million, a surplus of $350,349. Audited FY 2015 public utilities gross earnings tax revenues of $104.0 million were up $2.6 million compared to audited FY 2014 public utilities gross earnings tax revenues of $101.4 million, which translates into a growth rate of 2.5 percent.

Audited FY 2015 financial institutions tax revenues were 3.4 percent more than the final enacted FY 2015 estimate of $22.0 million, a surplus of $743,284. Audited FY 2015 financial institutions tax revenues of $22.7 million were up $6.1 million compared to audited FY 2014 financial institutions tax revenues of $16.6 million, which translates into a growth rate of 36.9 percent.

Audited FY 2015 insurance companies gross premiums tax revenues were 2.3 percent less than the final enacted FY 2015 estimate of $123.1 million, a shortfall of $2.8 million. Audited FY 2015 insurance companies gross premiums tax revenues of $120.3 million were up $17.9 million compared to audited FY 2014 insurance companies gross premiums tax revenues of $102.4 million, which translates into a growth rate of 17.5 percent.

Audited FY 2015 bank deposit tax revenues were 18.9 percent more than the final enacted FY 2015 estimate of $1.9 million, a surplus of $359,880. Audited FY 2015 bank deposit tax revenues of $2.3 million were down $211,673 compared to audited FY 2014 bank deposit tax revenues of $2.5 million, which translates into a growth rate of -8.6 percent.

Audited FY 2015 health care provider assessment revenues were 0.4 percent less than the final enacted FY 2015 estimate, a shortfall of $174,662. Audited FY 2015 health care provider assessment revenues of $44.1 million were up $2.0 million compared to audited FY 2014 health care provider assessment revenues of $42.1 million, a growth rate of 4.7 percent.

Audited FY 2015 sales and use tax revenues were 1.0 percent more than the final enacted FY 2015 estimate of $954.0 million, a surplus of $9.4 million. Audited FY 2015 sales and use tax revenues of $963.4 million were up $47.4 million compared to audited FY 2014 sales and use tax revenues of $916.0 million, a growth rate of 5.2 percent.

Audited FY 2015 motor vehicle operator license and vehicle registration fee revenues were 1.6 percent less than the final enacted FY 2015 estimate of $49.9 million, a shortfall of $782,999. Audited FY 2015 motor vehicle operator license and vehicle registration fee revenues of $49.1 million were down $3.3 million compared to audited FY 2014 motor vehicle operator license and vehicle registration fee revenues of $52.4 million, which translates into a growth rate of -6.3 percent.

Audited FY 2015 motor carrier fuel use tax revenues were up $73,350 or 37.7 percent from the final enacted FY 2015 estimate of $(200,000). Audited FY 2015 motor carrier fuel use tax revenues of $(124,650) were

down $648,570 compared to audited FY 2014 motor carrier fuel use tax revenues of $523,920, which translates into a growth rate of -123.8 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 2015 cigarettes tax revenues, including other tobacco products and any cigarette floor stock taxes, were up $1.1 million or 0.8 percent from the final enacted FY 2015 estimate of $136.9 million. Audited FY 2015 cigarettes tax revenues of $138.0 million were down $1.4 million compared to audited FY 2014 cigarettes tax revenues of $139.5 million, a growth rate of -1.0 percent.

Audited FY 2015 alcohol excise tax revenues were 2.3 percent less than the final enacted FY 2015 estimate of 18.8 million, a shortfall of $436,715. Audited FY 2015 alcohol tax revenues of $18.4 million were up $110,835 compared to audited FY 2014 alcohol tax revenues of $18.3 million, a growth rate of 0.6 percent.

Audited FY 2015 controlled substances revenues include a net accrual of $6,177. There was no final enacted FY 2015 controlled substances revenue estimate. Audited FY 2015 controlled substances revenues were down $42,011 compared to audited FY 2014 controlled substances revenues of $48,188, a growth rate of -87.2%.

Audited FY 2015 estate and transfer tax revenues were 8.6 percent more than the final enacted FY 2015 estimate of $31.5 million, a surplus of $2.7 million. Audited FY 2015 estate and transfer tax revenues of $34.2 million were down $9.4 million compared to audited FY 2014 estate and transfer tax revenues of $43.6 million, a growth rate of -21.5 percent.

Audited FY 2015 racing and athletics tax revenues were 0.7 percent more than the final enacted FY 2015 estimate of $1.1 million, a surplus of $7,202. Audited FY 2015 racing and athletics tax revenues of $1.11 million were down $69,667 compared to audited FY 2014 racing and athletics tax revenues of $1.18 million, which translates into a growth rate of -5.9 percent.

Audited FY 2015 realty transfer tax revenues were 5.5 percent more than the final enacted FY 2015 estimate of $9.0 million, a surplus of $493,464. Audited FY 2015 realty transfer tax revenues of $9.5 million were up $1.5 million compared to audited FY 2014 realty transfer tax revenues of $8.0 million, which translates into a growth rate of 19.2 percent.

Audited FY 2015 total departmental receipts were 0.9 percent more than the final enacted FY 2015 estimate of $350.9 million, an excess of $3.3 million. Audited FY 2015 total departmental receipts of $354.1 million were down $6.6 million compared to audited FY 2014 total departmental receipts of $360.7 million, which translates into a growth rate of -1.8 percent. It should be noted that the decrease in audited FY 2015 departmental receipts is partially driven by a decrease in licenses and fees revenues attributable to the transfer of emission control inspection sticker fee and motor vehicle title fee revenues from general revenues to the Rhode Island Highway Maintenance Account in the Intermodal Surface Transportation Fund effective for FY 2015.

Audited FY 2015 other miscellaneous revenues were 3.4 percent less than the final enacted FY 2015 estimate of $9.1 million, a shortfall of $306,636. Audited FY 2015 other miscellaneous revenues of $8.8 million were up $2.4 million compared to audited FY 2014 other miscellaneous revenues of $6.4 million, a growth rate of 37.3 percent.

The audited FY 2015 lottery transfer to the State's General Fund was up 0.9 percent compared to the final enacted FY 2015 estimate of $378.6 million, a surplus of $3.3 million. The audited FY 2015 lottery transfer was $381.9 million or $5.6 million more than the audited FY 2014 lottery transfer of $376.3 million, which translates into a growth rate of 1.5 percent.

The audited FY 2015 unclaimed property transfer was 11.5 percent more than the final enacted FY 2015 estimate of $12.3 million, an excess of $1.4 million. The unclaimed property transfer of $13.7 million for audited FY 2015 was up 7.8 percent or $1.0 million compared to the audited FY 2014 unclaimed property transfer of $12.7 million.

Revised FY 2016 Revenue Estimates

The November 2015 Revenue Estimating Conference estimated FY 2016 general revenues of $3.596 billion, a decrease of $44.9 million from audited FY 2015 total general revenues, equivalent to a growth rate of -1.2 percent. The FY 2016 revised revenue estimates were $52.4 million or 1.5 percent above the FY 2016 enacted level of $3.544 million.

General revenues consist of taxes, departmental receipts, and other sources. Taxes account for 79.9 percent of general revenues in the revised FY 2016 estimate at $2.872 billion. Revised FY 2016 total tax revenue is $10.9 million less than the audited FY 2015 level, equivalent to a growth rate of -0.4 percent. The revised estimate for FY 2016 tax revenue was revised up by $28.3 million or 1.0 percent over enacted FY 2016 levels at the November 2015 Revenue Estimating Conference.

The largest source of FY 2016 revised revenues is the personal income tax comprising 33.4 percent of total general revenues and 42.3 percent of all tax revenues estimated at $1.215 billion. Revised FY 2016 revenues are estimated to decrease by $12.7 million compared to audited FY 2015 revenues, equivalent to a growth rate of -1.0 percent. The decrease in the revised FY 2016 personal income tax revenues accounts for the exemption of taxable Social Security benefits from the personal income tax for taxpayers who have reached their full Social Security retirement age and have federal AGI amounts below $80,000 for individual filers and $100,000 for joint filers effective for tax years beginning on or after January 1, 2016. The November 2015 Revenue Estimating Conference estimated FY 2016 revised personal income tax revenues to be $837,125 or 0.1 percent less than the FY 2016 enacted level. The revised FY 2016 revenue estimate for personal income taxes has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against personal income taxes. Through February 2016, these redemptions totaled $3.5 million.

The second largest source of FY 2016 revised revenues is the sales and use tax at 27.3 percent of total general revenues and 34.2 percent of all tax revenues. Sales and use tax is expected to yield $981.0 million, an increase of $17.6 million over audited FY 2015 revenues, equivalent to a growth rate of 1.8 percent. This modest growth incorporates the repeal of the state sales tax on purchases of electricity, natural gas and heating fuels by commercial businesses for non-manufacturing purposes. The November 2015 Revenue Estimating Conference projected FY 2016 revised sales and use tax revenues to be $11.5 million or 1.2 percent more than the FY 2016 enacted level.

Motor vehicle operator license and vehicle registration fees are projected at $36.2 million in the revised FY 2016 estimate. These motor vehicle-related fees are expected to comprise 1.0 percent of all general revenues or 1.3 percent of all tax revenues. The revised estimate is $12.9 million less than the audited FY 2015 level equivalent to a growth rate of -26.3 percent. This decline is largely attributable to the transfer of 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. The November 2015 Revenue estimating Conference projected FY 2016 revised motor vehicle license and registration fees to be $338,048 or 0.9 percent less than the FY 2016 enacted level.

Motor carrier fuel use taxes are projected to comprise less than one percent of both total general revenues and tax revenues in the revised FY 2016 estimate. Motor fuel receipts are expected to yield $500,000, an increase of $624,650 over audited FY 2015 revenues of $(124,650). The November 2015 Revenue Estimating Conference made no change to the enacted FY 2016 estimate.

The revised FY 2016 estimate of cigarette taxes, which include excise taxes on cigarettes and ad valorem taxes on other tobacco products such as pipe tobacco, cigars, and the like, is estimated to total $142.1 million, or 4.0 percent of all general revenues and 4.9 percent of total tax revenues. Revised FY 2016 cigarettes tax revenues are $4.1 million or 2.9 percent more than audited FY 2015 revenues, reflecting in part the increase in the cigarette excise tax rate to $3.75 per pack of 20 cigarettes that went into effect of August 1, 2016. The revised FY 2016 estimate adopted at the November 2015 Revenue Estimating Conference increased the FY 2016 enacted estimate by $1.3 million or 0.9 percent.

Alcohol taxes are projected to be $19.0 million in the revised FY 2016 estimate. This amount comprises less than one percent of both total general revenues and total taxes. Alcohol excise tax revenue increased by $636,715 over audited FY 2015 revenues, equivalent to a growth rate of 3.5 percent. The November 2015 Revenue Estimating Conference increased the enacted FY 2016 estimate by $160,500 or 0.9 percent.

Revised FY 2016 general business taxes are expected to account for 12.3 percent of total general revenues and 15.5 percent of all taxes at $443.9 million.

The largest component within general business taxes is the business corporations tax, which is expected to total $153.5 million in the revised FY 2016 estimate. Business corporations tax is expected to comprise 4.3 percent of general revenues and 5.3 percent of total taxes. The revised FY 2016 estimate is $5.5 million more than the audited FY 2015 level, equivalent to a growth rate of 3.7 percent. The revised estimate adopted at the November 2015 Revenue Estimating Conference increased the previous enacted FY 2016 estimate by $17.1 million or 12.6 percent. The business corporations tax revenue estimate has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against financial institutions taxes. Through February 2016, there have been $432,162 of redemptions of historic structures tax credit certificates against business corporations taxes.

The public utilities gross earnings tax totals $104.0 million in the revised FY 2016 estimate, representing 2.9 percent of general revenues and 3.6 percent of total taxes. The revised FY 2016 estimate showed growth over audited FY 2015 revenues of $49,651, equivalent to a growth rate of less than one percent. The revised FY 2016 estimate is $700,000 or 0.7 percent less than the enacted FY 2016 revenue estimate.

The revised FY 2016 estimate of financial institutions tax revenue is $17.7 million or less than one percent of both total general revenues and total taxes. The revised FY 2016 estimate decreased by $5.0 million over the audited FY 2015 level, equivalent to a growth rate of -22.2 percent. The revised FY 2016 estimate adopted at the November 2015 Revenue Estimating Conference was $1.2 million or 7.3 percent greater than the enacted FY 2016 estimate. The financial institutions tax estimate has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against financial institutions taxes. Through February 2016, there have been no redemptions of historic structures tax credit certificates against financial institutions taxes.

Insurance companies gross premiums tax revenue in the revised FY 2016 estimate totals 3.4 percent of general revenues and 4.3 percent of total taxes. At $122.4 million in expected insurance companies gross premiums tax revenue, the revised FY 2016 estimate grew by $2.1 million or 1.8 percent over the audited FY 2015 level. At the November 2015 Revenue Estimating Conference, the enacted FY 2016 estimate was revised down by $2.8 million or -2.3 percent. The insurance companies gross premiums tax estimate has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against insurance companies gross premiums taxes. Through February 2016, $1.5 million of historic structures tax credit certificates have been redeemed against insurance companies gross premiums taxes.

The revised FY 2016 estimate of bank deposits taxes is $2.3 million, representing less than one percent of both general revenues and total taxes. Bank deposits taxes are expected to grow by $40,120 or 1.8 percent over audited FY 2015 levels. The November 2015 Revenue Estimating Conference adjusted expectations for bank deposits tax by increasing the revised FY 2016 estimate by $300,000 or 15.0 percent over the enacted FY 2016 estimate.

The revised FY 2016 estimate of the health care provider assessment is $44.0 million comprising 1.2 percent of total general revenues and 1.5 percent of all taxes. The health care provider assessment decreased by $125,338 compared to the audited FY 2015 level, equivalent to a growth rate of -0.3 percent. The revised FY 2016 estimate is $936,976 or 2.1 percent less than the enacted FY 2016 estimate.

Estate and transfer taxes, formally labeled inheritance and gift taxes, are expected to yield $23.0 million according the revised FY 2016 estimate. This is equal to less than one percent of both total general revenues and total taxes. The revised FY 2016 estimate is $11.2 million less than the audited FY 2015 level, equivalent to a growth rate of -32.8 percent. The estimate for revised FY 2016 estate and transfer tax revenue adopted at the

November 2015 Revenue Estimating Conference is $2.6 million or 12.75 percent greater than the enacted FY 2016 estimate.

Racing and athletics tax revenues are expected to yield $1.1 million in the revised FY 2016 budget, or less than one percent of both total general revenues and total taxes. This amount shows a change of $(7,202) over audited FY 2015 levels, equivalent to a growth rate of -0.7 percent. The November 2015 Revenue Estimating Conference did not alter the enacted FY 2016 estimate of racing and athletics tax revenue of $1.1 million.

The revised FY 2016 estimate of realty transfer tax revenues is equal to $10.0 million, or less than one percent of both total general revenues and total tax revenues. The revised FY 2016 estimate is $506,536 greater than the audited FY 2015 level, equivalent to a growth rate of 5.3 percent. The revised FY 2016 estimate is $210,937 or 2.1 percent less than the enacted FY 2016 estimate.

Departmental receipts account for 9.9 percent of total general revenues in the revised FY 2016 estimate or $356.7 million. Revised FY 2016 departmental receipts revenue is $2.6 million more than the audited FY 2015 level, equivalent to a growth rate of 0.7 percent. The revised estimate for FY 2016 departmental receipts was adjusted downward by $536,271 or -0.2 percent compared to enacted FY 2016 levels at the November 2015 Revenue Estimating Conference.

Considered together, total taxes and departmental receipts account for 89.8 percent of all general revenues in the revised FY 2016 estimate or $3.228 billion. Revised FY 2016 total taxes and departmental receipts revenues are $8.3 million less than the audited FY 2015 level, equivalent to a growth rate of -0.3 percent. The revised estimate for FY 2016 total taxes and departmental receipts was upwardly adjusted by $27.8 million or 0.9 percent over enacted FY 2016 levels at the November 2015 Revenue Estimating Conference.

Other sources account for 10.2 percent of general revenues in the revised FY 2016 estimate or $367.8 million. Revised FY 2016 other sources general revenues were $36.6 million less than the audited FY 2015 level, equivalent to a growth rate of -9.1 percent. The estimate for FY 2016 other sources general revenues was revised up by $24.6 million or 7.2 percent over enacted FY 2016 levels at the November 2015 Revenue Estimating Conference. Total other sources of general revenues are comprised of other miscellaneous revenues, the lottery transfer, and the transfer of proceeds from the unclaimed property program administered by the Office of the General Treasurer.

The revised FY 2016 estimate for other miscellaneous revenues of $783,000 is expected to account for less than one percent of general revenues. This amount represents a decline of $8.0 million compared to audited FY 2015 levels, equivalent to a growth rate of -91.1 percent. The year-over-year decline is largely driven by the non-continuation of one-time revenues from FY 2015 including $5.0 million in proceeds resulting from the refinancing of tobacco master settlement agreement securities and a $1.3 million National Grid energy rebate. The revised estimate for FY 2016 other miscellaneous sources of general revenue was $614,000 or 44.0 percent less than enacted FY 2016 levels.

The lottery transfer category of other sources of general revenues contributed 9.9 percent of revised FY 2016 estimated general revenues or $356.9 million. In FY 2016 the revised estimate of lottery revenues is $25.0 million less than audited FY 2015 levels, equivalent to a growth rate of -6.6 percent. The revised estimate for FY 2016 is $25.2 million, or 7.6 percent, more than the enacted FY 2016 estimate. The significant upward adjustment of expectations for the lottery transfer during the November 2015 Revenue Estimating Conference is largely due to updated assumptions on the timing and impact that Massachusetts gaming would have on Rhode Island revenues. Christiansen Capital Advisors, LLC, updated a November 2014 report that projects impacts of Massachusetts gaming scenarios on Rhode Island gaming facilities. The update modifies near-term impact projections that the Plainridge slot parlor will have, in part based on experience to date. Additionally, the location and timing of the "Region C" casino was amended to remove Fall River as the most likely option. These amendments brightened the outlook for Rhode Island lottery revenues in the near and longer term.

Revenues from the transfer of proceeds from the unclaimed property program administered by the Office of the General Treasurer are estimated to produce $10.1 million or less than 1 percent of total general revenues in the revised FY 2016 budget. The revised FY 2016 estimate was $3.6 million or 26.3 percent less than the audited FY 2015 amount. The estimate adopted at the November 2015 Revenue Estimating Conference is $100,000 or 1.0 percent higher than the enacted FY 2016 level.

The revised FY 2016 revenue estimate reflects the fact that no portion of the State's $0.33 per gallon motor fuel tax is available for use as general revenue. Thus, the gas tax transfer is estimated at zero for revised FY 2016 just as it was in the enacted FY 2016 budget and audited FY 2015 budget. Motor fuel taxes had previously been categorized within other sources of general revenues in previous years when such a transfer had taken place.

Governor's Recommended FY 2016 Revenue Changes

The Governor's FY 2016 Supplemental Budget proposal as submitted to the 2016 session of the General Assembly recommends one policy change impacting general revenues, an increase of $5,000 in revenues over the amount adopted at the November 2015 Revenue Estimating Conference. The recommended change to the FY 2016 adopted estimates is attributable to a grant received by the Rhode Island State Council on the Arts from the Rhode Island Foundation. The funding will be used to provide grants to Expansion Arts alumni and administrators to attend professional development workshops. This one-time grant will be deposited as general revenue, with the additional revenue reflected in the Governor's revenue estimates for departmental receipts.

Adopted FY 2017 Revenue Estimates

The November 2015 Revenue Estimating Conference estimated FY 2017 total general revenues of $3.493 billion, a decrease of $103.2 million or 2.9 percent from revised FY 2016 total general revenues of $3.596 billion. The estimated FY 2017 revenues do not include collections attributable to the hospital licensing fee. This fee is renewed on a year-to-year basis and has been extended each year since its inception. The estimators, however, must estimate revenues consistent with current law under which no fee is enacted for FY 2017. All references to FY 2017 total general revenues do not include the revenue resulting from the hospital licensing fee, which is estimated at $169.1 million in revised FY 2016. The FY 2017 adopted revenue estimate assumes that the State regains tax revenues from the reimbursement of historic structures tax credits that are redeemed against the personal income tax, the business corporations tax, the financial institutions tax, and the insurance companies gross premiums tax.

General revenues consist of taxes, departmental receipts, and other sources. Taxes account for 84.1 percent of general revenues in the adopted FY 2017 estimate or $2.937 billion. The adopted FY 2017 estimate of total tax revenue is $65.3 million more than the revised FY 2016 level, equivalent to a growth rate of 2.3 percent.

The largest source of general revenues in the adopted FY 2017 estimate is the personal income tax at $1.265 billion, contributing 36.2 percent of total general revenues and 43.1 percent of all taxes. Adopted FY 2017 personal income tax revenues anticipate growth of $50.5 million or 4.2 percent over the revised FY 2016 estimate. It should be noted that the adopted FY 2017 personal income tax revenue estimate has been grossed up to reflect anticipated reimbursement of the State from proceeds of Rhode Island Commerce Corporation Revenue Bonds for historic structures tax credits that are expected to be redeemed against personal income taxes.

The second largest source of total general revenues in the adopted FY 2017 estimate is the sales and use tax at $1.015 billion, contributing 29.1 percent of all general revenues and 34.6 percent of all taxes. Estimated FY 2017 sales and use tax revenue reflects expected growth of $34.0 million or 3.5 percent over the revised FY 2016 estimate.

The adopted estimate for FY 2017 motor vehicle license and vehicle registration fees is $12.2 million, contributing less than one percent of both general revenues and total taxes. Estimated FY 2017 revenues reflect a decrease of $24.0 million or 66.3 percent compared to the revised FY 2016 estimate. This significant decline is largely attributable to the transfer motor vehicle operator license and vehicle registration fees from general revenue to the Rhode Island Highway Maintenance Account, with the percentage of fees to be transferred increasing from 25.0 percent in FY 2016 to 75.0 percent in FY 2017.

The adopted estimate for FY 2017 motor carrier fuel use tax is $500,000, contributing less than one percent to both general revenues and total taxes. Anticipated revenue in FY 2017 is unchanged from the revised FY 2016 estimate.

The adopted estimate for FY 2017 cigarette taxes is $138.6 million, contributing 4.0 percent of total general revenues and 4.7 percent of total taxes. The adopted FY 2017 estimate is $3.5 million or 2.5 percent less than the revised FY 2016 estimate.

The adopted estimate for FY 2017 alcohol taxes is $19.5 million, contributing less than one percent of both general revenues and total taxes. The adopted revenue estimate for FY 2017 is $500,000 or 2.6 percent greater than the revised FY 2016 level.

General business taxes are estimated to total $454.0 million and comprise 13.0 percent of total general revenues and 15.5 percent of total taxes in the adopted FY 2017 estimate.

The largest component within general business taxes is the business corporations tax which is estimated to generate $156.0 million in the adopted FY 2017 estimate or 4.5 percent of general revenues and 5.3 percent of total taxes. The adopted revenue estimate for FY 2017 is $2.5 million or 1.6 percent greater than the revised FY 2016 estimate. It should be noted that the adopted FY 2017 business corporations tax revenue estimate has been grossed up to reflect anticipated reimbursement of the State from proceeds of Rhode Island Commerce Corporation Revenue Bonds for historic structures tax credits that are expected to be redeemed against business corporations taxes.

The adopted FY 2017 public utilities gross earnings tax revenues estimate is $104.5 million, contributing 3.0 percent of general revenues and 3.6 percent of total taxes. The adopted revenue estimate for FY 2017 is $500,000 or 0.5 percent greater than the revised FY 2016 estimate.

The adopted estimate FY 2017 financial institutions tax is $19.5 million, contributing less than one percent to both general revenues and total taxes. The adopted revenue estimate for FY 2017 is $1.8 million or 10.2 percent more than the revised FY 2016 estimate. It should be noted that the adopted FY 2017 financial institutions tax revenue estimate has been grossed up to reflect anticipated reimbursement of the State from proceeds of Rhode Island Commerce Corporation Revenue Bonds for historic structures tax credits that are expected to be redeemed against financial institutions taxes.

The adopted estimate for FY 2017 insurance companies gross premiums tax revenues is $126.6 million, contributing 3.6 percent of general revenues and 4.3 percent of total taxes. The adopted revenue estimate for FY 2017 is $4.2 million or 3.4 percent greater than the revised FY 2016 estimate. It should be noted that the adopted FY 2017 insurance companies gross premiums tax revenue estimate has been grossed up to reflect anticipated reimbursement of the State from proceeds of Rhode Island Commerce Corporation Revenue Bonds for historic structures tax credits that are expected to be redeemed against insurance companies gross premiums taxes.

The adopted estimate for FY 2017 bank deposits tax revenues is $2.3 million, contributing less than one percent to both total general revenues and total taxes. The adopted revenue estimate in FY 2017 is unchanged from the revised FY 2016 level.

The adopted estimate for FY 2017 health care provider assessment revenue is $45.1 million, contributing 1.3 percent of general revenues and 1.5 percent of total taxes. The adopted revenue estimate is $1.1 million or 2.5 percent greater than the revised FY 2016 level.

Other taxes are estimated to comprise $31.8 million or 0.9 percent of total general revenues and 1.1 percent of total taxes in the revised FY 2017 estimate.

Estate and transfer tax revenues, formally labeled inheritance and gift tax revenues, are expected contribute $20.4 million or less than one percent of both total general revenues and total taxes. The adopted revenue estimate is $2.6 million or 11.3 percent less than the revised FY 2016 level.

The adopted estimate for FY 2017 racing and athletics tax revenues is $1.1 million, contributing less than one percent of both total general revenues and total taxes. The adopted revenue estimate in FY 2017 is unchanged from the revised FY 2016 level.

The adopted estimate for FY 2017 realty transfer tax revenues is $10.3 million, contributing less than one percent of both total general revenues and total taxes. The adopted revenue estimate is $300,000 or 3.0 percent more than the revised FY 2016 level.

Departmental receipts account for $191.4 million or 5.5 percent of general revenues in the adopted FY 2017 estimate. Estimated FY 2017 departmental receipts revenue is $165.3 million less than the revised FY 2016 level, equivalent to a growth rate of -46.3 percent. The significant year-over-year difference is more than accounted for by the fact that the FY 2017 estimate for departmental receipts does not include the hospital licensing fee which is estimated to generate $169.1 million in revised FY 2016. The Revenue Estimating Conference does not estimate the hospital licensing fee because it is authorized annually by the General Assembly and therefore is not considered current law beyond the single year for which it is authorized.

The other sources component of general revenues is expected to generate $364.6 million or 10.4 percent of total general revenues in the adopted FY 2017 estimate. The adopted revenue estimate is $3.2 million or 0.9 percent less than the revised FY 2016 level.

The adopted estimate for FY 2017 other miscellaneous sources of general revenues is $1.1 million, contributing less than one percent of total general revenues. The adopted revenue estimate is $333,000 or 42.5 percent more than the revised FY 2016 level.

The adopted estimate for FY 2017 lottery transfer revenue is $354.7 million or 10.2 percent of total general revenues. The adopted estimate is $2.2 million or 0.6 percent less than the revised FY 2016 level. The modest decline in the lottery transfer reflects market wide declines in gaming activity at Twin River and Newport Grand and is not attributable to the opening of any new gaming facilities in Massachusetts.

The adopted estimate for FY 2017 revenue generated from the transfer of proceeds from the unclaimed property program administered by the General Treasurer is $8.8 million, contributing less than one percent of total general revenues. The adopted revenue estimate is $1.3 million or 12.9 percent less than the revised FY 2016 level.

The adopted FY 2017 total general revenue estimate reflects the fact that no portion of the State's $0.33 per gallon motor fuel tax is available for use as general revenue. Thus, the gas tax transfer is estimated at zero for the adopted FY 2017 estimate just as it was in the revised FY 2016 budget. Motor fuel taxes had previously been categorized within other sources of general revenues in previous years when such a transfer had taken place.

Governor's Recommended FY 2017 Revenue Changes

The Governor's recommended FY 2017 budget estimates total general revenues of $3.709 billion, an increase of $113.1 million or 3.1 percent from the revised FY 2016 level. The Governor's FY 2017 recommended revenue level consists of $3.493 billion of revenue estimated at the November 2015 Revenue Estimating Conference and $216.3 million in net changes to the adopted FY 2017 estimates. These changes are shown in the schedule "Changes to FY 2017 Adopted Revenue Estimates" located in Appendix A of this document.

The personal income tax is largest source of revenues in the recommended FY 2017 budget at $1.263 billion or 34.1 percent of general revenues and 42.8 percent of total taxes. The proposed revenue estimate is $48.6 million more than the revised FY 2016 level, equivalent to a growth rate of 4.0 percent. The recommended revenue level is $1.9 million or 0.2 percent less than the adopted FY 2017 estimate. The net change compared to the adopted estimate of personal income tax revenue is the result of two proposed policy changes in the recommended budget. The Governor proposes increasing the value of the refundable State earned income tax credit from 12.5 percent to 15.0 percent of the federal credit effective for tax years beginning on or after January 1, 2017 which is estimated to result in a reduction of $2.7 million in personal income tax revenue via an increase in refunds. This decrease is partially offset by the proposed addition of 3.0 new FTE Revenue Officers assigned to collections within the Department of Revenue, Division of Taxation, estimated to result in $788,468 in additional personal income tax collections, along with additional impacts on business corporations tax, sales and use tax, and an increase in fines and penalties within departmental receipts. The recommended FY 2017 revenue estimate for personal income taxes has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that may be redeemed against personal income taxes.

The sales and use tax is the second largest source of revenues in the recommended FY 2017 budget at $1.018 billion or 27.4 percent of total general revenues and 34.5 percent of total taxes. The proposed revenue estimate is $36.7 million more than the revised FY 2016 level, equivalent to a growth rate of 3.7 percent. The recommended revenue level is $2.7 million or 0.3 percent more than the adopted FY 2017 estimate. The net change compared to the adopted estimate of sales and use tax revenue is the result of several policy changes in the recommended budget. The addition of 3.0 new FTE Revenue Officers, as explained under the discussion of the personal income tax above, is expected to result in an additional $784,639 in sales and use tax revenue. Additionally, the Governor recommends a reinstatement of the nexus program by the Department of Revenue, a data-mining exercise confirming that all firms with a physical presence in the state pay required business corporations and sales and use taxes. This initiative is expected to increase sales and use tax revenue by $250,000, with an additional impact in business corporations taxes. Furthermore, the Governor's proposal to increase the cigarette tax from $3.75 to $4.00 per pack of 20 cigarettes effective August 1, 2016 is expected to result in $633,248 in FY 2017 sales and use tax revenues, with an additional impact on cigarettes tax revenue. Finally, the recommended budget proposes the addition of 2.0 FTE Revenue Agent I positions assigned to field audits within the Department of Revenue, Division of Taxation. This is expected to have an impact of $1.0 million in additional sales tax revenue resulting from enhanced enforcement of current policy.

General business taxes comprise $462.7 million or 12.5 percent of total general revenues and 15.7 percent of total taxes in the Governor's recommended FY 2017 budget. The proposed revenue estimate is $18.8 million more than the revised FY 2016 level, equivalent to a growth rate of 1.9 percent. The recommended revenue is $8.7 million or 5.8 percent more than the adopted FY 2017 estimate. The net change compared to the adopted FY 2017 estimate of general business taxes is due to proposed policy changes impacting business corporations tax and insurance companies gross premiums tax.

Business corporations tax revenue is expected to generate $163.7 million or 4.4 percent of total general revenues and 5.5 percent of total taxes in the Governor's recommended FY 2017 budget. The proposed revenue estimate is $10.2 million more than the revised FY 2016 level, equivalent to a growth rate of 6.6 percent. The recommended revenue is $7.7 million or 4.9 percent more than the adopted FY 2017 estimate. The net change compared to the adopted FY 2017 estimate of business corporations tax revenues is due to several policy proposals. The Governor recommends $6.7 million in additional business corporations tax revenues for FY 2017 resulting from a transfer pricing audit project of business corporations tax filers from past years. The proposed FY 2017 budget further recommends an additional $205,005 in business corporations tax revenue resulting from the addition of 3.0 new FTE Revenue Officers within the Division of Taxation, as explained in the discussion of the personal income tax above. Finally, the Governor recommends an additional $750,000 in business corporations tax revenue from the nexus program, as explained in the discussion of sales and use tax above. The recommended FY 2017 revenue estimate for business corporations taxes has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that may be redeemed against business corporations taxes.

Insurance companies gross premiums tax revenue is expected to generate $127.7 million or 3.4 percent of total general revenues and 4.3 percent of total taxes in the Governor's recommended FY 2017 budget. The proposed revenue estimate is $5.3 million more than the revised FY 2016 level, equivalent to a growth rate of 4.3 percent. The recommended revenue is $1.1 million or 0.8 percent more than the adopted FY 2017 estimate. The net change compared to the adopted estimate is due to a proposed initiative related to retaliatory assessments on foreign insurers, which is estimated to yield an additional $1,074,000 in additional insurance companies gross premiums tax revenue in FY 2017. Retaliatory state tax structures are the norm nationwide within the insurance industry. Under this structure, policies issued to Rhode Island residents by out-of-state insurance companies are subject to the higher of the domestic tax rate or the foreign tax rate of state in which the issuing insurance company is domiciled. This measure enhances the enforcement of this provision. The recommended FY 2017 revenue estimate for insurance companies gross premiums taxes has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that may be redeemed against insurance companies gross premiums taxes.

Cigarettes tax is expected to generate $145.1 million or 3.9 percent of total general revenues and 4.9 percent of total taxes. The proposed revenue estimate is $3.0 million more than the revised FY 2016 level, equivalent to a growth rate of 2.1 percent. The recommended revenue is $6.5 million or 4.7 more than the adopted

FY 2017 estimate. The net change compared to the adopted FY 2017 estimate of cigarettes tax revenue is the result of the proposed increase in the cigarette excise tax from $3.75 per pack of 20 cigarettes to $4.00 per pack of 20 cigarettes effective August 1, 2016.

The Governor's recommended budget proposes no changes the FY 2017 estimates adopted at the November 2015 Revenue Estimating Conference with respect to public utilities gross earnings tax, financial institutions tax, bank deposits tax, the health care provider assessment, motor vehicle operate license and vehicle registration fees. The recommended FY 2017 revenue estimate for financial institutions taxes has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that may be redeemed against financial institutions taxes.

The Governor's recommended FY 2017 budget proposes $369.5 million in departmental receipts, equivalent to 10.0 percent of total general revenues. The proposed revenue estimate is $12.8 million or 3.6 percent more than the revised FY 2016 level. The recommended revenue is $178.1 million or 93.1 percent greater than the adopted FY 2017 departmental receipts estimate. The significant adjustment from the adopted estimate is largely driven the reinstatement of the hospital licensing fee at 5.862 percent of hospital FY 2014 base year net patient revenues. The hospital licensing fee is expected to generate $169.1 million in the licenses and fees component of FY 2017 departmental receipts revenue. In addition to the reinstatement of the hospital licensing fees, the Governor's recommended budget contains several other policy changes impacting FY 2017 departmental receipts revenues impacting licenses and fees, fines and penalties, sales and services, and miscellaneous departmental receipts revenue.

The Governor recommends a net increase of $9,751,893 in FY 2017 departmental receipts revenue resulting from changes in licenses and fees pertaining to medical marijuana and other miscellaneous revenues. These revenues will be administered by the Department of Business Regulation (DBR), Department of Revenue (DOR), and Department of Health (DOH) in FY 2017. The Governor recommends the following changes in FY 2017 licenses and fees revenues to be administered by DBR: (i) a $150 plant tag fee for patients who self-grow medical marijuana is expected to result in $1,440,000 in additional revenue; (ii) a $150 plant tag fee for caregivers who grow medical marijuana for Medicaid patients is expected to result in $611,902 in additional revenue; (iii) a $350 plant tag fee for caregivers who grow for non-Medicaid patients is expected to result in $8,253,228 in additional revenue; (iv) a $350 plant tag fee for co-op growers is expected to result in $399,000 in additional revenue; and (v) a $350 plant tag fee for growers with cultivator licenses is expected to result in $31,500 in additional revenue. Additionally, the Governor recommends a reduction in recommended FY 2017 revenues resulting from a decrease in the compassion center surcharge administered by DOR from 4.0 percent to 3.0 percent. This will have an estimated revenue impact of $(172,405) in departmental receipts licenses and fees. Furthermore, the Governor recommends transferring medical marijuana patient and caregiver registration fees administered by DOH to restricted receipts with an expected combined revenue impact of $(901,647) in departmental receipts licenses and fees: (i) the impact of transferring patient registration fees to DOH restricted receipts is expected to have a FY 2017 general revenue impact of $(516,866) and (ii) the impact of transferring caregiver registration fees to DBR restricted receipts is expected to have a FY 2017 general revenue impact of $(384,781). Finally, the Governor recommends an additional $90,315 in FY 2017 departmental receipts miscellaneous revenues resulting from indirect cost recovery fees. This estimate is comprised of $38,478 of indirect cost recovery assessments resulting from medical marijuana caregiver registration fees for DBR, $150 from cultivation site license fees for DBR, and $51,687 from medical marijuana patient registration fees for DOH.

In addition to the hospital licensing fee and medical marijuana licenses and fees described above, other changes included in the Governor's recommended FY 2017 budget with an impact on the licenses and fees category within departmental receipts include: (i) the Governor proposes transferring Coastal Resources Management Council submerged land rental fees to Department of Environmental Management restricted receipts with a general revenue impact of $(150,000); (ii) the Governor recommends the Office of the General Treasurer assess public finance management fees on re-financings and other tax exempt debt issuances through the Public Finance Management Board, expected to result in $295,000 in FY 2017 licenses and fees revenue; and (iii) the recommended budget proposes that the Department of Business Regulation expedite bank and insurance examinations with fees paid to DBR by examinees at 150 percent of cost, expected to result in an additional $400,000 in licenses and fees revenues.

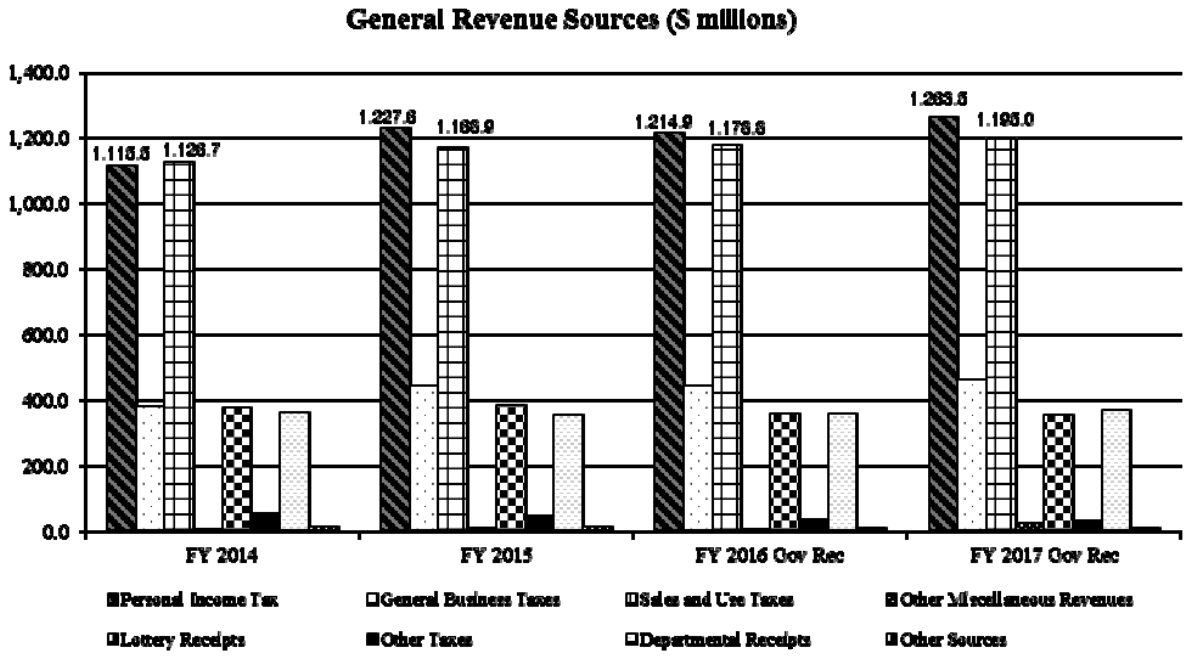
The Governor's recommended FY 2017 budget includes one proposal with an anticipated impact on the fines and penalties category within departmental receipts. The recommended addition of 3.0 new FTE Revenue Officer positions assigned to Collections, described above in the discussion related to personal income tax, is expected to generate $645,110 in fines and penalties revenues due to enhanced enforcement of current policy.

The Governor's recommended FY 2017 budget includes one proposal with an anticipated impact on the sales and services category within departmental receipts. The Governor proposes delaying the motor vehicle plate reissuance by the Department of Revenue, Division of Motor Vehicles from July 2016 to April 2017, which is expected to have an impact of $(2.0 million) in FY 2017 sales and services revenue.

Finally, in addition to the miscellaneous departmental receipts associated with the medical marijuana changes described above, the Governor's recommended FY 2017 budget includes one policy change with an anticipated impact on the miscellaneous revenues category of departmental receipts. The Governor recommends an additional $108,864 in FY 2017 departmental receipts miscellaneous revenues resulting from a forward capacity market revenue initiative, a negotiated agreement to manage the State's utility services in the event of excess demand in the market. Essentially, the State is paid money upfront to reduce its usage of electricity in the event of future excess demand for electricity from the grid that cannot be met by the grid operator. The reduction of electricity by the State at such peak demand could require the state to forego all electricity consumption for a period of time (i.e., a "brown out") until the demand for electricity and the supply of electricity are balanced.

The Governor's recommended FY 2017 budget proposes $386.8 million in other sources of general revenues, equivalent to 10.4 percent of total general revenues. The proposed revenue estimate is $19.1 million or 5.2 percent greater than the revised FY 2016 level. The recommended revenue is $22.5 million or 6.1 percent greater than the FY 2017 estimate adopted at the November 2015 Revenue Estimating Conference. Other sources of general revenues include the lottery transfer, transfer of proceeds from the unclaimed property program administered by the Office of the General Treasurer, and other miscellaneous sources of general revenues. The portion of motor fuel tax available for use as general revenue had formerly been categorized as other miscellaneous sources of general revenues. However, the Governor's recommendation for FY 2017 is consistent with current policy in that none of the State's $0.33 per gallon motor fuel tax is to be transferred to general revenues as adopted at the November 2015 Revenue Estimating Conference. The Governor's recommended FY 2017 budget makes no changes to the adopted FY 2017 estimate with respect to the lottery transfer and unclaimed property transfer, but there are several proposals with an impact on miscellaneous other sources of general revenues in FY 2017.

The following proposals contained within the recommended FY 2017 budget have an anticipated impact on other miscellaneous sources of general revenues: (i) the Governor recommends $5.0 million in revenues from a fraud initiative; (ii) the Governor recommends $1.0 million in additional revenue resulting from the sale of state fleet motor vehicles to other parties; (iii) the Governor recommends transferring $5.0 million in excess reserves from the Rhode Island Health and Educational Building Corporation; (iv) the Governor recommends accelerating the transfer of $275,000 of debt service scheduled to be paid by the Rhode Island Airport Corporation over the FY 2017 to FY 2023 period into the FY 2017 budget; (iv) the Governor recommends transferring $1.45 million in reserves from the Narragansett Bay Commission to offset debt service on general obligation bonds issued by the state on the Commission's behalf; (v) the Governor recommends transferring $1.5 million in reserves from the Rhode Island Resource Recovery Corporation while simultaneously providing the Corporation authorization to increase tipping fees; and, (vi) the Governor recommends transferring $8.0 million in reserves from the Rhode Island Infrastructure Bank to the general fund.



COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES

The following tables set forth comparative summaries for all State General Revenues for fiscal years 2014 through 2017 and expenditures for the fiscal years 2014 through 2017. General Fund data on expenditures for FY 2014 and FY 2015 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 2016 and FY 2017 reflect those contained in the FY 2016 Revised Budget and FY 2017 Budget submitted by the Governor to the General Assembly on February 2, 2016. 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 revenues for FY 2014 and FY 2015 reflect the audited actual revenues as reported by the State Controller. The FY 2016 enacted revenues reflect those adopted by the Conferees at the May 2015 Revenue Estimating Conference and any statutory changes approved by the General Assembly as part of FY 2016 enacted Budget. The FY 2016 revised and FY 2017 recommended revenues are those adopted by the Conferees at the November 2015 Revenue Estimating Conference and any statutory changes recommended by the Governor to the General Assembly as part of the FY 2017 recommended Budget. These estimates are explained under the section above entitled *Revenue Estimates* and the subheading below entitled *Free Surplus*.

General Revenues as Recommended

	FY 2014 Audited	FY 2015 Audited	FY 2016 Revised	FY 2017 Recommended
Personal Income Tax	$ 1,115,512,527	$ 1,227,581,960	$ 1,214,900,000	$ 1,263,499,140
General Business Taxes				
Business Corporations	114,215,409	147,979,089	153,500,000	163,651,005
Public Utilities Gross Earnings	101,382,220	103,950,349	104,000,000	104,500,000
Financial Institutions	16,610,639	22,743,284	17,700,000	19,500,000
Insurance Companies	102,356,841	120,264,561	122,400,000	127,674,000
Bank Deposits	2,471,553	2,259,880	2,300,000	2,300,000
Health Care Provider Assessment	42,131,465	44,125,338	44,000,000	45,100,000
Sales and Use Taxes				
Sales and Use	916,035,065	963,446,369	981,000,000	1,017,677,054
Motor Vehicle *	52,407,813	49,117,001	36,200,000	12,200,000
Motor Fuel	523,920	(124,650)	500,000	500,000
Cigarettes	139,461,685	138,045,483	142,100,000	145,088,709
Alcohol	18,252,450	18,363,285	19,000,000	19,500,000
Controlled Substances	48,188	6,177		
Other Taxes				
Estate and Transfer	43,592,370	34,202,383	23,000,000	20,400,000
Racing and Athletics	1,176,869	1,107,202	1,100,000	1,100,000
Realty Transfer	7,961,816	9,493,464	10,000,000	10,300,000
Total Taxes	**$ 2,674,140,830**	**$ 2,882,561,175**	**$ 2,871,700,000**	**$ 2,952,989,908**
Departmental Receipts	$ 360,678,655	$ 354,121,814	$ 356,705,000	$ 369,500,902
Taxes and Departmentals	**$ 3,034,819,485**	**$ 3,236,682,989**	**$ 3,228,405,000**	**$ 3,322,490,809**
Other Sources				
Other Miscellaneous	6,391,686	8,778,364	783,000	23,341,000
Lottery	376,327,121	381,935,510	356,900,000	354,700,000
Unclaimed Property	12,724,124	13,711,780	10,100,000	8,800,000
Other Sources	**$ 395,442,931**	**$ 404,425,654**	**$ 367,783,000**	**$ 386,841,000**
Total General Revenues	**$ 3,430,262,416**	**$ 3,641,108,643**	**$ 3,596,188,000**	**$ 3,709,331,809**

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

* The decline in Motor Vehicle receipts is due to the transfer of these resources to the Highway Maintenance Account in the Department of Transportation; 25% in FY 2016, 75% in FY 2017 and 100% in FY 2018.

Changes to FY 2016 Enacted Revenue Estimates

	FY 2016 Enacted	November REC Consensus Changes	Changes to Adopted Estimates	Total
Personal Income Tax	$ 1,215,737,125	$ (837,125)	$ -	$ 1,214,900,000
General Business Taxes				
Business Corporations	136,380,000	17,120,000	-	153,500,000
Public Utilities Gross	104,700,000	(700,000)	-	104,000,000
Financial Institutions	16,500,000	1,200,000	-	17,700,000
Insurance Companies	125,228,416	(2,828,416)	-	122,400,000
Bank Deposits	2,000,000	300,000	-	2,300,000
Health Care Provider	44,936,976	(936,976)	-	44,000,000
Sales and Use Taxes				
Sales and Use	969,531,938	11,468,062	-	981,000,000
Motor Vehicle	36,538,048	(338,048)	-	36,200,000
Motor Fuel	500,000	-	-	500,000
Cigarettes	140,780,254	1,319,746	-	142,100,000
Alcohol	18,839,500	160,500	-	19,000,000
Other Taxes				
Estate and Transfer	20,400,000	2,600,000	-	23,000,000
Racing and Athletics	1,100,000	-	-	1,100,000
Realty Transfer	10,210,937	(210,937)	-	10,000,000
Total Taxes	**$ 2,843,383,194**	**$ 28,316,806**	**$ -**	**$ 2,871,700,000**
Departmental Receipts	357,236,271	(536,271)	$ 5,000	356,705,000
Total Taxes and Departmentals	**$ 3,200,619,465**	**$ 27,780,535**	**$ 5,000**	**$ 3,228,405,000**
Other Sources				
Other Miscellaneous	1,397,000	(614,000)		783,000
Lottery	331,740,000	25,160,000	-	356,900,000
Unclaimed Property	10,000,000	100,000	-	10,100,000
Other Sources	**$ 343,137,000**	**$ 24,646,000**	**$ -**	**$ 367,783,000**
Total General Revenues	**$ 3,543,756,465**	**$ 52,426,535**	**$ 5,000**	**$ 3,596,188,000**

Changes to FY 2017 Adopted Revenue Estimates

	Revenue Estimating Conference Estimates	Changes to Adopted Estimates	Total
Personal Income Tax	$ 1,265,400,000	$ (1,900,860)	$ 1,263,499,140
General Business Taxes			
Business Corporations	156,000,000	7,651,005	163,651,005
Public Utilities Gross	104,500,000	-	104,500,000
Financial Institutions	19,500,000	-	19,500,000
Insurance Companies	126,600,000	1,074,000	127,674,000
Bank Deposits	2,300,000	-	2,300,000
Health Care Provider	45,100,000	-	45,100,000
Sales and Use Taxes			
Sales and Use	1,015,000,000	2,677,054	1,017,677,054
Motor Vehicle	12,200,000	-	12,200,000
Motor Fuel	500,000	-	500,000
Cigarettes	138,600,000	6,488,709	145,088,709
Alcohol	19,500,000	-	19,500,000
Other Taxes			
Estate and Transfer	20,400,000	-	20,400,000
Racing and Athletics	1,100,000	-	1,100,000
Realty Transfer	10,300,000	-	10,300,000
Total Taxes	**$ 2,937,000,000**	**$ 15,989,908**	**$ 2,952,989,908**
Departmental Receipts *	$ 191,400,000	$ 178,100,902	$ 369,500,902
Total Taxes and Departmentals	**$ 3,128,400,000**	**$ 194,090,809**	**$ 3,322,490,809**
Other Sources			
Other Miscellaneous	$ 1,116,000	$ 22,225,000	$ 23,341,000
Lottery	354,700,000	-	354,700,000
Unclaimed Property	8,800,000	-	8,800,000
Other Sources	**$ 364,616,000**	**$ 22,225,000**	**$ 386,841,000**
Total General Revenues	**$ 3,493,016,000**	**$ 216,315,809**	**$ 3,709,331,809**

* The majority of the change to adopted under Departmental Receipts is due to reinstatement fo the Hospital Licesning Fee.

Expenditures from All Funds

	FY 2014 Actual	FY 2015 Actual	FY 2016 Enacted	FY 2016 Revised	FY 2017 Recommend
General Government					
Administration	$412,495,073	$415,448,655	$368,031,640	$396,014,187	$397,694,673
Business Regulation	12,249,226	12,676,052	14,620,512	14,393,095	17,005,533
Executive Office Of Commerce (1)	-	203,145	74,924,345	76,378,826	83,622,348
Labor and Training	511,348,590	429,213,620	443,730,008	449,441,053	422,079,133
Revenue	422,287,255	449,017,632	423,207,249	478,228,453	502,599,539
Legislature	35,681,698	36,190,422	41,154,944	44,105,835	43,049,302
Lieutenant Governor	2,673,290	971,873	1,192,621	1,043,068	1,109,576
Secretary of State	6,668,513	7,691,503	7,986,884	7,764,433	10,749,205
General Treasurer	38,039,736	41,532,194	39,094,693	39,892,444	36,771,155
Board of Elections	1,573,262	4,656,136	1,818,305	1,797,868	1,982,707
Rhode Island Ethics Commission	1,541,741	1,579,038	1,644,876	1,611,119	1,653,383
Governor's Office	3,975,744	4,401,893	4,903,467	5,139,589	5,091,069
Commission for Human Rights	1,489,579	1,556,738	1,548,010	1,554,766	1,581,423
Public Utilities Commission	6,823,882	6,762,365	8,684,685	8,672,349	8,926,973
Subtotal - General Government	**$1,456,847,589**	**$1,411,901,266**	**$1,432,542,239**	**$1,526,037,085**	**$1,533,916,019**
Health and Human Services					
Executive Office of Health & Human Services	1,945,613,900	2,334,650,460	2,387,903,953	2,463,562,045	2,409,316,489
Children, Youth, and Families	219,685,921	221,570,379	216,592,410	222,764,039	216,110,079
Health	108,576,130	111,422,584	121,401,905	131,108,001	163,332,529
Human Services	613,340,811	621,643,199	622,403,505	654,079,623	597,518,025
Behavioral Healthcare, Developmental Disabilities and Hospitals	445,714,460	375,214,014	370,945,694	379,842,987	375,005,876
Governor's Commission on Disabilities	871,546	1,215,102	428,524	435,961	440,570
Commission On Deaf and Hard of Hearing	399,505	430,792	491,883	539,040	587,746
Office of the Child Advocate	583,702	660,641	717,273	714,417	695,582
Office of the Mental Health Advocate	485,005	504,149	508,251	549,419	542,009
Subtotal - Human Services	**$3,335,270,980**	**$3,667,311,320**	**$3,721,393,398**	**$3,853,595,532**	**$3,763,548,905**
Education					
Elementary and Secondary	1,197,362,280	1,232,188,487	1,308,490,695	1,317,358,312	1,350,379,573
Higher Education	1,061,770,203	1,047,360,269	1,090,159,436	1,123,009,185	1,163,417,439
RI Council on the Arts	2,280,949	2,387,241	4,036,698	3,539,374	2,618,274
RI Atomic Energy Commission	1,133,765	1,187,852	1,337,169	1,604,090	1,350,935
Higher Education Assistance Authority (3)	22,873,672	15,190,541	0	0	-
Historical Preservation and Heritage Comm.	2,000,284	5,446,730	3,956,703	4,064,257	2,974,999
Public Telecommunications Authority	0	-	-	-	-
Subtotal - Education	**$2,287,421,153**	**$2,303,761,120**	**$2,407,980,701**	**$2,449,575,218**	**$2,520,741,220**

Expenditures from All Funds

	FY 2014 Actual	FY 2015 Actual	FY 2016 Enacted	FY 2016 Revised	FY 2017 Recommend
Public Safety					
Attorney General	31,009,997	30,936,848	34,035,317	35,724,802	34,882,783
Corrections	195,805,164	201,390,140	211,025,689	217,726,101	226,119,650
Judicial	107,052,063	109,785,453	116,299,126	115,972,127	116,664,962
Military Staff	34,101,891	15,544,752	19,408,098	19,623,374	24,677,316
Rhode Island Emergency Mng Agency (2)	0	14,535,853	18,537,918	28,530,116	23,994,138
Public Safety	111,609,833	117,204,896	123,725,416	123,876,829	121,809,215
Office Of Public Defender	10,917,680	10,902,222	11,700,347	11,616,528	11,897,202
Subtotal - Public Safety	**$490,496,628**	**$500,300,164**	**$534,731,911**	**$553,069,877**	**$560,045,266**
Natural Resources					
Environmental Management	79,469,714	88,968,734	99,304,621	102,794,367	99,851,715
Coastal Resources Management Council	4,457,741	4,669,180	5,669,383	7,215,410	7,211,407
Subtotal - Natural Resources	**$83,927,455**	**$93,637,914**	**$104,974,004**	**$110,009,777**	**$107,063,122**
Transportation					
Transportation	401,479,015	415,640,470	463,816,478	482,858,909	479,457,845
Subtotal - Transportation	**$401,479,015**	**$415,640,470**	**$463,816,478**	**$482,858,909**	**$479,457,845**
Total	**$8,055,442,820**	**$8,392,552,254**	**$8,665,438,731**	**$8,975,146,398**	**$8,964,772,377**

(1) New Agency effective February 1, 2015.

(2) In FY 2015, the Rhode Island Emergency Management Agency was separated from the Military Staff.

(3) In FY 2016, the RIHEAA was moved under the Public Higher Education Budget.

Expenditures from General Revenues

	FY 2014 Actual	FY 2015 Actual	FY 2016 Enacted	FY 2016 Recommend	FY 2017 Recommend
General Government					
Administration	$259,268,901	$244,775,881	$197,494,291	$216,525,887	$243,008,631
Business Regulation	8,526,389	8,556,174	9,236,495	9,135,640	12,750,654
Executive Office Of Commerce (1)	-	203,145	60,840,542	61,014,948	63,281,421
Labor and Training	8,027,721	8,553,272	8,324,769	8,472,717	10,322,779
Revenue	99,768,361	106,969,845	113,198,446	110,571,771	111,231,248
Legislature	34,498,448	34,865,422	39,474,071	42,490,012	41,352,730
Lieutenant Governor	957,446	959,864	1,127,621	1,043,068	1,109,576
Secretary of State	6,196,251	7,164,977	6,951,530	6,747,368	10,092,686
General Treasurer	2,384,819	2,400,368	2,420,250	2,407,642	2,856,231
Board of Elections	1,573,262	4,656,136	1,818,305	1,797,868	1,982,707
Rhode Island Ethics Commission	1,541,741	1,579,038	1,644,876	1,611,119	1,653,383
Governor's Office	3,975,744	4,401,947	4,903,467	5,139,589	5,091,069
Commission for Human Rights	1,138,859	1,225,335	1,252,174	1,243,892	1,258,128
Public Utilities Commission	-	-	-	-	-
Subtotal - General Government	**$427,857,942**	**$426,311,404**	**$448,686,837**	**$468,201,521**	**$505,991,243**
Health and Human Services					
Executive Office of Health & Human Services	839,589,446	915,652,909	909,934,065	926,021,780	914,720,115
Children, Youth, and Families	154,719,224	158,285,858	152,587,731	154,782,322	151,984,020
Health	23,469,936	22,821,939	25,835,956	25,719,200	26,501,994
Human Services	92,107,740	94,560,297	98,271,683	97,728,070	103,282,109
Behavioral Healthcare, Developmental Disabilities and Hospitals	200,160,407	173,264,827	172,488,711	174,461,291	168,143,778
Governor's Commission on Disabilities	339,529	355,439	383,056	381,890	386,147
Commission On Deaf and Hard of Hearing	375,549	387,625	411,883	409,040	477,746
Office of the Child Advocate	544,231	613,552	672,273	669,417	650,582
Office of the Mental Health Advocate	485,005	504,149	508,251	549,419	542,009
Subtotal - Human Services	**$1,311,791,067**	**$1,366,446,595**	**$1,361,093,609**	**$1,380,722,429**	**$1,366,688,500**
Education					
Elementary and Secondary	959,927,061	1,002,464,660	1,067,719,085	1,067,544,042	1,109,259,026
Higher Education	179,174,880	188,223,129	196,304,956	180,983,077	199,498,689
RI Council on the Arts	1,310,474	1,490,966	1,863,052	1,859,778	1,539,620
RI Atomic Energy Commission	859,903	872,139	957,170	936,450	981,100
Higher Education Assistance Authority (3)	4,333,323	147,000	0	0	-
Historical Preservation and Heritage Comm.	1,282,682	1,138,182	1,380,972	1,430,963	1,373,860
Public Telecommunications Authority	0	-	-	-	-
Subtotal - Education	**$1,146,888,323**	**$1,194,336,076**	**$1,268,225,235**	**$1,252,754,310**	**$1,312,652,295**

Expenditures from General Revenues

	FY 2014 Actual	FY 2015 Actual	FY 2016 Enacted	FY 2016 Recommend	FY 2017 Recommend
Public Safety					
Attorney General	23,235,530	23,949,930	25,193,210	25,122,410	25,595,982
Corrections	188,152,167	196,162,110	200,225,250	204,394,923	212,679,501
Judicial	91,551,391	94,371,203	96,031,046	95,581,117	96,341,410
Military Staff	3,461,473	2,144,129	2,065,434	2,363,408	2,659,719
Rhode Island Emergency Mng Agency (2)	-	1,796,019	1,766,002	1,762,453	1,848,876
Public Safety	96,048,576	99,121,734	97,060,493	93,257,274	99,825,776
Office Of Public Defender	10,742,068	10,829,860	11,621,977	11,503,708	11,784,382
Subtotal - Public Safety	**$413,191,205**	**$428,374,985**	**$433,963,412**	**$433,985,293**	**$450,735,646**
Natural Resources					
Environmental Management	34,534,163	36,110,396	37,586,385	38,425,074	38,240,878
Coastal Resources Management Council	2,160,560	2,313,282	2,433,260	2,421,855	2,452,438
Subtotal - Natural Resources	**$36,694,723**	**$38,423,678**	**$40,019,645**	**$40,846,929**	**$40,693,316**
Transportation					
Transportation	-	-	-	-	-
Subtotal - Transportation	-	-	-	-	-
Total	**$3,336,423,260**	**$3,453,892,738**	**$3,551,988,738**	**$3,576,510,482**	**$3,676,761,000**

(1) New Agency effective February 1, 2015.

(2) In FY 2015, the Rhode Island Emergency Management Agency was separated from the Military Staff.

(3) In FY 2016, the RIHEAA was moved under the Public Higher Education Budget.

Expenditures from Federal Funds

	FY 2014 Actual	FY 2015 Actual	FY 2016 Enacted	FY 2016 Recommend	FY 2017 Recommend
General Government					
Administration	$72,702,362	$77,782,063	$43,302,629	$43,989,894	$14,896,706
Business Regulation	2,038,842	2,216,757	2,795,240	2,768,904	1,100,710
Executive Office Of Commerce (1)	-	-	10,983,803	11,063,878	15,290,927
Labor and Training	72,019,823	35,913,567	38,164,061	56,691,604	38,514,938
Revenue	1,655,815	4,314,983	1,315,154	5,288,759	2,145,367
Legislature	-	-	-	-	-
Lieutenant Governor	1,583,196	9	65,000	0	0
Secretary of State	16,040	11,264	-	22,859	-
General Treasurer	852,195	649,120	891,955	1,019,884	952,881
Board of Elections	0	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	(53)	-	-	-
Commission for Human Rights	350,720	331,403	295,836	310,874	323,295
Public Utilities Commission	207,575	81,792	90,000	90,000	104,669
Subtotal - General Government	**$151,426,568**	**$121,300,905**	**$97,903,678**	**$121,246,656**	**$73,329,493**
Health and Human Services					
Executive Office of Health & Human Services	1,093,456,235	1,402,816,157	1,462,232,758	1,522,294,853	1,476,096,972
Children, Youth, and Families	61,602,917	59,824,300	58,927,126	61,708,997	60,409,483
Health	55,777,861	57,741,431	65,752,434	70,070,913	100,365,021
Human Services	513,984,570	520,276,560	517,462,308	549,854,594	487,860,220
Behavioral Healthcare, Developmental Disabilities and Hospitals	228,621,075	187,771,526	182,605,186	189,408,411	187,490,274
Governor's Commission on Disabilities	50,799	263,931	35,459	21,181	10,297
Commission On Deaf and Hard of Hearing	-	-	-	-	-
Office of the Child Advocate	39,471	47,089	45,000	45,000	45,000
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	**$1,953,532,928**	**$2,228,740,994**	**$2,287,060,271**	**$2,393,403,949**	**$2,312,277,267**

Expenditures from Federal Funds

	FY 2014 Actual	FY 2015 Actual	FY 2016 Enacted	FY 2016 Recommend	FY 2017 Recommend
Education					
Elementary and Secondary	203,805,167	197,213,822	203,962,314	211,023,436	206,229,553
Higher Education	5,204,666	4,544,682	15,092,544	15,434,426	14,308,847
RI Council on the Arts	686,230	713,200	775,353	774,296	775,454
RI Atomic Energy Commission	12,301	89	54,699	325,555	50,308
Higher Education Assistance Authority (3)	10,244,455	7,375,001	0	0	-
Historical Preservation and Heritage Comm.	522,900	1,855,585	2,075,393	2,005,752	1,093,966
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	**$220,475,719**	**$211,702,379**	**$221,960,303**	**$229,563,465**	**222,458,128**
Public Safety					
Attorney General	1,648,980	1,903,112	1,291,777	3,749,312	1,692,545
Corrections	1,834,575	1,534,164	1,337,381	1,885,937	1,130,008
Judicial	2,986,862	3,142,537	3,431,136	3,392,087	3,116,365
Military Staff	28,705,774	12,353,422	15,361,864	14,636,581	17,497,797
Rhode Island Emergency Mng Agency (2)	0	12,622,540	16,551,541	26,233,728	20,094,466
Public Safety	6,597,933	5,986,537	6,764,072	10,093,127	9,292,391
Office Of Public Defender	175,612	72,362	78,370	112,820	112,820
Subtotal - Public Safety	**$41,949,736**	**$37,614,674**	**$44,816,141**	**$60,103,592**	**$52,936,392**
Natural Resources					
Environmental Management	22,231,819	26,411,282	29,307,477	31,376,799	29,728,792
Coastal Resources Management Council	2,127,181	1,876,791	2,614,348	4,220,154	4,098,312
Subtotal - Natural Resources	**$24,359,000**	**$28,288,073**	**$31,921,825**	**$35,596,953**	**$33,827,104**
Transportation					
Transportation	284,457,818	267,656,266	263,615,422	274,256,147	272,409,980
Subtotal - Transportation	**$284,457,818**	**$267,656,266**	**$263,615,422**	**$274,256,147**	**$272,409,980**
Total	**$2,676,201,769**	**$2,895,303,291**	**$2,947,277,640**	**$3,114,170,762**	**$2,967,238,364**

(1) New Agency effective February 1, 2015.

(2) In FY 2015, the Rhode Island Emergency Management Agency was separated from the Military Staff.

(3) In FY 2016, the RIHEAA was moved under the Public Higher Education Budget.

Expenditures from Restricted Receipts

	FY 2014 Actual	FY 2015 Actual	FY 2016 Enacted	FY 2016 Recommend	FY 2017 Recommend
General Government					
Administration (1)	$15,899,348	$20,553,583	$28,853,407	$45,364,953	$35,983,267
Business Regulation	1,683,995	1,903,121	2,588,777	2,488,551	3,154,169
Executive Office Of Commerce (1)	-	-	2,800,000	4,000,000	4,750,000
Labor and Training	36,675,422	35,172,518	21,495,150	39,298,684	23,878,696
Revenue	1,696,101	1,718,666	3,894,326	4,935,486	5,947,043
Legislature	1,183,250	1,325,000	1,680,873	1,615,823	1,696,572
Lieutenant Governor	132,648	12,000	-	-	-
Secretary of State	456,222	478,183	599,108	531,285	556,519
General Treasurer	34,602,288	38,279,369	35,263,670	35,875,484	32,286,796
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	(1)	-	-	-
Commission for Human Rights	-	-	-	-	-
Public Utilities Commission	6,616,307	6,680,573	8,594,685	8,582,349	8,822,304
Subtotal - General Government	**$98,945,581**	**$106,123,012**	**$105,769,996**	**$142,692,615**	**$117,075,366**
Health and Human Services					
Executive Office of Health & Human Services	12,568,219	16,181,394	15,737,130	15,245,412	18,499,402
Children, Youth, and Families	2,762,996	3,043,630	2,838,967	3,700,363	3,466,576
Health	29,272,149	30,856,883	29,813,515	35,317,888	36,465,514
Human Services	2,355,044	2,396,897	2,076,036	1,368,481	1,282,218
Behavioral Healthcare, Developmental Disabilities and Hospitals	8,459,502	9,873,915	9,180,797	8,365,757	8,435,824
Governor's Commission on Disabilities	6,898	6,633	10,009	32,890	44,126
Commission On Deaf and Hard of Hearing	23,956	43,167	80,000	130,000	110,000
Office of the Child Advocate	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	**$55,448,764**	**$62,402,519**	**$59,736,454**	**$64,160,791**	**$68,303,660**
Education					
Elementary and Secondary	25,529,786	28,575,427	28,948,926	30,571,770	30,186,994
Higher Education	630,618	632,650	653,200	653,200	660,795
RI Council on the Arts	-	-	-	-	-
RI Atomic Energy Commission	-	-	-	-	-
Higher Education Assistance Authority (3)	-	-	-	-	-
Historical Preservation and Heritage Comm.	45,108	377,082	428,630	427,175	427,175
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	**$26,205,512**	**$29,585,159**	**$30,030,756**	**$31,652,145**	**$31,274,964**

Expenditures from Restricted Receipts

	FY 2014 Actual	FY 2015 Actual	FY 2016 Enacted	FY 2016 Recommend	FY 2017 Recommend
Public Safety					
Attorney General	5,900,916	5,080,406	7,250,330	6,553,080	7,294,256
Corrections	53,383	169,484	47,058	269,614	60,141
Judicial	10,426,434	10,923,799	11,336,944	11,412,688	11,682,187
Military Staff	301,196	211,281	323,300	387,300	337,300
Rhode Island Emergency Mng Agency (2)	-	117,294	220,375	301,860	861,046
Public Safety	4,060,157	6,601,587	11,176,346	11,493,242	5,452,070
Office Of Public Defender	-	-	-	-	-
Subtotal - Public Safety	**$20,742,086**	**$23,103,851**	**$30,354,353**	**$30,417,784**	**$25,687,000**
Natural Resources					
Environmental Management	13,377,916	12,186,477	18,354,537	19,462,047	19,081,956
Coastal Resources Management Council	170,000	180,733	250,000	250,000	250,000
Subtotal - Natural Resources	**$13,547,916**	**$12,367,210**	**$18,604,537**	**$19,712,047**	**$19,331,956**
Transportation					
Transportation	7,202,773	2,411,276	1,000,000	159,506	180,219
Subtotal - Transportation	**$7,202,773**	**$2,411,276**	**$1,000,000**	**$159,506**	**$180,219**
Total	**$222,092,632**	**$235,993,027**	**$245,496,096**	**$288,794,888**	**$261,853,165**

(1) New Agency effective February 1, 2015.

(2) In FY 2015, the Rhode Island Emergency Management Agency was separated from the Military Staff.

(3) In FY 2016, the RIHEAA was moved under the Public Higher Education Budget.

Expenditures from Other Funds

	FY 2014 Actual	FY 2015 Actual	FY 2016 Enacted	FY 2016 Recommend	FY 2017 Recommend
General Government					
Administration	$64,624,462	$72,337,128	$98,381,313	$90,133,453	$103,806,069
Business Regulation	-	-	-	-	-
Executive Office Of Commerce (1)	-	-	300,000	300,000	300,000
Labor and Training	394,625,624	349,574,263	375,746,028	344,978,048	349,362,720
Revenue	319,166,978	336,014,138	304,799,323	357,432,437	383,275,881
Legislature	-	-	-	-	-
Lieutenant Governor	-	-	-	-	-
Secretary of State	-	37,079	436,246	462,921	100,000
General Treasurer	200,434	203,337	518,818	589,434	675,247
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	-	-	-	-
Commission for Human Rights	-	-	-	-	-
Public Utilities Commission	-	-	-	-	-
Subtotal - General Government	**$778,617,498**	**$758,165,945**	**$780,181,728**	**$793,896,293**	**$837,519,917**
Health and Human Services					
Executive Office of Health & Human Services	-	-	-	-	-
Children, Youth, and Families	600,784	416,591	2,238,586	2,572,357	250,000
Health	56,184	2,331	0	0	-
Human Services	4,893,457	4,409,445	4,593,478	5,128,478	5,093,478
Behavioral Healthcare, Developmental Disabilities and Hospitals	8,473,476	4,303,746	6,671,000	7,607,528	10,936,000
Governor's Commission on Disabilities	474,320	589,099	0	0	-
Commission On Deaf and Hard of Hearing	-	-	-	-	-
Office of the Child Advocate	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	**$14,498,221**	**$9,721,212**	**$13,503,064**	**$15,308,363**	**$16,279,478**
Education					
Elementary and Secondary	8,100,266	3,934,578	7,860,370	8,219,064	4,704,000
Higher Education	876,760,039	853,959,808	878,108,736	925,938,482	948,949,108
RI Council on the Arts	284,245	183,075	1,398,293	905,300	303,200
RI Atomic Energy Commission	261,561	315,624	325,300	342,085	319,527
Higher Education Assistance Authority (2)	8,295,894	7,668,540	0	0	-
Historical Preservation and Heritage Comm.	149,594	2,075,881	71,708	200,367	79,998
Public Telecommunications Authority	0	0	-	-	-
Subtotal - Education	**$893,851,599**	**$868,137,506**	**$887,764,407**	**$935,605,298**	**$954,355,833**

Expenditures from Other Funds

	FY 2014 Actual	FY 2015 Actual	FY 2016 Enacted	FY 2016 Recommend	FY 2017 Recommend
Public Safety					
Attorney General	224,571	3,400	300,000	300,000	300,000
Corrections	5,765,039	3,524,382	9,416,000	11,175,627	12,250,000
Judicial	2,087,376	1,347,914	5,500,000	5,586,235	5,525,000
Military Staff	1,633,448	835,920	1,657,500	2,236,085	4,182,500
Rhode Island Emergency Mng Agency (3)	0	0	0	232,075	1,189,750
Public Safety (4)	4,903,167	5,495,038	8,724,505	9,033,186	7,238,978
Office Of Public Defender	-	-	-	-	-
Subtotal - Public Safety	**$14,613,601**	**$11,206,654**	**$25,598,005**	**$28,563,208**	**$30,686,228**
Natural Resources					
Environmental Management	9,325,816	14,260,579	14,056,222	13,530,447	12,800,089
Coastal Resources Management Council	0	298,374	371,775	323,401	410,657
Subtotal - Natural Resources	**$9,325,816**	**$14,558,953**	**$14,427,997**	**$13,853,848**	**$13,210,746**
Transportation					
Transportation	109,818,424	145,572,928	199,201,056	208,443,256	206,867,646
Subtotal - Transportation	**$109,818,424**	**$145,572,928**	**$199,201,056**	**$208,443,256**	**$206,867,646**
Total	**$1,820,725,159**	**$1,807,363,198**	**$1,920,676,257**	**$1,995,670,266**	**$2,058,919,848**

(1) New Agency effective February 1, 2015.

(2) In FY 2015, the Rhode Island Emergency Management Agency was separated from the Military Staff.

(3) In FY 2016, the RIHEAA was moved under the Public Higher Education Budget.

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 and the Legislative branches 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 of the first three quarters of the fiscal year. 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 2018 through FY 2021, which were based on the FY 2017 recommended budget and revenue forecasts from November 2015, forecasts deficits of $192.6 million for FY 2018, $233.6 million for FY 2019, $271.7 million for FY 2020 and $332.6 million for FY 2021. 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.

FY 2015 Audited Closing

The State Controller's Office issued its final closing report for FY 2015 on January 5, 2016. The report showed a general revenue surplus of $168.0 million. General revenue receipts were $24.4 million more than estimated and spending was $22.7 million less than budgeted. The Budget Reserve and Cash Stabilization account was fully funded at $185.4 million.

As reflected in the Free Surplus table, a surplus of $118.6 million was projected for FY 2015, so the final surplus of $168.0 million was $49.5 million better than expected.

FY 2016 Revised Budget

The FY 2016 Revised Budget, as recommended by the Governor to the General Assembly on February 2, 2016, increases general revenue expenditures by $24.5 million, including reappropriations of $6.9 million for total spending of $3.577 billion. On an all funds basis, the budget increases by $309.7 million for total spending of $8.975 billion. The revised budget includes additional funding for increased Medicaid caseload projections of $14.9 million as estimated at the November Caseload Estimating Conference; additional funding for increased operational costs at the Departments of Children, Youth and Families, Corrections and Behavioral Healthcare, Developmental Disabilities and Hospitals.

FY 2017 Recommended Budget

The FY 2017 recommended budget provides for general revenue expenditures of $3.677 billion, an increase of $100.3 million over the FY 2016 revised budget of $3.577 billion for total spending. The initial projected budget gap for FY 2017 was $198.6 million and was adjusted downward to $49.5 million subsequent to the November 2015 Revenue and Caseload Estimating Conferences and the preliminary FY 2015 closing. The November 2015 Revenue and Caseload Estimating Conferences resulted in additional revenues of $72.1 million in FY 2017 and additional carry forward from FY 2016 of $81.2 million. On an all funds basis, the FY 2017 recommended budget is $8.965 billion, a decrease of $10.3 million from the FY 2016 revised budget.

The FY 2017 recommended budget continues to invest heavily in economic development through the Executive Office of Commerce and the Rhode Island Commerce Corporation ("Commerce RI"). The Governor recommended a refinancing and restructuring of general obligation bond debt that achieved up front debt service savings in fiscal years 2016 and 2017 of $64.0 million and $36.2, respectively. This funding will be invested in a number of economic development initiatives, some of which include:

- Rebuild RI Tax Credit – The Governor recommends $20.6 million for this program to support high return catalytic real estate development projects that encourage construction and other job creation. Previously, Rhode Island had no broad-based real estate development tax credits. The Rebuild RI real estate tax credit will leverage private funds to spur real estate development.

- First Wave Closing Fund – The Governor recommends $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 Closing Fund provides last-dollar financing for projects that are catalytic in nature and of significant economic benefit to the state.

- Impact Faculty – The Governor recommends $1.5 million to supports hiring top-notch university faculty with track records of commercializing their research.

- Rhody Rail Commuter Pass – The Governor recommends $1.5 million to improve rail connectivity between Rhode Island and the metropolitan Boston area by offering discounted fare options and rail information to travelers.

- P-Tech – The Governor recommends $1.4 million to enable qualifying high school students to pursue a five- or six-year path to a high school diploma, an associate's degree, and ultimately a job. Conducted with industry partners, the program promotes skills development and provides access to mentors, internship opportunities and employment.

In the Medical Assistance program, there are a number of savings proposals designed to continue to contain the Medicaid program's expenditure growth in FY 2017, building upon the Reinventing Medicaid initiatives enacted in the FY 2016 Budget. The Governor recommends a delay in the annual nursing facility rate increase for savings of $2.0 million; improvements to the patient liability collection process for the managed care delivery system and Rhody Health Options for savings of $1.5 million; elimination of the $2.0 million funding pool for graduate medical education; increasing the threshold amount for calculating the assessment for the Children's Health account for savings of $4.0 million; increasing enrollment in Accountable Care Entities for savings of $2.0 million; and savings of $19.1 million from operational savings due to the full implementation of the Unified Health Infrastructure Project.

The recommended budget fully funds the sixth year of the education funding formula. To ensure that the State's education funding formula fairly reflects the needs of schools and children, the Governor established the Working Group to Review the Permanent Education Foundation Aid Formula. This group of diverse stakeholders was charged with reviewing the funding formula and making recommendations for improvement. The Governor's budget includes the Working Group's recommendations to invest additional funds on behalf of students with special needs. It creates an English Language Learners weighting component to the formula and adjusts the allocation of funds to school districts and charter schools to reflect local costs and conditions. These investments represent a total increased investment of $39.1 million for the funding formula and its associated categorical programs over FY 2016 levels.

Included in the funding formula and categorical program increase is an additional investment in early child development programs – $1.2 million more than in FY 2016. Early learning programs support cognitive growth in children and lay the groundwork for future academic success. Rhode Island was one of twenty states that received federal funding under the Race to the Top – Early Learning Challenge grant. With the $50.0 million grant expiring in December 2016, the Governor's budget includes $1.6 million to sustain several ongoing early childhood initiatives in the Department of Human Services and the Department of Education.

To support affordable higher education, the FY 2017 budget provides $17.0 million in new funding, including $10.0 million in capital funding, for the University of Rhode Island, Rhode Island College, and Community College of Rhode Island. This investment is intended to prevent a tuition increase and to keep college accessible to Rhode Islanders.

For recent graduates, the Governor proposes a total of $5.0 million to continue and expand the Wavemaker Fellowship college loan forgiveness program. In its first year, the Wavemaker program will provide loan forgiveness for recent graduates pursuing careers and starting businesses in technology, engineering, design, and other key sectors. The Wavemaker program encourages graduates to remain in the state, attracts young innovators, and promotes new businesses and economic activity. Expanding the program in its second year will satisfy the additional needs of recent graduates and employers eager to expand their workforce.

Like many states, Rhode Island has experienced a marked increase in accidental deaths from drug overdoses. This increase is largely attributable to opiate abuse; the state reported 237 deaths from opiate overdose in FY 2015, up nearly 18.0 percent from the previous year. This public health crisis has no geographic or socioeconomic boundaries; it threatens too many Rhode Island families and requires a thorough state response. Governor Raimondo's Executive Order 15-14 created the Overdose Prevention and Intervention Task Force, which delivered a strategic plan to address the crisis in November 2015. Based on those recommendations, the Governor has set a statewide goal of reducing the number of opioid overdoses more than 40.0 percent by 2020. To make progress toward this target, the budget includes $2.5 million to support medication-assisted treatment programs at the Department of Corrections. It also includes $740,000 for the Office of Health and Human Services to increase availability of naloxone to first responders, better monitor opioid usage through the Prescription Monitoring Program, and expand access to peer recovery coaches. Including matching federal Medicaid dollars, this investment will provide a total of $4.0 million to address the opioid crisis facing Rhode Islanders.

Governor Raimondo proposes a comprehensive Fraud Detection and Prevention Initiative to use technology and enhanced oversight to detect and prevent fraud across executive branch departments. Currently, the state's efforts to detect and prevent fraud and abuse are spread across several agencies, including the Bureau of Audits, Office of Health and Human Services, Department of Labor & Training, Department of Business Regulation, and the Division of Taxation. This fragmented approach inhibits data-sharing and collaboration. Taxation and OHHS have made significant investments in information technology to detect and prevent fraud and abuse, but the state needs to coordinate those efforts with work in other agencies. The Governor's budget proposes standardizing audit and quality review functions across executive branch agencies and investing $1.5 million in a fraud detection system. These efforts are expected to save $5.0 million for last six months of FY 2017. The consolidation will also yield $290,000 in personnel savings in FY 2017 by eliminating redundant functions.

In a state the size of Rhode Island, the fiscal health of individual cities and towns can have a significant impact on the broader business climate. Businesses may be reluctant to locate or expand in a state where one or more municipalities face financial distress. The Governor's FY 2017 budget includes several provisions to assist cities and towns as they strengthen their fiscal footing:

- Fully Fund PILOT – The budget includes an additional $1.9 million for Payment in Lieu of Taxes (PILOT), intended to offset the municipal property tax losses of nonprofit and government property owners. The total $42.0 million appropriation in FY 2017 will be the first time the state has fully funded PILOT since FY 2008.
- Create Municipal Transparency Portal – Funding of $200,000 will allow the Division of Municipal Finance to develop an online website for collection and public dissemination of municipal fiscal data and reports. The budget streamlines and standardizes existing reporting requirements to facilitate comparison across municipalities and will provide cities and towns with financial analysis support. The budget also requires the Division to post municipal contracts to improve fiscal transparency to taxpayers.
- Mandate Income Tax Refund Offset Program for Distressed Communities – Ten municipalities participate in the Division of Taxation's income tax refund offset program, which garnishes income tax refunds of individuals who owe back taxes or other state fines. The budget requires that cities and towns designated as "distressed communities" participate in the offset program to recover unpaid taxes.
- Reform Property Revaluation Schedule – The budget includes language extending the property tax revaluation schedule cycle from nine years to fifteen years. Municipalities will have to conduct updates every five years, instead of three, which will promote efficiencies and cost savings while maintaining reliable property values in each of the cities and towns.

FY 2017 General Revenue Budget Surplus

	FY 2014 Audited[1]	FY 2015 Audited[2]	FY 2016 Enacted[3]	FY 2016 Revised[4]	FY 2017 Recommend[5]
Surplus					
Opening Surplus	$104,119,715	$67,806,737	$118,565,419	$168,038,072	$81,679,082
Adjustment to Opening Surplus	-	13,794,502	-	-	-
Reappropriated Surplus	7,052,524	7,378,665	-	6,890,273	-
Subtotal	**$111,172,239**	**$88,979,904**	**$118,565,419**	**$174,928,345**	**$81,679,082**
General Taxes	2,674,140,830	$2,882,561,175	2,843,383,194	2,843,383,194	2,937,000,000
Revenue estimators' revision	-		-	28,316,806	15,989,908
Changes to the Adopted Estimates	-	-	-	-	-
Subtotal	**$2,674,140,830**	**$2,882,561,175**	**$2,843,383,194**	**$2,871,700,000**	**$2,952,989,908**
Departmental Revenues[6]	360,678,655	$354,121,814	357,236,271	357,236,271	191,400,000
Revenue estimators' revision	-			(536,271)	-
Changes to Adopted	-			5,000	178,100,902
Subtotal	**$360,678,655**	**$354,121,814**	**$357,236,271**	**$356,705,000**	**$369,500,902**
Other Sources					
Other Miscellaneous	6,391,686	8,778,364	1,397,000	1,397,000	1,116,000
Revenue estimators' revision	-	-	-	(614,000)	22,225,000
Changes to Adopted	-	-	-	-	-
Lottery	376,327,121	381,935,510	331,740,000	331,740,000	354,700,000
Revenue estimators' revision	-	-	-	25,160,000	-
Changes to Adopted	-	-	-	-	-
Unclaimed Property	12,724,124	13,711,780	10,000,000	10,000,000	8,800,000
Revenue estimators' revision	-	-	-	100,000	-
Subtotal	**$395,442,931**	**$404,425,654**	**$343,137,000**	**$367,783,000**	**$386,841,000**
Total Revenues	**$3,430,262,416**	**$3,641,108,643**	**$3,543,756,465**	**$3,596,188,000**	**$3,709,331,810**
Transfer to Budget Reserve	**(106,031,464)**	**(111,267,461)**	**(109,869,657)**	**(112,926,782)**	**(113,730,327)**
Total Available	**$3,435,403,191**	**$3,618,821,086**	**$3,552,452,228**	**$3,658,189,563**	**$3,677,280,565**
Actual/Enacted Expenditures	$3,336,423,288	$3,453,892,741	$3,551,988,738	$3,551,988,738	3,676,761,000
Reappropriations		-	-	6,890,273	-
Caseload Conference Changes	-	-	-	14,884,287	-
Other Changes in Expenditures	-	-	-	2,747,183	-
Total Expenditures	**$3,336,423,288**	**$3,453,892,741**	**$3,551,988,738**	**$3,576,510,481**	**$3,676,761,000**
Total Ending Balances	**$98,979,903**	**$164,928,345**	**$463,490**	**$81,679,082**	**$519,565**
Transfer to/from Other Funds [7]	**($23,794,501)**	**$10,000,000**	**$0**	**$0**	**$0**
Reappropriations	(7,378,665)	(6,890,273)			
Free Surplus	**$67,806,737**	**$168,038,072**	**$463,490**	**$81,679,082**	**$519,565**
Budget Reserve and Cash Stabilization Account	**$176,719,107**	**$185,445,769**	**$183,116,094**	**$188,211,304**	**$189,440,023**

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

[2] Derived from the State Controller's final closing report for FY 2015, dated January 5, 2016 reflecting a closing surplus of $168,038,072.

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

[4] Reflects the enacted revenues and expenditures adjusted for revenue and caseload estimates adopted at the November 2015 Revenue and Caseload estimating conferences and adjustments to revenues and expenditures as recommended by the Governor.

[5] Reflects the Governor's recommended FY 2017 budget, including results of the November 2015 Revenue and Caseload Estimating Conference and any proposed legislative changes to modify adopted estimates.

[6] The Change to Adopted under Departmental Receipts in FY 2017 is the reinstatment of the Hosptial Licensing Fee.

[7] Reflects restricted General Fund balances transferred from the Accelerated Depreciation 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, 2015 were completed on December 17, 2015.

As part of the auditing process for the fiscal year ended June 30, 2015, the Auditor General observed certain deficiencies in the State's controls over financial reporting and the administration of federal programs, which is reported in the Auditor General's "Single Audit Report" for that fiscal year. The State's Fiscal 2015 Single Audit Report was completed on March 31, 2016 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 2015 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 debt 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 support 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 (PFMB) 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. As part of the FY 2017 Appropriations Act, the General Treasurer requested and the Governor is recommending certain changes to the statutes governing the PFMB to require certain reporting on debt from issuers in the state and to authorize additional funding to support the creation of a new Office of Debt Management within the General Treasurer's Office.

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 the development of the FY 2017 Capital Budget, net tax supported debt was estimated to be 3.17 percent of personal income, and annual debt service was 4.96 percent of general revenues in FY 2016. 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.

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.

In recent years, 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. In FY 2013 through FY 2015, the State has not needed to borrow for cash flow purposes and 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 or FY 2017.

Since FY 2002, 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
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
2017	- *	0.0

* No issuance is currently planned or authorized at this time for FY 2016 or FY 2017.

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 general obligation debt totaled $391,575,000 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.

Net Tax Supported Debt Ratios
(in thousands)

	Obligations June 30,2013	Obligations June 30,2014	Obligations June 30,2015
Direct Debt:			
Proposed General Obligation Bond Issuance	-	-	-
Variable Rate Bonds	-	-	-
Various purpose bonds	1,119,450	1,103,945	1,022,895
Subtotal	1,119,450	1,103,945	1,022,895
Other Debt Subject to Annual Appropriation:			
RI Refunding Bond Authority - Public Buildings Lease Rental Bonds	-	-	-
Convention Center Authority	236,960	226,900	215,210
Economic Development Corporation - Transportation (Motor Fuel)	66,510	62,525	58,340
Economic Development Corporation - Masonic Temple	-	-	-
Economic Development Corporation - URI Power Plant	7,485	6,565	5,600
Economic Development Corporation - McCoy Stadium	-	-	-
Economic Development Corporation - Job Creation Guaranty	81,500	73,577	64,515
Projected Economic Development Corporation - I-195 Land Sale	38,400	38,400	38,400
Certificates of Participation - Equipment/Vehicle Leases	405	-	-
Certificates of Participation - Intake Center	-	-	-
Certificates of Participation - Attorney General	830	505	170
Certificates of Participation - DLT Howard Complex	6,455	4,705	2,865
Certificates of Participation - Shepard's Building (originally EDC)	10,765	8,320	5,710
Certificates of Participation - Pastore Center Power Plant	15,185	13,580	11,905
Certificates of Participation - Kent County Courthouse	36,310	33,180	31,875
Certificates of Participation - Traffic Tribunal Court Complex	15,290	14,115	13,320
Certificates of Participation - Training School	36,575	33,825	32,270
Certificates of Participation - Information Technology	21,480	16,890	42,865
Certificates of Participation - School for the Deaf	26,320	25,185	24,005
Certificates of Participation - CCRI Energy Conservation	5,540	4,925	4,290
Certificates of Participation - DOA Energy Conservation	38,915	35,060	42,800
Certificates of Participation - URI Energy Conservation	18,905	17,305	15,590
Certificates of Participation - RIC Energy Conservation	-	-	7,465
Loan Agreement - Historic Structures Tax Credit Fund	90,575	74,400	132,390
Projected Loan Agreement - Historic Structures Tax Credit Fund	-	-	-
Loan Agreement - Divison of Motor Vehicle System	6,675	5,110	3,075
RIHMFC Neighborhood Opportunities Housing Program	-	-	-
Subtotal	761,080	695,072	752,660
Performance Based Agreements			
Economic Development Corporation- Fidelity Building	14,364	13,038	11,600
Economic Development Corporation- Fidelity Building II	8,309	7,950	7,565
Economic Development Corporation- Fleet Bank	8,045	7,710	7,345
Subtotal	30,717	28,698	26,510
Gross Debt	1,911,247	1,827,715	1,802,065
Less: Adjustments for Agency Payments	(21,353)	(12,152)	(10,795)
Net Tax Supported Debt	**1,889,895**	**1,815,563**	**1,791,270**
Debt Ratios			
Personal Income	**49,007,344**	**50,451,809**	**52,487,457**
Debt as a percent of Personal Income	**3.86%**	**3.60%**	**3.41%**

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. Subsequent to the refinancing and restructuring of state debt in July 2015, this total decreased to $1.008 billion. 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	23,480,000	44,081,072	67,561,072
2017	49,040,000	46,268,323	95,308,323
2018	77,415,000	43,565,866	120,980,866
2019	78,870,000	39,973,704	118,843,704
2020	83,155,000	36,172,105	119,327,105
2021	79,680,000	32,431,813	112,111,813
2022	78,660,000	28,638,954	107,298,954
2023	74,860,000	24,910,427	99,770,427
2024	75,005,000	21,348,233	96,353,233
2025	70,445,000	17,935,963	88,380,963
2026	73,235,000	14,445,723	87,680,723
2027	61,105,000	11,140,265	72,245,265
2028	47,095,000	8,376,521	55,471,521
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
	$ 1,007,910,000	**$ 385,835,822**	**$ 1,393,745,822**

* Reflects full fiscal year general obligation tax supported debt service for bonds issued as of June 30, 2015 and the refinancing/restructuring of debt in July 2015. The outstanding general obligation bonds as of June 30, 2015 shown at the top of the previous page reflects the actual debt outstanding as of June 30, 2015, but before the refinancing/restructuring of debt in July 2015.

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:		
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 Authorized but Unissued Direct Debt		**$391,575,000**

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 of such 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 of such 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 Commerce RI as described below. 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. During fiscal year 2016, the State transferred $12.5 million to cover debt service obligations related to 38 Studios.

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 accounted for this settlement payment, which reduced the required general revenue appropriation by a like amount. Additional settlements from other defendants in the case resulted in gross payment of $12,500,000 in October 2015. After payment of fees, costs and expenses, the net amount from the settlement of $9,926,027.20 was paid to the Bank of New York Mellon Trust Company, as trustee for the bondholders of the 38 Studios debt and will be used to reduce the amount of an appropriation from the State in FY 2017.

On March 7, 2016, the United States Securities and Exchange Commission (SEC) filed a complaint in the United States District Court for the District of Rhode Island charging the Rhode Island Commerce Corporation and Wells Fargo Securities with defrauding investors in the bond offering and certain individuals, including an employee of Wells Fargo and the former Executive Director and Deputy Director of the Rhode Island Commerce Corporation with aiding and abetting the fraud. According to an SEC news release, the former employees of the Rhode Island Commerce Corporation agreed to settle the charges without admitting or denying the allegations and must each pay a $25,000 penalty. The SEC's complaint further alleges that Wells Fargo and its employee misled investors by not disclosing additional compensation from 38 Studios.

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 was 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 has implemented 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 was made by the State to the Trustee on July 13, 2015 and paid to the holders of the certificates on August 3, 2015.

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	$7,010,000
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	$219,210,000

It is expected that the Rhode Island Commerce Corporation ("Commerce RI") will issue additional debt in FY 2018 for the Historic Structures Tax Credit Program. As originally intended, Commerce RI 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 Commerce RI 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, Commerce RI 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 an annual State obligation of $3.4 million in FY 2015 and thereafter. See "State Agencies and Authorities – Rhode Island Commerce Corporation".

In November 1997, Commerce RI 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. See "State Agencies and Authorities – Rhode Island Commerce Corporation".

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 $126.9 million as of January 31, 2016. This was an increase of $124 million from January 31, 2015 when the fund balance was $2.9 million. The Rhode Island Department of Labor and Training completely repaid its federal UI loans on May 5, 2015 and is rapidly rebuilding fund reserves. It is expected that no additional borrowing will be needed. The State's outstanding loan balance peaked at $291.8 million during April 2012.

A history of the Rhode Island Employment Security Fund's financial status since 1995 is presented in the following table. The first column of the chart presents the ending fund balance for each calendar year between 1995 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.

Borrowings from Federal Unemployment Account

Year Ended Dec. 31	Fund Balance (Millions)	Amount Borrowed (Millions)	Amount Repaid (Millions)
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[1]	130.9	20.6	20.6

Rhode Island's ability to reduce its outstanding federal balance and rebuild trust fund reserves was greatly enhanced by the passage of Article 4 of the FY 2012 Appropriations Act. Article 4 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

[1] Unaudited as of December 31, 2015 including outstanding federal loans

$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. In CY 2016, the taxable wage base rose by $800 to $22,000 for most employers and $23,500 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 reduced 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.

These changes and an improved economy have enabled the Employment Security Fund to rebuild its reserves to $130.9 million by the end of CY 2015. Current projections show a continued rapid build-up in trust fund reserves over the next few years if the economy continues to improve. These estimates are based on the Department of Labor and Training's projections of employment and unemployment levels assuming a continued gradual recovery from the 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 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 was 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 $68,090,000 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 portion of 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 the Rhode Island Turnpike and Bridge Authority beginning July 1, 2014 for maintenance expenses, operations, 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 2016, and $9,123,312.68 was received by the Authority for the period July 1, 2015 through February 29, 2016. Revenues from tolls receipts, the motor fuel tax and other revenues of the Authority are estimated to be sufficient to cover debt service on all the RITBA outstanding debt.

On February 13, 2013, the Authority issued a revenue bond anticipation note in the amount of $30,000,000 pursuant to the authorization therefor 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.

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.

On February 4, 2016, the Authority issued its $117,590,000 Motor Fuel Tax Revenue Bonds, Series 2016A pursuant to the authorizations granted in the FY 2011 and FY 2016 adopted budgets. The proceeds of the 2016 bonds were used to retire the previously issued $60,000,000 2014 Bond Anticipation Notes and to provide approximately $73 million in construction proceeds for the projects described above. The remaining amount of authorized but unissued bonds of the Authority under all authorizations of the General Assembly is $15,500,000.

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.

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, 2015, the Commission has outstanding net long-term debt (revenue bonds) of $262,604,184 and outstanding net long-term loans payable from revenues to the Rhode Island Infrastructure Bank (formerly known as the Rhode Island Clean Water Finance Agency) of $346,132,052.

The Commission's first annual financial report under the new Government Accounting Standards Board ("GASB") standards for calculation and format of disclosure under GASB 67 and 68 was completed for the fiscal year ended June 30, 2015. The Commission has filed its audited financial statements for the fiscal year ended June 30, 2015 with the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access System which may be accessed online at emma.msrb.org.

In the Governor's recommended FY 2017 Budget, a transfer of $1.45 million to the State's general fund from the Commission prior to June 30, 2017 is proposed.

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 $2,555,979. 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. No such appropriation is proposed or required in either FY 2016 or FY 2017.

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 $50,697,275. 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 $11,335,020 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 its 2001 Series A Bonds, thereby converting the variable rate risk of this series with a fixed rate. This series was replaced by 2009 Series A and B. The 2009 Series B Bonds are federally taxable. During April 2013, the Authority issued its 2013 Series A Bonds in an aggregate principal amount of $37,335,000 to refund its 2003 Series A Bonds and a portion of its 1993 Series B Bonds. The 2009 Series B Bonds were retired on in FY2014. During April, 2015, the Authority issued its 2015 Series A Bonds in an aggregate amount of $31,900,000 for the purpose of refunding the Authority's outstanding 2005 Series A Bonds and a portion of the Authority's outstanding 1993 Series B. The 1993 Series B were retired in FY 2015. The aggregate outstanding balance of the 2009 Series A, 2013 Series A and 2015 Series A Bonds is $136,245,000 as of June 30, 2015.

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. The outstanding balance of the 2006 Series A Bonds is $78,965,000 as of June 30, 2015.

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

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

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

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 were 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 totaled $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 a one-time subsidy of $6,000,000 in FY 1994; the only year such a subsidy has been provided. 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. The Corporation has transferred a total of $70,215,000 to the State since such transfers began.

In FY 1994, the General Assembly approved a municipal tip fee of $32.00 per ton. Annually, through FY2015, the legislature maintained the municipal tip fee at the FY 1994 level by reauthorizing the Corporation to charge $32.00 per ton for municipal solid waste. For FY 2016, this fee was allowed to be set by contract and it is anticipated that in FY 2018, the fee will be set by a mathematical calculation as allowed in the State's rulemaking process. 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 January 31, 2016, the Corporation had approximately $86,600,403 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, V and VI. Future trust fund contributions will be made each year, as required, 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 $85,454,955 as of June 30, 2015. The RIDEM approved the Corporation's application for licensure of Phase VI, which has now started accepting waste. Based on current cost estimates, the Corporation expects to record an additional $93,000,000 of closure and post-closure costs over the anticipated life of Phase VI which is expected to reach capacity in 2038.

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. As of December 31, 2015, all suits have been settled, with one suit, decided in the Corporation's favor, under appeal. Net recovered losses totaled nearly $16,000,000. These recoveries were used to defer pricing increases to State's municipalities.

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. On January 27, 2016, the Town of Johnston entered into a settlement agreement in which it assigned certain rights concerning obligations of Rhode Island LFG Genco, LLC and/or Broadrock Gas Services, LLC to the Corporation. This settlement increased the payment from $107,143, to $250,000.

On February 2, 2012 the RIDEM 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 RIDEM 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 Wastewater Pollution Control Facility ("WPCF"). The invoice states that the capital costs are associated with a 2005 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 exceedances 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 Sewer Use Ordinance (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 FY 2016 budget does not include any transfer from the Corporation to the General Fund, but the Governor's recommended FY 2017 budget includes a proposal to transfer $1.5 million by June 30, 2017.

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, 2015 operated a fleet of approximately 236 buses and 99 vans carrying approximately 18.5 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, 2015, audited results of operations reveal that State-operating assistance to the Authority totaled $42,960,321, operating revenues totaled $24,588,208, and other revenues totaled $24,956,824.

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 through FY 2016, 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 2017 Budget proposes to extend this funding for one additional year. 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 ("Commerce RI") is a public corporation and political subdivision of the State and is the official economic development organization for the State. Commerce RI changed its name in January 2014 and was previously known (since 1995) as the Rhode Island Economic Development Corporation. Prior to 1995, Commerce RI 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. Commerce RI 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 Commerce RI's objectives.

Commerce RI'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. Commerce RI also provides assistance to economic related agencies including the Rhode Island Industrial-Recreational Building Authority and the Rhode Island Industrial Facilities Corporation.

Commerce RI 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 Commerce RI. The Rhode Island Airport Corporation, also a subsidiary of Commerce RI, 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 $946,210,263. Certain of the bonds of Commerce RI can be secured, in addition to a pledge of revenues, by a capital reserve fund established by Commerce RI 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, Commerce RI 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, Commerce RI 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 Commerce RI's capital reserve fund. At June 30, 2015, the outstanding balance was $11,600,179. See "State Indebtedness – Performance-Based Obligations of the Rhode Island Commerce Corporation".

In May 2002, Commerce RI 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, Commerce RI issued $10,000,000 in revenue bonds on behalf of Fidelity Management Resources. These bonds are secured, in part by Commerce RI's capital reserve fund. At June 30, 2015, the outstanding balance was $7,564,628. See "State Indebtedness – Performance-Based Obligations of the Rhode Island Commerce Corporation".

In addition, pursuant to the lease, Commerce RI 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, Commerce RI 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. See "State Indebtedness – Performance-Based Obligations of the Rhode Island Commerce Corporation".

In November 1997, Commerce RI 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 Commerce RI '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 Commerce RI'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 Commerce RI 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, Commerce RI 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.

During the 2003 Session of the General Assembly, Commerce RI, 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 February 2016, the General Assembly enacted 16-H-7409Aaa, in which the Department was given the authority to refund/restructure these outstanding GARVEE bonds with the goal of freeing up federal resources in 2016 and 2017 for transportation projects. In addition, this legislation authorized the issuance of an additional $300.0 million in GARVEE debt to be secured by future distributions of Federal Highway Trust Funds.

In November 2003, the State entered into a payment agreement with Commerce RI 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 Commerce RI. 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 Commerce RI, 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 and June 2015, Commerce RI issued revenue bonds in the amount of $150,000,000 and $75,000,000, respectively, 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 $132,390,000 of such revenue bonds outstanding.

In November 2010, Commerce RI 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 the fiscal year ended June 30, 2015, the State transferred $8.635 million to the Rhode Island Commerce Corporation to satisfy debt service obligations related to 38 Studios. During fiscal year 2016, the State has transferred $12.5 to cover debt service obligations related to 38 Studios.

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 Commerce RI 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") for three companies, NuLabel, Corporate Marketplace and eNow, 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 Commerce RI 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. On November 24, 2014, the remaining $1,000,000 debt service reserve was used to pay principal for the next 16 months. The company has been making monthly interest payments as agreed and the current outstanding balance as of February 2016 is $2,250,000.

During August 2012, Quonset Development Corporation (a subsidiary of Commerce RI) 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 $5,262,476.

Information regarding bonds issued by Commerce RI on behalf of the I-195 Redevelopment District Commission and, the Rhode Island Airport Corporation, respectively, both subsidies of Commerce RI, is listed separately under "State Agencies and Authorities – I-195 Redevelopment District Commission" and "State Agencies and Authorities - Rhode Island Airport Corporation".

On March 7, 2016, the United States Securities and Exchange Commission (SEC) filed a complaint in the United States District Court for the District of Rhode Island charging the Rhode Island Commerce Corporation and Wells Fargo Securities with defrauding investors in the bond offering and certain individuals, including an employee of Wells Fargo and the former Executive Director and Deputy Director of the Rhode Island Commerce Corporation with aiding and abetting the fraud. According to an SEC news release, the former employees of the Rhode Island Commerce Corporation agreed to settle the charges without admitting or denying the allegations and must each pay

a $25,000 penalty. The SEC's complaint further alleges that Wells Fargo and its employee misled investors by not disclosing additional compensation from 38 Studios.

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 FY 2016 budget included a $25.0 million appropriation 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 State 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.

Historical Enplanement Data

T.F. Green Airport was ranked as the 64th busiest airport in the country for calendar year 2014 according to the latest published data produced by the FAA. This compares with rankings of 63rd busiest in calendar years 2013, 2012, 2011 and 2010.

Actual enplaned passengers for fiscal year 2015 were 69,750 below 2014 resulting in a decrease of 3.8%.

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). These include: North Central Airport, Quonset Airport, Westerly Airport, Newport Airport, Block Island Airport.

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 was $495,000.

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 $41.810 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 $29.824 million 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 2015, RIAC issued $42.98 million 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%. RIAC's defeasance of the 2004 Series A Bonds resulted in economic present value savings of $5.9 million or 12% of the refunded bonds. The outstanding balance for the 2015 Series as of June 30, 2015 was $42.98 million.

In January 2016, RIAC issued $27.66 million Series A, $26.97 million Series B and $30.93 million Series C Direct Placement Airport Revenue Refunding Bonds to enable the defeasance of $30 million in 2005 Series A General Airport Revenue Bonds, $27.25 million in 2005 Series B General Airport Revenue Bonds, and $35.93 million in 2005 Series C General Airport Revenue Refunding Bonds, respectively. The 2016 Series A refund issue matures monthly from 2016 through 2025 with an interest rate of 2.49%. The 2016 Series B refund issue matures monthly from 2022 through 2030 with an interest rate of 3.7%. The 2016 Series C refund issue matures monthly from 2016 through 2025 with an interest rate of 2.24%. RIAC's defeasance of the 2005 Series A, B, and C Bonds resulted in economic present value savings of approximately $11.7 million or 12.5% of the refunded bonds.

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 the 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

American Airlines has announced regularly scheduled year-round nonstop service from T.F. Green Airport to Chicago O'Hare on 63-seat CRJ-700 jets. Flights which start April 5, 2016 will allow American Airlines to offer its passenger base improved access to the Midwest and the West Coast.

SATA - Azores Airlines has announced regularly scheduled seasonal service from T.F. Green Airport to Ponta Delgada, Azores in the summer of 2016 and is considering offering year-round service expected to commence in 2017. The seasonal flights will begin on Thursday, June 30, 2016 and will continue through Thursday, September 1, 2016. The flights will be offered on a 222 seat two-class Airbus 310 aircraft. This new international service will give travelers a direct, affordable flight to the Azores.

Cape Air will be temporarily suspending service from T.F. Green Airport to Block Island, Martha's Vineyard, and Nantucket in summer 2016 due to a shortage of pilots with an expected return in 2017.

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, 2015 was $1,353,492,994 consisting of $1,254,568,187 of long-term bonds and notes and $98,924,808 of short-term or convertible-option bonds and notes. Included in the total outstanding is $87,359,858 in bonds, which are secured in part by capital reserve funds which have aggregated to $26,180,148 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 June 30, 2015, the Authority held $331,737,465 in Federal Family Education Loans that were insured by the Rhode Island Higher Education Assistance Authority and other Guarantors. The Authority also held on June 30, 2015, $378,884,812 in state based private education loans. As of June 30, 2015 the Authority had $608,160,000 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. 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 Infrastructure Bank. Pursuant to Chapter 12.2 of title 46 of the Rhode Island General Laws, the Rhode Island Infrastructure Bank formerly (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 Bank 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 Bank's financing power beyond the existing clean water, drinking water, and

municipal road and bridge financing programs. Pursuant to the Legislation, the Bank will serve as a centralized hub for existing and new infrastructure financing initiatives, with a focus on energy efficiency and renewable energy projects.

The Bank is empowered to issue revenue bonds and notes, which are not guaranteed by the State. As of December 31, 2015, the Agency has issued bonds in the aggregate amount of $1,484,054,000 to fund $1,586,048,862 in low-interest loans for various local wastewater pollution abatement projects, safe drinking water projects and the Cranston Privatization Issue, which was to privatize their wastewater treatment system. The outstanding bonded indebtedness of the Agency, as of December 31, 2015 is $503,534,875 in the clean water state revolving fund (CWSRF wastewater projects), $77,910,596 for seven conduit financings and $184,963,981 in the drinking water state revolving fund. Also, in years 1997 through 2015, the Bank made a total of $68,433,660 in direct loans (loans issued without bond financing) out of the CWSRF, a total of $82,819,789 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, eight loans out of the Agency's operating fund totaling $26,347,005 and $18,618,515 in loans out of the Municipal Road and Bridge Program.

In the Governor's recommended FY 2017 Budget, a transfer of $8.0 million from the Bank prior to June 30, 2017 is proposed.

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 Infrastructure Bank. The final payment of WRBC debt was paid on March 1, 2015, so this transfer of duties was finalized as of June 30, 2015 and the WRBC ceased to exist.

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 (until its termination on June 30, 2015) 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, 2015, the Corporation had $3,089,908,836 of bonds and notes outstanding (excluding series secured by funds held in trust for future redemption). Of this amount, $238,630,000 is debt of the state colleges. In the Governor's recommended FY 2017, a transfer of $5.0 million from the Corporation to the State's general fund prior to June 30, 2017 is proposed.

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 and the State 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 currently an arbitration regarding the 2004 non-participating manufacturer ("NPM") adjustment dispute, which at least 19 states are part of. The crux of the dispute is whether each state in arbitration diligently enforced its Qualifying Escrow Statute ("Qualifying Statute") during the contested year against NPMs that did business in that state. A Panel has been seated but at this juncture no discovery has been exchanged and no state-specific hearings have been held. The State maintains that it has diligently enforced its Qualifying Statute for each

year. If the Panel determines that the State was not diligent for 2004, 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 Rhode Island General Laws § 28-7-2, it is the public policy of the State of Rhode Island to encourage the practice and procedure of collective bargaining, and to protect employees in the exercise of full freedom of association, self-organization, and designation of representatives of their own choosing for the purposes of collective bargaining, or other mutual aid and protection, free from the interference, restraint, or coercion of their employers. As such, most 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 those benefits provided under 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 collective bargaining between the parties fails, any and all unresolved issues are submitted to arbitration. The decision of the arbitrator is binding on the parties with respect to all matters other than monetary or wage issues.

Unlike other State employees, and recognizing the protection of the public health, safety, and welfare demands that certain officers of the State of Rhode Island not have the ability to strike or engage in any work stoppage or slowdowns, a job specific method of arbitration of disputes was established. The Rhode Island State Troopers (R.I.G.L. §28-9.5-1), Rhode Island Brotherhood of Correctional Officers (R.I.G.L. §28-9.7-1), and E911 Employees (R.I.G.L. §28-9.5-1) have specific statutory authority to proceed to arbitration on all matters, including the just settlement of wage or hour disputes.

As of March 19, 2016 the State had 14,814 paid employees. This equates to approximately 13,714.0 full-time equivalent positions. Of this amount, 11,214 employees organized in numerous unions represented by various collective bargaining units, the largest of which is the American Federation of State, County and Municipal Employees, Council 94. This union represents approximately 3,838 employees, or 34.2 percent of total organized State employees. Several other major bargaining groups are represented by the Rhode Island Alliance of Social Service Employees, Local 580 (809 employees); the Rhode Island Brotherhood of Correctional Officers (1,036 employees); the American Association of University Professors (698 employees) to name few. In addition, there are 3,600 non-union employees. As of March 19, 2016, there were 13,714 FTE positions filled, 1,404 less than the authorized amount in the FY 2016 Enacted Budget.

As of January 1, 2016, twelve of the fifteen parent unions representing various local bargaining units within their respective organizations have ratified certain terms and conditions of their respective Collective Bargaining Agreements ("CBA"), which resulted in contract terms spanning July 1, 2013 through June 30, 2017 (the agreement included a one year contract extension for the previous CBA and a subsequent new three-year contract term). The CBA's included three (3) general salary increases; a two percent (2%) increase effective April 6, 2014, a two percent (2%) increase effective October 5, 2014 and a two percent (2%) increase effective October 4, 2015. There is a wage reopener in the fourth and final year of the contract term. These general salary increases were also extended to non-union employees. Additionally, the new agreement modifies past contractual health insurance benefits by incorporating a new family/single ($500/$250) deductible program toward specific covered items and increases in various other co-pays, including an increase in the prescription drug plan co-pays. The new contract decreases the amount of payment to employees who waive the health insurance benefit. The Memorandum of Settlement with these unions was signed as of June 11, 2014. As the final year of the contract, FY 2017, is approaching, the State and Unions will commence negotiations on the final wage reopener on or about April 2016.

Three unions (Rhode Island Troopers Association, Rhode Island Brotherhood of Correctional Officers, and Rhode Island State Physicians Association) declined the offered salary increases and health insurance plan, enumerated above. The Physicians Association is in continued negotiations with the State. The RI Brotherhood of Correctional Officers will commence Interest Arbitration in May 2016, (the RIBCO Professional Unit has ratified a new contract as described above). The State Police union previously exercised its statutory rights and proceeded to binding arbitration. On July 7, 2015, the Arbitration Panel issued an award for the contract period of May 1, 2013 to April 30, 2016, awarding annual salary increases of three and one-half percent (3.5%) for the period May 1, 2013 to April 30, 2014; three percent (3.0%) for the period May 1, 2014 to April 30, 2015; and three and one half percent (3.5%) for the period May 1, 2015 to April 30, 2016. Additional monetary items awarded included a one-time

electronic devices stipend of $500; elimination of the accrual of compensatory time and requiring payment for overtime hours worked in excess of 42 hours per week; and an additional personal day (from 2 to 3) per year. As the Troopers Association CBA expires April 30, 2016, the State and the Association are currently engaged in contract negotiations for the successor contract.

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 were as follows:

- COLAs were 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 would be applied to the first $25,000 of retirement income (indexed annually) and would 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, would be awarded at five-year intervals.

- For State employees and teachers, the defined benefit pension plan was transitioned into a combination defined benefit/defined contribution plan. Benefit accruals under the defined benefit plan were 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 required a 5% employee contribution and 1% employer contribution. For teachers not participating in Social Security, the defined contribution plan required a 7% employee contribution and 3% employer contribution.

- For State employees and teachers, the retirement age under the defined benefit pension plan was 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 was extended to 25 years of service for officers with fewer than twenty (20) years of service on June 30, 2012.

As a result of RIRSA, 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 Rhode Island 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 a seventh 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 were 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 seven 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 (C.A. 14-4343 and 14-4768) and withdrew from the original suits, resulting in nine lawsuits.

The nine cases were consolidated and the parties filed motions to continue the trial until January 2016, which were denied. 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 ("New RIRSA"). 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.

Nine appeals have been filed from the July 8, 2015 judgments. Four *pro se* appeals have been filed with respect to the final judgment entered in *Rhode Island Public Employees' Retiree Coalition v. Raimondo*, PC-2015-1468. In addition, 65 public safety employees and 70 retirees have, through counsel, filed four appeals with respect to that judgment. Seventy retirees, through counsel, have filed an appeal with respect to the judgment in *Clifford v. Chafee*, KC 14-0345. The State intends to vigorously defend these matters on appeal. The appeals in the case do not affect the implementation of New RIRSA.

In April 2016, the State received notice of 13 *pro se* complaints filed with the United States Equal Opportunity Commission, which purport to state a claim of age discrimination premised on the enactment of RIRSA (the "EEOC Complaints"). The *pro se* complainants were members of the plaintiff class in the Class Action and, under the terms of the judgment in the Class Action, all class members, including *the pro se* complainants, are forever and completely barred from ever asserting any claims or causes of action that were alleged or brought or that could have been alleged or brought with respect to the various challenges to the Rhode Island pension statutes. Accordingly, the State Defendants intend to vigorously defend against the EEOC Complaints on the grounds that, *inter alia*, the EEOC Complaints are barred by res judicata and the judgment in the Class Action. Moreover, if the *pro se* complainants desired to challenge the judgment in the Class Action, their recourse would have been an appeal to the Rhode Island Supreme Court. It is the State's position that they cannot collaterally challenge the Class Action judgment through the EEOC Complaints. Finally, if the *pro se* complainants were permitted to pursue the EEOC Complaints and were successful, the State is unable at this time to estimate the amount of their damages because if any damages are recoverable, they would be specific to each individual complainant. Based on the foregoing analyses, the *pro se* complainants do not and, it is the State's position that they cannot, seek to invalidate or challenge the constitutionality of RIRSA or New RIRSA.

On July 17, 2015, the State moved to dismiss three of the remaining cases – *Cranston Firefighters, IAFF Local 1363, AFL-CIO v. Chafee*, C.A. No. PC-14-4343; *International Brotherhood of Police Officers, Local 301, AFL-CIO v. Chafee*, C.A. No. PC-14-4768 and *City of Cranston Police Officers, International Brotherhood of Police Officers, Local 301, AFL, CIO v. Chafee,* C.A. No. 12-3169 – for lack of justiciability on the grounds that because RIRSA was amended by New RIRSA, the plaintiffs claims were moot. The Court granted the motion and dismissed those three cases without prejudice.

On March 16, 2016, Cranston Firefighters, IAFF Local 1363, AFL-CIO and International Brotherhood of Police Officers, Local 301, AFL-CIO filed a new lawsuit in the United States District Court for the District of Rhode Island captioned *Cranston Firefighters, IAFF Local 1363, AFL-CIO, et al. v. Raimondo, et al.*, C.A. No. 16-130-ML-LDA. In that case, the Cranston police and firefighters' unions claim that RIRSA and New RIRSA violate the Contracts Clause, Takings Clause and Due Process Clause of the United States Constitution. They also seek a declaration concerning the effect of the class action settlement on Cranston police and firefighter retirees. The State Defendants have been served with that case and intend to vigorously defend it.

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, which 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 in the past 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/

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 $5,814,215 as of FY 2016. 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 enacted FY 2016 Budget and recommended FY 2017 Budget continue 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 estimated annualized cost of $16,199,704 in FY 2016 and FY 2017.

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. As of March 15, 2016, the Department of Justice has not issued a decision in this matter.

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 the attainment of age 50 with at least 25 years of service or the attainment of any age and 27 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, 2015 are available at the website of the Auditor General at www.oag.ri.gov.

As a part of the auditing process, the Auditor General made management comments which are reflected in the Auditor General's report for the fiscal year ended June 30, 2014 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"). One of the issues raised by the auditors concerned the integration of the ERSRI accounting and financial reporting division with the investment division of Treasury. ERSRI has committed to adding resources to enhance this role and have more oversight, from a financial reporting perspective, of the financial information of investments. A copy of the 2014 Report can be found at the website of the Auditor General. Management comments resulting from the 2015 audit are in process.

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 optimally 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 January 31, and the actual percentage and fair value of the assets in the portfolio at January 31, 2016.

Policy targets and actual allocations will vary due to market movements and efforts to minimize trading costs, diversify assets, and implement investment decisions prudently.

TABLE R-1
ASSET ALLOCATION TARGETS, ACTUAL PERCENTAGES, AND FAIR VALUES

Type of Investment	Policy Targets	Actual Allocation	Valuation (millions)
Global Equity	38.0%	43.7%	$3,177
Equity Hedge Funds	8.0%	8.1%	$588
Private Equity	7.0%	6.9%	$505
Core Fixed Income	15.0%	14.7%	$1,068
Absolute Return Hedge Funds	7.0%	6.9%	$499
Credit and Inflation-Protected Securities	9.0%	9.2%	$670
Real Estate	8.0%	6.4%	$461
Infrastructure, Public and Private	5.0%	2.6%	$189
Cash, Overlay and Money Market	3.0%	1.5%	$110

Source: Data provided by the General Treasurer's Office as of January 31, 2016.

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, 2015 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	11,041	11,194	2,948	25,183	3.75%*
ERS Teachers	10,902	13,272	3,185	27,359	3.75%
Total By Type	21,943	24,466	6,133	52,542	

Source: ERSRI Actuarial Valuation Report as of June 30, 2015 (Executive Summary, pages 3-4).

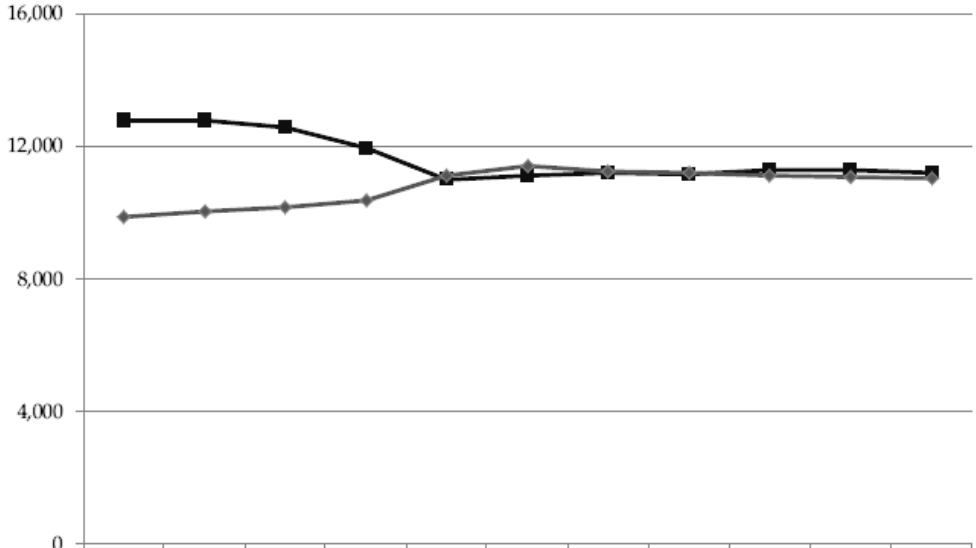
*11% for Schedule A Members

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 2005 through 2015.

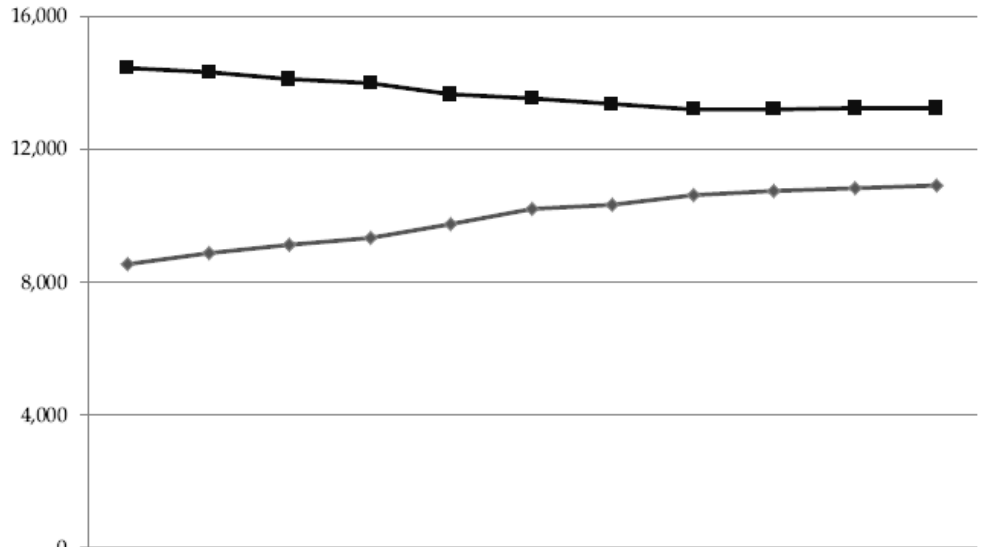
CHART R-1
MEMBERSHIP TRENDS

STATE EMPLOYEES



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Actives	12,789	12,817	12,572	11,970	11,023	11,122	11,233	11,166	11,280	11,301	11,194
Payees	9,863	10,041	10,163	10,396	11,142	11,421	11,271	11,200	11,139	11,103	11,041

TEACHERS



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Actives	14,469	14,343	14,146	13,999	13,689	13,530	13,381	13,212	13,193	13,266	13,272
Payees	8,565	8,873	9,118	9,337	9,749	10,213	10,347	10,622	10,776	10,838	10,902

Source: ERSRI Actuarial Valuations as from June 30, 2005 to June 30, 2015 executive summaries.

The trends expressed by the graphs in Chart R-1 are a concern for the State. For State employees, there are approximately the same number of retirees and beneficiaries. There has been a decrease in active members for State employees over the last ten years. While the downward trend for teachers has been more gradual, it is likely that retirees and beneficiaries will outnumber active members if the active population continues to decline. The decrease in active membership has been the result of reductions in the size of the overall workforce and demographic trends. These developments significantly increase the burden upon contributions from current employees, who are receiving lower salary increases than projected and unpaid furlough days, and from the State and LEAs, where total pension-related contributions for State employees and teachers is approximately 23.61% of salary in FY 2016.

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 2015, 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, 2015 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, 2015
1. Market value of assets at beginning of year (prior to adjustment)	$ 2,520,281,249
2. Net new investments	
a. Contributions	$ 185,052,681
b. Benefits paid	(325,012,677)
c. Refunds	(4,305,578)
d. Transfers	(107,635)
e. Subtotal	(144,373,209)
3. Market value of assets at end of year	$ 2,428,989,395
4. Net earnings (3-1-2) (includes misc revenues)	$ 53,081,355
5. Assumed investment return rate for fiscal year	7.50%
6. Expected return	$ 183,607,098
7. Excess return (4-6)	$ (130,525,743)

8. Development of amounts to be recognized as of June 30, 2015:

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)
2011	$ 0	$ 0	$ 0	1	$ 0	$ 0
2012	0	0	0	2	0	0
2013	0	0	0	3	0	0
2014	71,155,828	(71,155,828)	0	4	0	0
2015	(130,525,743)	71,155,828	(59,369,915)	5	(11,873,983)	(47,495,932)
Total	$ (59,369,915)	$ 0	$ (59,369,915)		$ (11,873,983)	$ (47,495,932)

9. Actuarial value of assets as of June 30, 2015 (Item 3 - Item 8)	$ 2,476,485,327
10. Ratio of actuarial value to market value	102.0%

*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, 2015 (Section C - Table 8A, page 22).

*Note: There is no Table R-3.

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

	Year Ending June 30, 2015
1. Market value of assets at beginning of year	$ 3,875,901,034
2. Net new investments	
a. Contributions	$ 255,389,913
b. Benefits paid	(478,553,346)
c. Refunds	(4,312,620)
d. Transfers	145,190
e. Subtotal	(227,330,863)
3. Market value of assets at end of year	$ 3,730,047,183
4. Net earnings (3-1-2) (includes misc revenues)	$ 81,477,012
5. Assumed investment return rate for fiscal year	7.50%
6. Expected return	$ 282,167,670
7. Excess return (4-6)	$ (200,690,658)

8. Development of amounts to be recognized as of June 30, 2015:

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)
2011	$ 0	$ 0	$ 0	1	$ 0	$ 0
2012	0	0	0	2	0	0
2013	0	0	0	3	0	0
2014	133,748,320	(133,748,320)	0	4	0	0
2015	(200,690,658)	133,748,320	(66,942,338)	5	(13,388,468)	(53,553,870)
Total	$ (66,942,338)	$ 0	$ (66,942,338)		$ (13,388,468)	$ (53,553,870)

9. Actuarial value of assets as of June 30, 2015 (Item 3 - Item 8)	$ 3,783,601,053
10. Ratio of actuarial value to market value	101.4%

*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, 2015 (Section C - Table 8B, page 23).

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, 2015, the UAAL for State employees was $1,895,304,573 and the Actuarial Funded Ratio went from 56.1% to 56.6%. As of June 30, 2015, the UAAL for teachers was $2,655,902,736 and the Actuarial Funded Ratio went from 58.2% to 58.8.%

Tables R-6 and R-7 indicate that the Plans are currently underfunded. Significant increases in the ARC may be required to reduce the UAAL by the end of the fixed amortization period and there can be no assurances that the State will be able to fund its ARC in the future.

TABLE R-6
SCHEDULES OF FUNDING PROGRESS (ERSRI)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b-a)	Actuarial Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)	Market Value of Assets (d)	Funded Ratio at Market (d / b)
STATE EMPLOYEES								
6/30/2006	$ 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%
6/30/2015	2,476,485,327	4,371,789,900	1,895,304,573	56.6	691,555,582	274.1	2,428,989,395	55.6%
TEACHERS								
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%
6/30/2015	3,783,601,053	6,438,732,100	2,655,131,047	58.8	995,994,669	266.6	3,730,047,183	57.9%

Source: For fiscal years 2006-2010, 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	108,363,537	3,582,153	96.7%	20,814,621	17.2%	109,678,379	101.2%
6/30/2015	115,585,013	117,056,727	1,471,714	98.7%	19,940,052	7.4%	114,810,838	98.1%
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%
6/30/2015	60,004,470	61,963,672	1,959,202	96.8%	9,285,354	21.1%	59,460,876	96.0%

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, 2015. 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, 2015	June 30, 2014	
			Mediation	Valuation Result
		(1)	(2)	(3)
1.	Aggregate payroll			
	(a) Supplied by ERSRI for previous fiscal year	$ 669,787,489	$ 653,343,732	$ 653,343,732
	(b) Adjusted for one-year's payroll growth	691,555,582	675,204,750	675,204,750
2.	Actuarial accrued liability	4,371,789,900	4,369,081,872	4,266,354,839
3.	Actuarial value of assets	2,476,485,327	2,449,125,421	2,449,125,421
4.	Unfunded actuarial accrued liability (UAAL) (2 - 3)	1,895,304,573	1,919,956,451	1,817,229,418
5.	Remaining amortization period at valuation date	20.0	21.0	21.0
6.	Contribution effective for fiscal year ending:	June 30, 2018	June 30, 2017	June 30, 2017
7.	Payroll projected for two-year delay	737,237,151	719,806,244	719,806,244
8.	Amortization of UAAL	149,555,558	148,447,335	139,333,052
9.	Normal cost			
	(a) Total normal cost rate	8.79%	8.96%	8.66%
	(b) Employee contribution rate	4.21%	4.24%	4.24%
	(c) Employer normal cost rate (a - b)	4.58%	4.72%	4.42%
10.	Employer contribution rate as percent of payroll			
	(a) Employer normal cost rate	4.58%	4.72%	4.42%
	(b) Amortization payments (8 / 7)	20.29%	20.62%	19.36%
	(c) Total (a + b)	24.87%	25.34%	23.78%
11.	Estimated employer contribution amount (7 * 10(c))	$ 183,350,879	$ 182,398,902	$ 171,169,925

Source: ERSRI Actuarial Valuation Report as of June 30, 2015 (Section C – Table 1A, page 11).
Note: State employees contribute at a 3.75% rate and correctional officers contribute at an 8.75% rate. The number shown under 9 (b) is a weighted average contribution rate.

TABLE R-9
DEVELOPMENT OF CONTRIBUTION RATE (TEACHERS)

		June 30, 2015	June 30, 2014	
			Mediation	Valuation Result
		(1)	(2)	(3)
1.	Aggregate payroll			
	(a) Supplied by ERSRI for previous fiscal year	$ 966,985,115	$ 951,892,247	$ 951,892,247
	(b) Adjusted for one-year's payroll growth	995,994,669	982,565,406	982,565,406
2.	Actuarial accrued liability	6,438,732,100	6,424,596,267	6,276,589,639
3.	Actuarial value of assets	3,783,601,053	3,742,152,714	3,742,152,714
4.	Unfunded actuarial accrued liability (UAAL) (2 - 3)	2,655,131,047	2,682,443,553	2,534,436,925
5.	Remaining amortization period at valuation date	22.3	23.3	21.0
6.	Contribution effective for fiscal year ending:	June 30, 2018	June 30, 2017	June 30, 2017
7.	Payroll projected for two-year delay	1,056,650,744	1,042,403,639	1,042,403,639
8.	Amortization of UAAL	199,489,698	196,442,055	196,810,662
9.	Normal cost			
	(a) Total normal cost rate	8.00%	8.03%	7.63%
	(b) Employee contribution rate	3.75%	3.75%	3.75%
	(c) Employer normal cost rate (a - b)	4.25%	4.28%	3.88%
10.	Employer contribution rate as percent of payroll			
	(a) Employer normal cost rate	4.25%	4.28%	3.88%
	(b) Amortization payments (8 / 7)	18.88%	18.85%	18.88%
	(c) Total (a + b)	23.13%	23.13%	22.76%
11.	Estimated employer contribution amount (7 * 10(c))	$ 244,403,317	$ 241,107,962	$ 237,251,068

Source: ERSRI Actuarial Valuation Report as of June 30, 2015 (Section C – Table 1B, page 12).

Pursuant to Section 36-10-2 of the RIGL, the State makes its ARC based upon the Actuarial Valuation. The method for determining the ARC, 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		151,077,142	100	76,700,915	100	121,168,789	100
2015		155,901,921	100	84,943,801	100	132,958,935	100

Source: For fiscal year 2015, see Audited Financial Statements of ERSRI for the Fiscal Year ended June 30, 2015 (Required Supplementary Information, Schedules of Contributions from the Employer and Other Non-employer Entity Contribution, page 52). 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. This provision of the general laws was repealed by the 2015 General Assembly.

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, a supplemental contribution of $414,958 was paid to the retirement system pursuant to Section 42-149-3.1 of the General Laws. For Fiscal 2015, a supplemental contribution of $414,450 was paid to the retirement system.

TABLE R-11
HISTORY OF EMPLOYER CONTRIBUTION RATES

Valuation Date as of June 30, 2015	Fiscal Year Ending June 30, 2015	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	25.34% [4]
2015	2018	24.87%
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	23.13% [4]
2015	2018	23.13%

[1] Restated after adopting the amendment of Article 7. Substitute A, as amended, enacted on June 30, 2009.

[2] Restated after adopting the amendment of Article 16 of Chapter 23 of the 2010 Public Laws, enacted on June 12, 2010.

[3] Restated after reflecting the Rhode Island Retirement Security Act of 2011.

[4] Restated after adopting the amendment of Article 21 of the FY 2015 Budget.

The following table provides an analysis of the change in the employer ARC from the June 30, 2014 Actuarial Valuation to the June 30, 2015 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	23.78%	22.76%
2. Impact of changes, gains and losses		
a. Non-salary liability experience (gain)/loss	-0.57%	-0.06%
b. Salary (gain)/loss	-0.12%	-0.27%
c. Total payroll growth (gain)/loss	0.15%	0.31%
d. Investment experience (gain)/loss	0.07%	0.02%
e. Changes in assumptions/methods	0.00%	0.00%
f. Changes in plan provisions	1.56%	0.37%
g. Total	1.09%	0.37%
3. Employer contribution rates from current valuation	24.87%	23.13%

Source: ERSRI Actuarial Valuation Report as of June 30, 2015 (Section C - Table 11A, page 26).

(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							
6/30/2015	$4,371.80	$2,476.49	$1,895.31	56.65%	163.5	$2,428.99	55.56%
6/30/2016	4,411.10	2,496.07	1,915.03	56.59%	180.9	2,460.44	55.78%
6/30/2017	4,437.40	2,528.55	1,908.85	56.98%	183.3	2,504.80	56.45%
6/30/2018	4,472.40	2,566.87	1,905.53	57.39%	188.0	2,555.00	57.13%
6/30/2019	4,505.20	2,609.65	1,895.55	57.93%	190.1	2,609.65	57.93%
6/30/2020	4,535.90	2,666.61	1,869.29	58.79%	194.0	2,666.61	58.79%
6/30/2021	4,564.20	2,727.70	1,836.50	59.76%	200.2	2,727.70	59.76%
6/30/2022	4,587.50	2,792.77	1,794.73	60.88%	207.1	2,792.77	60.88%
6/30/2023	4,609.10	2,866.87	1,742.23	62.20%	214.0	2,866.87	62.20%
6/30/2024	4,630.00	2,951.38	1,678.62	63.74%	220.1	2,951.38	63.74%
TEACHERS							
6/30/2015	$6,767.80	$3,783.60	$2,984.20	55.91%	230.5	$3,730.05	55.11%
6/30/2016	6,816.50	3,792.41	3,024.09	55.64%	237.3	3,752.24	55.05%
6/30/2017	6,870.00	3,820.77	3,049.23	55.62%	273.5	3,793.99	55.23%
6/30/2018	6,932.10	3,886.22	3,045.88	56.06%	279.5	3,872.83	55.87%
6/30/2019	6,998.30	3,963.44	3,034.86	56.63%	285.7	3,963.44	56.63%
6/30/2020	7,066.80	4,065.00	3,001.80	57.52%	292.7	4,065.00	57.52%
6/30/2021	7,137.40	4,178.61	2,958.79	58.55%	300.5	4,178.61	58.55%
6/30/2022	7,204.70	4,300.28	2,904.42	59.69%	308.0	4,300.28	59.69%
6/30/2023	7,276.20	4,437.53	2,838.67	60.99%	316.3	4,437.53	60.99%
6/30/2024	7,349.60	4,590.31	2,759.29	62.46%	323.8	4,590.31	62.46%

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, 2015	June 30, 2015
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percentage, closed	Level percentage, closed
Remaining amortization period	20 years	22 years
Asset valuation method	5-Year Smoothed Market	5-Year Smoothed Market
Actuarial assumptions:		
Investment rate of return*	7.50%	7.50%
Projected salary increase*	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, 2015 (Notes to Required Supplementary Information, Section C - Table 5, page 19).

(1) COLAs are currently suspended for all present and future retired State employees, teachers, BHDDH nurses, correctional officers, judges, and State police and their surviving beneficiaries 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

History of Investment Return Rates

(Net of Investment and Administrative Expenses)

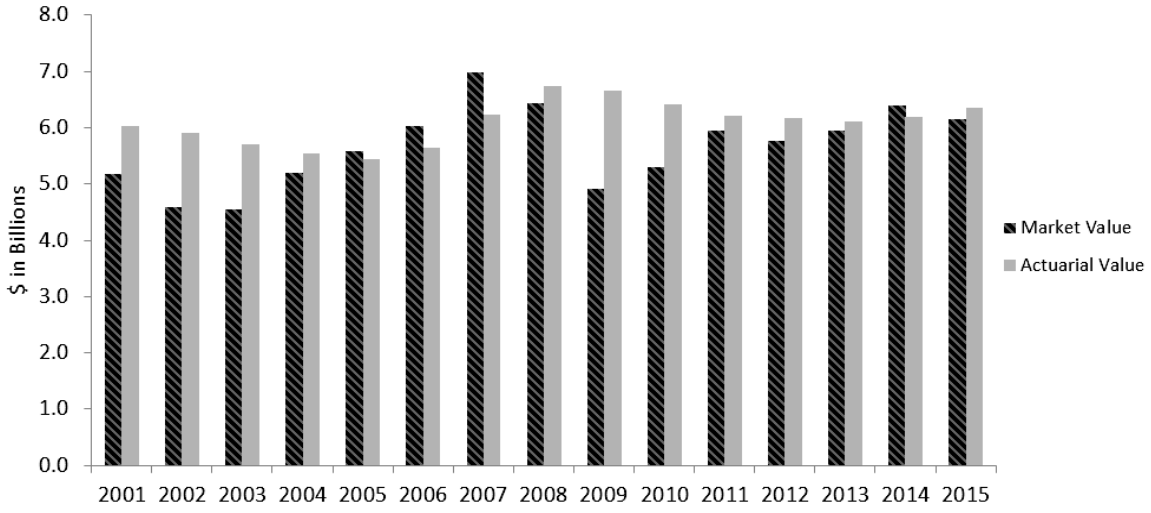
Year Ending June 30, 2015	Market	Actuarial[1]
(1)	(2)	(3)
1995	17.0%	10.2%
1996	13.7%	13.7%
1997	19.1%	19.1%
1998	16.1%	16.5%
1999	10.1%	14.7%
2000	9.1%	8.8%
2001	-11.0%	4.9%
2002	-8.4%	0.9%
2003	2.6%	-0.8%
2004	18.7%	0.4%
2005	11.4%	1.8%
2006	11.6%	7.4%
2007	18.2%	13.0%
2008	-5.8%	10.7%
2009	-20.1%	2.4%
2010	14.0%	0.8%
2011	19.5%	2.1%
2012	1.4%	3.9%
2013	11.0%	6.1%
2014	14.9%	8.2%
2015	2.2%	7.3%
Average Returns:		
Last 5 Years	9.6%	5.5%
Last 10 Years	6.0%	6.1%
Since 1995	7.3%	7.1%

[1]Source: ERSRI Actuarial Valuation Report as of June 30, 2015 (page 25 Section C - Table 10). 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 2015.

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



Source: Data From Actuarial Valuations as of June 30, 2001 through 2015.

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 ("New RIRSA"). 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.

Nine appeals have been filed from the July 8, 2015 judgments. Four *pro se* appeals have been filed with respect to the final judgment entered in *Rhode Island Public Employees' Retiree Coalition v. Raimondo*, PC-2015-1468. In addition, 65 public safety employees and 70 retirees have also, through counsel, filed an appeal with respect to that judgment. Seventy retirees, through counsel, have filed four appeals with respect to the judgment in *Clifford v. Chafee*, KC 14-0345. The State intends to vigorously defend these matters on appeal. The appeals in the case do not affect the implementation of New RIRSA.

In April 2016, the State received notice of 13 *pro se* complaints filed with the United States Equal Opportunity Commission, which purport to state a claim of age discrimination premised on the enactment of RIRSA (the "EEOC Complaints"). The *pro se* complainants were members of the plaintiff class in the Class Action and, under the terms of the judgment in the Class Action, all class members, including *the pro se* complainants, are forever and completely barred from ever asserting any claims or causes of action that were alleged or brought or that could have been alleged or brought with respect to the various challenges to the Rhode Island pension statutes. Accordingly, the State Defendants intend to vigorously defend against the EEOC Complaints on the grounds that, *inter alia*, the EEOC Complaints are barred by res judicata and the judgment in the Class Action. Moreover, if the *pro se* complainants desired to challenge the judgment in the Class Action, their recourse would have been an appeal to the Rhode Island Supreme Court. It is the State's position that they cannot collaterally challenge the Class Action judgment through the EEOC Complaints. Finally, if the *pro se* complainants were permitted to pursue the EEOC Complaints and were successful, the State is unable at this time to estimate the amount of their damages because if any damages are recoverable, they would be specific to each individual complainant. Based on the foregoing analyses, the *pro se* complainants do not and, it is the State's position that they cannot, seek to invalidate or challenge the constitutionality of RIRSA or New RIRSA.

The total savings from the 2009 and 2010 pension reforms was 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 ("New RIRSA"). 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.

Nine appeals have been filed from the July 8, 2015 judgments. Four *pro se* appeals have been filed with respect to the final judgment entered in *Rhode Island Public Employees' Retiree Coalition v. Raimondo*, PC-2015-1468. In addition, 65 public safety employees and 70 retirees have, through counsel, filed four appeals with respect to that judgment. Seventy retirees, through counsel, have also filed an appeal with respect to the judgment in

Clifford v. Chafee, KC 14-0345. The State intends to vigorously defend these matters on appeal. The appeals in the case do not affect the implementation of New RIRSA.

In April 2016, the State received notice of 13 *pro se* complaints filed with the United States Equal Opportunity Commission, which purport to state a claim of age discrimination premised on the enactment of RIRSA (the "EEOC Complaints"). The *pro se* complainants were members of the plaintiff class in the Class Action and, under the terms of the judgment in the Class Action, all class members, including *the pro se* complainants, are forever and completely barred from ever asserting any claims or causes of action that were alleged or brought or that could have been alleged or brought with respect to the various challenges to the Rhode Island pension statutes. Accordingly, the State Defendants intend to vigorously defend against the EEOC Complaints on the grounds that, *inter alia*, the EEOC Complaints are barred by res judicata and the judgment in the Class Action. Moreover, if the *pro se* complainants desired to challenge the judgment in the Class Action, their recourse would have been an appeal to the Rhode Island Supreme Court. It is the State's position that they cannot collaterally challenge the Class Action judgment through the EEOC Complaints. Finally, if the *pro se* complainants were permitted to pursue the EEOC Complaints and were successful, the State is unable at this time to estimate the amount of their damages because if any damages are recoverable, they would be specific to each individual complainant. Based on the foregoing analyses, the *pro se* complainants do not and, it is the State's position that they cannot, seek to invalidate or challenge the constitutionality of RIRSA or New RIRSA.

On July 17, 2015, the State moved to dismiss three of the remaining cases – *Cranston Firefighters, IAFF Local 1363, AFL-CIO v. Chafee*, C.A. No. PC-14-4343; *International Brotherhood of Police Officers, Local 301, AFL-CIO v. Chafee*, C.A. No. PC-14-4768 and *City of Cranston Police Officers, International Brotherhood of Police Officers, Local 301, AFL, CIO v. Chafee,* C.A. No. 12-3169 – for lack of justiciability on the grounds that because RIRSA was amended by New RIRSA, the plaintiffs claims were moot. The Court granted the motion and dismissed those three cases without prejudice.

On March 16, 2016, Cranston Firefighters, IAFF Local 1363, AFL-CIO and International Brotherhood of Police Officers, Local 301, AFL-CIO filed a new lawsuit in the United States District Court for the District of Rhode Island captioned *Cranston Firefighters, IAFF Local 1363, AFL-CIO, et al. v. Raimondo, et al.*, C.A. No. 16-130-ML-LDA. In that case, the Cranston police and firefighters' unions claim that RIRSA and New RIRSA violate the Contracts Clause, Takings Clause and Due Process Clause of the United States Constitution. They also seek a declaration concerning the effect of the class action settlement on Cranston police and firefighter retirees. The State Defendants have been served with that case and intend to vigorously defend it.

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, 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 was reduced to $4.4 billion as reported in the June 30, 2011 valuation. Also, the projected employer contribution was reduced from $622 million as reported in the 2010 actual valuation report to $380 million as reported in the June 30, 2011 valuation.

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" below.

The Pension Settlement

The pension settlement, effective July 1, 2015 through the enactment of New RIRSA, 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 and 14-4769) will receive the same benefits afforded to the settling parties, those cases have not settled. On March 16, 2016, the Cranston police and firefighters' unions, which had been plaintiffs in 14-443 and 14-4769, filed a new lawsuit in the United States District Court for the District of Rhode Island in which they claim, *inter alia*, that RIRSA and New RIRSA violate the Contracts Clause, Takings Clause and Due Process Clause of the United States Constitution. However, such employees are municipal employees for which the State would not have funding responsibility. The case commenced by the Rhode Island State Trooper's Association and Rhode Island Troopers Association ex-rel. Kevin M. Grace and Ernest E. Adams (the "State Troopers Lawsuit") also has not settled. The State intends to vigorously contest these lawsuits remaining lawsuit. 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 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, 2015 were as follows:

Plan	Total pension liability	Plan fiduciary net position	Employers' net pension liability (asset)	Plan fiduciary net position as a % of the total pension liability
ERS				
State employees	$4,417,358,768	2,430,930,476	$ 1,986,428,292	55.0%
Teachers	6,486,028,286	3,733,025,598	2,753,002,688	57.6%
TSB	200,456,053	293,811,653	(93,355,600)	146.6%
State Police	120,907,073	114,905,593	6,001,480	95.0%
JRBT	63,085,295	59,509,873	3,575,422	94.3%
RIJRFT	18,811,808	485,597	18,326,211	2.6%
MERS				
General employees	1,125,296,558	935,510,739	189,785,819	83.1%
Police and fire	576,066,967	456,714,171	119,352,796	79.3%

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, (3.80% and 4.29% at June 30, 2015 and June 30, 2014, 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	$ 2,462,737,913	$ 1,986,428,292	$ 1,596,501,024
ERS - Teachers	$ 3,452,243,237	$ 2,753,002,688	$ 2,180,575,331
TSB	$ (72,497,767)	$ (93,355,600)	$ (110,424,853)
SPRBT	$ 18,345,353	$ 6,001,480	$ (4,098,269)
JRBT	$ 10,075,163	$ 3,575,422	$ (1,743,119)
MERS - General Employees	$ 309,221,655	$ 189,785,819	$ 92,025,528
MERS - Police and Fire	$ 179,343,731	$ 119,352,796	$ 70,258,445

	1.00% Decrease (2.80%)	Municipal Bond Index Discount Rate (3.80%)	1.00% Increase (4.80%)
RIJRFT	$ 20,196,834	$ 18,326,211	$ 16,796,025

The State implemented the provisions of GASB Statement No. 68 in the fiscal 2015 financial statements. It includes 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 are reflected in the State's government-wide financial statements. Beginning balances were restated as required by the provisions of GASB Statement No. 68.

Under GASB Statement No. 68 and No. 73 requirements, the State has also had valuations developed for two pay-as-you-go pension plans for State Police Troopers and Judges. The net pension liability as of June 30, 2014 for these plans is $253.6 million for the State Police Non-Contributory Retirement Plan and $53.7 million for the Judicial Non-Contributory Retirement Plan.

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 $59.8 million in FY 2014 and $58.7 million in FY 2015. The State will implement new GASB Statements 74 and 75 in fiscal years 2017 and 2018, respectively.

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 2015 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.

Nine appeals have been filed from the July 8, 2015 judgments. Four *pro se* appeals have been filed with respect to the final judgment entered in *Rhode Island Public Employees' Retiree Coalition v. Raimondo*, PC-2015-1468. In addition, 65 public safety employees and 70 retirees, through counsel, have filed four appeals with respect to that judgment. 70 retirees, through counsel, also have filed an appeal with respect to the judgment in *Clifford v. Chafee*, KC 14-0345. The State intends to vigorously defend these matters on appeal. The appeals do not affect the implementation of New RIRSA.

In April 2016, the State received notice of 13 *pro se* complaints filed with the United States Equal Opportunity Commission, which purport to state a claim of age discrimination premised on the enactment of RIRSA (the "EEOC Complaints"). The *pro se* complainants were members of the plaintiff class in the Class Action and, under the terms of the judgment in the Class Action, all class members, including *the pro se* complainants, are forever and completely barred from ever asserting any claims or causes of action that were alleged or brought or that could have been alleged or brought with respect to the various challenges to the Rhode Island pension statutes. Accordingly, the State Defendants intend to vigorously defend against the EEOC Complaints on the grounds that, *inter alia*, the EEOC Complaints are barred by res judicata and the judgment in the Class Action. Moreover, if the *pro se* complainants desired to challenge the judgment in the Class Action, their recourse would have been an appeal to the Rhode Island Supreme Court. It is the State's position that they cannot collaterally challenge the Class Action judgment through the EEOC Complaints. Finally, if the *pro se* complainants were permitted to pursue the EEOC Complaints and were successful, the State is unable at this time to estimate the amount of their damages because if any damages are recoverable, they would be specific to each individual complainant. Based on the foregoing analyses, the *pro se* complainants do not and, it is the State's position that they cannot, seek to invalidate or challenge the constitutionality of RIRSA or New RIRSA.

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 a seventh 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 seven 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 (C.A. Nos. 14-4343 and 14-4768) and withdrew from the original suits, resulting in nine lawsuits.

The nine cases were consolidated and the parties filed motions to continue the trial until January 2016, which were denied. 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 ("New RIRSA"). 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.

Nine appeals have been filed from the July 8, 2015 judgments. Four *pro se* appeals have been filed with respect to the final judgment entered in *Rhode Island Public Employees' Retiree Coalition v. Raimondo*, PC-2015-1468. In addition, 65 public safety employees and 70 retirees, through counsel, have filed four appeals with respect to that judgment. 70 retirees, through counsel, also have filed an appeal with respect to the judgment in *Clifford v. Chafee*, KC 14-0345. The State intends to vigorously defend these matters on appeal. The appeals do not affect the implementation of New RIRSA.

In April 2016, the State received notice of 13 *pro se* complaints filed with the United States Equal Opportunity Commission, which purport to state a claim of age discrimination premised on the enactment of RIRSA (the "EEOC Complaints"). The *pro se* complainants were members of the plaintiff class in the Class Action and, under the terms of the judgment in the Class Action, all class members, including *the pro se* complainants, are forever and completely barred from ever asserting any claims or causes of action that were alleged or brought or that could have been alleged or brought with respect to the various challenges to the Rhode Island pension statutes. Accordingly, the State Defendants intend to vigorously defend against the EEOC Complaints on the grounds that, *inter alia*, the EEOC Complaints are barred by res judicata and the judgment in the Class Action. Moreover, if the *pro se* complainants desired to challenge the judgment in the Class Action, their recourse would have been an appeal to the Rhode Island Supreme Court. It is the State's position that they cannot collaterally challenge the Class Action judgment through the EEOC Complaints. Finally, if the *pro se* complainants were permitted to pursue the EEOC Complaints and were successful, the State is unable at this time to estimate the amount of their damages because if any damages are recoverable, they would be specific to each individual complainant. Based on the foregoing analyses, the *pro se* complainants do not and, it is the State's position that they cannot, seek to invalidate or challenge the constitutionality of RIRSA or New RIRSA.

On July 17, 2015, the State moved to dismiss three of the remaining cases – *Cranston Firefighters, IAFF Local 1363, AFL-CIO v. Chafee*, C.A. No. PC-14-4343; *International Brotherhood of Police Officers, Local 301, AFL-CIO v. Chafee*, C.A. No. PC-14-4768 and *City of Cranston Police Officers, International Brotherhood of Police Officers, Local 301, AFL, CIO v. Chafee,* C.A. No. 12-3169 – for lack of justiciability on the grounds that because RIRSA was amended by New RIRSA, the plaintiffs claims were moot. The Court granted the motion and dismissed those three cases without prejudice.

On March 16, 2016, Cranston Firefighters, IAFF Local 1363, AFL-CIO and International Brotherhood of Police Officers, Local 301, AFL-CIO filed a new lawsuit in the United States District Court for the District of Rhode Island captioned *Cranston Firefighters, IAFF Local 1363, AFL-CIO, et al. v. Raimondo, et al.*, C.A. No. 16-130-ML-LDA. In that case, the Cranston police and firefighters' unions claim that RIRSA and New RIRSA violate the Contracts Clause, Takings Clause and Due Process Clause of the United States Constitution. They also seek a declaration concerning the effect of the class action settlement on Cranston police and firefighter retirees. The State Defendants have been served with that case and intend to vigorously defend it.

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 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" above.

Other Litigation

The Retiree chapter of Council 94, AFSCME, has 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 be argued on April 6, 2016, with a Decision to follow.

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, which is ongoing.

The Department of Children, Youth and Families was also sued by parents and a child (*Provorse v DCYF*) for "wrongful adoption." The daughter has separate claims for a sexual assault while in State care. The parents 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. There is an ongoing hearing focusing on whether the parents filed their Complaint within the applicable limitations period. This case will not be resolved in the near future.

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. The State's motion to dismiss was granted by the Superior Court, but an appeal was filed and 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, 2015, and the report thereon by the Auditor General, a certified public accountant appointed by the Joint Committee on Legislative Services.

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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, 2015, 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 1% of the assets and deferred outflows and 1% of the revenues of the governmental activities and 1% of the assets and 3% of the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which also represents 48% 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 represents less than 1% of the assets and revenues of the aggregate remaining fund information; and
- all the component units comprising the aggregate discretely presented component units.

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, 2015, 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(O), 1(T) and 17(F), the State implemented Governmental Accounting Standards Board (GASB) Statement No. 68 - *Accounting and Financial Reporting for Pensions,* Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measurement Date,* and Statement No. 73 - *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Accordingly, beginning net position of the governmental activities, the business-type activities, and the aggregate discretely presented component units has been restated to recognize net pension liabilities and deferred outflows related to defined benefit pension plans covering employees.

Approximately 27% of the holdings in the pooled investment trust (Note 2) within the pension trust funds are hedge funds, private equity, real estate, and certain infrastructure investments. Because the fair value of these investments were not all 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.

Our opinions are not modified with respect to these matters.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages Exhibit A-5 through A-26, the Budgetary Comparison Schedules on pages Exhibit A-134 through A-137, and information about the State's pension plans and other postemployment benefit plans on pages Exhibit A-139 through A-156 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2015 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

Dennis E. Hoyle, CPA
Auditor General

December 17, 2015

State of Rhode Island

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2015

Management's Discussion and Analysis

Exhibit A-4

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, 2015. 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 was less than total liabilities plus deferred inflows of resources on June 30, 2015 by ($524.2) million. This amount is presented as "net position (deficit)" on the Statement of Net Position for the Total Primary Government. Of this amount, ($4,401.8) million was reported as unrestricted net position (deficit), $997.5 million as restricted net position, and $2,880.2 million as net investment in capital assets.

  Effective July 1, 2014 the State adopted Governmental Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions* and Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* As required by Statements No. 68 and 73 the State restated its beginning net position to record the Net Pension Liability for the pension plans it has funding responsibility for. This restatement reduced the net position for governmental activities at July 1, 2014 by $2.968 billion and the net position for business-type activities by $13.5 million. Please see the Notes to Basic Financial Statements for a complete discussion of the effect of Statements No. 68 and 73 and the disclosures required by the two standards.

- **Changes in Net Position:** In the Statement of Activities, the State's total net position increased by $473.0 million in fiscal year 2015. Net position of governmental activities increased by $352.3 million compared to an increase of $181.0 million in fiscal year 2014.

  This year to year increase in the change in net position for governmental activities is primarily attributable to greater general revenues and transfers which increased by approximately $231 million from the prior year. This increase is principally attributable to higher tax revenues due to the improving Rhode Island economy, which is discussed in more detail throughout this MD&A.

Fund Financial Statements

Governmental Funds

- The State's governmental funds reported a combined ending fund balance of $1,172.1 million, an increase of $160.8 million in comparison with the previous fiscal year. This is primarily a result of the increase in the General Fund's fund balance of $106.5 million, which was due principally to improved tax revenues, and new issuances of debt within the Historic Tax Credit and Certificates of Participation funds.

- As of June 30, 2015, the State's General Fund reported an ending fund balance of $501.9 million, an increase of $106.5 million as compared to the prior year. This change was primarily

attributable to an increase in tax revenues in a number of significant categories due to the improving Rhode Island economy and actual expenditures being less than budgeted amounts.

- As of June 30, 2015, the State's Intermodal Surface Transportation Fund reported an ending fund balance of $112.5 million, a decrease of $6.0 million as compared to the prior year. The decrease was mainly due to spending of bond proceeds from prior years' issuances for road and bridge construction projects.

Proprietary Funds

- The Rhode Island State Lottery transferred $381.9 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of $5.6 million in comparison with the previous fiscal year.

- The Employment Security Fund ended the fiscal year with a net position of $151.0 million, an increase of $123.1 million from fiscal year 2014. This favorable change is principally 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 ($60.3) million, a deficit increase of ($3.2) 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 pension obligations and progress in funding its obligation to provide 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 (deficit) (governmental and business-type activities) totaled ($524.2) million at the end of fiscal year 2015, compared to ($997.2) million (as restated) at the end of the prior fiscal year. Governmental activities reported unrestricted net position (deficit) of ($4,380.5) 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, 2015
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014*	2015	2014*	2015	2014*
Current and other assets	$ 2,180,618	$ 1,914,572	$ 187,869	$ 119,546	$ 2,368,487	$ 2,034,118
Capital assets	3,857,807	3,683,740	154,569	162,001	4,012,376	3,845,741
Total assets	6,038,425	5,598,312	342,438	281,547	6,380,863	5,879,859
Deferred outflows of resources	296,111	26,723	6,431	6,819	302,542	33,542
Long-term liabilities outstanding	5,451,838	5,535,725	228,954	239,463	5,680,792	5,775,188
Other liabilities	1,177,042	1,010,133	46,335	97,159	1,223,377	1,107,292
Total liabilities	6,628,880	6,545,858	275,289	336,622	6,904,169	6,882,480
Deferred inflows of resources	302,235	28,076	1,166		303,401	28,076
Net position (deficit):						
Net investment in capital assets	2,942,128	2,706,209	(61,956)	(62,060)	2,880,172	2,644,149
Restricted	841,777	799,274	155,682	33,795	997,459	833,069
Unrestricted	(4,380,484)	(4,454,382)	(21,312)	(19,991)	(4,401,796)	(4,474,373)
Total net position (deficit)	$ (596,579)	$ (948,899)	$ 72,414	$ (48,256)	$ (524,165)	$ (997,155)

* Restated

See Note 17 F for an explanation of the restatements.

As indicated above, the State reported a balance in unrestricted net position (deficit) of ($4,401.8) million as of June 30, 2015. Two primary factors, which are discussed below, contributed to this deficit.

As discussed at the beginning of Management's Discussion & Analysis, in fiscal year 2015 the State implemented Governmental Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions* and Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* As a result of the implementation of these two standards, at June 30, 2015 the net pension liability now recorded in the Statement of Net Position related to governmental activities was approximately $2.9 billion.

Also, another significant contributing factor is 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, 2015 approximately $559.2 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 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. See Note 6 B for a detailed explanation of the refunding bond issue that took place during fiscal year 2015. As of June 30, 2015 approximately $716.2 million of principal and $73.4 million of accreted interest are included in the State's debt.
- Historic Tax Credit Bonds - In fiscal years 2009 and 2015 the R.I. Commerce Corporation (RICC), on behalf of the State, issued $150.0 million and $75.0 million, respectively, 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, 2015, approximately $132.4 million of such bonds are 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, 2015, approximately $46.1 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 $473.0 million during fiscal year 2015. Total revenues of $7,945.8 million increased by $459.6 million compared to fiscal year 2014. 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 under the Affordable Care Act (ACA). The State's expenses, which cover a wide range of services, increased by $272.9 million. This net increase, which occurred primarily in the human services and education categories, was caused by a number of factors including significant expenditures for initiatives under the ACA and increased investments in education. Offsetting these costs were savings in employment insurance costs which decreased by approximately $90 million due to a significant 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, 2015
(Expressed in Thousands)

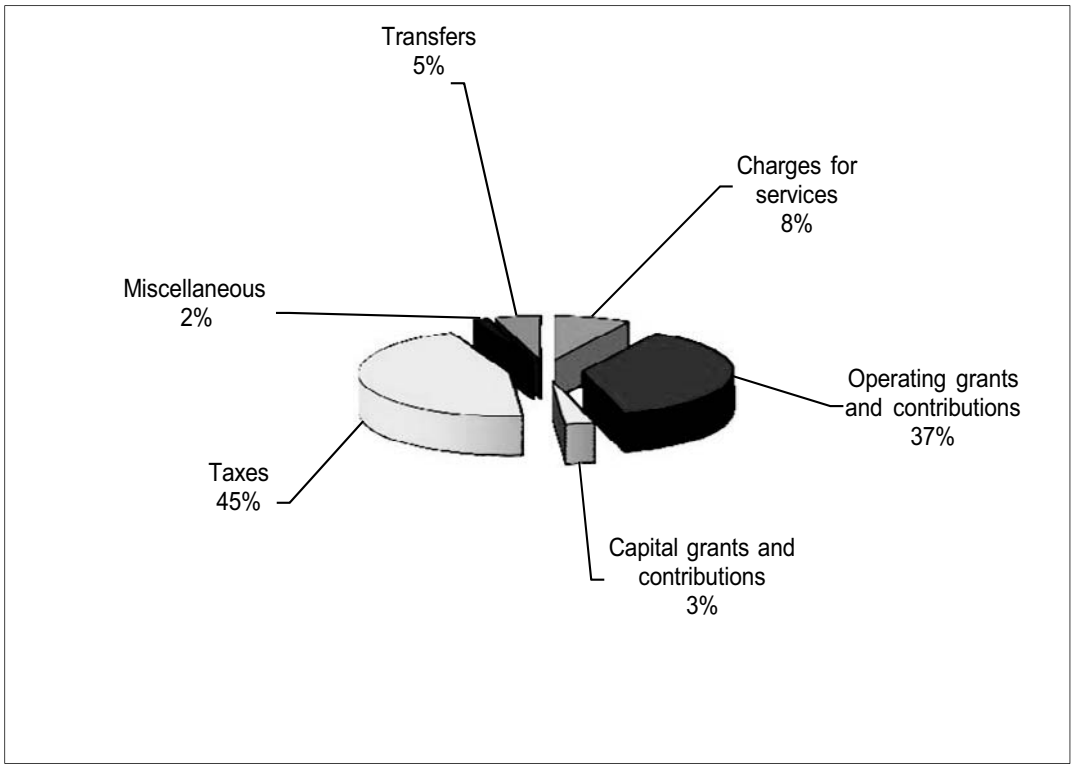
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	$ 577,157	$ 547,589	$ 1,163,752	$ 1,127,206	$ 1,740,909	$ 1,674,795
Operating grants and contributions	2,666,243	2,403,772	839	53,146	2,667,082	2,456,918
Capital grants and contributions	217,604	228,649			217,604	228,649
General revenues:						
Taxes	3,206,935	2,980,387			3,206,935	2,980,387
Interest and investment earnings	3,212	4,852	186	109	3,398	4,961
Miscellaneous	108,375	109,351	1,531	31,208	109,906	140,559
Total revenues	6,779,526	6,274,600	1,166,308	1,211,669	7,945,834	7,486,269
Program expenses:						
General government	695,611	736,911			695,611	736,911
Human services	3,631,236	3,302,590			3,631,236	3,302,590
Education	1,472,786	1,399,347			1,472,786	1,399,347
Public safety	478,854	478,826			478,854	478,826
Natural resources	83,979	80,690			83,979	80,690
Transportation	283,085	298,626			283,085	298,626
Interest and other charges	121,845	129,421			121,845	129,421
Lottery			484,293	462,153	484,293	462,153
Convention Center			48,628	49,255	48,628	49,255
Employment insurance			167,527	257,145	167,527	257,145
Total expenses	6,767,396	6,426,411	700,448	768,553	7,467,844	7,194,964
Excess (deficiency) before transfers	12,130	(151,811)	465,860	443,116	477,990	291,305
Transfers	345,190	332,824	(345,190)	(332,824)		
Special items	(5,000)				(5,000)	
Change in net position	352,320	181,013	120,670	110,292	472,990	291,305
Net position (deficit) - Beginning	2,006,755	1,825,742	(35,333)	(145,625)	1,971,422	1,680,117
Cumulative effect of prior period adjustments	(2,955,654)		(12,923)		(2,968,577)	
Net position (deficit) - Beginning, as restated	(948,899)	1,825,742	(48,256)	(145,625)	(997,155)	1,680,117
Net position (deficit) - Ending	$ (596,579)	$ 2,006,755	$ 72,414	$ (35,333)	$ (524,165)	$ 1,971,422

The fiscal year 2014 amounts presented above have not been restated for the implementation of GASB Statements 68 and 73 for pensions or other adjustments. Complete information to fully restate the fiscal year 2014 amounts was not available. For further information see Notes 13 and 17 F.

With the inclusion of the net pension liability in the Statement of Net Position as required by GASB Statement No. 68, changes in that liability due to changes in the fair value of investments and other actuarial or benefit related factors will affect the State's net position each year. For fiscal 2015, the net pension liability decreased by $309.5 million before deferred inflows of $268.6 million which will be recognized in future years.

Chart 1 depicts the State's sources of revenues from Governmental Activities for the fiscal year ended June 30, 2015.

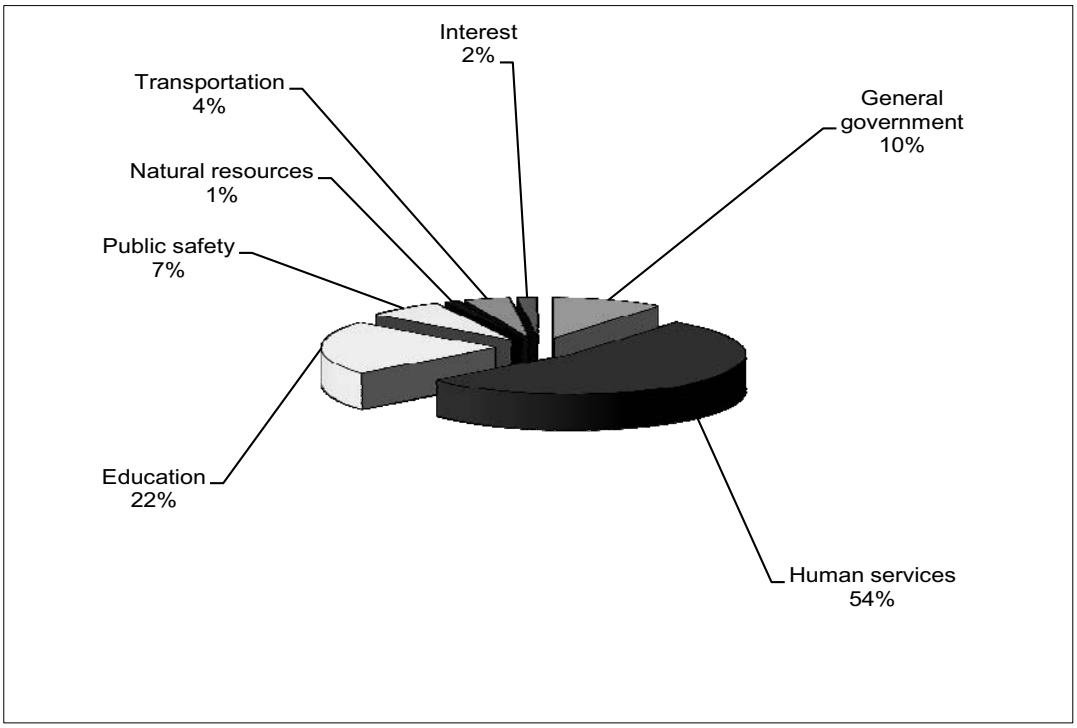
Chart 1 - Revenues and Transfers - Governmental Activities



The relative mix of revenue and transfers by source for governmental activities remained fairly constant in fiscal year 2015 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 2015.

Chart 2 depicts the purposes that program expenses related to Governmental Activities were expended for during the fiscal year ended June 30, 2015.

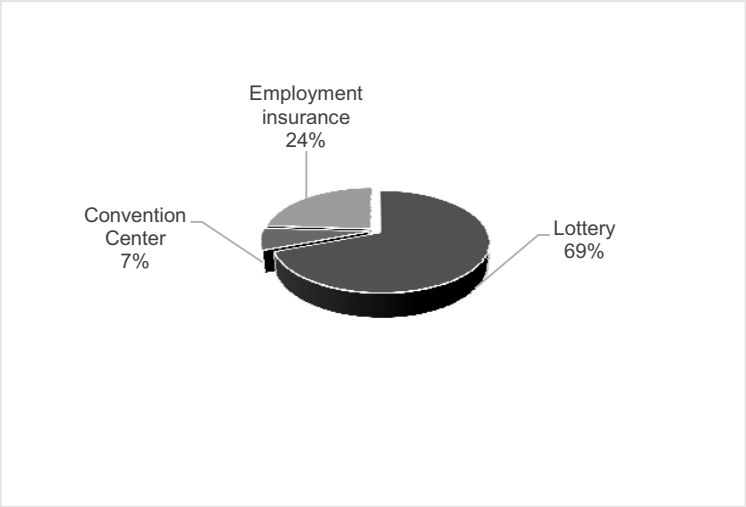
Chart 2 - Program Expenses - Governmental Activities



The relative mix of program expenses - governmental activities remained about the same in fiscal year 2015 as the prior fiscal year. The percent of total spending that is directed towards human services programs went from 52% to 54%.

Chart 3 depicts the program expenses related to Business Type Activities during the fiscal year ended June 30, 2015.

Chart 3 – Program Expenses – Business Type Activities



The relative mix of expenses – business type activities changed significantly due to a reduction in the amount of benefits paid under the employment insurance program.

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 $1,172.1 million, an increase of $160.8 million from June 30, 2014. A breakdown of the components follows (expressed in thousands):

			Increase (decrease) from 2014	
	2015	2014	Change	Percent
Governmental Funds				
Nonspendable	$ 174	$ 174	$	
Restricted	959,136	899,490	59,646	6.63%
Unrestricted				
Committed	9,652	22,682	(13,030)	-57.45%
Assigned	155,986	72,005	83,981	116.63%
Unassigned	47,199	16,959	30,240	178.31%
Total	$ 1,172,147	$ 1,011,310	$ 160,837	15.90%

See Note 17 F for an explanation of the 2014 reclassification.

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 $84 million increase in the assigned portion of the unrestricted fund balance is primarily attributable to an increase 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, 2014 this amount was approximately $72 million; it increased to approximately $156 million at June 30, 2015.

- The increase of $30.2 million in the unassigned portion of the unrestricted fund balance primarily resulted from the actual general fund balance remaining for appropriation in fiscal year 2016 being greater than expected at the time the fiscal year 2016 budget was enacted by the legislature.

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 2014	
	2015	2014*	Change	Percent
Restricted	$ 319,677	$ 297,617	$ 22,060	7.41%
Unrestricted				
Committed	2,561	4,770	(2,209)	-46.31%
Assigned	130,964	72,005	58,959	81.88%
Unassigned	48,685	20,987	27,698	131.98%
Total	$ 501,887	$ 395,379	$ 106,508	26.94%

*See Note 17 F for an explanation of the reclassification.

Revenues and transfers of the General Fund totaled $6,557.8 million in fiscal year 2015, an increase of $506.1 million or 8.36%, 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 2014	
	2015	2014	Amount	Percent
Taxes:				
Personal income	$ 1,225,561	$ 1,109,702	$ 115,859	10.44%
Sales and use	1,168,852	1,126,729	42,123	3.74%
General business	435,219	377,361	57,858	15.33%
Other	44,802	52,731	(7,929)	-15.04%
Subtotal	2,874,434	2,666,523	207,911	7.80%
Federal grants	2,619,412	2,345,942	273,470	11.66%
Restricted revenues	227,631	216,142	11,489	5.32%
Licenses, fines, sales, and services	326,003	330,565	(4,562)	-1.38%
Other general revenues	59,364	60,458	(1,094)	-1.81%
Subtotal	3,232,410	2,953,107	279,303	9.46%
Total revenues	6,106,844	5,619,630	487,214	8.67%
Transfer from Lottery	381,936	376,327	5,609	1.49%
Other transfers	69,007	55,722	13,285	23.84%
Total revenue and transfers in	$ 6,557,787	$ 6,051,679	$ 506,108	8.36%

Personal income taxes increased sharply between fiscal year 2014 and fiscal year 2015. Final payments, payments made with a return and extension payments, increased by 18.7 percent while estimated payments were up by 15.0 percent. The increases in final and estimated payments are likely due to the improvements in the state's economy between the two fiscal years. Personal income tax withholding payments showed accelerated growth of 4.6 percent in fiscal year 2015. The increase in withholding tax payments was contemporaneous with the decline in the state's unemployment rate and a third consecutive fiscal year of non-farm employment growth exceeding 1.0 percent. Personal income tax refunds and adjustments grew slightly at a rate of 0.8 percent continuing the trend of dampened growth in refunds and adjustments since the passage of the personal income tax reform in June 2010.

The State's unemployment rate continued its downward trajectory which, according to Moody's Analytics, fell from 8.5 percent in fiscal year 2014 to 6.7 percent in fiscal year 2015 while nominal personal income growth rose from 2.3 percent in FY 2014 to 4.6 percent in FY 2015. Sales and use taxes continued their strong upward trajectory increasing by 5.2 percent in FY 2015 after increasing by 5.0 percent in FY 2014. In FY 2015, motor vehicle use tax revenues increased by 4.0 percent below the rate of growth of 7.7 percent experienced for FY 2014. Sales taxes collected from the provision of prepared meals and beverages increased 7.0 percent in FY 2015.

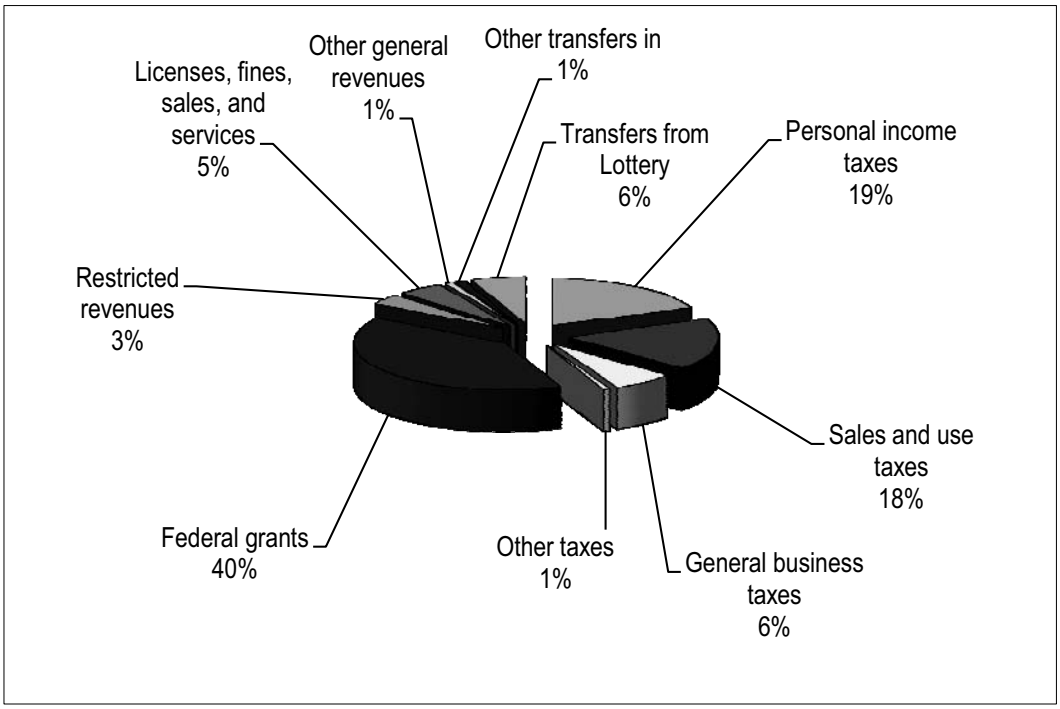
General business tax revenues grew significantly at 16.4 percent in FY 2015 driven primarily by substantial growth in business corporations tax payments of 29.6 percent, financial institutions tax revenues growth of 36.9 percent, and insurance companies gross premiums tax receipts of 17.5 percent. The strong growth in business corporations' tax revenues was attributable in part to the implementation of mandatory combined reporting for C corporations using single sales factor apportionment, market based sourcing of services and a reduced tax rate of 7.0 percent. The gain in insurance companies' gross premiums tax receipts reflected the continued expansion of health insurance coverage in the state via the Affordable Care Act.

Other taxes declined 15.0 percent year-over-year in FY 2015. Estate and transfer tax revenues fell 21.5 percent from FY 2014 levels. Much of this decline is attributable to the restructuring of the estate and transfer tax system from a cliff exemption amount of $921,655 to an estate and transfer tax credit amount of $64,400, the equivalent of a $1.5 million full exemption amount. Realty transfer taxes were also up strongly from FY 2014 at 19.5 percent. This increase primarily reflects the state's improved housing market.

Finally, the R.I. Lottery's transfer to the General Fund was up 1.5 percent in fiscal year 2015 from fiscal year 2014. Sales of traditional lottery products were down 2.2 percent year-over-year while casino gaming revenues were up 1.9 percent for the video lottery terminals in operation at Twin River and Newport Grand and 9.0 percent for the live table games in place at Twin River.

Chart 4 depicts the General Fund's revenues and other sources for the fiscal year ended June 30, 2015.

Chart 4 – Revenues and Other Sources – General Fund



Expenditures and transfers out totaled $6,482.6 million in fiscal year 2015, an increase of $425.2 million, or 7.02%, 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):

	2015	2014	Increase (decrease) from 2014 Amount	Percent
General government	$ 518,101	$ 488,707	$ 29,394	6.01%
Human services	3,661,964	3,325,538	336,426	10.12%
Education	1,403,507	1,357,630	45,877	3.38%
Public safety	490,981	478,108	12,873	2.69%
Natural resources	79,897	76,118	3,779	4.96%
Debt Service:				
Principal	123,178	117,975	5,203	4.41%
Interest	61,727	67,113	(5,386)	-8.03%
Total expenditures	6,339,355	5,911,189	428,166	7.24%
Transfers out	143,266	146,245	(2,979)	-2.04%
Total expenditures and transfers out	$ 6,482,621	$ 6,057,434	$ 425,187	7.02%

The significant increase in Human Services function expenditures is primarily attributable to the first full year of the implementation of the Affordable Care Act and the new HealthSource RI health benefits exchange. Within the Medicaid program, both new enrollees and annualized costs for existing 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 from those individuals who were previously eligible for Medicaid, but not yet enrolled.

The primary driver of the increase in the Education function expenditures is the continued transition to the new Education Funding Formula, which required over $31.0 million in additional funding in fiscal year 2015. Also in this functional area, funding for the State's share of Teacher Retirement costs increased by over $8.0 million and state aid to the State's university and colleges increased by over $9.7 million.

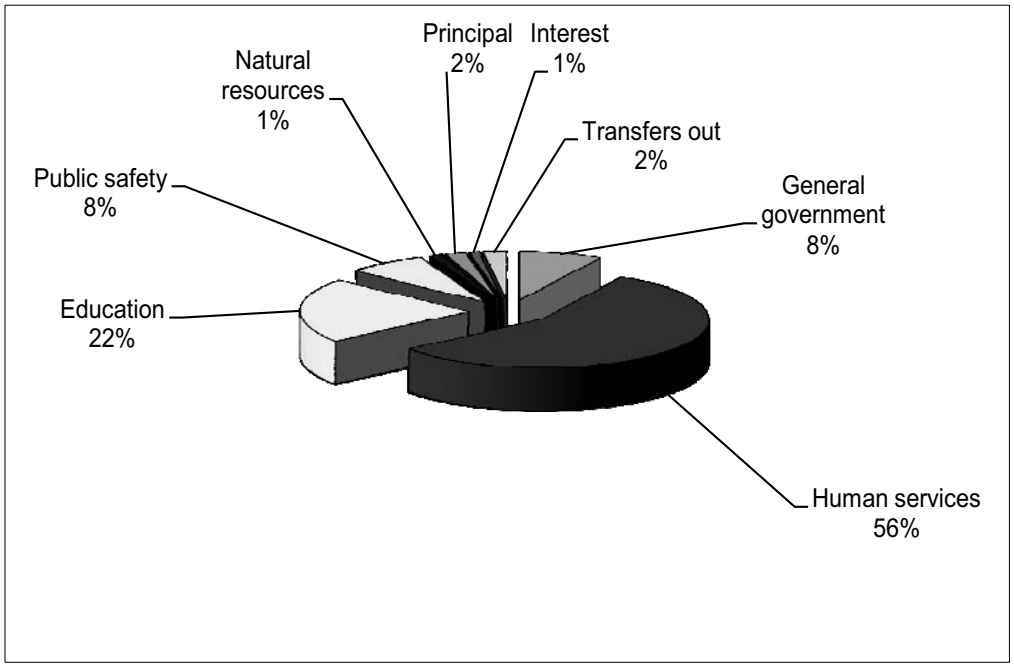
Within the General Government function, expenditures for the Payment In Lieu of Taxes aid program to cities and towns increased by $5.0 million compared to FY 2014; the Public Financing of General Elections program resulted in spending of $2.6 million in FY 2015 that did not occur in FY 2014; the Unclaimed Property and Retirement programs under the General Treasurer's Office each increased spending by over $1.8 million; and within the Department of Administration, the Technology Investment Fund expended approximately $2.2 million more in FY 2015 than the prior year due to increased investments for new software.

Within Public Safety, the Department of Corrections expended over $7.8 million more in FY 2015, including $4.4 million attributable to estimated contract settlement costs with the Correctional Officers' union. In the Department of Public Safety, expenditures from the Google Settlement received through the Department of Justice were approximately $2.2 million higher than the prior year.

The increase in Natural Resources is due to additional federal grant funds available to the Department of Environmental Management, including funds for capital improvements at recreational facilities.

Chart 5 depicts the General Fund's Expenditures and Other Uses for the fiscal year ended June 30, 2015.

Chart 5 – 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, fees, federal grants, Rhode Island Capital Fund Plan funds, 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, the Mission 360 Loan Program and related expenditures. The components of fund balance of the IST fund are as follows (expressed in thousands):

			Increase (decrease) from 2014	
	2015	2014	Change	Percent
Restricted	$ 106,961	$ 118,426	$ (11,465)	-9.68%
Unrestricted				
Committed	7,001	4,039	2,962	73.33%
Unassigned (deficit)	(1,486)	(4,028)	2,542	63.11%
Total	$ 112,476	$ 118,437	$ (5,961)	-5.03%

The decrease in fund balance for the IST Fund at June 30, 2015 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 $123.6 million between the original budget and the final budget. General revenue appropriations increased from the original budget by $31.5 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	$ 1,157,132	$ 1,226,800	$ 1,227,582	$ 782
General business	402,353	438,100	441,322	3,222
Sales and use	1,142,862	1,159,400	1,168,852	9,452
Other taxes	36,610	41,600	44,802	3,202
Departmental revenue	351,672	350,860	354,121	3,261
Other sources:				
Lottery transfer	384,500	378,600	381,936	3,336
Unclaimed property	10,500	12,300	13,712	1,412
Miscellaneous	7,475	9,085	8,778	(307)
Total revenues and other sources	3,493,104	3,616,745	3,641,105	24,360
Expenditures and other uses:				
General government	452,986	437,237	426,311	10,926
Human services	1,342,024	1,378,284	1,366,447	11,837
Education	1,199,219	1,194,741	1,194,336	405
Public safety	413,216	427,944	428,375	(431)
Natural resources	37,726	38,418	38,424	(6)
Total expenditures and other uses	3,445,171	3,476,624	3,453,893	22,731
Excess of revenues and other sources over expenditures and other uses	$ 47,933	$ 140,121	$ 187,212	$ 47,091

The strong positive variance between the fiscal year 2015 actual revenues to the fiscal year 2015 original budget for personal income taxes was reflected in positive variances across all personal income tax components. Personal income tax estimated payments were $21.3 million more than the original budget. Personal income tax final payments were $25.8 million above the original budget while personal income tax refunds and adjustments were $5.2 million less than the original budget, both indications of improved economic conditions in the state. Personal income tax withholding payments were slightly more than included in the original budget. The third largest contributor to the difference in actual total personal income tax revenues relative to the original budget was the net accrual which was $15.7 million more.

Actual fiscal year 2015 general business taxes came in above the original budget due primarily to actual business corporation tax revenues coming in 24.5 percent higher than the estimated amount included in the original budget. Similarly, actual financial institutions tax revenues were nearly double their originally estimated amount.

Sales and use tax revenues actually received in fiscal year 2015 outperformed estimated sales and use tax revenues included in the fiscal year 2015 original budget due to stronger than anticipated cigarette and other tobacco products excise tax revenues, general sales and use tax revenues and alcohol excise tax revenues exceeding the estimates included in the original budget.

Finally, the actual fiscal year 2015 Lottery transfer to the General Fund lagged the estimated Lottery transfer to the General Fund contained in the fiscal year 2015 original budget as both actual traditional lottery products revenues fell $2.6 million short of the estimated revenue included in the original FY 2015 budget. Actual revenues from both the video lottery terminals in operation at Twin River and Newport

Grand and the live table games in operation at Twin River were in line with the estimates included in the original budget.

The positive expenditure variance in the General Government function of approximately $10.9 million was primarily in two agencies, Administration and Legislature. Within Administration, the majority of the positive variance, $2.8 million, was in the Facilities Management program due to lower than anticipated energy and repair costs. 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 2016. These included, $450,750 for a classification and compensation study; $527,000 for the implementation of an e-permitting system; and $170,305 for the I-195 Commission. In the Legislature's budget, the positive variance of $4.4 million 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 2016.

The positive variance in the Human Services function of approximately $11.8 million was due to a positive variance of $9.2 million in the Office of Health and Human Services (OHHS) and $1.0 million in the Department of Children, Youth and Families. 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 2015. The DCYF positive variance was due to the availability of some federal resources to offset general revenue expenses.

The negative variance of $0.4 million in the Public Safety function is primarily due to a $0.8 million deficit in the Department of Public Safety due to retroactive payments to State Troopers based on the final arbitration award regarding their compensation contract.

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, 2015, amounts to $4,012.4 million, net of accumulated depreciation of $2,656.5 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was approximately 4.00% 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 $324.5 million for the year. Of this amount $201.0 million was used to construct or reconstruct highways. Depreciation charges for the year totaled $176.6 million.

State of Rhode Island's Capital Assets as of June 30, 2015
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014*	2015	2014	2015	2014*
Capital assets not being depreciated or amortized						
Land	$ 392,753	$ 388,033	$ 46,808	$ 45,558	$ 439,561	$ 433,591
Works of Art	2,923	2,389			2,923	2,389
Intangibles	170,130	166,716			170,130	166,716
Construction in progress*	521,209	456,735	170	44	521,379	456,779
Total capital assets not being depreciated or amortized	1,087,015	1,013,873	46,978	45,602	1,133,993	1,059,475
Capital assets being depreciated or amortized						
Land improvements	3,700	3,700			3,700	3,700
Buildings	721,971	723,688	234,392	234,384	956,363	958,072
Building improvements	279,919	270,378			279,919	270,378
Equipment	294,897	265,842	31,255	30,145	326,152	295,987
Intangibles	14,040	14,040	175	175	14,215	14,215
Infrastructure*	3,954,550	3,747,835			3,954,550	3,747,835
	5,269,077	5,025,483	265,822	264,704	5,534,899	5,290,187
Less: Accumulated depreciation or amortization*	2,498,285	2,343,412	158,231	148,307	2,656,516	2,491,719
Total capital assets being depreciated or amortized	2,770,792	2,682,071	107,591	116,397	2,878,383	2,798,468
Total capital assets (net)	$ 3,857,807	$ 3,695,944	$ 154,569	$ 161,999	$ 4,012,376	$ 3,857,943

*Certain fiscal year 2014 balances have been restated.

Additional information on the State's capital assets can be found in Note 5 to the financial statements of this report.

Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of $50,000 without the consent of the people (voters), except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. At the end of the current fiscal year, the State's governmental activities had total bonded debt outstanding of $2,174.7 million, of which $1,022.9 million is general obligation debt, $435.6 million is special obligation debt and $716.2 million is debt of the blended component units. Additionally, accreted interest of $73.4 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 $60.8 million during fiscal year 2015. This decrease consists of a $51.9 million decrease in general obligation debt, an increase of $19.7 million in special obligation debt, and a decrease of $28.6 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 $367.5 million and $1,022.5 million are supported by pledged revenue. These are discussed in Note 6 and 17 G.

As of July 2015 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, 2015 amounted to $392.1 million; other obligations that are authorized but unissued totaled $224.2 million and are described in Note 6. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

Conditions Expected to Affect Future Operations

Fiscal Year 2016 Budget

The first quarter report for fiscal year 2016 prepared by the State Budget Office contains estimates of annual expenditures based upon analysis of expenditures through the first quarter of fiscal year 2016, as well as caseload and medical assistance expenditure estimates and revenue estimates adopted at the November 2015 Caseload and Revenue Estimating Conferences. The fiscal year 2016 balance, based upon these assumptions, is estimated to reflect a $50.6 million general revenue surplus in the General Fund.

The Budget Office continues to review department and agency fiscal year 2016 expenditure plans in conjunction with the fiscal year 2017 budget process. In the first quarter report for fiscal year 2016 prepared by the State Budget Office a number of departments, primarily in the human service area as well as the Department of Corrections, are projecting deficits. All changes recommended by the Governor in the fiscal year 2016 enacted appropriations, or adopted revenues, will be incorporated in the supplemental appropriations bill, which under current law must be submitted to the General Assembly in January 2016.

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 $52.4 million more than enacted for fiscal year 2016. Taxes are expected to exceed enacted estimates by $28.3 million, while departmental revenues and other sources, including lottery revenues, are expected to exceed enacted estimates by $24.1 million. The November Revenue Estimating Conference estimates that revenues will be $3,596.2 million as compared with the enacted estimate of $3,543.8 million for fiscal year 2016.

The November Caseload Estimating Conference estimates reflect, in comparison to the fiscal year 2016 enacted budget, increased general revenue funding for fiscal year 2016 of $14.9 million. This is due to a number of factors including increased costs for managed care and Rhody Health Options which were offset to an extent by savings in other programs.

Lottery Revenue

The General Fund derives more than 10% of general revenue from the Rhode Island Lottery.

The Lottery's gaming operations currently compete with casinos in nearby Connecticut and Massachusetts. In addition, both neighboring States have already approved or are considering additional casino expansion likely to increase gaming competition in New England. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

Pension Benefits

The State's fiscal 2015 financial statements, as required by the implementation of GASB Statement No. 68, include the net pension liability for the various defined benefit pension plans covering state employees.

Legal challenges to pension reforms initiated in prior years have been largely resolved through settlement and legislative enactment of those settlement provisions at the close of fiscal 2015. The changes to benefit provisions resulting from the settlement and subsequent amendment of the statutory provisions regarding pension benefits have been reflected in the actuarially determined contribution rates for fiscal 2017. The terms of the settlement maintained the majority of the future savings projected in the initial enactment of the Rhode Island Retirement Security Act.

With the implementation of GASB Statement No. 68, the accounting measures of pension expense and related liabilities will differ from those used for funding purposes. The accounting measures are likely to be more volatile year to year since the net pension liability reflects the fair value of pension plan assets at June 30 whereas the funding measures use a five-year smoothed actuarial value of assets.

Future operations will continue to be affected by the amounts actuarially required to responsibly fund pensions consistent with statutory and actuarial requirements. Similarly, the State's overall net position will continue to be affected by market conditions affecting the fair value of assets accumulated for future pension benefits and the accounting measures reflecting the changes in those pension liabilities year to year.

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 2015, the State funded the retiree health care program in accordance with law by contributing the actuarially required contribution. At June 30, 2015 the OPEB Trust's net position was $147.4 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 Initiative

In order to address Rhode Island's continuing issues with deteriorating roads and bridges in May 2015 a new initiative called Rhode Works was proposed. Rhode Works calls for investing an additional $1 Billion above current plans in transportation infrastructure to fix more than 150 structurally deficient bridges and make repairs to another 500 bridges to prevent them from becoming structurally deficient. The plan also refocuses efforts to expand transit. The plan would be financed by 1) new revenue bonds that will be paid for by user fees on large commercial trucks 2) an application for $400 million in matching federal funds and 3) $120 million of federal funds made available sooner by restructuring existing federally funded debt. The plan is expected to save nearly $1 billion over 10 years by addressing transportation infrastructure problems on a more proactive basis. It is expected that the General Assembly will consider the plan in its 2016 session.

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, 2015 the State had spent approximately $21.9 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 through 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. In March 2015 it was determined that the fiscal health of the City improved to a level that such oversight was no longer necessary.

The State is continually monitoring the financial status of all municipalities and other governmental entities with the goal of avoiding 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

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2015

Basic Financial Statements

Exhibit A-27

State of Rhode Island and Providence Plantations
Statement of Net Position
June 30, 2015
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business - Type Activities	Totals	Component Units
Assets				
Current assets:				
Cash and cash equivalents	$ 925,921	$ 23,943	$ 949,864	$ 295,737
Funds on deposit with fiscal agent	189,434	71,881	261,315	
Investments				11,115
Receivables (net)	752,093	84,998	837,091	69,648
Restricted assets:				
Cash and cash equivalents	52,374	4,712	57,086	225,347
Investments				74,175
Receivables (net)				2,312
Other assets				42,666
Due from primary government				27,470
Due from component units	4,683		4,683	1,935
Internal balances	1,136	(1,136)		
Due from other governments and agencies	166,977	1,272	168,249	30,029
Inventories	3,110	912	4,022	10,493
Other assets	6,546	515	7,061	11,288
Total current assets	2,102,274	187,097	2,289,371	802,215
Noncurrent assets:				
Investments				180,642
Receivables (net)	14,750		14,750	45,401
Due from other governments and agencies	11,796		11,796	
Restricted assets:				
Cash and cash equivalents				56,791
Investments				330,971
Other assets				1,428,860
Due from component units	51,798		51,798	1,380
Capital assets - nondepreciable	1,087,015	46,978	1,133,993	298,892
Capital assets - depreciable (net)	2,770,792	107,591	2,878,383	1,677,104
Other assets		772	772	157,306
Total noncurrent assets	3,936,151	155,341	4,091,492	4,177,347
Total assets	6,038,425	342,438	6,380,863	4,979,562
Deferred outflows of resources	296,111	6,431	302,542	38,909
Liabilities				
Current Liabilities:				
Accounts payable	638,694	19,586	658,280	104,808
Due to primary government				4,683
Due to component units	27,470		27,470	1,935
Due to other governments and agencies		1,599	1,599	
Accrued expenses		4,559	4,559	
Unearned revenue	128,463		128,463	
Other current liabilities	115,944	254	116,198	228,943
Current portion of long-term debt	266,471	14,757	281,228	201,861
Obligation for unpaid prize awards		5,580	5,580	
Total current liabilities	1,177,042	46,335	1,223,377	542,230
Noncurrent Liabilities:				
Due to primary government				51,798
Net pension liability	1,917,169	13,315	1,930,484	242,356
Net pension liability-special funding situation	990,129		990,129	
Net OPEB obligation	8,520		8,520	61,628
Unearned revenue		4,894	4,894	15,629
Due to component units				1,380
Notes payable	1,375		1,375	17,175
Loans payable				46,674
Obligations under capital leases	229,751		229,751	4,914
Compensated absences	12,768	301	13,069	21,925
Bonds payable	2,223,224	210,444	2,433,668	1,908,681
Other liabilities	68,902		68,902	334,560
Total noncurrent liabilities	5,451,838	228,954	5,680,792	2,706,720
Total liabilities	6,628,880	275,289	6,904,169	3,248,950
Deferred inflows of resources	302,235	1,166	303,401	25,331
Net position (deficit)				
Net investment in capital assets	2,942,128	(61,956)	2,880,172	1,262,764
Restricted for:				
Budget reserve	185,446		185,446	
Capital Projects	123,737		123,737	
Debt	76,715	4,712	81,427	252,749
Assistance to other entities	56,011		56,011	
Employment insurance programs	151,572	150,970	302,542	
Other	248,122		248,122	175,011
Nonexpendable	174		174	107,528
Unrestricted	(4,380,484)	(21,312)	(4,401,796)	(53,862)
Total net position (deficit)	$ (596,579)	$ 72,414	$ (524,165)	$ 1,744,190

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, 2015
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating grants and contributions	Program Revenues: Capital grants and contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental activities	Primary Government: Business-type activities	Primary Government: Totals	Component Units
Primary government:								
Governmental activities:								
General government	$ 695,611	$ 209,005	$ 119,805	$ 637	$ (366,164)	$	$ (366,164)	$
Human services	3,631,236	246,604	2,227,519	1,221	(1,155,892)		(1,155,892)	
Education	1,472,786	29,775	204,304	31	(1,238,676)		(1,238,676)	
Public safety	478,854	39,709	35,201	2,414	(401,530)		(401,530)	
Natural resources	83,979	29,258	24,431	5,343	(24,947)		(24,947)	
Transportation	283,085	22,806	54,983	207,958	2,662		2,662	
Interest and other charges	121,845				(121,845)		(121,845)	
Total governmental activities	6,767,396	577,157	2,666,243	217,604	(3,306,392)		(3,306,392)	
Business-type activities:								
State Lottery	484,293	865,995				381,702	381,702	
Convention Center	48,628	23,768				(24,860)	(24,860)	
Employment security	167,527	273,989	839			107,301	107,301	
Total business-type activities	700,448	1,163,752	839			464,143	464,143	
Total primary government	$ 7,467,844	$ 1,740,909	$ 2,667,082	$ 217,604	(3,306,392)	464,143	(2,842,249)	
Component units:	$ 1,269,656	$ 722,200	$ 453,057	$ 149,167				54,768
General Revenues:								
Taxes:								
Personal income					1,221,754		1,221,754	
General business					436,064		436,064	
Sales and use					1,168,781		1,168,781	
Gasoline					146,007		146,007	
Other					234,329		234,329	
Interest and investment earnings					3,212	186	3,398	9,416
Miscellaneous revenue					107,382	1,531	108,913	25,471
Gain on sale of capital assets					993		993	
Special items					(5,000)		(5,000)	(1,357)
Transfers (net)					345,190	(345,190)		
Total general revenues and transfers					3,658,712	(343,473)	3,315,239	33,530
Change in net position					352,320	120,670	472,990	88,298
Net position (deficit) - beginning as restated					(948,899)	(48,256)	(997,155)	1,655,892
Net position (deficit) - ending					$ (596,579)	$ 72,414	$ (524,165)	$ 1,744,190

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

State of Rhode Island and Providence Plantations
Balance Sheet
Governmental Funds
June 30, 2015
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 571,479	$ 37,233	$ 278,638	$ 887,350
Funds on deposit with fiscal agent		72,578	116,856	189,434
Restricted cash equivalents			52,374	52,374
Receivables (net)	670,406	15,445	70,507	756,358
Due from other funds	3,993	3,273	783	8,049
Due from component units		907		907
Due from other governments and agencies	135,060	41,418		176,478
Loans to other funds	18,866		102,541	121,407
Other assets	580			580
Total assets	$ 1,400,384	$ 170,854	$ 621,699	$ 2,192,937
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
Accounts payable	563,088	27,024	27,456	617,568
Due to other funds			6,657	6,657
Due to component units	3,939	6,798	16,843	27,580
Loans from other funds	102,541		12,396	114,937
Unearned revenue	128,463			128,463
Other liabilities	86,672	14,587	563	101,822
Total liabilities	884,703	48,409	63,915	997,027
Deferred inflows of resources	13,794	9,969		23,763
Fund Balances				
Nonspendable			174	174
Restricted	319,677	106,961	532,498	959,136
Unrestricted				
Committed	2,561	7,001	90	9,652
Assigned	130,964		25,022	155,986
Unassigned	48,685	(1,486)		47,199
Total fund balances	501,887	112,476	557,784	1,172,147
Total liabilities, deferred inflows of resources and fund balances	$ 1,400,384	$ 170,854	$ 621,699	$ 2,192,937

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, 2015
(Expressed in Thousands)

Fund balance - total governmental funds			$ 1,172,147
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	6,349,574	
	Accumulated depreciation	(2,494,557)	
			3,855,017
Deferred outflows of resources			296,111
Bonds, notes, certificates of participation, accrued interest, net pension liabilities and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds.			
	Compensated absences	(75,736)	
	Bonds payable	(2,248,075)	
	Net premium/discount	(139,869)	
	Obligations under capital leases	(235,130)	
	Premium	(20,451)	
	Interest payable	(19,599)	
	Net pension liabilities	(2,907,298)	
	Other liabilities	(82,799)	
			(5,728,957)
Other long-term assets and unearned revenue are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
	Receivables	2,293	
	Due from component units	55,574	
	Unavailable revenue	23,763	
			81,630
Deferred inflows of resources			(302,235)
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.			29,708
Net position - total governmental activities			$ (596,579)

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, 2015
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	$ 2,874,434	$ 158,707	$ 176,982	$ 3,210,123
Licenses, fines, sales, and services	326,003	20,918	1,293	348,214
Departmental restricted revenue	227,631	1,861		229,492
Federal grants	2,619,412	270,551		2,889,963
Income from investments	809	387	1,960	3,156
Other revenues	58,555	3,257	45,060	106,872
Total revenues	6,106,844	455,681	225,295	6,787,820
Expenditures:				
Current:				
General government	518,101		179,188	697,289
Human services	3,661,964			3,661,964
Education	1,403,507		300	1,403,807
Public safety	490,981			490,981
Natural resources	79,897		44	79,941
Transportation		372,013	1,702	373,715
Capital outlays			171,469	171,469
Debt service:				
Principal	123,178	38,345	29,261	190,784
Interest and other charges	61,727	17,217	61,784	140,728
Total expenditures	6,339,355	427,575	443,748	7,210,678
Excess (deficiency) of revenues over (under) expenditures	(232,511)	28,106	(218,453)	(422,858)
Other financing sources (uses):				
Bonds and notes issued			121,125	121,125
Proceeds from refundings and other escrow assets			830,139	830,139
Proceeds from the sale of certificates of participation			49,495	49,495
Premium			82,553	82,553
Transfers in	450,943	26,078	145,499	622,520
Payment to refunded bonds and other escrow agent			(866,168)	(866,168)
Proceeds from termination of investment contracts			26,361	26,361
Transfers out	(143,266)	(60,145)	(73,919)	(277,330)
Total other financing sources (uses)	307,677	(34,067)	315,085	588,695
Special items	31,342		(36,342)	(5,000)
Net change in fund balances	106,508	(5,961)	60,290	160,837
Fund balances - beginning	395,379	118,437	497,494	1,011,310
Fund balances - ending	$ 501,887	$ 112,476	$ 557,784	$ 1,172,147

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, 2015
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ 160,837
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	327,792	
Depreciation expense	(166,081)	
		161,711
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	190,785	
Debt redeemed and defeased in refunding	798,215	
Accrued interest and other charges	(11,227)	
Proceeds from sale of debt	(953,670)	
Deferral of premium/discount	(82,553)	
Amortization of premium/discount	19,367	
Proceeds from early termination of debt related investment contracts	(26,361)	
Accreted interest paid	13,600	
Deferral of refunding gains/losses	19,694	
Amortization of refunding gains/losses	(2,970)	
		(35,120)
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	598	
Pension expenses, net of related deferred outflows	48,857	
Program expenses	29,909	
Program revenue	(548)	
Capital grant revenue	(6,125)	
General revenue - taxes	(3,186)	
General revenue-miscellaneous	1,494	
		70,999
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.		(6,107)
Change in net position - total governmental activities		$ 352,320

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, 2015
(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	$ 19,720	$ 3,414	$ 809	$ 23,943	$ 38,571
Restricted cash and cash equivalents		4,712		4,712	
Funds on deposit with fiscal agent			71,881	71,881	
Receivables (net)	5,423	827	78,748	84,998	10,487
Due from other funds		60	197	257	955
Due from other governments and agencies			1,272	1,272	
Inventories	912			912	3,111
Other assets	42	473		515	5,993
Total current assets	26,097	9,486	152,907	188,490	59,117
Noncurrent assets:					
Capital assets - nondepreciable		46,978		46,978	
Capital assets - depreciable (net)	455	107,136		107,591	2,790
Other assets		772		772	
Total noncurrent assets	455	154,886		155,341	2,790
Total assets	26,552	164,372	152,907	343,831	61,907
Deferred outflows of resources	1,183	5,248		6,431	
Liabilities					
Current liabilities:					
Accounts payable	14,265	5,276	45	19,586	21,126
Due to other funds	1,393			1,393	1,211
Due to other governments and agencies			1,599	1,599	
Loans from other funds					6,470
Accrued expenses	4,559			4,559	
Unearned revenue	625	2,309	288	3,222	
Other current liabilities	249		5	254	3,392
Bonds payable		11,330		11,330	
Compensated absences	205			205	
Obligation for unpaid prize awards	5,580			5,580	
Total current liabilities	26,876	18,915	1,937	47,728	32,199
Noncurrent liabilities:					
Net pension liability	13,315			13,315	
Unearned revenue	4,375	519		4,894	
Bonds payable		210,444		210,444	
Compensated absences	301			301	
Total noncurrent liabilities	17,991	210,963		228,954	
Total liabilities	44,867	229,878	1,937	276,682	32,199
Deferred inflows of resources	1,166			1,166	
Net Position (Deficit)					
Net investment in capital assets	455	(62,411)		(61,956)	2,790
Restricted for:					
Debt		4,712		4,712	
Employment insurance programs			150,970	150,970	
Unrestricted	(18,753)	(2,559)		(21,312)	26,918
Total net position (deficit)	$ (18,298)	$ (60,258)	$ 150,970	$ 72,414	$ 29,708

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, 2015
(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	$	$ 23,313	$ 268,800	$ 292,113	$ 304,761
Lottery sales	243,092			243,092	
Video lottery, net	516,262			516,262	
Table games	106,641			106,641	
Federal grants			839	839	
Miscellaneous		455	5,189	5,644	
Total operating revenues	865,995	23,768	274,828	1,164,591	304,761
Operating expenses:					
Personal services	9,277	14,947		24,224	12,855
Supplies, materials, and services	327,470	11,375		338,845	297,914
Prize awards, net of prize recoveries	147,444			147,444	
Depreciation and amortization	102	10,263		10,365	170
Benefits paid			167,177	167,177	
Total operating expenses	484,293	36,585	167,177	688,055	310,939
Operating income (loss)	381,702	(12,817)	107,651	476,536	(6,178)
Nonoperating revenues (expenses):					
Interest revenue	107	79		186	55
Other nonoperating revenue	952		579	1,531	16
Interest expense		(12,043)	(350)	(12,393)	
Total nonoperating revenue (expenses)	1,059	(11,964)	229	(10,676)	71
Income (loss) before transfers	382,761	(24,781)	107,880	465,860	(6,107)
Transfers in		21,559	15,350	36,909	
Transfers out	(381,936)		(163)	(382,099)	
Change in net position	825	(3,222)	123,067	120,670	(6,107)
Net position (deficit) - beginning as restated	(19,123)	(57,036)	27,903	(48,256)	35,815
Net position (deficit) - ending	$ (18,298)	$ (60,258)	$ 150,970	$ 72,414	$ 29,708

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, 2015
(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	$ 863,816	$	$	$ 863,816	$
Cash received from customers		23,029	265,258	288,287	304,406
Cash received from grants			2,826	2,826	
Cash payments for gaming activities	(467,611)			(467,611)	
Cash payments to suppliers	(4,473)	(10,448)		(14,921)	(296,433)
Cash payments to employees	(9,441)	(15,154)		(24,595)	(11,845)
Cash payments for benefits			(164,806)	(164,806)	
Other operating revenue (expense)			61	61	16
Net cash provided by (used for) operating activities	382,291	(2,573)	103,339	483,057	(3,856)
Cash flows from noncapital financing activities:					
Loan from federal government			44,242	44,242	
Payment of interest on loan from federal government			(2,263)	(2,263)	
Loans from other funds					6,453
Loans to other funds					(5,590)
Repayment of loans to other funds					3,453
Repayment of loans from other funds					(7,343)
Transfers in		22,567	19,026	41,593	
Transfers out	(381,144)		(53)	(381,197)	
Net transfers from (to) fiscal agent			(164,588)	(164,588)	
Net cash provided by (used for) noncapital financing activities	(381,144)	22,567	(103,636)	(462,213)	(3,027)
Cash flows from capital and related financing activities:					
Proceds from bond issue		31,900		31,900	
Principal paid on capital obligations		(43,633)		(43,633)	
Interest paid on capital obligations		(7,937)		(7,937)	
Acquisition of capital assets	(97)	(1,859)		(1,956)	(194)
Net cash provided by (used for) capital and related financing activities	(97)	(21,529)		(21,626)	(194)
Cash flows from investing activities:					
Interest on investments	106	83		189	55
Net cash provided by investing activities	106	83		189	55
Net increase (decrease) in cash and cash equivalents	1,156	(1,452)	(297)	(593)	(7,022)
Cash and cash equivalents, July 1	18,564	9,578	1,106	29,248	45,593
Cash and cash equivalents, June 30	$ 19,720	$ 8,126	$ 809	$ 28,655	$ 38,571
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	381,702	(12,817)	107,651	476,536	(6,178)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	102	10,263		10,365	170
Other revenue (expense) and transfers in (out)	327		61	388	16
Net changes in assets and liabilities:					
Receivables, net	1,121	293	(3,434)	(2,020)	(879)
Operating revenue deposited directly with the fiscal agent			(939)	(939)	
Inventory	(216)			(216)	(1,300)
Deferred outflows of resources	(56)			(56)	
Prepaid items	3	43		46	
Due to / due from transactions	61			61	
Accounts and other payables	1,742	676		2,418	3,300
Accrued expenses	(29)			(29)	1,015
Net pension liability	(1,310)			(1,310)	
Deferred inflows of resources	1,166			1,166	
Unearned revenue	5	(1,031)		(1,026)	
Prize awards payable	(2,327)			(2,327)	
Total adjustments	589	10,244	(4,312)	6,521	2,322
Net cash provided by (used for) operating activities	$ 382,291	$ (2,573)	$ 103,339	$ 483,057	$ (3,856)

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

State of Rhode Island and Providence Plantations
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015
(Expressed in Thousands)

	Pension and Other Employee Benefit Trusts	Investment Trust Ocean State Investment Pool	Private Purpose Touro Jewish Synagogue	Agency
Assets				
Cash and cash equivalents	$ 11,658	$ 106	$	$ 16,003
Deposits held as security for entities doing business in the State				54,841
Advance held by claims processing agent	775			
Receivables				
Contributions	35,808			
Due from State for teachers	17,656			
Due from other plans	335			
Miscellaneous	997			2,881
Total receivables	54,796			2,881
Prepaid expenses	4,194			
Investments, at fair value				
Equity in short-term investment fund		5,833		
Equity in pooled trust	8,110,441			
Other investments	411,231		2,655	
Total investments	8,521,672	5,833	2,655	
Total assets	8,593,095	5,939	2,655	$ 73,725
Liabilities				
Accounts payable	6,226	128		3,283
Due to other plans	335			
Incurred but not reported claims	1,838			
Unearned revenue	1,185			
Deposits held for others				70,442
Total liabilities	9,584	128		$ 73,725
Net position				
Restricted for:				
Pension benefits	8,436,125			
Other postemployment benefits	147,386			
Pool participants		5,811		
Other			2,655	
Total net position	$ 8,583,511	$ 5,811	$ 2,655	

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, 2015
(Expressed in Thousands)

	Pension and Other Employee Benefit Trusts	Investment Trust Ocean State Investment Pool	Private Purpose Touro Jewish Synagogue
Additions			
Contributions			
Member contributions	$ 191,324	$	$
Employer contributions	428,076		
Supplemental employer contributions	414		
State contributions for teachers	84,944		
Interest on service credits purchased	290		
Service credit transfer payments	38		
From participants		2,056	
Total contributions	705,086	2,056	
Amortization of advance contributions	3,033		
Other income	1,380		
Investment income			
Net appreciation in fair value of investments	139,153		(83)
Interest	58,619	13	
Dividends	14,008		40
Other investment income	8,600		206
	220,380	13	163
Less: investment expense	14,293	8	
Net income from investing activities	206,087	5	163
Total additions	915,586	2,061	163
Deductions			
Retirement benefits	899,296		
Death benefits	4,009		
Distributions	5,333	1,567	113
Refund of contributions	10,220		
Administrative expense	9,249		
Service credit transfers	38		
OPEB benefits	41,107		
Total deductions	969,252	1,567	113
Change in net position:			
Pension benefits	(91,378)		
Other postemployment benefits	37,712		
Other		494	50
Net position - beginning	8,637,177	5,317	2,605
Net position - ending	**$** 8,583,511	**$** 5,811	**$** 2,655

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, 2015
(Expressed in Thousands)

	RIAC	RICC	I-195 RDC	RIPTA	RITBA
Assets					
Current Assets:					
Cash and cash equivalents	$ 28,423	$ 2,035	$ 161	$ 4,351	$ 1,313
Investments				741	
Receivables (net)	2,936	1,397		2,492	51
Restricted assets:					
Cash and cash equivalents	22,841	20,899	128		7,006
Investments	11,704	3,312			49,309
Receivables (net)	1,582	92			599
Other assets	93				
Due from primary government		800	111	6,758	1,317
Due from other governments	18,065	456	47		
Due from other component units		708			
Inventories				1,738	109
Other assets	545	69	45	338	175
Total current assets	86,189	29,768	492	16,418	59,879
Noncurrent Assets:					
Investments		1,385		2,159	7,193
Receivables (net)	504	4,288			
Restricted assets:					
Cash and cash equivalents	38,491	12,777			
Investments		21,559			1,323
Receivables (net)		1,423			
Other assets		478			
Capital assets - nondepreciable	98,051	129		16,382	406
Capital assets - depreciable (net)	459,399	43		130,281	170,781
Due from other component units					
Other assets, net of amortization	1,389		262		
Total noncurrent assets	597,834	42,082	262	148,822	179,703
Total assets	684,023	71,850	754	165,240	239,582
Deferred outflows of resources	4,953	158		14,904	
Liabilities					
Current liabilities:					
Cash overdraft					
Accounts payable	8,182	146	132	5,508	9,394
Due to primary government				1,048	154
Due to other component units	235				
Other liabilities	14,799	3,742	269	6,836	3,850
Current portion of long-term debt	10,888	10,386			62,855
Total current liabilities	34,104	14,274	401	13,392	76,253
Noncurrent liabilities:					
Due to primary government	495			12,990	753
Due to other component units	1,380				
Unearned revenue		14,910			
Notes payable					
Loans payable	41,541				
Obligations under capital leases					
Net pension liability	1,973	274		48,783	
Net OPEB obligation				50,291	
Other liabilities		14,228		9,928	
Compensated absences				623	
Bonds payable	281,984	24,144	38,400		55,435
Total noncurrent liabilities	327,373	53,556	38,400	122,615	56,188
Total liabilities	361,477	67,830	38,801	136,007	132,441
Deferred inflows of resources	173	382		5,096	56
Net position (deficit)					
Net investment in capital assets	247,478	172		132,625	80,206
Restricted for:					
Debt					58,231
Other	39,488				
Other nonexpendable		4,952			
Unrestricted	40,360	(1,328)	(38,047)	(93,584)	(31,352)
Total net position (deficit)	$ 327,326	$ 3,796	$ (38,047)	$ 39,041	$ 107,085

(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, 2015
(Expressed in Thousands)

	URI	RIC	CCRI	Other Component Units	Totals
Assets					
Current Assets:					
Cash and cash equivalents	$ 133,347	$ 25,494	$ 18,878	$ 81,735	$ 295,737
Investments				10,374	11,115
Receivables (net)	39,354	7,086	2,560	13,772	69,648
Restricted assets:					
Cash and cash equivalents				174,473	225,347
Investments				9,850	74,175
Receivables (net)				39	2,312
Other assets				42,573	42,666
Due from primary government	5,962	8,300	1,534	2,688	27,470
Due from other governments	7,108	699	607	3,047	30,029
Due from other component units				1,227	1,935
Inventories	3,556	497	1,117	3,476	10,493
Other assets	4,938	52	150	4,976	11,288
Total current assets	194,265	42,128	24,846	348,230	802,215
Noncurrent Assets:					
Investments	139,576	27,097	3,232		180,642
Receivables (net)	25,045	4,168	3	11,393	45,401
Restricted assets:					
Cash and cash equivalents	731	483		4,309	56,791
Investments				308,089	330,971
Receivables (net)					1,423
Other assets	20,930	1,166		1,404,863	1,427,437
Capital assets - nondepreciable	78,215	9,098	10,177	86,434	298,892
Capital assets - depreciable (net)	558,825	122,237	69,999	165,539	1,677,104
Due from other component units				1,380	1,380
Other assets, net of amortization	402	6		155,247	157,306
Total noncurrent assets	823,724	164,255	83,411	2,137,254	4,177,347
Total assets	1,017,989	206,383	108,257	2,485,484	4,979,562
Deferred outflows of resources	8,870	3,122	2,282	4,620	38,909
Liabilities					
Current liabilities:					
Cash overdraft					
Accounts payable	42,465	9,478	2,782	26,721	104,808
Due to primary government	1,840	986	655		4,683
Due to other component units				1,700	1,935
Other liabilities	18,829	8,749	8,161	163,708	228,943
Current portion of long-term debt	10,317	875	257	106,283	201,861
Total current liabilities	73,451	20,088	11,855	298,412	542,230
Noncurrent liabilities:					
Due to primary government	13,750	20,175	3,635		51,798
Due to other component units					1,380
Unearned revenue				719	15,629
Notes payable		1,128		16,047	17,175
Loans payable	628			4,505	46,674
Obligations under capital leases	4,621			293	4,914
Net pension liability	100,312	35,621	26,224	29,169	242,356
Net OPEB obligation				11,337	61,628
Other liabilities	10,602	3,639	13	296,150	334,560
Compensated absences	16,878	1,469	398	2,557	21,925
Bonds payable	215,927	16,878	2,349	1,273,564	1,908,681
Total noncurrent liabilities	362,718	78,910	32,619	1,634,341	2,706,720
Total liabilities	436,169	98,998	44,474	1,932,753	3,248,950
Deferred inflows of resources	8,784	3,119	2,296	5,425	25,331
Net position (deficit)					
Net investment in capital assets	406,822	98,775	73,461	223,225	1,262,764
Restricted for:					
Debt				194,518	252,749
Other	84,687	6,919	3,425	40,492	175,011
Other nonexpendable	84,251	16,429	1,896		107,528
Unrestricted	6,146	(14,735)	(15,013)	93,691	(53,862)
Total net position (deficit)	$ 581,906	$ 107,388	$ 63,769	$ 551,926	$ 1,744,190

(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, 2015
(Expressed in Thousands)

	RIAC	RICC	I-195 RDC	RIPTA	RITBA	URI	RIC	CCRI	Other Component Units	Totals
Expenses	$ 87,291	$ 36,782	$ 1,407	$ 118,454	$ 25,000	$ 485,070	$ 140,415	$ 121,123	$ 254,114	$ 1,269,656
Program revenues:										
Charges for services	68,486	2,421	18	24,588	20,073	317,316	68,467	39,588	181,243	722,200
Operating grants and contributions		2,587	1,565	66,837		164,997	71,442	80,353	65,276	453,057
Capital grants and contributions	45,195			3,381	15,357	72,231	7,184	4,433	1,386	149,167
Total program revenues	113,681	5,008	1,583	94,806	35,430	554,544	147,093	124,374	247,905	1,324,424
Net (Expenses) Revenues	26,390	(31,774)	176	(23,648)	10,430	69,474	6,678	3,251	(6,209)	54,768
General revenues:										
Interest and investment earnings	135	2,236		44	360	(97)	635	338	5,765	9,416
Miscellaneous revenue	415	19,782		1,036	339		554		3,345	25,471
Total general revenue	550	22,018		1,080	699	(97)	1,189	338	9,110	34,887
Special items									(1,357)	(1,357)
Change in net position	26,940	(9,756)	176	(22,568)	11,129	69,377	7,867	3,589	1,544	88,298
Net position (deficit) - beginning as restated	300,386	13,552	(38,223)	61,609	95,956	512,529	99,521	60,180	550,382	1,655,892
Net position (deficit) - ending	$ 327,326	$ 3,796	$ (38,047)	$ 39,041	$ 107,085	$ 581,906	$ 107,388	$ 63,769	$ 551,926	$ 1,744,190

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.

For each blended 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. Also, for the blended component units included in the State's CAFR, the State, generally acting through the Governor, appoints a voting majority of the component units' governing boards.

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.

The Corporation recognizes receivables and revenue with respect to TSRs based on the domestic shipment of cigarettes. The Corporation accrues at June 30th for TSRs that are derived from estimated sales of cigarettes from January 1 to June 30. This accrual is estimated based upon the historical TSR payments for the prior three fiscal years.

The GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues (the Statement),* effective for financial statement periods beginning on or after December 15, 2006. The Statement required restatement of prior period financial statements, except for the deferral requirements relative to sales of future revenues which were permitted to be applied prospectively.

As allowed under GASB Statement No. 48, the Corporation and State elected to not retroactively apply the deferral requirements to its 2002 and 2007 TSR sales completed prior to the effective date. In accordance with accounting standards in effect at the time of the 2002 and 2007 TSR sales, the State fully recognized the amount received for its sale of future TSRs to the Tobacco Settlement Financing Corporation as revenue in those years.

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 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 RIPRC.

Rhode Island Refunding Bond Authority (RIRBA)

The RIRBA was created by law in 1987 and has a number of powers, including being allowed to issue bonds and notes when authorized by the General Assembly. It was dormant for several years until August 2014 when it issued debt in connection with a refinancing transaction discussed in Note 6. RIRBA is legally separate and exists exclusively for the benefit of the primary government.

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. 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. 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. RICC's activities are largely supported by State appropriations and 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 I-195 RDC will oversee the sale of the land in an attempt to maximize the economic benefits to the State. The I-195 RDC 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 I-195 RDC 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. RITBA 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 RITBA. 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 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 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. RIHEAA 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.

In July 2015, pursuant to a law enacted by the General Assembly in the 2015 session, RIHEAA ceased operations and transferred certain of its assets and functions to the newly created Division of Higher Education Assistance within the Office of the Postsecondary Education Commissioner. The CollegeBoundfund Program administered by RIHEAA was transferred to the Office of the General Treasurer.

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 RIHMFC is secured in part by capital reserve funds. 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 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. RIIRBA'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. 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 RIRRC's superfund site. For more detailed information, a copy of the financial statements can be obtained by writing to 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 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 R.I. Water Resources Board Corporate, One Capitol Hill, Providence, RI 02908.

In June 2015 pursuant to a law enacted by the General Assembly, RIWRBC ceased operations and transferred its remaining assets and functions to the RI Clean Water Finance Agency (now known as the RI Infrastructure Bank), a related organization.

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 (effective September 1, 2015, the name of this agency was changed to the Rhode Island Infrastructure Bank). 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 Funds – These funds are 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 Employee 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 all accumulate resources for pension benefit payments to eligible retirees.

Other Employee Benefit Trust Funds - These funds account for the activities of the Rhode Island State Employees' and Electing Teachers OPEB System, which accumulates resources to provide post-employment health care benefits to eligible retirees.

Investment Trust Fund – 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, Rhode Island Capital Plan funds, 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, the Mission 360 Loan Program 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 (amounts not expected to be collected in the next twelve months) is also reflected.

I. Due From Other Governments and Agencies

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

J. Interfund Activity

In general, eliminations have been made to minimize the double counting of internal activity, including internal service fund type activity, on the government-wide financial statements. However, in order to avoid distorting the direct costs and program revenues of the applicable functions, interfund services provided and used between different functional categories have not been eliminated.

The Due From/To Other Funds are reported at the net amount on the fund financial statements. Transfers between governmental and business-type activities are reported at the net amount on the government-wide financial statements.

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

K. Inventories

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

L. Capital Assets

Capital assets, which include land, intangible assets not being amortized, construction in progress, land improvements, buildings, building improvements, furniture and equipment (which also includes subcategories for vehicles and computer systems), depreciable intangibles (computer software), and infrastructure (e.g., roads, bridges, dams, piers) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Intangible assets not being amortized consist mostly of perpetual land rights such as conservation, recreational, and agricultural easements.

Applicable capital assets are depreciated or amortized using the straight-line method (using a half-year convention). Capitalization thresholds and estimated useful lives for depreciable capital asset categories of the primary government are as follows:

Asset Category	Capitalization Thresholds	Estimated Useful Lives
Capital Assets (Depreciable)		
Land improvements	$1 million	20 years
Buildings	$1 million	20 - 50 years
Building Improvements	$1 million	10 - 20 years
Furniture and equipment	$5 thousand	3 - 10 years
Intangibles	$1 million	5 years
Infrastructure	$1 million	7 - 75 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest incurred during the construction of capital facilities is not capitalized.

Capital assets acquired in the governmental funds are recorded as capital outlay expenditures in capital projects funds and current expenditures by function in other governmental fund financial statements. Depreciation and amortization are recorded in the government-wide financial statements, proprietary funds, fiduciary funds and component unit financial statements. Capital assets of the primary government are depreciated using the straight-line method over the assets' estimated useful life.

The State has recorded its investment in intangible assets, which includes certain land rights such as conservation and agricultural easements as well as certain rights of way obtained by the State. These easements tend to be of a perpetual nature and thus are not amortized. Intangible assets also include the State's capitalization of internally developed or substantially customized computer software, which is amortized over a 5-year period. The State has included its investment in intangible assets within Note 5, Capital Assets.

Discretely presented component units have adopted estimated useful lives for their capital assets as well as capitalization thresholds. These entities depreciate capital assets using the straight-line method.

M. Bonds Payable

In the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, bond discounts, premiums, and issuance costs are recognized in the current period. In the government-wide financial statements bond discounts, premiums, 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 6E).

O. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System (ERS) cost-sharing plan and the single–employer plans administered by the Employees' Retirement System of Rhode Island (System) and the additions to and deductions from the plans' net position have been recognized on the same basis as they are reported by the System. For this purpose, benefit payments, (including refunds of employee contributions) are recognized when due and payable and in accordance with the benefit terms. Investments are recorded at fair value.

As more fully explained in Note 13, a special funding situation exists with respect to local teachers for which the State funds 40% of actuarially determined contributions to the ERS plan. Accordingly, the financial statements reflect the State's proportionate share of the net pension liability, pension expense and deferred inflows/outflows related to this special funding situation.

For the State's two non-contributory (pay-as-you-go) plans covering certain judges and state police, the provisions of GASB Statement No. 73 have been implemented which is largely consistent with the provisions of GASB Statement No. 68, regarding recognition of the pension liability, pension expense and deferred inflows/outflows except there is no fiduciary net position accumulated to offset the total pension liability and no employer contributions are made other than the amount needed to provide benefits on a pay-as you-go basis.

For certain employees participating in the LIUNA defined benefit pension plan (a non-governmental union sponsored plan), there is no required employer contribution and no pension expense is recorded in the financial statements. Consistent with the provisions of GASB Statement No. 78, which provides an exception for non-governmental sponsored plans, no determination of the proportionate net pension liability, pension expense, or deferred inflows or outflows, if any, is made for this cost-sharing defined benefit pension plan.

P. 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.

Q. 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.

R. 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, 2015 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	$ 42,638	$ 5,248	$ 47,886	$ 4,778
Deferred pension costs	253,473	1,183	254,656	32,888
Derivatives				1,243
Total deferred outflows of resources	$ 296,111	$ 6,431	$ 302,542	$ 38,909
Deferred inflows of resources:				
Deferred pension credit	$ 268,644	$ 1,166	$ 269,810	$ 25,275
Deferred gain on refunding of debt	33,591		33,591	56
Total deferred inflows of resources	$ 302,235	$ 1,166	$ 303,401	$ 25,331

The components of the deferred outflows of resources and deferred inflows of resources related to the governmental funds as of June 30, 2015 are as follows (expressed in thousands):

	General Fund	IST Fund	Other Governmental Funds	Total Governmental Funds
Deferred inflows of resources:				
Taxes	$ 6,287	$	$	$ 6,287
Other general revenue	7,507			7,507
Federal revenue		9,969		9,969
Total deferred inflows of resources	$ 13,794	$ 9,969	$	$ 23,763

S. 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.

T. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2015, the State adopted the following new accounting standards issued by GASB:

- GASB Statement No. 68, *Accounting and Financial Reporting Pensions – an amendment of GASB Statement No. 27*

- GASB Statement No. 69 , *Government Combinations of Disposals of Government Operations*

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*

- GASB Statement No. 73*, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* The State early implemented this standard, which is effective for reporting periods beginning after December 15, 2015, for the fiscal year ending June 30, 2015.

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- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The State early implemented this standard, which is effective for reporting periods beginning after December 15, 2015, for the fiscal year ending June 30, 2015.

The implementation of GASB Statements No. 68, 71 and 73 represented a significant change in the accounting and reporting of pension expense and the related liability. In general, the statements revise and establish new financial reporting requirements for governments that provide their employees with pension benefits. Among other requirements, the statements require governments providing defined benefit pension benefits to recognize their long term obligation for pension benefits as a liability and the related recognition of pension expense. The implementation of these statements also significantly expanded pension related note disclosures and the required supplementary information. As a result of these changes in accounting principles, the State has restated its beginning net position at July 1, 2014. See Note 17 F Restatements for more information about the impact of the implementation of these statements.

The implementation of GASB Statement No. 69 had no material reporting impact on the State's financial statements.

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

GASB Statement No. 72, *Fair Value Measurement and Application*, will be effective for financial statements for periods beginning after June 15, 2015. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting

purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, will be effective for financial statements for periods beginning after June 15, 2016. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will be effective for financial statements for periods beginning after June 15, 2017. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, will be effective for financial statements for periods beginning after June 15, 2015. The objective of this statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted account principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

GASB Statement No. 77, *Tax Abatement Disclosures*, will be effective for financial statements for periods beginning after December 15, 2015. This statement requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues in order to better allow users to understand how tax abatements affect a government's future ability to raise resources and meet its financial obligations and the impact those abatements have on a government's financial position and economic condition.

Management has not yet determined the effect that the above GASB statements will have on the financial statements.

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, 2015 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, 2015, of the $274.4 million invested, $62.3 million were Collateralized Repurchase Agreements.

With the exception of $874,755 in bank balances of the R.I. Convention Center Authority, as of June 30, 2015 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, 2015 are as follows:

Pooled cash equivalents (at amortized cost)	
Financial company commercial paper	$ 106,152
Other commercial paper	26,986
Asset backed commercial paper	33,102
Government agency repurchase agreement	29,281
Other repurchase agreements	33,000
Certificates of deposit	15,000
Other Municipal Debt	1,900
Other notes	7,000
Other Instruments	22,000
Total investments	274,421
Plus: other assets in excess of other liabilities	(1,021)
Total investment pool	273,400
Funds held by fiduciary funds and discretely presented component units	
Less:	
Amounts categorized as funds on deposit with fiscal agent	2
Amounts held by fiduciary trust funds:	
Pension trusts	5,406
OPEB trust	2,281
RIPTA health fund	36
Amounts held by discretely presented component units:	
URI	10,138
RIHEAA	209
RIIRBA	2,509
Amounts held for external parties	5,811
Primary government pooled cash equivalents	247,009
Other primary government cash equivalents and investments	
Repurchase agreements	2,221
Money Market Mutual Funds	58,707
Total primary government cash equivalents and investments	$ 307,937
Cash equivalents and investments	$ 307,937
Cash	699,013
Total cash, cash equivalents and investments	$ 1,006,950
Statement of Net Position	
Cash and cash equivalents	$ 949,864
Restricted cash and cash equivalents	57,086
Total cash, cash equivalents and investments	$ 1,006,950

Of the State's restricted cash and cash equivalents totaling $57,086,000, $52,374,000 is held by the Tobacco Settlement Financing Corporation and $4,712,000 is held by the R.I. Convention Center Authority. Both entities are blended component units.

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, 2015, information about the State's exposure to interest rate risk for cash equivalents and investments (expressed in thousands) is as follows:

Pooled Cash Equivalents:

Investment Type	At Fair Value	Total Amortized Cost	Investment Maturities (in days) (At Amortized Cost) 0-30	31-90	91-180	181-397
Financial Company Commercial Paper	$ 106,163	$ 106,152	$ 19,799	$ 51,376	$ 34,977	$
Other Commercial Paper	26,987	26,986	17,000		9,986	
Asset Backed Commercial Paper	33,103	33,102	19,104	13,998		
Gov't Agency Repurchase Agreements	29,281	29,281	29,281			
Other Repurchase Agreements	33,004	33,000	20,000	11,000	2,000	
Certificates of Deposit	15,000	15,000	15,000			
Other Municipal Debt	1,900	1,900				1,900
Other Notes	7,000	7,000		1,000	6,000	
Other Instruments	22,000	22,000	22,000			
Grand Total	$ 274,438	$ 274,421	$ 142,184	$ 77,374	$ 52,963	$ 1,900

Non-pooled Cash Equivalents and Investments:

Investment Type	Fair Value
Money Market Mutual Funds	58,707
Repurchase agreements	2,221
Cash equivalents and investments	$ 60,928

All the non-pooled cash equivalents and investments have a maturity date of less than one year.

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, 2015, 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	$ 106,163	$ 106,152	$ 13,995	$ 92,157	$
Other Commercial Paper	26,987	26,986	9,986	13,000	4,000
Asset Backed Commercial Paper	33,103	33,102	3,000	30,102	
Gov't Agency Repurchase Agreements	29,281	29,281	28,281	1,000	
Other Repurchase Agreements	33,004	33,000		33,000	
Certificates of Deposit	15,000	15,000	13,000	2,000	
Other Municipal Debt	1,900	1,900	1,900		
Other Notes	7,000	7,000	6,000		1,000
Other Instruments	22,000	22,000		9,000	13,000
Grand Total	$ 274,438	$ 274,421	$ 76,162	$ 180,259	$ 18,000

1- Moody's Investor Service, except w here 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:

Funds on Deposit with Fiscal Agent

Issuer	Fair Value	Type of Investment	Moody's Rating	Average Maturities in Days
Money market mutual funds				
Fidelity Institutional Money Market Gvt. Port Class III	$ 5,269	Money Market	Aaa-mf	52
Goldman Sachs Treasury Instruments Fund	53,438	Money Market	Aaa-mf	58
	$ 58,707			

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, 2015 and the breakdown by maturity are as follows:

Investment Type	Fair Value
Money Market Mutual Funds	$ 183,436
Investment Contracts	5,998
Investments	$ 189,434

All of the investments have a maturity date of less than one year.

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	$ 943	Aaa-mf	48
Federated Govt. Obligation Tax Managed Fund	15,337	Aaa-mf	58
Fidelity Institutional Money Market Gvt. Port Class III	91,519	Aaa-mf	33
First American Government Obligations Fund	38,630	Aaa-mf	46
Goldman Sachs Financial Square Money Market Fund	36,032	Aaa-mf	41
Wells Fargo Advantage 100% Treasury Money Market Fund	328	Aaa-mf	48
Morgan Stanley Prime Portfolio	645	Aaa-mf	14
Ocean State Investment Pool	2	N/A	N/A
Investment Contracts			
FSA Capital Management GIC	5,998	N/A	N/A
	$ 189,434		

Funds on deposit with fiscal agent also include approximately $71,881,000 held by the Federal Unemployment Insurance Trust Fund.

B. Concentration of Credit Risk

The SIC has adopted limitations as to the maximum percentages of the State’s total short-term investment portfolio that may be invested in a specific investment type or with any one issuer of securities.

The combined portfolio concentrations for cash equivalents, investments and funds in trust by issuer (expressed in thousands) that are greater than 5% are as follows:

Type	Issuer	Amount	Percentage
Money Market Funds	Fidelity Institutional Money Market Gvt. Port Class III	$ 96,788	19.46%
Money Market Funds	First American Government Obligations Fund	38,630	7.77%
Money Market Funds	Goldman Sachs Treasury Instruments Fund	53,438	10.74%
Money Market Funds	Goldman Sachs Financial Square Money Market Fund	36,032	7.24%

C. Pension Trusts

The Employees' Retirement System (the System) consists of six plans: the Employees' Retirement System (ERS), 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, 2015, the carrying amount of the System cash deposits was $5,633,000 and the bank balance was $5,797,000. 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, $5,562,000, and the remainder representing interest-bearing collateralized bank deposits totaling $135,000, 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, 2015 (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 RIJRFT 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 plan's 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, 2015 (expressed in thousands):

Pooled Investment Trust Investment Type		Fair Value
Cash and Cash Equivalents	$	44,685
Foreign Currencies		2,604
Money Market Mutual Funds		207,045
US Government Securities		334,504
US Government Inflation Linked Bonds		291,732
US Government Agency Securities		328,489
Collateralized Mortgage Obligations		33,141
Corporate Bonds		469,246
International Government Bonds		3,407
Term Loans		305,942
Domestic Equity Securities		832
International Equity Securities		243
Commingled Funds - Domestic Equity		1,899,731
Commingled Funds - International Equity		1,862,564
Private Equity		545,080
Real Estate		393,750
Hedge Funds		1,171,344
Infrastructure Investments		156,766
Derivative Investments		620
Investments at Fair Value	$	8,051,726
Receivable for investments sold		58,934
Payable for investments purchased		(142,465)
Total	$	7,968,194

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 System 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 System 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, 2015, no fixed income manager was outside of the policy guidelines.

The following table shows the System's fixed income investments by type, fair value and the effective duration at June 30, 2015 (expressed in thousands):

Investment Type:	Fair Value (in thousands)	Effective Duration
US Government Securities	$ 626,236	5.26
US Government Agency Obligations	328,489	3.60
Collateralized Mortgage Obligations	33,141	1.45
Corporate Bonds	469,246	6.16
International Government Bonds	3,407	6.83
Term Loans	305,942	1.01
Total Fixed Income	$ 1,766,461	4.39

The System had investments at June 30, 2015 totaling $5,406,191 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The System's investment accounted for 2% of the total OSIP at June 30, 2015.

OSIP operates in a manner consistent with an 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, 50 Service Avenue, Warwick, RI 02886.

The System also invested $201,638,354 in a short-term money market mutual fund that held investments with a weighted average maturity of 54 days at June 30, 2015.

The System 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 System 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 System 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 System's exposure to credit risk as of June 30, 2015 is as follows (expressed in thousands):

Rating	US Government Agency Obligations	Collateralized Mortgage Obligations	Corporate Bonds	International Government Bonds	Term Loans
Aaa	$ 328,489	$ 16,268	$ 17,401		
Aa		3,279	16,946		
A		10,933	99,091	513	
Baa		2,661	222,340	2,894	9,568
Ba			56,258		85,759
B			38,943		143,169
Caa			16,970		18,157
Ca			81		-
C					-
D					373
Not Rated			1,219		48,916
Fair Value	$ 328,489	$ 33,141	$ 469,246	$ 3,407	$ 305,942

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 System'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 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, 2015, all securities were registered in the name of the System (or in the nominee name of its custodial agent) and were held in the possession of the System'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 System may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments.

The System's exposure to foreign currency risk at June 30, 2015, was as follows (expressed in thousands):

Currency	Commingled Funds	Currency	Equities	Private Equity	Derivatives	Total
Australian Dollar	$ 87,764	$ 143	$	$	$ 35	$ 87,942
Brazilian Real	29,484					29,484
Canadian Dollar	129,020	52	165	16,798	30	146,065
Chilean Peso	5,170					5,170
Colombian Peso	2,440					2,440
Czech Republic Koruna	793					793
Danish Krone	21,414					21,414
Egyptian Pound	1,021					1,021
Euro Currency	386,939	1,978		67,846	(73)	456,691
Great Britain Pound	261,965	308	78		105	262,457
Hong Kong Dollar	148,995					148,995
Hungarian Forint	995					995
Indian Rupee	32,381					32,381
Indonesia Rupiah	11,052					11,052
Israeli Shekel	7,799					7,799
Japanese Yen	297,981	88			112	298,180
Malaysian Ringgit	13,622					13,622
Mexican Peso	19,447					19,447
New Zealand Dollar	1,690					1,690
Norwegian Krone	8,277					8,277
Philippine Peso	5,804					5,804
Polish Zloty	6,356					6,356
Qatari Real	4,054					4,054
Russian Ruble	3,459					3,459
Singapore Dollar	19,000					19,000
Swedish Krona	38,011	35			11	38,057
Swiss Franc	115,769					115,769
South African Rand	34,019					34,019
South Korean Won	61,711					61,711
Taiwan Dollar	53,598					53,598
Thailand Baht	9,534					9,534
Turkish Lira	6,373					6,373
United Arab Emirates Dirham	2,720					2,720
Total	$ 1,828,657	$ 2,604	$ 243	$ 84,644	$ 221	$ 1,916,369
United States	33,907					
Grand Total	$ 1,862,564					

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 System’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 System's derivative investments include forward foreign currency transactions, futures contracts, options, rights, and warrants. The System 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 System 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 System's Statements of Fiduciary Net Position. The face or contract amount in U.S. dollars reflects the total exposure the System has in currency contracts. The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

Futures contracts – The System 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 System'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 System's exposure to the underlying instrument. Selling futures tends to decrease the System's exposure to the underlying instrument, or hedge other System investments. Losses may arise due to movements in the underlying or reference markets.

Through commingled funds, the System also indirectly holds derivative type instruments, primarily equity index futures.

The System 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 System may sell a security in anticipation of a decline in the fair value of that security or to lessen the portfolio allocation of an asset class. Short sales may increase the risk of loss to the System when the price of a security underlying the short sale increases and the System is obligated to deliver the security in order to cover the position.

The following summarize the System's exposure to specific derivative investments at June 30, 2015 (expressed in thousands):

Investment Derivative Instruments	Change in fair value included in investment income	Fair Value at June 30, 2015	Notional Amount
Fixed income futures - long	$ (21)	$ 5	$ 3,284
Fixed income futures - short	(13)	(44)	6,796
Equity index futures - long	630	1,112	(57,428)
Equity index futures - short	680	(217)	11,311
Credit default swaps	(5)	80	1,287
Interest rate swaps	(772)	(316)	4,093
Total	$ 499	$ 620	
Foreign currency forward contracts:			
Pending Payable (liability)		$ (262)	
Pending Receivable (asset)		141	
		$ (122)	

The System 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, 2015 was $141,000. This represents the maximum loss that would be recognized if all counterparties failed to perform as contracted. Risk is mitigated by using a continuous linked settlement process.

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 the 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 System executes (through its investment managers) derivative instruments with various counterparties. The credit ratings of these counterparties were Baa1 (Moody's) or better. One counterparty 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, 2015 are as follows (expressed in thousands):

Investment Type	Fair Value	% of Total	Duration (years)	Weighted Average Maturity (days)
Annuities				
TIAA Stable Value	$ 4,980	1.2%		
TIAA Real Estate - variable annuity	2,332	0.6%		
Total	$ 7,312	1.8%		
Money Market				
Vanguard Prime Money Market Fund	$ 498	0.1%		43
Fixed Income Funds				
Pimco Real Return Institutional Class	3,114	0.8%	4.84	
Vanguard Total Bond Market Index Admiral	2,606	0.6%	5.70	
Total	$ 5,720	1.4%		
Target Retirement Funds				
Vanguard Target Retirement 2010 Trust II	7,289	1.8%		
Vanguard Target Retirement 2015 Trust II	30,134	7.3%		
Vanguard Target Retirement 2020 Trust II	56,630	13.8%		
Vanguard Target Retirement 2025 Trust II	60,889	14.8%		
Vanguard Target Retirement 2030 Trust II	60,933	14.8%		
Vanguard Target Retirement 2035 Trust II	57,088	13.9%		
Vanguard Target Retirement 2040 Trust II	44,884	10.9%		
Vanguard Target Retirement 2045 Trust II	32,939	8.0%		
Vanguard Target Retirement 2050 Trust II	17,735	4.3%		
Vanguard Target Retirement 2055 Trust II	4,518	1.1%		
Vanguard Target Retirement 2060 Trust II	430	0.1%		
Vanguard Target Retirement Income Trust II	2,228	0.5%		
Total	$ 375,697	91.5%		
Equity Mutual Funds				
TIAA-CREF International Equity Index Fund Institutional	2,235	0.5%		
TIAA-CREF Social Ch Equity Institutional	360	0.1%		
Vanguard Institutional Index Fund	9,289	2.3%		
Vanguard Emerging Markets Stock Index Fund Admiral	1,853	0.5%		
Vanguard Mid-Cap Index Fund Admiral	4,180	1.0%		
Vanguard Small Cap Index Fund Admiral	3,631	0.9%		
Total	$ 21,549	5.2%		
Total	$ 410,776	100.0%		

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the plan 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, 2015, 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, 2015, 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, 2015, the carrying amount of the OPEB System's cash deposits was approximately $3,746,000 and the bank balance was $3,740,000. 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, 2015, the System's cash deposits were either federally insured or collateralized.

In addition, at June 30, 2015, the System also had cash equivalent investments consisting of approximately $2,281,000 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The System's investment accounted for 0.8% of the total investment in OSIP at June 30, 2015. 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 an 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, 2015 (expressed in thousands):

Investment Type	Fair Value
Money Market Mutual Fund	$ 4,832
US Government Securities	18,878
US Government Agency Securities	15,044
Corporate Bonds	14,552
Commingled Funds - Domestic Equity	92,038
	145,343
Net investment payable	(3,098)
Investments at Fair Value	$ 142,245

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, 2015 (expressed in thousands):

Investment Type	Fair Value	Effective Duration
US Government Agency Securities	$ 15,044	3.52
US Government Securities	18,878	5.89
Corporate Bonds	14,552	6.51
Total Fixed Income	$ 48,473	4.86

The OPEB System's investment in Dreyfus Institutional Cash Advantage Fund, a money market mutual fund, had an average maturity of 67 days at June 30, 2015.

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, 2015 is as follows (expressed in thousands):

Rating(1)	US Government Agency Obligations	Corporate Bonds
Aaa	$ 15,044	$ 812
Aa		439
A		4,454
Baa		8,564
Ba		282
Fair Value	$ 15,044	$ 14,551

(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, 2015, 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 $2,655,000 in the Fidelity Balanced Fund as of June 30, 2015.

F. Agency Funds

As of June 30, 2015, all of the bank balances of Agency Funds were either covered by federal depository insurance or collateralized by securities held by an independent third party in the State's name.

Note 3. Receivables

Receivables at June 30, 2015 (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	$ 490,197	$ 501,529	$ 3,800	$ 995,526	$ 178,773	$ 56,481
Less: Allowance for Uncollectibles	116,464	109,375	2,844	228,683		
Governmental receivables, net	373,733	392,154	956	766,843	178,773	56,481
Business-type receivables	79,682	28,928		108,610	1,272	
Less: Allowance for Uncollectibles	4,082	19,530		23,612		
Business-type receivables, net	75,600	9,398		84,998	1,272	
Receivables, Net of Allowance for Uncollectibles	449,333	401,552	956	851,841	180,045	56,481
Less: Current Portion						
Governmental receivables	367,447	384,646		752,093	166,977	4,683
Business-type receivables	75,600	9,398		84,998	1,272	
Noncurrent Receivables, Net	$ 6,286	$ 7,508	$ 956	$ 14,750	$ 11,796	$ 51,798

Note 4. Intra-Entity Receivables and Payables

Intra-entity receivables and payables as of June 30, 2015 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	$ 3,993	$	Operating expenses
Intermodal Surface Transportation	3,273		Transportation funding
Non-Major Funds			
RI Temporary Disability Insurance		647	Debt service and administrative costs
Bond Capital	605		State match for transportation
RI Capital Plan		4,527	Primarily for transportation State match
Certificates of Participation	178		Fees restricted for COPS debt service
Debt service		1,483	Debt service
Total Non-Major Funds	783	6,657	
Total Governmental Funds	8,049	6,657	
Proprietary Funds			
Enterprise			
RI Lottery		1,393	Net income owed to General Fund
RI Convention Center Authority	60		Project funding
Employment Security Trust	197		Benefit payments
Total Enterprise Funds	257	1,393	
Internal Service	955	1,211	Settlement of services rendered
Total primary government	$ 9,261	$ 9,261	

Note 5. Capital Assets

The capital asset activity of the reporting entity for the year ended June 30, 2015 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	$ 388,033	$ 5,251	$ (531)	$ 392,753
Works of Art	2,389	534		2,923
Intangibles	166,716	3,414		170,130
Construction in progress *	456,735	294,162	(229,688)	521,209
Total capital assets not being depreciated or amortized	1,013,873	303,361	(230,219)	1,087,015
Capital assets being depreciated or amortized:				
Land improvements	3,700			3,700
Buildings	723,688	3,164	(4,881)	721,971
Building Improvements	270,378	9,541		279,919
Furniture and equipment	265,842	37,145	(8,090)	294,897
Intangibles	14,040			14,040
Infrastructure	3,747,835	206,715		3,954,550
Total capital assets being depreciated or amortized	5,025,483	256,565	(12,971)	5,269,077
Less accumulated depreciation or amortization for:				
Land improvements	3,473	28		3,501
Buildings	240,228	13,995	(3,340)	250,883
Building Improvements	191,291	8,953		200,244
Furniture and equipment	227,201	15,581	(8,038)	234,744
Intangibles	13,686	356		14,042
Infrastructure*	1,667,533	127,338		1,794,871
Total accumulated depreciation or amortization	2,343,412	166,251	(11,378)	2,498,285
Total capital assets being depreciated or amortized, net	2,682,071	90,314	(1,593)	2,770,792
Governmental activities capital assets, net	$ 3,695,944	$ 393,675	$ (231,812)	$ 3,857,807

* 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	$ 8,402
Human services	6,595
Education	4,983
Public safety	13,631
Natural resources	5,349
Transportation	127,291
Total depreciation or amortization expense - governmental activities	$ 166,251

Business-type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 45,558	$ 1,250	$	$ 46,808
Construction in progress	44	170	(44)	170
Total capital assets not being depreciated	45,602	1,420	(44)	46,978
Capital assets being depreciated:				
Buildings	234,384	8		234,392
Machinery and equipment	30,145	1,551	(441)	31,255
Intangibles	175			175
Total capital assets being depreciated	264,704	1,559	(441)	265,822
Less accumulated depreciation for:				
Buildings	125,654	8,182		133,836
Machinery and equipment	22,613	2,158	(441)	24,330
Intangibles	40	25		65
Total accumulated depreciation	148,307	10,365	(441)	158,231
Total capital assets being depreciated, net	116,397	(8,806)		107,591
Business-type activities capital assets, net	$ 161,999	$ (7,386)	$ (44)	$ 154,569

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land	$ 119,474	$ 9,715	$ (6,338)	$ 122,851
Construction in progress	125,534	154,870	(104,613)	175,791
Other	250			250
Total capital assets not being depreciated or amortized	245,258	164,585	(110,951)	298,892
Capital assets being depreciated or amortized:				
Buildings	1,985,002	81,121	8,251	2,074,374
Land improvements	215,932	2,864	417	219,213
Machinery and equipment	415,241	27,399	(10,319)	432,321
Infrastructure	209,619	20,805	(500)	229,924
Total capital assets being depreciated or amortized	2,825,794	132,189	(2,151)	2,955,832
Less accumulated depreciation or amortization for:				
Buildings	740,292	64,440	(570)	804,162
Land improvements	124,914	5,307		130,221
Machinery and equipment	251,106	29,987	(7,128)	273,965
Infrastructure	62,675	8,218	(513)	70,380
Total accumulated depreciation or amortization	1,178,987	107,952	(8,211)	1,278,728
Total capital assets being depreciated or amortized, net	1,646,807	24,237	6,060	1,677,104
Total capital assets, net	$ 1,892,065	$ 188,822	$ (104,891)	$ 1,975,996

Note 6. Long-Term Liabilities

A. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2015 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)	$ 1,074,750	$ 208,240	$ (260,095)	$ 1,022,895	$ 83,720	$ 939,175
RICC Grant Anticipation Revenue Bonds	279,030		(34,160)	244,870	40,080	204,790
RICC Rhode Island Motor Fuel Tax Revenue Bonds	62,525		(4,185)	58,340	4,375	53,965
Tobacco Settlement Asset-Backed Bonds	744,821	620,935	(649,555)	716,201	11,150	705,051
Accreted interest on TSFC bonds	101,654	11,166	(39,441)	73,379		73,379
RICC Historic Tax Credit Bonds	74,400	75,000	(17,010)	132,390	25,395	106,995
Net unamortized premium/discount	62,718	75,900	1,251	139,869		139,869
Bonds Payable, net	2,399,898	991,241	(1,003,195)	2,387,944	164,720	2,223,224
Obligation under capital leases (see section E)	207,595	49,495	(21,960)	235,130	25,830	209,300
Net unamortized premium/discount	16,611	6,653	(2,813)	20,451		20,451
Obligation under capital leases, net	224,206	56,148	(24,773)	255,581	25,830	229,751
Net pension liability (see note 13)	2,093,707		(176,538)	1,917,169		1,917,169
Net pension liability-special funding situation (see note 13)	1,121,734		(131,605)	990,129		990,129
Net OPEB Obligation (see note 14 C)	8,485	35		8,520		8,520
Job Creation Guaranty Program Obligation (see section H)	82,673		(18,576)	64,097	2,306	61,791
Compensated absences (see section K)	77,649	65,826	(65,575)	77,900	65,132	12,768
Special obligation notes (see section C)	5,110		(2,035)	3,075	1,700	1,375
Pollution remediation (see section I)	4,522	3,215	(2,238)	5,499	3,215	2,284
Other (see section N)	21,179	3,630	(16,414)	8,395	3,568	4,827
Total Governmental Long-term Liabilities	$ 6,039,163	$ 1,120,095	$ (1,440,949)	$ 5,718,309	$ 266,471	$ 5,451,838
Business-type Activities						
Revenue bonds (see section B)	$ 226,900	$ 31,900	$ (43,590)	$ 215,210	$ 11,330	$ 203,880
Net unamortized premium/discount	3,938	4,791	(2,164)	6,565		6,564
Revenue bonds, net	230,838	36,691	(45,754)	221,775	11,330	210,444
Net pension liability	14,626		(1,310)	13,315		13,315
Notes payable (see section C)	43		(43)			
Unearned Revenue	9,484	288	(1,656)	8,116	3,222	4,894
Compensated absences (see section K)	496	350	(340)	506	205	301
Due to Other Governments and Agencies (see Section J)	52,024	20,559	(72,583)			
Total Business-type Long-term Liabilities	$ 307,511	$ 57,888	$ (121,686)	$ 243,712	$ 14,757	$ 228,954
Component Units						
Bonds payable (see section B)	$ 2,071,339	$ 222,350	$ (333,283)	$ 1,960,406	$ 64,221	$ 1,896,185
Net unamortized premium/discount	15,323	216	(2,299)	13,240	744	12,496
Bonds Payable, net	2,086,662	222,566	(335,582)	1,973,646	64,965	1,908,681
Notes payable (see section C)	107,901	310,500	(276,451)	141,950	124,775	17,175
Loans payable (see section D)	46,602	2,041	(1,034)	47,609	935	46,674
Obligations under capital leases	6,907	718	(1,393)	6,232	1,318	4,914
Net pension liability	261,102	3,785	(22,531)	242,356		242,356
Net OPEB obligation	54,462	7,172	(6)	61,628		61,628
Compensated absences (see section K)	32,355	883	(1,727)	31,511	9,586	21,925
Due to primary government (see section M)	55,028	7,466	(6,012)	56,482	4,684	51,798
Unearned Revenue	20,117	9,101	(4,711)	24,507	8,878	15,629
Due to Component Units	1,586	1,729		3,315	1,935	1,380
Other Long-term liabilities						
Arbitrage rebate (see section L)	1,265		(239)	1,026		1,026
Pollution remediation (see section I)	19,821	1,363		21,184	1,213	19,971
Other liabilities (see section N)	309,483	19,131	(5,764)	322,850	9,287	313,563
Total Component Units Long-term Liabilities	$ 3,003,291	$ 586,455	$ (655,450)	$ 2,934,296	$ 227,576	$ 2,706,720

*as restated

Certain beginning balances have been reclassified to conform to the current financial statement presentation.

B. Bonds Payable

At June 30, 2015, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government				Component Units	
	Governmental Activities		Business Type Activities			
	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 164,720	$ 95,663	$ 11,330	$ 11,638	$ 64,221	$ 75,736
2017	172,280	88,181	11,440	11,025	79,426	71,339
2018	168,245	80,200	11,110	10,463	81,264	68,781
2019	137,805	72,032	11,660	9,906	84,133	66,051
2020	135,060	65,701	12,240	9,312	78,654	63,087
2021 - 2025	500,995	243,424	77,030	35,983	418,781	267,704
2026 - 2030	300,915	145,913	51,355	15,355	397,941	184,199
2031 - 2035	138,160	89,100	29,045	5,487	326,849	107,879
2036 - 2040	67,615	66,665			266,715	50,721
2041 - 2045	146,985	50,968			109,862	22,141
2046 - 2050	121,130	30,283			45,095	5,132
2051 - 2055	120,786	1,608,984 *			7,465	205
	$ 2,174,696	$ 2,637,114	$ 215,210	$ 109,169	$ 1,960,406	$ 982,975

* 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, 2015 the State issued $46,125,000 of general obligation bonds with interest rates ranging from 0.42% to 5.00%, maturing from 2016 through 2035. $12,500,000 of these bonds are federally taxable. Also, the State issued $162,115,000 of refunding bonds with interest rates ranging from 2.00% to 5.00%, maturing from 2015 through 2028. These bonds, combined with the premium of $35,565,000, were used to advance refund $174,180,000 of bonds with interest rates from 4.00% to 6.00% and maturities from 2016 to 2028. The refunding resulted in a reduction of debt service of $17,821,000 and an economic gain (difference between the present value of the debt service payments on the old and new debt) of $16,168,000. A deferred loss on the refunding of approximately $19,694,000 was recorded.

At June 30, 2015, general obligation bonds authorized by the voters and unissued amounted to approximately $392,100,000. In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved, unless extended by the General Assembly.

In addition to the debt authorized by the voters for which the full faith and credit is pledged, the General Assembly has authorized the issuance of other debt that is subject to annual appropriation. The following authorizations have been enacted and the State plans to issue the debt over the next several years: (1) Energy Conservation Certificates of Participation - $11,950,000 (2) Nursing Education Center Debt - $36,000,000, and (3) Garrahy Courthouse Garage - $45,000,000.

Historic Tax Credit Bonds - In fiscal years 2009 and 2015 the R.I. Commerce Corporation (RICC), on behalf of the State, issued $150,000,000 and $75,000,000, respectively, 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. 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 $131,200,000 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. 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 2015 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 Financing Corporation – The TSFC had previously issued $685,390,000 of Tobacco Settlement Asset-Backed Bonds (2002 Series) and $197,005,742 of additional Tobacco Settlement Asset-Backed Bonds (2007 Series). The bond proceeds were used to purchase the State's future rights in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement and the Consent Decree and Final Judgment (the "MSA"). The 2007 series bonds are Capital Appreciation Bonds, on which no periodic interest payments are made, but which are issued at a deep discount from par and accreting to full value at maturity in the year 2052.

The bonds were subject to early redemption provisions, in whole or in part, at the redemption price of 100% of the principal amount plus accrued interest, without premium.

On March 19, 2015 the TSFC sold $620,935,000 of Tobacco Settlement Asset-Backed Bonds (series A and B) that bear interest at annual rates ranging from 0.590% to 5.000% and mature in varying amounts through June 1, 2050. The bonds are subject to a number of early redemption provisions, in whole or in part, at the redemption price of 100% of the principal amount plus accrued interest, without premium. Term Maturities represent the minimum amount of principal that the Corporation has to pay as of specific dates.

The bond indenture contains "Turbo Maturity" provisions, whereby the Corporation is required to apply the funds collected that are in excess of the then current funding requirements of the indenture to the early redemption of certain of the Series 2015 B bonds (based upon a minimum turbo redemption schedule established for the bonds) and then to the Series 2007 bonds. The amount available for turbo redemptions on the Series 2015 B bonds are credited against the term maturities in ascending chronological order based on a schedule contained in the indenture. Excess turbo funds available, if any, will be used to retire Series 2007 bonds.

The proceeds along with other sources were used to refund (and subsequently redeem in April 2015) all the remaining balance, $547,815,000, of the 2002 Series bonds and repurchase and retire $76,220,155 of the 2007 Series bonds. This resulted in a cash flow savings of $1,283,693,000 and an economic gain of $369,823,000. In addition, a portion of the proceeds and other resources were used to pay $31,342,127 to the State and $5,000,000 to the RI Clean Water Finance Agency, a related organization of the State. A deferred gain on refunding of debt in the amount of $33,589,000 is reflected as a deferred inflow of resources in the accompany Statement of Net Position. The proceeds from the early termination of the investment contracts for the 2002 Series bonds were included in the determination of the deferred amount on refunding.

Reserve accounts in the amount of $26,700,250 for the Series 2015A bonds and $12,175,975 for the Series 2015B bonds were established. The TSFC is required to maintain these reserve accounts to the extent of available funds. Amounts on deposit with the trustee in the reserve accounts are available to pay (i) the principal of, sinking fund installments of and interest on the Series 2015A and Series 2015B bonds to the extent revenues are insufficient for such purpose and (ii) upon the occurrence of an event of default, extraordinary prepayments. Unless an event of default has occurred, amounts withdrawn from the reserve accounts will be replenished from revenues.

The bonds are payable both as to principal and interest solely out of the assets of the Corporation pledged for such purpose, and neither the faith and credit nor the taxing power of the State of Rhode Island or any political subdivision thereof is pledged to the payment of the principal of or the interest on the bonds. The bonds do not constitute an indebtedness of or a general, legal or "moral" obligation of the State or any political subdivision of the State.

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, 2015, outstanding bond indebtedness totaled $215,210,000.

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 RICCA and the State covering all property purchased by 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.

During April, 2015, RICCA issued Refunding Revenue Bonds 2015 Series A, in an aggregate amount of $31,900,000 for the purpose of refunding RICCA's outstanding Refunding Revenue Bonds, 2005 Series A and refunding a portion of RICCA'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 refunding bonds mature between 2015 and 2023 and bear interest at rates ranging from 2.00% to 5.00%. This refunding resulted in savings of debt service of approximately $5,651,000 with an economic gain of approximately $5,298,000.

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 RICCA's Bond Resolutions contains certain restrictive covenants. During fiscal year 2015, 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 total appropriations from the Rhode Island Capital Plan Fund (RICAP) of $6,475,000 for the purpose of funding the renewal and replacement requirement included in the 2006 Series A Bonds (DDC), and $5,500,000 for the purpose of funding renovations and repairs to the Convention Center.

The RICAP agreement continues not only as originally planned through June 30, 2018, but at June 30, 2015 is ongoing and additionally includes the Veterans Auditorium (Vets) - post renovation. 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 2019, with a subsequent increase to $1,850,000 through fiscal year 2021 (the current six year Capital Plan). Under the agreement for the Convention Center, RICCA was authorized to receive funding of $500,000 in fiscal year 2013, $1,000,000 in fiscal year 2014, $1,000,000 in fiscal year 2015, and will receive annual appropriations of $1,000,000 through fiscal year 2021. Under the agreement for the Vets, post renovation, RICCA was authorized to receive $250,000 through fiscal year 2021. Any unexpended funds from one fiscal year will be recommended to be re-appropriated to the subsequent fiscal year. During fiscal year 2015, RICCA received appropriations for the DDC totaling $26,334 and for the Convention Center totaling $552,443, which both included carryover funding from the prior fiscal year.

Discretely Presented Component Units

University of Rhode Island, Rhode Island College and the Community College of Rhode Island

The University of Rhode Island (URI), Rhode Island College (RIC), and the Community College of Rhode Island (CCRI) have issued a number of series of revenue bonds to finance housing, student union (including bookstores) and dining facilities. Under terms of the trust indentures, certain net revenues from these operations must be transferred to the trustees for payment of interest, retirement of bonds, and maintenance of facilities. The bonds are payable in annual or semi-annual installments to various maturity dates. Revenue bonds also include amounts borrowed under loan and trust agreements between the R.I. Health and Educational Building Corporation (RIHEBC) and the Board of Education acting for URI, RIC, and CCRI. The agreements provide for RIHEBC's issuance of the bonds with a loan of the proceeds to the university and colleges and the payment by the university and colleges to RIHEBC of loan payments that are at least equal to debt service on the bonds. The bonds are secured by a pledge of revenues of the respective institutions.

At June 30, 2015 revenue bonds outstanding were approximately as follows: URI - $219,060,000, RIC - $17,070,000, and CCRI - $2,500,000.

R.I. Airport Corporation

Revenue bonds are issued by RICC on behalf of RIAC. The proceeds from these bonds are used to finance construction and related costs of certain capital improvements. These bonds, except for the 2006 First Lien Special Facility Bonds, are secured by the net revenues derived from the operation of the airports. The 2006 First Lien Special Facility Bonds are secured solely by the net revenues derived from the InterLink facility.

Per its Master Indenture of Trust and Supplemental Indentures, RIAC has pledged net revenues derived from the operation by RIAC of the Airport and certain general aviation airports to repay approximately $241,329,000 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, were approximately $36,860,000 for the year ended June 30, 2015. Principal and interest payments for the year ended June 30, 2015 were approximately $20,950,000.

In March 2015, RIAC issued $42,980,000 of Series A Direct Placement Airport Revenue Refunding Bonds, which, along with a cash paydown of $6,598,000, enabled the defeasance of $48,625,000 in 2004 Series A General Airport Revenue Refunding Bonds. The 2015 Series A refund issue matures annually from 2015 through 2024 with interest coupons at 2%. RIAC’s defeasance of the 2004 Series A Bonds resulted in economic present value savings of $5,884,000, or 12% of the refunded bonds. The cash savings of the difference was approximately $7,105,000. The refunding resulted in a deferred loss on refunding in the amount of approximately $1,659,000, which is included in the Deferred Outflows of Resources in the statements of net position.

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, for which the I-195 RDC is the obligor. The 2013 Series A Bonds mature in April 2033 and bear interest at the lesser of the 30-Day London InterBank Offered Rate (LIBOR) (0.184% at June 30, 2015) plus applicable margin, or 7.75%. Applicable 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 Margins, 2013 Series A	1.00%	1.17%	1.37%	1.57%	1.82%

At June 30, 2015, the State’s general obligation bonds were rated AA and Aa2 by S&P and Moody’s, respectively. As such, at June 30, 2015, the 2013 Series A Bonds bore interest at 1.184%.

Concurrently with the issuance of the 2013 Series A Bonds, RICC issued Economic Development Bonds, 2013 Series B (federally taxable), in the aggregate principal amount of $960,000, for which the I-195 RDC is the obligor. The 2013 Series B Bonds mature in April 2019 and bear interest at the lesser of the 30-Day LIBOR (0.184% at June 30, 2015) plus the lesser of the two long-term bond ratings of the State from Moody's and 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 Taxable Margins 2013 Series B	1.15%	1.32%	1.52%	1.72%	1.97%

Based on the State's most recent bond ratings, the 2013 Series B bonds bore interest at 1.334% at June 30, 2015.

Proceeds from the 2013 Series A and B bonds were transferred by the I-195 RDC to the State.

Simultaneously with the issuance of the 2013 Series A and B Bonds, the I-195 RDC, 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.

Concurrently with the issuance of the 2013 Series A and B Bonds, the State entered into a separate Rate Cap Agreement with the Bank for each bond series (the 2013 Series A and B Rate Cap Agreements), Under the terms of the 2013 Series A Rate Cap Agreement, the State paid the Bank $658,500. In exchange, the Bank agreed to pay the State interest on a monthly basis at 30-Day LIBOR (0.184% at June 30, 2015) to the extent 30-Day LIBOR exceeds the interest rate cap on the notional amount, which mirrors the scheduled principal balance of the 2013 Series A Bonds through April 1, 2023. The interest rate under the 2013 Series A Bonds Rate Cap Agreement is capped at 6.75%. Under the terms of the 2013 Series B Rate Cap Agreement, the Bank agreed to pay the State interest on a monthly basis at 30-Day LIBOR (0.184% at June 30, 2015) to the extent 30-Day LIBOR exceeds the interest rate cap on the notional amount, which mirrors the scheduled principal balance of the 2013 B Bonds through April 1, 2019. The State made no payment to the Bank under the terms of the agreement. The interest rate under the 2013 Series B Rate Cap Agreement is capped at 6.85%. At June 30, 2015, the fair value of the 2013 Series A and B Cap agreements was $158,984, which is estimated as the amount the Bank would receive to terminate the Rate Cap Agreements at the reporting dates, taking into account current interest rates and the current credit worthiness of the counter parties.

Repayment of the 2013 Series A and B Bonds shall be solely from a) appropriated funds, if any, made available and appropriated by the General Assembly for bond payments, but not for payment of administrative expenses and b) 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 I-195 RDC.

The I-195 RDC 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 I-195RDC 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 I-195RDC's payment obligations.

R.I. Turnpike and Bridge Authority

In 2010 the RI Turnpike and Bridge Authority (RITBA) issued $50,000,000 of series 2010A Revenue Bonds. The proceeds of the Series 2010A Bonds are being used to finance the renovation, renewal, repair, rehabilitation, retrofitting, upgrading, and improvement of the Claiborne Pell Bridge, the Mount Hope Bridge, and other such activities as are authorized under the Authority Act authorizing the issuance of the bonds. The Series 2010A Bonds are fixed-rate bonds bearing interest at rates ranging from 3.5% to 5%, payable semi-annually on December 1 and June 1. Principal repayments of the bonds are due annually commencing December 1, 2018, with the final payment due on December 1, 2039. The Series 2010A Bonds maturing on or after December 1, 2021 are subject to redemption prior to maturity at the option of RITBA.

At June 30, 2015, RITBA had revenue bonds outstanding with principal amounts totaling $59,015,000. The State has authorized RITBA to issue approximately $68,000,000 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, 2015 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.	$ 3,075

The special obligation note is subject to annual appropriation by the General Assembly. The note payable to a financial institution is being 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 2015 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, 2015 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.	$ 1,240
R.I. Resource Recovery note payable to the host municipality with an interest rate of 1.4%, payable in equal installments over the next 13 years.	1,393
R.I. Housing and Mortgage Finance Corporation bank notes and lines of credit, 0.31% to 6.25% interest, payable through 2043.	79,272
R.I. Turnpike and Bridge Authority Bond Anticipation Note maturing on February 1, 2016 at interest at the thirty-day London InterBank Offered Rate (LIBOR) plus an applicable margin rate based on RITBA's debt rating payable monthly.	60,000
R.I. Airport Corporation note payable at 4.15% interest, payable through 2016	45
	141,950
Less: current portion	(124,775)
	$ 17,175

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 InterLink Facility Project. RIAC was permitted under the Agreement to make requisition of funds for eligible project costs through fiscal year 2013. RIAC began making monthly payments of interest in fiscal year 2012, 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. As of June 30, 2015, RIAC had approximately $41,541,000 in borrowings under this agreement.

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 $807,000, $5,183,000, and $78,000, 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, 2015 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.

During the year, the State issued the following capital leases:

- $11,650,000 Series 2014A Pastore Center Energy Conservation Project with interest rates ranging between 0.50% and 5.00% and maturities from 2016 to 2025.
- $7,465,000 Series 2014B Rhode Island College Energy Conservation Project with interest rates ranging between 2.00% and 5.00% and maturities from 2018 to 2030.
- $30,380,000 Series 2014C Information Technology Project with interest rates ranging between 0.50% and 5.00% and maturities from 2016 to 2025.

The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2015:

Fiscal Year Ending June 30	Total
2016	$ 36,197
2017	36,298
2018	31,120
2019	31,232
2020	31,353
2021 - 2025	111,233
2026 - 2030	14,768
Total future minimum lease payments	292,201
Amount representing interest	(57,071)
Present value of future minimum lease payments	$ 235,130

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 5, 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

The State and its component units have 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.

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, was reactivated and 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 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 a new escrow account and are irrevocably held in trust and pledged as collateral for the loan and will be used to pay principal and interest payments on the bank loan as they come due. As a result of this transaction, after paying costs of issuance, RIRBA transferred to the State approximately $1.5 million which was used as a resource in fiscal year 2015.

As sufficient investments are held in trust to repay the loan, it has been treated as a defeased debt obligation and is not reflected in the accompanying financial statements as of June 30, 2015.

At June 30, 2015, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	$ 271,555
Certificates of Participation	46,545
RI Refunding Bond Authority	22,926
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	83,915
R.I. Commerce Corporation	5,710
R.I. Turnpike and Bridge Authority	9,156

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, 2015 was $51,000,000 and $896,000,000 respectively, for these component units. Certain issues of conduit debt are moral obligations of the State, and the current amounts outstanding are disclosed in Note 12.

H. 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, 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 RICC, the trustee and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, 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. On August 8, 2012, a federal judge allowed the assets to be liquidated through the state court in Rhode Island.

It is estimated that the total remaining debt service on the bonds, after considering any existing reserves held by the trustee, will be approximately $74.3 million. The maturity dates on the bonds range from 2015 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 2016 enacted budget includes an appropriation of $12.5 million which will be used to pay the principal and interest on the bonds due in fiscal year 2016.

In November 2012, RICC sued various individuals and entities involved with the loan to 38 Studios including principals of 38 Studios, former employees of RICC and various advisors to 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 was used to pay a portion of the fiscal year 2015 debt service.

In addition, subsequent to June 30, 2015, a Rhode Island Superior Court ruling upheld a settlement entered into by RICC with four named defendants in connection with Rhode Island Economic Development Corporation v. Wells Fargo, et al., pending in Providence Superior Court. The settlement will result in the gross payment of $12,500,000. After payments of fees, costs and expenses, the net amount from the settlement is expected to be approximately $9,900,000 and will be paid to Bank of New York Mellon Trust Company, N.A., for the benefit of the bondholders of the "Rhode Island Economic Corporation's Job Creation Guaranty Program series 2010 (38 Studios LLC Project)" bonds.

The State has recorded a liability of $64.1 million relating to its moral obligation to the 38 Studios bondholders under the JCGP at June 30, 2015. This amount represents the current estimate of the amount of probable loss by the State and considers funds actually recovered as a result of the litigation discussed above. The $64.1 million, 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.

To the extent there are additional recoveries resulting from the lawsuit, such amounts, net of legal fees and other costs, 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.

The General Assembly repealed the authority for 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, 2015, 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 was payable on October 1 of each year. Additional amounts borrowed and the amounts outstanding were 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 7. Net Position/Fund Balances

Governmental Activities

Restricted Net Position

The Statement of Net Position-Governmental Activities reflects $841.8 million of restricted net position, of which $285.8 million 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	185,446			185,446
Purposes specified by enabling legislation	134,231			134,231
Debt Service		20,305	52,374	72,679
Capital Projects			252,938	252,938
Temporary Disability Insurance			151,572	151,572
Historic Tax Credit Redemption			73,132	73,132
Transportation-Infrastructure		84,955		84,955
Mission 360 Loan Program		1,701		1,701
Education			1,781	1,781
Other			701	701
Committed to:				
Transportation-Maintenance		7,001	90	7,091
Other	2,561			2,561
Assigned to:				
Subsequent Years Expenditures	126,242			126,242
Other	4,722		25,022	29,744
Unassigned:	48,685	(1,486)		47,199
Totals	$ 501,887	$ 112,476	$ 557,784	$ 1,172,147

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 2015, 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.

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.

See Note 1, Section S of these Notes for more information regarding the five categories of fund balance.

Note 8. Taxes

Tax revenue reported on the Statement of Activities is reported net of the allowance for uncollectible amounts and net of estimated refunds. Tax revenue on the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds is reported net of estimated refunds, uncollectible amounts and the amount that will not be collected within one year (unavailable). The unavailable amount is reported as deferred 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	$ 1,225,561	$ 1,221,754
General Business Taxes:		
Business Corporations	147,158	148,112
Public Utilities Gross Earnings	103,950	103,890
Financial Institutions	22,743	22,752
Insurance Companies	114,983	114,920
Bank Deposits	2,260	2,260
Health Care Provider Assessment	44,125	44,130
Sub-total - General Business Taxes	435,219	436,064
Sales and Use Taxes:		
Sales and Use	963,452	963,300
Motor Vehicle	49,117	49,108
Motor Fuel	(125)	(122)
Cigarettes	138,045	138,132
Alcoholic Beverages	18,363	18,363
Sub-total - Sales and Use Taxes	1,168,852	1,168,781
Other Taxes:		
Inheritance and Gift	34,202	34,047
Racing and Athletics	1,107	1,107
Realty Transfer	9,493	9,493
Sub-total - Other Taxes	44,802	44,647
Total - General Fund	2,874,434	2,871,246
Intermodal Surface Transportation Fund		
Gasoline	146,007	146,007
RI Highway Maintenance	12,700	12,700
Other Governmental Funds	176,982	176,982
Total Taxes	$ 3,210,123	$ 3,206,935

Note 9. Transfers

Transfers for the fiscal year ended June 30, 2015 are presented below (expressed in thousands):

	Transfers	Description
Governmental Activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	$ 58,459	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,820	Administrative cost
Historic Tax Credit	8,126	Tax credits claimed
Bond Capital	433	Interest earnings transfer
RI Capital Plan	6	Capital expenditures
Business-Type Activities		
Lottery	381,936	Net income transfer
Employment Security	163	Administrative cost
Intermodal Surface Transportation		
General Fund	2,380	Infrastructure funding
Bond Capital	4,837	Infrastructure funding
RI Capital Plan	18,861	Infrastructure funding
Nonmajor Funds		
COPs		
General	2,028	Debt service
RI Capital Plan		
General	102,541	Transfer statutory excess in budget reserve
Bond Capital	6,375	Premium on new bonds
RI Public Rail Corporation		
Intermodal Surface Transportation	1,686	Operating assistance
Debt Service		
RI Refunding Bond Authority	1,527	Debt service
Tobacco Settlement Trust		
Tobacco Settlement Financing Corporation	31,342	Operating transfer
Total Governmental Activities	622,520	
Business-Type Activities		
Convention Center		
General	20,976	Debt service
RI Capital Plan	583	Capital Improvement
Employment Security		
General	15,350	Debt service
Total transfers primary government	$ 659,429	

Note 10. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately $14,023,000 for the fiscal year ended June 30, 2015. 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, 2015:

Fiscal Year Ending June 30	
2016	$ 11,712
2017	5,186
2018	4,531
2019	4,232
2020	1,899
2021 - 2025	3,516
Total	$ 31,076

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

Note 11. Commitments

Primary Government

The primary government is committed at June 30, 2015 under various contractual obligations for transportation infrastructure improvements, construction and renovation of buildings, software development and implementation, and other capital projects which will be principally financed with debt proceeds, Rhode Island Capital Plan Funds and federal grants.

At June 30, 2015, the primary government had transportation infrastructure design, construction and other contract commitments of $410.8 million, and contract commitments for the design, construction and renovation of buildings, and certain improvements to land of $26.2 million. At June 30, 2015, the primary government had software development and implementation contract commitments of $77.7 million. These amounts include only purchase orders and related amendments generally processed through June 30, 2015. The State is also committed under multiple contracts for services which are not included in these commitment amounts.

The R. I. Public Rail Corporation (RIPRC), a special revenue fund, has obtained a letter of credit in the amount of $7.5 million in favor of AMTRAK to secure RIPRC's performance of its obligations arising under any South County Rail Service agreements. RIPRC has been designated as the entity responsible for securing and maintaining liability insurance coverage to provide funds to pay all or a portion of the liabilities of the State, 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.

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) $3.7 million in the first five years and $3.6 million in years 6 through 20. In the year ended June 30, 2015, $3.6 million was paid to the developer.

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 $3.2 million of the debt on the related economic development revenue bonds in fiscal year 2015. The State has commitments relating to this debt through fiscal year 2027.

Rhode Island Lottery – Master Contract Agreements

Gaming Systems Provider - GTECH

In May 2003 the Lottery 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. International Game Technology (IGT) and GTECH merged in April 2015, and all contractual requirements remain separate.

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 2015, Twin River was authorized and issued approximately $38 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 (61.04% for fiscal year 2015). 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 has been amended to reflect 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. Legislation increased the percentage of net terminal income by 2.25% effective July 1, 2013, and expiring June 30, 2015. Recent legislation increased the percentage of net terminal income by 1.9% to be used for approved marketing expenses at Newport Grand.

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 2015, Newport Grand was authorized and issued approximately $5.5 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 thousand multiplied by the Lottery's percentage of net terminal income (59.41% for fiscal year 2015). The reimbursement of marketing expenses by the State occurs only after Newport Grand has incurred $560 thousand in qualified marketing expenses (with marketing expenses to be defined by the Lottery).

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 Protection Zone, and an airport service road. Approximately $12.911 million was expended in fiscal year 2015 and construction is expected to be complete by December 2017.

In addition, RIAC is constructing a Deicer Management System. In fiscal year 2015, approximately $12.906 million was expended on the Deicer Management System. The project includes online monitoring and

diversion of deicing storm water 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, 2015, RIAC is obligated for the completion of certain airport improvements under commitments of approximately $31 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 $39.2 million 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, 2015, remaining commitments on these contracts total $13.324 million.

During 2015, R.I. Turnpike and Bridge Authority entered into contracts totaling $26.751 million for steel repairs and the placement of the median barrier on the Claiborne Pell Bridge, which is expected to take over a year to complete. As of June 30, 2015, remaining commitments on these contracts total $21.567 million.

University of Rhode Island

At June 30, 2015, the University had outstanding commitments for the construction and remodeling of its buildings of approximately $20.857 million.

Rhode Island College

At June 30, 2015, the College had outstanding commitments for the construction and remodeling of its buildings of approximately $1.608 million. The College awarded a $4.553 million contract for the construction of an addition to its Life Sciences building on July 30, 2015.

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 RIRRC has been segregated into six distinct phases. Phases I, II and III were closed by RIRRC in prior years, while Phase IV reached capacity during fiscal year 2012, with final capping completed during fiscal year 2014. In 2005, RIRRC began landfilling in Phase V. As of June 30, 2015 RIRRC has not begun landfilling in phase VI.

A liability for closure and post-closure care of $64.271 million as of June 30, 2015 has been recorded in the statement of net position, as summarized by Phases below:

	Year ended June 30, 2015
Phase I	$ 9,903,198
Phase II and III	6,099,179
Phase IV	10,781,865
Phase V	37,486,467
	$ 64,270,709

Phase VI has been licensed by RIDEM; however it is not open to receive waste as of June 30, 2015.

As of June 30, 2015, 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	$ 4,005,471	90.35%	9 months

As of June 30, 2015 RIRRC revised its estimate for future pollution remediation and landfill closure and post-closure care costs. The revised estimate resulted in a $4.519 million increase of the corresponding liability from $80.936 million at June 30, 2014 to $85.455 million at June 30, 2015 and was primarily attributable to improved leachate flow data.

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, 2015 is $41.731 million placed in trust to meet the financial requirements of closure and post-closure care related to Phases II, III, IV and V. 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, 2015 is as follows:

Balance, June 30, 2014	Additions	Reductions	Balance, June 30, 2015	Current Portion
$ 19,821,265	$ 1,362,979	$ 0	$ 21,184,244	$ 1,213,298

Superfund site:

In prior years, the EPA issued administrative orders requiring 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, RIRRC entered into a Consent Decree with the EPA concerning remedial actions taken by 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 million for remedial purposes. The balance of the trust fund totaled $42.588 million as of June 30, 2015.

In 2004, RIRRC began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. RIRRC has recorded a liability for future remediation costs of approximately $21.184 million as of June 30, 2015.

R.I. Public Transit Authority

The R.I. Public Transit Authority is committed under various contracts in the amount of $3.033 million at June 30, 2015.

Other Component Units

Other component units have various commitments arising from the normal course of their operations. These commitments are not significant, overall, to the State’s financial statements.

Note 12. Contingencies

Primary Government

The State, its officers and employees are defendants in numerous lawsuits. For those cases in which it is probable that a loss has or will occur and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid, the State has recognized a liability within its financial statements. Significant specific litigation is discussed below.

Challenges to Pension Reforms

Various legal challenges to enacted pension reforms initiated in recent years were settled in 2015. To carry out the settlement, the Rhode Island General Assembly passed legislation amending the Rhode Island Retirement Security Act ("RIRSA"), which was enacted into law on June 30, 2015 and which became generally effective July 1, 2015 ("New RIRSA"). On July 8, 2015, the Court entered final judgment. Four *pro se* appeals have been filed with respect to the final judgment. In addition, 65 public safety employees and 70 retirees have, through counsel, filed appeals. The appeals in the case do not affect the implementation of New RIRSA.

Several other legal challenges to RIRSA, which were not encompassed by the settlement, were dismissed without prejudice on the grounds that because RIRSA was amended by New RIRSA, the plaintiffs' claims were moot.

A lawsuit commenced by the Rhode Island Trooper's Association challenging the constitutionality of the RIRSA (prior to the amendments) remains outstanding. The benefits at issue are those to be paid from the State Police Retirement Benefits Trust.

Finally, on October 28, 2015, a retired state employee filed a charge of discrimination in the Rhode Island Commission for Human Rights alleging, *inter alia*, that she was discriminated against on the basis of her age through the enactment of the RIRSA. The State has responded and requested that the charge be dismissed because, *inter alia*, it is barred by the doctrine of *res judicata*.

The State intends to vigorously defend these matters and cannot presently estimate any potential loss, if any.

United States v. RIDOC

The Department of Justice (DOJ) filed a federal civil rights action against the RI Department of Corrections (DOC or the State) on February 10, 2014 alleging a disparate impact in the selection process of entry level corrections officers for the time period of 2000 through 2014. The DOJ claims that the DOC has engaged in an unintentional pattern or practice of employment discrimination against African Americans and Hispanics through use of testing procedures used during the selection process for admission to the Training Academy for entry-level Correctional Officer positions. The DOJ is seeking injunctive relief, which would enjoin the DOC from using these examinations in the screening and selection process, and (among other measures) may seek "make whole" relief for individuals who were not hired as a result of the use of these examinations. This may involve relief in the form of back pay, seniority hiring, benefits, and retroactive hiring reaching back to 2000. The State's Motion to dismiss the individual "make whole relief" sought by the United States and limit the State's potential liability was denied. The State's interlocutory appeal was denied by the District Court. Following settlement/mediation discussions, the DOC provided the DOJ with a counter settlement offer; the DOJ countered again. The parties are currently assessing whether further mediation is possible. Discovery continues to proceed.

Cassie M. et al. v. Chafee, EOHHS, and DCYF

Children's Rights Incorporated (CRI) brought suit against the Governor, Secretary of EOHHS, and the Director of DCYF in their official capacities (the State) in 2007. The then R.I. Child Advocate sought to put the State's foster care program administered by DCYF and EOHHS under federal court supervision through a class action seeking prospective relief. The State's second Motion to Dismiss was granted in part and denied in part in 2011. The U.S. District Court ordered mediation in the fall of 2011 and again in 2013 that was not successful. After mediation failed, the Court determined that, instead of considering dispositive motions, the

Court would hold a trial on the claims of the named Plaintiffs before reaching the issue of whether the case should continue by certifying a class. The trial of the individual claims of two remaining named Plaintiffs began on November 12, 2013. On January 9, 2014, after a sixteen day trial, Plaintiffs rested and the State promptly moved the Court to enter judgment on the record for all claims in the case. On April 30, 2014, the Court issued a Decision granting the State's motion, and Judgment entered on the same day in favor of the State dismissing the case. The First Circuit Court of Appeals reversed the dismissal and returned the case to the Court. Children's Rights Inc. has added four new Plaintiff children and has submitted its Fourth Amended Complaint. Discovery has commenced. Plaintiffs filed a Motion for Summary Denial which the State objected to. After a period of fact and expert discovery the parties will have a hearing on class certification, and dispositive motions.

RI Department of Transportation (RIDOT) Consent Decree with the EPA

The RIDOT has entered into a Consent Decree with the EPA concerning violations of the Clean Water Act by failing to comply with the conditions in the General Permit – Rhode Island Pollutant Discharge Elimination System Storm Water Discharge from Small Municipal Separate Storm Sewer Systems. The Consent Decree was lodged with the U.S. District Court on October 15, 2015 and is pending final approval by the Court. The Consent Decree requires RIDOT to implement remedial actions necessary in order to address discharges to impaired waters, illicit discharge detection and elimination, street sweeping pollution prevention and catch basin and other drainage system component inspection and maintenance. In addition to the remedial measures that must be implemented by RIDOT, upon approval by the Court RIDOT has agreed to pay a civil penalty in the amount of $315 thousand and complete two supplemental environmental projects that require the transfer of certain parcels of land for conservation purposes which have a value of $77 thousand and $157.6 thousand respectively. The Consent Decree also incorporates stipulated penalties for RIDOT's failure to meet specific compliance deadlines.

Other

The State was sued by an individual, 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 million, including over $2 million in past medical expenses and approximately $9 million 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.

With respect to other litigation, State officials are of the opinion that the lawsuits are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position.

Tobacco Settlement Financing Corporation

According to the Master Settlement Agreement ("MSA"), for any year in which the Participating Manufacturers ("PMs") suffer a loss of market share of more than two percent as compared to their collective market share in 1997, there is the potential of a Non-Participating Manufacturer Adjustment ("NPM Adjustment"), which would permit the tobacco manufacturers to reduce their MSA payments for that year. Whether such an adjustment is applicable depends on whether (1) an economic firm jointly selected by the Settling States and the PMs determines that the disadvantages experienced by the PMs as a result of the provisions of the MSA were a "significant factor" contributing to the market share loss ("Significant Factor Proceeding"); and (2) the State is found to not have diligently enforced its escrow statute. For calendar years 2003, 2004, 2005 and 2006, there have been four Significant Factor Proceedings in which the firm found in favor of the PMs. There will not be Significant Factor Proceedings for calendar years 2007, 2008, 2009, 2010, 2011, 2012, 2013 and 2014.

From April 2005 through April 2015, 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 total share of these disputed payments applicable to Rhode Island was $44.381 million at March 19, 2015 and $44.379 million at June 30, 2015.

Disputed payments funds received, if any, that relate to the balance at March 19, 2015 would be shared by the Corporation and the State in the following percentages: 70% to the Corporation and 30% to the State. The Corporation has agreed to use any disputed payment funds it receives to retire Series 2007 bonds.

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 calendar year 2003 ("2003 Dispute") (Rhode Island's Diligent Enforcement is no longer being challenged for 2003). In December 2012, the PMs reached a settlement agreement with certain MSA States & Territories ("Term Sheet States") in connection with certain claims relating to NPM Adjustment Disputes, including the 2003 Dispute. The general terms thereof were memorialized in a Term Sheet ("Term Sheet") with the PMs. In March of 2013, the Panel, which was convened for the 2003 Dispute, issued a Stipulated Partial Settlement and Award ("Award") that incorporated certain provisions of the Term Sheet. Also, the Award included specific instructions to the Independent Auditor directing it to implement the provisions provided therein, which it did in preparing final calculations for the 2013 MSA payments.

Twenty-eight (28) MSA States and Territories ("States and Territories") have not accepted the terms of the Term Sheet, so the NPM Adjustment disputes between these States and Territories 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.

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

Lottery

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

The Lottery's gaming operations currently compete with casinos in nearby Connecticut and Massachusetts. In addition, both neighboring States have already approved or are considering additional casino expansion likely to increase gaming competition in New England. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

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 proof 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. On or about March 4, 2015, the Rhode Island Supreme Court issued a decision upholding the Superior Court. The remaining issues in the case relating to whether the State "operates" Twin River and Newport Grand facilities remain pending in the Superior Court.

In the event of default on an insurance annuity contract for a Rhode Island winner of the Lucky for Life® jackpot prize award, the Lottery may be contingently liable for any remaining prize amounts due the winner.

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, 2014 was issued in March 2015. That report identified approximately $2.2 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 2015 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit. The State's management believes that any disallowances of federal funding received by the State will not have a material impact on the State's financial statements.

Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Monies in a capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bondholders. These bonds are considered "moral obligations" of the State when the General Laws require the executive director of the issuing agency 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.

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

The R.I. Housing and Mortgage Finance Corporation (RIHMFC) had $87.360 million outstanding in bonds, which are secured in part by capital reserve funds which have aggregated to $26.180 million on June 30, 2015. 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. RIHMFC has never been required to request such appropriations. Such reserve funds relate solely to select multi-family issues of RIHMFC.

R.I. Commerce Corporation (RICC)

At June 30, 2015 in addition to the State's moral obligation under the Job Creation Guaranty Program (JCGP) for the bonds discussed in Note 6 H, certain bonds secured by RICC's capital reserve fund carry a moral obligation of the State. If at any time, certain reserve funds of RICC pledged fall below their funding requirements, a request will be made to the General Assembly to appropriate the amount of the deficiency. Additional outstanding moral obligations relating to these bonds total $26.5 million at June 30, 2015.

Component Units

R.I. Industrial-Recreational Building Authority

The R.I. Industrial-Recreational Building Authority (RIIRBA) is authorized to insure contractual principal and interest payments required under first mortgages and first security agreements issued to private sector entities by financial institutions and the Rhode Island Industrial Facilities Corporation (RIIFC), a component unit of the State, on industrial or recreational projects in the State up to a maximum of $60 million of outstanding principal balances under such insured mortgages and security agreements.

Losses, if any, are first payable from RIIRBA's available resources. The Authority must then request appropriations of the General Assembly for any losses in excess of insured amounts. The Authority's insurance guarantee is backed by the full faith and credit of the State.

At June 30, 2015, the Authority has 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, 2015 are $11.335 million.

The Authority insures 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. At June 30, 2015, the Authority has determined that it is likely that it will incur a loss under the insured commitment. The Authority has accrued an insured commitment payable of $2.047 million equal to the estimated loss at June 30, 2015. No request has been made to the General Assembly at June 30, 2015 for appropriations to satisfy any liability under the insurance guarantee.

R.I. Higher Education Assistance Authority (RIHEAA)

In its 2015 session the Rhode Island General Assembly determined that the higher education financial assistance needs of Rhode Islanders will be better served by transferring all of the functions and programs handled by RIHEAA to the Rhode Island Division of Higher Education Assistance and the Office of the General Treasurer. The Division of Higher Education Assistance was established within the Office of the Postsecondary Commissioner to assume some of the duties of RIHEAA. In addition, the CollegeBoundfund® and CollegeBound Baby programs, which were previously managed by RIHEAA, were transferred to the General Treasurer.

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

As of June 30, 2015, RIHMFC may borrow up to a maximum of $90 million under various revolving loan agreements expiring between August 2015 and December 2016. Borrowings under the lines of credit are payable on demand and are unsecured.

RIHMFC is a party to financial instruments with off-balance sheet risk in connection with its commitments to provide financing. Such commitments expose RIHMFC to credit risk in excess of the amounts recognized in the statements of net position. 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, 2015 is $86 million.

Other Component Units

Other component units have various contingent liabilities that have arisen in the normal course of their operations. These contingencies are not significant to the State's financial statements.

Note 13. Employer Pension Plans

A. Summary of Employer Plans

The State provides pension benefits for its employees through multiple retirement benefit plans as outlined below:

	Plan	Plan type	Covered employees	FY 2015 pension expense	Net pension liability at June 30, 2014 measurement date
A	**Employees' Retirement System (*ERS*)**	Cost s aring multiple employer de ined bene it plan advance unded t roug a trust	State employees excluding state police and udges		
			Governmental activities	$117,061,000	$1,585,647,000
			Business type activities	$983,000	$13,315,000
			Special funding – teachers - state share (see Note Section 13-E.)	$68,829,880	$990,129,000
B	**State Police Retirement Benefits Trust *(SPRBT)***	Single employer de ined bene it plan advance unded t roug a trust	State olice ired a ter uly 1,1987	$2,447,000	$3,339,000
C	**Judicial Retirement Benefits Trust *(JRBT)***	Single employer de ined bene it plan advance unded t roug a trust	udges appointed a ter ecember 31, 1989	$1,649,000	$3,762,000
D	**RI Judicial Retirement Fund Trust *(RIJRFT)***	Single employer de ined bene it plan advance unded t roug a trust	Covers 7 active udges appointed prior to anuary 1, 1990	$1,335,000	$17,188,000
E	**State Police Non-Contributory Retirement Plan (*SPNCRP)***	Single employer de ined bene it non trusteed pay as you go plan	State olice ired be ore uly 1, 1987	$10,795,000	$253,580,000
F	**Judicial Non-Contributory Retirement Plan *(JNCRP)***	Single employer de ined bene it non trusteed pay as you go plan	udges appointed be ore anuary 1, 1990 o retired be ore uly 1, 2012	$2,334,000	$53,653,000
G	**LIUNA – union plan for members of the LIUNA bargaining units**	Cost s aring multiple employer de ined bene it plan Ta t artley non governmental plan	Members o t e LIU A bargaining unit	ot applicable see note belo	ot applicable see note belo
H	**ERS – Defined Contribution Plan**	Multiple employer de ined contribution plan	State employees sub ect to t e ybrid de ined bene it de ined contribution plan provisions	$5,368,000	ot applicable
I	**FICA Alternative Retirement Income Security Program**	Single employer de ined contribution plan	State employees not eligible to participate in t e State s ot er de ined bene it plans	ot applicable	ot applicable

Employer pension expense and related liabilities and deferred inflows/outflows for defined benefit plans A-D as identified above is recognized in the financial statements based on the provisions of GASB Statement No. 68, newly effective for fiscal 2015.

Employer pension expense and related liabilities and deferred inflows/outflows for defined benefit plans E and F as identified above is recognized in the financial statements consistent with the provisions of GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The State has early implemented this standard which affords similar accounting treatment to GASB Statement No. 68 for plans that are not specifically subject to the provisions of GASB Statement No. 68 because they are not provided through a qualifying trust. The State provides these benefits on a pay-as-you-go basis rather than through an advance funding arrangement and a qualifying trust.

The LIUNA sponsored, cost-sharing, multiple-employer pension plan (plan G) is not a state or local government pension plan. The State has early implemented GASB Statement No. 78 – *Pensions Provided though Certain Multiple-Employer Defined Benefit Pension Plans.* As there is no required employer contribution for covered employees, no employer pension expense reflected in these financial statements. Consistent with the requirements of GASB Statement No. 78, there is no recognition of an employer proportionate net pension liability, if any.

Pension expense recognized for the defined contribution plans (H and I) – is recognized based on actual employer contributions required and made during the fiscal year consistent with the requirements of GASB Statement No. 68 regarding defined contribution plans. There is no required employer contribution to the FICA Alternative Income Security Program.

Plan membership is summarized in the table below:

	etirees and eneficiaries	*er inated plan e ers entitled to ut not et recei ing enefits*	*cti e ested*	*cti e Non- ested*	*otal lan*
ERS - State Employees	11,103	2,898	8,652	2,649	25,302
SPRBT	26	25	42	208	301
JRBT	13	-	18	38	69
RIJRFT	0	0	7	0	7
JNCRP	58	0	0	0	58
SPNCRP	276	0	0	0	276

B. Defined Benefit Plan Descriptions – Advance Funded Plans

EMPLOYEES' RETIREMENT SYSTEM (ERS) - The ERS was established and placed under the management of the Retirement Board for the purpose of providing retirement allowances for employees of the State of Rhode Island under the provisions of chapters 8 to 10, inclusive, of Title 36, and public school teachers under the provisions of chapters 15 to 17, inclusive, of Title 16 of the Rhode Island General Laws.

Plan members - The plan covers most State employees other than certain personnel at the State colleges and university (principally faculty and administrative personnel). The plan also covers teachers, including superintendents, principals, school nurses, and certain other school officials in the public schools in the cities and towns. Membership in the plan is mandatory for all covered state employees and teachers. Elected officials may become members on an optional basis and legislators may participate if elected to office prior to January 1, 1995.

Certain employees of the Rhode Island Airport Corporation (hired before July 1, 1993), the Rhode Island Commerce Corporation (active contributing members and employees of the Department of Economic Development before October 31, 1995 who elected to continue membership) and, the Narragansett Bay Commission (members of a collective bargaining unit) are also covered and have the same benefits as State employees.

Plan vesting provisions – *after five years of service.*

Retirement eligibility and plan benefits – are summarized in the following table:

Schedule		Retirement Eligibility	Benefit accrual rates	Maximum benefit
(A)	Completed 10 years of service on or before July, 1, 2005 and eligible to retire as of September 30, 2009	Age 60 with 10 years of service or after 28 years of service at any age	Effective until June 30, 2012: 1.7% for each of first ten years 1.9% for each of next ten years 3.0% for each of next fourteen years 2% for the 35th year Effective July 1, 2012: 1.0% per year	80% of final average (3 consecutive highest years) earnings and 35 years of service
(AB)	Completed 10 years of service on or before July, 1, 2005 but ineligible to retire as of September 30, 2009	Minimum retirement age of 62 and ten years of service with a downward adjustment of the minimum retirement age based on the years of service credit as of September 30, 2009	Effective until June 30, 2012: Same accrual rates as (A) above to September 30, 2009 and then Schedule B rates (below) thereafter Effective July 1, 2012: 1.0% per year	80% of final average (5 consecutive highest years) earnings
(B)	Less than 10 years of service before July 1, 2005 and eligible to retire as of September 30, 2009	Age 65 with 10 years of service or after 29 years of service and age 59	Effective until June 30, 2012: 1.6% for each of first ten years 1.8% for each of next ten years 2.0% for each of next five years 2.25% for each of next five years 2.5% for each of next seven years 2.25% for the 38th year Effective July 1, 2012: 1.0% per year	75% of final average earnings (3 consecutive highest years) and 38 years of service
(B1)	Less than 10 years of service before July 1, 2005 and ineligible to retire as of September 30, 2009	Age 65 with ten years of service, or age 62 with at least 29 years of service with a downward adjustment of the minimum retirement age based on the years of service credit as of September 30, 2009	Same as Schedule B	75% of final average earnings (5 consecutive highest years) and 38 years of service
(B2)	Less than 5 years of service as of July 1, 2012	Social Security Normal Retirement Age not to exceed age 67 and 5 years of contributory service	1.6% for each of first ten years Effective July 1, 2012: 1.0% per year	75% of final average earnings (5 consecutive highest years) and 38 years of service

State correctional officers may retire at age 50 with 20 years of service. However, if not eligible to retire as of September 30, 2009, the minimum retirement age was modified to 55 with 25 years of service credit for correctional officers and registered nurses at the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals.

The plan provides for survivor's benefits for service-connected death and certain lump sum death benefits.

Joint and survivor options are available to members. The Service Retirement Allowance (SRA) Plus option provides for the payment of a larger benefit before the attainment of age sixty-two (62) and a reduced amount thereafter. The reduced amount is equal to the benefit before age sixty-two (62), including cost-of-living increases, minus the member's estimated social security benefit payable at age sixty-two (62).

Vested members who have 10 or more years of contributing service credit on June 30, 2012, may choose to retire at a retirement eligibility date that was calculated as of September 30, 2009, if the member continues to work and make retirement contributions until that date. If the member chooses this option, their retirement benefits will be calculated using the benefit that they have accrued as of June 30, 2012 - members will accumulate no additional defined benefits after this date, but the benefit will be paid without any actuarial reduction.

State employees and public school teachers may retire with a reduced pension benefit if they have 20 years of service credit and they are within five years of their retirement date as prescribed in the Rhode Island Retirement Security Act (RIRSA). The actuarially reduced benefit will be calculated based on how close the member is to their RIRSA eligibility date.

Cost of Living Adjustments – The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT, and JRBT plans reach a funded status of 80%. The COLA provision can be reviewed in a five-year interval. When the collective funding level of the plans exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month. The COLA will be calculated as the five (5) year smoothed investment rate of return less 5.50%, with a 0.00% floor and a 4.00% cap. COLA will be delayed until the later of the Social Security Normal Retirement Age or three years after retirement. The COLA will be applied to the first $25,000 of benefits indexed annually.

Disability retirement provisions - The plan also provides nonservice-connected disability benefits after five years of service and service-connected disability pensions with no minimum service requirement. Effective for applications filed after September 30, 2009, accidental disability will be available at 66 2/3% for members who are permanently and totally disabled as determined by the Retirement Board. If the disability is determined to be partial and the member is able to work in other jobs, the benefit will be limited to 50%. Disability benefits are subject to annual review by the Retirement Board.

Other plan provisions - Service credit purchases, excluding contribution refund paybacks and military service, requested after June 16, 2009 are calculated at full actuarial cost.

Changes in plan benefits and contributions after June 30, 2015 - Changes to benefit or contribution provisions due to settlement of the pension litigation and subsequent enactment of those provisions by the General Assembly are summarized in Note 18 – Subsequent Events.

JUDICIAL RETIREMENT BENEFITS TRUST (JRBT) - The Judicial Retirement Benefits Trust was established under Rhode Island General Laws 8-8.2-7; 8-3-16; 8-8-10.1; 28-30-18.1; and was placed under the management of the Retirement Board for the purpose of providing retirement allowances to Justices of the Traffic Tribunal, Supreme, Superior, Family, District and Workers Compensation courts.

Plan members – The plan covers all Judges appointed after December 31, 1989.

Retirement eligibility and plan benefits – are summarized in the following table:

	Retirement benefit
Judges appointed after December 31, 1989 but before July 2, 1997	75% of the final salary at the time of retirement after 20 years of service, or 10 years of service and attainment of age 65. Judges retiring after 20 years of service after age 65 or 15 years of service after age 70 receive full retirement benefits, which is the final salary at time of retirement.
Judges appointed after July 2, 1997 but before January 1, 2009	Same as above, except salary is the average highest three (3) consecutive years of compensation rather than final salary.
Judges appointed after January 1, 2009 but before July 1, 2009	Judges with 20 years of service after age 65 or judges with 15 years of service after age 70 will receive 90% of the average of the highest three consecutive years of compensation. Judges appointed on or after January 1, 2009 with 10 years of service and age 65 or 20 years of service at any age are entitled to a reduced benefit of 70% of the average highest three consecutive years of compensation. Judges designating a survivor benefit with 20 years of service and age 65 or 15 years of service and age 70 receive a reduced benefit equal to 80% of the average highest three consecutive years of compensation. Judges designating a survivor benefit with 10 years of service after age 65 or 20 years of service at any age receive a reduced benefit equal to 60% of the average highest three consecutive years of compensation.
Judges appointed after July 1, 2009	Judges with 20 years of service after age 65 or with 15 years of service after age 70 will receive 80% of the average of the highest five consecutive years of compensation. Judges with 10 years of service and age 65 or 20 years of service at any age are entitled to a reduced benefit of 65% of the average highest five consecutive years of compensation. Judges designating a survivor benefit with 20 years of service and age 65 or 15 years of service and age 70 receive a reduced benefit equal to 70% of the average highest five consecutive years of compensation. Judges designating a survivor benefit with 10 years of service after age 65 or 20 years of service at any age receive a reduced benefit equal to 55% of the average highest five consecutive years of compensation.

Certain survivor benefits are also provided to judges who are plan members, which is 50% of the benefit amount payable to the judicial member.

Cost of Living Adjustments – *The* Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT, and JRBT plans reach a funded status of 80%. The COLA provision can be reviewed in a five-year interval. When the collective funding level of the plans exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month. The COLA will be calculated as the five (5) year smoothed investment rate of return less 5.50%, with a 0.00% floor and a 4.00% cap. COLA will be delayed until the later of age 55 or three years after retirement. The COLA will be applied to the first $25,000 of benefits indexed annually.

Changes in plan benefits and contributions after June 30, 2015 - Changes to benefit or contribution provisions due to settlement of the pension litigation and subsequent enactment of those provisions by the General Assembly are summarized in Note 18 – Subsequent Events.

STATE OF RHODE ISLAND JUDICIAL RETIREMENT FUND TRUST (RIJRFT) - Effective July 1, 2012, under the direction of Rhode Island General Law 8-3-16, the retirement board established a trust to collect proceeds for the purpose of paying retirement benefits to participating judges or their beneficiaries.

Plan members – The plan covers seven (7) judges appointed prior to January 1, 1990. These members are active judges (as of June 30, 2012) appointed prior to January 1, 1990 who do not participate in the Judicial Retirement Benefit Trust. Prior to creating the trust, benefits for these members were intended to be funded

on a pay-as-you-go basis. To the extent assets in the trust are insufficient to fund member benefits, the State would also fund retirement benefits on a pay-as-you-go basis as it does for sixty-five (65) retired judges and surviving beneficiaries who were not members of either judicial plan. The employee contribution rate is 12% of salary (except for members of the Supreme Court who contribute 8.75%).

Retirement eligibility and plan benefits – The plan generally provides retirement benefits for members who have served as a justice of the supreme court, the superior court, the family court, the district court, or any combination of them for 20 years and have reached the age of 65 years, or have served 15 years, and reached the age of 70 years may retire from regular service and receive a benefit equal to the annual salary the justice was receiving at the time of their retirement. Members of the traffic tribunal who served as a justice for 20 years, or have served for 10 years and reached age 65 years may retire from regular service and receive a benefit equal to the 75% of the annual salary at the time of retirement. However, any traffic tribunal judge who has served 20 years and has reached age 65 years, or has served for 15 years and has reached age 70 years may retire from active service and receive a benefit equal to the annual salary the justice was receiving at the time of their retirement.

Cost of Living Adjustments – The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT, and JRBT plans reach a funded status of 80%. The COLA provision can be reviewed in a five-year interval. When the collective funding level of the plans exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month. The COLA will be calculated as the five (5) year smoothed investment rate of return less 5.50%, with a 0.00% floor and a 4.00% cap. COLA will be delayed until the later of the Social Security Normal Retirement Age or three years after retirement. The COLA will be applied to the first $25,000 of benefits indexed.

Changes in plan benefits and contributions after June 30, 2015 - Changes to benefit or contribution provisions due to settlement of the pension litigation and subsequent enactment of those provisions by the General Assembly are summarized in Note 18 – Subsequent Events.

STATE POLICE RETIREMENT BENEFITS TRUST (SPRBT) - The State Police Retirement Benefits Trust was established under Rhode Island General Law Section 42-28-22.1 and was placed under the management of the Retirement Board for the purpose of providing retirement allowances to State Police.

Plan members – The plan covers all State Police and Superintendents hired after July 1, 1987.

Retirement eligibility and plan benefits – Prior to June 30, 2012 the plan generally provides retirement benefits equal to 50% of final salary after 20 years of service, plus 3.0% of final salary times service in excess of 20 years through 25 years to a maximum of 65% of final salary. Such benefits are available to members after 20 years of service regardless of age. The Superintendent of the State Police will receive 50% of his/her final salary and may retire after attainment of age 60 and 10 years of service.

The General Laws were amended such that any member of the state police, other than the superintendent, who is hired on or after July 1, 2007 and who has served for twenty-five (25) years shall be entitled to a retirement allowance of 50% of the final salary. In addition, any member may serve up to a maximum of 30 years and shall be allowed an additional amount equal to 3.0% for each completed year served after 25 years to a maximum retirement allowance not to exceed 65% of the final salary.

Benefits are based on the final base salary earned at retirement including longevity increment, holiday pay, clothing allowance and up to 400 overtime hours.

Effective July 1, 2012 state police officers are eligible to retire once they have accrued a retirement benefit equal to 50% of their whole salary, with mandatory retirement once they have accrued a retirement benefit equal to 65% of their whole salary. State police officers will earn a 2% accrual rate for each year of contributing service. Benefits will be calculated on the average of the highest five consecutive years of salary, including up to 400 hours of mandatory overtime service. Benefits accrued as of June 30, 2012 will be protected under the Rhode Island Retirement Security Act.

Cost of Living Adjustments – The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT, and JRBT plans reach a funded status of 80%. The COLA provision can be reviewed in a five-year interval. When the collective funding level of the plans exceeds 80%, eligible retirees may receive a

COLA annually effective on their date of retirement plus one month. The COLA will be calculated as the five (5) year smoothed investment rate of return less 5.50%, with a 0.00% floor and a 4.00% cap. COLA will be delayed until the later of age 55 or three years after retirement. The COLA will be applied to the first $25,000 of benefits indexed annually.

Disability retirement provisions - The plan provides nonservice-connected disability benefits after 10 years of service and service-connected disability pensions with no minimum service requirement.

Changes in plan benefits and contributions after June 30, 2015 - Changes to benefit or contribution provisions due to settlement of the pension litigation and subsequent enactment of those provisions by the General Assembly are summarized in Note 18 – Subsequent Events.

C. Defined Benefit Advance Funded Plans - Summary of Significant Accounting Policies

The Fiduciary Net Position presented for defined benefit plans which are advance funded and accounted for in a trust has been determined on a basis consistent with that used by the respective plans in preparing their financial statements. ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at http://www.ersri.org. The plans' basis of accounting and accounting policies, including those related to benefit payments and valuation of plan investments is summarized below**.**

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. ERSRI management considers the fair values reported by the general partners at June 30 in addition to the audited net asset values at December 31 adjusted for cash flows for the period January 1 to June 30 in determining the fair value of private equity and real estate investments on the financial statements of ERSRI.

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

Certain 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.

D. Defined Benefit Plan Descriptions – Non-Contributory (pay-as-you-go) Pension Plans

In addition to the defined benefit plans administered by the ERS, the State also administers two other non-trusteed single employer defined benefit pension plans that are closed to new members. The Judicial Non-Contributory Retirement Plan (JNCRP) provides retirement benefits to judges appointed before January 1, 1990 and who retired before July 1, 2012. The State Police Non-Contributory Retirement Plan (SPNCRP) provides retirement benefits to members of the State Police hired before July 1, 1987. Both plans were created by statute and have historically been funded by the State on a pay as you basis. Accordingly, no assets have been accumulated to pay benefits under these two non-trusteed plans.

Pension benefits paid under the JNCRP and SPNCRP are generally determined based on years of service at retirement and are payable to the retiree or their beneficiary. JNCRP members, in general, are eligible for full retirement benefits equal to their final annual compensation at age 65, if the member has served for 20 years,

or at age 70 with 15 years of service. For SPNCRP members, in general, benefits are equal to 50% of salary after 20 years of service; for those who retired after July 1, 1972 an additional 3% annual increment is added until attaining a maximum benefit of 65% of salary after 25 years of service. Both plans have provisions that allow survivors, upon the death of the participant, to continue to receive a portion of the participant's benefit.

E. Special Funding Situation – ERS Plan – Teachers

The State is required by law to contribute 40% of the cost of providing retirement benefits for teachers covered by the Employees' Retirement System. Under GASB Statement No. 68, for teachers, the State is considered to be a non-employer contributing entity under a special funding situation. The total net pension liability for teachers covered by the Employees' Retirement System measured as of June 30, 2014 is approximately $2,434,000,000 and the State' share of the net pension liability is approximately $990,129,000. The State's share of the net pension liability for teachers has been allocated based upon the statutory contribution percentage and is reflected in the Statement of Net Position as of June 30, 2015 as Net Pension Liability-Special Funding Situation. Benefit provisions, contribution requirements, and other information related to the measurement and proportionate share of the net pension liability under a special funding situation for teachers are described in other sections of this Note relating to the ERS plan.

F. Contributions and Funding Policy

Contribution requirements for plan members and participating employers are established pursuant to the Rhode Island General Laws. With the exception of the RIJRFT, employers are required by statute to contribute at an actuarially determined rate for the respective defined benefit plans.

The fiscal 2015 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, 2012. The fiscal year 2015 actuarially determined contribution for the Judicial Retirement Fund Trust was also based on the actuarial valuation of that plan performed as of June 30, 2012. However, while members contribute to the RIJRFT, the State as employer has not opted to make contributions. The non-contributory judges (JNCRP) and state police (SPNCRP) plans are financed on a pay as you go basis.

A summary of the contribution rates by both the participating employers and members and the State's annual pension plan contributions (expressed in thousands) for the fiscal year ended June 30, 2015 is provided in the table below:

	S	BT	I FT	S BT	C	S C
Contribution						
State	23.33	28.32	$1,623	17.24	-	-
lan members	3.75	8.75 and 12.00	8.75 and 12.00	8.75	-	-
State contribution or teac ers	8.77 to 9.19					
Contributions made or state	$138,689	$2,709	-	$3,432	$6,020	$17,512
Contribution made or teac ers	$84,944					

Actuarially determined contribution not expressed as a rate.

ERS Plan 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 2015, no contribution to the System was required in accordance with this provision of the General Laws.

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 $414 thousand was paid to the System pursuant to Section 42-149-3.1 of the General Laws.

Employer contributions to the defined contribution plan are also prescribed by statute. In addition, plan member contributions for both the defined benefit and defined contribution plans are set by statute. Member and employer contribution rates can be changed by the General Assembly.

ERS Plan Special funding situation for local teachers - the State is required by law to contribute 40% of the cost of providing retirement benefits for teachers covered by the Employees' Retirement System. Because the State deferred certain payments to the System in 1990/1991 and 1991/1992 the State's actual share of the total annual contributions is approximately 40.7%. Under GASB Statement No. 68, for teachers, the State is considered to be a non-employer contributing entity under a special funding situation.

G. Net Pension Liability

The net pension liability of the State and other participating employers in the Employees' Retirement System, a multiple employer cost-sharing plan, has been apportioned based on the percentage share of total contributions made by each employer in fiscal year 2014.

Following is a summary of the net pension liability of the State and other employers participating in the Employees' Retirement System as well as the State's liability related to the five single employer defined benefit plans it sponsors, all measured as of June 30, 2014 (expressed in thousands and excluding amounts related to teachers under the special funding arrangement discussed above):

Total Net Pension Liability - Employees' Retirement System (ERS) - State Employees		$ 1,781,905
Less portion attributable to other entities:		
Enterprise Fund - RI Lottery		(13,315)
Discretely Presented Component Units		
University of Rhode Island	$ 100,312	
Rhode Island College	35,621	
Community College of Rhode Island	26,224	
RI Higher Education Assistance Authority	2,985	
RI Commerce Corporation	274	
RI Airport Corporation	1,973	(167,389)
Related organization -- Narragansett Bay Commission		(15,554)
ERS - Net Pension Liability - Governmental Activities		$ 1,585,647
Net Pension Liability - Single Employer Defined Benefit Pension Plans		
JRBT		3,762
RIJRFT		17,188
SPRBT		3,339
JNCRP		53,653
SPNCRP		253,580
Total Net Pension Liability		$ 1,917,169

Further details regarding the State's total pension liability and net pension liability for the single employer trusteed defined benefit pension plans (expressed in thousands) which was measured as of June 30, 2014 is presented below:

	JRBT	RIJRFT	SPRBT
Total pension liability	$ 59,934	$ 17,506	$ 113,018
Plan Fiduciary net position	56,172	318	109,679
Net Pension Liability	$ 3,762	$ 17,188	$ 3,339
Plan Fiduciary Net Position as a percentage of total pension liability	93.7%	1.8%	97.0%

a. Actuarial assumptions used in determining total pension liability

The total pension liability was determined by actuarial valuations performed as of June 30, 2013 and rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement.

	ERS						
	State Employees	Teachers	JRBT	RIJRFT	SPRBT	JNCRP	SPNCRP
Valuation Date	6/30/2013 rolled forward to 6/30/2014	6/30/2013 rolled forward to 6/30/2014	6/30/2013 rolled forward to 6/30/2014	6/30/2013 rolled forward to 6/30/2014	6/30/2013 rolled forward to 6/30/2014	6/30/2014	6/30/2014
Actuarial Cost Method	Entry Age Normal-the Individual Entry Age Actuarial Cost methodology is used						
Assumptions							
Investment Rate of Return	7.50%	7.50%	7.50%	4.29%	7.50%	4.29%	4.29%
Projected Salary Increases	3.50% to 6.50%	3.50% to 13.50%	3.50%	4.00%	3.75% to 8.00%	N/A	N/A
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
Mortality	Male employees: 115% of RP-200 Combined Healthy For Males with White Collar adjustments, projected with Scale AA from 2000. Female employees: 95% of RP-200 Combined Healthy For Females with White Collar adjustments, projected with Scale AA from 2000. Male and Female Teachers: 97% and 92%, respectively of rates in a GRS table based on male and female teacher experience, projected with Scale AA from 2000.						
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 plan will not achieve the targeted 80% funded status for 15 years.						

The actuarial assumptions used in the June 30, 2013 valuations rolled forward to June 30, 2014 and the calculation of the total pension liability at June 30, 2014 were consistent with the results of an actuarial experience study performed as of June 30, 2013.

The long-term expected rate of return best-estimate on pension plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of pension plan investment expense and inflation) for each major asset class, based on forward-looking medium-term (10 year) capital market return assumptions developed by eight investment consulting firms. The June 30, 2014 expected arithmetic returns over the medium term by asset class as developed by the State Investment Commission's investment consultant, which are generally consistent with the averages utilized by the actuary, are summarized in the following table:

Asset Class	Target allocation	Medium term expected real rate o return
Global Equity	38%	6.05%
Private Equity	7%	9.05%
Equity Hedge funds	8%	4.75%
Absolute return hedge	7%	2.95%
Real Return	14%	3.85%
Real Estate	8%	4.45%
Core Fixed	15%	0.25%
Cash	3%	-0.50%
	100%	

These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall medium-term expected rate of return best-estimate on an arithmetic basis. To arrive at the long-term expected return estimate, the actuary adjusts the medium-term number to reflect the longer 30-year time frame required for actuarial calculations. This process produces the actuarial expected return, which is based on a 30-year horizon, and can differ from the medium-term, 10-year-horizon return expectations.

b. Discount rate

The discount rate used to measure the total pension liability of the plans was 7.5 percent for all plans except the RIJRFT, JNCRP and SPNCRP plans. 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, JNCRP and SPNCRP plans, the State has not opted to make actuarially determined employer contributions and based on those assumptions, the pension plans' fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Consequently, for those plans, the municipal bond index rate, based on the 20-year Bond Buyer GO Index, (4.29% at June 30, 2014) was applied to all periods of projected benefit payments to determine the total pension liability.

c. Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the net pension liability (asset) of the employers calculated using the discount rate of 7.5 percent (for all plans except the RIJRFT, JNCRP and SPNCRP), 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. The RIJRFT, JNCRP and SPNCRP plans' fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members and consequently the municipal bond index rate of 4.29% at June 30, 2014 was used in the determination of the net pension liability for those plans with a similar +1/-1 % sensitivity analysis (expressed in thousands):

	1.00% Decrease (6.50%)	Current Discount Rate (7.5%)	1.00% Increase (8.50%)
ERS - State employees	$ 1,958,415	$ 1,585,647	$ 1,205,236
ERS - Teachers (State share)	$ 1,240,014	$ 990,129	$ 735,116
JRBT	$ 9,317	$ 3,762	$ (1,906)
SPRBT	$ 13,684	$ 3,339	$ (7,214)

	1.00% Decrease (3.29%)	Municipal Bond Index Discount Rate (4.29%)	1.00% Increase (5.29%)
I FT	$ 19,777	$ 17,188	$ 16,188
C	$ 57,799	$ 53,653	$ 50,039
S C	$ 284,995	$ 253,580	$ 227,768

H. Changes in the Net Pension Liability

Information on the State's net pension liability for single employer plans is as follows (expressed in thousands):

	JRBT	RIJRFT	SPRBT	JNCRP	SPNCRP
Total Pension Liability					
Service Cost	$ 3,002	$ 498	$ 5,122	$ -	$ -
Interest	4,134	710	7,768	2,334	10,795
Differences between expected and actual experience		1,617			
Changes of assumptions	(672)	(1,160)	(364)		
Benefit payments	(1,631)		(1,767)	(6,173)	(17,700)
Net change in Total Pension Liability	4,833	1,665	10,759	(3,839)	(6,905)
Total pension liability - beginning	55,101	15,841	102,259	57,492	260,485
Total pension liability - ending	$ 59,934	$ 17,506	$ 113,018	$ 53,653	$ 253,580
Plan Fiduciary Net Position					
Employer contributions	$ 2,543		$ 3,331		
Employee contributions	1,093	153	2,034		
Net investment income	7,221	12	14,124		
Benefit payments	(1,631)		(1,767)		
Administrative expenses	(43)		(83)		
Other			5		
Net change in fiduciary net position	$ 9,183	$ 165	$ 17,644	$ -	$ -
Plan Fiduciary net position - beginning	$ 46,989	153	92,035	-	-
Plan Fiduciary net position - ending	$ 56,172	$ 318	$ 109,679	$ -	$ -
Net Pension Liability	$ 3,762	$ 17,188	$ 3,339	$ 53,653	$ 253,580

*These two plans are non-trusteed plans which historically have been funded on a pay as you go basis; therefore no assets have been accumulated and total pension liability and net pension liability are the same.

I. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

Employees' Retirement System of Rhode Island

For the fiscal year ended June 30, 2015 the State recognized pension expense of $117,060,528 related to State employees who are covered by ERS. In addition, it recognized an Education expense of $68,829,880 in the Statement of Activities relating to the State's share of the pension expense for teachers who are covered by the ERS.

At June 30, 2015 the State reported deferred outflows of resources and deferred inflows of resources related to its participation in the ERS from the following sources (expressed in thousands):

	State Employees	Teachers
Deferred Outflows of Resources		
State contributions subsequent to the measurement date	$ 138,689	84,944
Total	$ 138,689	$ 84,944
Deferred Inflows of Resources		
Change of assumptions	$ 17,222	$ 35,072
Net difference between projected and actual earnings on pension plan investments	121,632	85,261
Total	$ 138,854	$ 120,333

The $138,689,000 reported as deferred outflows of resources related to pensions resulting from State contributions to ERS subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2016. In addition, the $84,944,000 reported as deferred outflows of

resources related to pensions resulting from State contributions to ERS for the teachers plan subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in the determination of pension expense as follows (expressed in thousands):

Year ended June 30:	State Employees	Teachers
2016	$ 34,331	$ 26,281
2017	34,331	26,281
2018	34,331	26,281
2019	34,331	26,281
2020	1,530	4,966
Thereafter	-	10,243

Other Single Employer Pension Plans

For the fiscal year ended June 30, 2015 the table below provides information about pension expense recognized for each of the State's five single employer plans (expressed in thousands):

Plan	Annual Pension Expense
JRBT	$ 1,649
RIJRFT	1,335
SPRBT	2,447
JNCRP	2,334
SPNCRP	10,795

At June 30, 2015 the State reported deferred outflows of resources and deferred inflows of resources related to its participation in the single employer plans from the following sources (expressed in thousands):

Deferred Outflows of Resources	JRBT	RIJRFT	SPRBT	JNCRP	SPNCRP
Employer contributions subsequent to the measurement date	$ 2,709	$ -	$ 3,432	$ 6,020	$ 17,512
Change of assumptions	-	166	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	1	-	-	-
Total	$ 2,709	$ 167	$ 3,432	$ 6,020	$ 17,512
Deferred Inflows of Resources					
Change of assumptions	$ 558	$ -	$ 5,672	$ -	$ -
Net difference between projected and actual earnings on pension plan investments	2,898	-	329	-	-
Total	$ 3,456	$ -	$ 6,001	$ -	$ -

$29,673,000 reported as deferred outflows of resources related to pensions resulting from State contributions to the single employer plans subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows/ (inflows) of resources related to pensions will be recognized in the determination of pension expense as follows (expressed in thousands):

Year Ending December 31,	JRBT	RIJRFT	SPRBT	JNCRP	SPNCRP
2015	$ (839)	$ 167	$ (1,453)	$	
2016	(839)		(1,453)		
2017	(839)		(1,453)		
2018	(839)		(1,453)		
2019	(100)		(35)		
Thereafter	-		(154)		
Total	$ (3,456)	$ 167	$ (6,001)	$ -	$ -

J. Defined Benefit Plan - LIUNA

All State employees who are members of the Laborers' International Union of North America (LIUNA), in addition to participating in ERSRI, also participate in the Laborers' International Union of North America National Pension Fund (the "Plan"), a cost sharing multi-employer defined benefit plan subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. The Plan is administered by the Fund's Board of Trustees. Eligibility and benefit provisions are defined in the Plan document adopted by the Board of Trustees. As of June 30, 2015, 865 employees of the State were members of the Plan.

All Employees who are members of LIUNA are eligible to participate in the Plan. An employee is eligible for a regular pension if they have attained age 62, have five or more years of pension credits and have had at least one pension credit in a year after contributions paid to the Fund by an employer on their behalf began. Vesting of benefits is attained for participants who have five or more years of vesting service, at least one year of which was earned during the period in which the employer paid contributions to the Plan on behalf of the participant. Participants who pay their own contributions are immediately and fully vested in their accrued benefits, plus interest credited to their account. Benefit amounts for employees of the same age with the same years of service may be different because their employers' contribution to the Pension Fund may have been at different levels. The Plan allows for an optional immediate 25% partial lump sum for all surviving spouses of participants who died pre-retirement with an actuarially reduced monthly benefit to be paid at age 55. Information regarding the Plan can be obtained from the Fund Office maintained by the Board of Trustees at the following address: Laborers' International Union of North America National (Industrial) Pension Fund, 905 16th Street, N.W., Washington, DC 20006-1765, or at www.lnipf.org.

The contribution requirements of the State and employees are established by contract and may be amended by union negotiation. Employees are required to contribute $0.51 to $1.17 per hour up to a maximum of 1820 hours per year to the Plan for calendar year 2015. The State is not required to contribute to the Plan.

The Multiemployer Pension Plan Amendments Act of 1980 imposes certain liabilities upon employees associated with multiemployer pension plans who withdraw from such a plan or upon termination of said plan. The State has no plans to withdraw or partially withdraw from the plan.

K. Defined Contribution Plan - ERS

Plan Description - Employees participating in the Employees Retirement System (ERS) defined benefit plan, as described above, also participate in a defined contribution plan of the Employees' Retirement System as authorized by General Law Chapter 36-10.3. The defined contribution plan is established under IRS section 401(a) and is administered by TIAA-CREF. The Retirement Board is the plan administrator and plan trustee. The employees ("members") may choose among various investment options available to plan participants. The State Investment Commission is responsible for implementing the investment policy of the plan and selecting the investment options available to members.

Plan contributions - Members contribute 5% of their annual covered salary and employers contribute 1% of annual covered salary. Member contributions are immediately vested while employer contributions are vested after three years of contributory service. Contributions required under the plan by both the members and employers are established by the General Laws, which are subject to amendment by the General Assembly. As previously indicated in the disclosure of recently-enacted pension legislation, the employer contribution for certain qualifying members will increase slightly beginning in fiscal 2016.

The State contributed and recognized as pension expense $5,368,000 for the fiscal year ended June 30, 2015, equal to 100% of the required contributions for the fiscal year.

Plan vesting and contribution forfeiture 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 employee and is non-forfeitable upon completion of three (3) years of contributory service. Non-vested employer contributions are forfeited upon termination of employment. Such forfeitures can be used by employers to offset future remittances to the plan.

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 the member attains age 70 ½ or terminates employment, if later.

The System issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by the system. The report may be obtained at http://www.ersri.org.

L. Defined Contribution Plan - 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), which 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 Provision described below, participation in the FARP is mandatory for these employees. Part-time, seasonal, or temporary employees hired prior to July 1, 2013, 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.

M. Other Pension Plans – Component Units

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 $16,579,000 during the year ended June 30, 2015.

The Rhode Island Public Transit Authority has a single employer defined benefit pension plan that covers eligible employees. The plan provides retirement, disability and death benefits to plan members and beneficiaries. 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 June 30, 2015 the plan's total pension liability exceeded the plan's fiduciary net position by $48,782,731. Accordingly, a net pension liability of that amount has been recorded as of June 30, 2015. For the fiscal year ended June 30, 2015 pension expense of $6,465,308 was recorded related to the plan. Other information about the plan can be found in the audited financial statements of RIPTA which are available at www.ripta.com.

The Rhode Island Commerce Corporation (RICC) sponsors a cost sharing multiple employer pension plan for all employees, who were hired before January 1, 2006 who meet eligibility requirements. Eligible employees of Quonset Development Corporation, another component unit, who were hired before January 1, 2006 also participate in the plan. The plan provides retirement, disability and death benefits to plan members and beneficiaries. Benefits vest upon completion of five years of service. The plan assigns to RICC the authority to amend benefit provisions. At June 30, 2015, the plan fiduciary net position exceeded the total pension liability by $1,134,009. Accordingly, a net pension asset in that amount has been recorded as of that date. For the fiscal year ended June 30, 2015 pension expense of $65,866 was recorded related to this plan. Other information about the plan can be found in the audited financial statements of RICC which are available at www.commerceri.com.

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

Note 14. Other Post-Employment Benefits

A. Plan Descriptions

The Rhode Island State Employees' and Electing Teachers OPEB System (the "System") acts as a common investment and administrative agent for post-employment health care 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 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 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 and Teachers	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 retirees access their benefits through a Health Reimbursement Account that the OPEB Trust makes a monthly deposit to based on years of service.	May purchase active employee plan for member and dependents until age 65.	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.	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.
Other	Retired teachers can purchase coverage for themselves and dependents at active or early retirement rate, as applicable until they are Medicare eligible.				

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, 2015, the State and other participating employers paid $58,694,000 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	$ 47,769	$ 2,799	$ 13	$ 8,135	$ 0	$ 3,011
Plus: Interest on net OPEB obligation at beginning of year	0	N/A	0	424	0	0
Less: Adjustment to ARC	0	N/A	0	389	0	0
Annual OPEB cost	47,769	2,799	13	8,170	0	3,011
Participating State and/or other employer contributions	45,695	2,321	13	8,135	0	2,530
Credit For Portion of Residual Balance From Predecessor Fund	2,074	478	0	0	0	481
Increase in OPEB obligation	0	0	0	35	0	0
Net OPEB obligation at beginning of year	0	0	0	8,485	0	0
Net OPEB obligation at end of year	$ 0	$ 0	$ 0	$ 8,520	$ 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	2013	$ 45,800	100.00%	-
	2014	49,072	100.00%	-
	2015	47,769	100.00%	-
Teachers	2013	2,321	100.00%	-
	2014	2,799	100.00%	-
	2015	2,799	100.00%	-
Judicial	2013	802	97.01%	$ 2,891
	2014	13	100.00%	-
	2015	13	100.00%	-
State Police	2013	6,287	98.91%	8,450
	2014	7,874	99.56%	8,485
	2015	8,170	99.57%	8,520
Legislators	2013	0	N/A	-
	2014	0	N/A	-
	2015	0	N/A	-
BOE	2013	3,106	100.00%	-
	2014	3,095	100.00%	-
	2015	3,011	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 2015 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**
Plan Type	Cost sharing multiple employer	Single Employer	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
Actuarial Cost Method	Individual Entry Age					
Amortization Method	Level Percent of Payroll	Level Dollar	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
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					
Actuarial Assumptions						
Investment Rate of Return	5.00%					
Projected Salary Increases	3.50% to 6.50%	NA	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					

Note: The actuarial assumptions do not include a separate general inflation rate assumption.

Certain other component units have other post-employment benefit plans. For information regarding these plans, please refer to the component units' separately issued financial reports.

Note 15. Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Department of Administration, pursuant to Chapter 36-13 of the General Laws, administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Plan distributions are normally available to employees at the later of age 59 or retirement and mandatory distributions must commence once the individual reaches age 70½. The plan also allows for distributions for qualifying events such as termination, death or “unforeseeable emergency.”

Current Internal Revenue Service regulations require that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors. The plan assets also may be held in annuity contracts or custodial accounts, which are treated as trusts.

The State does not serve in a trustee capacity. Accordingly, the plan assets are not included in the State’s financial statements.

Note 16. Risk Management

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

The State has entered into agreements with commercial insurance companies for comprehensive insurance coverage on State property to protect the State against loss from fire and other risks. Furthermore, the State is required by the General Laws to provide insurance coverage on all motor vehicles owned by the State and operated by State employees in the sum of $100,000 per person and $300,000 per accident for personal injury and $20,000 for property damage. During fiscal year 2015, and the two preceding fiscal years, no settlements exceeded insured coverage limits.

The State also has a contract with an insurance carrier/administrator to provide health care benefits to active and certain retired employees. For coverage provided to active employees and retirees who are not eligible for Medicare, the State retains the risk of loss. The State reimburses the company for the costs of all claims paid plus administrative fees. Effective October 1, 2014 retirees who are Medicare eligible participate in a Health Reimbursement Account arrangement as more fully described in Note 14.

The estimated liability for incurred but not reported (IBNR) claims at June 30, 2015 and 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, 2014	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30, 2015
Health Insurance Internal Service Fund				
Unpaid claims	$ 16,328	$ 221,513	$ 219,209	$ 18,632

	Liability at July 1, 2013	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30, 2014
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 17. Other Information

A. Elimination Entries

When the governmental fund statements and the internal service fund statements are combined into one column for governmental activity on the government-wide financial statements, interfund balances and activity should be eliminated. The following are the eliminations (expressed in thousands) that were made:

	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 8,049	$ 955	$ 9,004	$ (7,868)	$ 1,136
Loans to other funds	121,407		121,407	(121,407)	
Total assets	$ 129,456	$ 955	$ 130,411	$ (129,275)	$ 1,136
Liabilities					
Due to other funds	$ 6,657	$ 1,211	$ 7,868	$ (7,868)	$
Loans from other funds	114,937	6,470	121,407	(121,407)	
Total liabilities	$ 121,594	$ 7,681	$ 129,275	$ (129,275)	$
Program revenue					
General government	$	$ 294,033	$ 294,033	$ (294,033)	
Public safety		10,728	10,728	(10,728)	
Expenses					
General government		(294,765)	(294,765)	294,765	
Public safety		(9,996)	(9,996)	9,996	
Net revenue (expenses)	$	$	$	$	$
Transfers					
Transfers in	$ 622,520	$	$ 622,520	$ (277,330)	$ 345,190
Transfers out	(277,330)		(277,330)	277,330	
Net transfers	$ 345,190	$	$ 345,190	$	$ 345,190

	Total Business-type Activities		Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 257	$	$ 257	$ (1,393)	$ (1,136)
Total assets	$ 257	$	$ 257	$ (1,393)	$ (1,136)
Liabilities					
Due to other funds	$ 1,393	$	$ 1,393	$ (1,393)	$
Total liabilities	$ 1,393	$	$ 1,393	$ (1,393)	$
Transfers					
Transfers in	$ 36,909	$	$ 36,909	$ (36,909)	$
Transfers out	(382,099)		(382,099)	36,909	(345,190)
Net transfers	$ (345,190)	$	$ (345,190)	$	$ (345,190)

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 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 was 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

	Expense	Description
Governmental activities		
General		
University of Rhode Island	$ 70,221	Operating assistance
Rhode Island College	42,767	Operating assistance
Community College of Rhode Island	45,677	Operating assistance
Central Falls School District	45,574	Operating assistance
The Met	11,034	Operating assistance
RI Commerce Corporation	21,974	Operating and capital assistance
R.I. Public Transit Authority	5,870	Operating assistance
IST		
R.I. Public Transit Authority	42,960	Operating assistance
Bond Capital		
University of Rhode Island	40,988	Construction, improvement or purchase of assets
Certificates of Participation		
Rhode Island College	7,635	Building improvements
R. I. Capital Plan		
University of Rhode Island	14,514	Construction, improvement or purchase of assets
Total Governmental Activities	$ 349,214	

E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2015:

- Assessed Fringe Benefits ($1,918,000)
- Central Utilities ($11,000)
- Central Mail ($574,000)
- State Telecommunications ($469,000)
- Records Center ($73,000)
- Capitol Police ($48,000)

The deficits will be eliminated through charges for services in fiscal year 2016.

F. Restatements – Net Position and Reclassifications

Restatements of beginning net position (expressed in thousands) are in the following table:

	Governmental Activities	Proprietary and Business-type Activities	Discretely Presented Component Units
Balances previously reported at June 30, 2014			
Net position	$ 2,006,755	$ (35,333)	$ 1,885,481
Restatement due to:			
1) *Eliminate prior net pension obligation*	3,469		
2) *GASB 68 NPL opening balance restatement*	(1,635,591)	(13,498)	(206,288)
3) *GASB 68 NPL opening balance restatement-Teachers Special Funding Arrangement*	(1,041,632)		
4) *GASB 73 opening balance restatement*	(294,104)		
5) *Correction of errors*		575	
6) *Adjustments to Carrying Value of Capital Assets*	12,204		
July 1, 2014 net position, as restated	$ (948,899)	$ (48,256)	$ 1,679,193

1) In conjunction with the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the net pension obligation at June 30, 2014 relating to the Judicial Retirement Fund Trust, one of the State's single employer plans, was written off.

2) In accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the State and its discretely presented component units have restated beginning net position to recognize their proportionate share of the net pension liability at June 30, 2014 (measurement date) as participating employers in the Employees' Retirement System, a cost sharing multiple employer plan, and for the other pension plans that the component units administer. In addition, the State has restated beginning net position for the net pension liability for the following single employer plans: 1) Judicial Retirement Benefits Trust, 2) Judicial Retirement Fund Trust and 3) State Police Retirement Benefits Fund Trust.

3) In accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the State has restated beginning net position to recognize its proportionate share under a special funding situation of the net pension liability at June 30, 2014 (measurement date) for teachers employed by local school districts who participate in the Employees' Retirement System, a cost sharing multiple employer plan.

4) In accordance with the requirements of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, the State has restated beginning net position to recognize the total pension liability at June 30, 2014 (measurement date) for the following single employer non-trusteed plans: 1) Judicial Non-Contributory Retirement Plan and 2) State Police Non-Contributory Retirement Plan.

5) During the fiscal year ended June 30, 2015, RICCA evaluated the classification and reporting of intangible assets and the application of GASB Statement No. 51 - *Accounting and Financial Reporting for Intangible Assets*. As a result of this evaluation, RICCA reclassified intangible assets previously reported as other assets and amortized, as capital assets, net of depreciation. As a result, capital assets and net position were restated.

6) To increase capital assets for amounts previously expensed.

Under a law that was effective until June 30, 2014, upon issuance of the audited financial statements, the State Controller was 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. For fiscal year 2014 the amount of such transfer was calculated to be $13,794,501, which was reflected in the committed category of

fund balance at June 30, 2014. The transfer was to be made in fiscal year 2015 upon issuance of the audited financial statements. In the 2015 session of the General Assembly this law was repealed retroactive to July 1, 2014. Accordingly, the transfer of $13,794,501 to the Employees' Retirement System was not made.

G. Pledged Revenue

The State's debt supported by pledged revenue is as follows (expressed in thousands):

Revenue Bonds-Tobacco Settlement Financing Corporation		
Revenue:		
Tobacco settlement revenue-cash basis	$	45,295
Investment income		1,436
Total revenue		46,731
Operating expenses		126
Net revenue available for debt service	$	46,605
Debt service		
Interest (a)	$	35,633
Covered ratio before turbo principal payments		130.79%
Principal (b)		25,520
Total annual debt service	$	61,153
Coverage (c)		76.21%
Term of commitment - through June 2052		
Revenue Bonds-GARVEE (Federal Highway)		
Revenue - FHWA participation	$	48,356
Less: operating expenses		-
Net available revenue	$	48,356
Debt service		
Principal	$	34,160
Interest		14,196
Coverage (c)		100.00%
Term of commitment - through June 2021		
Revenue Bonds-GARVEE (Gas Tax)		
Revenue - 2 cents per gallon of the gasoline tax	$	8,793
Less: operating expenses		-
Net available revenue	$	8,793
Debt service		
Principal	$	4,185
Interest		3,006
Coverage (c)		122.28%
Term of commitment - through June 2027		
Division of Motor Vehicles Capital Lease		
Revenue - $1.50 surcharge per transaction	$	2,015
Less: operating expenses		-
Net available revenue	$	2,015
Debt service		
Principal - required	$	1,635
Interest		207
Coverage (c)		109.39%
Term of commitment - through March 2017		

(a) The amount reflected above is less than the amount included in the financial statements for the TSFC as the latter amount includes accreted interest paid in connection with the repurchase of certain capital appreciation bonds as discussed in Note 6.
(b) Debt service principal includes "Turbo Maturity" redemptions, whereby TSFC is required to apply 100% of all collections that are in excess of current funding requirements to the early redemption of the bonds. Annual revenues have been sufficient to meet scheduled debt service requirements.
(c) Coverage equals net available revenue divided by debt service.

H. Special Items

Primary Government

In March 2015, the Tobacco Settlement Financing Corporation, a blended component unit, refunded all of the outstanding 2002 bonds and a portion of its 2007 bonds. The proceeds from the sale of the 2015 Series A and Series B refunding bonds were sufficient to transfer $31,342,127 to the State's general fund and transfer $5,000,000 to a related organization. The funds transferred to the general fund have been reflected as a special item in the accompanying financial statements.

Discretely Presented Component Units

RI Water Resources Board Corporate

Under Article 5 of the 2010 Appropriations Act, with the maturity of all outstanding bonds, the financial functions of the Board Corporate are to be transferred to the Rhode Island Clean Water Finance Agency (RICWFA). In March 2015, the Board Corporate made its final bond payment. Management of the Board Corporate subsequently transferred all remaining assets. The transfer included accounts receivable of approximately $303,000 to the Rhode Island Infrastructure Bank (the RIIB), formerly the Rhode Island Clean Water Finance Agency, and cash of approximately $1,050,000, temporarily to the State of Rhode Island General Fund. When a formal agreement is in place, the cash portion will be transferred to the RIIB. In June 2015 the Board Corporate permanently ceased operations.

Note 18. Subsequent Events

Primary Government

Subsequent to June 30, 2015, the State issued $175,155,000 of General Obligation Refunding Bonds. The bonds mature from 2016 to 2027 and have yields ranging from .31% to 3.08%. The bonds were issued to restructure debt service for a portion of the State's outstanding general obligation bonds to achieve savings in fiscal years 2016 and 2017 to provide resources for economic development initiatives.

Employees' Retirement System

Subsequent to June 30, 2014 (the measurement date), litigation challenging the various pension reform measures enacted in previous years by the General Assembly (2009, 2010, and 2011) was settled. The final settlement approved by the Court on July 8, 2015 also included enactment of the pension settlement provisions by the General Assembly.

The amended benefit provisions in the newly enacted legislation and settlement agreement have not been reflected in the determination of the net pension liability at June 30, 2014 (the measurement date). These amended benefit provisions are summarized below:

- Employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rate from 3.75% to 11% and participate solely in the defined benefit plan. Going forward, service credit accruals will increase from 1% to 2% per year.
- Employees with more than 10 but less than 20 years of service at July 1, 2012 will receive an increased employer contribution to the defined contribution plan.
- Retirees as of June 30, 2015 will receive two $500 stipends.
- A one-time 2% COLA was granted to all retirees and beneficiaries that retired on or before June 30, 2012 on the first $25,000 of their benefit. The COLA provided to retired members is contingent on the investment performance, the annual change in the CPI-U, and the funded status of the System.
- The interim cost of living increases will occur at 4 year intervals rather than 5 year intervals.
- Minor adjustments were made to the actuarial reduction for employees choosing to retire early.

These amendments are not considered to have a material effect on the net pension liability had they been retroactively applied to the calculation of the total pension liability at June 30, 2013 rolled forward to June 30, 2014. An actuarial analysis of the pension settlement provisions enacted by the General Assembly and approved by the Court indicated that the funded ratio at June 30, 2014 for state employees (determined on a funding basis) decreased from 57.4% to 56.1%.

The most recent valuation performed as of June 30, 2015 (for funding purposes) indicated that the funded ratio at that date was 56.6% for state employees and 58.8% for teachers.

Discretely Presented Component Units

In August 2015, the R.I. Housing & Mortgage Finance Corporation (RIHMFC) issued Homeownership Opportunity Bonds Series 66 in the amount of $75,000,000. On August 10, 2015, $29,635,000 in Homeownership Opportunity Bonds were redeemed prior to maturity, and on October 1, 2015, $41,935,000 in Homeownership Opportunity Bonds and $9,375,000 in Home Funding Bonds were redeemed prior to maturity, all under provisions in the bond resolutions that allow mortgage prepayments, excess revenues and refunded amounts to be used for such purpose.

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 in Pawtucket, RI. 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 Inspector General is conducting an ongoing review of RIHMFC's administration of the HOME program for the period of March 1, 2010 through February 28, 2013. Based upon the information available, RIHMFC does not believe that the resolution of this matter will have a material impact on its operations, programs or financial condition.

State of Rhode Island

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2015

Required Supplementary Information

Exhibit A-133

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, 2015
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
General Revenues:				
Personal Income Tax	$ 1,157,132	$ 1,226,800	$ 1,227,582	$ 782
General Business Taxes:				
Business Corporations	118,812	143,200	147,979	4,779
Public Utilities Gross Earnings	112,000	103,600	103,950	350
Financial Institutions	11,500	22,000	22,743	743
Insurance Companies	115,504	123,100	120,265	(2,835)
Bank Deposits	2,400	1,900	2,260	360
Health Care Provider Assessment	42,137	44,300	44,125	(175)
Sales and Use Taxes:				
Sales and Use	939,620	954,000	963,453	9,453
Motor Vehicle	49,500	49,900	49,117	(783)
Motor Fuel	500	(200)	(125)	75
Cigarettes	135,800	136,900	138,046	1,146
Alcohol	17,442	18,800	18,363	(437)
Other Taxes:				
Inheritance and Gift	27,010	31,500	34,202	2,702
Racing and Athletics	1,100	1,100	1,107	7
Realty Transfer Tax	8,500	9,000	9,494	494
Total Taxes *(1)*	2,738,957	2,865,900	2,882,561	16,661
Departmental Revenue	351,672	350,860	354,122	3,262
Total Taxes and Departmental Revenue	3,090,629	3,216,760	3,236,683	19,923
Other Sources:				
Lottery	384,500	378,600	381,936	3,336
Unclaimed Property	10,500	12,300	13,712	1,412
Other Miscellaneous	7,475	9,085	8,778	(307)
Total Other Sources	402,475	399,985	404,426	4,441
Total General Revenues	3,493,104	3,616,745	3,641,109	24,364
Federal Revenues	2,718,946	2,734,212	2,619,412	(114,800)
Restricted Revenues	270,059	280,756	253,973	(26,783)
Other Revenues	55,829	78,318	74,635	(3,683)
Total Revenues *(2)*	6,537,938	6,710,031	6,589,130	(120,902)
Expenditures *(4):*				
General government	718,880	785,171	711,824	73,347
Human services	3,731,847	3,713,040	3,661,964	51,076
Education	1,449,050	1,451,829	1,433,035	18,794
Public safety	499,264	519,931	493,361	26,570
Natural resources	90,962	99,938	79,897	20,041
Total Expenditures *(2)*	6,490,003	6,569,909	6,380,081	$ 189,828
Transfer of Excess Budget Reserve to RI Capital Fund			102,541	
Total Expenditures and Transfers	$ 6,490,003	$ 6,569,909	6,482,622	
Change in Fund Balance			106,508	
Fund balance - beginning			395,379	
Fund balance - ending			$ 501,887	

(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, 2015
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Expenditures by Source:				
General Revenues	**$** 3,445,170	$ 3,476,623	$ 3,453,893	$ 22,730
Federal Funds	2,718,945	2,734,212	2,621,118	113,094
Restricted Receipts	270,059	280,756	232,949	47,807
Other Funds	55,829	78,318	72,121	6,197
	$ 6,490,003	$ 6,569,909	$ 6,380,081	$ 189,828

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

Budgeted Surplus:		
Total Revenue - Final Budget	$ 6,710,032	
Total Expenditures - Final Budget	6,569,909	
Final Budget - Projected Surplus (3)		$ 140,123
Final Budget and Actual - Results		
Total Revenues - Variance (Actual Revenue less than Budget)	$ (120,902)	
Total Expenditures - Variance (Actual Expenditures less than Budget)	189,828	
Surplus resulting from operations compared to final budget		$ 68,926
Total General Fund Surplus - Fiscal Year Ended June 30, 2015		$ 209,049
Transfer of Excess Budget Reserve to RICAP Fund		(102,541)
Net Change in General Fund - Fund Balance		$ 106,508
Fund Balance, Beginning		395,379
Fund Balance, Ending		$ 501,887

Notes:

Due to rounding, numbers presented may not add up precisely to the totals provided.

(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, 2015.

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

General government	$ 155,368
Education	29,537
	$ 184,905

(continued)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Reconciliation of Fund Balance - Financial Reporting Perspective to Budgetary Perspective

		Budgetary Perspective		
	Fund Balance Reported in the Financial Statements	Fund Balance Not Available for Appropriation in Fiscal 2016		Fund Balance Available for Appropriation in Fiscal 2016	
Restricted	$ 319,677	$ 319,677		$	
Committed	2,561	2,561			
Assigned	130,964	11,611	*(a)*	119,353	*(b)*
Unassigned	48,685			48,685	*(c)*
Total Fund Balance	$ 501,887	$ 333,849		$ 168,038	

(a) Assigned fund balance not available for appropriation in fiscal 2016 includes (1) centralized cost allocation surplus that requires offset through fiscal 2016 centralized charges and (2) general revenue appropriations carried forward by the Governor, Judiciary, and Legislature.

(b) Assigned fund balance available for appropriation in fiscal 2016 includes fiscal 2015 ending surplus amounts of $118.5 million appropriated as resources in the 2016 enacted budget, and fund balance amounts encumbered at June 30, 2015.

(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, 2015
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	$ 135,297	$ 142,929	$ 158,707	$ 15,778
Licenses, fines, sales, and services		33,572	20,918	(12,654)
Departmental restricted revenue	12,353	2,250	1,861	(389)
Federal grants	352,115	309,681	270,551	(39,130)
Other revenues	160	33,697	2,957	(30,740)
Total revenues	499,925	522,129	454,994	(67,135)
Revenues and other Financing Sources (unbudgeted):				
Miscellaneous revenue			687	
Total revenues			455,681	
Other Financing Sources:				
Transfers from RI Capital Plan and Bond Capital Funds (State FHWA Match)			26,558	
Total Other Financing Sources			26,558	
Total Revenues and Other Financing Sources			482,239	
Expenditures (budgeted):				
Central Management				
Federal Funds	9,200	12,700	9,891	2,809
Gasoline Tax	1,771	2,187	1,025	1,162
Total - Central Management	10,971	14,887	10,916	3,971
Management and Budget				
Gasoline Tax	2,243	3,003	451	2,552
Total - Management and Budget	2,243	3,003	451	2,552
Infrastructure-Engineering-GARVEE/ Motor Fuel Tax Bonds				
Federal Funds	325,726	287,186	256,465	30,721
Federal Funds-Stimulus	17,188	9,794	1,299	8,495
Restricted Receipts	12,353	2,250	2,411	(161)
Gasoline Tax	68,065	72,902	69,691	3,211
Motor Fuel Tax Residuals		53		53
Land Sale Revenue	21,300	17,700	729	16,971
Total - Infrastructure - Engineering	444,632	389,885	330,595	59,290
Infrastructure - Maintenance				
Gasoline Tax	30,791	15,534	17,951	(2,417)
Non-Land Surplus Property	10	25		25
Outdoor Advertising	150	100		100
Rhode Island Highway Maintenance Account		33,572	33,047	525
Total - Infrastructure - Maintenance	30,951	49,231	50,998	(1,767)
Total Expenditures (budgeted)	$ 488,797	$ 457,006	$ 392,960	$ 64,046
Expenditures and Financing Uses (unbudgeted):				
Infrastructure Expenditures - State Match funded by RI Capital Plan and Bond Capital Funds			24,276	
Infrastructure Expenditures - GARVEE			15,732	
I-195 Redevelopment District Project			1,452	
Mission 360 Loan Program			470	
Transfers to General Fund - Gas Tax			53,310	
Total Expenditures and Financing Uses (unbudgeted)			95,240	
Total Expenditures and Other Financing Uses			488,200	
Net change in fund balance			(5,961)	
Fund balance, beginning			118,437	
Fund balance, ending			$ 112,476	

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 the preceding pages 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 the preceding page 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.

State of Rhode Island and Providence Plantations
Pension Information
Defined Benefit Multiple Employer Cost-Sharing Plan

The Employees' Retirement System (ERS) Plan is a multiple-employer cost-sharing defined benefit plan covering state employees and local teachers. Separate actuarial valuations are performed for state employees and teachers but not for individual employers within those groups. The net pension liability and other pension related amounts are apportioned based on proportionate employer contributions to the plan.

By statute, the State funds 40% of the actuarially determined employer contribution for teachers. This constitutes a special funding situation as described in GASB Statement No. 68. Consequently, the State has recognized its proportionate share of the net pension liability and other related pension amounts for this special funding situation in its financial statements.

The amounts included in these schedules for fiscal 2015 reflect a June 30, 2014 measurement date.

Additional information for the ERS plan is available in the separately issued audited financial statements of the Employees' Retirement System of Rhode Island and an additional report prepared to provide the GASB 68 related information for participating employers.

The following schedules are presented for the ERS cost-sharing plan with a special funding situation:

- **ERS – Schedule of State's Proportionate Share of the Net Pension Liability – State Employees**
- **ERS – Schedule of State Contributions**
- **ERS – Schedule of State's Proportionate Share of the Net Pension Liability – Teachers**
- **ERS – Schedule of State Contributions – Teachers**

These schedules are intended to show information for 10 years – additional years will be displayed as information becomes available. Note 13 to the financial statements contains detailed information concerning pension plans.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State's Proportionate Share
of the Net Pension Liability
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Employees' Retirement System-State Employees-Governmental Activities

State's proportion of the net pension liability		89.0%
State's proportionate share of the net pension liability	$	1,585,647
State's covered employee payroll	$	581,589
State's proportionate share of the net pension liability as a percentage of its covered employee payroll		272.6%
Fiduciary net position as a percentage of the total pension liability		58.6%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Employees' Retirement System-State Employees-Governmental Activities

Actuarially determined contribution	$	138,689
Contributions in relation to the actuarially determined contribution		138,689
Contribution deficiency (excess)	$	-
Covered-employee payroll	$	594,466
Contributions as a percentage of covered-employee payroll		23.33%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of the State's Proportionate Share
of the Net Pension Liability
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Employees' Retirement System-State Share-Teachers (Special Funding Situation)

State's proportion of the net pension liability		40.68%
State's proportionate share of the net pension liability	$	990,129
Plan fiduciary net position as a percentage of the total pension liability		61.40%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Employees' Retirement System-State Share-
Teachers (Special Funding Situation)

Statutorily required contribution	$	84,944
Contributions in relation to the statutorily required contribution		84,944
Annual contribution deficiency (excess)	$	-

State of Rhode Island and Providence Plantations
Pension Information
Single Employer Defined Benefit Plans

Certain state employees are covered by the following single-employer plans, separate from the ERS plan, which covers most state employees.

- State Police Retirement Benefits Trust (SPRBT)
- Judicial Retirement Benefits Trust (JRBT)
- Rhode Island Judicial Retirement Fund Trust (RIJRFT)

These plans are administered within the Employees' Retirement System of Rhode Island. Separate actuarial valuations are performed of each plan. Additional information for the plans is available in the separately issued audited financial statements of the Employees' Retirement System of Rhode Island.

The amounts included in these schedules for fiscal 2015 reflect a June 30, 2014 measurement date.
The following schedules are presented for each single-employer plan:

- **Schedule of Changes in the Net Pension Liability and Related Ratios**
  - SPRBT
  - JRBT
  - RIJRFT
- **Schedule of State Contributions**
  - SPRBT
  - JRBT
  - RIJRFT

These schedules are intended to show information for 10 years – additional years will be displayed as information becomes available. Note 13 to the financial statements contains detailed information concerning pension plans.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Net Pension Liability
and Related Ratios
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

State Police Retirement Benefits Trust

Total Pension Liability		
Service cost	$	5,122
Interest		7,768
Differences between expected and actual experience		-
Changes of assumptions		(364)
Benefit payments		(1,767)
Net Change in Total Pension Liability		10,759
Total Pension Liability-Beginning		102,259
Total Pension Liability-Ending	$	113,018
Plan Fiduciary Net Position		
Employer contributions	$	3,331
Employee contributions		2,034
Net investment income		14,124
Benefit payments		(1,767)
Transfers of member contributions		-
Administrative expenses		(83)
Other		5
Net Change in Plan Fiduciary Net Position	$	17,644
Plan Fiduciary Net Position-Beginning		92,035
Plan Fiduciary Net Position-Ending	$	109,679
Net Pension Liability	$	3,339
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		97.0%
Covered Employee Payroll	$	23,051
Net Pension Liability as a Percentage of Covered Employee Payroll		14.5%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Net Pension Liability
and Related Ratios
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Judicial Retirement Benefits Trust

Total Pension Liability		
Service cost	$	3,002
Interest		4,134
Differences between expected and actual experience		-
Changes of assumptions		(672)
Benefit payments		(1,631)
Net Change in Total Pension Liability		4,833
Total Pension Liability-Beginning		55,101
Total Pension Liability-Ending	$	59,934
Plan Fiduciary Net Position		
Employer contributions	$	2,543
Employee contributions		1,093
Net investment income		7,221
Benefit payments		(1,631)
Transfers of member contributions		-
Administrative expenses		(43)
Other		-
Net Change in Plan Fiduciary Net Position	$	9,183
Plan Fiduciary Net Position-Beginning		46,989
Plan Fiduciary Net Position-Ending	$	56,172
Net Pension Liability	$	3,762
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		93.7%
Covered Employee Payroll	$	9,314
Net Pension Liability as a Percentage of Covered Employee Payroll		40.4%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Net Pension Liability
and Related Ratios
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Rhode Island Judicial Retirement Fund Trust

Total Pension Liability		
Service cost	$	498
Interest		710
Differences between expected and actual experience		1,617
Changes of assumptions		(1,160)
Benefit payments		-
Net Change in Total Pension Liability		1,665
Total Pension Liability-Beginning		15,841
Total Pension Liability-Ending	$	17,506
Plan Fiduciary Net Position		
Employer contributions	$	-
Employee contributions		153
Net investment income		12
Benefit payments		-
Transfers of member contributions		-
Administrative expenses		-
Other		-
Net Change in Plan Fiduciary Net Position	$	165
Plan Fiduciary Net Position-Beginning		153
Plan Fiduciary Net Position-Ending	$	318
Net Pension Liability	$	17,188
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		1.8%
Covered Employee Payroll	$	1,276
Net Pension Liability as a Percentage of Covered Employee Payroll		1346.8%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

State Police Retirement Benefits Trust

Actuarially determined contribution	$	3,432
Contributions in relation to the actuarially determined contribution		3,432
Contribution deficiency (excess)	$	-
Covered-employee payroll	$	19,907
Contributions as a percentage of covered-employee payroll		17.24%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Judicial Retirement Benefits Trust

Actuarially determined contribution	$	2,709
Contributions in relation to the actuarially determined contribution		2,709
Contribution deficiency (excess)	$	-
Covered-employee payroll	$	9,566
Contributions as a percentage of covered-employee payroll		28.32%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Rhode Island Judicial Retirement Fund Trust

Actuarially determined contribution	$	1,623
Contributions in relation to the actuarially determined contribution		-
Contribution deficiency (excess)	$	1,623
Covered-employee payroll	$	1,276
Contributions as a percentage of covered-employee payroll		NA

State of Rhode Island and Providence Plantations
Pension Information
Non-Contributory (pay-as-you-go) Defined Benefit Single Employer Plans

Certain retired state employees are covered by the following single-employer plans, which are separate from the plans previously described, and are not part of the Employees' Retirement System of Rhode Island.

- State Police Non-Contributory Retirement Plan
- Judicial Non-Contributory Retirement Plan

The State funds these plans on a pay-as-you-go basis and no actuarially determined advance employer contribution is made nor are assets accumulated in a trust to pay future benefits. Separate actuarial valuations are performed to provide the accounting measures of the total pension liability for each of the plans.

The amounts included in these schedules for fiscal 2015 reflect a June 30, 2014 measurement date.
The following schedules are presented for each plan:

- **Schedule of Changes in the Total Pension Liability**
    - State Police Non-Contributory Retirement Plan
    - Judicial Non-Contributory Retirement Plan

The Schedule of State Contributions is not presented as the plans operate on a pay-as-you-go basis and there is no covered payroll because there are no active members of the plans.

These schedules are intended to show information for 10 years – additional years will be displayed as information becomes available. Note 13 to the financial statements contains detailed information concerning pension plans.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Total Pension Liability
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

State Police Non-Contributory Retirement Plan

Total Pension Liability		
Service cost	$	-
Interest		10,795
Differences between expected and actual experience		-
Changes of assumptions		-
Benefit payments		(17,700)
Net Change in Total Pension Liability		(6,905)
Total Pension Liability-Beginning		260,485
Total Pension Liability-Ending	$	253,580

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Total Pension Liability
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Judicial Non-Contributory Retirement Plan

Total Pension Liability		
Service cost	$	-
Interest		2,334
Differences between expected and actual experience		-
Changes of assumptions		-
Benefit payments		(6,173)
Net Change in Total Pension Liability		(3,839)
Total Pension Liability-Beginning		57,492
Total Pension Liability-Ending	$	53,653

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
Other Postemployment Benefits
June 30, 2015
(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.

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 14.

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 0.8 percent between 2000 and 2015. The U.S. Census Bureau estimated that Rhode Island's population increased by 0.1 percent in 2015 as compared to 2014. The 2015 United States census estimate for Rhode Island was 1,056,298 or 0.8 percent less than the 1,064,989 estimated in 2005. In contrast, the total United States population is estimated to have increased by 8.7 percent between 2005 and 2015.

Personal Income and Poverty. Rhode Island per capita real personal income surpassed U.S. per capita real personal income in 2001 and has remained above U.S. per capita real personal income since that time. Rhode Island per capita real personal income in 2014 was $44,914 versus U.S. per capita real personal income of $42,405 (real personal income is in 2009 dollars). In addition, Rhode Island has maintained a poverty rate below the national average. Over the 2000 – 2014 period Rhode Island's average poverty rate was 11.6 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 has grown each year since 2011; non-farm employment expanded by 0.5 percent in 2011, 1.1 percent in 2012, 1.3 percent in 2013, 1.6 percent in 2014, and most recently slowed to 1.2 percent in 2015. The average annual growth rate for Rhode Island nonfarm employment for the 2001 to 2015 period was 0.1 percent.

Economic Base and Performance. Rhode Island has a diversified economic base that includes traditional manufacturing, high technology, and service industries. A substantial portion of products produced by these and other sectors is exported. Like most other historically industrial states, Rhode Island has seen a shift in employment from labor-intensive manufacturing industries to technology and service-based industries, particularly education and health services 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 economy benefits from a vigorous post-secondary education sector, which conferred over 18,000 degrees during the 2012-13 academic year. 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 2014 according to the U.S. Department of Commerce's Census Bureau (American Community Survey 5-Year Estimates). In addition, per pupil spending on public elementary and secondary education in Rhode Island has been significantly higher than the national average since well before the 1998-99 school year. For 2012-13 Rhode Island spent 32.2 percent more per pupil than the national average.

Population Characteristics

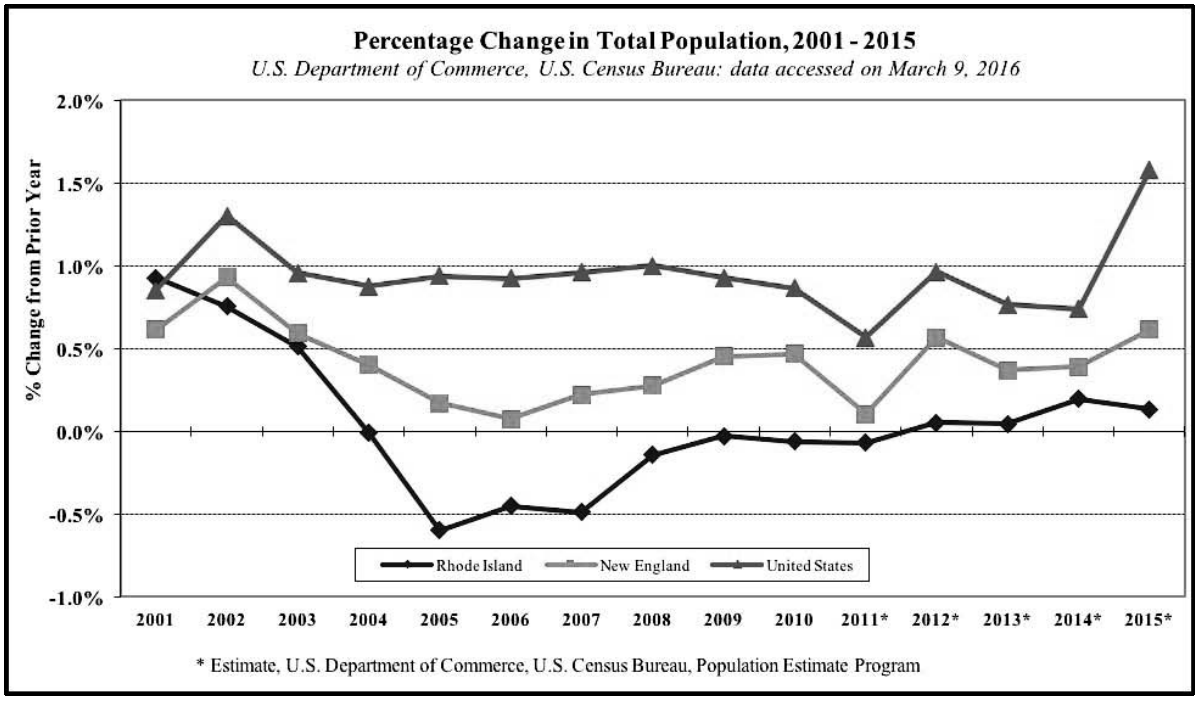
Between 2005 and 2015 Rhode Island's population decreased by 0.8 percent, compared to a 3.5 percent increase for the New England region, and a 8.7 percent increase for the United States. Though New England population growth has lagged behind that of United States overall, Rhode Island has generally experienced average annual growth rates even lower than New England benchmarks. As the following chart indicates, 2003 was the last year in which the growth rate of Rhode Island's population was greater than that of the New England region. Since that time, Rhode Island has experienced annual growth ranging between -0.6 and 0.2 percent, averaging -0.1 percent between 2004 and 2015. During the same time period, annual population growth ranged between 0.1 and 0.6 percent in New England and 0.6 and 1.0 percent nationwide, with average growth rates equal to 0.3 and 0.9 percent, respectively. While Rhode Island experienced negative growth rates between 2005 and 2011, the trend reversed itself in recent years as the state population has undergone modest expansion, averaging 0.1 percent annual growth in 2012 through 2015.

Population, 2001 - 2015
(in thousands)

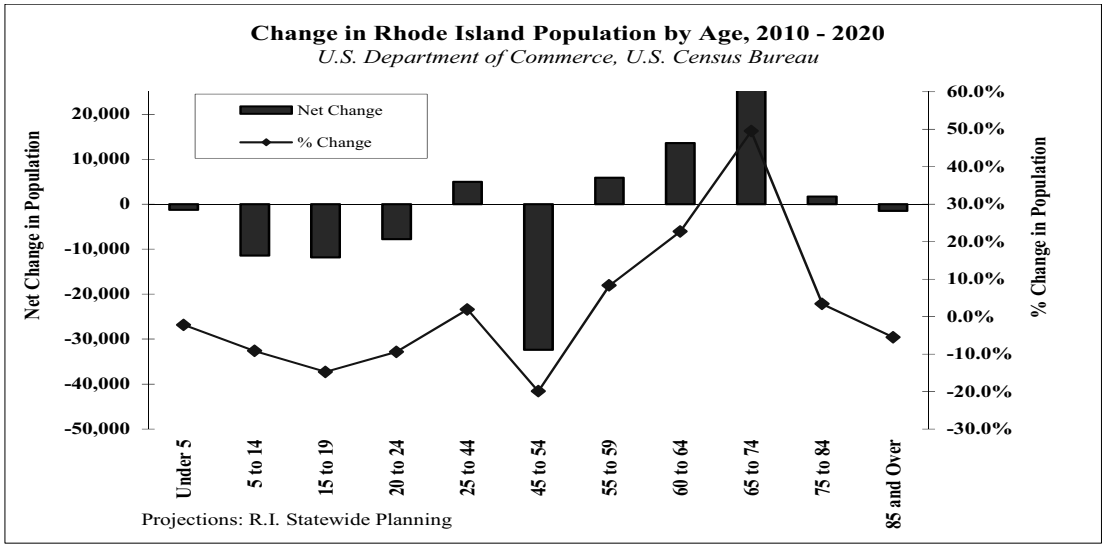
	Rhode Island		New England		United States	
Year	**Total**	**% Change**	**Total**	**% Change**	**Total**	**% Change**
2001	1,058	0.9%	14,052	0.9%	285,082	1.3%
2002	1,066	0.8%	14,135	0.6%	287,804	1.0%
2003	1,072	0.5%	14,192	0.4%	290,326	0.9%
2004	1,071	0.0%	14,216	0.2%	293,046	0.9%
2005	1,065	-0.6%	14,227	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%	311,719	1.0%
2012	1,052	0.1%	14,580	0.4%	314,103	0.8%
2013	1,053	0.0%	14,637	0.4%	316,427	0.7%
2014	1,055	0.2%	14,690	0.4%	318,907	0.8%
2015	1,056	0.1%	14,728	0.3%	321,419	0.8%

Source: U.S. Department of Commerce, U.S. Census Bureau, Population Estimate Program.
Data accessed on March 9, 2015.

The chart below displays the growth rate changes shown in the table above. Note that Rhode Island population growth has remained below regional growth rates since 2005.

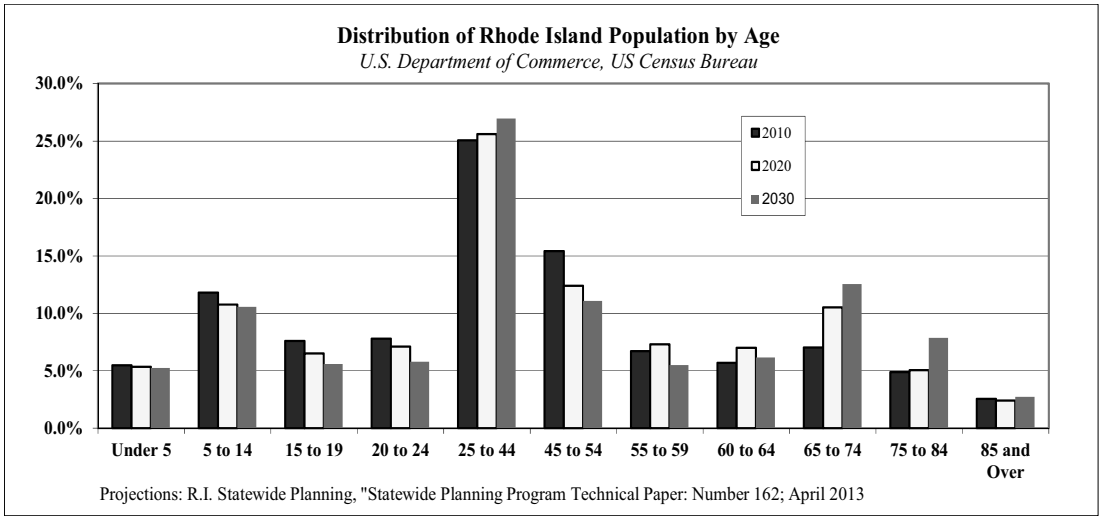


The following chart shows the projected net change in Rhode Island's population between 2010 and 2020 by age group. Note that, like the rest of the country, Rhode Island has seen a sharp change in the age distribution of its population in accordance with the chronological advancement of the "baby boom" 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 $48,850 relative to $46,122 for the United States. Note that Rhode Island per capita nominal personal income has trailed that of the New England region from 2000 through 2014 by an average of $6,795.

The average annual percentage change in real personal income growth for the 2000 to 2014 period in Rhode Island was 1.7 percent which is greater than the 1.5 percent average growth for New England and the 1.3 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 0.5 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 2.1 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, 2000 - 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.
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	44,507	51,828	42,314	104.1%	42,760	49,794	40,653	1.0%	2.3%	2.7%
2012	46,165	54,093	44,168	106.1%	43,527	51,001	41,643	1.8%	2.4%	2.4%
2013	46,929	54,727	44,723	107.3%	43,723	50,988	41,667	0.5%	0.0%	0.1%
2014	48,850	56,607	46,122	108.8%	44,914	52,046	42,405	2.7%	2.1%	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

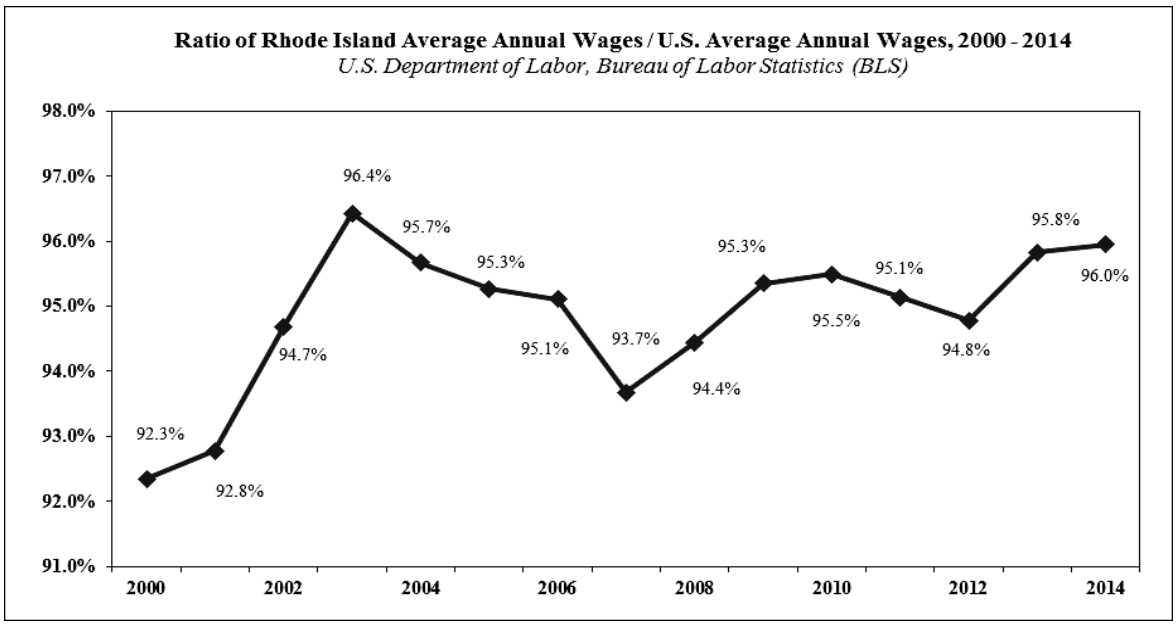
^ U.S. Department of Commerce Bureau of Economic Analysis, Table 2.3.4 Price Indexes for Personal Consumption Expenditure by Major Type of Product [Index number, 2009=100]

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 was on a downward trend from 2003 to 2007 before rising unevenly on an annual basis through 2014. In 2000, the ratio had stood at 92.3 percent. For 2002, average annual pay in Rhode Island climbed 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 to United States' average annual pay increased to 96.0 percent, the highest reported, since the peak in 2003 of 96.4 percent, in the 2000-20014 period. The relationship between Rhode Island and U.S. average annual pay is shown in the table below.

Average Annual Pay, 2000 - 2014 (in current dollars)					
	Annual Pay		Ratio	Percentage Change	
Year	R.I.	U.S.	R.I. / U.S.	R.I.	U.S.
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 the 2000 – 2014 period.



Consumer Prices. The following table presents consumer price index trends for the Northeast region and the United States for the period between 2000 and 2015. 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 2000 to 2015, 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 2007, and 2011 – 2015. 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 an average of 0.5 percentage points, while in 2013 consumer price inflation measured nationwide exceeded that in the Northeast by 0.3 percentage points. In recent years, national consumer price inflation has exceed that of the Northeast region by an average of 0.2 percentage points in the years 2011 through 2015. 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), 2000 - 2015

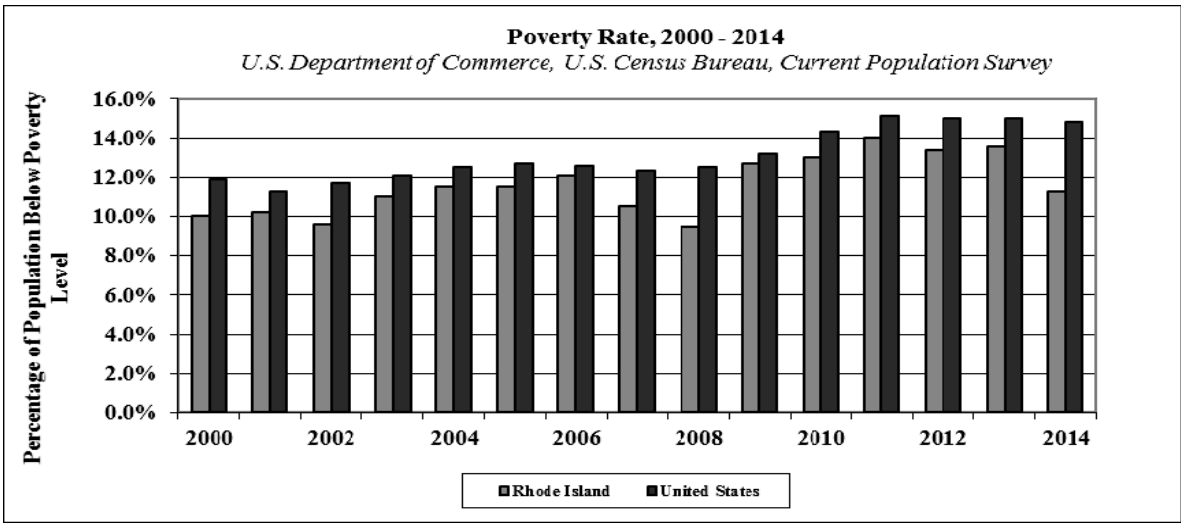
	CPI-U		Ratio	Pct. Change	
Year	**Northeast**	**U.S.**	**Northeast/U.S.**	**Northeast**	**U.S.**
2000	179.4	172.2	104.2%	3.4%	3.4%
2001	184.4	177.1	104.1%	2.8%	2.8%
2002	188.2	179.9	104.6%	2.1%	1.6%
2003	193.5	184.0	105.2%	2.8%	2.3%
2004	200.2	188.9	106.0%	3.5%	2.7%
2005	207.5	195.3	106.3%	3.6%	3.4%
2006	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	236.8	106.6%	1.4%	1.6%
2015	252.2	237.0	106.4%	1.3%	1.7%

U.S. Department of Labor, Bureau of Labor Statistics

Poverty. From 2000 – 2015 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 2000 and 2014, 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 2000 through 2014.

Poverty Rate, 2000 - 2014					
			Ratio	Percentage Change	
Year	R.I.	U.S.	R.I./U.S.	R.I.	U.S.
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	14.8	91.2%	-0.7%	-1.3%
2014	11.3	14.8	76.4%	-16.9%	-1.3%
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 2000-2014. . While the chart shows increasing poverty levels for Rhode Island and nationwide following the onset of the Great Recession in 2007 through 2011, there has been a general downward trend in poverty rates in 2011 and following. It is notable that the decline in poverty since the peaks of the Great Recession has been stronger in Rhode Island than nationwide, as the chart indicates that the gap between the Rhode Island and national poverty rates reached a peak magnitude of 3.5 percentage points in 2014.



Employment

The table below shows Rhode Island Nonfarm Employment for the 2000 to 2015 period. The table reflects the new North American Industrial Classification System (NAICS) composition of employment.

Rhode Island Nonfarm Employment by Industry, 2000 - 2015

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	21,200	1.2%	56,983	-2.9%	80,225	-0.7%	98,433	4.0%	92,933	2.2%	73,208	1.6%	65,533	-1.0%	**488,517**	**0.9%**
2005	22,058	4.0%	54,908	-3.6%	80,100	-0.2%	100,200	1.8%	95,317	2.6%	73,517	0.4%	64,925	-0.9%	**491,025**	**0.5%**
2006	23,092	4.7%	52,692	-4.0%	79,750	-0.4%	102,467	2.3%	96,700	1.5%	73,225	-0.4%	64,942	0.0%	**492,867**	**0.4%**
2007	22,417	-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	20,675	-7.8%	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	17,383	-15.9%	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	16,117	-7.3%	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	15,875	-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	16,200	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	16,308	0.7%	40,008	1.0%	74,075	-0.7%	100,033	2.9%	104,642	1.3%	76,175	2.5%	60,208	0.1%	**471,450**	**1.3%**
2014	16,683	2.3%	40,858	2.1%	75,117	1.4%	102,217	2.2%	105,500	0.8%	78,058	2.5%	60,358	0.2%	**478,792**	**1.6%**
2015	17,233	5.7%	41,283	3.2%	76,133	2.8%	104,825	4.8%	105,433	0.8%	79,283	4.1%	60,342	0.2%	**484,533**	**1.2%**

Data reflects twelve month average of not seasonally adjusted data.

U.S. Department of Labor, Bureau of Labor Statistics; State and Area Employment, Hours, and Earnings

Between 2000 and 2015, total nonfarm employment in Rhode Island increased by 1.6 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 12.8 percent, 26.7 percent and 18.3 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. Job growth in 2014 reached its highest level during the time period at 1.6 percent before tapering off to 1.2 percent in 2015. Four consecutive years of job growth in excess of 1.0 percent indicate that Rhode Island is on its way to recovering jobs lost in the Great Recession. However, total non-farm employment of 484,533 in 2015 is still 8,334 jobs short of the peak level of 492,867 experienced in 2006.

Non-farm Employment by Industry. The following table summarizes the changes in Rhode Island nonfarm employment by sector from 2005 to 2015. Total nonfarm employment decreased by 1.3 percent during this period, and the composition of total employment changed markedly. Employment declined on average by 12.2 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 10.6 percent. Clearly, the Rhode Island economy underwent a significant restructuring during the 2005 to 2015 period, transforming further from a manufacturing and construction based economy to a service based economy.

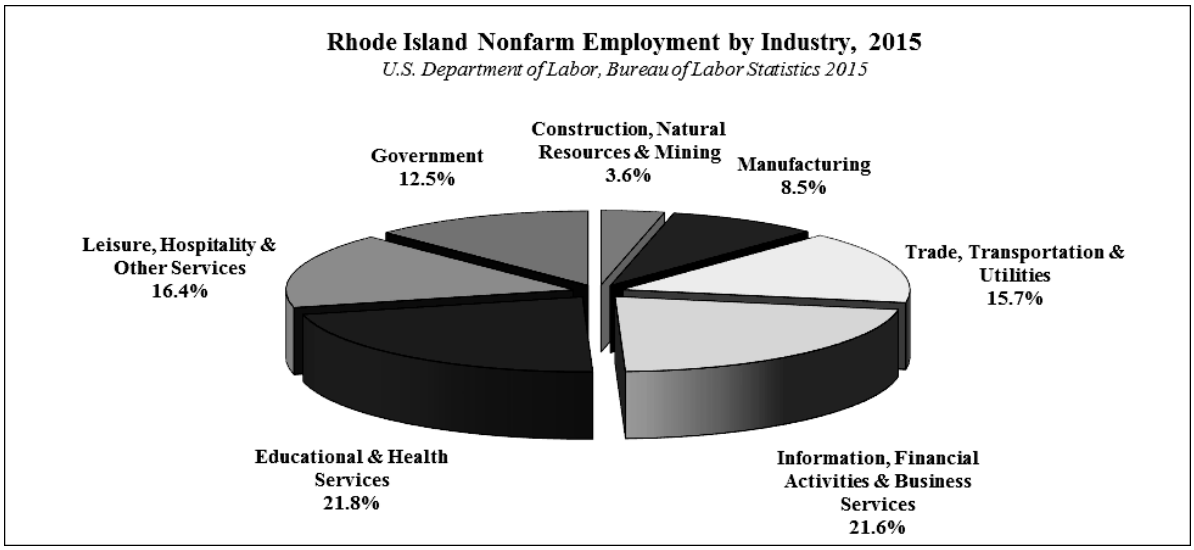
Rhode Island Nonfarm Employment by Industry, 2005 & 2015

Employment Sector	2005	% of Total	2015	% of Total	% Change 2005-2015
Construction, Natural Resources & Mining	22,058	4.5%	17,233	3.6%	-21.9%
Manufacturing	54,908	11.2%	41,283	8.5%	-24.8%
Trade, Transportation & Utilities	80,100	16.3%	76,133	15.7%	-5.0%
Information, Financial Activities & Business Services	100,200	20.4%	104,825	21.6%	4.6%
Educational & Health Services	95,317	19.4%	105,433	21.8%	10.6%
Leisure, Hospitality & Other Services	73,517	15.0%	79,283	16.4%	7.8%
Government	64,925	13.2%	60,342	12.5%	-7.1%
Total Employment	491,025	100.0%	484,533	100.0%	-1.3%

Data reflects twelve month average of not 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 21.8 percent of the nonfarm work force in 2015, is the largest employment sector in the Rhode Island economy, followed closely by information, financial activities and business services, 21.6 percent; leisure, hospitality and other services, 16.4 percent; government, trade, transportation and utilities, 15.7 percent; 12.5 percent; manufacturing, 8.5 percent; and construction, natural resources and mining, 3.6 percent.



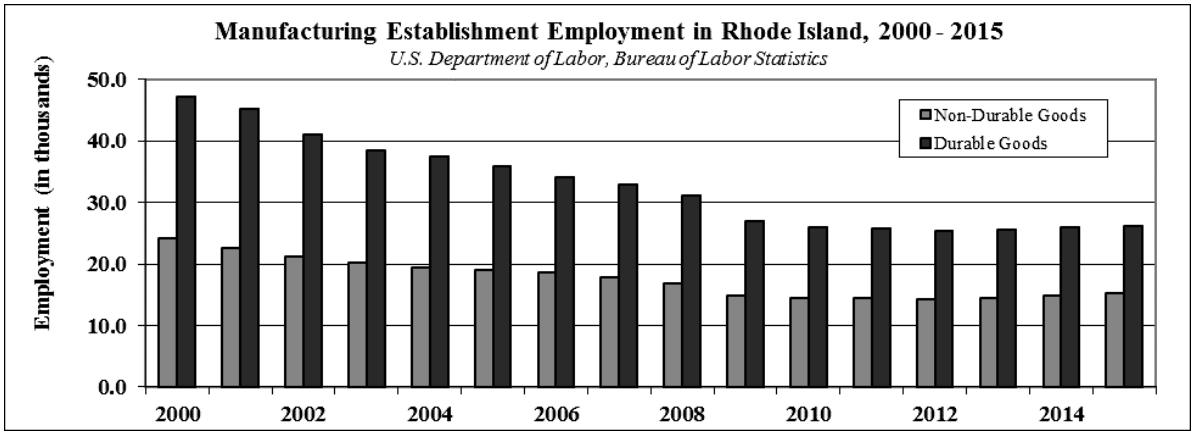
Manufacturing Employment. Like many industrial states, Rhode Island has seen a steady diminution of its manufacturing jobs base over the last decade. However, there has been notable expansion of employment by Rhode Island manufacturing establishments in the 2013 through 2015 period. Total employment in the manufacturing sector declined between 2000 and 2015, falling by 42.0 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 4.8 percent in 2001. This rate of decline accelerated further in 2002 to 8.1 percent. The decline continued with a manufacturing growth rate of -2.9 percent in 2004, -3.6 percent in 2005, -4.0 percent in 2006, -3.7 percent in 2007 and -5.5 percent in 2008. 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. 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 2000 through 2015 time period. In 2014, growth in manufacturing employment accelerated to 2.1 percent followed by growth of 1.0 percent in 2015. Both manufacturing employment for non-durable goods and durable goods increased by 0.8 percent and 1.1 percent respectively in 2013 and 2.8 percent and 1.8 percent respectively in 2014. In 2015, growth in non-durable goods manufacturing employment outpaced non-durable goods manufacturing employment, with growth rates of 2.1 and 0.5 percent, respectively.

Manufacturing Establishment Employment in Rhode Island, 2000 - 2015
(In Thousands)*

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Non-Durable Goods	24.1	22.6	21.3	20.2	19.5	19.0	18.6	17.9	16.8	14.9	14.5	14.4	14.4	14.5	14.9	15.2
Percentage Change	-3.1%	-6.2%	-5.9%	-5.1%	-3.4%	-2.8%	-1.8%	-3.9%	-6.0%	-11.5%	-2.6%	-0.4%	-0.6%	0.8%	2.8%	2.1%
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	26.0	26.1
Percentage Change	-0.5%	-4.1%	-9.2%	-6.2%	-2.6%	-4.1%	-5.2%	-3.6%	-5.2%	-13.6%	-3.8%	-0.7%	-1.6%	1.1%	1.8%	0.5%
Total Manufacturing Employment	71.2	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	41.3
Percentage Change	-1.4%	-4.8%	-8.1%	-5.8%	-2.9%	-3.6%	-4.0%	-3.7%	-5.5%	-12.9%	-3.4%	-0.6%	-1.2%	1.0%	2.1%	1.0%

U.S. Department of Labor, Bureau of Labor Statistics; State and Area Employment, Hours, and Earnings
*Not Seasonally Adjusted Data

Despite a long-term 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.) The bar chart below indicates that employment levels at manufacturing establishments consistently fell between 2000 and 2010 but have since reached relative stability in 2010 through 2015.



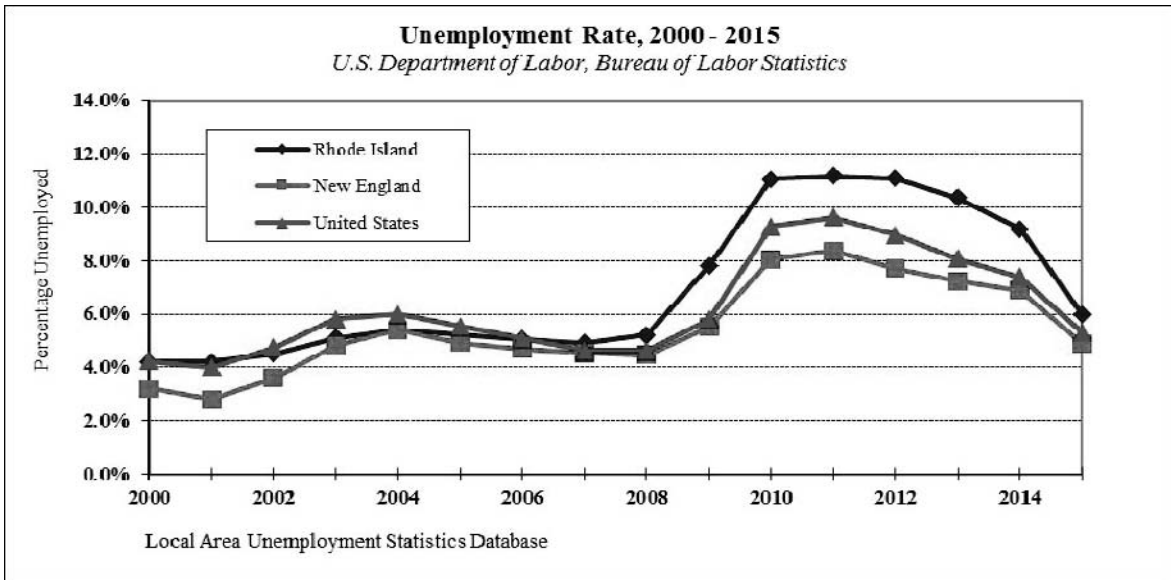
Unemployment. Rhode Island's unemployment rate from 2001 to 2004 was lower than that of the United States. From 2006 to 2014, Rhode Island's unemployment rate rose above the United States by an average of 1.5 percentage points. The following table compares the annual civilian labor force, the number unemployed, and the unemployment rate averages of Rhode Island, New England, and the United States between 2000 and 2015. In 2015, the State's unemployment rate was 6.0 percent and New England's unemployment rate was 4.9 percent.

Annual Average Civilian Labor Force and Unemployment, 2000 - 2015
(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%
2015	559	7,806	157,130	33	383	8,296	6.0%	4.9%	5.3%	113.2%

U.S. Department of Labor, Bureau of Labor Statistics; Current Population Survey Database
U.S. Department of Labor, Bureau of Labor Statistics; Local Area Unemployment Statistics Database,
Data reflects twelve month average of nonseasonally adjusted data.

The chart below graphs the unemployment rates for Rhode Island, New England, and the United States over the 2000 to 2015 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. However, in 2015 there has been noticeable decline in the unemployment rate in Rhode Island, New England, and nationwide as unemployment approaches pre-recession levels.



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

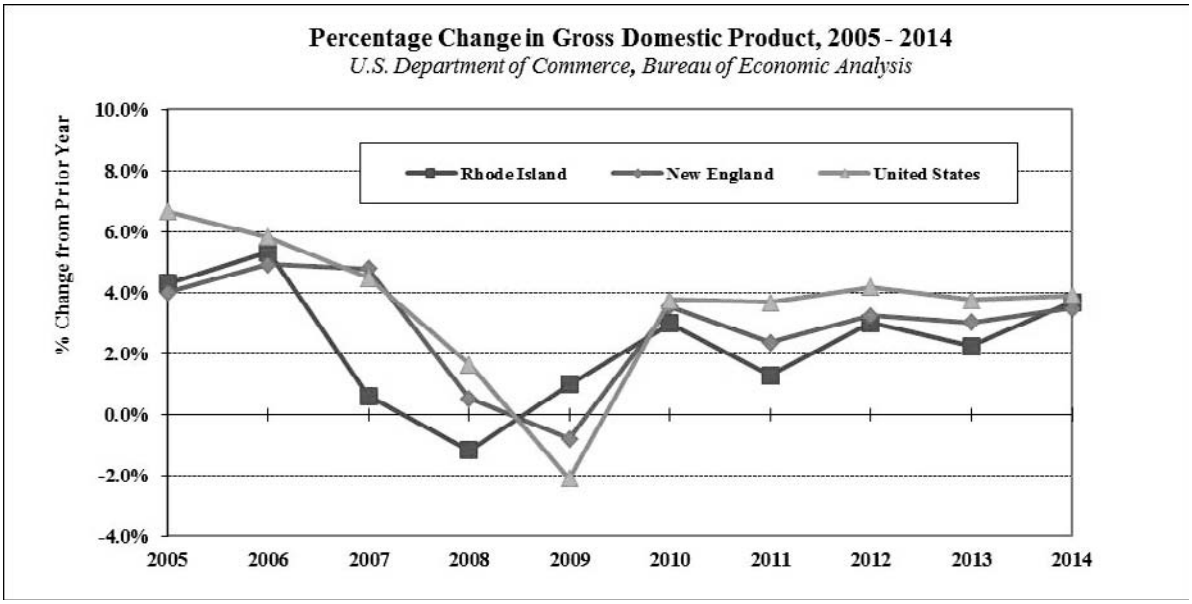
From 2005 – 2014, growth in Rhode Island Gross Domestic Product (GDP) was less than growth in United States GDP with the exception of 2009. Rhode Island GDP grew at a modest rate of 1.0 percent in 2009, which was greater than the negative 0.8 percent GDP growth in New England and the negative 2.1 percent 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	47,948	0.6%	795,167	4.8%	14,399,635	4.5%
2008	47,388	-1.2%	799,308	0.5%	14,635,348	1.6%
2009	47,856	1.0%	792,927	-0.8%	14,329,566	-2.1%
2010	49,279	3.0%	820,973	3.5%	14,869,544	3.8%
2011	49,906	1.3%	840,420	2.4%	15,416,873	3.7%
2012	51,403	3.0%	867,593	3.2%	16,060,678	4.2%
2013	52,555	2.2%	893,812	3.0%	16,665,215	3.8%
2014	54,492	3.7%	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
Data reflect revised statistics for 1997-2014, updated December 2014.

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, 2012, and 2013. In 2014, Rhode Island's GDP grew at a faster pace than New England but behind that of the nation as a whole.



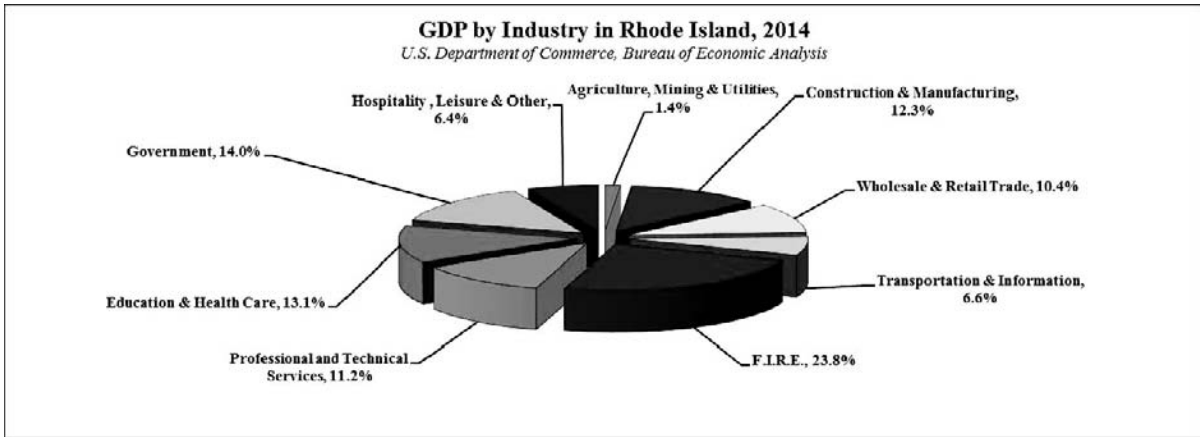
Economic Base and Performance -- Sector Detail. The economy of Rhode Island is well diversified. The table below shows the contribution to Rhode Island Gross Domestic Product (GDP) of several industrial and non-industrial sectors. Rhode Island has experienced positive growth in most sectors from 2006 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	81	78	90	86	89	95	(D)
Mining	28	32	39	44	30	24	35	26	(D)
Utilities	700	669	724	743	772	754	565	606	618
Construction	2,544	2,555	2,332	2,173	2,084	2,081	2,212	2,221	2,317
Manufacturing	4,926	4,213	4,244	3,751	4,026	3,862	3,910	4,239	4,396
Wholesale	2,449	2,566	2,488	2,372	2,505	2,558	2,702	2,744	2,798
Retail Trade	2,777	2,792	2,650	2,598	2,718	2,690	2,776	2,784	2,890
Transportation and warehousing, excluding postal service	721	698	728	699	734	783	824	816	835
Information	1,951	1,914	2,044	2,109	2,331	2,613	2,672	2,747	2,787
Finance and insurance	3,877	4,144	2,972	4,114	3,922	3,901	4,392	4,530	4,910
Real estate, rental and leasing	6,859	7,185	7,311	7,690	7,655	7,740	7,850	7,865	8,054
Professional, scientific, and technical services	2,545	2,495	2,696	2,542	2,589	2,631	2,711	2,757	2,924
Management of companies and enterprises	1,280	1,350	1,403	1,251	1,421	1,466	1,658	1,827	1,982
Administrative and waste management services	1,144	1,215	1,239	1,197	1,310	1,317	1,382	1,466	1,552
Educational services	1,160	1,237	1,320	1,412	1,461	1,511	1,509	1,544	1,609
Health care and social assistance	4,428	4,516	4,780	4,993	5,214	5,202	5,289	5,429	5,545
Government	7,038	7,262	7,379	7,199	7,414	7,641	7,637	7,557	7,629
Hospitality , Leisure & Other	3,136	3,021	2,958	2,890	3,005	3,046	3,189	3,302	3,495
Total GDP*	**47,659**	**47,948**	**47,388**	**47,856**	**49,279**	**49,906**	**51,403**	**52,555**	**54,492**

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. (D) 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 23.8 percent of GDP in 2014. In 2014, FIRE accounted for $12.96 billion of the $54.49 billion total gross domestic product. For the period 2006 - 2014 this sector expanded by a respectable 20.8 percent.

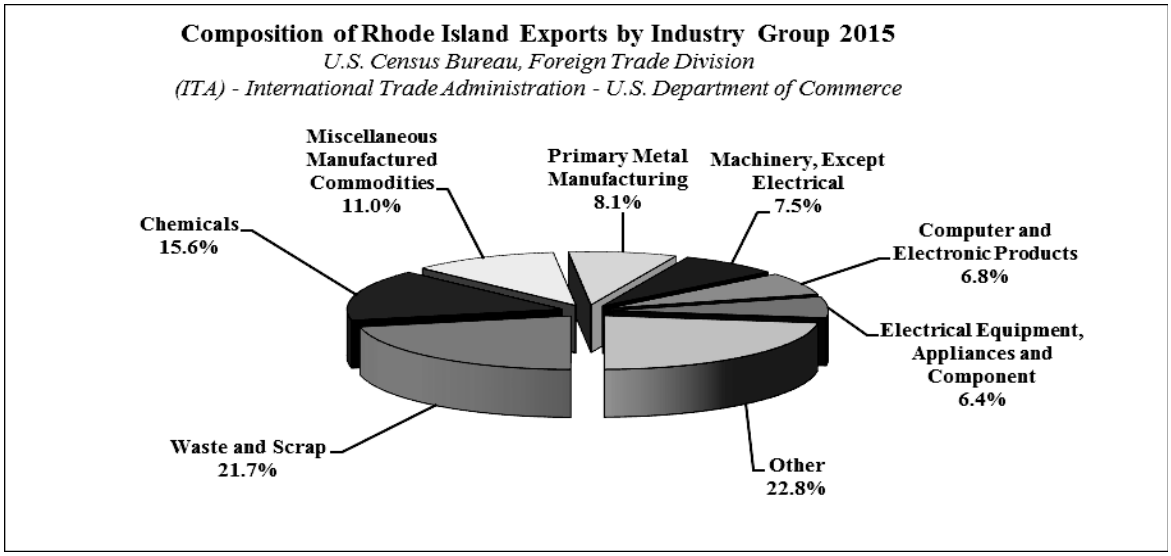
Construction and Manufacturing. In 2014, construction and manufacturing was the fourth largest sector of Rhode Island's economy at $6.7 billion, or 12.3 percent of the total Gross Domestic Product. This sector decreased by 10.1 percent from the 2006 level and in its percent contribution to GDP. In 2006, construction and manufacturing comprised a larger piece of GDP at 15.7 percent as compared to 12.3 percent for 2014.

Government. At 14.0 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 0.8 percentage points 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, 3.0 percent in 2010, 3.1 percent in 2011 and -0.1 percent in 2012. The government sector saw growth of -1.0 percent in 2013 and 1.0 percent in 2014. In 2014, the government sector contributed $7.63 billion of total gross state product compared to $7.56 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 31.4 percent of Rhode Island's GDP in 2014, the largest portion. From 2006 to 2014, services have grown by 24.9 percent, indicating the continuing shift from Rhode Island's traditional role as a manufacturing based economy to that of a service based economy.

International Trade and the Rhode Island Economy

Rhode Island products are exported throughout the United States and the world. The total value of all international shipments from Rhode Island in 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 2015, the most important exports, as shown in the chart above, were waste and scrap, 21.7 percent; chemicals, 15.6 percent; miscellaneous manufactured commodities, 11.0 percent; primary metal manufacturing, 8.1 percent; machinery, except electrical, 7.5 percent; computers and electronic products, 6.8 percent; electrical equipment appliances and components, 6.4 percent, ; and all other exports, 22.8 percent.

The table below provides greater detail of Rhode Island exports by industry (in thousands of dollars) for 2011 - 2015.

Rhode Island Exports by Industry, 2011 - 2015
(in thousands of dollars)

	2011	2012	2013	2014	2015
Total All Industries	**2,288,561**	**2,365,686**	**2,164,085**	**2,388,749**	**2,124,628**
Waste and Scrap	694,899	644,326	566,321	593,618	460,082
Chemicals	259,239	288,309	252,053	377,388	333,362
Miscellaneous Manufactured Commodities	218,448	202,545	178,339	209,339	233,267
Primary Metal Manufacturing	291,827	263,546	247,050	236,703	172,835
Machinery, Except Electrical	171,124	223,570	174,085	150,529	158,978
Computer and Electronic Products	151,135	155,090	144,778	148,504	145,156
Electrical Equipment, Appliances and Component	68,339	125,564	156,526	157,285	135,995
Plastics and Rubber Products	90,785	85,884	90,075	94,366	98,811
Transportation Equipment	130,881	55,940	55,980	93,348	85,272
Fabricated Metal Products, NESOI	38,169	47,888	51,787	54,520	62,283
Textiles and Fabrics	49,399	61,667	50,835	55,213	53,525
Used or Second-Hand Merchandise	2,390	81,505	76,232	80,772	48,567
Fish - Fresh, Chilled or Frozen & Other Marine Products	28,653	25,966	31,835	38,131	35,107
Nonmetallic Mineral Products	6,771	19,592	18,189	21,661	24,239
Food Manufacturers	14,863	19,257	16,110	15,979	16,771
Paper	20,068	15,263	14,090	15,831	14,183
Furniture and Fixtures	4,640	5,036	6,220	7,454	11,242
Textile Mill Products	10,362	11,095	10,147	12,715	10,847
Printed Matter and Related Products, Nesoi	10,936	12,055	8,869	10,017	8,345
Special Classification Provisions, Nesoi	7,727	3,593	5,568	4,649	4,923
Petroleum and Coal Products	2,272	2,112	2,566	3,630	4,412
Leather and Allied Products	2,455	2,159	1,588	2,029	2,421
Apparel Manufacturing Products	4,601	3,580	3,151	3,035	1,764
Minerals and Ores	6,933	8,580	749	967	757
Wood Products	568	958	477	735	608
Other Animals	324	49	90	126	568
Forestry Products, Nesoi	502	133	155	81	157
Agricultural Products	127	138	132	97	125
Goods Ret. to Canada (Exp.); Goods Ret & Reimps (Imp.)	32	43	47	25	13
Beverages and Tobacco Products	28	204	38	3	12
Oil and Gas	26	36	0	0	0
Newspapers, Books & Other Published Matter, Nesoi	40	0	0	0	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. In 2015 the number of housing permits in Rhode Island countered regional and national trends once again with a decline in number of permits authorized of 2.2 percent, while permits authorized in New England and United States rose by 13.0 and 15.3 percent, respectively.

Housing Permits Authorized, 2000 - 2015
(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%	43,751	-7.7%	1,600,000	-3.7%
2001	2,402	-9.5%	42,919	-1.9%	1,639,000	2.4%
2002	2,602	8.3%	47,297	10.2%	1,750,000	6.8%
2003	2,445	-6.0%	48,416	2.4%	1,889,000	7.9%
2004	2,512	2.7%	56,126	15.9%	2,058,000	8.9%
2005	2,961	17.9%	56,817	1.2%	2,162,000	5.1%
2006	2,263	-23.6%	48,232	-15.1%	1,846,000	-14.6%
2007	1,924	-15.0%	36,495	-24.3%	1,391,000	-24.6%
2008	1,172	-39.1%	24,089	-34.0%	896,000	-35.6%
2009	914	-22.0%	17,332	-28.1%	582,000	-35.0%
2010	933	2.1%	20,596	18.8%	604,000	3.8%
2011	738	-20.9%	16,854	-18.2%	625,000	3.5%
2012	782	6.0%	22,872	35.7%	829,000	32.6%
2013	945	20.8%	27,302	19.4%	989,000	19.3%
2014	917	-3.0%	27,566	1.0%	1,023,000	3.4%
2015	897	-2.2%	31,148	13.0%	1,180,000	15.3%

Federal Reserve Bank of Boston, Regional Data New England Economic Indicators: Source: U.S. Census Bureau.

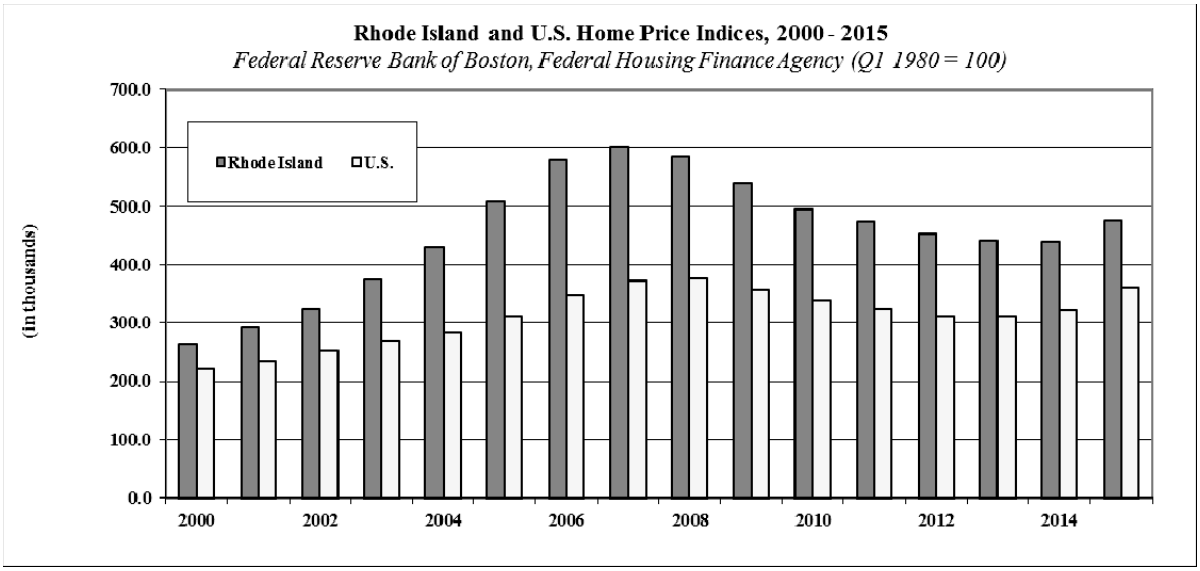
The home price index for Rhode Island and the United States (not seasonally adjusted) appears in the table below. The Rhode Island home price index increased relative to the U.S. average from 2000 through 2005, hitting a peak of 166.6 percent in 2005. Since then, the Rhode Island home price index has 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 132.7 percent and declined slightly to 131.9 percent in 2015.

Home Price Index
Rhode Island and the U.S, 2000 - 2015
(not seasonally adjusted, in thousands)

Year	R.I.	U.S.	R.I. Home Prices as a Percentage of the U.S.
2000	291.2	234.7	124.1%
2001	323.9	252.3	128.4%
2002	373.9	268.2	139.4%
2003	428.8	284.9	150.5%
2004	508.6	311.5	163.3%
2005	578.0	346.8	166.6%
2006	601.3	371.7	161.8%
2007	585.4	375.9	155.7%
2008	538.6	357.0	150.9%
2009	495.7	337.3	147.0%
2010	474.0	323.5	146.5%
2011	453.4	311.3	145.6%
2012	441.4	310.8	142.0%
2013	440.2	323.4	136.1%
2014	452.8	341.3	132.7%
2015	475.0	360.2	131.9%

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, while in 2015 the amount of contracts awarded dropped to $591 million.

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 and falling to 0.22 percent in 2015. 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. In 2015, the percentage of Rhode Island awards as a share of New England fell to 2.38 percent. The relationship of the defense industry to the Rhode Island economy is reflected in the following table, which shows the value of Department of Defense contract awards between 2000 and 2014.

Department of Defense Contract Awards, 2000 - 2015
(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	25,017	309,154	2.71%	0.22%
2014	826	26,200	284,213	3.15%	0.29%
2015	591	24,813	272,791	2.38%	0.22%

www.usaspending.gov

Human Resources

Public Elementary and Secondary Education. The availability of a skilled and well-educated population is an important resource for Rhode Island. 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 145.2 percent in 2011-12. For the 2012-13 academic year Rhode Island spent 32.2 percent more on public elementary and secondary education than the United States. Rhode Island spent $15,208 per pupil in comparison to a per pupil national average of $11,503. The following table shows expenditures per pupil for Rhode Island and the United States since the 1998-99 academic year.

Current Expenditure per Pupil in Public Elementary and Secondary Schools
Academic Years 1998-99 - 2012-13
(Based on Average Daily Attendance)

Academic Year	Rhode Island	United States	Ratio (R.I./U.S.)
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%
2012-13	15,208	11,503	132.2%

U.S. Department of Education, National Center for Education Statistics; Unadjusted Dollars

For the academic year 2012-13, Rhode Island per pupil expenditures were the ninth 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 2012-2013
(Based on Average Daily Attendance)

Ranking	State	Expenditure	Ranking	State	Expenditure
	United States	**11,503**			
1	New York	21,172	27	Iowa	10,915
2	District of Columbia	20,437	28	Kansas	10,789
3	Alaska	19,982	29	Missouri	10,555
4	New Jersey	19,020	30	Washington	10,553
5	Vermont	18,372	31	Oregon	10,370
6	Connecticut	17,859	32	Kentucky	10,269
7	Wyoming	17,135	33	South Carolina	10,200
8	Massachusetts	16,111	34	Indiana	10,037
9	**Rhode Island**	**15,208**	35	Arkansas	9,853
10	Maryland	15,010	36	California	9,686
11	New Hampshire	14,463	37	Colorado	9,572
12	Pennsylvania	14,378	38	Alabama	9,486
13	Maine	14,303	39	Georgia	9,437
14	Delaware	14,129	40	Tennessee	9,370
15	Illinois	13,808	41	New Mexico	9,230
16	Hawaii	12,535	42	South Dakota	9,138
17	Nebraska	12,374	43	North Carolina	9,041
18	Ohio	12,284	44	Texas	8,926
19	North Dakota	12,090	45	Florida	8,925
20	Wisconsin	11,768	46	Mississippi	8,685
21	Minnesota	11,754	47	Nevada	8,525
22	Virginia	11,748	48	Oklahoma	8,450
23	West Virginia	11,658	49	Arizona	8,388
24	Michigan	11,495	50	Idaho	7,273
25	Montana	11,493	51	Utah	6,950
26	Louisiana	11,121			

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 2014 the total fall enrollment of part-time and full-time students in Rhode Island institutions of higher education was 83,499, a decrease of 0.5 percent from fall 2013. This marks the fourth 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
2000-2014

Academic Year	Rhode Island		United States	
	Total Enrollment	% Change	Total Enrollment	% Change
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%
2014	83,499	-0.5%	20,207,369	-2.1%

U.S. Department of Education, National Center for Education Statistics

APPENDIX B

PROPOSED FORMS OF LEGAL OPINIONS

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Date of Delivery

State of Rhode Island and Providence Plantations
State House
82 Smith Street
Providence, Rhode Island 02903

Re: $58,835,000 Consolidated Capital Development Loan of 2016, Series A (Tax-Exempt) (the "2016 Series A Bonds")
$53,800,000 Consolidated Capital Development Loan of 2016, Refunding Series C (Tax-Exempt) (the "2016 Series C 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 2016 Series A Bonds and the 2016 Series C 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 Rhode Island General Laws, as amended. 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 May 10, 2016 (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 2016 Series A Bonds and the 2016 Series C 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 2016 Series A Bonds and the 2016 Series C Bonds as the same shall come due.

2. Interest on the 2016 Series A Bonds and the 2016 Series C Bonds is excluded from the gross income of the owners of the 2016 Series A Bonds and the 2016 Series C Bonds for federal income tax purposes. In addition, interest on the 2016 Series A Bonds and the 2016 Series C Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum

taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the State with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the 2016 Series A Bonds and the 2016 Series C Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Failure by the State to comply with certain of such requirements may cause interest on the 2016 Series A Bonds and the 2016 Series C Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the 2016 Series A Bonds and the 2016 Series C Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the 2016 Series A Bonds and the 2016 Series C Bonds.

3. Income from the 2016 Series A Bonds and the 2016 Series C Bonds is free from personal income 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 Rhode Island estate taxes and certain Rhode Island corporate and business taxes. We express no opinion regarding any other Rhode Island tax consequences arising with respect to the 2016 Series A Bonds and the 2016 Series C Bonds or any tax consequences arising with respect to the 2016 Series A Bonds and the 2016 Series C Bonds under the laws of any state other than Rhode Island.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the 2016 Series A Bonds and the 2016 Series C Bonds and the enforceability of the 2016 Series A Bonds and the 2016 Series C Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

Date of Delivery

State of Rhode Island and Providence Plantations
State House
82 Smith Street
Providence, Rhode Island 02903

Re: $13,165,000 Consolidated Capital Development Loan of 2016, Series B (Federally Taxable) (the "2016 Series B 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 2016 Series B 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 Rhode Island General Laws, as amended. 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 May 10, 2016 (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 2016 Series B 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 Series B Bonds as the same shall come due.

2. Interest on the 2016 Series B Bonds is included in the gross income of the owners of the 2016 Series B Bonds for federal income tax purposes. We express no opinion regarding any other federal tax consequences arising with respect to the 2016 Series B Bonds.

3. Income from the 2016 Series B Bonds is free from personal income taxation by the State or any political subdivision or other instrumentality of the State although the Series B Bonds and the income therefrom may be included in the measure of Rhode Island estate taxes and certain Rhode Island corporate and business taxes. We express no opinion regarding any other Rhode Island tax consequences arising with respect to the 2016 Series B Bonds or any tax consequences arising with respect to the 2016 Series B Bonds under the laws of any state other than Rhode Island.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the 2016 Series B Bonds and the enforceability of the 2016 Series B Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

APPENDIX C

TABLE OF REFUNDED BONDS

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TABLE OF REFUNDED BONDS

State of Rhode Island and Providence Plantations
General Obligation Bonds
Consolidated Capital Development Loan of 2016, Refunding Series C (Tax-Exempt)

Issue	Maturity Date	Rate	Par Amount	Call Date or Maturity Date	Payment or Call Price	CUSIP†	
2005A	8/1/2016	4.000%	$ 210,000	6/9/2016	100.000	76222N HP9	^
2005A	8/1/2018	4.125%	345,000	6/9/2016	100.000	76222N HS3	
2005A	8/1/2018	5.000%	3,645,000	6/9/2016	100.000	76222R TB8	
2005D	7/15/2018	5.000%	4,395,000	6/9/2016	100.000	76222N KQ3	
2006A	8/1/2016	5.000%	3,650,000	8/1/2016	100.000	76222R BH4	^
2006A	8/1/2017	5.000%	17,015,000	8/1/2016	100.000	76222R BJ0	
2006A	8/1/2018	4.250%	4,630,000	8/1/2016	100.000	76222R BK7	
2006A	8/1/2019	4.375%	9,265,000	8/1/2016	100.000	76222R BL5	
2006A	8/1/2020	4.500%	4,915,000	8/1/2016	100.000	76222R BM3	
2006A	8/1/2021	4.625%	5,085,000	8/1/2016	100.000	76222R BN1	
2006A	8/1/2022	4.750%	5,265,000	8/1/2016	100.000	76222R BP6	

† The CUSIP numbers above 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 Financial Advisor nor the State is responsible for the selection or use of the CUSIP numbers, and no representation is made as to their correctness on the Refunded Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Refunded 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 Refunded Bonds.

^ Partial Refunding.

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APPENDIX D

OFFICIAL NOTICE OF SALE DATED APRIL 19, 2016 FOR SERIES A BONDS AND SERIES C BONDS

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OFFICIAL NOTICE OF SALE

$112,820,000*
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
General Obligation Bonds

$58,835,000*
Consolidated Capital Development Loan of 2016, Series A (Tax-Exempt)

$53,985,000*
Consolidated Capital Development Loan of 2016, Refunding Series C (Tax-Exempt)

Electronic Bids, exclusively through the system of PARITY® Competitive Bidding System ("PARITY®"), will be received by the State of Rhode Island and Providence Plantations (the "State"), for the purchase of all, and not less than all, of the $112,820,000* General Obligation Bonds consisting of (i) $58,835,000* General Obligation Bonds Consolidated Capital Development Loan of 2016, Series A (Tax-Exempt) (the "Series A Bonds") and (ii) $53,985,000* General Obligation Bonds Consolidated Capital Development Loan of 2016, Refunding Series C (Tax-Exempt) (the "Series C Bonds", and together with the Series A Bonds, the "Bonds") until 10:45 a.m., Eastern Time, on April 28, 2016, (unless postponed or changed as described herein).

THE BONDS

Authorization and Security

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.

Book Entry Only

The Bonds will be dated the date of delivery. Interest on the Series A Bonds will be calculated on a 30/360 day basis and will be payable semiannually on May 1 and November 1, commencing November 1, 2016. Interest on the Series C Bonds will be calculated on a 30/360 day basis and will be payable semiannually on February 1 and August 1, commencing August 1, 2016. The Bonds will be issued only as fully registered bonds in book entry form payable to a nominee of The Depository Trust Company, New York, New York ("DTC"), as securities depository for the Bonds. Reference is made to the Preliminary Official Statement, as defined herein, for the applicable provisions relating to the transfer of beneficial ownership, manner of redemption, the responsibilities of DTC participants and the right of the State to discontinue the book entry only system.

* *Preliminary, subject to change.*

Maturity Schedule

Principal of the Bonds will be paid (subject to the right of prior redemption) through serial maturities and/or term maturities with annual sinking fund redemptions on the following dates and in the following amounts. **Note that the maturity date and years in which principal is due is different for each series of Bonds.**

May 1	Series A Bonds*	August 1	Series C Bonds*
2017	$ 90,000	2017	$17,045,000
2018	30,000	2018	12,570,000
2019	30,000	2019	9,185,000
2020	30,000	2020	4,870,000
2021	35,000	2021	5,060,000
2022	2,810,000	2022	5,255,000
2023	2,950,000		
2024	3,095,000		
2025	3,250,000		
2026	3,410,000		
2027	3,585,000		
2028	3,760,000		
2029	3,915,000		
2030	4,070,000		
2031	4,230,000		
2032	4,400,000		
2033	4,575,000		
2034	4,715,000		
2035	4,855,000		
2036	5,000,000		

Term Bonds

The successful bidder may provide in the bid form for all of the Series A Bonds and for all of the Series C Bonds to be issued as serial bonds or may designate consecutive annual principal amounts of the Series A Bonds and of the Series C Bonds to be combined into term bonds. For the Series A Bonds, each such term bond shall be subject to mandatory sinking fund redemption commencing on May 1 of the first year which has been combined to form such term bond and continuing on May 1 in each year thereafter until the stated maturity date of that term bond. For the Series C Bonds, each such term bond shall be subject to mandatory sinking fund redemption commencing on August 1 of the first year which has been combined to form such term bond and continuing on August 1 in each year thereafter until the stated maturity date of that term bond. The amount redeemed in any year shall be equal to the principal amount for such year set forth in the Bonds amortization schedule, as adjusted in accordance with the provisions described below under the caption "Changes to Revised Principal Amounts." The Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot or otherwise according to DTC procedures from among the Bonds of the same maturity, as described in the Preliminary Official Statement.

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* *Preliminary, subject to change.*

Optional Redemption

Optional Redemption of the Series A Bonds. The Series A Bonds maturing on and before May 1, 2026 are not subject to optional redemption prior to their stated dates of maturity. The Series A Bonds maturing on and after May 1, 2027 are subject to optional redemption prior to their stated dates of maturity on and after May 1, 2026 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 the Series A Bonds to be redeemed, together with interest accrued and unpaid to the redemption date.

Optional Redemption of the Series C Bonds. The Series C Bonds are not subject to optional redemption.

ELECTRONIC BIDDING AND BIDDING PROCEDURES

Registration to Bid

All prospective bidders must be contracted customers of *PARITY*®. To become a customer, contact *PARITY*® at (212) 849-5021. By submitting a bid for the Bonds, a prospective bidder represents and warrants to the State that such bidder's bid for the purchase of the Bonds is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder to a legal, valid and enforceable contract for the purchase of the Bonds.

Notice is hereby given that electronic proposals will be received via *PARITY*®, in the manner described below, until 10:45 a.m., Eastern Time, on April 28, 2016. Bids may be submitted electronically via *PARITY*® pursuant to this Notice until 10:45 a.m., Eastern Time, but no bid will be received after the time for receiving bids specified above. To the extent any instructions or directions set forth in *PARITY*® conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further information about *PARITY*®, potential bidders may contact *PARITY*® at (212) 849-5021.

Disclaimer

Each prospective bidder shall be solely responsible to register to bid via *PARITY*®. Each qualified prospective bidder shall be solely responsible to make necessary arrangements to access *PARITY*® for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale. Neither the State nor *PARITY*® shall have any duty or obligation to undertake such registration to bid for any prospective bidder or to provide or assure such access to any qualified prospective bidder, and neither the State nor *PARITY*® shall be responsible for a bidder's failure to register to bid or for proper operation of *PARITY*®, or have any liability for any delays or interruptions of, or any damages caused by, *PARITY*®. The State is using *PARITY*® as a communication mechanism, and not as the State's agent, to conduct the electronic bidding for the Bonds. The State has no liability for any errors in, or any other failures of, the electronic bidding system, and each bidder agrees to hold the State harmless against any claims related to or arising from such bidder's use of or involvement in the bidding process. The State is not bound by any advice and determination of *PARITY*® to the effect that any particular bid complies with the terms of this Official Notice of Sale and in particular the "Bid Specifications" hereinafter set forth. All costs and expenses incurred by prospective bidders in connection with their

registration and submission of bids via *PARITY*® are the sole responsibility of the bidders, and the State is not responsible, directly or indirectly, for any such costs or expenses. If a prospective bidder encounters any difficulty in registering to bid or submitting, modifying or withdrawing a bid for the Bonds, it should telephone *PARITY*® at (212) 849-5021 and notify the Office of the General Treasurer by facsimile transmission at (401) 222-6140.

Bidding Procedures

Bids must be submitted electronically for the purchase of the Bonds (all or none) by means of the State AON Bid Form (the "Bid Form") via *PARITY*® by 10:45 a.m., Eastern Time, on April 28, 2016, unless postponed or changed as described herein (see "Change of Bid Date and Closing Date" and "Changes to Preliminary Principal Amounts"). Prior to that time, a prospective bidder may input and save proposed terms of its bid in *PARITY*®. Once the final bid has been saved in *PARITY*®, the bidder may select the final bid button in *PARITY*® to submit the bid to *PARITY*®. Once the bids are communicated electronically via *PARITY*® to the State, each bid will constitute an irrevocable offer to purchase the Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on *PARITY*® shall constitute the official time. For information purposes only, bidders are requested to state in their bids the true interest cost to the State, as described under "Award of the Bonds" below, represented by the rate or rates of interest and the bid price specified in their respective bids.

No bids will be accepted in written form, by facsimile transmission or in any other medium or on any system other than by means of the Bid Form via *PARITY*®. No bid will be received after the time for receiving such bids specified above.

Bid Specifications

Each bidder is required to transmit electronically by means of the Bid Form via PARITY® an unconditional bid specifying the rate or rates of interest and the price at which the bidder will purchase the Bonds. Each proposal for the Bonds must specify the amount bid for such Bonds not less than 100% of the par value of the aggregate principal amount of the Series A Bonds and not less than 100% of the par value of the aggregate principal amount of the Series C Bonds based on the Revised Amounts as described below. Bidders are invited to name the rate or rates of interest that the Series A Bonds and the Series C Bonds are to bear, in multiples of 1/8 or 1/20 of one percent. Each bidder must specify in its bid a single rate for each maturity of the Series A Bonds and a single rate for each maturity on the Series C Bonds. Any number of rates may be named, provided that for each series (a) the difference between the highest interest rate and the lowest interest rate shall not exceed 400 basis points and (b) no interest rate for any maturity may exceed 5.00%. No bid for other than all of the Bonds will be considered. All bids must be unconditional.

Expenses

The State will not pay any expenses of the successful bidder in connection with the purchase of the Bonds. Pursuant to Rhode Island law, the successful bidder shall be required to pay the fees of the Rhode Island Public Finance Management Board in the amount equal to one fortieth (1/40) of one (1%) percent (or 0.025%) of the Final Aggregate Principal Amount, as defined below, of the Series A Bonds, which fees are required to be paid to the Rhode Island Public Finance Management Board at the Closing (as defined below). There will be no fee payable to the Rhode Island Public Finance Management

Board with respect to the Series C Bonds since the required fee was previously paid on the bonds to be refunded with the proceeds of the Series C Bonds.

Good Faith Deposit

A good faith deposit in the amount of $1,128,000* (the "Deposit") is required in connection with the sale and bid for the Bonds. The Deposit may be provided for by a Federal funds wire transfer to be submitted to the State by the successful bidder not later than 4:00 p.m. (Eastern Time) on the date of sale (the "Wire Transfer Deadline") as set forth below under "Wire Transfers". The Deposit of the successful bidder will be collected and the proceeds thereof retained by the State to be applied in partial payment for the Bonds and no interest will be allowed or paid upon the amount thereof, but in the event the successful bidder shall fail to comply with the terms of the respective bid, the proceeds thereof will be retained as and for full liquidated damages.

Wire Transfers. The State will distribute wiring instructions for the Deposit to the successful bidder upon verification of the bids submitted by the bidders and prior to the Wire Transfer Deadline. If the Deposit is not received by the Wire Transfer Deadline, the award of the sale of the Bonds to the successful bidder may be cancelled by the State in its discretion without any financial liability of the State to the successful bidder or any limitation whatsoever on the State's right to sell the Bonds to a different purchaser upon such terms and conditions as the State shall deem appropriate.

Award of the Bonds

Notification to the apparent successful bidder will be made by the State as soon as possible after the receipt of bids, that such bidder's bid appears to be the lowest and best bid received that conforms to the requirement of this Official Notice of Sale, subject to verification. Upon such notice, such successful bidder shall advise the State of the Initial Reoffering Prices (as hereinafter defined) of the various maturities of the Bonds as described below. Such Initial Reoffering Prices, among other things, will be used by the State to calculate the Final Amounts, as defined below (see "Changes to Revised Principal Amounts").

ALL BIDS SHALL REMAIN FIRM UNTIL 5:00 P.M., EASTERN TIME, ON THE DATE OF THE RECEIPT OF BIDS. An award of the Bonds, if made, will be made by or on behalf of the State by such time. Unless all bids are rejected, the Bonds will be awarded to the bidder whose bid results in the lowest true interest cost to the State for the Bonds combined, based on the Revised Amounts, as defined below (see "Changes to Preliminary Principal Amounts"). The true interest cost (expressed as an annual interest rate) will be determined as being twice that factor or discount rate, compounded semi-annually, which, when applied against each semi-annual debt service payment (interest, or principal and interest, as due, including any mandatory sinking fund payment) for the Bonds, will equate the sum of such discounted semi-annual payments to the total purchase price. In case of a tie, the General Treasurer on behalf of the State may select the successful bidder. The General Treasurer on behalf of the State reserves the right to waive irregularities in any bid or the bidding process and to reject any or all bids.

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* *Preliminary, subject to change.*

CHANGES TO THE NOTICE OF SALE, BID DATE, CLOSING DATE, PRINCIPAL AMOUNTS

Changes to the Notice of Sale, Bid Date and Closing Date

The State expects to take bids on the Bonds on April 28, 2016. However, the State reserves the right to change, from time to time, the date and/or time established for the receipt of bids and will undertake to notify registered prospective bidders via notification published on Thomson Municipal Market Monitor ("TM3") (www.tm3.com). Prospective bidders may request notification by facsimile transmission of any such changes in the date or time for the receipt of bids by so advising, and furnishing their facsimile numbers to, Public Resources Advisory Group at (212) 566-7816 by 12 Noon, Eastern Time, two days prior to the date fixed for the receipt of bids.

A change of the bid date and/or time will be announced via TM3 not later than 9:30 a.m., Eastern Time, on any announced date for receipt of bids, and an alternative sale date and time will be announced via TM3 at least 20 hours prior to such alternative date and time for receipt of bids.

On any such alternative date and time for receipt of bids, the State will accept electronic bids for the purchase of the Bonds, such bids to conform in all respects to the provisions of this Official Notice of Sale, except for the changes in the date and time for receipt of bids and any other changes announced via TM3 at the time that the new date and time for receipt of bids are announced.

The State may change the scheduled delivery date for the Bonds by notice given in the same manner as that set forth for a change in the date for the receipt of bids. See "Delivery of the Bonds" hereinafter. In addition, any other information in connection with the offer and sale of the Bonds will be given to prospective bidders via TM3 not later than 9:30 AM EDT on the announced date for receipt of bids, and any such supplemental information shall be deemed a part of this Notice of Sale.

Changes to Preliminary Principal Amounts

The preliminary aggregate principal amount of the Bonds and the preliminary annual principal amounts as set forth in this Official Notice of Sale (the "Preliminary Aggregate Principal Amount" and the "Preliminary Annual Principal Amounts," respectively, and collectively, the "Preliminary Amounts") may be revised before the date established for submission of electronic bids. **ANY SUCH REVISIONS (THE "REVISED AGGREGATE PRINCIPAL AMOUNT" AND THE "REVISED ANNUAL PRINCIPAL AMOUNTS," RESPECTIVELY, AND COLLECTIVELY, THE "REVISED AMOUNTS") WILL BE PUBLISHED AS AN AMENDMENT TO THE OFFICIAL NOTICE OF SALE AND DISTRIBUTED ON TM3 NO LATER THAN 9:30 A.M., EASTERN TIME, ON ANY ANNOUNCED DATE FOR RECEIPT OF BIDS.** In the event that no such revisions are made, the Preliminary Amounts will constitute the Revised Amounts. BIDDERS SHALL SUBMIT BIDS BASED ON THE REVISED AMOUNTS. Prospective bidders may request notification by facsimile transmission of any such changes in the Preliminary Amounts by so advising, and furnishing their facsimile numbers or email addresses to Public Resources Advisory Group at (212) 566-7816 by 12 Noon, Eastern Time, on the day prior to the announced date for receipt of bids.

Changes to Revised Principal Amounts

After selecting the winning bid, the State may adjust the Revised Aggregate Principal Amount and the Revised Annual Principal Amount of each maturity of the Bonds. In determining the final aggregate principal amount of the Bonds and each final annual principal amount (the "Final Aggregate Principal Amount" and the "Final Annual Principal Amounts," respectively, and collectively, the "Final Amounts"), the State will not increase or reduce the aggregate principal amount of each series of Bonds by more than 15% of such amount. **THE SUCCESSFUL BIDDER MAY NOT WITHDRAW ITS BID OR CHANGE THE INTEREST RATES BID OR THE INITIAL REOFFERING PRICES AS A RESULT OF ANY CHANGES MADE TO THE REVISED AMOUNTS WITHIN THESE LIMITS.** The dollar amount bid by the successful bidder will be adjusted to reflect changes in the aggregate principal amounts of the Bonds. Such adjusted bid price will reflect changes in the dollar amount of the underwriter's discount and the original issue discount/premium, if any, but will not change the selling compensation per $1,000 of par amount of the Series A Bonds and of the Series C Bonds from the selling compensation that would have been received based on the purchase price in the winning bid and the Initial Reoffering Prices. The interest rate specified by the successful bidder for each maturity at the Initial Reoffering Prices will not change. The Final Amounts and the adjusted bid price will be communicated to the successful bidder within 24 hours after the receipt of the Initial Reoffering Prices from the successful bidder.

MISCELLANEOUS; CLOSING

Undertakings of the Successful Bidder

The successful bidder shall make a bona fide public offering of the Bonds and shall, within 30 minutes after being notified of the award of the Bonds, advise the State in writing (via facsimile transmission) of the initial public offering prices of the Bonds (the "Initial Reoffering Prices"). The successful bidder must, by facsimile transmission or delivery received by the State within 24 hours after notification of the award, furnish the following information to the State to complete the Preliminary Official Statement in final form (the "Final Official Statement"):

A. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all Bonds are sold at the Initial Reoffering Prices).
B. The identity of the underwriters if the successful bidder is part of a group or syndicate.
C. Any other material information that the State determines is necessary to complete the Final Official Statement.

After the award of the Bonds, the State will prepare copies of the Final Official Statement and will include therein such additional information concerning the reoffering of the Bonds as the successful bidder may reasonably request; provided, however, that the State will not include in the Final Official Statement a "NRO" ("not reoffered") designation with respect to any maturity of the Bonds. The successful bidder will be responsible to the State in all aspects for the accuracy and completeness of information provided by such successful bidder with respect to such reoffering.

Simultaneously with the delivery of the Bonds, the successful bidder shall furnish to the State a certificate (an "Issue Price Certificate") to the effect (i) that the successful bidder has made a bona fide offering of each maturity of the Bonds to the Public (as defined below) at its respective Initial Reoffering Price, (ii) that, except for any specified maturities (each a "Specified

Maturity"), at least ten percent (10%) of the par amount of each maturity of the Bonds was actually sold to the Public at its respective Initial Reoffering Price, (iii) that, for the Bonds of each Specified Maturity, (A) the successful bidder shall certify that it was its reasonable expectation as of the sale date of the Bonds that at least ten percent (10%) of the par amount of the Bonds of the Specified Maturity would be sold to the Public at its respective Initial Reoffering Price and (B) provide a statement as to why such expectation was not satisfied, and (iv) that the respective Initial Reoffering Price for each maturity of the Bonds was not less than the fair market value of such maturity as of the date of the sale of the Bonds, or such other facts regarding the actual sale of the Bonds as shall be acceptable to the State and Hinckley, Allen & Snyder LLP, Providence, Rhode Island, bond counsel to the State ("Bond Counsel"). Bond Counsel advises that (i) the Issue Price Certificate must be made on the best knowledge, information and belief of the successful bidder and (ii) reliance on facts other than those specified above as a basis for any certification in the Issue Price Certificate will require evaluation by the State and Bond Counsel to assure compliance with the statutory requirement to avoid the establishment of an artificial price for the Bonds. The term "Public" means the general public of investors who are purchasing for their own account as ultimate purchasers and does not include bond houses, brokers and similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers.

The State expects the successful bidder to deliver copies of such Final Official Statement to persons to whom such bidder initially sells the Bonds, the Municipal Securities Rulemaking Board ("MSRB"). The successful bidder will be required to acknowledge receipt of such Final Official Statement, to certify that it has made delivery of the Final Official Statement to the MSRB and such repositories, to acknowledge that the State expects the successful bidder to deliver copies of such Final Official Statement to persons to whom such bidder initially sells the Bonds and to certify that the Bonds will only be offered pursuant to the Final Official Statement and only in states where the offer is legal.

Bond Insurance

In the event that the successful bidder has on its own obtained a commitment for a municipal bond insurance policy or other credit enhancement, the General Treasurer shall indicate in the Final Official Statement those maturities that the successful bidder has informed the General Treasurer are expected to be covered by credit enhancement. The purchase of any such credit enhancement shall be at the sole option and expense of the successful bidder. The General Treasurer will also indicate within the Final Official Statement that further information concerning such potential credit enhancement may be obtained through the successful bidder. The General Treasurer will not include the identity of the potential credit enhancer or other information with respect to the potential credit enhancer in the Final Official Statement. In addition, the General Treasurer will not place a statement of insurance on the Bonds or provide such documentation, or make such covenants or arrangements, as would customarily be provided, made or arranged if the General Treasurer were to obtain a commitment for municipal bond insurance or other credit enhancement on behalf of the State.

If the successful bidder obtains a municipal bond insurance policy or other form of credit enhancement, at the same time it provides the Initial Reoffering Prices it shall advise the General Treasurer of the cost of such credit enhancement. At or before the closing of the Bonds, the successful bidder shall provide to the General Treasurer a certificate certifying that (i) the present value of the fees paid for such credit enhancement are less than the present value of the interest reasonably expected to be saved as a result of obtaining such credit enhancement, using the yield

on the Bonds (determined with regard to the payments for such credit enhancement) as the discount factor for this purpose, and (ii) to the best of its knowledge, such fees were obtained in arm's length negotiations and do not exceed a reasonable charge for the transfer of credit risk. In addition, the successful bidder will cooperate with the General Treasurer to obtain the necessary certifications from the credit enhancement provider. Failure of the Bonds to be so insured or of any such policy to be issued shall not in any manner relieve the successful bidder of its contractual obligations arising from the acceptance of its bid for the purchase of the Bonds.

Delivery of the Bonds

The Bonds are expected to be delivered on or about May 10, 2016 in New York City through the facilities of DTC against payment of the purchase price therefor (less the amount of the good faith deposit) in Federal Reserve Bank Funds.

There will also be furnished the usual closing papers including (1) a certificate of the Attorney General of the State of Rhode Island stating that no litigation is pending or, to his knowledge, threatened seeking to restrain or enjoin the issuance or delivery of the Bonds, in any way contesting or affecting any authority for or validity of the Bonds or in any way contesting the power of the Governor or the General Treasurer to sell the Bonds and (2) certificates of the General Treasurer and the Director of Administration that, except for the initial offering prices or yields of the Bonds on the inside cover page of the Final Official Statement and any other information concerning the reoffering of the Bonds included therein at the request of the successful bidder and the information in the Preliminary Official Statement and Final Official Statement under the heading "DESCRIPTION OF THE BONDS-Book-Entry-Only System", "TAX STATUS" and in Appendix B as to which no representations or warranties are to be made, to the best of their respective knowledge and belief, the Preliminary Official Statement and the Final Official Statement, both as of the dates thereof, as of the date of sale and the date of delivery of the Bonds, did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the Preliminary Official Statement, the Official Statement or the statements and information therein contained, in light of the circumstances under which they were made, not misleading.

Legal Opinion

The approving opinion of Hinckley, Allen & Snyder LLP, Providence, Rhode Island, Bond Counsel, in substantially the form set forth in the Preliminary Official Statement, will be furnished without cost to the successful bidder. The Preliminary Official Statement contains a discussion of the matters covered by the opinion.

CUSIP Numbers

CUSIP numbers will be applied for by the successful bidder with respect to the Bonds. There will be separate CUSIP numbers for each series of Bonds. The State will assume no obligation for the assignment or printing of such numbers on the Bonds or for the correctness of such numbers, and neither the failure to print such numbers on any Series A Bond or on any Series C Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder to accept delivery of and make payment for the Bonds.

Official Statement

The Preliminary Official Statement dated as of the date hereof (the "Preliminary Official Statement") and the information contained therein have been deemed final by the State as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12") with permitted omissions, but is subject to change without notice and to completion or amendment in the Final Official Statement.

The State, at its expense, will make available to the successful bidder a reasonable number of Final Official Statements, for delivery to each potential investor requesting a copy of the Final Official Statement and to each person to whom such bidder and members of its bidding group initially sell the Bonds, within seven (7) business days of the award of the Bonds, provided that the successful bidder cooperates in providing the information required to complete the Final Official Statement.

The successful bidder shall comply with the requirements of Rule 15c2-12 and the rules of the MSRB, including its obligation to provide information to the State in a timely basis for the Final Official Statement.

Continuing Disclosure

In order to assist bidders in complying with Rule 15c2-12, the State will undertake, pursuant to a Continuing Disclosure Agreement, to provide certain annual financial information and operating data and notices of the occurrence of certain events. A description of the undertakings is set forth in the Preliminary Official Statement and also will be set forth in the Final Official Statement.

Additional Information

For further information relating to the Bonds, reference is made to the Preliminary Official Statement prepared for and authorized by the State. The Preliminary Official Statement may be obtained via the Internet at www.i-dealprospectus.com. Copies are available upon request from the undersigned at the Office of the General Treasurer, 102 State House, Providence, RI 02908 (telephone (401) 222-4780; facsimile (401) 222-6140) or from the financial advisor, Public Resources Advisory Group, 39 Broadway, Suite 1210, New York, NY 10006 (telephone (212) 566-7800; facsimile (212) 566-7816).

Dated: April 19, 2016

State of Rhode Island and Providence Plantations
By: Seth Magaziner, General Treasurer
By: Michael DiBiase, Director of Administration

APPENDIX E

OFFICIAL NOTICE OF SALE DATED APRIL 19, 2016 FOR SERIES B BONDS

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OFFICIAL NOTICE OF SALE

$13,165,000*
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
General Obligation Bonds
Consolidated Capital Development Loan of 2016, Series B (Federally Taxable)

Electronic Bids, exclusively through the system of PARITY® Competitive Bidding System ("PARITY®"), will be received by the State of Rhode Island and Providence Plantations (the "State"), for the purchase of all, and not less than all, of the $13,165,000* General Obligation Bonds Consolidated Capital Development Loan of 2016, Series B (Federally Taxable) (the "Bonds") until 11:15 a.m., Eastern Time, on April 28, 2016, (unless postponed or changed as described herein).

THE BONDS

Authorization and Security

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.

Book Entry Only

The Bonds will be dated the date of delivery. Interest on the Bonds will be calculated on a 30/360 day basis and will be payable semiannually on May 1 and November 1, commencing November 1, 2016. The Bonds will be issued only as fully registered bonds in book entry form payable to a nominee of The Depository Trust Company, New York, New York ("DTC"), as securities depository for the Bonds. Reference is made to the Preliminary Official Statement, as defined herein, for the applicable provisions relating to the transfer of beneficial ownership, manner of redemption, the responsibilities of DTC participants and the right of the State to discontinue the book entry only system.

Maturity Schedule

Principal of the Bonds will be paid (subject to the right of prior redemption) through serial maturities and/or term maturities with annual sinking fund redemptions on the following dates and in the following amounts.

May 1	Series B Bonds*
2017	$2,575,000
2018	2,590,000
2019	2,625,000
2020	2,665,000
2021	2,710,000

* *Preliminary,subject to change.*

Term Bonds

The successful bidder may provide in the bid form for all of the Bonds to be issued as serial bonds or may designate consecutive annual principal amounts of the Bonds to be combined into term bonds. For the Bonds, each such term bond shall be subject to mandatory sinking fund redemption commencing on May 1 of the first year which has been combined to form such term bond and continuing on May 1 in each year thereafter until the stated maturity date of that term bond. The amount redeemed in any year shall be equal to the principal amount for such year set forth in the amortization schedule, as adjusted in accordance with the provisions described below under the caption "Changes to Revised Principal Amounts." The Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot or otherwise according to DTC procedures from among the Bonds of the same maturity, as described in the Preliminary Official Statement.

Optional Redemption

The Bonds are not subject to optional redemption prior to their maturity.

ELECTRONIC BIDDING AND BIDDING PROCEDURES

Registration to Bid

All prospective bidders must be contracted customers of *PARITY*®. To become a customer, contact *PARITY*® at (212) 849-5021. By submitting a bid for the Bonds, a prospective bidder represents and warrants to the State that such bidder's bid for the purchase of the Bonds is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder to a legal, valid and enforceable contract for the purchase of the Bonds.

Notice is hereby given that electronic proposals will be received via *PARITY*®, in the manner described below, until 11:15 a.m., Eastern Time, on April 28, 2016. Bids may be submitted electronically via *PARITY*® pursuant to this Notice until 11:15 a.m., Eastern Time, but no bid will be received after the time for receiving bids specified above. To the extent any instructions or directions set forth in *PARITY*® conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further information about *PARITY*®, potential bidders may contact *PARITY*® at (212) 849-5021.

Disclaimer

Each prospective bidder shall be solely responsible to register to bid via *PARITY*®. Each qualified prospective bidder shall be solely responsible to make necessary arrangements to access *PARITY*® for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale. Neither the State nor *PARITY*® shall have any duty or obligation to undertake such registration to bid for any prospective bidder or to provide or assure such access to any qualified prospective bidder, and neither the State nor *PARITY*® shall be responsible for a bidder's failure to register to bid or for proper operation of *PARITY*®, or have any liability for any delays or interruptions of, or any damages caused by, *PARITY*®. The State is using *PARITY*® as a communication mechanism, and not as the State's agent, to conduct the electronic bidding for the Bonds. The State has no liability for any errors in, or any other failures of, the

electronic bidding system, and each bidder agrees to hold the State harmless against any claims related to or arising from such bidder's use of or involvement in the bidding process. The State is not bound by any advice and determination of *PARITY*® to the effect that any particular bid complies with the terms of this Official Notice of Sale and in particular the "Bid Specifications" hereinafter set forth. All costs and expenses incurred by prospective bidders in connection with their registration and submission of bids via *PARITY*® are the sole responsibility of the bidders, and the State is not responsible, directly or indirectly, for any such costs or expenses. If a prospective bidder encounters any difficulty in registering to bid or submitting, modifying or withdrawing a bid for the Bonds, it should telephone *PARITY*® at (212) 849-5021 and notify the Office of the General Treasurer by facsimile transmission at (401) 222-6140.

Bidding Procedures

Bids must be submitted electronically for the purchase of the Bonds (all or none) by means of the State AON Bid Form (the "Bid Form") via *PARITY*® by 11:15 a.m., Eastern Time, on April 28, 2016, unless postponed or changed as described herein (see "Change of Bid Date and Closing Date" and "Changes to Preliminary Principal Amounts"). Prior to that time, a prospective bidder may input and save proposed terms of its bid in *PARITY*®. Once the final bid has been saved in *PARITY*®, the bidder may select the final bid button in *PARITY*® to submit the bid to *PARITY*®. Once the bids are communicated electronically via *PARITY*® to the State, each bid will constitute an irrevocable offer to purchase the Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on *PARITY*® shall constitute the official time. For information purposes only, bidders are requested to state in their bids the true interest cost to the State, as described under "Award of the Bonds" below, represented by the rate or rates of interest and the bid price specified in their respective bids.

No bids will be accepted in written form, by facsimile transmission or in any other medium or on any system other than by means of the Bid Form via *PARITY*®. No bid will be received after the time for receiving such bids specified above.

Bid Specifications

Each bidder is required to transmit electronically by means of the Bid Form via PARITY® an unconditional bid specifying the rate or rates of interest and the price at which the bidder will purchase the Bonds. Each proposal for the Bonds must specify the amount bid for such Bonds not less than 100.3% of the par value of the aggregate principal amount of the Bonds based on the Revised Amounts as described below. Bidders are invited to name the rate or rates of interest that the Bonds are to bear, in multiples of 1/1000 of one percent. Each bidder must specify in its bid a single rate for each maturity of the Bonds. Any number of rates may be named, provided that no interest rate for any maturity may exceed 5.00%. No bid for other than all of the Bonds will be considered. All bids must be unconditional.

Good Faith Deposit

A good faith deposit in the amount of $131,000* (the "Deposit") is required in connection with the sale and bid for the Bonds. The Deposit may be provided for by a Federal funds wire transfer to be submitted to the State by the successful bidder not later than 4:00 p.m. (Eastern Time) on the date of sale (the "Wire Transfer Deadline") as set forth below under "Wire

* *Preliminary, subject to change.*

Transfers". The Deposit of the successful bidder will be collected and the proceeds thereof retained by the State to be applied in partial payment for the Bonds and no interest will be allowed or paid upon the amount thereof, but in the event the successful bidder shall fail to comply with the terms of the respective bid, the proceeds thereof will be retained as and for full liquidated damages.

Wire Transfers. The State will distribute wiring instructions for the Deposit to the successful bidder upon verification of the bids submitted by the bidders and prior to the Wire Transfer Deadline. If the Deposit is not received by the Wire Transfer Deadline, the award of the sale of the Bonds to the successful bidder may be cancelled by the State in its discretion without any financial liability of the State to the successful bidder or any limitation whatsoever on the State's right to sell the Bonds to a different purchaser upon such terms and conditions as the State shall deem appropriate.

Award of the Bonds

Notification to the apparent successful bidder will be made by the State as soon as possible after the receipt of bids, that such bidder's bid appears to be the lowest and best bid received that conforms to the requirement of this Official Notice of Sale, subject to verification. Upon such notice, such successful bidder shall advise the State of the Initial Reoffering Prices (as hereinafter defined) of the various maturities of the Bonds as described below. Such Initial Reoffering Prices, among other things, will be used by the State to calculate the Final Amounts, as defined below (see "Changes to Revised Principal Amounts").

ALL BIDS SHALL REMAIN FIRM UNTIL 5:00 P.M., EASTERN TIME, ON THE DATE OF THE RECEIPT OF BIDS. An award of the Bonds, if made, will be made by or on behalf of the State by such time. Unless all bids are rejected, the Bonds will be awarded to the bidder whose bid results in the lowest true interest cost to the State for the Bonds combined, based on the Revised Amounts, as defined below (see "Changes to Preliminary Principal Amounts"). The true interest cost (expressed as an annual interest rate) will be determined as being twice that factor or discount rate, compounded semi-annually, which, when applied against each semi-annual debt service payment (interest, or principal and interest, as due, including any mandatory sinking fund payment) for the Bonds, will equate the sum of such discounted semi-annual payments to the total purchase price. In case of a tie, the General Treasurer on behalf of the State may select the successful bidder. The General Treasurer on behalf of the State reserves the right to waive irregularities in any bid or the bidding process and to reject any or all bids.

CHANGES TO THE NOTICE OF SALE, BID DATE, CLOSING DATE, PRINCIPAL AMOUNTS

Changes to the Notice of Sale, Bid Date and Closing Date

The State expects to take bids on the Bonds on April 28, 2016. However, the State reserves the right to change, from time to time, the date and/or time established for the receipt of bids and will undertake to notify registered prospective bidders via notification published on Thomson Municipal Market Monitor ("TM3") (www.tm3.com). Prospective bidders may request notification by facsimile transmission of any such changes in the date or time for the receipt of bids by so advising, and furnishing their facsimile numbers to, Public Resources Advisory Group at (212) 566-7816 by 12 Noon, Eastern Time, two days prior to the date fixed for the receipt of bids.

A change of the bid date and/or time will be announced via TM3 not later than 9:30 a.m., Eastern Time, on any announced date for receipt of bids, and an alternative sale date and time will be announced via TM3 at least 20 hours prior to such alternative date and time for receipt of bids.

On any such alternative date and time for receipt of bids, the State will accept electronic bids for the purchase of the Bonds, such bids to conform in all respects to the provisions of this Official Notice of Sale, except for the changes in the date and time for receipt of bids and any other changes announced via TM3 at the time that the new date and time for receipt of bids are announced.

The State may change the scheduled delivery date for the Bonds by notice given in the same manner as that set forth for a change in the date for the receipt of bids. See "Delivery of the Bonds" hereinafter. In addition, any other information in connection with the offer and sale of the Bonds will be given to prospective bidders via TM3 not later than 9:30 AM EDT on the announced date for receipt of bids, and any such supplemental information shall be deemed a part of this Notice of Sale.

Changes to Preliminary Principal Amounts

The preliminary aggregate principal amount of the Bonds and the preliminary annual principal amounts as set forth in this Official Notice of Sale (the "Preliminary Aggregate Principal Amount" and the "Preliminary Annual Principal Amounts," respectively, and collectively, the "Preliminary Amounts") may be revised before the date established for submission of electronic bids. **ANY SUCH REVISIONS (THE "REVISED AGGREGATE PRINCIPAL AMOUNT" AND THE "REVISED ANNUAL PRINCIPAL AMOUNTS," RESPECTIVELY, AND COLLECTIVELY, THE "REVISED AMOUNTS") WILL BE PUBLISHED AS AN AMENDMENT TO THE OFFICIAL NOTICE OF SALE AND DISTRIBUTED ON TM3 NO LATER THAN 9:30 A.M., EASTERN TIME, ON ANY ANNOUNCED DATE FOR RECEIPT OF BIDS.** In the event that no such revisions are made, the Preliminary Amounts will constitute the Revised Amounts. BIDDERS SHALL SUBMIT BIDS BASED ON THE REVISED AMOUNTS. Prospective bidders may request notification by facsimile transmission of any such changes in the Preliminary Amounts by so advising, and furnishing their facsimile numbers or email addresses to Public Resources Advisory Group at (212) 566-7816 by 12 Noon, Eastern Time, on the day prior to the announced date for receipt of bids.

Changes to Revised Principal Amounts

After selecting the winning bid, the State may adjust the Revised Aggregate Principal Amount and the Revised Annual Principal Amount of each maturity of the Bonds. In determining the final aggregate principal amount of the Bonds and each final annual principal amount (the "Final Aggregate Principal Amount" and the "Final Annual Principal Amounts," respectively, and collectively, the "Final Amounts"), the State will not increase or reduce the aggregate principal amount of the Bonds by more than 15% of such amount. **THE SUCCESSFUL BIDDER MAY NOT WITHDRAW ITS BID OR CHANGE THE INTEREST RATES BID OR THE INITIAL REOFFERING PRICES AS A RESULT OF ANY CHANGES MADE TO THE REVISED AMOUNTS WITHIN THESE LIMITS.** The dollar amount bid by the successful bidder will be adjusted to reflect changes in the aggregate principal amounts of the Bonds. Such adjusted bid price will reflect changes in the dollar amount of the underwriter's discount and the

original issue discount/premium, if any, but will not change the selling compensation per $1,000 of par amount of the Bonds from the selling compensation that would have been received based on the purchase price in the winning bid and the Initial Reoffering Prices. The interest rate specified by the successful bidder for each maturity at the Initial Reoffering Prices will not change. The Final Amounts and the adjusted bid price will be communicated to the successful bidder within 24 hours after the receipt of the Initial Reoffering Prices from the successful bidder.

MISCELLANEOUS; CLOSING

Undertakings of the Successful Bidder

The successful bidder shall make a bona fide public offering of the Bonds and shall, within 30 minutes after being notified of the award of the Bonds, advise the State in writing (via facsimile transmission) of the initial public offering prices of the Bonds (the "Initial Reoffering Prices"). The successful bidder must, by facsimile transmission or delivery received by the State within 24 hours after notification of the award, furnish the following information to the State to complete the Preliminary Official Statement in final form (the "Final Official Statement"):

A. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all Bonds are sold at the Initial Reoffering Prices).
B. The identity of the underwriters if the successful bidder is part of a group or syndicate.
C. Any other material information that the State determines is necessary to complete the Final Official Statement.

After the award of the Bonds, the State will prepare copies of the Final Official Statement and will include therein such additional information concerning the reoffering of the Bonds as the successful bidder may reasonably request; provided, however, that the State will not include in the Final Official Statement a "NRO" ("not reoffered") designation with respect to any maturity of the Bonds. The successful bidder will be responsible to the State in all aspects for the accuracy and completeness of information provided by such successful bidder with respect to such reoffering.

The State expects the successful bidder to deliver copies of such Final Official Statement to persons to whom such bidder initially sells the Bonds, the Municipal Securities Rulemaking Board ("MSRB"). The successful bidder will be required to acknowledge receipt of such Final Official Statement, to certify that it has made delivery of the Final Official Statement to the MSRB and such repositories, to acknowledge that the State expects the successful bidder to deliver copies of such Final Official Statement to persons to whom such bidder initially sells the Bonds and to certify that the Bonds will only be offered pursuant to the Final Official Statement and only in states where the offer is legal.

Bond Insurance

In the event that the successful bidder has on its own obtained a commitment for a municipal bond insurance policy or other credit enhancement, the General Treasurer shall indicate in the Final Official Statement those maturities that the successful bidder has informed the General Treasurer are expected to be covered by credit enhancement. The purchase of any such credit enhancement shall be at the sole option and expense of the successful bidder. The General Treasurer will also indicate within the Final Official Statement that further information concerning such potential credit enhancement may be obtained through the successful bidder. The General

Treasurer will not include the identity of the potential credit enhancer or other information with respect to the potential credit enhancer in the Final Official Statement. In addition, the General Treasurer will not place a statement of insurance on the Bonds or provide such documentation, or make such covenants or arrangements, as would customarily be provided, made or arranged if the General Treasurer were to obtain a commitment for municipal bond insurance or other credit enhancement on behalf of the State.

If the successful bidder obtains a municipal bond insurance policy or other form of credit enhancement, at the same time it provides the Initial Reoffering Prices it shall advise the General Treasurer of the cost of such credit enhancement. At or before the closing of the Bonds, the successful bidder shall provide to the General Treasurer a certificate certifying that (i) the present value of the fees paid for such credit enhancement are less than the present value of the interest reasonably expected to be saved as a result of obtaining such credit enhancement, using the yield on the Bonds (determined with regard to the payments for such credit enhancement) as the discount factor for this purpose, and (ii) to the best of its knowledge, such fees were obtained in arm's length negotiations and do not exceed a reasonable charge for the transfer of credit risk. In addition, the successful bidder will cooperate with the General Treasurer to obtain the necessary certifications from the credit enhancement provider. Failure of the Bonds to be so insured or of any such policy to be issued shall not in any manner relieve the successful bidder of its contractual obligations arising from the acceptance of its bid for the purchase of the Bonds.

Delivery of the Bonds

The Bonds are expected to be delivered on or about May 10, 2016 in New York City through the facilities of DTC against payment of the purchase price therefor (less the amount of the good faith deposit) in Federal Reserve Bank Funds.

There will also be furnished the usual closing papers including (1) a certificate of the Attorney General of the State of Rhode Island stating that no litigation is pending or, to his knowledge, threatened seeking to restrain or enjoin the issuance or delivery of the Bonds, in any way contesting or affecting any authority for or validity of the Bonds or in any way contesting the power of the Governor or the General Treasurer to sell the Bonds and (2) certificates of the General Treasurer and the Director of Administration that, except for the initial offering prices or yields of the Bonds on the inside cover page of the Final Official Statement and any other information concerning the reoffering of the Bonds included therein at the request of the successful bidder and the information in the Preliminary Official Statement and Final Official Statement under the heading "DESCRIPTION OF THE BONDS-Book-Entry-Only System", "TAX STATUS" and in Appendix B as to which no representations or warranties are to be made, to the best of their respective knowledge and belief, the Preliminary Official Statement and the Final Official Statement, both as of the dates thereof, as of the date of sale and the date of delivery of the Bonds, did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the Preliminary Official Statement, the Official Statement or the statements and information therein contained, in light of the circumstances under which they were made, not misleading.

Legal Opinion

The approving opinion of Hinckley, Allen & Snyder LLP, Providence, Rhode Island, Bond Counsel, in substantially the form set forth in the Preliminary Official Statement, will be furnished

without cost to the successful bidder. The Preliminary Official Statement contains a discussion of the matters covered by the opinion.

Federal Tax Status of the Bonds

Interest on the Bonds is not excludable from gross income of the owners hereof for Federal income tax purposes.

CUSIP Numbers

CUSIP numbers will be applied for by the successful bidder with respect to the Bonds. The State will assume no obligation for the assignment or printing of such numbers on the Bonds or for the correctness of such numbers, and neither the failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder to accept delivery of and make payment for the Bonds.

Official Statement

The Preliminary Official Statement dated as of the date hereof (the "Preliminary Official Statement") and the information contained therein have been deemed final by the State as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12") with permitted omissions, but is subject to change without notice and to completion or amendment in the Final Official Statement.

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Dated: April 19, 2016

State of Rhode Island and Providence Plantations
By: Seth Magaziner, General Treasurer
By: Michael DiBiase, Director of Administration

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