

In the opinion of Partridge Snow & Hahn LLP, special counsel, under existing law, and assuming compliance with certain provisions of the Internal Revenue Code of 1986, as amended, and except as otherwise described herein, the portion of the 2017 Series A Lease Payments, the 2017 Series B Lease Payments, the 2017 Series C Lease Payments, the 2017 Series D Lease Payments and the 2017 Series E Lease Payments (collectively, the "Lease Payments") distributable respectively to Owners of the 2017 Series A Certificates, the 2017 Series B Certificates, the 2017 Series C Certificate, the 2017 Series D Certificates and 2017 Series E Certificates (collectively, the "Certificates") as interest to the extent such Lease Payments are appropriated by the State and received by the Owners of the Certificates is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference for purposes of computing the federal alternative minimum tax. However, the portion of each payment distributable to Owners of the Certificates as interest will be taken into account in computing an adjustment made in determining a corporate Certificate Owner's minimum tax based on such Owner's adjusted current earnings. The portion of each of the Lease Payments distributable to Owners of the Certificates as interest is excludable from gross income for Rhode Island personal income tax purposes to the extent that such interest is excludable from gross income for federal income tax purposes. See "TAX STATUS" and APPENDIX C — "Proposed Forms of Legal Opinion" herein.

\$9,050,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Lease Participation Certificates (Nursing Education Center Project - 2017 Series A)

\$6,910,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Lease Participation Certificates (URI Energy Conservation Project - 2017 Series B)

\$5,005,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Lease Participation Certificates (Energy Conservation Project - 2017 Refunding Series C)

\$19,635,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Lease Participation Certificates (School for the Deaf Project – 2017 Refunding Series D)

\$8,000,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Lease Participation Certificates (Central Power Plant Project - 2017 Refunding Series E)



Dated: Date of Delivery

Due: As shown on the inside front cover

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

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

The principal of the 2017 Series A Certificates is payable on June 1 of each year as set forth on the inside cover hereof and interest thereon is payable on June 1 and December 1 of each year commencing December 1, 2017. The principal of the 2017 Series B Certificates is payable on June 1 of each year as set forth on the inside cover hereof and interest thereon is payable on June 1 and December 1 of each year commencing December 1, 2017. The principal of the 2017 Series C Certificates is payable on May 1 of each year as set forth on the inside cover hereof and interest thereon is payable on May 1 and November 1 of each year commencing November 1, 2017. The principal of the 2017 Series D Certificates is payable on April 1 of each year as set forth on the inside cover hereof and interest thereon is payable on April 1 and October 1 of each year commencing October 1, 2017. The principal of the 2017 Series E Certificates is payable on October 1 of each year as set forth on the inside cover hereof and interest thereon is payable on April 1 and October 1 of each year commencing October 1, 2017. So long as DTC is the registered owner of the Certificates, principal and interest are payable to DTC by the Trustee, as paying agent.

The Certificates are subject to special mandatory redemption prior to maturity as more fully described herein. (See "DESCRIPTION OF THE CERTIFICATES - Special Mandatory Redemption" herein.) In addition, the 2017 Series B Certificates and the 2017 Series D Certificates are subject to optional redemption as more fully described herein. (See "DESCRIPTION OF THE CERTIFICATES - Optional Redemption of 2017 Series B Certificates and 2017 Series D Certificates" herein.) The 2017 Series A Certificates, the 2017 Series C Certificates and the 2017 Series E Certificates are not subject to optional redemption.

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

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

The Certificates are offered when, as and if issued by the State and received by the original purchasers, subject to receipt of the approving legal opinions of Partridge Snow & Hahn LLP, Providence, Rhode Island, as special counsel. Certain other legal matters will be passed upon for the State by the Attorney General of the State and, with respect to the 2017 Series D Certificates by Legal Counsel to the Council for Elementary and Secondary Education, and for the Underwriters by their counsel Harrington & Vitale, Ltd., Providence, Rhode Island. Certain matters will be passed upon for the State by Adler Pollock & Sheehan P.C., Providence, Rhode Island, as disclosure counsel. Public Resources Advisory Group, New York, New York is serving as financial advisor to the State in this transaction. It is expected that delivery of the 2017 Series A Certificates, 2017 Series B Certificates, 2017 Series C Certificates and 2017 Series D Certificates in definitive form will be available through the facilities of DTC in New York, New York on or about June 21, 2017 and that the 2017 Series E Certificates in definitive form will be available through the facilities of DTC in New York, New York on or about July 6, 2017.

BofA Merrill Lynch

J.P. Morgan

Morgan Stanley

Raymond James

MATURITY SCHEDULE
Maturities, Amounts, Interest Rates, Yields and CUSIPs[†]

\$9,050,000 Lease Participation Certificates
(Nursing Education Center Project - 2017 Series A)

Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	CUSIP[†]
2018	\$740,000	5.00%	0.90%	76222WKF7
2019	755,000	5.00	1.01	76222WKG5
2020	790,000	5.00	1.12	76222WKH3
2021	830,000	5.00	1.26	76222WKJ9
2022	875,000	5.00	1.44	76222WKK6
2023	915,000	5.00	1.57	76222WKL4
2024	960,000	5.00	1.74	76222WKM2
2025	1,010,000	5.00	1.94	76222WKN0
2026	1,060,000	5.00	2.16	76222WKP5
2027	1,115,000	5.00	2.31	76222WKQ3

\$6,910,000 Lease Participation Certificates
(URI Energy Conservation Project - 2017 Series B)

Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	CUSIP[†]
2020	\$390,000	5.00%	1.12%	76222WKR1
2021	410,000	5.00	1.26	76222WKS9
2022	430,000	5.00	1.44	76222WKT7
2023	450,000	5.00	1.57	76222WKU4
2024	475,000	5.00	1.74	76222WKV2
2025	500,000	5.00	1.94	76222WKW0
2026	525,000	5.00	2.16	76222WKX8
2027	550,000	5.00	2.31	76222WKY6
2028	575,000	5.00	2.41*	76222WKZ3
2029	605,000	5.00	2.51*	76222WLA7
2030	635,000	5.00	2.60*	76222WLB5
2031	665,000	5.00	2.67*	76222WLC3
2032	700,000	3.00	3.04	76222WLD1

*Priced at the stated yield to the first optional call date of June 1, 2027 at a redemption price of 100%.

[†] CUSIP® is a registered trademark of the American Bankers Association (the "ABA"). CUSIP-based identifiers are assigned by CUSIP Global Services. CUSIP Global Services is managed on behalf of the ABA by S&P Global Marketing Intelligence, a division of S&P Global, Inc. The CUSIP Numbers have been assigned by an independent company not affiliated with the State and are included solely for the convenience of the holders of the Certificates. None of the Underwriters, the State, or the Financial Advisor is responsible for the selection or uses of the CUSIP numbers, and no representation is made as to their correctness on the Certificates or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Certificates as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Certificates.

**\$5,005,000 Lease Participation Certificates
(Energy Conservation Project – 2017 Refunding Series C)**

Maturity Date (May 1)	Principal Amount	Interest Rate	Yield	CUSIP[†]
2018	\$690,000	5.00%	0.89%	76222WLE9
2019	1,150,000	5.00	1.00	76222WLF6
2020	1,230,000	5.00	1.11	76222WLG4
2021	585,000	5.00	1.25	76222WLH2
2022	645,000	5.00	1.43	76222WLJ8
2023	705,000	5.00	1.56	76222WLK5

**\$19,635,000 Lease Participation Certificates
(School for the Deaf Project – 2017 Refunding Series D)**

Maturity Date (April 1)	Principal Amount	Interest Rate	Yield	CUSIP[†]
2019	\$490,000	5.00%	0.99%	76222WLL3
2020	1,520,000	5.00	1.10	76222WLM1
2021	1,595,000	5.00	1.23	76222WLN9
2022	1,680,000	5.00	1.42	76222WLP4
2023	1,760,000	5.00	1.55	76222WLQ2
2024	1,850,000	5.00	1.72	76222WLR0
2025	1,945,000	5.00	1.91	76222WLS8
2026	2,040,000	5.00	2.14	76222WLT6
2027	2,145,000	5.00	2.29	76222WLU3
2028	2,250,000	5.00	2.40*	76222WLV1
2029	2,360,000	5.00	2.49*	76222WLW9

*Priced at the stated yield to the first optional call date of April 1, 2027 at a redemption price of 100%.

[†] CUSIP® is a registered trademark of the American Bankers Association (the “ABA”). CUSIP-based identifiers are assigned by CUSIP Global Services. CUSIP Global Services is managed on behalf of the ABA by S&P Global Marketing Intelligence, a division of S&P Global, Inc. The CUSIP Numbers have been assigned by an independent company not affiliated with the State and are included solely for the convenience of the holders of the Certificates. None of the Underwriters, the State, or the Financial Advisor is responsible for the selection or uses of the CUSIP numbers, and no representation is made as to their correctness on the Certificates or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Certificates as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Certificates.

**\$8,000,000 Lease Participation Certificates
(Central Power Plant Project - 2017 Refunding Series E)**

<u>Maturity Date (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP[†]</u>
2017	\$1,735,000	5.00%	0.80%	76222WLX7
2018	1,990,000	5.00	0.93	76222WLY5
2019	2,085,000	5.00	1.04	76222WLZ2
2020	2,190,000	5.00	1.15	76222WMA6

[†] CUSIP® is a registered trademark of the American Bankers Association (the “ABA”). CUSIP-based identifiers are assigned by CUSIP Global Services. CUSIP Global Services is managed on behalf of the ABA by S&P Global Marketing Intelligence, a division of S&P Global, Inc. The CUSIP Numbers have been assigned by an independent company not affiliated with the State and are included solely for the convenience of the holders of the Certificates. None of the Underwriters, the State, or the Financial Advisor is responsible for the selection or uses of the CUSIP numbers, and no representation is made as to their correctness on the Certificates or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Certificates as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Certificates.

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

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

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

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

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

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

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

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

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

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APPENDIX A - Supplement dated May 26, 2017 to the Information Statement of the State of Rhode Island and Providence Plantations dated April 18, 2017 and the Information Statement of the State of Rhode Island Providence Plantations dated April 18, 2017 (including the Audited Financial Statements of the State for the Fiscal Year Ended June 30, 2016 incorporated by reference)

EXHIBIT A - State Economic Information

APPENDIX B - Table of Refunded 2007 Series B Certificates, 2009 Series C Certificates and 2007 Series D Certificates

APPENDIX C - Proposed Forms of Legal Opinion

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**STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS**



CONSTITUTIONAL OFFICERS

GovernorGina M. Raimondo
Lieutenant GovernorDaniel J. McKee
General Treasurer.....Seth Magaziner
Attorney General.....Peter F. Kilmartin
Secretary of StateNellie M. Gorbea

APPOINTED OFFICIALS

Director of Administration.....Michael DiBiase
Director of Office of Management and BudgetJonathan Womer
Budget OfficerThomas A. Mullaney
State ControllerPeter Keenan
Auditor GeneralDennis E. Hoyle

SPECIAL COUNSEL

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Providence, Rhode Island

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Providence, Rhode Island

FINANCIAL ADVISOR

Public Resources Advisory Group
New York, New York

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**OFFICIAL STATEMENT
of the
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

Relating to

**\$9,050,000 Lease Participation Certificates
(Nursing Education Center Project — 2017 Series A)**

**\$6,910,000 Lease Participation Certificates
(URI Energy Conservation Project — 2017 Series B)**

**\$5,005,000 Lease Participation Certificates
(Energy Conservation Project — 2017 Refunding Series C)**

**\$19,635,000 Lease Participation Certificates
(School for the Deaf Project — 2017 Refunding Series D)**

**\$8,000,000 Lease Participation Certificates
(Central Power Plant Project — 2017 Refunding Series E)**

INTRODUCTION

This Official Statement, including the front and inside cover pages and the appendices hereto (the “Official Statement”), is provided to furnish information with respect to the sale and delivery of the \$9,050,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Nursing Education Center Project – 2017 Series A) (the “2017 Series A Certificates”), the \$6,910,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (URI Energy Conservation Project – 2017 Series B) (the “2017 Series B Certificates”), the \$5,005,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Energy Conservation Project – 2017 Refunding Series C) (the “2017 Series C Certificates”), the \$19,635,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (School for the Deaf Project – 2017 Refunding Series D) (the “2017 Series D Certificates”) and \$8,000,000 State of Rhode Island and Providence Plantations Lease Participation Certificates (Central Power Plant Project – 2017 Refunding Series E) (the “2017 Series E Certificates”) (the 2017 Series A Certificates, the 2017 Series B Certificates, the 2017 Series C Certificates, the 2017 Series D Certificates and the 2017 Series E Certificates are collectively referred to herein as the “Certificates”).

The 2017 Series A Certificates

The 2017 Series A Certificates represent the proportionate interest of the registered owners thereof in lease payments (“2017 Series A Lease Payments”) to be made by the State of Rhode Island and Providence Plantations acting by and through its Department of Administration (the “State” or the “Lessee”) for the purchase and rental of certain equipment, fixtures and furnishings and related improvements to property to accommodate such equipment, fixtures and furnishings and related improvements at the Nursing Education Center in Providence, Rhode

Island (the “2017 Series A Project”). The 2017 Series A Project will be leased to the State pursuant to a Sublease dated as of June 1, 2017 as the same may be amended from time to time (the “2017 Series A Sublease”) by and between the State and The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee for the benefit of the 2017 Series A Certificate Owners pursuant to the 2017 Series A Declaration of Trust (as herein defined), as lessor (the “Lessor”). Under the 2017 Series A Declaration of Trust dated as of June 1, 2017 as the same may be amended from time to time (the “2017 Series A Declaration of Trust”), all right to the 2017 Series A Lease Payments under the 2017 Series A Sublease is set aside, granted and assigned to a grantor trust (the “2017 Series A Trust”). The Bank of New York Mellon Trust Company, N.A. will act as trustee (the “2017 Series A Trustee”) under the 2017 Series A Declaration of Trust, Lessor under the 2017 Series A Sublease and lessee under the 2017 Series A Lease (as herein defined).

The 2017 Series A Project is being leased to the Lessor by the State pursuant to a lease (the “2017 Series A Lease”) dated as of June 1, 2017. The 2017 Series A Lease expires on June 1, 2027. The Trustee’s leasehold interest under the 2017 Series A Lease is subleased to the State under the 2017 Series A Sublease, and all right to the 2017 Series A Lease Payments under the 2017 Series A Sublease is set aside, granted and assigned to the 2017 Series A Trust.

The 2017 Series A Certificates will be issued pursuant to the 2017 Series A Declaration of Trust. The proceeds of the sale of the 2017 Series A Certificates will be deposited in the 2017 Series A Trust. The proceeds of the 2017 Series A Certificates in the 2017 Series A Trust will be distributed into a 2017 Series A Project Account and a 2017 Series A Lease Payment Account established by the 2017 Series A Declaration of Trust. Amounts held in the 2017 Series A Project Account will be disbursed by the Trustee from the 2017 Series A Project Account to finance the 2017 Series A Project and pay costs of issuance of the 2017 Series A Certificates. (See “THE PROJECTS – The 2017 Series A Project – Nursing Education Center” herein.)

No Additional 2017 Series A Certificates

The 2017 Series A Sublease and the 2017 Series A Declaration of Trust will not provide for the ability to issue additional certificates with the 2017 Series A Certificates.

The 2017 Series B Certificates

The 2017 Series B Certificates represent the proportionate interest of the registered owners thereof in lease payments (“2017 Series B Lease Payments”) to be made by the State of Rhode Island and Providence Plantations acting by and through its Department of Administration (the “State” or the “Lessee”) for the purchase and rental of certain energy conservation equipment and systems and related improvements to property to accommodate such energy conservation infrastructure at the University of Rhode Island (the “2017 Series B Project”). The 2017 Series B Project will be leased to the State pursuant to a Sublease dated as of June 1, 2017 as the same may be amended from time to time (the “2017 Series B Sublease”) by and between the State and The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee for the benefit of the 2017 Series B Certificate Owners pursuant to the 2017 Series B Declaration of

Trust (as herein defined), as lessor (the “Lessor”). Under the 2017 Series B Declaration of Trust dated as of June 1, 2017 as the same may be amended from time to time (the “2017 Series B Declaration of Trust”), all right to the 2017 Series B Lease Payments under the 2017 Series B Sublease is set aside, granted and assigned to a grantor trust (the “2017 Series B Trust”). The Bank of New York Mellon Trust Company, N.A. will act as trustee (the “2017 Series B Trustee”) under the 2017 Series B Declaration of Trust, Lessor under the 2017 Series B Sublease and lessee under the 2017 Series B Lease (as herein defined).

The 2017 Series B Project is being leased to the Lessor by the State pursuant to a lease (the “2017 Series B Lease”) dated as of June 1, 2017. The 2017 Series B Lease expires on June 1, 2032. The Trustee’s leasehold interest under the 2017 Series B Lease is subleased to the State under the 2017 Series B Sublease, and all right to the 2017 Series B Lease Payments under the 2017 Series B Sublease is set aside, granted and assigned to the 2017 Series B Trust.

The 2017 Series B Certificates will be issued pursuant to the 2017 Series B Declaration of Trust. The proceeds of the sale of the 2017 Series B Certificates will be deposited in the 2017 Series B Trust. The proceeds of the 2017 Series B Certificates in the 2017 Series B Trust will be distributed into a 2017 Series B Project Account and a 2017 Series B Lease Project Account established by the 2017 Series B Declaration of Trust. Amounts held in the 2017 Series B Project Account will be disbursed by the Trustee from the 2017 Series B Project Account to finance the 2017 Series B Project and to pay costs of issuance of the 2017 Series B Certificates. (See “THE PROJECTS – The 2017 Series B Project – URI Energy Conservation Project” herein.)

No Additional 2017 Series B Certificates

The 2017 Series B Sublease and the 2017 Series B Declaration of Trust will not provide for the ability to issue additional certificates with the 2017 Series B Certificates.

The 2017 Series C Certificates

The 2017 Series C Certificates represent the proportionate interest of the registered owners thereof in lease payments (“2017 Series C Lease Payments”) to be made by the State of Rhode Island and Providence Plantations acting by and through its Department of Administration (the “State” or the “Lessee”) for the purchase and rental of certain energy conservation equipment and systems and related improvements to property to accommodate such energy conservation infrastructure (the “2017 Series C Project”). The 2017 Series C Project will be leased to the State pursuant to a Sublease dated as of June 1, 2017 as the same may be amended from time to time (the “2017 Series C Sublease”) by and between the State and The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee for the benefit of the 2017 Series C Certificate Owners pursuant to the 2017 Series C Declaration of Trust (as herein defined), as lessor (the “Lessor”). Under the 2017 Series C Declaration of Trust dated as of June 1, 2017 as the same may be amended from time to time (the “2017 Series C Declaration of Trust”), all right to the 2017 Series C Lease Payments under the 2017 Series C Sublease is set aside, granted and assigned to a grantor trust (the “2017 Series C Trust”). The Bank of New York Mellon Trust Company, N.A. will act as trustee (the “2017 Series C Trustee”) under the

2017 Series C Declaration of Trust, Lessor under the 2017 Series C Sublease and lessee under the 2017 Series C Lease (as herein defined).

The 2017 Series C Project is being leased to the Lessor by the State pursuant to a lease (the “2017 Series C Lease”) dated as of June 1, 2017. The 2017 Series C Lease expires on May 1, 2023. The Trustee’s leasehold interest under the 2017 Series C Lease is subleased to the State under the 2017 Series C Sublease, and all right to the 2017 Series C Lease Payments under the 2017 Series C Sublease is set aside, granted and assigned to the 2017 Series C Trust.

The 2017 Series C Certificates will be issued pursuant to the 2017 Series C Declaration of Trust. The proceeds of the sale of the 2017 Series C Certificates will be deposited in the 2017 Series C Trust. A portion of the proceeds of the 2017 Series C Certificates in the 2017 Series C Trust will be distributed into a 2017 Series C Project Account established by the 2017 Series C Declaration of Trust. Amounts held in the 2017 Series C Project Account will be disbursed by the Trustee from the 2017 Series C Project Account to pay costs of issuance of the 2017 Series C Certificates. The remaining proceeds of the 2017 Series C Certificates will be deposited into a refunding trust fund as described in “PLAN OF REFUNDING” herein.

No Additional 2017 Series C Certificates

The 2017 Series C Sublease and the 2017 Series C Declaration of Trust will not provide for the ability to issue additional certificates with the 2017 Series C Certificates.

The 2017 Series D Certificates

The 2017 Series D Certificates represent the proportionate interest of the registered owners thereof in lease payments (“2017 Series D Lease Payments”) to be made by the Council for Elementary and Secondary Education (the “Council”) and the State of Rhode Island and Providence Plantations acting by and through its Department of Administration (the “State” and together with the Council, the “2017 Series D Lessee”) for the rental of certain real property and buildings, structures and improvements now or hereinafter situated on a site known as the School for the Deaf in Providence, Rhode Island owned by the Council in trust for the State (the “2017 Series D Project”). The 2017 Series D Project will be leased to the 2017 Series D Lessee pursuant to a Sublease dated as of June 1, 2017 as the same may be amended from time to time (the “2017 Series D Sublease”) by and among the 2017 Series D Lessee and The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee for the benefit of the 2017 Series D Certificate Owners pursuant to the 2017 Series D Declaration of Trust (as herein defined), as lessor (the “Lessor”). Under the 2017 Series D Declaration of Trust dated as of June 1, 2017 as the same may be amended from time to time (the “2017 Series D Declaration of Trust”), all right to the 2017 Series D Lease Payments under the 2017 Series D Sublease is set aside, granted and assigned to a grantor trust (the “2017 Series D Trust”). The Bank of New York Mellon Trust Company, N.A. will act as trustee (the “2017 Series D Trustee”) under the 2017 Series D Declaration of Trust, Lessor under the 2017 Series D Sublease and lessee under the 2017 Series D Lease (as herein defined).

The 2017 Series D Project is being leased to the Lessor by the 2017 Series D Lessee pursuant to a lease (the “2017 Series D Lease”) dated as of June 1, 2017. The 2017 Series D Lease expires on June 1, 2027 with a right to renew for an additional period ending on April 1, 2029. Pursuant to the 2017 Series D Lease, such right to renew shall be deemed to have been automatically exercised unless the 2017 Series D Sublease has been defeased. See “SUMMARY OF CERTAIN PROVISIONS OF THE SUBLEASES – Rent Prepayment Option for the 2017 Series D Certificates” herein. The Trustee’s leasehold interest under the 2017 Series D Lease is subleased to the 2017 Series D Lessee under the 2017 Series D Sublease, and all right to the 2017 Series D Lease Payments under the 2017 Series D Sublease is set aside, granted and assigned to the 2017 Series D Trust.

The 2017 Series D Certificates will be issued pursuant to the 2017 Series D Declaration of Trust. The proceeds of the sale of the 2017 Series D Certificates will be deposited in the 2017 Series D Trust. A portion of the proceeds of the 2017 Series D Certificates in the 2017 Series D Trust will be distributed into a 2017 Series D Project Account established by the 2017 Series D Declaration of Trust. Amounts held in the 2017 Series D Project Account will be disbursed by the Trustee from the 2017 Series D Project Account to pay costs of issuance of the 2017 Series D Certificates. The remaining proceeds of the 2017 Series D Certificates will be deposited into a refunding trust fund as described in “PLAN OF REFUNDING” herein.

No Additional 2017 Series D Certificates

The 2017 Series D Sublease and the 2017 Series D Declaration of Trust will not provide for the ability to issue additional certificates with the 2017 Series D Certificates.

The 2017 Series E Certificates

The 2017 Series E Certificates represent the proportionate interest of the registered owners thereof in lease payments (“2017 Series E Lease Payments”) to be made by the State of Rhode Island and Providence Plantations acting by and through its Department of Administration (the “State” or the “Lessee”) for the rental of certain real property and buildings, structures and improvements known as the Central Power Plant now or hereafter erected or situated on a site located on the grounds of the John O. Pastore Center, formerly known as the Howard Center in Cranston, Rhode Island (the “2017 Series E Project”). The 2017 Series E Project will be leased to the State pursuant to a Sublease dated as of July 1, 2017 as the same may be amended from time to time (the “2017 Series E Sublease”) by and between the State and The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee for the benefit of the 2017 Series E Certificate Owners pursuant to the 2017 Series E Declaration of Trust (as herein defined), as lessor (the “Lessor”). Under the 2017 Series E Declaration of Trust dated as of July 1, 2017 as the same may be amended from time to time (the “2017 Series E Declaration of Trust”), all right to the 2017 Series E Lease Payments under the 2017 Series E Sublease is set aside, granted and assigned to a grantor trust (the “2017 Series E Trust”). The Bank of New York Mellon Trust Company, N.A. will act as trustee (the “2017 Series E Trustee”) under the 2017 Series E Declaration of Trust, Lessor under the 2017 Series E Sublease and lessee under the 2017 Series E Lease (as herein defined).

The 2017 Series E Project is being leased to the Lessor by the State pursuant to a lease (the “2017 Series E Lease”) dated as of July 1, 2017. The 2017 Series E Lease expires on October 1, 2020. The Trustee’s leasehold interest under the 2017 Series E Lease is subleased to the State under the 2017 Series E Sublease, and all right to the 2017 Series E Lease Payments under the 2017 Series E Sublease is set aside, granted and assigned to the 2017 Series E Trust.

The 2017 Series E Certificates will be issued pursuant to the 2017 Series E Declaration of Trust. The proceeds of the sale of the 2017 Series E Certificates will be deposited in the 2017 Series E Trust. A portion of the proceeds of the 2017 Series E Certificates in the 2017 Series E Trust will be distributed into a 2017 Series E Project Account established by the 2017 Series E Declaration of Trust. Amounts held in the 2017 Series E Project Account will be disbursed by the Trustee from the 2017 Series E Project Account to pay costs of issuance of the 2017 Series E Certificates. The remaining proceeds of the 2017 Series E Certificates will be deposited into a refunding trust fund as described in “PLAN OF REFUNDING” herein.

No Additional 2017 Series E Certificates

The 2017 Series E Sublease and the 2017 Series E Declaration of Trust will not provide for the ability to issue additional certificates with the 2017 Series E Certificates.

SECURITY FOR THE CERTIFICATES

The 2017 Series A Certificates

The 2017 Series A Certificates are payable from (i) 2017 Series A Lease Payments received by the Trustee from the State with respect to the 2017 Series A Certificates; (ii) certain amounts on deposit from time to time in the 2017 Series A Trust established with respect thereto, including any remaining proceeds of the sale of the 2017 Series A Certificates and investment earnings on amounts on deposit in the 2017 Series A Trust; and (iii) proceeds from the disposition of the 2017 Series A Project upon the occurrence of an Event of Default under the 2017 Series A Sublease or upon termination of the 2017 Series A Sublease pursuant to non-appropriation of funds by the State. The 2017 Series A Sublease provides for 2017 Series A Lease Payments payable at times and in amounts equal to the principal of and interest on the 2017 Series A Certificates. The 2017 Series A Lease Payments will be made directly to the Trustee.

The State covenants in the 2017 Series A Sublease to do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which 2017 Series A Lease Payments may be made, including making provisions for such payments in the budget submitted for the purpose of obtaining such funding, using its bona fide best efforts to have such portion of the budget approved and exhausting all available administrative reviews and appeals, if any, in the event such portion of the budget is not approved. **HOWEVER, THE STATE IS UNDER NO OBLIGATION TO APPROPRIATE SUCH FUNDS.**

THE STATE’S OBLIGATION TO MAKE 2017 SERIES A LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE WITHIN THE

MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO MAKE SUCH PAYMENTS.

The 2017 Series A Sublease provides an initial term commencing June 1, 2017 and terminating June 30, 2017, with annual renewals on July 1 of each year, commencing July 1, 2017, with a final 2017 Series A Sublease term commencing July 1, 2026 and terminating June 1, 2027 (the "Renewal Periods"). The State shall be deemed to have exercised its right of renewal for each succeeding Renewal Period, if at or prior to the expiration of the then current lease term, there are lawfully appropriated by the State sufficient funds enabling the payment of all 2017 Series A Lease Payments due during the next succeeding Renewal Period.

If during the initial 2017 Series A Sublease term or any 2017 Series A Sublease term thereafter, there are lawfully appropriated funds enabling payment of all 2017 Series A Lease Payments due within the next six-month period, the 2017 Series A Sublease shall be deemed renewed with respect to the 2017 Series A Project for such six-month period and can be successively renewed for six-month periods. The State shall be deemed to have exercised its right to renew for such a six-month period if at or prior to the termination of the then current lease term, there are lawfully appropriated funds enabling the payment of 2017 Series A Lease Payments for such six-month period.

If a 2017 Series A Sublease term terminates without a renewal of the 2017 Series A Sublease for a succeeding 2017 Series A Sublease term and if within sixty days after such date of termination there are lawfully appropriated funds which would have caused the 2017 Series A Sublease to be renewed if the appropriation had occurred prior to the termination of the 2017 Series A Sublease then the 2017 Series A Sublease shall be reinstated and deemed renewed as of the day following the date of termination of the preceding lease term. If there is a 2017 Series A Lease Payment Date (June 1 and December 1) between the date of termination and the date of reinstatement of the 2017 Series A Sublease, the 2017 Series A Lease Payment which would have been due on such date if the 2017 Series A Sublease had not been terminated shall become immediately due and payable on the date if the 2017 Series A Sublease is reinstated.

In the event the 2017 Series A Sublease is terminated due to non-appropriation by the State, the State is under no obligation to make any further payment with respect to the 2017 Series A Project. Under such circumstances, the State shall deliver the 2017 Series A Project to the Trustee and the Trustee has the right to lease the 2017 Series A Project and apply the net proceeds thereof to payment of the principal and interest portions of the 2017 Series A Certificates. UPON ANY SUCH OTHER SUBLEASE OF THE 2017 SERIES A PROJECT THERE MAY BE INSUFFICIENT MONIES HELD BY THE TRUSTEE UNDER THE 2017 SERIES A DECLARATION OF TRUST TO MAKE PAYMENT IN FULL OF THE PRINCIPAL AND INTEREST PORTIONS OF THE 2017 SERIES A CERTIFICATES. THE 2017 SERIES A PROJECT IS OF LIMITED VALUE FOR USE BY ANYONE OTHER THAN A DEPARTMENT OF STATE GOVERNMENT.

The 2017 Series B Certificates

The 2017 Series B Certificates are payable from (i) 2017 Series B Lease Payments received by the Trustee from the State with respect to the 2017 Series B Certificates; (ii) certain amounts on deposit from time to time in the 2017 Series B Trust established with respect thereto, including any remaining proceeds of the sale of the 2017 Series B Certificates and investment earnings on amounts on deposit in the 2017 Series B Trust; and (iii) proceeds from the disposition of the 2017 Series B Project upon the occurrence of an Event of Default under the 2017 Series B Sublease or upon termination of the 2017 Series B Sublease pursuant to non-appropriation of funds by the State. The 2017 Series B Sublease provides for 2017 Series B Lease Payments payable at times and in amounts equal to the principal of and interest on the 2017 Series B Certificates. The 2017 Series B Lease Payments will be made directly to the Trustee.

The State covenants in the 2017 Series B Sublease to do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which 2017 Series B Lease Payments may be made, including making provisions for such payments in the budget submitted for the purpose of obtaining such funding, using its bona fide best efforts to have such portion of the budget approved and exhausting all available administrative reviews and appeals, if any, in the event such portion of the budget is not approved. **HOWEVER, THE STATE IS UNDER NO OBLIGATION TO APPROPRIATE SUCH FUNDS.**

THE STATE'S OBLIGATION TO MAKE 2017 SERIES B LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO MAKE SUCH PAYMENTS.

The 2017 Series B Sublease provides an initial term commencing June 1, 2017 and terminating June 30, 2017, with annual renewals on July 1 of each year, commencing July 1, 2017, with a final 2017 Series B Sublease term commencing July 1, 2031 and terminating June 1, 2032 (the "Renewal Periods"). The State shall be deemed to have exercised its right of renewal for each succeeding Renewal Period, if at or prior to the expiration of the then current lease term, there are lawfully appropriated by the State sufficient funds enabling the payment of all 2017 Series B Lease Payments due during the next succeeding Renewal Period.

If during the initial 2017 Series B Sublease term or any 2017 Series B Sublease term thereafter, there are lawfully appropriated funds enabling payment of all 2017 Series B Lease Payments due within the next six-month period, the 2017 Series B Sublease shall be deemed renewed with respect to the 2017 Series B Project for such six-month period and can be successively renewed for six-month periods. The State shall be deemed to have exercised its right to renew for such a six-month period if at or prior to the termination of the then current lease term, there are lawfully appropriated funds enabling the payment of 2017 Series B Lease Payments for such six-month period.

If a 2017 Series B Sublease term terminates without a renewal of the 2017 Series B Sublease for a succeeding 2017 Series B Sublease term and if within sixty days after such date of termination there are lawfully appropriated funds which would have caused the 2017 Series B Sublease to be renewed if the appropriation had occurred prior to the termination of the 2017 Series B Sublease then the 2017 Series B Sublease shall be reinstated and deemed renewed as of the day following the date of termination of the preceding lease term. If there is a 2017 Series B Lease Payment Date (June 1 and December 1) between the date of termination and the date of reinstatement of the 2017 Series B Sublease, the 2017 Series B Lease Payment which would have been due on such date if the 2017 Series B Sublease had not been terminated shall become immediately due and payable on the date if the 2017 Series B Sublease is reinstated.

In the event the 2017 Series B Sublease is terminated due to non-appropriation by the State, the State is under no obligation to make any further payment with respect to the 2017 Series B Project. Under such circumstances, the State shall deliver the 2017 Series B Project to the Trustee and the Trustee has the right to lease the 2017 Series B Project and apply the net proceeds thereof to payment of the principal and interest portions of the 2017 Series B Certificates. UPON ANY SUCH OTHER SUBLEASE OF THE 2017 SERIES B PROJECT THERE MAY BE INSUFFICIENT MONIES HELD BY THE TRUSTEE UNDER THE 2017 SERIES B DECLARATION OF TRUST TO MAKE PAYMENT IN FULL OF THE PRINCIPAL AND INTEREST PORTIONS OF THE 2017 SERIES B CERTIFICATES. THE 2017 SERIES B PROJECT IS OF LIMITED VALUE FOR USE BY ANYONE OTHER THAN A DEPARTMENT OF STATE GOVERNMENT.

The 2017 Series C Certificates

The 2017 Series C Certificates are payable from (i) 2017 Series C Lease Payments received by the Trustee from the State with respect to the 2017 Series C Certificates; (ii) certain amounts on deposit from time to time in the 2017 Series C Trust established with respect thereto, including any remaining proceeds of the sale of the 2017 Series C Certificates and investment earnings on amounts on deposit in the 2017 Series C Trust; and (iii) proceeds from the disposition of the 2017 Series C Project upon the occurrence of an Event of Default under the 2017 Series C Sublease or upon termination of the 2017 Series C Sublease pursuant to non-appropriation of funds by the State. The 2017 Series C Sublease provides for 2017 Series C Lease Payments payable at times and in amounts equal to the principal of and interest on the 2017 Series C Certificates. The 2017 Series C Lease Payments will be made directly to the Trustee.

The State covenants in the 2017 Series C Sublease to do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which 2017 Series C Lease Payments may be made, including making provisions for such payments in the budget submitted for the purpose of obtaining such funding, using its bona fide best efforts to have such portion of the budget approved and exhausting all available administrative reviews and appeals, if any, in the event such portion of the budget is not approved. **HOWEVER, THE STATE IS UNDER NO OBLIGATION TO APPROPRIATE SUCH FUNDS.**

THE STATE'S OBLIGATION TO MAKE 2017 SERIES C LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO MAKE SUCH PAYMENTS.

The 2017 Series C Sublease provides an initial term commencing June 1, 2017 and terminating June 30, 2017, with annual renewals on July 1 of each year, commencing July 1, 2017, with a final 2017 Series C Sublease term commencing July 1, 2022 and terminating May 1, 2023 (the "Renewal Periods"). The State shall be deemed to have exercised its right of renewal for each succeeding Renewal Period, if at or prior to the expiration of the then current lease term, there are lawfully appropriated by the State sufficient funds enabling the payment of all 2017 Series C Lease Payments due during the next succeeding Renewal Period.

If during the initial 2017 Series C Sublease term or any 2017 Series C Sublease term thereafter, there are lawfully appropriated funds enabling payment of all 2017 Series C Lease Payments due within the next six-month period, the 2017 Series C Sublease shall be deemed renewed with respect to the 2017 Series C Project for such six-month period and can be successively renewed for six-month periods. The State shall be deemed to have exercised its right to renew for such a six-month period if at or prior to the termination of the then current lease term, there are lawfully appropriated funds enabling the payment of 2017 Series C Lease Payments for such six-month period.

If a 2017 Series C Sublease term terminates without a renewal of the 2017 Series C Sublease for a succeeding 2017 Series C Sublease term and if within sixty days after such date of termination there are lawfully appropriated funds which would have caused the 2017 Series C Sublease to be renewed if the appropriation had occurred prior to the termination of the 2017 Series C Sublease then the 2017 Series C Sublease shall be reinstated and deemed renewed as of the day following the date of termination of the preceding lease term. If there is a 2017 Series C Lease Payment Date (May 1 and November 1) between the date of termination and the date of reinstatement of the 2017 Series C Sublease, the 2017 Series C Lease Payment which would have been due on such date if the 2017 Series C Sublease had not been terminated shall become immediately due and payable on the date if the 2017 Series C Sublease is reinstated.

In the event the 2017 Series C Sublease is terminated due to non-appropriation by the State, the State is under no obligation to make any further payment with respect to the 2017 Series C Project. Under such circumstances, the State shall deliver the 2017 Series C Project to the Trustee and the Trustee has the right to lease the 2017 Series C Project and apply the net proceeds thereof to payment of the principal and interest portions of the 2017 Series C Certificates. UPON ANY SUCH OTHER SUBLEASE OF THE 2017 SERIES C PROJECT THERE MAY BE INSUFFICIENT MONIES HELD BY THE TRUSTEE UNDER THE 2017 SERIES C DECLARATION OF TRUST TO MAKE PAYMENT IN FULL OF THE PRINCIPAL AND INTEREST PORTIONS OF THE 2017 SERIES C CERTIFICATES. THE 2017 SERIES C PROJECT IS OF LIMITED VALUE FOR USE BY ANYONE OTHER THAN A DEPARTMENT OF STATE GOVERNMENT.

The 2017 Series D Certificates

The 2017 Series D Certificates are payable from (i) 2017 Series D Lease Payments received by the Trustee from the 2017 Series D Lessee with respect to the 2017 Series D Certificates; (ii) certain amounts on deposit from time to time in the 2017 Series D Trust established with respect thereto, including any remaining proceeds of the sale of the 2017 Series D Certificates and investment earnings on amounts on deposit in the 2017 Series D Trust; and (iii) proceeds from the disposition of the 2017 Series D Project upon the occurrence of an Event of Default under the 2017 Series D Sublease or upon termination of the 2017 Series D Sublease pursuant to non-appropriation of funds by the State. The 2017 Series D Sublease provides for 2017 Series D Lease Payments payable at times and in amounts equal to the principal of and interest on the 2017 Series D Certificates. The 2017 Series D Lease Payments will be made directly to the Trustee.

The State covenants in the 2017 Series D Sublease to do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which 2017 Series D Lease Payments may be made, including making provisions for such payments in the budget submitted for the purpose of obtaining such funding, using its bona fide best efforts to have such portion of the budget approved and exhausting all available administrative reviews and appeals, if any, in the event such portion of the budget is not approved. **HOWEVER, THE STATE IS UNDER NO OBLIGATION TO APPROPRIATE SUCH FUNDS.**

THE 2017 SERIES D LESSEE'S OBLIGATION TO MAKE 2017 SERIES D LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO MAKE SUCH PAYMENTS.

The 2017 Series D Sublease provides an initial term commencing June 1, 2017 and terminating June 30, 2017, with annual renewals on July 1 of each year, commencing July 1, 2017, with a final 2017 Series D Sublease term commencing July 1, 2028 and terminating April 1, 2029 (the "Renewal Periods"). The State shall be deemed to have exercised its right of renewal for each succeeding Renewal Period, if at or prior to the expiration of the then current lease term, there are lawfully appropriated by the State sufficient funds enabling the payment of all 2017 Series D Lease Payments due during the next succeeding Renewal Period.

If during the initial 2017 Series D Sublease term or any 2017 Series D Sublease term thereafter, there are lawfully appropriated funds enabling payment of all 2017 Series D Lease Payments due within the next six-month period, the 2017 Series D Sublease shall be deemed renewed with respect to the 2017 Series D Project for such six-month period and can be successively renewed for six-month periods. The State shall be deemed to have exercised its right to renew for such a six-month period if at or prior to the termination of the then current lease term, there are lawfully appropriated funds enabling the payment of 2017 Series D Lease Payments for such six-month period.

If a 2017 Series D Sublease term terminates without a renewal of the 2017 Series D Sublease for a succeeding 2017 Series D Sublease term and if within sixty days after such date of termination there are lawfully appropriated funds which would have caused the 2017 Series D Sublease to be renewed if the appropriation had occurred prior to the termination of the 2017 Series D Sublease then the 2017 Series D Sublease shall be reinstated and deemed renewed as of the day following the date of termination of the preceding lease term. If there is a 2017 Series D Lease Payment Date (April 1 and October 1) between the date of termination and the date of reinstatement of the 2017 Series D Sublease, the 2017 Series D Lease Payment which would have been due on such date if the 2017 Series D Sublease had not been terminated shall become immediately due and payable on the date if the 2017 Series D Sublease is reinstated.

In the event the 2017 Series D Sublease is terminated due to non-appropriation by the State, neither the Council nor the State is under any obligation to make any further payment with respect to the 2017 Series D Project. Under such circumstances, the Council on behalf of the State shall deliver the 2017 Series D Project to the Trustee and the Trustee has the right to lease the 2017 Series D Project and apply the net proceeds thereof to payment of the principal and interest portions of the 2017 Series D Certificates. UPON ANY SUCH OTHER SUBLEASE OF THE 2017 SERIES D PROJECT THERE MAY BE INSUFFICIENT MONIES HELD BY THE TRUSTEE UNDER THE 2017 SERIES D DECLARATION OF TRUST TO MAKE PAYMENT IN FULL OF THE PRINCIPAL AND INTEREST PORTIONS OF THE 2017 SERIES D CERTIFICATES. THE 2017 SERIES D PROJECT IS OF LIMITED VALUE FOR USE BY ANYONE OTHER THAN A DEPARTMENT OF STATE GOVERNMENT.

The 2017 Series E Certificates

The 2017 Series E Certificates are payable from (i) 2017 Series E Lease Payments received by the Trustee from the State with respect to the 2017 Series E Certificates; (ii) certain amounts on deposit from time to time in the 2017 Series E Trust established with respect thereto, including any remaining proceeds of the sale of the 2017 Series E Certificates and investment earnings on amounts on deposit in the 2017 Series E Trust; and (iii) proceeds from the disposition of the 2017 Series E Project upon the occurrence of an Event of Default under the 2017 Series E Sublease or upon termination of the 2017 Series E Sublease pursuant to non-appropriation of funds by the State. The 2017 Series E Sublease provides for 2017 Series E Lease Payments payable at times and in amounts equal to the principal of and interest on the 2017 Series E Certificates. The 2017 Series E Lease Payments will be made directly to the Trustee.

The State covenants in the 2017 Series E Sublease to do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which 2017 Series E Lease Payments may be made, including making provisions for such payments in the budget submitted for the purpose of obtaining such funding, using its bona fide best efforts to have such portion of the budget approved and exhausting all available administrative reviews and appeals, if any, in the event such portion of the budget is not approved. **HOWEVER, THE STATE IS UNDER NO OBLIGATION TO APPROPRIATE SUCH FUNDS.**

THE STATE'S OBLIGATION TO MAKE 2017 SERIES E LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO MAKE SUCH PAYMENTS.

The 2017 Series E Sublease provides an initial term commencing July 1, 2017 and terminating June 30, 2018, with annual renewals on July 1 of each year, commencing July 1, 2018, with a final 2017 Series E Sublease term commencing July 1, 2020 and terminating October 1, 2020 (the "Renewal Periods"). The State shall be deemed to have exercised its right of renewal for each succeeding Renewal Period, if at or prior to the expiration of the then current lease term, there are lawfully appropriated by the State sufficient funds enabling the payment of all 2017 Series E Lease Payments due during the next succeeding Renewal Period.

If during the initial 2017 Series E Sublease term or any 2017 Series E Sublease term thereafter, there are lawfully appropriated funds enabling payment of all 2017 Series E Lease Payments due within the next six-month period, the 2017 Series E Sublease shall be deemed renewed with respect to the 2017 Series E Project for such six-month period and can be successively renewed for six-month periods. The State shall be deemed to have exercised its right to renew for such a six-month period if at or prior to the termination of the then current lease term, there are lawfully appropriated funds enabling the payment of 2017 Series E Lease Payments for such six-month period.

If a 2017 Series E Sublease term terminates without a renewal of the 2017 Series E Sublease for a succeeding 2017 Series E Sublease term and if within sixty days after such date of termination there are lawfully appropriated funds which would have caused the 2017 Series E Sublease to be renewed if the appropriation had occurred prior to the termination of the 2017 Series E Sublease then the 2017 Series E Sublease shall be reinstated and deemed renewed as of the day following the date of termination of the preceding lease term. If there is a 2017 Series E Lease Payment Date (April 1 and October 1) between the date of termination and the date of reinstatement of the 2017 Series E Sublease, the 2017 Series E Lease Payment which would have been due on such date if the 2017 Series E Sublease had not been terminated shall become immediately due and payable on the date if the 2017 Series E Sublease is reinstated.

In the event the 2017 Series E Sublease is terminated due to non-appropriation by the State, the State is under no obligation to make any further payment with respect to the 2017 Series E Project. Under such circumstances, the State shall deliver the 2017 Series E Project to the Trustee and the Trustee has the right to lease the 2017 Series E Project and apply the net proceeds thereof to payment of the principal and interest portions of the 2017 Series E Certificates. UPON ANY SUCH OTHER SUBLEASE OF THE 2017 SERIES E PROJECT THERE MAY BE INSUFFICIENT MONIES HELD BY THE TRUSTEE UNDER THE 2017 SERIES E DECLARATION OF TRUST TO MAKE PAYMENT IN FULL OF THE PRINCIPAL AND INTEREST PORTIONS OF THE 2017 SERIES E CERTIFICATES. THE 2017 SERIES E PROJECT IS OF LIMITED VALUE FOR USE BY ANYONE OTHER THAN A DEPARTMENT OF STATE GOVERNMENT.

THE PROJECTS

The 2017 Series A Project – Nursing Education Center

The proceeds from the 2017 Series A Certificates will finance the acquisition of furniture, fixtures, and modern, technologically advanced classroom equipment at the newly constructed Rhode Island Nursing Education Center (RINEC) in Providence, Rhode Island. Opening in Fall 2017, RINEC is a joint educational facility housing both the University of Rhode Island College of Nursing and the Rhode Island College School of Nursing. The equipment purchases reflect the state-of-the-art in experiential learning for nursing education, and will be utilized in both clinical simulation laboratories and collaborative, technology-rich classrooms.

The 2017 Series B Project – URI Energy Conservation

The proceeds from the 2017 Series B Certificates will be utilized for the implementation of an energy conservation project in the State via “Energy Performance Contracts” (EPCs). An EPC is a contract with an Energy Service Company (ESCO) to replace or upgrade energy equipment (boilers, heating/air conditioning systems, lighting systems, etc.) that is antiquated, inefficient, and expensive to maintain. The resultant energy cost savings are then guaranteed under the terms of the EPC as sufficient to provide complete cost recovery on the new equipment. The 2017 Series B Certificates will finance the implementation of an EPC at the University of Rhode Island.

University of Rhode Island

The 2017 Series B Certificates proceeds will finance the cost of capital improvements pursuant to an EPC with an ESCO resulting in energy-saving improvements in physical plant infrastructure throughout the URI system. This included improvements to and replacement of existing equipment, with a contractual guarantee of energy cost savings. A total of \$12,600,000 has been authorized for URI, of which \$5,163,000 was utilized through the issuance of the \$31,980,000 Lease Participation Certificates (Energy Conservation Project – 2011 Series A) (the “2011 Series A Certificates”). The 2017 Series B Certificates will provide the balance of the \$7,437,000 for project costs.

The 2017 Series C Project – Energy Conservation

Proceeds of the State’s \$12,735,000 Lease Participation Certificates (Energy Conservation Project – 2007 Series B) dated June 26, 2007, of which \$5,460,000 remain outstanding, (the “2007 Series B Certificates”) were utilized for the implementation of energy conservation projects in the State. The 2007 B Certificates financed the implementation of EPCs described below at the State of Rhode Island Department of Administration’s General Government Facilities and at the University of Rhode Island. The 2017 Series C Certificates are current refunding the 2007 Series B Certificates. See “PLAN OF REFUNDING” herein.

General Government Facilities

This energy conservation project supported an EPC with an ESCO at the State's Powers, Chapin and Cannon Buildings located in Providence, Rhode Island, and included improvements to and replacement of existing equipment, with a contractual guarantee of energy cost savings. Infrastructural upgrades included boiler and chiller replacements, lighting upgrades with controls, energy management system improvements, building envelope, and water conservation initiatives. The performance contracting program has enabled the State to manage its energy costs and improve the overall energy infrastructure. The 2007 Series B Certificates financed all of the need for this project.

University of Rhode Island

This project supported an EPC that URI entered into with an ESCO to purchase energy-saving improvements in physical plant infrastructure throughout the URI system. This included improvements to and replacement of existing equipment, with a contractual guarantee of energy cost savings. The 2007 Series B Certificates financed \$6,735,000 of the need for the project, and the balance of the financing was provided with proceeds from the State's \$11,805,000 Lease Participation Certificates (Energy Conservation Project – 2009 Series B) (the “2009 Series B Certificates”).

The 2017 Series D Project – School for the Deaf

The Rhode Island School for the Deaf is an approximately 73,500 square foot facility comprised of a single story 61,100 square foot masonry building and a 12,400 square foot renovated gymnasium at One Corliss Park in Providence, Rhode Island (the “Facility”). Title to the property upon which the Facility is built vests in the Council for Elementary and Secondary Education, on behalf of the State. Title was transferred to the Council's predecessor, Board of Regents for Elementary and Secondary Education, from the Providence Redevelopment Agency in 1992 for the operation of the Rhode Island School for the Deaf. The property is located in a residential zone and the Rhode Island School for the Deaf is a nonconforming use that has been in operation on the premises since 1974. There have been no appeals filed or objections made. The Facility includes 23 classrooms, science labs, cafeteria, kitchen, administrative offices, an audiology suite, library, computer labs, and community spaces for each school “level”, art rooms, teacher resource rooms, occupational therapy, physical therapy and speech therapy treatment rooms, conference and individualized education plan meeting rooms. The Facility was designed to meet U.S. Green Building Council LEED Silver Level Certification and designed to use 27% less energy than code requirements and 30% less water consumption through the ventilation systems coupled with low VOC materials which increase air quality beyond educational standards.

The Rhode Island School for the Deaf was established in 1876 and is a comprehensive educational center serving a diverse community of deaf and hard of hearing individuals. Its mission is to provide a challenging educational program and state of the art resources so that students become contributing and productive citizens with a positive sense of self, both

personally and as a deaf or hard of hearing person. The Facility has a capacity to house 168 students from pre school through 12th grade.

The Facility was financed by the State's \$30,425,000 Lease Participation Certificates (School for the Deaf Project – 2009 Series C) dated June 25, 2009, of which \$21,495,000 remain outstanding (the "2009 Series C Certificates"). The 2017 Series D Certificates are advance refunding the 2009 Series C Certificates. See "PLAN OF REFUNDING" herein.

The 2017 Series E Project – Central Power Plant

The Central Power Plant (the "Plant") is the sole provider of steam and the primary provider of electricity for all occupants of the John O. Pastore Center formerly known as the Howard Center located in Cranston, Rhode Island (the "Pastore Center"). The Pastore Center consists of 200 acres and contains 100 structures encompassing approximately 2.5 million square feet of floor space. The current occupants include the State's Department of Mental Health, Retardation and Hospitals, the Department of Corrections, the Department of Human Services, the Department of Labor and Training, the Department of Children, Youth and Families, the Department of Elderly Affairs, the Office of Health and Human Services, and seven additional public or private not-for-profit agencies. The services provided by the occupying departments are essential elements of government services of the State. The provision of reliable utilities is a prerequisite to the continuing use of the Pastore Center.

The Plant consists of two gas/oil fired turbines with total generation rated at 3,000 kilowatts, two boilers each with 100,000 pounds per hour capacity, and two steam turbines rated at 2000 kilowatts with steam generation being rated at 80,000 pounds per hour. The Plant is currently operated by the State's Department of Administration. Like similar facilities, operation of the Plant is subject to significant environmental and regulatory burdens. There can be no assurances that legislative policy changes or new or revised legal interpretations or enforcement policies governing facilities similar to the Plant may not have adverse effects on the Plant's operations or the favorable utilization of the facility by the State.

The Plant was originally constructed in 1902 and was substantially rehabilitated and upgraded in 2003. The 2003 improvements were financed by the State's \$28,180,000 Lease Participation Certificates (Central Power Plant Project – 2000 Series C) dated as of December 1, 2000, (the "2000 Series C Certificates"), which were advance refunded by the \$22,160,000 Lease Participation Certificates (Central Power Plant Project – 2007 Refunded Series D) dated December 13, 2007, of which \$8,295,000 remain outstanding (the "2007 Series D Certificates"). The 2017 Series E Certificates are current refunding the 2007 Series D Certificates. See "PLAN OF REFUNDING" herein.

PLAN OF REFUNDING

Proceeds of the 2017 Series C Certificates, together with other available funds, will be used (i) to current refund the 2007 Series B Certificates on July 21, 2017, at a price of 100%, and (ii) to pay certain costs of issuance of the 2007 Series B Certificates.

Proceeds of the 2017 Series D Certificates will be used (i) to advance refund the 2009 Series C Certificates maturing after April 1, 2019, on April 1, 2019 at a price of 100% and to pay maturing principal of and interest on the 2009 Series C Certificates until April 1, 2019, and (ii) to pay certain costs of issuance of the 2017 Series D Certificates.

Proceeds of the 2017 Series E Certificates will be used (i) to current refund the 2007 Series D Certificates on October 1, 2017 at a price of 100% and to pay maturing principal of and interest on the 2017 Series E Certificates, and (ii) to pay certain costs of issuance of the 2017 Series E Certificates.

Depending on the market conditions, in addition to or in lieu of depositing into the escrows described above, the proceeds of the Certificates, together with other available funds, will be deposited into separate trust funds with the paying agents for each respective series being refunded. Monies on deposit in the trust funds will be used to purchase certain direct obligations of the United States of America or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America (the “Refunding Obligations”).

VERIFICATION OF MATHEMATICAL CALCULATIONS

Samuel Klein and Company, Certified Public Accountants, independent certified public accountants, will verify the accuracy as of the date of the respective closings on the Certificates of (1) the mathematical computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposited listed in such schedules, to be held in escrow, will be sufficient to pay, when due, the principal, interest and call premium payment requirements, if any, of the 2007 Series B Certificates, the 2007 Series D Certificates and the 2009 Series C Certificates (the “Refunded Certificates”), and (2) the mathematical computations of yield on the securities held in the escrow for the Refunded Certificates contained in the provided schedules used by Bond Counsel in its determination that the interest on the Certificates is not included in gross income for federal income tax purposes. Samuel Klein and Company, Certified Public Accountants, will express no opinion on the assumptions provided to them, nor as of the exclusion of interest on the Certificates from gross income for federal income tax purposes.

ESTIMATED SOURCES AND USES OF CERTIFICATE PROCEEDS

The 2017 Series A Certificates

Sources:	
Principal Amount of Certificates	\$9,050,000.00
Original Issue Premium	1,558,624.00
Total	\$10,608,624.00
Uses:	
Project Account Deposit ⁽¹⁾	\$10,575,542.69
Underwriters’ Discount	33,081.31
Total	\$10,608,624.00

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

The 2017 Series B Certificates

Sources:	
Principal Amount of Certificates	\$6,910,000.00
Net Original Issue Premium	1,253,810.05
Total	<u>\$8,163,810.05</u>

Uses:	
Project Account Deposit ⁽¹⁾	\$8,138,551.29
Underwriters' Discount	25,258.76
Total	<u>\$8,163,810.05</u>

⁽¹⁾ For project fund proceeds, costs of issuance and \$644,583.33 in capitalized interest.

The 2017 Series C Certificates

Sources:	
Principal Amount of Certificates	\$5,005,000.00
Original Issue Premium	568,698.75
Total	<u>\$5,573,698.75</u>

Uses:	
Project Account Deposit ⁽¹⁾	\$40,562.22
Deposit to refunding trust fund	5,514,841.28
Underwriters' Discount	18,295.25
Total	<u>\$5,573,698.75</u>

⁽¹⁾ For costs of issuance.

The 2017 Series D Certificates

Sources:	
Principal Amount of Certificates	\$19,635,000.00
Original Issue Premium	3,836,983.10
Total	<u>\$23,471,983.10</u>

Uses:	
Project Account Deposit ⁽¹⁾	\$158,009.55
Deposit to refunding trust fund	23,242,199.91
Underwriters' Discount	71,773.64
Total	<u>\$23,471,983.10</u>

⁽¹⁾ For costs of issuance.

The 2017 Series E Certificates

Sources:

Principal Amount of Certificates	\$8,000,000.00
Original Issue Premium	565,411.05
Total	<hr/> \$8,565,411.05

Uses:

Project Account Deposit ⁽¹⁾	\$62,760.68
Deposit to refunding trust fund	8,473,407.25
Underwriters' Discount	29,243.12
Total	<hr/> \$8,565,411.05

⁽¹⁾ For costs of issuance.

DESCRIPTION OF THE STATE

See APPENDIX A – “Supplement dated May 26, 2017 to the Information Statement of the State of Rhode Island and Providence Plantations dated April 18, 2017 and the Information Statement of the State of Rhode Island and Providence Plantations dated April 18, 2017,” 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-127 through A-132 in APPENDIX A – “Information Statement of the State of Rhode Island and Providence Plantations” dated April 18, 2017.

DESCRIPTION OF THE CERTIFICATES

The 2017 Series A Certificates represent an undivided interest in the 2017 Series A Lease Payments to be made by the State to the Trustee under the 2017 Series A Sublease. The 2017 Series B Certificates represent an undivided interest in the 2017 Series B Lease Payments to be made by the State to the Trustee under the 2017 Series B Sublease. The 2017 Series C Certificates represent an undivided interest in the 2017 Series C Lease Payments to be made by the State to the Trustee under the 2017 Series C Sublease. The 2017 Series D Certificates represent an undivided interest in the 2017 Series D Lease Payments to be made by the 2017 Series D Lessee to the Trustee under the 2017 Series D Sublease. The 2017 Series E Certificates represent an undivided interest in the 2017 Series E Lease Payments to be made by the State to the Trustee under the 2017 Series E Sublease. Certificates will be dated the date of delivery and will be issued in fully registered form without coupons in the denomination of \$5,000 each or any integral multiple thereof. So long as The Depository Trust Company (“DTC”), or its nominee Cede & Co., is the registered owner of the Certificates, all payments with respect thereto will be made directly to such registered holder. Disbursement of such payments to Beneficial Owners (as hereinafter defined) of the Certificates will be the responsibility of the

DTC Participants and Indirect Participants, as more fully described herein. (See “BOOK-ENTRY-ONLY SYSTEM” herein.)

The principal portions of the 2017 Series A Certificates are payable on June 1 of each year as set forth on the inside cover page hereof. The interest portions of the 2017 Series A Certificates will bear interest at the rates per annum (computed on the basis of a 360-day year of twelve 30-day months) as shown on the inside cover page hereof and will be payable semi-annually on June 1 and December 1 of each year commencing December 1, 2017 (the “2017 Series A Interest Payment Dates”) to and including the date of maturity or redemption of the 2017 Series A Certificates, whichever is earlier.

The principal portions of the 2017 Series B Certificates are payable on June 1 of each year as set forth on the inside cover page hereof. The interest portions of the 2017 Series B Certificates will bear interest at the rates per annum (computed on the basis of a 360-day year of twelve 30-day months) as shown on the inside cover page hereof and will be payable semi-annually on June 1 and December 1 of each year commencing December 1, 2017 (the “2017 Series B Interest Payment Dates”) to and including the date of maturity or redemption of the 2017 Series B Certificates, whichever is earlier.

The principal portions of the 2017 Series C Certificates are payable on May 1 of each year as set forth on the inside cover page hereof. The interest portions of the 2017 Series C Certificates will bear interest at the rates per annum (computed on the basis of a 360-day year of twelve 30-day months) as shown on the inside cover page hereof and will be payable semi-annually on May 1 and November 1 of each year commencing November 1, 2017 (the “2017 Series C Interest Payment Dates”) to and including the date of maturity or redemption of the 2017 Series C Certificates, whichever is earlier.

The principal portions of the 2017 Series D Certificates are payable on April 1 of each year as set forth on the inside cover page hereof. The interest portions of the 2017 Series D Certificates will bear interest at the rates per annum (computed on the basis of a 360-day year of twelve 30-day months) as shown on the inside cover page hereof and will be payable semi-annually on April 1 and October 1 of each year commencing October 1, 2017 (the “2017 Series D Interest Payment Dates”) to and including the date of maturity or redemption of the 2017 Series D Certificates, whichever is earlier.

The principal portions of the 2017 Series E Certificates are payable on October 1 of each year as set forth on the inside cover page hereof. The interest portions of the 2017 Series E Certificates will bear interest at the rates per annum (computed on the basis of a 360-day year of twelve 30-day months) as shown on the inside cover page hereof and will be payable semi-annually on April 1 and October 1 of each year commencing October 1, 2017 (the “2017 Series E Interest Payment Dates”) to and including the date of maturity or redemption of the 2017 Series E Certificates, whichever is earlier.

Record Date

Payment of the interest portion with respect to any Certificate shall be made on the payment date to the person appearing on the Certificate register as the Owner thereof as of the

close of business on the fifteenth day preceding such payment date, such interest to be paid by check or draft mailed to such Owner at such Owner's address as it appears on the Certificate register or at such other address as such Owner may have filed with the applicable Trustee for that purpose; provided, however, that the applicable Trustee may establish a special record date in connection with the payment of interest in default.

Optional Redemption of 2017 Series B Certificates and 2017 Series D Certificates

The 2017 Series B Certificates maturing on or before June 1, 2027 are not subject to redemption prior to their stated dates of maturity. The 2017 Series B Certificates maturing on and after June 1, 2028 are subject to optional redemption prior to their stated dates of maturity on and after June 1, 2027 as a whole or in part at any time, and may be redeemed by the exercise of the option to make payment of all or part of the Rent Prepayment Price as provided in the 2017 Series B Sublease in such order of maturity and in such amounts as directed by the Lessee, at a redemption price of 100% of the principal amount of the Certificates to be redeemed, plus accrued interest to the redemption date. The 2017 Series D Certificates maturing on or before April 1, 2027 are not subject to redemption prior to their stated dates of maturity. The 2017 Series D Certificates maturing on and after April 1, 2028 are subject to optional redemption prior to their stated dates of maturity on and after April 1, 2027 as a whole or in part at any time, and may be redeemed by the exercise of the option to make payment of all or part of the Rent Prepayment Price as provided in the 2017 Series D Sublease in such order of maturity and in such amounts as directed by the Lessee, at a redemption price of 100% of the principal amount of the Certificates to be redeemed, plus accrued interest to the redemption date.

No Optional Redemption of the 2017 Series A, C and E Certificates

The 2017 Series A Certificates, the 2017 Series C Certificates and the 2017 Series E Certificates are not subject to optional redemption.

Special Mandatory Redemption

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

Selection for Redemption

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

Notice of Redemption

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

BOOK-ENTRY-ONLY SYSTEM

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates

the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

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

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

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

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

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

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

THE 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.

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

TO OR THE PROVIDING OF NOTICE FOR THE DTC PARTICIPANTS, OR THE INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

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

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

SCHEDULED LEASE PAYMENTS

Scheduled 2017 Series A Lease Payments

The following is a schedule of 2017 Series A Lease Payments of Base Rent (as hereinafter defined) due under the 2017 Series A Sublease in each fiscal year, and attributed to the 2017 Series A Certificates, assuming that the 2017 Series A Sublease is continually renewed:

<u>Fiscal Year Ending June 30</u>	<u>Principal Portion of Lease Payment</u>	<u>Interest Portion of Lease Payment</u>	<u>Total Base Rent Lease Payment</u>
2018	\$740,000	\$427,361.11	\$1,167,361.11
2019	755,000	415,500.00	1,170,500.00
2020	790,000	377,750.00	1,167,750.00
2021	830,000	338,250.00	1,168,250.00
2022	875,000	296,750.00	1,171,750.00
2023	915,000	253,000.00	1,168,000.00
2024	960,000	207,250.00	1,167,250.00
2025	1,010,000	159,250.00	1,169,250.00
2026	1,060,000	108,750.00	1,168,750.00
2027	<u>1,115,000</u>	<u>55,750.00</u>	<u>1,170,750.00</u>
Total	\$9,050,000	\$2,639,611.11	\$11,689,611.11

Scheduled 2017 Series B Lease Payments

The following is a schedule of 2017 Series B Lease Payments of Base Rent (as hereinafter defined) due under the 2017 Series B Sublease in each fiscal year, and attributed to the 2017 Series B Certificates, assuming that the 2017 Series B Sublease is continually renewed:

<u>Fiscal Year Ending June 30</u>	<u>Principal Portion of Lease Payment</u>	<u>Interest Portion of Lease Payment</u>	<u>Total Base Rent Lease Payment</u>
2018	\$0	\$313,083.33	\$313,083.33
2019	0	331,500.00	331,500.00
2020	390,000	331,500.00	721,500.00
2021	410,000	312,000.00	722,000.00
2022	430,000	291,500.00	721,500.00
2023	450,000	270,000.00	720,000.00
2024	475,000	247,500.00	722,500.00
2025	500,000	223,750.00	723,750.00
2026	525,000	198,750.00	723,750.00
2027	550,000	172,500.00	722,500.00
2028	575,000	145,000.00	720,000.00
2029	605,000	116,250.00	721,250.00
2030	635,000	86,000.00	721,000.00
2031	665,000	54,250.00	719,250.00
2032	<u>700,000</u>	<u>21,000.00</u>	<u>721,000.00</u>
Total	\$6,910,000	\$3,114,583.33	\$10,024,583.33

Scheduled 2017 Series C Lease Payments

The following is a schedule of 2017 Series C Lease Payments of Base Rent (as hereinafter defined) due under the 2017 Series C Sublease in each fiscal year, and attributed to the 2017 Series C Certificates, assuming that the 2017 Series C Sublease is continually renewed:

<u>Fiscal Year Ending June 30</u>	<u>Principal Portion of Lease Payment</u>	<u>Interest Portion of Lease Payment</u>	<u>Total Base Rent Lease Payment</u>
2018	\$690,000	\$215,493.06	\$905,493.06
2019	1,150,000	215,750.00	1,365,750.00
2020	1,230,000	158,250.00	1,388,250.00
2021	585,000	96,750.00	681,750.00
2022	645,000	67,500.00	712,500.00
2023	<u>705,000</u>	<u>35,250.00</u>	<u>740,250.00</u>
Total	\$5,005,000	\$788,993.06	\$5,793,993.06

Scheduled 2017 Series D Lease Payments

The following is a schedule of 2017 Series D Lease Payments of Base Rent (as hereinafter defined) due under the 2017 Series D Sublease in each fiscal year, and attributed to the 2017 Series D Certificates, assuming that the 2017 Series D Sublease is continually renewed:

<u>Fiscal Year Ending June 30</u>	<u>Principal Portion of Lease Payment</u>	<u>Interest Portion of Lease Payment</u>	<u>Total Base Rent Lease Payment</u>
2018	\$0	\$763,583.33	\$763,583.33
2019	490,000	981,750.00	1,471,750.00
2020	1,520,000	957,250.00	2,477,250.00
2021	1,595,000	881,250.00	2,476,250.00
2022	1,680,000	801,500.00	2,481,500.00
2023	1,760,000	717,500.00	2,477,500.00
2024	1,850,000	629,500.00	2,479,500.00
2025	1,945,000	537,000.00	2,482,000.00
2026	2,040,000	439,750.00	2,479,750.00
2027	2,145,000	337,750.00	2,482,750.00
2028	2,250,000	230,500.00	2,480,500.00
2029	<u>2,360,000</u>	<u>118,000.00</u>	<u>2,478,000.00</u>
Total	\$19,635,000	\$7,395,333.33	\$27,030,333.33

Scheduled 2017 Series E Lease Payments

The following is a schedule of 2017 Series E Lease Payments of Base Rent (as hereinafter defined) due under the 2017 Series E Sublease in each fiscal year, and attributed to the 2017 Series E Certificates, assuming that the 2017 Series E Sublease is continually renewed:

<u>Fiscal Year Ending June 30</u>	<u>Principal Portion of Lease Payment</u>	<u>Interest Portion of Lease Payment</u>	<u>Total Base Rent Lease Payment</u>
2018	\$1,735,000	\$251,069.44	\$1,986,069.44
2019	1,990,000	263,500.00	2,253,500.00
2020	2,085,000	161,625.00	2,246,625.00
2021	<u>2,190,000</u>	<u>54,750.00</u>	<u>2,244,750.00</u>
Total	\$8,000,000	\$730,944.44	\$8,730,944.44

CERTIFICATE OWNERS' RISKS

General

The Certificates do not constitute a debt or liability of the State within the meaning of any constitutional or statutory limitation and neither the faith and credit nor the taxing power of the State is pledged to make payments under the applicable Sublease. The State is not required to

appropriate funds to make payments required under the applicable Sublease, including without limitation, Base Rent and Additional Rent for any Certificates. If the State fails to appropriate such monies it is unlikely that the applicable Trustee would have sufficient funds, by leasing of the applicable Project or otherwise, to make payment in full of the principal and interest portions of the applicable Certificates.

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

Termination of Subleases Related to 2011 Series A Certificates and 2009 Series B Certificates

In certain respects, portions of the 2017 Series B Project was funded by the 2011 Series A Certificates, and portions of the 2017 Series C Project was funded by the 2009 Series B Certificates. (See “THE PROJECTS – The 2017 Series B Project – URI Energy Conservation” and “The 2017 Series C Project – Energy Conservation” herein.). In the event the sublease related to the 2011 Series A Certificates or the sublease related to the 2009 Series B Certificates terminates and the trustee with respect to the 2011 Series A Certificates or the 2009 Series B Certificates exercises its rights to foreclose on the projects funded with the proceeds of the 2011 Series A Certificates or the 2009 Series B Certificates, the value of the 2017 Series B Project or the 2017 Series C Project, as the case may be, could be substantially diminished.

Special Mandatory and Optional Redemption or Acceleration Prior to Maturity

The Certificates are subject to special mandatory redemption or acceleration prior to maturity. In addition, the 2017 Series B Certificates and 2017 Series D Certificates are subject to optional redemption on and after June 1, 2027, in the case of the 2017 Series B Certificates, and on and after April 1, 2027, in the case of the 2017 Series D Certificates. (See “DESCRIPTION OF THE CERTIFICATES – Optional Redemption of 2017 Series B Certificates and 2017 Series D Certificates” above and “DESCRIPTION OF THE CERTIFICATES — Special Mandatory Redemption,” above and “SUMMARY OF CERTAIN PROVISION OF THE DECLARATIONS OF TRUST” herein.) Certificate Owners may not realize their anticipated yield on investment to maturity because the Certificates may be redeemed or accelerated prior to maturity at par which results in the realization of less than the anticipated yield to maturity.

Zoning Matters Relating to the 2017 Series D Project

The property on which the Rhode Island School for the Deaf currently operates and where the Facility was constructed is One Corliss Park in Providence, Rhode Island (“Corliss Park”), which is zoned as “residential” under the zoning ordinance of the City of Providence, Rhode Island. The Rhode Island School for the Deaf has conducted its operations in its current facility at Corliss Park since 1974 as a nonconforming use. The Council, on behalf of the State, has owned and operated the Rhode Island School for the Deaf at Corliss Park since the transfer of the property in 1992 by the Providence Redevelopment Agency to the Council’s predecessor,

the Board of Regents for Elementary and Secondary Education. A building permit was issued by the Rhode Island Board of Standards and Appeals on December 22, 2008, for the construction of the new facility, which expanded the nonconforming use at Corliss Park by the State, and such construction commenced in January 2009. There were no appeals filed or objections made to the issuance of the building permit or to the construction. Notwithstanding all of the foregoing, there is no assurance that objections will not be raised to the use of Corliss Park as a school in the future based upon such nonconforming use under the zoning ordinance of the City of Providence. If the Rhode Island School for the Deaf was required to cease or modify its operations at Corliss Park as a result of any action taken by the City of Providence under its zoning ordinance with respect to such nonconforming use, such an action may impact the decision of the State as to whether to continue to renew the 2017 Series D Sublease for each Renewal Period thereafter and appropriating sufficient funds to enable the payment of all Lease Payments for each such Renewal Period under the 2017 Series D Sublease (See “CERTIFICATE OWNERS’ RISKS – Risk of Non-Appropriation and Non-Renewal” herein).

Value of Projects

The Trustee’s leasehold interests in the applicable Project, which constitute part of the security for the applicable Certificates, are leasehold interests in real and leased property which may be of limited value to anyone other than a state governmental department. Moreover, significant portions of the 2017 Series B Project and 2017 Series C Project consist of improvements to real estate to accommodate the new energy cost saving equipment. Such assets incorporated into the real estate would not be available to the Series 2017 B and Series 2017 C Trustees to re-let in the event of non-appropriation by the State. Furthermore, the 2017 Series B Project and a portion of the 2017 Series C Project will be on real property owned by the Council on Post Secondary Education which holds all of its properties in trust for the State. The 2017 Series D Project is located on real property owned by the Council on Elementary and Secondary Education which holds property in trust for the State, which property is zoned residential. The Trustee, in exercising its rights to take possession of the 2017 Series D Project upon an Event of Default under the 2017 Series D Sublease, may be restricted in its ability to use or lease the 2017 Series D Project due to the existence of such zoning.

Risk of Non-Appropriation and Non-Renewal

Each of the 2017 Series A Sublease, the 2017 Series B Sublease, the 2017 Series C Sublease and the 2017 Series D Sublease is for a period ending June 30, 2017, and the 2017 Series E Sublease is for a period ending June 30, 2018, and each may be renewed for successive annual periods corresponding to the State’s fiscal year (or periods less than such fiscal year). The Lessee shall be deemed to have exercised its right of renewal for each succeeding Renewal Period if at or prior to the expiration of the then current Sublease term, there are lawfully appropriated by the Lessee sufficient funds enabling the payment of all Lease Payments due during the next Fiscal Year with respect to the applicable Sublease. The State is not obligated to renew the applicable Sublease for any Renewal Period unless funds are lawfully appropriated therefor. There can be no assurance that the funds will be lawfully appropriated. (See “SUMMARY OF CERTAIN PROVISIONS OF THE SUBLEASES - Term and Renewals” herein.)

Certain Matters Relating to Enforceability of the Leases and the Subleases

The obligations of the State under the Leases and the Subleases and the Council for Elementary and Secondary Education under the 2017 Series D Lease and 2017 Series D Sublease, may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws or by equitable principles affecting the enforcement of creditors' rights generally.

Market Factors

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

Tax-Exempt Status; Continuing Legal Requirements

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

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

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

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

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

SUMMARY OF CERTAIN PROVISIONS OF THE SUBLEASES

The following is a summary of certain provisions of the Sublease. The 2017 Series A Sublease, the 2017 Series B Sublease, the 2017 Series C Sublease, the 2017 Series D Sublease and the 2017 Series E Sublease are substantially similar (except as otherwise differentiated in this summary). In this summary, the terms "Sublease," "Project," "Declaration of Trust" and "Lease Payments" should be read as referring to the documents related to the 2017 Series A

Certificates, the 2017 Series B Certificates, the 2017 Series C Certificates, the 2017 Series D Certificates or the 2017 Series E Certificates, as applicable. Reference is hereby made to the actual documents for a complete recital of their terms.

Term and Renewals

Each of the 2017 Series A Sublease, 2017 Series B Sublease, 2017 Series C Sublease and 2017 Series D Sublease will be effective as of June 1, 2017 and will terminate on June 30, 2017, and the 2017 Series E Sublease will be effective as of July 1, 2017 and will terminate on June 30, 2018. The Sublease may be renewed, upon the terms and conditions set forth therein, for the Renewal Periods of one year. The Sublease may be renewed beyond its termination date for such periods as other amendments to the Sublease may provide.

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

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

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

Rent

The State under the 2017 Series A Sublease, 2017 Series B Sublease, the 2017 Series C Sublease and the 2017 Series E Sublease, and the 2017 Series D Lessee under the 2017 Series D Sublease, agree to pay the payments specified in the Sublease equal to the principal portion of and interest portion on, the Certificates (“Base Rent”). Each payment shall be applied first to payment of the interest portion of the Lease Payment. Interest or income on any moneys in the Base Rent Subaccount of the Lease Payment Account shall be applied as a credit against the balance of the Base Rent. (See “SUMMARY OF CERTAIN PROVISIONS OF THE

DECLARATIONS OF TRUST -- Establishment and Application of Lease Payment Account” herein.) The State’s obligation to pay all or any portion of the Base Rent is subject to the availability of lawful appropriations therefor.

The State under the 2017 Series A Sublease, 2017 Series B Sublease, the 2017 Series C Sublease and the 2017 Series E Sublease, and the 2017 Series D Lessee under the 2017 Series D Sublease, agree to pay the following amounts as additional rent to the Trustee: (i) any and all charges, taxes or payments in lieu thereof (local, state and federal) imposed on the ownership, leasing, rental, sale, purchase, possession or use of the Project during the Lease Term, (ii) the Rebate Amount, as defined in the Tax Certificate and (iii) amounts required to pay Project costs in excess of the amount payable from the proceeds of sale of the Certificates (collectively, “Additional Rent”).

The State’s and the 2017 Series D Lessee’s obligation to pay all or any portion of the Additional Rent is subject to the availability of lawful appropriations therefor. If funds are not available for payment of all or any part of the Additional Rent during the first fiscal year in which such Additional Rent becomes due and payable, the Trustee shall have the right, but shall not be obligated, to pay such Additional Rent. If the Trustee pays any portion of the Additional Rent which the State is responsible or liable for under the Sublease, the State and the 2017 Series D Lessee’s, as applicable, shall, to the extent funds are lawfully appropriated, pay the Trustee on the first Lease Payment Date in the next succeeding fiscal year an amount equal to the sum of the Additional Rent paid and the costs incurred by the Trustee in making such payment. If the Trustee pays such Additional Rent and is reimbursed for such payment as provided for in the Sublease, the Sublease shall not be deemed terminated. For all fiscal years subsequent to that in which it is determined the State or the 2017 Series D Lessee, as applicable, is liable for such Additional Rent, the State shall submit a budget for, and will seek appropriation of, funds for payment of the taxes, charges and payments in lieu thereof. The Trustee shall cooperate with and assist the State in preparing such budget.

The State reasonably believes that funds will be available to make all Lease Payments with respect to the Sublease during each term of the Sublease and covenants that its Department of Administration will do all things lawfully within its power to obtain, maintain and properly request and pursue funds from which the payments under the Sublease may be made including making provisions for such payments in budgets submitted for the purpose of obtaining funding, using its bona fide best efforts to have such portion of the budget approved and exhausting all available administrative reviews and appeals, if any, in the event such portion of the budget is not approved. It is the State’s and the 2017 Series D Lessee’s intent to make payments under the Sublease, as applicable to each, for all terms of the Sublease if funds are legally available therefor and the State with respect to the 2017 Series A Project, 2017 Series B Project, 2017 Series C Project and 2017 Series E Project, and the 2017 Series D Lessee with respect to the 2017 Series D Project, represent that the uses of the Projects are essential to its proper, efficient and economic operation.

Non-appropriation of Funds

In the event that the Rhode Island General Assembly has adjourned for the year with the expectation that it will not meet again until the following year and no funds or insufficient funds are lawfully appropriated in any fiscal year enabling the payment of all the payments under the Sublease due for the next succeeding Sublease term (an “Event of Non appropriation”) then the State will immediately notify the Trustee of such occurrence. On the July 1 following the last date on which such funds can be lawfully appropriated in such fiscal year, the Sublease shall terminate without penalty or expense to the State, or the 2017 Series D Lessee with respect to the 2017 Series D Sublease, of any kind whatsoever, except as to the portions of Lease Payments herein agreed upon for fiscal years in which sufficient funds have been lawfully appropriated. In the event of an Event of Non appropriation, the State, or the 2017 Series D Lessee with respect to the 2017 Series D Project, agrees immediately to peaceably surrender possession of the Project to the Trustee on the date of such Event of Non appropriation.

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

Title

The State will continue to possess title to the 2017 Series A Project, 2017 Series B Project, 2017 Series C Project and 20017 Series E Project, and the Council will continue to possess title to the 2017 Series D Project. Title to the Project will be freed of such leasehold interests, upon the complete payment and performance by the State or the 2017 Series D Lessee, as the case may be, of all of its obligations during the Sublease term.

Insurance

The State, and the Council along with the State under the 2017 Series D Sublease, are required at all times during the term of the Sublease to maintain comprehensive property insurance or shall self-insure consistent with prevailing standards for comparable public bodies of similar size in the region. The proceeds of insurance recovered on portions of the Project lost, stolen, destroyed, damaged or appropriated by condemnation shall be applied to the repair or replacement of the Project. In the event of self-insurance, proceeds of self-insurance shall be applied to repair or replace the Project to the extent proceeds are lawfully appropriated therefor.

Rent Prepayment Option for 2017 Series B Certificates and 2017 Series D Certificates

On and after June 1, 2027 pursuant to the 2017 Series B Sublease and on and after April 1, 2027 pursuant to the 2017 Series D Sublease, upon sixty (60) days prior written notice from the State to the 2017 Series B Trustee or the 2017 Series D Trustee, as applicable, and provided that there is not then existing an Event of Default, or a default which with notice or lapse of time,

or both, could become an Event of Default, the State with respect to the 2017 Series B Sublease, and the 2017 Series D Lessee with respect to the 2017 Series D Sublease, will have the right to prepay payments under the 2017 Series B Sublease and the 2017 Series D Sublease, as applicable, in whole or in part at any time by paying to the 2017 Series B Trustee or the 2017 Series D Trustee, as applicable, on such date, the payments then due under the 2017 Series B Sublease or the 2017 Series D Sublease, as applicable, together with the Rent Prepayment Price being paid on such date along with instructions to the 2017 Series B Trustee or the 2017 Series D Trustee, as applicable, as to how such Rent Prepayment Price shall be applied by the 2017 Series B Trustee or the 2017 Series D Trustee in its capacity as 2017 Series B Trustee or the 2017 Series D Trustee for the Owners of 2017 Series B Certificates or 2017 Series D Certificates. Upon satisfaction by the State or the 2017 Series D Lessee, as the case may be, of payment of the entire Rent Prepayment Price, the 2017 Series B Trustee or the 2017 Series D Trustee, as applicable, will transfer any and all of its right, title and interest in the 2017 Series B Project or 2017 Series D Project, as is, to the State or the 2017 Series D Lessee, as the case may be, without warranty, express or implied, except that the 2017 Series B Trustee or the 2017 Series D Trustee will warrant to the State or the 2017 Series D Lessee, as the case may be, that the Project is free and clear of any liens created by the 2017 Series B Trustee or the 2017 Series D Trustee.

Events of Default

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

- (a) The State or the 2017 Series D Lessee, as applicable, fails to make any Lease Payment as it becomes due in accordance with the terms of the Sublease; or
- (b) The State or the 2017 Series D Lessee, as applicable, fails to perform or observe any other covenant, condition, or agreement to be performed or observed by it under the Sublease and such failure is not cured within thirty (30) days after written notice thereof by the Trustee.

Remedies

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

- (a) By written notice to the State or the 2017 Series D Lessee, as applicable, request the State or the 2017 Series D Lessee to (and the State and the 2017 Series D Lessee agree that it will to the fullest extent possible) relinquish possession of any or all of the property constituting the Project, as applicable, and deliver the same to the Trustee ;
- (b) By written notice to the State or the 2017 Series D Lessee, as applicable, declare an amount equal to all amounts then due under the Sublease and all remaining payments due under the Sublease during the remaining term of the Sublease to be immediately due and payable whereupon the same shall become immediately due and payable;

(c) Lease the relinquished property comprising of the Project for the account of the State or the 2017 Series D Lessee, as applicable, who shall remain liable for all Lease Payments due during the Sublease term and other payments due to the effective date of such leasing and for the difference between the rental and other amounts paid by the State or the 2017 Series D Lessee, as applicable, pursuant to such lease and the amounts payable by the State or the 2017 Series D Lessee, as applicable, thereunder; and

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

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

In addition, the State or the 2017 Series D Lessee, as applicable, will remain liable for all covenants and obligations under the Sublease and for all legal fees and other costs and expenses, including court costs, when and if deemed appropriate and awarded by a court of competent jurisdiction, incurred by the Trustee with respect to the enforcement of any of the remedies listed above or any other remedy available to the Trustee under the Sublease, when it is finally adjudicated by a court of competent jurisdiction that the State or the 2017 Series D Lessee, as applicable, is in default of the Sublease.

SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATIONS OF TRUST

The following is a summary of certain provisions of the Declaration of Trust. The 2017 Series A Declaration of Trust, the 2017 Series B Declaration of Trust, the 2017 Series C Declaration of Trust, the 2017 Series D Declaration of Trust and the 2017 Series E Declaration of Trust are substantially similar (except as otherwise differentiated in this summary). In this summary, the terms "Sublease," "Project," "Declaration of Trust," and "Lease Payments" should be read as referring to the documents relating to the 2017 Series A Certificates, the 2017 Series B Certificates, the 2017 Series C Certificates, the 2017 Series D Certificates or the 2017 Series E Certificates, as applicable. Reference is hereby made to the actual documents for a complete recital of their terms.

General

The Declaration of Trust establishes a Trust for the benefit of the Owners of the Certificates issued thereunder, to secure the payment of the principal portions of, and interest portions on, the Certificates issued pursuant thereto and secure the performance and observance of all covenants and conditions under the Declaration of Trust and the Certificates and establishes the terms and conditions subject to which Certificates are to be issued, executed, held, secured and enforced.

The Lessor, concurrently with the execution and delivery of the Declaration of Trust grants and assigns to the Trustee all of the Lessor's right, title and interest in, to and under the Sublease.

Certificates

Simultaneously with the receipt of the Sublease relating to the issuance of the Certificates and the receipt of the proceeds thereof, the Trustee shall execute and deliver the Certificates in the aggregate authorized principal amounts evidencing proportionate interests in the Lease Payments to be paid by the State under the 2017 Series A Sublease, 2017 Series B Sublease, 2017 Series C Sublease and the 2017 Series E Sublease, and the 2017 Series D Lessee under the 2017 Series D Sublease.

Transfer of Certificates

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

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

Redemption

The Certificates are subject to special mandatory redemption prior to maturity as a whole or in part in the amounts, on the dates and at the prices as more fully described above under "DESCRIPTION OF THE CERTIFICATES — *Special Mandatory Redemption*". The 2017 Series B Certificates and the 2017 Series D Certificates are also subject to optional description as described in "DESCRIPTION OF THE CERTIFICATES — *Optional Redemption of 2017 Series B Certificates and 2017 Series D Certificates*".

Trust Fund

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

Establishment and Application of Project Account

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

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

Any moneys remaining in the Project Account under the 2017 Series A Declaration of Trust or the 2017 Series B Declaration of Trust (other than moneys retained to pay costs and expenses not then due and payable), after completion of the 2017 Series A Project or the 2017 Series B Project, as the case may be, or in the Project Account under the 2017 Series C Declaration of Trust, 2017 Series D Declaration of Trust or 2017 Series E Declaration of Trust after payment of all costs of issuance, shall be transferred at the direction of the State, or the 2017 Series D Lessee in the case of the 2017 Series D Declaration of Trust.

Establishment and Application of Lease Payment Account

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

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

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

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

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

Establishment and Application of Rebate Account

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

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

Establishment and Application of Redemption Account

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

Moneys shall be deposited in the Redemption Account in the event of a special mandatory redemption or, with respect to the 2017 Series B Certificates or 2017 Series D Certificates, an optional redemption, or upon acceleration.

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

Deposit and Investment of Moneys in Funds

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

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

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

1. Farmers Housing Administration (FmHA)
Certificates of beneficial ownership
2. Federal Housing Administration Debentures (FHA)
3. General Services Administration
Participation certificates
4. Government National Mortgage Association (GNMA or “Ginnie Mae”)
GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations (participation certificates)
5. U.S. Maritime Administration
Guaranteed Title XI financing
6. U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds

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

1. Federal Home Loan Bank System
Senior debt obligations (Consolidated debt obligations)
2. Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”)
Participation Certificates (Mortgage-backed securities) (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

Senior debt obligations

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

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

4. Farm Credit System

Consolidated system wide bonds and notes

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “Aam” or “AAm-G” and if rated by Moody’s rated “Aa2” or better, including, without limitation, any mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from such funds for services rendered, (ii) the Trustee charges and collects fees for services rendered pursuant to this Declaration of Trust, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to this Declaration of Trust may at times duplicate those provided to such funds by the Trustee or its affiliates;

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

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

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

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

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

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

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

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

Repos must satisfy the following criteria:

1. Repos must be between the Lessee and a dealer bank or securities firm
 - a. Primary dealers on the Federal Reserve reporting dealer list which fall under the jurisdiction of the SIPC and which are rated A or better by S&P and Moody’s, or
 - b. Banks rated “A” or above by S&P and Moody’s
2. The written Repo contract must include the following:
 - a. Securities which are acceptable for transfer are:
 - (1) Direct U.S. governments, or
 - (2) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)
 - b. The term of the Repo may be up to 30 days
 - c. The collateral must be delivered to the Trustee (if the Trustee is not supplying the collateral) or third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).
 - d. The Trustee has a perfected first priority security interest in the collateral.
 - e. Collateral is free and clear of third-party liens and in the case of SIPC broker was not acquired pursuant to a repo or reverse repo.

- f. Failure to maintain the requisite collateral percentage, after a two day restoration period, will require the Trustee to liquidate collateral.
- g. Valuation of Collateral. Investments shall be valued as follows:
 - (1) The securities must be valued weekly, marked-to-market at current market price plus accrued interest
 - (2) The value of collateral must be equal to 104% of the amount of cash transferred by the Trustee to the dealer bank or security firm under the Repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the Trustee, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

3. Legal opinion which must be delivered to the Trustee:

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

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

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

- 1. the municipal obligations are (a) not subject to redemption prior to maturity or (b) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;
- 2. the municipal obligations are secured by cash or U.S. Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;
- 3. the principal of and interest on the U.S. Treasury Obligations (plus an cash in the escrow) has been verified by the report of independent certified public

accountants to be sufficient to pay in full all principal of, interest and premium, if any, due and to become due on the municipal obligations (“Verification Report”);

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

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

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

Events of Default

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

(a) The State, or the 2017 Series D Lessee in connection with the 2017 Series D Sublease, fails to make the Lease Payment as it becomes due in accordance with the terms of the Sublease and any such failure continues for five (5) days after the due date thereof; or

(b) The State, or the 2017 Series D Lessee in connection with the 2017 Series D Sublease, fails to perform or observe any other covenant, condition or agreement to be performed or observed by it under the Sublease and such failure is not cured within thirty (30) days after written notice thereof from the Trustee; or

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

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

Acceleration

Upon the occurrence of any Event of Default involving non-appropriation or the State’s or the 2017 Series D Lessee’s failure to otherwise make a scheduled payment under the Sublease, the Trustee shall, and upon the occurrence of any Event of Default involving the State’s or the 2017 Series D Lessee’s failure to observe or perform any other covenant, condition or agreement under the Sublease, the Trustee may, and upon the written request of the Owners of not less than a majority in aggregate principal amount of the Certificates then Outstanding shall by notice in writing delivered to the State or the 2017 Series D Lessee, as applicable, declare the principal portions of all Certificates then Outstanding and the accrued interest portions thereof

immediately due and payable and such principal and interest portions shall thereupon become and be immediately due and payable and shall declare an amount equal to all remaining Lease Payments and other amounts due during the Sublease term to be immediately due and payable.

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

Remedies

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

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

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

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

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

Rights of Certificate Owners to Direct Proceedings

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

Appointment of Receivers

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

Rights and Remedies of Certificate Owners

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

and interest portions on, the Certificates to the respective Owners thereof at the time, place, from the source and in the manner provided in said Certificates.

Waivers of Events of Default

Except as otherwise provided under “SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATION OF TRUST — Acceleration,” the Trustee may in its discretion waive any Event of Default under the Declaration of Trust and its consequences and rescind any declaration of maturity of principal and shall do so upon the written request of the Owners of one-half in aggregate principal amount of all the Certificates then outstanding thereunder; provided, however, that there shall not be waived (a) any Event of Default in the payment of the principal portions of any outstanding Certificates thereunder at the date of maturity specified therein or (b) any default in the payment when due of the interest portions of any such Certificates unless prior to such waiver or rescission, all arrears of interest portions, or all arrears of payments of principal portions and sinking fund installments when due, as the case may be, and all expenses of the Trustee, in connection with such default, shall have been paid or provided for, and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every such case the State or the 2017 Series D Lessee, as applicable, the Trustee and the Certificate Owners shall be restored to their former positions and rights thereunder and under the Sublease, respectively, but no such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

Amendments and Supplemental Amendments

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

- (a) To cure any ambiguity, inconsistency or formal defect or omission in the Declaration of Trust;
- (b) To grant to or confer upon the Trustee for the benefit of the Certificate Owners any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Certificate Owners or the Trustee or either of them;
- (c) To subject to the lien and pledge of the Declaration of Trust, additional revenues;
- (d) To add to the covenants and agreements of the Trustee contained in the Declaration of Trust other covenants and agreements thereafter to be observed for the protection of the Certificate Owners, or to surrender or limit any right, power or authority herein reserved to or conferred upon the Trustee; and
- (e) To evidence any succession within the Trustee and the assumption by such successors of the requirements, covenants and agreements of the Trustee and in the Lease, the Sublease and the Certificates issued under the Declaration of Trust.

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

The Trustee without the consent of the Owners of the Certificates may consent to any amendment to the Sublease which in its judgment is not to the prejudice of the Trustee or the Owners of the Certificates. The Trustee shall not consent to any amendment, change or modification of the Sublease which would change the amount of the Lease Payments required to be paid under the Sublease, or the Lease Payment Dates under the Sublease unless the Owners of not less than a majority in aggregate principal amount of the Certificates then outstanding shall approve the Trustee's consent to such amendment; provided, however that no amendment to the Sublease shall be consented to if the amendment would result: (i) in an extension of the maturity of the principal portion of or the interest portion on any Certificate issued in connection therewith, or a reduction in the principal amount of any Certificate or the rate of interest thereon, unless each Certificate Owner so affected consents; or (ii) in a privilege or priority of any Certificate over any other Certificate, or a reduction in the aggregate principal amount of the Certificates required for consent to such amendment, unless the Owners of all of the Certificates then Outstanding under the Declaration of Trust so consent.

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

the Declaration of Trust and/or the Sublease, as the case may be, shall be and is deemed to be modified and amended in accordance with such amendment.

Defeasance of Certificates

If and when any 2017 Series B Certificates issued under the 2017 Series B Declaration of Trust or any 2017 Series D Certificates issued under the 2017 Series D Declaration of Trust shall become due and payable in accordance with their terms, and the whole amount of principal portions and interest portions so due and payable upon all of such 2017 Series B Certificates or 2017 Series D Certificates, as the case may be, shall be paid, or provision shall have been made for the payment of the same by the deposit of cash or the types of securities listed in the definition of subsection (a) of Permitted Investments provided under “SUMMARY OF CERTAIN PROVISIONS OF DECLARATION OF TRUST – Deposit and Investment of Moneys in Funds” and all administrative and other expenses associated with such 2017 Series B Certificates or 2017 Series D Certificates, as the case may be, shall have been paid or provided for, then and in that case, the right, title and interest of the Trustee under such Declaration of Trust and any applicable supplemental amendment relating to such Certificates shall thereupon cease, terminate and become void, and the Trustee shall assign and transfer to the State or the 2017 Series D Lessee, as applicable, all property (in excess of the amounts required for the foregoing) then held by the Trustee as to such series of Certificates and shall execute such documents as may be reasonably required by the State or the 2017 Series D Lessee, as applicable, in this regard.

LITIGATION

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

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

LEGAL MATTERS

The Attorney General of the State has reviewed and approved all the documentation related to the Subleases and the Leases and will render an opinion to the effect that the State possesses the authority necessary to enter into the Subleases and the Leases and that the Subleases and the Leases constitute legal, valid, binding and enforceable obligations of the State subject to the limitations set forth therein. The Legal Counsel to the Council has reviewed and approved all documentation related to the 2017 Series D Lease and 2017 Series D Sublease and will render an opinion to the effect that the Council possesses the necessary authority to enter in to the 2017 Series D Lease and 2017 Series D Sublease and that the 2017 Series D Lease and 2017 Series D Sublease constitute legal, valid, binding and enforceable obligations of the

Council subject to the limitations set forth therein. Certain legal matters will be passed upon for the State by Partridge Snow & Hahn LLP, Providence, Rhode Island, special counsel to the State, and by Adler Pollock & Sheehan, P.C., Providence, Rhode Island, disclosure counsel to the State. Certain legal matters will be passed upon for the Underwriters by its counsel, Harrington & Vitale, Ltd., Providence, Rhode Island.

TAX STATUS

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

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

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

circumstance, or change in law or interpretation, or otherwise. Partridge Snow & Hahn LLP expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of that portion of the Lease Payments designated as Interest, or under state or local tax law.

Original Issue Discount

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

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

Premium

Certain of the Certificates (the “Premium Certificates”) may be offered and sold to the public at a purchase price that reflects a premium over the sum of all amounts payable on the Certificate. In general, under Section 171 of the Code, an owner of a Premium Certificate must amortize the certificate premium over the remaining term of the Premium Certificate, based on the owner’s yield over the remaining term of the Premium Certificate, determined based on constant yield principles. An owner of a Premium Certificate must amortize the certificate premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the certificate premium allocable to that period. In the case of a tax-exempt Premium Certificate, if the certificate premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of the Premium Certificate may realize a taxable gain upon disposition of the Premium Certificate even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Certificates should consult their own tax advisors regarding the treatment of certificate premium for federal income tax purposes, including various special rules relating

thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Certificates.

Ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers including, without limitation, corporations subject to the foreign branch profits tax, Subchapter S corporations, financial institutions, certain insurance companies, individual recipients of Social Security or railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. In addition, taxpayers disposing of property, the acquisition of which is financed in whole or in part after 1990 with federally-subsidized indebtedness (qualified mortgage bonds or mortgage credit Certificates) must take receipts or accruals of interest on the Certificates into account in determining what portion, if any, of the federally-subsidized amount is subject to recapture. Prospective purchasers of the Certificates should consult their tax advisors as to the applicability of any such collateral consequences.

PARTRIDGE SNOW & HAHN LLP EXPRESSES NO OPINION AS TO THE EXCLUSION FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES OF THE PORTION OF THE LEASE PAYMENTS DISTRIBUTABLE TO THE CERTIFICATE OWNERS AS INTEREST IN THE EVENT OF NON-APPROPRIATION BY THE STATE OF THE LEASE PAYMENTS.

SPECIAL COUNSEL HAS SPECIFICALLY DISCLAIMED ANY OPINION AS TO THE EFFECT THAT TERMINATION OF THE SUBLEASE MAY HAVE UPON THE TREATMENT FOR FEDERAL OR STATE INCOME TAX PURPOSES OF AMOUNTS RECEIVED BY CERTIFICATE OWNERS. THERE IS NO ASSURANCE THAT ANY AMOUNTS REPRESENTING INTEREST RECEIVED BY CERTIFICATE OWNERS AFTER TERMINATION OF THE SUBLEASE WILL BE EXCLUDABLE FROM GROSS INCOME UNDER FEDERAL OR STATE LAWS.

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

The foregoing is a general discussion of the anticipated material federal and state income tax consequences relating to the ownership of the Certificates. The discussion does not purport to address all federal and state income tax consequences that may be applicable to particular

categories of investors, some of which may be subject to special rules. The authorities on which this discussion is based are subject to change or different interpretation, and any such change or interpretation could apply retroactively.

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

UNDERWRITING

The Certificates are being purchased by the Underwriters listed on the cover page hereof. Merrill Lynch, Pierce, Fenner & Smith Incorporated is acting as representative on behalf of the Underwriters. The aggregate offering price of the Series A Certificates to the public is \$10,608,624.00 and the Underwriters have agreed, subject to certain conditions, to purchase the Series A Certificates at a purchase price of \$10,575,542.69 and to reoffer the Series A Certificates at no greater than the initial public offering price or prices set forth on the inside cover page hereof. The aggregate offering price of the Series B Certificates to the public is \$8,163,810.05 and the Underwriters have agreed, subject to certain conditions, to purchase the Series B Certificates at a purchase price of \$8,138,551.29 and to reoffer the Series B Certificates at no greater than the initial public offering price or prices set forth on the inside cover page hereof. The aggregate offering price of the Series C Certificates to the public is \$5,573,698.75 and the Underwriters have agreed, subject to certain conditions, to purchase the Series C Certificates at a purchase price of \$5,555,403.50 and to reoffer the Series C Certificates at no greater than the initial public offering price or prices set forth on the inside cover page hereof. The aggregate offering price of the Series D Certificates to the public is \$23,471,983.10 and the Underwriters have agreed, subject to certain conditions, to purchase the Series D Certificates at a purchase price of \$23,400,209.46 and to reoffer the Series D Certificates at no greater than the initial public offering price or prices set forth on the inside cover page hereof. The aggregate offering price of the Series E Certificates to the public is \$8,565,411.05 and the Underwriters have agreed, subject to certain conditions, to purchase the Series E Certificates at a purchase price of \$8,536,167.93 and to reoffer the Series E Certificates at no greater than the initial public offering price or prices set forth on the inside cover page hereof. The Underwriters may offer and sell the Certificates to certain dealers (including dealers depositing Certificates into investment trusts and others) at prices lower than the public offering prices stated on the inside cover page hereof. The purchase contract provides that the Underwriters will purchase all the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the purchase contract.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Under certain circumstances, the Underwriters and their affiliates may have certain creditor and/or other rights against The State in connection with such activities. In the various course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities,

derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the State (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the State. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

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

Morgan Stanley & Co. LLC, an underwriter of the Certificates, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Certificates.

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 Certificates. The Financial Advisor’s fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates, and receipt by the State of payment therefor.

RATINGS

The Certificates have been assigned ratings by Moody’s Investors Service, Inc. (“Moody’s”), S&P Global Ratings (“S&P”), and Fitch Ratings (“Fitch”) (collectively, the “Rating Agencies”). Moody’s, S&P, and Fitch have assigned ratings of “Aa3”, “AA-” and “AA-” respectively.

Such ratings reflect only the views of such organizations, and an explanation of the significance of such ratings may be obtained from the respective Rating Agencies furnishing the same. There is no assurance that the ratings given the Certificates by the Rating Agencies will be maintained for any given period of time or that they may not be revised downward or withdrawn entirely. Any such downward change in or withdrawal of such rating may have an adverse effect on the market price of the Certificates.

CONTINUING DISCLOSURE

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

The State shall provide (a) not later than the end of each calendar year, commencing with December 31, 2017, financial information and operating data relating to the State for the preceding fiscal year, of the type presented in APPENDIX A of the Official Statement prepared in connection with the Certificates regarding (i) revenues and expenditures relating to operating budgets, (ii) capital expenditures, (iii) fund balances, (iv) tax information, (v) outstanding direct and indirect indebtedness, (vi) pension obligations, and (vii) such other financial information and operating data as may be required to comply with the Rule; and (b) promptly upon their public release, the audited financial statements of the State for the most recently ended fiscal year, to the extent any such statements have been commissioned, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by Rhode Island law. The State reserves the right to modify from time to time the specific types of information provided under subparagraph (a) above or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the State; provided that any such modification will be done in a manner consistent with the Rule. The State shall provide, in a timely manner, to the MSRB, notice of a failure to satisfy the requirements of this paragraph.

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

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults, if material;
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) Substitution of credit or liquidity providers, or their failure to perform;
- (f) Adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Certificates or other material events affecting the tax status of the Certificates;
- (g) Modifications to the rights of beneficial owners of the Certificates, if material;
- (h) Certificate calls, if material;

- (i) tender offers;
- (j) Defeasances;
- (k) The release, substitution, or sale of property securing repayment of the Certificates, if material;
- (l) Rating changes;
- (m) Bankruptcy, insolvency, receivership or similar event of the State* ;
- (n) The consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (o) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

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

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

* 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.

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

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

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

The State has been filing from time to time notices regarding changes in the financial strength ratings issued by the Rating Agencies 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 also failed to file a notice of rating change occurring on June 16, 2014 related to the Grant Anticipation Bonds (R.I. Department of Transportation) (the "GARVEE Bonds") issued through the RI Commerce Corporation (formerly known as the Rhode Island Economic Development Corporation) in 2003, 2006 and 2009 but such notice was filed on May 3, 2016. In addition, the State failed to file notices of rating changes occurring on

September 12, 2012 and November 14, 2012 relating to the GARVEE Bonds issued in 2003 and 2006; however, a notice of such rating changes was timely filed for the GARVEE Bonds issued in 2009. Such notices were filed for the GARVEE Bonds issued in 2006 on May 25, 2016 (the GARVEE Bonds issued in 2003 had already matured and been paid prior to such date, so no notices were filed for such bonds). The State plans to regularly review the effectiveness of its policies and procedures and take prompt action to remedy any deficiencies of which it becomes aware.

In addition, the State may be deemed to have failed to file in a timely manner a notice regarding 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 from 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 18, 2017 for further details.

While it may not be deemed a failure to comply in all material respects with its obligations under continuing disclosure agreements, the State failed to file its Annual Information Report due on February 1, 2016 relating to the GARVEE Bonds issued in 2006 and 2009 and Rhode Island Motor Fuel Tax Revenue Bonds issued in 2003, 2006 and 2009. Notices of such failures to file were filed on February 2, 2016 and the Annual Information Reports were filed on February 3, 2016 and February 5, 2016, respectively.

The State also inadvertently failed to file for GARVEE Bonds issued as the Series 2016 A Bonds and Series 2016 B Bonds the Annual Information Report due on February 1, 2017 and the Audited Financial Statements of the State for the fiscal year ending June 30, 2016 due promptly after becoming publicly available on December 30, 2016. The Annual Information Report and the Audited Financial Statements were filed on a timely basis for the GARVEE Bonds but under the CUSIP number for the GARVEE Bonds issued in 2006 and 2009 (which bond issues were redeemed in full in connection with the issuance of the Series 2016 A Bonds) as opposed to the new CUSIP number now assigned for GARVEE Bonds issued as the Series 2016 A Bonds and Series 2016 B Bonds. Notices of such failure to file were filed on February 28, 2017 once the error was discovered and the Annual Information Report and Audited Financial Statements were filed for the Series 2016 A Bonds and Series 2016 B Bonds on that same day. The State plans to review its policies and procedures and take prompt action to remedy any deficiencies of which it becomes aware, so this situation does not occur again in connection with the GARVEE Bonds.

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

MISCELLANEOUS INFORMATION

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

Information with respect to the State and a detailed description of the State's financial condition are set forth in the State's Information Statement dated April 18, 2017, with a supplement thereto dated May 26, 2017, and the Basic Financial Statements of the State as of and for the year ended June 30, 2016, which have been prepared and furnished by the State, in the case of the State's Information Statement and the supplement thereto, and incorporated by reference, in the case of the Basic Financial Statements, and which are included in APPENDIX A.

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

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

STATE OF RHODE ISLAND AND
PROVIDENCE PLANTATIONS

By: /s/ Seth Magaziner
General Treasurer

By: /s/ Michael DiBiase
Director of Administration

Dated: June 6, 2017

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**SUPPLEMENT TO INFORMATION STATEMENT OF THE
STATE OF RHODE ISLAND AND
PROVIDENCE PLANTATIONS
DATED: May 26, 2017**

and

**INFORMATION STATEMENT OF THE
STATE OF RHODE ISLAND AND
PROVIDENCE PLANTATIONS
DATED: April 18, 2017**

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**SUPPLEMENT DATED MAY 26, 2017 TO THE
STATE'S INFORMATION STATEMENT DATED APRIL 18, 2017**

The following information as of May 26, 2017 (the "Supplement") supplements the Information Statement of the State of Rhode Island and Providence Plantations dated April 18, 2017 (the "State Information Statement"). This Supplement does not replace the State Information Statement but must be read with the State Information Statement. Unless otherwise defined in this Supplement, all terms used in this Supplement in capitalized form shall have the meaning ascribed thereto by the State Information Statement.

May 2017 Caseload and Revenue Estimating Conferences Update

The statements made and financial information and tables provided in the State Information Statement regarding the Governor's recommended FY 2017 revised and FY 2018 projected budgets, especially in the sections entitled "General Revenues", "Comparative Statement of Revenues and Expenditures" and "General Fund Operating Results and Free Surplus" (including the FY 2018 General Revenue Budget Surplus table on page A-67), should be reviewed in conjunction with the information regarding the updated caseload and revenue estimates adopted at the May 2017 Conferences as reflected below.

The Caseload Estimating Conference convened on May 5, 2017 and the Revenue Estimating Conference convened on May 10, 2017 to update the caseload and revenue estimates adopted at the November 2016 Conference. Following is a summary of the changes adopted at each conference and a brief explanation of the impact these changes have had on the Governor's recommended FY 2017 revised and FY 2018 projected budgets as discussed in the State Information Statement.

Caseload Estimating Conference

In comparison to the November 2016 caseload conference estimates, the adopted caseload estimates for FY 2017 increase total funding by \$32.7 million (\$7.9 million in general revenue), with a total estimate of \$2,443.3 million. FY 2018 program costs are estimated to total \$2,514.9 million, a decrease of \$10.1 million (an increase of \$6.9 million in general revenue) from the November estimate. The increase over the November estimate in the current fiscal year is primarily driven by the functionality issues surrounding the implementation of the Unified Health Infrastructure Project (UHIP) and its ability to determine eligibility for the Cash Assistance and Medical Assistance programs. As of May 2017, the UHIP eligibility system is not fully functional from its initial rollout of September 2016. As a result, caseloads have increased significantly in FY 2017 compared to November 2016 estimates. The majority of system and process issues are scheduled to be corrected by the beginning of FY 2018. Forecasts for FY 2018 assume that issues with the UHIP system will be corrected with the number of cases returning to closer alignment with historical trends as post eligibility verification and renewal process functionality returns, leading to appropriate adjustments to enrollment and provider payments.

May 2017 Caseload Estimates	FY 2017		Change to		FY 2018		Change to	
	Nov. Adopted	May Adopted	Nov. Adopted	Nov. Adopted	Nov. Adopted	May Adopted	Nov. Adopted	Nov. Adopted
Cash Assistance								
All Funds	\$ 108.2	\$ 112.3	\$ 4.1	\$ 110.8	\$ 111.9	\$ 1.0		
General Revenues	\$ 29.8	\$ 30.1	\$ 0.4	\$ 33.4	\$ 33.4	\$ 0.0		
Medical Assistance								
All Funds	\$ 2,302.4	\$ 2,331.0	\$ 28.6	\$ 2,414.1	\$ 2,403.0	\$ (11.2)		
General Revenues	\$ 914.0	\$ 921.6	\$ 7.6	\$ 952.3	\$ 959.2	\$ 6.9		
Consensus Caseload Total								
All Funds	\$ 2,410.6	\$ 2,443.3	\$ 32.7	\$ 2,525.0	\$ 2,514.9	\$ (10.1)		
General Revenues	\$ 943.8	\$ 951.7	\$ 7.9	\$ 985.8	\$ 992.6	\$ 6.9		

In millions

Revenue Estimating Conference

Based on revenue collection trends through April and the revised economic forecast, the conferees at the May Revenue Estimating Conference decreased the FY 2017 revenue estimates by \$60.1 million from the FY 2017 adopted November estimate of \$3,719.6 million to \$3,659.5 million.

The Conference estimated FY 2018 revenues at \$3,572.1 million, which is \$39.5 million less than the FY 2018 adopted November estimate but, similar to the November estimates, does not include the hospital licensing fee. The hospital licensing fee accounts for \$169.0 million in FY 2017 that cannot be included in the FY 2018 estimates because it is enacted annually and revenue estimates may only be based upon current law. This fee is renewed on a year-to-year basis and has been extended each year since its inception.

The table below outlines the adopted changes in revenues by category from the November Conference to the May Conference for both FY 2017 and FY 2018, and should be reviewed in conjunction with the tables entitled “General Revenues as Recommended”, “Changes to FY 2017 Enacted Revenue Estimates” and “Changes to FY 2018 Adopted Revenue Estimates” on page A-53 through A-55 of the State Information Statement.

May 2017 REC	FY 2017 November	FY 2017 May	Change	FY 2018 November	FY 2018 May	Change
Personal Income Tax	\$ 1,267,600,000	\$ 1,266,700,000	\$ (900,000)	\$ 1,316,200,000	\$ 1,297,300,000	\$ (18,900,000)
General Business Taxes						
Business Corporations	167,500,000	125,000,000	(42,500,000)	172,300,000	158,000,000	(14,300,000)
Public Utilities Gross	104,100,000	96,200,000	(7,900,000)	105,500,000	97,500,000	(8,000,000)
Financial Institutions	21,000,000	20,500,000	(500,000)	22,100,000	20,100,000	(2,000,000)
Insurance Companies	139,500,000	133,400,000	(6,100,000)	135,400,000	134,700,000	(700,000)
Bank Deposits	2,500,000	2,500,000	-	2,500,000	2,500,000	-
Health Care Provider	42,400,000	43,000,000	600,000	43,500,000	44,700,000	1,200,000
Sales and Use Taxes						
Sales and Use	1,014,200,000	1,001,000,000	(13,200,000)	1,038,100,000	1,035,000,000	(3,100,000)
Motor Vehicle	13,100,000	13,000,000	(100,000)	-	-	-
Motor Fuel	-	-	-	-	-	-
Cigarettes	137,700,000	138,700,000	1,000,000	133,900,000	135,500,000	1,600,000
Alcohol	19,800,000	19,800,000	-	20,800,000	20,800,000	-
Other Taxes						
Inheritance and Gift	31,000,000	27,800,000	(3,200,000)	25,600,000	22,900,000	(2,700,000)
Racing and Athletics	1,100,000	1,100,000	-	1,100,000	1,100,000	-
Realty Transfer	11,600,000	11,700,000	100,000	12,500,000	12,600,000	100,000
Total Taxes	2,973,100,000	2,900,400,000	(72,700,000)	3,029,500,000	2,982,700,000	(46,800,000)
Departmental Receipts	364,800,000	373,000,000	8,200,000	206,700,000	208,900,000	2,200,000
Other Miscellaneous	7,189,000	11,797,400	4,608,400	847,000	7,147,000	6,300,000
Lottery	363,500,000	362,200,000	(1,300,000)	365,000,000	362,500,000	(2,500,000)
Unclaimed Property	11,000,000	12,100,000	1,100,000	9,600,000	10,900,000	1,300,000
Total General Revenues	3,719,589,000	3,659,497,400	(60,091,600)	3,611,647,000	3,572,147,000	(39,500,000)

The Governor’s recommended revised budget for FY 2017, based on the November 2016 Revenue Estimating Conference revenues projected an ending balance of \$78.0 million. Based solely on the revenue and caseload changes adopted in May, the projected surplus has declined to \$10.7 million.

The Governor’s recommended FY 2018 budget was predicated on the carry forward from FY 2017 of \$78.0 million and proposed new revenues of \$221.0 million, including continuation of the hospital licensing fee at \$169.0 million. Of the remaining \$52.0 million of proposed new revenues (\$221.0 million less \$169.0 million for the hospital licensing fee) in the Governor’s recommended FY 2018 budget, several revenue items were accounted for in the May revenue estimates or were adjusted because of the new estimates. The \$34.7 million estimated from a change in tax reporting for remote sellers is reduced by \$15.0 million. This change is the result of Amazon voluntarily beginning to collect sales tax on purchases made by Rhode Island residents effective February 1, 2017. In addition, the \$34.7 million estimate is further reduced by \$2.6 million estimated to be received from remote sellers under the Streamline Sales Tax Agreement, which is already accounted for in the sales tax revenue estimate. The projected increase in revenues

of \$8.7 million from a proposed \$0.50 per pack increase in the tax on cigarettes is adjusted down by \$1.3 million to account for the loss of sales tax on the estimated reduction in the number of packs sold as a result of the tax increase.

In total, revenues in FY 2018 are projected to be \$58.3 million less than assumed in the Governor’s budget as recommended in January. Combined with the lower than anticipated carry forward from FY 2017, the projected budget shortfall in FY 2018 is now estimated at \$131.1 million. The Governor and the General Assembly will be working together to identify spending reductions and/or revenue increases to close this gap prior to enactment of a balanced budget for FY 2018.

The fourth paragraph under the “General Fund Operating Results and Free Surplus” section on page 66 of the State Information Statement indicates the forecast of expenditures and revenues for FY 2019 through FY 2022 based upon the November 2016 revenue estimates. No forecasts for FY 2019 through FY 2022 have been developed at this time based upon the May 2017 revenue estimates. New forecasts for FY 2019 through FY 2022 will be developed once a FY 2018 budget has been adopted by the General Assembly.

Consensus Economic Forecast

On May 1st, the Conference heard forecasts for the national and Rhode Island economies. The Conference adopted a revised economic forecast for Rhode Island based on the information presented. The adopted forecast is shown in the following table.

May 2017 Consensus Economic Forecast, by Calendar Year and State Fiscal Year

RI Economic Indicators	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024
RI Nonfarm Employment (Ths.)	490.2	495.8	499.1	501.3	502.9	503.6	504.8	505.9	506.8
RI Nonfarm Employment Growth (%)	1.0	1.1	0.7	0.4	0.3	0.1	0.2	0.2	0.2
RI Personal Income (Mil. \$)	54,486	56,510	58,974	61,680	64,439	67,136	69,961	72,873	75,915
RI Personal Income Growth (%)	3.1	3.7	4.4	4.6	4.5	4.2	4.2	4.2	4.2
RI Wages & Salaries Income Growth (%)	4.1	4.4	4.7	4.6	4.5	4.4	4.5	4.5	4.4
RI Dividends, Interest & Rents Income Growth (%)	2.1	4.0	4.9	6.1	5.2	3.9	3.3	3.1	3.1
RI Personal Consumption Expenditures Growth (%)	3.9	4.1	4.2	4.4	4.4	4.3	4.3	4.1	4.1
RI Housing Starts Growth (%)	1.1	1.4	1.2	1.3	1.3	1.3	1.3	1.3	1.3
RI Unemployment Rate (%)	5.3	4.4	4.3	4.4	4.5	4.7	4.8	4.9	5.0
US Economic Indicators	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024
US Consumer Price Index Inflation (%)	1.3	2.5	1.9	2.5	2.8	2.8	2.7	2.8	2.7
RI Economic Indicators	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
RI Nonfarm Employment (Ths.)	488.1	492.9	497.6	500.4	502.0	503.2	504.2	505.3	506.3
RI Nonfarm Employment Growth (%)	1.3	1.0	0.9	0.6	0.4	0.2	0.2	0.2	0.2
RI Personal Income (Mil. \$)	53,609	55,526	57,714	60,315	63,063	65,787	68,538	71,390	74,382
RI Personal Income Growth (%)	3.5	3.6	3.9	4.5	4.6	4.3	4.2	4.2	4.2
RI Wages & Salaries Income Growth (%)	3.8	5.1	4.1	4.0	4.5	4.5	4.4	4.5	4.4
RI Dividends, Interest & Rents Income Growth (%)	2.3	2.9	4.6	5.5	6.0	4.4	3.5	3.1	3.2
RI Personal Consumption Expenditures Growth (%)	3.4	4.3	3.9	4.4	4.4	4.4	4.3	4.2	4.1
RI Housing Starts (%)	1.1	1.3	1.3	1.2	1.3	1.3	1.3	1.3	1.3
RI Unemployment Rate (%)	5.5	4.8	4.3	4.3	4.5	4.6	4.8	4.9	5.0
US Economic Indicators	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
US Consumer Price Index Inflation (%)	0.7	2.0	2.1	2.1	2.7	2.8	2.8	2.7	2.7

Testimony from IHS Global Insight described the U.S. economy continuing to improve throughout the spring. IHS Global Insight predicts consumer spending will increase at a moderate pace, sustained by gains in employment, real incomes, and households’ net worth. IHS also anticipates that fixed investments by businesses will benefit from a new tax and regulatory structure established by the current administration and Republican-led Congress. As energy prices are also anticipated to recover, businesses will continue to realize gains.

Growth in employment and personal income will contribute to the continued recovery of the housing market. However, supply remains constrained by shortages of labor and developed lots. As housing demand keeps outpacing supply, the homebuilding market is predicted to continue its slow recovery. This is anticipated even as the Federal Reserve gradually raises interest rates over the next two calendar years. Inflation is predicted to settle between 2 and 2.5 percent.

IHS noted that its May 2017 forecast anticipates that under the current administration, some form of tax reform is anticipated. Given the policy proposals that had been put forth to date, the forecast provided to the conferees anticipated a reduction in the statutory corporate income tax rate from 35 percent to 20 percent, only partially offset by fewer claimable credits, starting in 2018. IHS also assumed that personal income tax reforms will lower the average effective federal rate from 20.7 percent to 19.7 percent. An increase in federal infrastructure spending, totaling \$250 billion over ten years, was also assumed by the IHS forecast. The forecast assumed deficit spending by the federal government, which would assist businesses in the short-term.

However, as with IHS Global Insight's November 2016 testimony, the forecast did not take into consideration certain possible impacts of the current administration, including potential trade wars resulting from protectionist economic strategies or significant policy mistakes.

IHS also noted that overall national economic growth predictions were dampened by a weak fourth quarter in calendar year 2016 and first quarter in calendar year 2017. The continued strength of the dollar is predicted to keep import growth outpacing export growth through 2019.

IHS testimony on the Rhode Island economy noted that December 2016 employment data was revised slightly downward by 800 jobs, resulting in year over year growth of 0.6 percent rather than 0.7 percent, as reported at the November 2016 Conference. While most payroll sectors were revised downwards between 0.1 percent and 0.7 percent, education services, real estate, healthcare, construction, wholesale trade, and government were revised upward between 0.3 percent and 1.4 percent.

The weak recovery in housing starts continues to provide upward pressure on home prices. Rhode Island continues slow population growth, with a birthrate lower than the national average. There has been steady growth in the under 35 and over 55 populations, but the population continues to decline in the middle-aged groups: ages 35 to 54.

Rhode Island wage and salary growth for fiscal year 2017 has been increased from November 2016's forecast of 3.0 percent to 5.1 percent and fiscal year 2018 growth was decreased from 4.3 percent to 4.1 percent. Employment growth has been increased from 0.9 percent to 1.0 percent for FY 2017 and from 0.5 percent to 0.9 percent for FY 2018. Personal income growth has been increased from 3.0 percent to 3.6 percent for FY 2017 and decreased from 4.0 percent to 3.9 percent for FY 2018.

The table below shows the difference in the Consensus Economic Forecast from the forecast adopted in November.

May 2017 Consensus Economic Forecast Change to November 2016

RI Economic Indicators	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023
RI Nonfarm Employment (Ths.)	0.4	2.4	4.0	4.5	4.3	3.8	2.7	1.4
RI Nonfarm Employment Growth (%)	-	0.4	0.3	0.1	-	(0.1)	(0.2)	(0.3)
RI Personal Income (Mil. \$)	304	287	368	560	733	872	935	1,046
RI Personal Income Growth (%)	0.6	(0.1)	0.1	0.3	0.2	0.2	-	0.1
RI Wages & Salaries Income Growth (%)	1.8	0.3	0.4	0.4	0.3	0.2	0.1	0.1
RI Dividends, Interest & Rents Income Growth (%)	(0.1)	1.3	0.4	0.7	0.1	0.1	(0.3)	(0.4)
RI Personal Consumption Expenditures Growth (%)	0.1	0.2	0.4	0.3	0.6	0.5	0.3	0.2
RI Housing Starts Growth (%)	0.1	0.3	0.1	0.1	-	-	-	-
RI Unemployment Rate (%)	(0.2)	(1.1)	(1.1)	(0.9)	(0.9)	(0.8)	(0.6)	(0.5)
US Economic Indicators	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023
US Consumer Price Index Inflation (%)	-	-	(0.6)	(0.1)	0.3	0.4	0.3	0.2

RI Economic Indicators	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
RI Nonfarm Employment (Ths.)	0.7	1.0	3.2	4.3	4.4	4.1	3.3	2.0
RI Nonfarm Employment Growth (%)	0.2	0.1	0.4	0.2	-	(0.1)	(0.2)	(0.3)
RI Personal Income (Mil. \$)	73	359	324	456	647	821	904	982
RI Personal Income Growth (%)	0.1	0.5	(0.1)	0.2	0.3	0.2	0.1	0.1
RI Wages & Salaries Income Growth (%)	0.4	2.1	(0.2)	0.5	0.4	0.3	0.1	0.1
RI Dividends, Interest & Rents Income Growth (%)	-	0.3	1.3	0.3	0.5	-	(0.1)	(0.4)
RI Personal Consumption Expenditures Growth (%)	-	0.3	0.2	0.5	0.4	0.6	0.3	0.2
RI Housing Starts (%)	-	0.3	0.2	0.1	-	-	-	-
RI Unemployment Rate (%)	-	(0.8)	(1.1)	(1.0)	(0.9)	(0.8)	(0.7)	(0.6)
US Economic Indicators	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
US Consumer Price Index Inflation (%)	-	0.1	(0.4)	(0.3)	0.1	0.4	0.4	0.2

May 2017 Update on Actions of the State Retirement Board

The information provided regarding the actuarial valuation of the Employee Retirement System of Rhode Island in the State Information Statement, especially the information provided in the subsections entitled “ Actuarial Methods – Actuarial Accrued Liability” and “Actuarial Assumptions” (including Table R-14 - Certain Actuarial Assumptions and Methods Use by ERSRI) under the “State Retirement Systems” section, should be reviewed in conjunction with the updated information and table provided below regarding changes in certain of the actuarial assumptions.

On May 15, 2017, the State Retirement Board voted to lower the assumed rate of return on the retirement funds under its purview from 7.5 percent to 7.0 percent effective with the June 30, 2017 valuation. This change in the assumed rate of return was driven by a change in the general inflation assumption from 2.75 percent to 2.50 percent and a change in the real investment return assumption from 4.75 percent to 4.50 percent. In addition, assumptions relating to wage growth, mortality, payroll growth and retirement patterns were also updated to reflect recent experience. The cumulative impact of these changes to the normal cost of required pension contributions will be fully reflected starting in the FY 2020 budget year. Increased contributions related to changes in the unfunded liability from the new assumption set will be layered over a five-year period beginning in FY 2020, with the full cost of each new layer amortized over 18, 19 or 20 years. In total, the increase to required pension contributions from the State due to these changes in assumptions are projected to be \$12.1 million in FY 2020, \$20.1 million in FY 2021 and \$28.4 million in FY 2022. The unfunded liability for the state employees plan and the state’s share of the teachers’ plan is now projected to be \$3,550.9 million in 2017.

Table R-13 – Prospective Funding Status (ERS) on page A-121 of the State Information Statement is replaced by the table below, which reflects the projected funding status of the ERSRI based upon the new assumptions adopted by the State Retirement Board.

TABLE R-13
PROSPECTIVE FUNDING STATUS (ERS)

Actuarial Valuation Date	AVA (in Millions \$) (a)	AAL (in Millions \$) (b)	UAAL (in Millions \$) (b-a)	Funded Ratio (a/b)	ARC (in Millions \$)	MVA (in Millions \$) (d)	Funded Ratio on Market (d/b)
State Employees							
6/30/2016	\$2,468.4	\$4,404.3	\$1,935.9	56.0%	\$175.2	\$2,288.4	52.0%
6/30/2017	2,447.4	4,685.7	2,238.3	52.2%	177.2	2,315.5	49.4%
6/30/2018	2,424.1	4,727.7	2,303.6	51.3%	188.9	2,340.3	49.5%
6/30/2019	2,414.2	4,771.0	2,356.8	50.6%	202.5	2,378.1	49.8%
6/30/2020	2,428.6	4,812.9	2,384.3	50.5%	215.2	2,428.6	50.5%
6/30/2021	2,493.3	4,835.7	2,342.4	51.6%	229.1	2,493.5	51.6%
6/30/2022	2,568.9	4,871.2	2,302.3	52.7%	244.0	2,569.2	52.7%
6/30/2023	2,660.9	4,904.4	2,243.5	54.3%	256.5	2,661.3	54.3%
6/30/2024	2,768.8	4,936.6	2,167.8	56.1%	264.9	2,769.2	56.1%
6/30/2025	2,889.3	4,969.2	2,079.9	58.1%	272.3	2,889.7	58.2%
6/30/2026	3,019.2	4,995.3	1,976.1	60.4%	279.7	3,019.5	60.4%
Teachers							
6/30/2016	\$3,772.3	\$6,466.5	\$2,694.2	58.3%	\$232.5	\$3,510.6	54.3%
6/30/2017	3,719.9	6,839.9	3,120.0	54.4%	239.4	3,526.9	51.6%
6/30/2018	3,673.6	6,889.9	3,216.3	53.3%	250.7	3,549.4	51.5%
6/30/2019	3,644.0	6,946.0	3,302.0	52.5%	266.7	3,588.6	51.7%
6/30/2020	3,646.5	7,004.9	3,358.4	52.1%	283.6	3,646.5	52.1%
6/30/2021	3,727.9	7,038.3	3,310.4	53.0%	301.0	3,727.9	53.0%
6/30/2022	3,825.1	7,097.1	3,272.0	53.9%	319.3	3,825.1	53.9%
6/30/2023	3,946.5	7,158.2	3,211.7	55.1%	333.2	3,946.5	55.1%
6/30/2024	4,090.1	7,222.6	3,132.5	56.6%	341.4	4,090.1	56.6%
6/30/2025	4,251.0	7,288.7	3,037.7	58.3%	349.1	4,251.0	58.3%
6/30/2026	4,423.6	7,353.0	2,929.4	60.2%	356.8	4,423.6	60.2%

Note: This chart was provided by the ERSRI actuary and reflects the new actuarial assumptions recommended in the Retirement Board’s triennial experience study. The assumptions were adopted by the board in May 2017. These projections apply the new actuarial assumptions to the 2016 valuation data.

Additional Changes to the State Information Statement

The last paragraph in the subsection entitled “State General Fund Revenues – Sales and Use Tax” under the “State Revenue and Expenditures” section of the State Information Statement is replaced with the following: In the FY 2018 Budget, the Governor recommends increasing the excise tax on cigarettes to \$4.25 per pack from \$3.75 effective August 1, 2017, which will impact the collection of sales tax on cigarettes, if approved. See “General Revenues – Governor’s Recommended FY 2018 Revenue Changes.”

In connection with the discussion regarding the Region C southeastern Massachusetts resort casino license in the subsection entitled “Rhode Island Lottery” under the “State Revenues and Expenditures” section of the State Information Statement, it should be noted that the Massachusetts Gaming Commission has declined to award the Region C license to the developers of the proposed site in Brockton, Massachusetts.

The second bullet point in the subsection entitled “Governor’s Recommended FY 2018 General Revenue Changes – Sales and Use Tax” under the “General Revenue” section in the State Information Statement regarding the

Governor's recommended statutory change to require remote sellers to report purchases by Rhode Island residents is amended by adding to the end of this bullet point the following: On February 1, 2017, Amazon began voluntarily collecting sales tax on taxable purchases made by Rhode Island residents. The conferees estimated at the May Revenue Estimating Conference that these collections will account for \$15.0 million of the \$34.7 million in revenue estimated from this tax reporting change.

The subsection entitled "Governor's Recommended FY 2018 General Revenues Changes – Recent Events-DMV Computer System" under the "General Revenues" section in the State Information Statement is amended to note that the first installment of the \$5.5 million settlement with DXC will be paid on July 7, 2017 should DXC deliver the system through User Acceptance Training clear of level 1 and level 2 defects, and the second installment a year later.

The litigation matter relating to the Central Falls receivership and bankruptcy addressed in the last paragraph of the subsection entitled "State Oversight for Municipal Fiscal Stability – Central Falls" under the "Financial Oversight of Local Governments" section in the State Information Statement is amended to note the following: On February 21, 2017, the Superior Court issued a decision holding that the elected officials were not entitled to indemnification by the State for their attorney's fees and expenses. On April 20, 2017, the Superior Court entered an Order reflecting that decision. On May 3, 2017, defendants filed an appeal with the Rhode Island Supreme Court of the Rhode Island Superior Court order in the consolidated matters of Flanders vs. Charles Moreau et al (C.A. No. 2010-5615, C.A. No. PC-2010-5672 and C.A. No PB-2010-7394) which order had been entered on April 20, 2017. Subsequently a Notice was entered by the Rhode Island Supreme Court notifying the parties that, based upon information that was provided by counsel for the parties, it was determined that the case was not an appropriate candidate for mediation. The matter is pending in the Rhode Island Supreme Court.

The three final paragraphs in the subsection entitled "State Budgeting Practices for Municipalities" under the "Financial Oversight of Local Governments" section in the State Information Statement are deleted. Article 8 of the FY 2017 Appropriations Act strengthened reporting requirements for municipalities. The new requirements are explained in the "Financial Oversight of Local Governments" section of the State Information Statement and thus these three paragraphs are redundant and/or do not correctly explain the updated reporting requirements. These paragraphs should have been deleted in the April 18, 2017 version of the State Information Statement but were inadvertently overlooked.

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**INFORMATION STATEMENT OF THE
STATE OF RHODE ISLAND AND
PROVIDENCE PLANTATIONS**

DATED: April 18, 2017

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STATE GOVERNMENT ORGANIZATION

General Information

The State of Rhode Island (“Rhode Island” or the “State”) 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. As used herein, and unless otherwise indicated by the text, all financial and utilization data refer to the State’s fiscal year (“FY”) ended June 30.

Legislative Branch

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 and are not subject to term limits. The General Assembly meets annually beginning on the first Tuesday in January. The concurrence of the two houses of the General Assembly are necessary for the enactment of laws.

Executive Branch

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. 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 State Constitution also provides for the election of three additional general State Officers: the Attorney General, the Secretary of State and the General Treasurer. The Attorney General represents the State with regard to the investigation, prosecution, and trial of all felony matters, misdemeanor cases, and appellate matters within its jurisdiction. The Secretary of State administers activities related to elections, legislative records, archives and the distribution and exchange of official State documents. The General Treasurer is responsible for overseeing the investment of State funds, managing the State Retirement System, the Crime Victim Compensation Program and the Unclaimed Property Program, and the payment of employees and vendors that provide goods and/or services to the State. All general State Officers are limited to serving two four-year terms in office.

Judicial Branch

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.

Local Government

There are thirty-nine (39) cities and towns in Rhode Island that exercise the functions of local general government. Although there are five counties in Rhode Island, there is no county governmental structure in the State. 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 that has adopted a “home rule” charter, to general laws that apply to all cities and towns, but that

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 real property and tangible personal property taxes, automobile excise taxes, and State aid for provision of revenue.

Principal Governmental Services

Principal State governmental services are functionally divided into six major areas. They are administered and delivered by fourteen (14) 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 of Administration 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 State-wide planning program for the comprehensive development of the social, economic and physical resources of the State. The Department of Administration also includes the Office of Internal Audit, 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 of Administration is also responsible for programs relating to library aid, as well as building code administration.

The Department of Administration includes the Office of Energy Resources, which is responsible for coordinating all energy matters, including energy security, energy efficiency, renewable energy and natural gas, and the Rhode Island Health Benefits Exchange (known as HealthSource RI).

In FY 2013, 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 includes 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 administered under the Department of Revenue. Programs within the Department of Revenue are responsible for the assessment and collection of all taxes; administration and enforcement of all laws pertaining to the operation and registration of motor vehicles; administration of a lottery system; monitoring and reporting on the financial condition of Rhode Island's cities and towns; and assisting cities and towns in financial distress.

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 of Labor and Training 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 of Labor and Training 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 of Labor and Training'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.

Through the workforce regulation and safety programs, the Department of Labor and Training enforces 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 of Human Services 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 of Human Services 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 established the Veterans' Affairs program as a stand-alone office with a new Cabinet level Director of Veterans' Affairs. The office is still 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 (“BHDDH”) provides services that may include hospitalization, housing, vocational programs, inpatient and outpatient treatment, counseling, rehabilitation, transportation, and hospital level care and treatment. BHDDH 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. BHDDH organizes, sets standards, monitors and funds programs primarily according to the nature of a client’s disability. BHDDH’s behavioral health services help people who have psychiatric disorders and severe mental illness, such as manic depression or schizophrenia. BHDDH’s 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. BHDDH hospitals provide long-term care for people who need medical treatment and nursing care for problems associated with chronic illness. BHDDH 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 Rhode Island 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 of Health 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 of Education”). The Board of Education 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.

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 sets the goals for the entire education system and an agenda for State-wide priorities. Each of the councils focuses 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 State-wide 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 of Education 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 (the “Council”) is responsible for the formulation and implementation of broad goals and objectives for public higher education in Rhode Island, 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 Education. 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. See “State Indebtedness – State Agencies and Authorities – Rhode Island Health and Educational Building Corporation”.

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. As part of the FY 2018 Budget submitted to the General Assembly on January 19, 2017, the Governor recommended the creation of a Commissioner of Public Safety to replace the State Police Superintendent as the head of this department. The recommendation would also move the Emergency Management Agency under the auspices of the Department of Public Safety. These recommendations are under consideration by the General Assembly.

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 of Corrections 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 (“DEM”) has primary responsibility for environmental programs and bureaus of the State. DEM 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, DEM plans, licenses and enforces laws regulating refuse and hazardous waste disposal, pesticides, individual sewage disposal systems, and non-coastal freshwater wetlands. DEM 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. DEM 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. DEM

also operates commercial fishing ports in Galilee and Newport that house the majority of the State's commercial fishing fleet. DEM administers grant and loan programs for municipal and non-profit organizations, anti-pollution, open space, and recreational development and farmland acquisition programs.

Transportation

Transportation comprises 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.

Department of Transportation. The Department of Transportation is responsible for the integration of all modes of transportation into a single transportation system. The Department of Transportation 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.

STATE FUNDS AND FINANCIAL CONTROLS

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. The funds in the governmental and proprietary fund types are further classified as “major” or “non-major” depending upon their size in relation to the other funds and importance to the financial statement users, as required by GASB No 34. (See Note 1 in the State's FY 2016 audited financial statements for further explanation of these criteria.)

Governmental Funds – Major Funds

General Fund. This is the State's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

Intermodal Surface Transportation Fund. This fund accounts for the collection of the gasoline tax, federal grants, bond proceeds, Rhode Island Capital Plan funds, and certain motor vehicle registration and licensing surcharges that are used in the maintenance, upgrading, and construction of the State highway system. It also accounts for the proceeds from the Grant Anticipation Revenue Vehicle (GARVEE) Bonds, the RI Motor Fuel Tax Revenue Bonds, the I-195 Revenue Redevelopment District Commission Bonds and related expenditures.

Proprietary Funds – Major Funds

Rhode Island Lottery. The Rhode Island Lottery, a division of the Department of Revenue, operates games of chance for the purpose of generating resources for the State’s General Fund. See “State Revenues and Expenditures – State General Fund Revenues – Rhode Island Lottery”. Also, additional information regarding the Rhode Island Lottery can be found at www.rilot.com, which is not incorporated herein by reference.

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.

Fiduciary Funds

Transactions related to assets held by the State in a trustee or agency capacity are accounted for in Fiduciary Funds. The State’s Pension Funds are also included in this category.

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 (“REC”) was created in 1990 to provide the Governor and the General Assembly with estimates of general revenues. The principals of the REC 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 REC, was established to adopt welfare and medical assistance caseload estimates.

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

A budget reserve and cash stabilization account was created by statute in 1990. In 1992, the Rhode Island Constitution was amended specifying that the reserves created could only be called upon in an emergency involving the health, safety, or welfare of the State or in the event of an unanticipated deficit caused by a shortfall in general revenue receipts. Such reserve account was capped at 3 percent of General Fund revenues. The reserve account was funded by limiting annual appropriations to 98 percent of estimated revenues. When the Budget Reserve Account has reached its maximum, the excess contribution flows to the Rhode Island Capital Plan Fund. If funds are withdrawn, the Budget Reserve Account is replenished through the funding formula provided for in the Constitution, and the general law requires that the repayment be made to the Rhode Island Capital Plan Fund in the next fiscal year.

In November 2006, the voters of the State approved an amendment to the Rhode Island Constitution that 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, increased the Budget Reserve Account by limiting annual appropriations to 97 percent of estimated revenues and increasing the cap on the Budget Reserve Account to 5 percent of estimated General Fund resources. 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 was gradually increased by 0.4 percent annually to 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 2016 according to the audited financial statements was \$191.6 million. The projected balance at the end of FY 2017 per the Governor's Supplement Budget is \$194.4 million

Additionally, during the 2007 Session of the General Assembly, a law was enacted requiring revenues received in excess of the amount estimated in the final enacted budget, net of reserve fund contributions, be transferred to the State Retirement Fund upon completion of the post audit. 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 Office of Internal Audit. 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 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 public that incorporates actual expenditures, encumbrances, and revenues compared with the projected revenues and appropriations to be made public. 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.

STATE REVENUES AND EXPENDITURES

State Revenues – General

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.

State General Fund Revenues

Personal Income Tax. A resident's Rhode Island taxable income is the same as his or her federal taxable income, subject to specified modifications. 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. 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.

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 percent, 4.75 percent, and 5.99 percent to yield the Rhode Island tax liability before credits. Under the reformed personal income tax system, eight tax credits could be taken against the computed Rhode Island tax liability. The tax credits allowed under the reformed personal income tax system are: a partially refundable earned income tax credit (since made fully refundable), the property tax relief credit, the lead paint abatement credit, a child and dependent care credit, credit for taxes paid to other states, the motion picture production company credit, the credit for contributions to qualified K-12 scholarship organizations, and the historic structures tax credit.

In the 2014 Session, the General Assembly adopted four revenue proposals. These proposals included: (i) the addition of ten 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 State-wide 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 second initiative eliminated 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 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. 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. 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. 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.

In the 2016 Session, the General Assembly increased the Earned Income Tax Credit for low and moderate wage earners from 12.5 percent of the federal credit to 15.0 percent, effective for tax year 2017. It is estimated that this change will reduce personal income tax revenue by \$2.7 million in FY 2017. The General Assembly also adopted legislation exempting up to \$15,000 of pension and annuity income from State personal income tax filers who have reached full Social Security retirement age, including single filers with adjusted gross incomes of \$80,000 and joint filers with adjusted gross incomes of \$100,000, effective January 1, 2017. This measure is expected to reduce personal income tax revenue by \$6.3 million in FY 2017. The FY 2017 enacted budget also added three revenue officers to the Department of Revenue's Division of Taxation to assist in the collection of taxes, and these positions are expected to result in around \$790,000 in additional personal income tax collections.

In the FY 2018 Budget, the Governor recommends the addition of two new Revenue Agent and two new Data Analyst positions in the Department of Revenue's Division of Taxation. The addition of these positions is estimated to have a total revenue impact of \$2,000,000 divided among personal income tax, business corporations tax, and sales and use tax. The estimated impact on FY 2017 personal income tax revenue is an increase of \$750,000.

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. The State sales and use tax rate is 7.0 percent. 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.

In May 2000, the Rhode Island Economic Development Corporation (now called the "Rhode Island Commerce Corporation" and referred to herein as "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 (the "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, currently \$3.56 million. Sales tax revenues generated at the Mall are recorded as general revenues. See "State Agencies and Authorities – Rhode Island Commerce Corporation".

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 by the State as general revenue.

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 2012 Session, the General Assembly approved the extension of the State's 7.0 percent sales tax, effective October 1, 2012, to 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 became out of compliance with SSUTA as of August 1, 2013. The State remained out of compliance with the SSUTA until May 3, 2016 when the Streamlined Sales Tax Governing Board approved a motion amending the SSUTA to allow certain clothing thresholds. Upon the approval of the motion, Rhode Island was deemed to be in compliance with the SSUTA and has remained in compliance since that date. During the period in which the State was out of compliance with the SSUTA, the voluntary collection and remittance of sales and use tax owed on purchases made by Rhode Island residents by private sector signatories to the SSUTA continued unabated.

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 2011 Session, the 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 that 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. It should be noted that no such legislation has passed yet at the Federal level.

In the 2014 Session, 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. 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. 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 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; (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; and, (iii) expanding all state lodging taxes to the short-term rental of unlicensed State 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. 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.

In the FY 2018 Budget, the Governor recommends increasing the excise tax on cigarettes to \$4.25 per pack from \$3.75 effective August 1, 2017. See “General Revenues - Governor’s Recommended FY 2018 Revenue Changes”.

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. Rhode Island’s corporate minimum tax was \$500 for the period from January 1, 2004 to December 31, 2015. For tax year 2016, Rhode Island’s corporate minimum tax was \$450, and for tax year 2017, Rhode Island’s corporate minimum tax is \$400.

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 (0.25%) (up to a maximum reduction of 6.0 percent) for each 50 new jobs created by eligible firms (each ten 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.

The 2014 General Assembly 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 the 2015 Session, the General Assembly enacted into law a reduction in the corporate minimum tax from \$500 per entity per year to \$450.

In the FY 2018 Budget, the Governor recommends several initiatives that will result in a net decrease of \$4.8 million in business corporations tax revenues as compared to the estimate adopted at the November Revenue Estimating Conference. See “General Revenues - Governor’s Recommended FY 2018 Revenue Changes”.

Nursing Facility Provider Assessment. The State levies a tax on the gross revenues of nursing homes at a monthly rate of 5.5 percent. In addition, a 1.5 percent tax on gross revenues from freestanding Medicaid facilities not associated with hospitals is levied.

In the 2014 Session, the General Assembly approved a proposal to suspend the cost of living adjustment that nursing home providers were scheduled to receive on October 1, 2014 and enacted legislation that pushed back the effective date to April 1, 2015. In addition, the General Assembly enacted legislation that provided 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 Nursing Facility Provider Assessment is levied. The rate reduction applied to nursing homes was reduced from 2.5 percent to 2.0 percent.

In the FY 2018 Budget, the Governor recommends a nursing home payments rate freeze. See “General Revenues - Governor’s Recommended FY 2018 Revenue Changes”.

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 local taxation, and is subject to a State-level personal property taxation program.

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 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.

In the 2015 Session, the General Assembly passed legislation that made changes to Medicaid expenditures that 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.

In the FY 2018 Budget, the Governor recommends a collection of Executive Office of Health and Human Services initiatives, six of which will decrease insurance companies gross premiums tax revenue and one of which will increase insurance companies gross premiums tax revenue. The six initiatives that will result in decreases are: (1) Healthy Aging in the Community expenditure reductions (decrease of \$504,903), (2) reduce Upper Payment Limit funding by 50 percent (decrease of \$197,843), (3) hospital payments managed care rate freeze (decrease of \$236,067), (4) managed care administrative cost reductions (decrease of \$43,685), (5) hospital rate cut of 1.0 percent (decrease of \$51,725), and (6) reduced behavioral health inpatient reimbursement rate (decrease of \$49,734). The one initiative that will increase revenue is an increase in the wage rate for home health care workers (increase in revenues of \$103,003).

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.

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 0.0695 cents for each \$100 for institutions with over \$150 million in deposits and a rate of 0.0625 cents for each \$100 applying to credit unions with less than \$150 million in deposits.

Estate and Transfer Tax. For decedents whose deaths occurred on or after January 1, 1992, but prior to 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 for net taxable estates greater than \$675,000 equals the maximum credit allowed under federal estate tax law as it was in effect as of January 1, 2001. For decedents whose deaths occurred on or after January 1, 2010 and prior to January 1, 2015, the estate tax for net taxable estates greater than \$850,000 equals the maximum credit allowed under federal estate tax law as it was in effect as of January 1, 2001. For decedents whose deaths occurred on or after January 1, 2015, the estate tax equals the maximum credit allowed under federal estate tax law as it was in effect as of January 1, 2001, provided that a credit is allowed against any tax so determined in the amount of \$64,400 (equivalent to the taxes owed on an estate with a taxable value of \$1.5 million). For all decedents whose death occurs on or after January 1, 2002, any increase in the unified credit provided by 26 U.S.C., subsection 2010 in effect on or after January 1, 2001 shall not apply for Rhode Island estate tax purposes. The threshold estate tax exemption amount applicable to decedents whose deaths occurred on or after January 1, 2010 and prior to January 1, 2015, as well as the estate tax credit applicable to estates of decedents whose deaths occurred on or after January 1, 2015, are indexed to the Consumer Price Index ("CPI") for all Urban Consumers as of September 30 of the prior calendar year. The time period for filing a return is nine months from the date of death.

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.

The Governor's recommended FY 2018 Budget includes a proposal to increase the cigarette stamp excise tax rate from \$3.75 per pack of 20 cigarettes to \$4.25 per pack effective August 1, 2017. See "General Revenues - Governor's Recommended FY 2018 Revenue Changes".

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 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. 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.

Departmental Receipts. All departmental receipts revenues comprised 10.0 percent of total general revenues in audited FY 2016. Among the sub-categories of departmental receipts, licenses and fees were approximately 80 percent of total departmental receipts in FY 2016.

Licenses and Fees. 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. Motor vehicle title fees, emission control inspection fees,

good driving record dismissals fees were transferred from General Fund license and fees revenue to the Rhode Island Highway Maintenance Account pursuant to legislation passed by the General Assembly in the 2014 session. See “Intermodal Surface Transportation Fund Revenues - Dedication of Registration and License Fees” below.

The hospital licensing fee was first enacted in 1994. 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 yielded an effective hospital licensing fee rate for Washington County hospitals of 3.593 percent. The 2015 General Assembly reinstated 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. The 2016 General Assembly reinstated the hospital licensing fee at a rate of 5.652 percent of hospital FY 2015 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 3.561 percent. The payment of the FY 2017 hospital licensing fee will occur in July 2017. The Governor’s recommended FY 2018 Budget recommends continuation of the hospital licensing fee at the same level as FY 2017, generating \$169.0 million in revenue.

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. Previously, a monthly surcharge of 2.0 percent was imposed upon the net patient revenue received by every outpatient health care facility and every imaging services provider. 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.

The Governor’s recommended FY 2018 Budget includes the elimination of the Department of Labor and Training’s apprenticeship fee and the transfer of Eisenhower House revenues from departmental receipt revenues under the Rhode Island Historical Preservation and Heritage Commission to a restricted receipts account under the Department of Environmental Management. See “General Revenues - Governor’s Recommended FY 2018 Revenue Changes”.

Sales and Services. 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.

In the FY 2018 Budget, the Governor recommends delaying the motor vehicle license plate reissuance from April 2017 to April 2018. See “General Revenues - Governor’s Recommended FY 2018 Revenue Changes”.

Fines and Penalties. A third category of departmental receipts is fines and penalties, such as interest and penalties on overdue 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 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, effective July 1, 2015, allows municipalities that issue moving violations for “eluding” a traffic light via an automated traffic violation monitoring system to retain the full amount of the fine imposed by the municipal court.

In the FY 2018 Budget, the Governor recommends increasing two penalties collected by the Department of Labor and Training. See “General Revenues - Governor’s Recommended FY 2018 Revenue Changes”.

Miscellaneous Departmental Revenues. The miscellaneous departmental revenues includes revenues from investment earnings on General Fund balances, indirect cost recoveries, as well as child support payments. The 2014 General Assembly 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 Commerce RI. 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.

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.

Other Sources. The largest component of Other Sources is the transfer from the Rhode Island Lottery. The lottery transfer to the General Fund totaled \$369.8 million which accounted for 10.1 percent of the State's audited total general revenues in FY 2016. A detailed history of the lottery and the related statutory changes over time can be found below under *Rhode Island Lottery*.

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.

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 2014 Session, the General Assembly enacted legislation to transfer proceeds from a Department of Administration insurance restricted receipt account to the General Fund by June 30, 2014. 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 FY 2018 Budget, the Governor recommends several transfers of excess reserves from various quasi-public agencies. See "Governor's Recommended FY 2018 Revenue Changes".

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 State retains a percentage of the payout for certain lottery and keno games, and also redistributed net terminal income ("NTI") from video lottery games, in accordance with State law. At present, there are two licensed video lottery facilities operating in the State of Rhode Island: (1) Twin River Casino ("Twin River", formerly known as Lincoln Park), and (2) Newport Grand. Twin River has been operating on a 24 hours per day, seven days per week basis since November 2009. Newport Grand does not currently operate on a 24 hour per day basis. 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. The master contract for Twin River froze the retailer's share of NTI from existing video lottery terminals at 28.85 percent and from additional video lottery terminals at 26.0 percent (which rates are subject to certain adjustments based on the consumer price index in the 11th through 15th 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. Under State law, Table Games have been permitted at Twin River only since June 16, 2013. The State also retains a percentage of the Net Table Game Revenue as defined in State law. As of July 1, 2014, the percentage of Net Table Game Revenue retained by the State was reduced from 18 percent to 16 percent, per State statute, because Twin River's NTI from video lottery games recorded a decline from FY 2013 to FY 2014.

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 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. 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 NIT 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 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 State-wide 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 the Commonwealth of Massachusetts (the "Commonwealth") 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 (the "Christiansen Study") by Christiansen Capital Advisors, LLC ("Christiansen") 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 that 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. 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.

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 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. 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 Video Lottery Terminal (“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.

As a result of the approval of the operation of table games at Twin River, the Town of Lincoln’s share of the net terminal income derived from the operation of video lottery terminals at Twin River was permanently increased from 1.26 percent to 1.45 percent effective July 1, 2013.

Because of the improvements in the Massachusetts economy since the Great Recession (economic decline from 2007 to 2009) 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 for its license. Penn National Gaming’s slot parlor in Plainville, MA opened on June 24, 2015. Despite initial predictions in the Christiansen Study that that facility would reduce Twin River’s revenues by 15.0 percent, as of March, 2016 Twin River’s revenues were only down by approximately 3.57 percent for fiscal year 2016, as compared to FY 2015.

With regards to the southeastern Massachusetts resort casino license, the Gaming Commission voted to give developers in New Bedford and Somerset until May 4, 2015 to complete their applications. Developers for the New Bedford site met that deadline joining developers for a site in Brockton, Massachusetts with a completed application submitted to the Gaming Commission. The developers for the Somerset site asked for a further extension of the time needed to submit an application. In the interim, both the voters of Brockton and the voters of New Bedford approved local referendums allowing a destination resort casino to be located in their cities.

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 counties of Bristol, Plymouth, Barnstable, Nantucket and Dukes). In July, 2016 the court ruled in favor of the East Taunton residents protesting the U.S. Department of Interior’s land in trust declaration in September, 2015 for Taunton; and in March, 2017, the U.S. Court of Appeals for the First Circuit, granted an extension to the tribe on their submittal for opening arguments to late April, 2017.

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. Twin River did avail itself to the second tier of the marketing program in FY 2016 and are anticipated to do so in FY 2017 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. Subject to passage of the referenda, the Department of Revenue's Division of Lottery would be authorized to operate table games in addition to VLTs at Newport Grand. The passage of the referenda would have increased the City of Newport's share of the 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 State-wide 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 VLT net 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 VLT net income and thus reduced general revenues by the same amount.

Upon the defeat of expanded gaming at Newport Grand in the November 2014 election, Twin River Management Group, Inc. ("TRMG"), a Delaware corporation that is the corporate parent of UTGR, Inc., 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 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. The Gaming Enforcement Unit ("GEU") conducted certain due diligence investigatory activities in connection with the proposed transfer. A hearing officer conducted a hearing on June 25, 2015 on the Application; 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 reinstated 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. This increase in Newport Grand's share of the NTI generated at the facility reduced the State's share of net terminal income by \$859,000 in FY 2016.

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 voters approved this referenda question at both the local and State-wide level and thus a new casino is expected to open in early FY 2019. Because the Tiverton Casino will operate 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 NTI. 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 NTI 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.

Historic and Motion Picture Production Tax Credits

The State's Historic Structures Tax Credit has allowed a taxpayer to receive a tax credit equal to up to 30 percent of the qualified rehabilitation expenditures made in the substantial "rehabilitation of a certified historic structure." To qualify, the application for certification must have been made prior to January 1, 2008. These credits were transferable, could be carried forward for ten years, and could be used to offset the personal income tax or certain business tax liabilities of a taxpayer. In the 2008 Session, the General Assembly enacted legislation that

authorized the Rhode Island Economic Development Corporation (since 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. In June 2009, \$150 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. Another \$75 million of such bonds were issued in May 2015. In addition, 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. As of May 2009, the estimates of personal income tax collections adopted at the semi-annual Revenue Estimating Conference (as well as the estimates for collections of business corporation tax, financial institutions tax, public utilities gross earnings tax, and insurance companies gross premiums tax) 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 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 under current law: (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 \$100,000. 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 personal income tax, business corporation tax, public utilities gross earnings tax, insurance companies gross premiums tax, and financial institutions tax liabilities. Currently, the Motion Picture Production Tax Credit program is capped at \$15.0 million annually.

Intermodal Surface Transportation Fund Revenues

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 (the “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 Panel projected that the State would need to spend approximately \$632 million per year during the ten-year period commencing in 2008 to maintain Rhode Island’s highway system in a state of good operation and repair but the State has significantly failed to reach with spending levels since 2008. In fact, State and federal funding only provided approximately \$419 million for the maintenance of Rhode Island’s highway system in FY 2016.

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 (“Article 21”). 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 3.5 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 \$25 fee on dismissals based on good driving records; 5) increase of the fee on motor vehicle inspections from \$39 to \$55, \$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.

Motor Fuel Tax. A motor fuel 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.

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. The indexation of the motor fuel tax rate resulted in an increase in the State's motor fuel tax from \$0.32 per gallon to \$0.33 per gallon for FY 2016 and FY 2017.

The Intermodal Surface Transportation Fund is supported by the State's 33 cents per gallon motor fuel tax, which was raised two 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 one 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 one 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 2017, the 33 cents per gallon motor fuel tax and the one cent UST fee are allocated as follows: 17.25 cents to the Department of Transportation; two 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; one 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.

Dedication of Registration and License Fees. 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 driver's 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 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.

I-195 Redevelopment District Commission Land Purchase. 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 Commerce RI 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, Commerce RI 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.

RhodeWorks Revenues. 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 and the daily maximum amount of tolls collected upon the same individual large commercial truck shall not exceed \$40. 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 in the principal amount of \$245,925,000 was issued in the fall of 2016. The State is currently evaluating contract proposals for the construction of 14 toll gantries. The State anticipates the contract to be awarded in May 2017 and to have two of the toll gantries in place by December 2017 and the remainder in place by May 2018.

Non-General Revenue Sources

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: Federal receipts are revenues from the federal government, representing grants-in-aid and reimbursements to the State for expenditures for various health, welfare and educational programs and distribution of various restricted or categorical grants-in-aid.

Federal grants-in-aid reimbursements are normally conditioned to some degree, depending on the particular program being funded, on matching resources by the state ranging from a 50 percent matching expenditure to in-kind contributions. The largest categories of federal grants and reimbursements are made for medical assistance payments for the indigent (Title XIX, or Medicaid), and a block grant for Temporary Assistance to Needy Families (TANF). The federal participatory rate for Title XIX, known as the Federal Medical Assistance Percentage (FMAP), is recalculated annually. The major determinant in the FMAP rate calculation is the relative per capita income of the State. Due to continuing relative shifts in the State's per capita income statistics as measured by the Bureau of Economic Analysis (BEA), FFY 2015 represented 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 2017 enacted budget included \$381.1 million in federal spending and the FY 2018 Governor's recommendation includes \$497.0 million in total spending of which \$469.6 million is federal funded and \$27.5 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 fully supported this expansion until January 2017, after which the federal matching rates decline incrementally until reaching 90 percent in January 2020 and thereafter.

State Expenditures – FY 2018 Recommended Budget and FY 2017 Revised Budget

The FY 2018 Recommended Budget addresses a projected operating deficit of nearly \$184.5 million (which had been reduced to a deficit of \$66.2 million after additional estimated revenues and increased costs were established at the November 2016 Revenue and Caseload Estimation Conferences). The FY 2018 Recommended Budget reflects ongoing improvements in the State's overall financial condition over the past several years. FY 2016 closed with a surplus of \$167.8 million, representing the seventh year in a row the State has closed with a strong surplus. See pages A-54 through A-63 for expenditure amounts by State agency under the FY 2018 recommended budget and FY 2017 revised budget.

The Governor recommends an all funds expenditure budget totaling \$9,248.1 million for FY 2018, an increase of \$47.5 million, or 0.5 percent, from the FY 2017 Revised Budget of \$9,200.5 million. Of the \$47.5 million expenditure increase, there is an increase of \$92.3 million in general revenue and \$5.5 million in other funds, with reductions in federal funds of \$16.3 million and in restricted receipts of \$33.0 million. Of the \$9,248.1 million budget, \$3,792.7 million, or 41.0 percent of the expenditures, is from general revenue; \$3,081.8 million or 33.3 percent is from federal funds; \$2,099.7 million, or 22.7 percent, is from other sources; and \$273.8 million, or 3.0 percent, is from restricted or dedicated fee funds

Recommended FY 2018 general revenue expenditures of \$3,792.7 million represents an increase of \$109.0 million, or 3.0 percent, over the FY 2017 enacted budget of \$3,683.7 million, and is 2.5 percent higher than the FY 2017 revised budget proposed by the Governor (\$3,700.4 million). Recommended FY 2018 federal funds expenditure of \$3,081.8 million represents an increase of \$124.8 million, or 4.2 percent, over the FY 2017 enacted budget, but is \$16.3 million below the FY 2017 Revised budget (\$3,098.1 million). Other funds and operating transfers increase from \$2,040.9 million in the FY 2017 enacted budget to \$2,099.7 million in the FY 2018 Budget.

The Governor recommends a revised all funds budget totaling \$9,200.5 million for FY 2017, an expenditure increase of \$261.8 million, or 2.9 percent, from the FY 2017 Enacted Budget of \$8,938.7 million. Of this total, \$3,700.4 million, or 40.2 percent, is from general revenue, \$3,098.1 million, or 33.7 percent, is from federal funds, \$2,095.2 million, or 22.8 percent, is from other sources, and \$306.8 million, or 3.3 percent, is from restricted or dedicated fee funds.

Recommended FY 2017 general revenue expenditure of \$3,700.4 million represents a net increase of \$16.7 million, or 0.5 percent, from the FY 2017 enacted budget of \$3,683.7 million, and is 4.7 percent higher than the FY 2016 actual expenditure (\$3,547.9 million). Federal funds increase from \$2,957.1 million in the FY 2017 enacted budget to \$3,098.1 million in the revised FY 2017 budget. Other funds increase from \$2,040.9 million in the FY 2017 Enacted Budget to \$2,095.3 million in the revised FY 2017 budget.

Expenditures from general revenue are projected to total \$3,792.8 million for FY 2018, increasing by \$92.3 million over FY 2017 revised spending levels. Expenditures are divided into five functional areas aligned with State departments and agencies: General Government, Health and Human Services, Education, Public Safety, and Natural Resources.

General Revenue expenditures totaling \$1,392.4 million in FY 2018 for Health and Human Services agencies represent 36.7 percent of the total general revenue budget to support various health care and prescription drug coverage programs for low-income children, their parents, seniors and the poor, and community residential and treatment programs for the disabled. The Governor's budget continues to constrain cost growth in these areas while focusing on improving outcomes. The budget implements Medicaid reform efforts begun in FY 2016 and includes improvements to the child welfare system, state hospitals, and services provided to people with developmental disabilities.

Education is the second largest component of State spending, totaling \$1,388.5 million, or 36.6 percent of general revenue spending. This includes state support for local education aid, support for the state university and colleges, and scholarships. The Governor's budget implements the seventh year of the education funding formula and increases support for early childhood programs. The FY 2018 budget also increases funding to higher education

under the Governor's Rhode Island Promise program, which would provide free tuition to the Community College of Rhode Island and for juniors and seniors at the University of Rhode Island and Rhode Island College for students that meet eligibility requirements.

General revenue expenditures for General Government and Public Safety comprise \$504.3 million (13.3 percent) and \$461.0 million (12.2 percent), respectively. General Government include state operations, state aid to municipalities, and direct property tax relief. Public Safety includes the state prisons, Military Staff, RI Emergency Management Agency, State Police, Attorney General, and Judicial departments.

Finally, general revenue expenditures for Natural Resources comprise \$46.6 million, or 1.2 percent of total general revenue funding. The Natural Resources function includes the Department of Environmental Management and the Coastal Resources Management Council.

Transportation expenditures are financed by dedicated gasoline taxes and are not a component of general revenue spending.

Certain FY 2018 Recommended Budget Initiatives

Access to Affordable Higher Education. The Governor has proposed that the State guarantee two years of free tuition and fees for Rhode Island students at any of the three Rhode Island public universities. All 2017 Rhode Island high school graduates who enroll full-time at the Community College of Rhode Island will be eligible beginning in the fall of 2017. Those students who enroll at Rhode Island College or the University of Rhode Island will receive a scholarship for tuition and fees for their junior and senior years. Students will be required to stay on track toward finishing their degrees on time to remain eligible.

It is estimated that by 2020, 71 percent of Rhode Island's jobs will require an associate's degree or higher. Yet only slightly more than 40 percent of Rhode Islanders presently meet that benchmark. While there is information that almost 90 percent of Rhode Island's high school seniors express an intention to attend an institution of higher education, less than two-thirds actually do. This program is designed to ensure students have the opportunity to compete in the job markets of the future by keeping college affordable and accessible.

Motor Vehicle Property Tax Fairness. Rhode Island's municipal motor vehicle excise tax (the "car tax") totaled about \$215.4 million in FY 2016, making up approximately 9 percent of total local tax revenues. This tax has two central issues. First, Rhode Island has some of the highest average car tax rates in the country. Second, the valuation process does not always accurately reflect the true values of each car, leading to taxes being paid on car values that exceed the actual worth of the car.

The Governor proposes that vehicles' assessed values be reduced by 30 percent – moving from "clean retail" to an approximation of "average trade-in value." This change is designed to more fairly reflect the actual value of taxpayers' cars, and will bring the tax closer to alignment with valuation methodologies used by Connecticut and Massachusetts.

K-12 Education. The State has committed to increased resources for public education by adopting a funding formula that reimburses school districts according to their needs. For FY 2018, the budget includes an additional \$45.4 million for municipalities, allowing local schools to advance the educational opportunities of students throughout the State. In addition, the budget proposes a number of initiatives to improve K-12 education and to achieve the Governor's Third Grade Reading Goal to double the number of third graders reading at grade level by 2025. Investments include:

- Increase Early Childhood Learning – The budget increases funding for this categorical to leverage federal grants for a total of \$6.0 million. The funding will allow additional investment in early childhood development programs that support cognitive growth in children and lay the groundwork for future academic success.
- Make ELL Categorical Funding Permanent – In the FY 2017 enacted budget, \$2.5 million was added to municipal K-12 funding to support English Language Learners (ELLs) and the additional expenses generated by those programs. The funding was set to expire in FY 2018, and Rhode Island is one of only four states in the country that does not have permanent ELL funding.

- Kindergarten Entry Profile – The budget provides \$200,000 in technology and training to start a program that analyzes children’s abilities and academic potential at the kindergarten level in order to further guide early childhood education policy, inform educational interventions by LEAs and leverage Rhode Island’s significant investment in early learning.

Strengthening the Economy. The budget proposes other actions designed to make it easier and cheaper to do business in Rhode Island, to attract advanced industries to invest in the State, and to help existing businesses grow and thrive.

- Manufacturing Investment Tax Credit – \$3.25 million is used to enhance the existing investment tax credit, with a focus on manufacturers buying equipment and adding jobs. The credit is refundable and transferrable, and is proposed to apply to companies registered as S-corporations or without a sufficient tax liability. The proposed tax credit is designed to particularly appeal to new or small manufacturing companies contemplating significant capital investments in equipment.
- Job-Ready Workforce Labor Stimulus Program (JWLS) – \$2.0 million is allocated toward a job incentive program with a focus on advanced manufacturing. The program is designed to create a competitive award for manufacturers and other companies expanding employment in Rhode Island. The credit will encourage new training and development initiatives at these firms, while helping to offset the local property tax burden faced by these companies.
- Davies Manufacturing – Designates \$3.65 million to the state-run Davies Career and Technical School for upgrading facilities around advanced manufacturing. The proposed upgrades include welding facilities, advance shop floor, and updated technology and infrastructure to prepare the next generation of manufacturing workers.
- Innovation Voucher – Expands successful research and development incentive program from \$1.5 million to \$2.5 million with an added focus on manufacturing research and development. Vouchers can be used as: support for the commercialization of a new product, process, or service; access to scientific, engineering and design expertise; technological development and exploration; or scaling innovative ideas to market development.
- Polaris Technical Assistance – An additional \$300,000 (for a total of \$550,000) of funding, allowing Polaris to provide LEAN training, facility layout and other programming to help manufacturers succeed. Polaris provides group and individual trainings for operators, shares expertise, and promotes manufacturing State-wide.

In order to continue the job growth of companies moving to Rhode Island or expanding here the financial incentives established in the last two budgets are proposed to be continued.

- First Wave Closing Fund – Moves \$1.5 million to the fund from a one-time fund balance already at the Commerce RI to bring the fund back to \$12.0 million. It provides 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.
- Air Services Development Fund – Adds \$500,000 to the fund, which provides incentives to airlines that launch new routes or increase service to T.F. Green Airport. Having more direct routes and convenient service times is a factor in corporate decisions to move to Rhode Island.
- I-195 Development Fund – Provides \$10.1 million to replenish the fund since \$19.5 million was recently obligated in business attraction deals. The fund is designed to catalyze development and attract anchor employers and institutions to the I-195 land.
- Rebuild RI – Maintains funding for Rebuild RI at \$20.0 million a year to ensure all credits are funded over the life of the program. The program supports 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 leverages private funds to spur real estate development.

Medicaid Reforms

Medicaid continues to be a major budget driver for the State. The State's Reinventing Medicaid initiative ("Reinventing Medicaid") continues to promote and foster health care innovation designed to achieve the Triple Aim of a healthier population, a better patient experience of care and lower costs. This budget builds upon the reform initiatives enacted in fiscal years 2016 and 2017, which aim to save more than \$39.0 million without cutting benefits or eligibility for any Rhode Islanders.

The FY 2018 budget maintains Reinventing Medicaid initiatives while adding additional reforms, including:

- **Healthy Aging Initiative** – The budget proposes modifying the State's Integrated Care Initiative (ICI) to remove members who have spent substantial time in a nursing home. The ICI is designed to improve care management for certain Medicaid members. However, the State saves substantial administrative fees by moving these patients out of the ICI. A substantial portion of this savings is reinvested in initiatives to rebalance the State's long-term care system.
- **Rate Changes for Medicaid Providers and Managed Care** – The budget proposes freezing rates for hospitals, nursing homes and the administrative portion of Medicaid managed care organization payments. In addition, the budget proposes a 1 percent rate cut for hospitals, beginning January 1, 2018, reducing Upper Payment Limit payments to hospitals by 50 percent, and eliminating supplemental Graduate Medical Education payments. These changes will continue to incentivize health care providers to shift care out of high-acuity settings where appropriate.
- **Increase Children's Health Account Attachment Point** – The budget proposes increasing the attachment point for the Children's Health Account. The account funds certain health care services for children who are not covered by private insurance. Contributions from private insurance companies cover this cost. However, the contributions do not fully cover the cost of providing these services through Medicaid.
- **Improve Program Integrity** – The State will work to more quickly and thoroughly identify Medicaid members who have alternative coverage available or who have moved out of state and are therefore no longer eligible for coverage.

Over the past few years, the Office of Health and Human Services and the Department of Human Services have been developing, through a contract with Deloitte Consulting, a single, unified eligibility system for virtually all public assistance programs. The new system is known as RI Bridges (formerly the Unified Health Infrastructure Project or UHIP). Phase 1 of the new system was brought online as the portal for the Rhode Island Health Exchange under the Affordable Care Act. This phase of the project has been operating for the past few years as planned. Phase 2 of the project was launched in September 2016 and experienced immediate challenges due to delivery of an incomplete system. The State is investing in a surge of contractor help and State staffing to reduce backlogs caused by the new system and improve functionality. Based on an ongoing analysis of the project, full remediation of the system issues is expected by the summer of 2017. The system challenges have resulted in increased costs in both the Medicaid and Cash Assistance programs that will impact the revised caseload estimates for both FY 2017 and FY 2018 to be determined at the May Caseload Estimating Conference. Depending on how quickly remediation is completed, increased general revenue costs over the two fiscal years are estimated between \$6.3 million and \$38.0 million. It should also be noted, based upon civil investigative document requests received in March 2017 by the RI Department of Administration and the Office of Health and Human Services, that the U.S. Department of Justice is investigating allegations of false claims for payment for services, and/or false statements in support of such payments, relating to services procured by the State from Deloitte LLP and or its subcontractors in connection with the establishment of health exchange services and the integrated eligibility system under the Affordable Care Act. The State is in the process of satisfying the document request. It is unknown at this time who is the target of the investigation.

Fiscal Improvements

- Remote Seller Sales Tax Collection – Collecting \$34.7 million more in sales tax revenue by adding tools to enforce existing law and collect sales tax revenue from companies without a presence in the state. These are mostly e-commerce companies that have been undercutting local brick-and-mortar stores by avoiding sales taxes. As more purchases move online this change is critical to ensure a level playing field for Rhode Island businesses.
- Workers’ Compensation Outsourcing – Savings of \$1.25 million by engaging a private manager for workers’ compensation that can better manage claims, provide more robust worker safety programs, and focus on enabling more injured employees to return to work.
- Fraud Detection and Prevention – Continues the Fraud Detection and Prevention Initiative with an additional \$3.5 million in savings in FY 2018. The initiative uses technology, data matching, and enhanced oversight to detect and prevent fraud across executive branch departments. Departments include: Office of Health and Human Services, Department of Labor & Training, Department of Business Regulation, and the Division of Taxation.
- e-Procurement – \$350,000 in FY 2018 savings from implementing a modern online procurement system. The current purchasing process is a multi-system, highly manual process for vendors, DOA, agencies and municipalities. It allows vendors to bid electronically at any time, including outside of business hours on nights and weekends. Currently, only mail/walk-in options are available.

ECONOMIC FORECAST

This section describes the economic forecast used as an input for the REC’s consensus revenue estimates. The statutes governing the REC 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.”

The consensus economic forecast, adopted twice a year at the REC, establishes forecasted growth rates for a variety of national and state-level economic indicators. State-level indicators include: total employment; personal income; wage and salary growth; dividends, interest, and rent; and the unemployment rate. National indicators include: the Consumer Price Index for all urban consumers (“CPI-U”), the interest rate for ten-year U.S. Treasury notes, and the interest rate for three-month U.S. Treasury bills.

The three REC conferees use the economic indicators to estimate state revenues for the current year and the budget year. The indicators are also used to inform the State’s out-year forecasts.

During testimony for the November 2016 REC, IHS Markit economists presented forecasts for the U.S. and Rhode Island economies. The Rhode Island Department of Labor and Training (DLT) presented current State employment and labor force trends. The REC conferees adopted the economic forecast 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 2016 REC.

IHS Markit economists predicted that national real GDP growth will increase to 2.2 percent in both 2017 and 2018 after its slow-down from 2.6 percent in 2015 to 1.4 percent in 2016. The U.S. economy continued its seventh year of expansion. The fourth quarter of calendar year 2016 saw personal consumption, fixed investment, and government spending increase. Consumer spending, which comprises two-thirds of the U.S. economy, led the end-of-year expansion. IHS Markit testimony identified a number of positive forces that have impacted consumer spending, keeping it relatively stable throughout the country’s recession recovery period. The positive forces include employment growth, rising disposable income, mild inflation, and very low interest rates. Throughout the recovery period, individual consumers have also lowered personal debt levels and increased savings. However, there are also negative forces impeding consumer spending, including sluggish wage gains, high student debt burdens, and precautionary saving.

Throughout 2016, the country has also seen a negative impact on net exports resulting from the strength of the U.S. dollar against other currencies. This has impaired the manufacturing industry's competitive position in international markets and is likely to be a drag on significant economic growth. IHS Markit anticipates that the Federal Reserve will raise interest rates as labor markets tighten and core inflation approaches 2.0 percent.

Specific to the Rhode Island economy, IHS Markit testimony noted a modest growth trajectory for Rhode Island as payrolls expanded by 5,300 jobs year over year for September 2016. Administrative support and accommodations/food service jobs contributed the largest gains at 1,400 and 2,900, respectively. However, growth in these job sectors is not anticipated to spur significant economic growth overall, as jobs in these categories typically have lower-than-average wages. Positions with higher-than-average wages in the finance and professional, scientific and technical sectors experienced weak growth, as did manufacturing jobs, likely related to the strength of the dollar. Healthcare payrolls were down year over year, with reports of hospital layoffs, lower revenues, and lower reimbursement rates.

Rhode Island continues to have very slow population growth; the State's birthrate is lower than the national average, which monotonically impacts labor force growth estimates. While there has been steady growth in the under 35 and over 55 populations, there have been continued declines in population numbers for ages 35 to 54. Since 2012, the State has experienced a continued outflow of residents within those ages, which is offsetting the influx of persons under 35 and over 54. IHS Markit predicted that from the third quarter of 2016 to the third quarter of 2018, Rhode Island will experience employment growth deceleration as labor markets tighten and population growth remains slow. Rhode Island payrolls are projected to expand 0.4% per year on average between 2016 and 2021, which will rank as the 48th fastest in the United States.

The tight labor market and impact of high student loan debt on younger residents continues to have a negative impact on household formation, which is contributing to the State's weak recovery in housing starts. Less new construction has increased competition for the State's existing housing stock, which in turn contributes to upward pressure on home prices for current residents of the State. While IHS Markit reported that home sales are likely to level off through 2021, home prices are predicted to continue to rise. The share of loans entering foreclosure appears to be close to 2006 levels while the share of loans in foreclosure have come down from a peak in 2011 to 2008 levels.

The IHS Markit economists indicated that the economic forecast presented to the conference did not contemplate the outcome of the November presidential election. The forecast could not be appropriately updated until the new administration staffed the Executive Branch and the 115th Congress began passing laws under its leadership.

While testimony from IHS Markit gave a broad picture of Rhode Island's economic conditions as of November 2016, DLT presented a detailed analysis of Rhode Island's labor market. Rhode Island's unemployment rate was 5.6 percent in September 2016, the latest data available at the time of the REC. This is equivalent to the revised rate reported for September 2015, but 0.2 points higher than the 5.4 percent rate reported from December 2015 through May 2016. The unemployment rate during that period was the lowest it had been since August 2007 when the rate was 5.3 percent. DLT reported that for November 2016, the state's unemployment rate fell to that 5.3 percent level.

Rhode Island's resident employment peaked at 547,300 in January 2007. Rhode Island resident employment in September 2016 totaled 526,300 (21,000 below the peak). According to DLT, for November 2016, Rhode Island resident employment totaled 526,269 (20,948 below the January 2007 peak). The chart below shows the total labor force and number of employed residents, for the period of FY 2006 through the second quarter of FY 2017, as provided by the Department of Labor and Training.



According to testimony provided by DLT, Rhode Island employment increased by 5,300 jobs between September 2015 and September 2016.

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

DLT expects to see revisions to the June 2016 job numbers reported by the Bureau of Labor Statistics (BLS). The IHS Markit economic forecast incorporates upward revisions to BLS data for forecasted numbers, but uses current BLS total employment numbers for historical figures. As a result, it is likely that the growth rates contained in the forecasts that follow will be revised as historical employment figures are also revised.

The November 2016 Consensus Economic Forecast

Employment is usually used to gauge the cyclical status of a State's economy. In FY 2016, total non-farm employment increased by 1.1 percent over FY 2015. In FY 2017, non-farm employment is expected to increase by 0.9 percent to 491,900 jobs. Over the FY 2017 through FY 2022 period, Rhode Island's economy is expected to add 9,000 jobs. The adopted forecast assumes employment growth will slow from 0.5 percent in FY 2018 to 0.2 percent in FY 2021. For FY 2022, the forecast includes a slight increase in employment growth to 0.4 percent. The employment forecasts adopted at the November 2016 REC were revised downward by an average of 0.45 percentage points for FY 2017 through FY 2020, when compared to the forecast adopted at the May 2016 REC.

The unemployment rate is projected to increase slightly from 5.5 percent in FY 2016 to 5.6 percent in FY 2017. It is expected to trend downward, falling to 5.4 percent in FY 2018, and to 5.3 percent in FY 2019 and FY 2020. The unemployment rate anticipated for FY 2018 would be the lowest in nine years. However, it will still be 0.5 percentage points higher than the 4.9 percent rate achieved when the economy peaked in FY 2007.

Personal income growth is expected to be 3.0 percent in FY 2017, which is a slight decrease from FY 2016's 3.4 percent growth over FY 2015. The November 2016 REC's estimates for personal income growth show a positive upward trend from FY 2018 through FY 2020, peaking at 4.3 percent growth in FY 2019 and FY 2020, before a decrease in year-over-year growth to 4.1 percent for FY 2021 and FY 2022. The adopted estimates for FY 2017 and FY 2018 personal income growth are below the adopted estimates from the May 2016 REC for the same period. The

projection includes personal income growth stronger than what was anticipated for the FY 2019 through FY 2021 period by the forecast adopted by the May 2016 REC. The FY 2017 projected growth rate for personal income is down 0.7 percentage points from the adoption of 3.7 percent by the May 2016 REC. For FY 2018, the adopted November 2016 REC personal income growth estimate is also 0.4 percentage points below the 4.4 percent growth rate that was adopted in May 2016. Based on the November 2016 REC, the personal income growth rate is expected to fall to 4.1 percent in FY 2021 and FY 2022.

The November 2016 REC consensus estimates of 2.6 percent growth in FY 2017 for dividends, interest and rents indicates a modest increase over FY 2016 growth, which was 2.3 percent over FY 2015. Growth for FY 2018 is estimated to be 3.2 percent above FY 2017 levels, with growth rates of 5.2 percent for FY 2019 and 5.5 percent for FY 2020, before falling to 4.4 percent in FY 2021 and again to 3.6 percent in FY 2022. The November 2016 REC consensus wage and salary income growth was lower in FY 2016 relative to the projected growth adopted in May 2016 by 1.2 percentage points. For FY 2017 the November 2016 REC growth rate for wages and salaries was revised downward by 0.6 percentage points, while growth for FY 2018 was revised upwards by 0.2 percentage points when compared to the forecast adopted in May 2016. Wage and salary income growth is expected to remain flat at 4.2 percent year over year from FY 2019 through FY 2021, before increasing by 0.2 of a percentage point.

The CPI-U is anticipated to increase to 1.9 percent in FY 2017 from 0.7 percent in FY 2016. In FY 2018 the growth in the CPI-U is expected to climb to 2.5 percent before increasing to 2.6 percent in FY 2020. The forecast of CPI-U growth decelerates to 2.4 percent in FY 2021 and FY 2022.

For FY 2017, the interest rate on three-month Treasury bills is expected to rise to 0.5 percent, slightly more than FY 2016's 0.2 percent rate. In FY 2018, the interest rate on three-month Treasury bills is expected to rise to 1.0 percent and increase again to approximately 1.8 percent in FY 2019. For FY 2020 the rate is expected to climb to 2.5 percent before stabilizing at 2.6 percent in FY 2021, FY 2022 and thereafter. This forecasted increase in the three-month Treasury bill rate is consistent with the anticipated increase of the Federal Reserve's interest rate target. The interest rate on ten-year Treasury notes is expected to decrease from 2.0 percent in FY 2016 to 1.8 percent in FY 2017, before rising to 2.4 percent in FY 2018, 3.0 percent in FY 2019, and 3.6 percent for FY 2021 and thereafter.

The Consensus Economic Forecast for the fiscal years 2017 through 2022 agreed upon by the conferees at the November 2016 REC is shown in the following table.

The November 2016 Consensus Economic Forecast						
Rates of Growth (%)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Non-Farm Employment	0.9	0.5	0.3	0.4	0.2	0.4
Personal Income	3.0	4.0	4.3	4.3	4.1	4.1
Wage and Salary Income	3.0	4.3	0	4.2	4.2	4.4
Dividends, Interest and Rent	2.6	3.2	5.2	5.5	4.4	3.6
Nominal Rates (%)						
U.S. CPI-U	1.9	2.5	2.5	2.6	2.4	2.4
RI Unemployment Rate	5.6	5.4	5.3	5.3	5.5	5.5
Ten Year Treasury Notes	1.8	2.4	3	3.6	3.6	3.6
Three Month Treasury Bills	0.5	1.0	1.8	2.5	2.6	2.6

The differences between the November 2016 and the May 2016 Consensus Economic Forecasts, primarily downward revisions, are shown below.

Percentage Changes from November 2016 to May 2016 Consensus Economic Forecasts						
Rates of Growth (%)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Non-Farm Employment	-30.8%	-58.3%	-70.0%	-20.0%	0.0%	0.0%
Personal Income	-18.9%	-9.1%	10.3%	43.3%	41.4%	28.1%
Wage and Salary Income	-16.7%	4.9%	-100.0%	20.0%	61.5%	63.0%
Dividends, Interest and Rent	-63.4%	-62.4%	44.4%	323.1%	120.0%	56.5%
Nominal Rates (%)						
U.S. CPI-U	-13.6%	-13.8%	-13.8%	0.0%	4.3%	9.1%
RI Unemployment Rate	9.8%	10.2%	8.2%	6.0%	7.8%	10.0%
Ten Year Treasury Notes	-41.9%	-38.5%	-25.0%	-10.0%	-10.0%	-12.2%
Three Month Treasury Bills	-28.6%	-54.5%	-41.9%	-21.9%	-21.2%	-25.7%

GENERAL REVENUES

Final FY 2015 and FY 2016 Audited General Revenues

The table below compares the Audited FY 2016 total general revenues to the audited FY 2015 total general revenues and the Audited FY 2016 total general revenues to the final enacted FY 2016 total general revenue estimate.

	FY 2015 Audited	FY 2016 Final Enacted	FY 2016 Audited	FY 2016 Audited vs Enacted	Percentage Change Over Enacted	FY 2016 Audited vs FY 2015 Audited	Percentage Change Year Over Year
Personal Income Tax	\$ 1,227,581,960	\$ 1,224,900,000	\$ 1,217,429,575	\$ (7,470,425)	-0.6%	\$(10,152,385)	-0.8%
General Business Taxes							
Business Corporations	147,979,089	153,500,000	134,908,997	(18,591,003)	-12.1%	(13,070,092)	-8.8%
Public Utilities Gross	103,950,349	99,500,000	103,062,420	3,562,420	3.6%	(887,929)	-0.9%
Financial Institutions	22,743,284	20,400,000	21,095,888	695,888	3.4%	(1,647,396)	-7.2%
Insurance Companies	120,264,561	121,400,000	130,344,054	8,944,054	7.4%	10,079,493	8.4%
Bank Deposits	2,259,880	2,400,000	2,555,974	155,974	6.5%	296,094	13.1%
Nursing Facility Provider	44,125,338	44,000,000	43,236,332	(763,668)	-1.7%	(889,006)	-2.0%
Sales and Use Taxes							
Sales and Use	963,452,546	981,000,000	971,927,289	(9,072,711)	-0.9%	8,474,743	0.9%
Motor Vehicle	49,117,001	39,200,000	39,691,836	491,836	1.3%	(9,425,165)	-19.2%
Motor Fuel	(124,650)	-	(208,068)	(208,068)		(83,418)	66.9%
Cigarettes	138,045,483	143,000,000	142,782,086	(217,914)	-0.2%	4,736,603	3.4%
Alcohol	18,363,285	19,300,000	19,630,268	330,268	1.7%	1,266,983	6.9%
Controlled Substances	6,177	-	(54,365)	(54,365)		(60,542)	-980.1%
Other Taxes							
Inheritance and Gift	34,202,383	25,100,000	70,028,952	44,928,952	179.0%	35,826,569	104.7%
Racing and Athletics	1,107,202	1,100,000	1,059,487	(40,513)	-3.7%	(47,715)	-4.3%
Realty Transfer	9,493,464	10,400,000	10,430,664	30,664	0.3%	937,200	9.9%
Total Taxes	\$ 2,882,561,175	\$ 2,885,200,000	\$ 2,907,921,389	\$ 22,721,389	0.8%	\$ 25,360,214	0.9%
Departmental Receipts	354,121,814	363,800,000	367,641,395	3,841,395	1.1%	13,519,581	3.8%
Other Miscellaneous	8,778,364	3,829,000	4,102,234	273,234	7.1%	(4,676,130)	-53.3%
Lottery	381,935,510	370,100,000	369,760,879	(339,121)	-0.1%	(12,174,631)	-3.2%
Unclaimed Property	13,711,780	12,100,000	14,166,740	2,066,740	17.1%	454,960	3.3%
Total General Revenues	\$ 3,641,108,643	\$ 3,635,029,000	\$ 3,663,592,637	\$ 28,563,637	0.8%	\$ 22,483,994	0.6%

Audited FY 2016 total general revenues of \$3.664 billion were up \$22.5 million compared to audited FY 2015 total general revenues of \$3.641 billion, which translates into a growth rate of 0.6 percent. Audited FY 2016 total general revenues were 0.8 percent more than the final enacted FY 2016 total general revenue estimate of \$3.635 billion, a surplus of \$28.6 million.

Audited FY 2016 total taxes and departmental receipts were 0.82 percent more than the final enacted FY 2016 estimate of \$3.249 billion, a surplus of \$26.6 million. Audited FY 2016 total taxes and departmental receipts of \$3.275 billion were up \$38.9 million compared to audited FY 2015 total taxes and departmental receipts of \$3.237 billion, which translates into a growth rate of 1.2 percent.

Audited FY 2016 other general revenue sources were 0.52 percent more than the final enacted FY 2016 estimate of \$386 million, a surplus of \$2 million. Audited FY 2016 other general revenue sources of \$388 million

were down \$16.4 million compared to audited FY 2015 other general revenue sources of \$404.4 million, which translates into a growth rate of -4.1 percent.

Audited FY 2016 revenues for total taxes were 0.8 percent more than the final enacted FY 2016 estimate of \$2.885 billion, a surplus of \$22.7 million. Audited FY 2016 total taxes revenues of \$2.908 billion were up \$25.4 million compared to audited FY 2015 total taxes revenues of \$2.882 billion, which translates into a growth rate of 0.88 percent.

Audited FY 2016 personal income tax revenues were 0.6 percent less than the final enacted FY 2016 estimate of \$1.225 billion, a shortfall of \$7.5 million. Audited FY 2016 personal income tax revenues of \$1.217 billion were down \$10.2 million compared to audited FY 2015 personal income tax revenues of \$1.228 billion, which translates into a growth rate of -0.8 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 2016 business corporations tax revenues were 12.11 percent less than the final enacted FY 2016 estimate of \$153.5 million, a shortfall of \$18.6 million. Audited FY 2016 business corporations tax revenues of \$134.9 million were down \$13.1 million compared to audited FY 2015 business corporations tax revenues of \$148 million, which translates into a growth rate of -8.8 percent.

Audited FY 2016 public utilities gross earnings tax revenues were 3.6 percent more than the final enacted FY 2016 public utilities gross earnings tax revenue estimate of \$99.5 million, a surplus of \$3.6 million. Audited FY 2016 public utilities gross earnings tax revenues of \$103.1 million were down \$887,929 compared to audited FY 2015 public utilities gross earnings tax revenues of \$104 million, which translates into a growth rate of -0.85 percent.

Audited FY 2016 financial institutions tax revenues were 3.4 percent more than the final enacted FY 2016 estimate of \$20.4 million, a surplus of \$695,888. Audited FY 2016 financial institutions tax revenues of \$21.1 million were down \$1.6 million compared to audited FY 2015 financial institutions tax revenues of \$22.7 million, which translates into a growth rate of -7.24 percent.

Audited FY 2016 insurance companies gross premiums tax revenues were 7.4 percent more than the final enacted FY 2016 estimate of \$121.4 million, a surplus of \$8.9 million. Audited FY 2016 insurance companies gross premiums tax revenues of \$130.3 million were up \$10.1 million compared to audited FY 2015 insurance companies gross premiums tax revenues of \$120.3 million, which translates into a growth rate of 8.4 percent.

Audited FY 2016 bank deposit tax revenues were 6.5 percent more than the final enacted FY 2016 estimate of \$2.4 million, a surplus of \$155,974. Audited FY 2016 bank deposit tax revenues of \$2.6 million were up \$296,094 compared to audited FY 2015 bank deposit tax revenues of \$2.3 million, which translates into a growth rate of 13.1 percent.

Audited FY 2016 Nursing Facility Provider Assessment revenues were 1.7 percent less than the final enacted FY 2016 estimate, a shortfall of \$763,668. Audited FY 2016 Nursing Facility Provider Assessment revenues of \$43.2 million were down \$889,006 compared to audited FY 2015 Nursing Facility Provider Assessment revenues of \$44.1 million, a growth rate of -2.0 percent.

Audited FY 2016 sales and use tax revenues were -0.9 percent less than the final enacted FY 2016 estimate of \$981 million, a shortfall of \$9.1 million. Audited FY 2016 sales and use tax revenues of \$971.9 million were up \$8.5 million compared to audited FY 2015 sales and use tax revenues of \$963.4 million, a growth rate of 0.9 percent.

Audited FY 2016 motor vehicle operator license and vehicle registration fee revenues were 1.25 percent more than the final enacted FY 2016 estimate of \$39.2 million, a surplus of \$491,836. Audited FY 2016 motor vehicle operator license and vehicle registration fee revenues of \$39.7 million were down \$9.4 million compared to audited FY 2015 motor vehicle operator license and vehicle registration fee revenues of \$49.1 million, which translates into a growth rate of -19.2 percent.

Audited FY 2016 motor carrier fuel use tax revenues were down \$208,068 from the final enacted FY 2016 estimate of \$0. Audited FY 2016 motor carrier fuel use tax revenues of \$(208,068) were down \$83,418 compared to audited FY 2015 motor carrier fuel use tax revenues of \$(124,650), which translates into a growth rate of 66.92 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 2016 cigarettes tax revenues, including other tobacco products and any cigarette floor stock taxes, were down \$217,914 or -0.2 percent from the final enacted FY 2016 estimate of \$143 million. Audited FY 2016 cigarettes tax revenues of \$142.8 million were up \$4.8 million compared to audited FY 2015 cigarettes tax revenues of \$138 million, a growth rate of 3.4 percent.

Audited FY 2016 alcohol excise tax revenues were 1.7 percent more than the final enacted FY 2016 estimate of 19.3 million, a surplus of \$330,268. Audited FY 2016 alcohol tax revenues of \$19.6 million were up \$1.3 million compared to audited FY 2015 alcohol tax revenues of \$18.4 million, a growth rate of 6.9 percent.

Audited FY 2016 controlled substances revenues include a net accrual of \$(54,365). There was no final enacted FY 2016 controlled substances revenue estimate. Audited FY 2016 controlled substances revenues were down \$ \$(60,542) compared to audited FY 2015 controlled substances revenues of \$6,177, a growth rate of -980.12%.

Audited FY 2016 estate and transfer tax revenues were 179 percent more than the final enacted FY 2016 estimate of \$25.1 million, a surplus of \$44.9 million. Audited FY 2016 estate and transfer tax revenues of \$70 million were up \$35.8 million compared to audited FY 2015 estate and transfer tax revenues of \$34.2 million, a growth rate of 104.8 percent.

Audited FY 2016 racing and athletics tax revenues were 3.7 percent less than the final enacted FY 2016 estimate of \$1.1 million, a shortfall of \$40,513. Audited FY 2016 racing and athletics tax revenues of \$1.06 million were down \$47,715 compared to audited FY 2015 racing and athletics tax revenues of \$1.11 million, which translates into a growth rate of -4.3 percent.

Audited FY 2016 realty transfer tax revenues were 0.3 percent more than the final enacted FY 2016 estimate of \$10.4 million, a surplus of \$30,664. Audited FY 2016 realty transfer tax revenues of \$10.4 million were up \$937,200 compared to audited FY 2015 realty transfer tax revenues of \$9.5 million, which translates into a growth rate of 9.9 percent.

Audited FY 2016 total departmental receipts were 1.1 percent more than the final enacted FY 2016 estimate of \$363.8 million, an excess of \$3.8 million. Audited FY 2016 total departmental receipts of \$367.6 million were up \$13.5 million compared to audited FY 2015 total departmental receipts of \$354.1 million, which translates into a growth rate of 3.8 percent.

Audited FY 2016 other miscellaneous revenues were 7.14 percent more than the final enacted FY 2016 estimate of \$3.8 million, a surplus of \$273,234. Audited FY 2016 other miscellaneous revenues of \$4.1 million were down \$4.7 million compared to audited FY 2015 other miscellaneous revenues of \$8.8 million, a growth rate of -53.3 percent.

The audited FY 2016 lottery transfer to the State's General Fund was down 0.1 percent compared to the final enacted FY 2016 estimate of \$370.1 million, a shortfall of \$339,121. The audited FY 2016 lottery transfer was \$369.8 million or \$12.2 million less than the audited FY 2015 lottery transfer of \$381.9 million, which translates into a growth rate of -3.2 percent.

The audited FY 2016 unclaimed property transfer was 17.1 percent more than the final enacted FY 2016 estimate of \$12.1 million, an excess of \$2.1 million. The unclaimed property transfer of \$14.2 million for audited FY 2016 was up 3.3 percent or \$454,960 compared to the audited FY 2015 unclaimed property transfer of \$13.7 million.

Revised FY 2017 General Revenue Estimates

The table below compares the November 2016 Revenue Estimating Conference estimated FY 2017 general revenues to the audited FY 2016 total general revenues, and the November 2016 Revenue Estimating Conference estimated FY 2017 general revenues to the FY 2017 enacted general revenues.

	FY 2016 Audited	FY 2017 Final Enacted	November 2016 Consensus Estimates FY 2017 Revised	Variance - November 2016 to Enacted 2017	Percent Change November 2016 to Enacted FY	Variance - November 2016 to Audited 2016	Percent Change November 2016 to Audited
Personal Income Tax	\$ 1,217,429,575	\$ 1,249,175,346	\$ 1,267,600,000	\$ 18,424,654	1.5%	\$ 50,170,425	4.1%
General Business Taxes							
Business Corporations	134,908,997	164,471,657	167,500,000	3,028,343	1.8%	32,591,003	24.2%
Public Utilities Gross	103,062,420	101,000,000	104,100,000	3,100,000	3.1%	1,037,580	1.0%
Financial Institutions	21,095,888	20,300,000	21,000,000	700,000	3.4%	(95,888)	-0.5%
Insurance Companies	130,344,054	126,064,809	139,500,000	13,435,191	10.7%	9,155,946	7.0%
Bank Deposits	2,555,974	2,400,000	2,500,000	100,000	4.2%	(55,974)	-2.2%
Nursing Facility Provider	43,236,332	45,100,000	42,400,000	(2,700,000)	-6.0%	(836,332)	-1.9%
Sales and Use Taxes							
Sales and Use	971,927,289	1,017,043,806	1,014,200,000	(2,843,806)	-0.3%	42,272,711	4.3%
Motor Vehicle	39,691,836	13,100,000	13,100,000	-	0.0%	(26,591,836)	-67.0%
Motor Fuel	(208,068)	-	-	-	-	208,068	-100.0%
Cigarettes	142,782,086	139,600,000	137,700,000	(1,900,000)	-1.4%	(5,082,086)	-3.6%
Alcohol	19,630,268	19,800,000	19,800,000	-	0.0%	169,732	0.9%
Controlled Substances	(54,365)	-	-	-	-	54,365	-100.0%
Other Taxes							
Inheritance and Gift	70,028,952	21,400,000	31,000,000	9,600,000	44.9%	(39,028,952)	-55.7%
Racing and Athletics	1,059,487	1,100,000	1,100,000	-	0.0%	40,513	3.8%
Realty Transfer	10,430,664	11,100,000	11,600,000	500,000	4.5%	1,169,336	11.2%
Total Taxes	\$ 2,907,921,389	\$ 2,931,655,618	\$ 2,973,100,000	\$ 41,444,382	1.4%	\$ 65,178,611	2.2%
Departmental Receipts	367,641,395	361,522,050	364,800,000	3,277,950	0.9%	(2,841,395)	-0.8%
Other Miscellaneous	4,102,234	7,065,000	7,189,000	124,000	1.8%	3,086,766	75.2%
Lottery	369,760,879	365,300,000	363,500,000	(1,800,000)	-0.5%	(6,260,879)	-1.7%
Unclaimed Property	14,166,740	9,200,000	11,000,000	1,800,000	19.6%	(3,166,740)	-22.4%
Total General Revenues	\$ 3,663,592,637	\$ 3,674,742,668	\$ 3,719,589,000	\$ 44,846,332	1.2%	\$ 55,996,363	1.5%

The November 2016 REC estimated FY 2017 general revenues of \$3.720 billion, an increase of \$82.6 million from audited FY 2016 total general revenues, equivalent to a growth rate of 1.5 percent. The FY 2017 revised revenue estimates were \$44.8 million or 1.2 percent above the FY 2017 enacted level of \$3.674 billion.

General revenues consist of taxes, departmental receipts, and other sources. Taxes account for 79.9 percent of general revenues in the revised FY 2017 estimate at \$2.973 billion. Revised FY 2017 total tax revenue is \$65.2 million more than the audited FY 2016 level, equivalent to a growth rate of 2.2 percent. The revised estimate for FY 2017 tax revenue was revised upwards \$41.4 million or 1.4 percent over enacted FY 2017 levels at the November 2016 REC.

The largest source of FY 2017 revised revenues is the personal income tax comprising 34.1 percent of total general revenues and 42.6 percent of all tax revenues estimated at \$1.268 billion. Revised FY 2017 revenues are estimated to increase by \$50.2 million compared to audited FY 2016 revenues, equivalent to a growth rate of 4.1 percent. The increase in the revised FY 2017 personal income tax revenues accounts for the exemption of taxable retirement income 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, 2017. The November 2016 REC estimated FY 2017 revised personal income tax revenues to be \$18.4 million or 1.5 percent more than the FY 2017 enacted level.

The second largest source of FY 2017 revised revenues is the sales and use tax at 27.3 percent of total general revenues and 34.1 percent of all tax revenues. Sales and use tax is expected to yield \$1.014 billion, an increase of \$42.3 million over audited FY 2016 revenues, equivalent to a growth rate of 4.4 percent. The November 2016 REC projected FY 2017 revised sales and use tax revenues to be \$2.8 million, -0.3 percent, less than the FY 2017 enacted level.

Motor vehicle operator license and vehicle registration fees are projected at the enacted level of \$13.1 million in the revised FY 2017 estimate. These motor vehicle-related fees are expected to comprise 0.35 percent of all general revenues or 0.44 percent of all tax revenues. The revised estimate is \$26.6 million less than the audited FY 2016 level, equivalent to a growth rate of -67.0 percent. The 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, which began in FY 2016. In FY 2017, 75.0 percent of these fees will be transferred; in FY 2018, 100 percent of the fees will be transferred.

The 2016 General Assembly enacted legislation to transfer all motor carrier fuel use taxes to the Intermodal Surface Transportation Fund, rather than the General Fund, effective July 1, 2016. The May 2016 Revenue Estimating Conference estimated zero revenues from these taxes; therefore, the enacted budget reflected no fiscal impact. The November 2016 REC did not include revenues from this source in the revised FY 2017 estimate.

The revised FY 2017 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 \$137.7 million, or 3.7 percent of all general revenues and 4.6 percent of total tax revenues. Revised FY 2017 cigarettes tax revenues are \$5.1 million or -3.6 percent less than audited FY 2016 revenues. The revised FY 2017 estimate adopted at the November 2016 REC decreased the FY 2017 enacted estimate by \$1.9 million or -1.4 percent.

The November 2016 REC estimated FY 2017 alcohol tax revenues at the enacted level of \$19.8 million in the revised FY 2017 estimate. This amount comprises less than one percent of both total general revenues and total taxes. Alcohol excise tax revenue increased by \$169,732 over audited FY 2016 revenues, equivalent to a growth rate of 0.9 percent.

Revised FY 2017 general business taxes are expected to account for 16.0 percent of total general revenues and 12.8 percent of all taxes at \$477.0 million.

The largest component within general business taxes is the business corporations tax, which is expected to total \$167.5 million in the revised FY 2017 estimate. Business corporations tax is expected to comprise 4.5 percent of general revenues and 5.6 percent of total taxes. The revised FY 2017 estimate is \$32.6 million more than the audited FY 2016 level, equivalent to a growth rate of 24.2 percent. The revised estimate adopted at the November 2016 Revenue Estimating Conference increased the previous enacted FY 2017 estimate by \$3.0 million or 1.8 percent.

The public utilities gross earnings tax totals \$104.1 million in the revised FY 2017 estimate, representing 2.8 percent of general revenues and 3.5 percent of total taxes. The revised FY 2017 estimate reflects 1.0 percent, \$1.0 million, growth over audited FY 2016 revenues. The revised FY 2017 estimate is \$3.1 million or 3.1 percent more than the enacted FY 2017 revenue estimate.

The revised FY 2017 estimate of financial institutions tax revenue is \$21.0 million, less than one percent of both total general revenues and total taxes. The revised FY 2017 estimate is \$0.1 million below the audited FY 2016 level, equivalent to a growth rate of -0.5 percent. The revised FY 2017 estimate adopted at the November 2016 REC was \$0.7 million or 3.4 percent greater than the enacted FY 2017 estimate.

Insurance companies gross premiums tax revenue in the revised FY 2017 estimate totals 3.8 percent of general revenues and 4.8 percent of total taxes. At \$139.5 million in expected insurance companies gross premiums

tax revenue, the revised FY 2017 estimate is \$9.2 million or 7.0 percent over the audited FY 2016 level. At the November 2016 REC, the enacted FY 2017 estimate was revised up by \$13.4 million or 10.7 percent.

The revised FY 2017 estimate of bank deposits taxes is \$2.5 million, representing less than one percent of both general revenues and total taxes. Bank deposits taxes are expected to decrease by \$55,974 or -2.2 percent below audited FY 2016 levels. The November 2016 REC adjusted expectations for bank deposits tax by increasing the revised FY 2017 estimate by 100,000 or 4.2 percent over the enacted FY 2017 estimate.

The revised FY 2017 estimate of the Nursing Facility Provider Assessment is \$42.4 million comprising 1.1 percent of total general revenues and 1.4 percent of all taxes. The Nursing Facility Provider Assessment decreased by \$0.8 million, compared to the audited FY 2016 level, equivalent to a growth rate of -1.9 percent. The revised FY 2017 estimate is \$2.7 million or -6.0 percent less than the enacted FY 2017 estimate.

Estate and transfer taxes, formally labeled inheritance and gift taxes, are expected to yield \$31.0 million according the revised FY 2017 estimate. This is equal to less than one percent of total general revenues and 1.0 percent of total taxes. The revised FY 2017 estimate is \$39.0 million less than the audited FY 2016 level, equivalent to a growth rate of -55.7 percent. The estimate for revised FY 2017 estate and transfer tax revenue adopted at the November 2016 REC is \$9.6 million or 44.9 percent greater than the enacted FY 2017 estimate.

Revised FY 2017 racing and athletics tax revenues are expected to yield the enacted level of \$1.1 million, or less than one percent of both total general revenues and total taxes. This amount shows a change of \$40,513 over audited FY 2016 levels, equivalent to a growth rate of 3.8 percent.

The revised FY 2017 estimate of realty transfer tax revenues is equal to \$11.6 million, or less than one percent of both total general revenues and total tax revenues. The revised FY 2017 estimate is \$1.2 million greater than the audited FY 2016 level, equivalent to a growth rate of 11.2 percent. The revised FY 2017 estimate is \$0.5 million, 4.5 percent more, than the enacted FY 2017 estimate.

Departmental receipts account for 9.8 percent of total general revenues in the revised FY 2017 estimate or \$363.9 million. Revised FY 2017 departmental receipts revenue is \$2.8 million less than the audited FY 2016 level, equivalent to a growth rate of -0.8 percent. The November 2016 REC revised the estimate for FY 2017 departmental receipts up by \$3.3 million, 0.9 percent, compared to enacted FY 2017 levels.

Considered together, total taxes and departmental receipts account for 89.8 percent of all general revenue, \$3.338 billion, in the revised FY 2017 estimate. Revised FY 2017 total taxes and departmental receipts revenues are \$62.3 million more than the audited FY 2016 level, equivalent to a growth rate of 1.9 percent. The revised estimate for FY 2017 total taxes and departmental receipts was upwardly adjusted by \$44.7 million, 1.6 percent over enacted FY 2017 levels, at the November 2016 REC.

Other sources account for 10.3 percent, \$381.7 million, of general revenues in the revised FY 2017 estimate. Revised estimates for FY 2017 general revenues from other sources were \$6.3 million less than the audited FY 2016 level, equivalent to a growth rate of -1.6 percent. The November 2016 REC estimate for other sources of FY 2017 general revenues was revised up by \$124,000 less than 0.1 percent over enacted FY 2017 levels. 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 2017 estimate for other miscellaneous revenues of \$7.9 million is expected to account for 0.2 percent of total general revenues. This amount represents an increase of \$3.1 million compared to audited FY 2016 levels, which is equivalent to a growth rate of 75.2 percent. The revised FY 2017 estimate for other miscellaneous sources of general revenue is \$124,000 or 1.8 percent more than enacted FY 2017 levels.

The lottery transfer category of other sources of general revenues contributes 9.8 percent of revised FY 2017 estimated general revenues or \$363.5 million. In FY 2017, the revised estimate of lottery revenues is \$6.3 million less than audited FY 2016 levels, equivalent to a growth rate of -1.7 percent. The revised estimate for FY 2017 is \$1.8 million, -0.5 percent, less than the enacted FY 2017 estimate.

Revenues from the transfer of proceeds from the unclaimed property program administered by the Office of the General Treasurer are estimated to produce \$11.0 million or less than 0.3 percent of total general revenues in the revised FY 2017 budget. The revised FY 2017 estimate is \$3.2 million or -22.4 percent less than the audited FY 2016 amount. The estimate adopted at the November 2016 REC is \$1.8 million, or 19.6 percent higher than the enacted FY 2017 level.

Governor's Recommended FY 2017 General Revenue Changes

The principals of the November 2016 REC adopted revenue estimates that were \$44.8 million greater than the enacted FY 2017 revenue estimates, an increase of 1.2 percent. The Governor's revised FY 2017 Budget recommends a decrease of \$202,882 in revenues over the amount adopted at the November 2016 REC.

The recommended change to the FY 2017 adopted estimates is attributable to four items. The first item is a delay in the motor vehicle license plate reissuance from April 2017 to April 2018, which decreases departmental receipts by \$935,975. The second item is a transfer from the Office of the Attorney General. State law permits the Attorney General's office to retain in a restricted account up to \$65,000 per year from legal settlements, and the office has been routinely retaining an amount in excess of the statutory limit. A transfer of \$401,323 adjusts for this excess. The third item is a transfer from the Department of Administration for excess bond cost of issuance, which will increase departmental receipts by \$67,400. The final item is a transfer from the Departments of Business Regulation and Health for excess funds in the departments' restricted accounts for medical marijuana regulation. The departments are expected to collect more in fees than they will expend on the program. This transfer will increase departmental receipts by \$264,370 in FY 2017. All four of these items will be recorded as general revenue, with the revenue decrease from the plate reissuance delay reflected in the Governor's revenue estimate for departmental receipts, and the additional revenue from the other three items reflected in other sources general revenues.

As of February, 2017, revenue collections are trailing the November 2016 Revenue Estimating Conference adopted estimates by \$27.3 million. The largest shortfalls are in personal income tax (\$10.2 million), sales and use tax (\$9.3 million), estate and gift taxes (\$5.8 million) and financial institutions tax (\$3.1 million). New estimates will be adopted at the May Revenue Estimating Conference on May 10, 2017.

REC Adopted FY 2018 General Revenue Estimates

	November 2016 Consensus Estimates FY 2017 Revised	November 2016 Consensus Estimates FY 2018	FY 2018 Governor's Recommended	Variance - Governor's Recommended to November Consensus	Percent Change Governor's Recommend ed to Consensus	Variance - Consensus 2018 to Consensus 2017	Percent Change Consensus Year over Year
Personal Income Tax	\$ 1,267,600,000	\$ 1,316,200,000	\$ 1,316,950,000	\$ 750,000	0.1%	\$ 48,600,000	3.8%
General Business Taxes							
Business Corporations	167,500,000	172,300,000	167,550,000	(4,750,000)	-2.8%	4,800,000	2.9%
Public Utilities Gross	104,100,000	105,500,000	105,500,000	-	0.0%	1,400,000	1.3%
Financial Institutions	21,000,000	22,100,000	22,100,000	-	0.0%	1,100,000	5.2%
Insurance Companies	139,500,000	135,400,000	134,419,046	(980,954)	-0.7%	(4,100,000)	-2.9%
Bank Deposits	2,500,000	2,500,000	2,500,000	-	0.0%	-	0.0%
Health Care Provider	42,400,000	43,500,000	42,869,727	(630,273)	-1.4%	1,100,000	2.6%
Sales and Use Taxes							
Sales and Use	1,014,200,000	1,038,100,000	1,074,710,095	36,610,095	3.5%	23,900,000	2.4%
Motor Vehicle	13,100,000	-	-	-	-	(13,100,000)	-100.0%
Motor Fuel	-	-	-	-	-	-	-
Cigarettes	137,700,000	133,900,000	141,472,824	7,572,824	5.7%	(3,800,000)	-2.8%
Alcohol	19,800,000	20,800,000	20,800,000	-	0.0%	1,000,000	5.1%
Controlled Substances	-	-	-	-	-	-	-
Other Taxes							
Inheritance and Gift	31,000,000	25,600,000	25,600,000	-	0.0%	(5,400,000)	-17.4%
Racing and Athletics	1,100,000	1,100,000	1,100,000	-	0.0%	-	0.0%
Realty Transfer	11,600,000	12,500,000	12,500,000	-	0.0%	900,000	7.8%
Total Taxes	\$ 2,973,100,000	\$ 3,029,500,000	\$3,068,071,692	\$ 38,571,692	1.3%	\$ 56,400,000	1.9%
Departmental Receipts	364,800,000	206,700,000	374,987,001	168,287,001	81.4%	(158,100,000)	-43.3%
Other Miscellaneous	7,189,000	847,000	14,978,021	14,131,021	1668.4%	(6,342,000)	-88.2%
Lottery	363,500,000	365,000,000	365,000,000	-	0.0%	1,500,000	0.4%
Unclaimed Property	11,000,000	9,600,000	9,600,000	-	-	(1,400,000)	-12.7%
Total General Revenues	\$ 3,719,589,000	\$ 3,611,647,000	\$ 3,832,636,714	\$ 220,989,714	6.1%	(107,942,000)	-2.9%

The November 2016 REC estimated FY 2018 total general revenues of \$3.612 billion, a decrease of \$107.9 million, or -2.9 percent, from revised FY 2017 total general revenues of \$3.720 billion. The estimated FY 2018 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 has been enacted for FY 2018. All references to FY 2018 total general revenues do not include the revenue resulting from the hospital licensing fee, which is estimated at \$169.0 million in revised FY 2017.

General revenues consist of taxes, departmental receipts, and other sources. Taxes account for 83.9 percent, \$3.030 billion, of general revenues in the adopted FY 2018 estimate. The adopted FY 2018 estimate of total tax revenue is \$56.4 million more than the revised FY 2017 level, equivalent to a growth rate of 1.9 percent.

The largest source of general revenues in the adopted FY 2018 estimate is the personal income tax at \$1.316 billion, contributing 36.4 percent of total general revenues and 43.4 percent of all taxes. Adopted FY 2018 personal income tax revenues anticipate growth of \$48.6 million or 3.8 percent over the revised FY 2017 estimate.

The second largest source of total general revenues in the adopted FY 2018 estimate is the sales and use tax at \$1.038 billion, contributing 28.7 percent of all general revenues and 34.3 percent of all taxes. Estimated FY 2018 sales and use tax revenue reflects expected growth of \$23.9 million or 2.4 percent over the revised FY 2017 estimate.

The November 2016 REC estimated zero general revenues attributable to motor vehicle operator license and vehicle registration fees, consistent with current law. Effective July 1, 2017, 100 percent of these fees will be transferred to the Rhode Island Highway Maintenance Account.

The November 2016 REC also estimated zero revenues from motor carrier fuel use taxes, consistent with legislation enacted by the 2016 General Assembly enacted legislation to transfer all motor carrier fuel use taxes to the Intermodal Surface Transportation Fund, rather than the General Fund, effective July 1, 2016.

The adopted estimate for FY 2018 cigarette taxes is \$133.9 million, contributing 3.7 percent of total general revenues and 4.4 percent of total taxes. The adopted FY 2018 estimate is \$3.8 million, or -2.8 percent less, than the revised FY 2017 estimate.

The adopted estimate for FY 2018 alcohol taxes is \$20.8 million, contributing less than one percent of both general revenues and total taxes. The adopted revenue estimate for FY 2018 is \$1.0 million, 5.1 percent, greater than the revised FY 2017 level.

General business taxes are estimated to total \$481.3 million and comprise 13.3 percent of total general revenues and 15.9 percent of total taxes in the adopted FY 2018 estimate.

The largest component within general business taxes is the business corporations tax, which is estimated to generate \$172.3 million in the adopted FY 2018 estimate. This is 4.8 percent of general revenues and 5.7 percent of total taxes. The adopted revenue estimate for FY 2018 is \$4.8 million or 2.9 percent greater than the revised FY 2017 estimate.

The adopted FY 2018 public utilities gross earnings tax revenues estimate is \$105.5 million, contributing 2.9 percent of general revenues and 3.5 percent of total taxes. The adopted revenue estimate for FY 2018 is \$1.4 million, or 1.3 percent, greater than the revised FY 2017 estimate.

The adopted estimate FY 2018 financial institutions tax is \$22.1 million, contributing less than one percent to both general revenues and total taxes. The adopted revenue estimate for FY 2018 is \$1.1 million or 5.2 percent more than the revised FY 2017 estimate.

The adopted estimate for FY 2018 insurance companies gross premiums tax revenues is \$135.4 million, contributing 3.7 percent of general revenues and 4.5 percent of total taxes. The adopted revenue estimate for FY 2018 is \$4.1 million, or -2.9 percent less than the revised FY 2017 estimate.

The adopted estimate for FY 2018 bank deposits tax revenues is \$2.5 million, contributing less than one percent to both total general revenues and total taxes. The adopted revenue estimate in FY 2018 is unchanged from the revised FY 2017 level.

The adopted estimate for FY 2018 Nursing Facility Provider Assessment revenue is \$43.5 million, contributing 1.2 percent of general revenues and 1.4 percent of total taxes. The adopted revenue estimate is \$1.1 million, or 2.6 percent, greater than the revised FY 2017 level.

Other taxes are estimated to comprise \$39.2 million, or 1.1 percent of total general revenues and 1.3 percent of total taxes, in the FY 2018 estimate.

Estate and transfer tax revenues, formally labeled inheritance and gift tax revenues, are expected contribute \$25.6 million, which is less than one percent of both total general revenues and total taxes. The adopted revenue estimate is \$5.4 million, -17.4 percent, less than the revised FY 2017 level.

The adopted estimate for FY 2018 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 2018 is unchanged from the revised FY 2017 level.

The adopted estimate for FY 2018 realty transfer tax revenues is \$12.5 million, contributing less than one percent of both total general revenues and total taxes. The adopted revenue estimate is \$900,000 or 7.8 percent more than the revised FY 2017 level.

Departmental receipts account for \$206.7 million or 5.7 percent of general revenues in the adopted FY 2018 estimate. The estimate for FY 2018 departmental receipt revenues is \$158.1 million less than the revised FY 2017 level, equivalent to a growth rate of -43.3 percent. The significant year-over-year difference is more than accounted for by the fact that the FY 2018 estimate for departmental receipts does not include the hospital licensing fee which is estimated to generate \$169.0 million in revised FY 2017. The REC 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 \$375.4 million or 10.4 percent of total general revenues in the adopted FY 2018 estimate. The adopted revenue estimate is \$6.2 million, -1.6 percent less than the revised FY 2017 level.

The adopted estimate for FY 2018 other miscellaneous sources of general revenues is \$847,000, contributing less than one percent of total general revenues. The adopted revenue estimate is \$6.3 million, -88.2 percent, less than the revised FY 2017 level.

The adopted estimate for FY 2018 lottery transfer revenue is \$365.0 million or 10.1 percent of total general revenues. The adopted estimate is \$1.5 million, or 0.4 percent more than the revised FY 2017 level. The modest increase in the estimated lottery transfer reflects the anticipated completion of a hotel at the Twin River Casino in Lincoln.

The adopted estimate for FY 2018 revenue generated from the transfer of proceeds from the unclaimed property program administered by the General Treasurer is \$9.6 million, contributing less than one percent of total general revenues. The adopted revenue estimate is \$1.4 million, -12.7 percent, less than the revised FY 2017 level.

Governor's Recommended FY 2018 General Revenue Changes

Total General Revenue

The Governor's recommended FY 2018 budget estimates general revenues of \$3.833 billion, an increase of 3.0 percent from the revised FY 2017 level. The Governor's recommendation is comprised of \$3.612 billion of revenue estimated at the November 2016 REC for FY 2018 and \$221.0 million of recommended changes to these adopted estimates.

Personal Income Tax

The largest source of FY 2018 general revenues is the personal income tax. The Governor recommends personal income tax revenues of \$1.317 billion in FY 2018, \$750,000 more than the estimate adopted at the November 2016 REC and reflecting anticipated growth of 3.9 percent from the revised FY 2017 budgeted amount. The Governor recommends the following changes to the November 2016 REC adopted estimate for FY 2018 personal income tax revenues:

- The Governor recommends the addition of 2.0 new FTE Revenue Agent and 2.0 new FTE Data Analyst positions in the Department of Revenue's Division of Taxation. The addition of these positions is estimated to have a total revenue impact of \$2,000,000 divided among personal income tax, business corporations tax, and sales and use tax. The estimated impact on FY 2017 personal income tax revenue is an increase of \$750,000. Impacts on other revenue streams are described in each relevant section below.

General Business Taxes

General Business taxes are recommended to comprise 12.4 percent of total general revenue collections in the FY 2018 Budget. Business corporations tax revenues are expected to yield \$167.6 million, a decrease of \$4.8 million from the FY 2018 estimate adopted at the November 2016 REC. This decrease is attributable to the following initiatives:

- The Governor recommends \$3.3 million in redeemable manufacturing investment tax credits to be issued by Commerce RI.
- The Governor recommends \$2.0 million in redeemable job training tax credits to be issued by Commerce RI.
- The Governor recommends the addition of 2.0 new FTE Revenue Agent and 2.0 new FTE Data Analyst positions in the Department of Revenue's Division of Taxation. This is expected to have an impact of \$500,000 in additional business corporations tax revenue resulting from enhanced enforcement of current tax policy.

Insurance companies gross premiums tax revenues are projected to reach \$134.4 million in FY 2018, a decrease of \$980,954 from the FY 2018 estimate adopted at the November 2016 REC. This decrease is due to the Governor recommending the following initiatives:

- The Governor recommends a collection of Executive Office of Health and Human Services initiatives, six of which will decrease insurance companies gross premiums tax revenue and one of which will increase insurance companies gross premiums tax revenue. The six initiatives that will result in decreases are: (1) Healthy Aging in the Community expenditure reductions (decrease of \$504,903), (2) reduce Upper Payment Limit funding by 50 percent (decrease of \$197,843), (3) hospital payments managed care rate freeze (decrease of \$236,067), (4) managed care administrative cost reductions (decrease of \$43,685), (5) hospital rate cut of 1.0 percent (decrease of \$51,725), and (6) reduced behavioral health inpatient reimbursement rate (decrease of \$49,734). The one initiative that will increase revenue is an increase in the wage rate for home health care workers (increase in revenues of \$103,003).

The Nursing Facility Provider Assessment is projected to reach \$42.9 million in FY 2018, a decrease of \$630,273 from the FY 2018 estimate adopted at the November 2016 REC. This decrease is due to the Governor recommending the following initiative:

- The Governor recommends a nursing home payments rate freeze, which will reduce Nursing Facility Provider Assessment revenue by \$630,273.

The Governor's FY 2018 recommended revenues for the public utilities gross earnings tax, the financial institutions tax, and the bank deposits tax remain at the same level as adopted at the November 2016 REC.

Sales and Use Tax

Sales and use tax revenues are expected to yield \$1.075 billion in the Governor's recommended FY 2018 budget, \$36.6 million more than was adopted at the November 2016 REC for FY 2018. The increase is reflective of the Governor recommending the following initiatives:

- The Governor recommends increasing the excise tax on cigarettes to \$4.25 per pack from \$3.75 effective August 1, 2017. This is expected to result in \$8.7 million in additional FY 2018 recommended revenues with an impact on both sales and use taxes as well as the cigarette excise tax. This policy is projected to result in an increase of \$1.1 million in FY 2018 sales and use tax revenue.
- The Governor recommends a statutory change that requires remote sellers to report, to both consumers and the Division of Taxation, all purchases made in a given year. This tax reporting requirement is expected to increase compliance with existing law as it pertains to use tax owed on purchases from remote sellers. This policy is projected to result in an increase of \$34.7 million in FY 2018 sales and use tax revenue.
- The Governor recommends the addition of 2.0 new FTE Revenue Agent and 2.0 new FTE Data Analyst positions in the Department of Revenue's Division of Taxation. This is expected to have an impact of \$750,000 in additional sales and use tax revenue resulting from enhanced enforcement of current tax policy.

Excise Taxes Other than Sales and Use Taxes

The Governor recommends FY 2018 excise taxes other than sales and use taxes totaling \$162.3 million or \$7.6 million more than was adopted at the November 2016 REC for FY 2018.

The Governor recommends cigarettes excise taxes in FY 2018 in the amount of \$141.5 million or \$7.6 million more than the adopted estimate of \$133.9 million at the November 2016 REC for FY 2018. The Governor recommends the following initiative that will increase cigarette excise tax revenues as noted:

- The expected increase in cigarette excise tax revenues is comprised of \$6,544,616 in increased cigarette excise tax revenues and \$1,028,208 from the cigarette floor stock which is triggered when there is an increase in the cigarette excise tax rate.

The Governor's FY 2018 recommended revenues for the motor vehicle operator license and vehicle registration fees, motor carrier fuel use tax, and alcohol excise tax at the same levels as adopted at the November 2016 REC.

Other Taxes

The Governor's FY 2018 recommended revenues for the estate and transfer tax, racing and athletics tax, and realty transfer tax remain at the same levels as adopted at the November 2016 REC.

Departmental Receipts

The Governor's FY 2018 recommended departmental receipts revenues of \$375.0 million are \$11.1 million more than the revised FY 2017 estimate, and represent 9.8 percent of recommended FY 2018 total general revenues. The proposed FY 2018 departmental receipts revenue estimate is \$168.3 million above the FY 2018 departmental receipt estimate adopted at the November 2016 REC. The Governor's FY 2018 recommended total for departmental receipts revenues is made up of the following proposals:

Licenses and Fees

- The Governor recommends reinstating the hospital licensing fee on the hospital FY 2015 base year at 5.652 percent. This is expected to result in an increase of \$169.0 million in FY 2018 recommended departmental receipts revenues.
- The Governor recommends the elimination of the Department of Labor and Training's apprenticeship fee. This is expected to result in a decrease of \$45,000 in FY 2018 recommended departmental receipts revenues.
- The Governor recommends the transfer of Eisenhower House revenues from departmental receipt revenues under the Rhode Island Historical Preservation and Heritage Commission to a restricted receipts account under the Department of Environmental Management. This transfer is expected to decrease FY 2018 recommended departmental receipts revenues by \$153,500.

Fines and Penalties

- The Governor recommends increasing two penalties collected by the Department of Labor and Training. One change will increase the employee misclassification penalty from \$500 to \$1,500, and is expected to increase FY 2018 recommended departmental receipts revenues by \$100,000. The other change will increase the electrical trades violations penalty from a range of \$500-\$950 to a range of \$1,500-\$2,000, and is expected to increase FY 2018 recommended departmental receipts revenues by \$100,000.
- The Governor recommends establishing two new penalties that will be collected by the Department of Labor and Training. One penalty would collect 15 to 25 percent of wages owed (first offense) for employer wage and hour violations, and is expected to increase FY 2018 recommended departmental receipts revenues by \$150,000. The other new penalty would collect \$250 per quarter for employers that fail to properly maintain payroll records, and is expected to increase FY 2018 recommended departmental receipts revenues by \$300,000.

Sales and Services

- The Governor recommends delaying the motor vehicle license plate reissuance from April 2017 to April 2018, which is expected to decrease FY 2018 recommended departmental receipts revenues by \$1.1 million.

Other Sources

The FY 2018 recommended revenues for the other sources component of total general revenues totals \$389.6 million, an increase of \$7.8 million, or 1.9 percent, compared to the revised revenue estimate for FY 2017. The FY 2018 recommended revenues for other general revenue sources are \$14.1 million above the estimate of \$375.4 million adopted at the November 2016 REC for FY 2018. Other sources of general revenue are comprised of the lottery transfer, other miscellaneous revenues and the unclaimed property transfer. The Governor's proposed changes contained in the FY 2018 recommended budget impacting the other miscellaneous revenues component within other sources of revenue are listed below:

- The Governor recommends a transfer from the Departments of Business Regulation and Health for excess funds in the departments' restricted accounts for medical marijuana regulation. This transfer is expected to increase in FY 2018 recommended other sources revenues by \$670,641.
- The Governor recommends an increase in the rent charged to the Public Utilities Commission from \$13.81 per square foot to \$19.75 per square foot, resulting in an increase in FY 2018 recommended other sources revenues of \$160,380
- The Governor recommends transferring \$1.2 million in excess reserves from the Rhode Island Health and Educational Building Corporation.
- The Governor recommends transferring \$2.6 million in excess reserves from the Rhode Island Turnpike and Bridge Authority.
- The Governor recommends transferring \$2.5 million in excess reserves from the Narragansett Bay Commission.
- The Governor recommends transferring \$6.0 million in excess reserves from the Rhode Island Resource Recovery Corporation.
- The Governor recommends transferring \$1.0 million in excess reserves from the Rhode Island Infrastructure Bank.

The Governor's FY 2018 recommended revenues for the lottery transfer and the unclaimed property transfer remain at the same level as adopted at the November 2016 REC.

Recent Events – DMV Computer System

The State had engaged in 2008 a company that eventually became an indirect subsidiary of Hewlett Packard Enterprise Company to replace a decade-old Division of Motor Vehicles ("DMV") computer system. The State brought suit against the company in November 2016 when it threatened to walk off the job without an additional \$12 million in compensation for delays and extra work. The State had paid more than \$13 million prior to the time the lawsuit commenced for the new DMV computer system that was not yet operational. The company, now known as DXC Technology, has reached a settlement on or about April 12, 2017 with the State regarding the dispute. The State has agreed to pay DXC Technology an additional \$5.5 million for its work on the new computer system, which would bring the total the State expects to have paid for the computer system to approximately \$20 million. Under the settlement, DXC Technology will receive payments from the State, including \$1.5 million still owed under the existing contract and the \$5.5 million settlement, in two installments. The first installment will be paid after the system goes live in July 2017 and the second installment shall be paid a year later. The Governor's FY 2018 recommended budget requests continuation of a \$1.50 surcharge on DMV transactions, the revenue from which would support these payments.

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES

The following tables set forth comparative summaries for State General Fund revenues and expenditures for the fiscal years 2015 through 2018. General Fund data on expenditures for FY 2015 and FY 2016 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 2017 and FY 2018 reflect those contained in the FY 2017 Revised Budget and FY 2018 Budget submitted by the Governor to the General Assembly on January 19, 2017. 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 2015 and FY 2016 reflect the audited actual revenues as reported by the State Controller. The FY 2017 enacted revenues reflect those adopted by the Conferees at the May 2016 REC and any statutory changes approved by the General Assembly as part of FY 2017 enacted Budget. The FY 2017 revised and FY 2018 recommended revenues are those adopted by the Conferees at the November 2016 REC and any statutory changes recommended by the Governor to the General Assembly as part of the FY 2018 Recommended Budget. These estimates are explained under the subsections above in the "General Revenue" section entitled *Revised FY 2017 General Revenue Estimated* and *FY 2018 General Revenue Estimates* and the section below entitled *General Fund Operating Results and Free Surplus*.

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General Revenues as Recommended

	FY 2015 Audited	FY 2016 Audited	FY 2017 Revised	FY 2018 Recommended
Personal Income Tax	\$ 1,227,581,960	\$ 1,217,429,575	\$ 1,267,600,000	\$ 1,316,950,000
General Business Taxes				
Business Corporations	147,979,089	134,908,997	167,500,000	167,550,000
Public Utilities Gross Earnings	103,950,349	103,062,420	104,100,000	105,500,000
Financial Institutions	22,743,284	21,095,888	21,000,000	22,100,000
Insurance Companies	120,264,561	130,344,054	139,500,000	134,419,046
Bank Deposits	2,259,880	2,555,974	2,500,000	2,500,000
Health Care Provider Assessment	44,125,338	43,236,332	42,400,000	42,869,727
Sales and Use Taxes				
Sales and Use	963,446,369	971,927,289	1,014,200,000	1,074,710,095
Motor Vehicle *	49,117,001	39,691,836	13,100,000	-
Motor Fuel	(124,650)	(208,068)	-	-
Cigarettes	138,045,483	142,782,086	137,700,000	141,472,824
Alcohol	18,363,285	19,630,268	19,800,000	20,800,000
Controlled Substances	6,177	(54,365)	-	-
Other Taxes				
Estate and Transfer	34,202,383	70,028,952	31,000,000	25,600,000
Racing and Athletics	1,107,202	1,059,487	1,100,000	1,100,000
Realty Transfer	9,493,464	10,430,664	11,600,000	12,500,000
Total Taxes	\$ 2,882,561,175	\$ 2,907,921,389	\$ 2,973,100,000	\$ 3,068,071,692
Departmental Receipts	\$ 354,121,814	\$ 367,641,395	\$ 363,864,025	\$ 374,987,001
Taxes and Departmentals	\$ 3,236,682,989	\$ 3,275,562,784	\$ 3,336,964,025	\$ 3,443,058,693
Other Sources				
Other Miscellaneous	8,778,364	4,102,234	7,922,093	14,978,021
Lottery	381,935,510	369,760,879	363,500,000	365,000,000
Unclaimed Property	13,711,780	14,166,740	11,000,000	9,600,000
Other Sources	\$ 404,425,654	\$ 388,029,853	\$ 382,422,093	\$ 389,578,021
Total General Revenues	\$ 3,641,108,643	\$ 3,663,592,637	\$ 3,719,386,118	\$ 3,832,636,714

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 2017 and 100% in FY 2018.

Changes to FY 2017 Enacted Revenue Estimates

	FY 2017 Enacted	November REC Consensus Changes	Changes to Adopted Estimates	Total
Personal Income Tax	\$ 1,249,175,346	\$ 18,424,654	\$ -	\$ 1,267,600,000
General Business Taxes				
Business Corporations	164,471,657	3,028,343	-	167,500,000
Public Utilities Gross	101,000,000	3,100,000	-	104,100,000
Financial Institutions	20,300,000	700,000	-	21,000,000
Insurance Companies	126,064,809	13,435,191	-	139,500,000
Bank Deposits	2,400,000	100,000	-	2,500,000
Health Care Provider	45,100,000	(2,700,000)	-	42,400,000
Sales and Use Taxes				
Sales and Use	1,017,043,806	(2,843,806)	-	1,014,200,000
Motor Vehicle	13,065,000	35,000	-	13,100,000
Motor Fuel	-	-	-	-
Cigarettes	139,600,000	(1,900,000)	-	137,700,000
Alcohol	19,770,000	30,000	-	19,800,000
Other Taxes				
Estate and Transfer	21,400,000	9,600,000	-	31,000,000
Racing and Athletics	1,100,000	-	-	1,100,000
Realty Transfer	11,100,000	500,000	-	11,600,000
Total Taxes	\$ 2,931,590,617	\$ 41,509,383	\$ -	\$ 2,973,100,000
Departmental Receipts	361,587,050	3,212,950	\$ (935,975)	363,864,025
Total Taxes and Departmentals	\$ 3,293,177,668	\$ 44,722,332	\$ (935,975)	\$ 3,336,964,025
Other Sources				
Other Miscellaneous	7,065,000	124,000	733,093	7,922,093
Lottery	365,300,000	(1,800,000)	-	363,500,000
Unclaimed Property	9,200,000	1,800,000	-	11,000,000
Other Sources	\$ 381,565,000	\$ 124,000	\$ 733,093	\$ 382,422,093
Total General Revenues	\$ 3,674,742,668	\$ 44,846,332	\$ (202,882)	\$ 3,719,386,118

Changes to FY 2018 Adopted Revenue Estimates

	Revenue Estimating Conference Estimates	Changes to Adopted Estimates	Total
Personal Income Tax	\$ 1,316,200,000	\$ 750,000	\$ 1,316,950,000
General Business Taxes			
Business Corporations	172,300,000	(4,750,000)	167,550,000
Public Utilities Gross	105,500,000	-	105,500,000
Financial Institutions	22,100,000	-	22,100,000
Insurance Companies	135,400,000	(980,954)	134,419,046
Bank Deposits	2,500,000	-	2,500,000
Health Care Provider	43,500,000	(630,273)	42,869,727
Sales and Use Taxes			
Sales and Use	1,038,100,000	36,610,095	1,074,710,095
Motor Vehicle	-	-	0
Motor Fuel	-	-	0
Cigarettes	133,900,000	7,572,824	141,472,824
Alcohol	20,800,000	-	20,800,000
Other Taxes			
Estate and Transfer	25,600,000	-	25,600,000
Racing and Athletics	1,100,000	-	1,100,000
Realty Transfer	12,500,000	-	12,500,000
Total Taxes	\$ 3,029,500,000	\$ 38,571,692	\$ 3,068,071,692
Departmental Receipts *	\$ 206,700,000	\$ 168,287,001	\$ 374,987,001
Total Taxes and Departmentals	\$ 3,236,200,000	\$ 206,858,693	\$ 3,443,058,693
Other Sources			
Other Miscellaneous	\$ 847,000	\$ 14,131,021	\$ 14,978,021
Lottery	365,000,000	-	365,000,000
Unclaimed Property	9,600,000	-	9,600,000
Other Sources	\$ 375,447,000	\$ 14,131,021	\$ 389,578,021
Total General Revenues	\$ 3,611,647,000	\$ 220,989,714	\$ 3,832,636,714

* The majority of the change under Departmental Receipts is due to the annual reinstatement of the Hospital Licensing Fee.

Expenditures from All Funds

	FY 2015	FY 2016	FY 2017	FY 2017	FY 2018
	Actual	Actual	Enacted	Revised	Recommend
General Government					
Administration	\$415,448,655	\$349,623,351	\$391,952,283	\$400,715,432	\$391,158,286
Business Regulation	12,676,052	13,204,877	15,859,889	16,875,344	15,906,183
Executive Office Of Commerce (1)	203,145	73,415,799	79,415,044	79,503,826	76,792,843
Labor and Training	429,213,620	425,337,568	419,517,728	444,584,790	428,383,022
Revenue	449,017,632	458,777,131	485,517,596	491,757,112	501,141,263
Legislature	36,190,422	37,669,916	42,749,302	47,547,814	44,252,464
Lieutenant Governor	971,873	1,026,362	1,079,576	1,053,288	1,084,217
Secretary of State	7,691,503	7,518,125	10,937,570	10,534,006	9,350,797
General Treasurer	41,532,194	49,277,318	37,560,433	49,146,897	48,025,446
Board of Elections	4,656,136	1,714,512	1,982,707	2,068,676	1,548,735
Rhode Island Ethics Commission	1,579,038	1,546,331	1,653,383	1,631,610	1,665,873
Governor's Office	4,401,893	4,755,102	5,091,069	5,375,482	5,397,554
Commission for Human Rights	1,556,738	1,521,437	1,581,423	1,646,008	1,690,102
Public Utilities Commission	6,762,365	7,277,989	8,926,973	9,177,801	9,733,377
Subtotal - General Government	\$1,411,901,266	\$1,432,665,818	\$1,503,824,976	\$1,561,618,086	\$1,536,130,162
Health and Human Services					
Executive Office of Health & Human Services	2,334,650,460	2,360,301,137	2,398,192,585	2,489,033,653	2,466,045,748
Children, Youth, and Families	221,570,379	214,952,935	216,489,823	218,284,037	209,069,952
Health	111,422,584	128,882,069	162,884,652	169,940,915	171,168,076
Human Services	621,643,199	615,305,121	602,087,123	620,615,953	653,721,813
Behavioral Healthcare, Developmental Disabilities and Hospitals	375,214,014	378,574,897	385,632,555	401,089,576	394,366,931
Governor's Commission on Disabilities	1,215,102	429,998	685,423	778,020	842,190
Commission On Deaf and Hard of Hearing	430,792	455,950	587,746	590,650	627,910
Office of the Child Advocate	660,641	654,839	795,582	780,155	814,329
Office of the Mental Health Advocate	504,149	545,220	542,009	549,273	549,563
Subtotal - Human Services	\$3,667,311,320	\$3,700,102,166	\$3,767,897,498	\$3,901,662,232	\$3,897,206,512
Education					
Elementary and Secondary	1,232,188,487	1,289,122,639	1,353,972,840	1,358,110,571	1,398,479,535
Higher Education	1,047,360,269	1,082,232,546	1,161,281,203	1,137,268,264	1,187,999,008
RI Council on the Arts	2,387,241	2,995,774	3,030,538	3,731,796	3,072,310
RI Atomic Energy Commission	1,187,852	1,576,882	1,333,049	1,539,039	1,304,373
Higher Education Assistance Authority (2)	15,190,541	-	-	-	-
Historical Preservation and Heritage Comm.	5,446,730	2,972,449	2,803,698	3,218,083	2,538,339
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	\$2,303,761,120	\$2,378,900,290	\$2,522,421,328	\$2,503,867,753	\$2,593,393,565

Expenditures from All Funds

	FY 2015	FY 2016	FY 2017	FY 2017	FY 2018
	Actual	Actual	Enacted	Revised	Recommend
Public Safety					
Attorney General	30,936,848	29,455,187	35,142,783	46,080,121	44,129,197
Corrections	201,390,140	212,530,274	224,790,655	223,366,125	234,218,260
Judicial	109,785,453	113,538,723	117,067,369	120,252,202	121,038,254
Military Staff	15,544,752	15,372,292	23,177,316	20,996,945	38,177,942
Rhode Island Emergency Mgmt Agency (3)	14,535,853	18,635,772	23,994,138	22,158,553	-
Public Safety	117,204,896	114,278,534	119,972,144	142,334,521	142,343,112
Office Of Public Defender	10,902,222	11,380,521	11,897,202	11,866,028	12,438,055
Subtotal - Public Safety	\$500,300,164	\$515,191,303	\$556,041,607	\$587,054,495	\$592,344,820
Natural Resources					
Environmental Management	88,968,734	78,795,498	102,747,614	103,441,715	113,264,686
Coastal Resources Management Council	4,669,180	4,423,433	7,322,525	8,440,396	5,232,623
Subtotal - Natural Resources	\$93,637,914	\$83,218,931	\$110,070,139	\$111,882,111	\$118,497,309
Transportation					
Transportation	415,640,470	395,129,559	478,457,845	534,458,464	510,490,328
Subtotal - Transportation	\$415,640,470	\$395,129,559	\$478,457,845	\$534,458,464	\$510,490,328
Total	\$8,392,552,254	\$8,505,208,067	\$8,938,713,393	\$9,200,543,141	\$9,248,062,696

(1) New Agency effective February 1, 2015.

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

(3) In FY 2018, the Governor recommends merging the Rhode Island Emergency Management Agency into the Department of Public Safety.

Expenditures from General Revenues

	FY 2015	FY 2016	FY 2017	FY 2017	FY 2018
	Actual	Actual	Enacted	Recommend	Recommend
General Government					
Administration	\$244,775,881	\$212,928,494	\$237,083,518	\$229,671,472	\$248,080,830
Business Regulation	8,556,174	8,174,920	10,583,452	10,621,228	11,115,093
Executive Office Of Commerce (1)	203,145	60,458,832	55,574,117	55,735,212	51,842,819
Labor and Training	8,553,272	8,382,043	8,212,636	8,139,796	8,751,313
Revenue	106,969,845	109,737,194	113,893,951	110,882,648	119,391,677
Legislature	34,865,422	36,219,919	41,052,730	45,936,290	42,522,507
Lieutenant Governor	959,864	1,026,362	1,079,576	1,053,288	1,084,217
Secretary of State	7,164,977	6,690,089	10,281,051	9,920,874	8,911,319
General Treasurer	2,400,368	2,271,575	2,736,231	2,733,044	2,698,692
Board of Elections	4,656,136	1,714,512	1,982,707	2,068,676	1,548,735
Rhode Island Ethics Commission	1,579,038	1,546,331	1,653,383	1,631,610	1,665,873
Governor's Office	4,401,947	4,755,102	5,091,069	5,375,482	5,397,554
Commission for Human Rights	1,225,335	1,242,374	1,258,128	1,247,603	1,258,074
Public Utilities Commission	-	-	-	-	-
Subtotal - General Government	\$426,311,404	\$455,147,747	\$490,482,549	\$485,017,223	\$504,268,703
Health and Human Services					
Executive Office of Health & Human Services	915,652,909	911,535,815	936,987,012	945,360,040	938,634,987
Children, Youth, and Families	158,285,858	154,742,352	151,773,764	156,296,331	149,855,862
Health	22,821,939	25,468,221	25,931,822	25,999,235	26,325,249
Human Services	94,560,297	96,094,578	97,636,314	93,147,617	95,725,491
Behavioral Healthcare, Developmental Disabilities and Hospitals	173,264,827	176,268,226	173,184,239	181,721,907	179,645,532
Governor's Commission on Disabilities	355,439	380,615	412,547	420,596	454,938
Commission On Deaf and Hard of Hearing	387,625	406,634	477,746	460,650	498,710
Office of the Child Advocate	613,552	643,280	650,582	635,541	669,708
Office of the Mental Health Advocate	504,149	545,220	542,009	549,273	549,563
Subtotal - Human Services	\$1,366,446,595	\$1,366,084,941	\$1,387,596,035	\$1,404,591,190	\$1,392,360,040
Education					
Elementary and Secondary	1,002,464,660	1,064,893,020	1,112,847,293	1,112,937,359	1,158,617,116
Higher Education	188,223,129	180,874,064	196,357,528	198,610,423	225,782,593
RI Council on the Arts	1,490,966	1,844,116	1,951,884	1,939,368	1,945,056
RI Atomic Energy Commission	872,139	908,285	981,100	979,682	982,157
Higher Education Assistance Authority (2)	147,000	-	-	-	-
Historical Preservation and Heritage Comm.	1,138,182	1,362,860	1,202,559	1,162,001	1,168,706
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	\$1,194,336,076	\$1,249,882,345	\$1,313,340,364	\$1,315,628,833	\$1,388,495,628

Expenditures from General Revenues

	FY 2015 Actual	FY 2016 Actual	FY 2017 Enacted	FY 2017 Recommend	FY 2018 Recommend
Public Safety					
Attorney General	23,949,930	24,053,485	25,595,982	26,146,783	26,194,751
Corrections	196,162,110	208,284,387	211,700,506	213,349,798	216,818,823
Judicial	94,371,203	95,181,220	96,606,091	97,067,590	98,014,477
Military Staff	2,144,129	2,219,237	2,659,719	2,626,341	2,634,057
Rhode Island Emergency Mgmt Agency (3)	1,796,019	1,762,456	1,848,876	1,847,848	-
Public Safety	99,121,734	93,409,462	99,442,148	101,565,164	105,028,142
Office Of Public Defender	10,829,860	11,306,039	11,784,382	11,768,208	12,340,235
Subtotal - Public Safety	\$428,374,985	\$436,216,286	\$449,637,704	\$454,371,732	\$461,030,485
Natural Resources					
Environmental Management	36,110,396	38,163,784	40,206,777	38,295,450	43,995,800
Coastal Resources Management Council	2,313,282	2,410,069	2,452,438	2,500,547	2,558,332
Subtotal - Natural Resources	\$38,423,678	\$40,573,853	\$42,659,215	\$40,795,997	\$46,554,132
Transportation					
Transportation	-	-	-	-	-
Subtotal - Transportation	-	-	-	-	-
Total	\$3,453,892,738	\$3,547,905,172	\$3,683,715,867	\$3,700,404,975	\$3,792,708,988

(1) New Agency effective February 1, 2015.

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

(3) In FY 2018, the Governor recommends merging the Rhode Island Emergency Management Agency into the Department of Public Safety.

Expenditures from Federal Funds

	FY 2015	FY 2016	FY 2017	FY 2017	FY 2018
	Actual *	Actual *	Enacted	Recommend	Recommend
General Government					
Administration	\$77,782,063	\$31,351,946	\$14,896,706	\$21,447,637	\$13,215,878
Business Regulation	2,216,757	3,073,024	1,100,710	2,011,396	892,213
Executive Office Of Commerce (1)	-	10,016,268	17,790,927	18,266,931	17,890,642
Labor and Training	35,913,567	39,141,911	38,451,580	49,186,947	35,459,683
Revenue	4,314,983	2,740,506	2,145,367	4,375,213	1,567,500
Legislature	-	-	-	-	-
Lieutenant Governor	9	-	-	-	-
Secretary of State	11,264	-	-	22,859	-
General Treasurer	649,120	741,266	952,881	905,808	890,337
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	(53)	-	-	-	-
Commission for Human Rights	331,403	279,063	323,295	398,405	432,028
Public Utilities Commission	81,792	107,180	104,669	128,000	129,225
Subtotal - General Government	\$121,300,905	\$87,451,164	\$75,766,135	\$96,743,196	\$70,477,506
Health and Human Services					
Executive Office of Health & Human Services	1,402,816,157	1,433,337,164	1,447,676,171	1,527,858,521	1,506,283,492
Children, Youth, and Families	59,824,300	57,416,767	60,409,483	57,877,731	55,015,159
Health	57,741,431	69,157,857	100,365,021	103,507,285	105,373,312
Human Services	520,276,560	511,615,020	497,644,896	519,019,535	550,132,608
Behavioral Healthcare, Developmental Disabilities and Hospitals	187,771,526	189,591,271	193,038,756	198,847,973	200,747,244
Governor's Commission on Disabilities	263,931	29,456	228,750	298,064	343,542
Commission On Deaf and Hard of Hearing	-	-	-	-	-
Office of the Child Advocate	47,089	11,559	145,000	144,614	144,621
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	\$2,228,740,994	\$2,261,159,094	\$2,299,508,077	\$2,407,553,723	\$2,418,039,978

Expenditures from Federal Funds

	FY 2015 Actual *	FY 2016 Actual *	FY 2017 Enacted	FY 2017 Recommend	FY 2018 Recommend
Education					
Elementary and Secondary	197,213,822	191,287,906	206,229,553	207,575,449	203,500,000
Higher Education	4,544,682	15,278,876	14,308,847	16,738,854	13,933,669
RI Council on the Arts	713,200	700,799	775,454	786,728	781,454
RI Atomic Energy Commission	89	336,542	32,422	228,863	-
Higher Education Assistance Authority (2)	7,375,001	-	-	-	-
Historical Preservation and Heritage Comm.	1,855,585	1,283,096	1,093,966	1,547,028	860,963
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	\$211,702,379	\$208,887,219	\$222,440,242	\$226,876,922	219,076,086
Public Safety					
Attorney General	1,903,112	2,034,144	1,692,545	3,351,007	1,779,505
Corrections	1,534,164	1,266,847	1,130,008	1,884,570	1,546,884
Judicial	3,142,537	3,595,600	3,254,091	3,948,329	3,411,144
Military Staff	12,353,422	12,090,517	17,497,797	16,660,113	27,717,460
Rhode Island Emergency Mgmt Agency (3)	12,622,540	16,741,641	20,094,466	17,946,354	-
Public Safety	5,986,537	7,133,596	9,292,391	12,131,031	29,249,442
Office Of Public Defender	72,362	74,482	112,820	97,820	97,820
Subtotal - Public Safety	\$37,614,674	\$42,936,827	\$53,074,118	\$56,019,224	\$63,802,255
Natural Resources					
Environmental Management	26,411,282	21,109,597	29,728,792	34,155,995	33,399,312
Coastal Resources Management Council	1,876,791	1,818,741	4,148,312	5,218,074	1,649,291
Subtotal - Natural Resources	\$28,288,073	\$22,928,338	\$33,877,104	\$39,374,069	\$35,048,603
Transportation					
Transportation	267,656,266	254,358,713	272,409,980	271,544,359	275,390,062
Subtotal - Transportation	\$267,656,266	\$254,358,713	\$272,409,980	\$271,544,359	\$275,390,062
Total	\$2,895,303,291	\$2,877,721,355	\$2,957,075,656	\$3,098,111,493	\$3,081,834,490

(1) New Agency effective February 1, 2015.

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

(3) In FY 2018, the Governor recommends merging the Rhode Island Emergency Management Agency into the Department of Public Safety.

* May differ from Final Audit due to rounding.

Expenditures from Restricted Receipts

	FY 2015	FY 2016	FY 2017	FY 2017	FY 2018
	Actual *	Actual *	Enacted	Recommend	Recommend
General Government					
Administration (1)	\$20,553,583	\$29,970,285	\$34,263,955	\$42,293,091	\$33,095,338
Business Regulation	1,903,121	1,956,933	4,175,727	4,242,720	3,898,877
Executive Office Of Commerce (1)	-	2,681,142	4,750,000	4,750,000	4,159,382
Labor and Training	35,172,518	31,568,311	23,585,123	29,710,613	24,090,443
Revenue	1,718,666	3,591,584	5,947,043	5,033,373	3,962,015
Legislature	1,325,000	1,449,997	1,696,572	1,611,524	1,729,957
Lieutenant Governor	12,000	-	-	-	-
Secretary of State	478,183	397,868	556,519	440,273	439,478
General Treasurer	38,279,369	37,730,574	33,320,911	36,859,237	35,886,175
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	-	-	-	-
Commission for Human Rights	-	-	-	-	-
Public Utilities Commission	6,680,573	7,170,809	8,822,304	9,049,801	9,604,152
Subtotal - General Government	\$106,123,013	\$116,517,503	\$117,118,154	\$133,990,632	\$116,865,817
Health and Human Services					
Executive Office of Health & Human Services	16,181,394	15,428,158	13,529,402	15,815,092	21,127,269
Children, Youth, and Families	3,043,630	2,227,542	3,466,576	3,150,302	3,098,931
Health	30,856,883	34,255,991	36,587,809	40,434,395	39,469,515
Human Services	2,396,897	2,659,361	1,712,435	3,444,789	3,270,236
Behavioral Healthcare, Developmental Disabilities and Hospitals	9,873,915	7,497,635	8,435,824	6,909,155	6,909,155
Governor's Commission on Disabilities	6,633	19,927	44,126	59,360	43,710
Commission On Deaf and Hard of Hearing	43,167	49,316	110,000	130,000	129,200
Office of the Child Advocate	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	\$62,402,519	\$62,137,930	\$63,886,172	\$69,943,093	\$74,048,016
Education					
Elementary and Secondary	28,575,427	28,738,364	30,186,994	30,330,048	29,454,419
Higher Education	632,650	636,787	1,022,720	1,517,568	2,173,990
RI Council on the Arts	-	-	-	25,000	-
RI Atomic Energy Commission	-	-	-	-	-
Higher Education Assistance Authority (2)	-	-	-	-	-
Historical Preservation and Heritage Comm.	377,082	126,202	427,175	429,200	427,700
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	\$29,585,159	\$29,501,353	\$31,636,889	\$32,301,816	\$32,056,109

Expenditures from Restricted Receipts

	FY 2015	FY 2016	FY 2017	FY 2017	FY 2018
	Actual *	Actual *	Enacted	Recommend	Recommend
Public Safety					
Attorney General	5,080,406	3,185,088	7,554,256	16,164,801	16,004,941
Corrections	169,484	266,239	60,141	96,336	94,368
Judicial	10,923,799	9,754,423	11,682,187	13,132,527	12,512,633
Military Staff	211,281	52,864	337,300	132,000	129,500
Rhode Island Emergency Mgmt Agency (3)	117,294	131,675	861,046	448,112	-
Public Safety	6,601,587	7,709,586	4,452,070	19,742,691	1,168,707
Office Of Public Defender	-	-	-	-	-
Subtotal - Public Safety	\$23,103,851	\$21,099,875	\$24,947,000	\$49,716,467	\$29,910,149
Natural Resources					
Environmental Management	12,186,477	13,374,290	18,981,956	16,950,296	17,496,061
Coastal Resources Management Council	180,733	194,623	250,000	250,000	250,000
Subtotal - Natural Resources	\$12,367,210	\$13,568,913	\$19,231,956	\$17,200,296	\$17,746,061
Transportation					
Transportation	2,411,276	2,599,866	180,219	3,610,153	3,168,128
Subtotal - Transportation	\$2,411,276	\$2,599,866	\$180,219	\$3,610,153	\$3,168,128
Total	\$235,993,028	\$245,425,440	\$257,000,390	\$306,762,457	\$273,794,280

(1) New Agency effective February 1, 2015.

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

(3) In FY 2018, the Governor recommends merging the Rhode Island Emergency Management Agency into the Department of Public Safety.

* May differ from Final Audit due to rounding.

Expenditures from Other Funds

	FY 2015	FY 2016	FY 2017	FY 2017	FY 2018
	Actual	Actual	Enacted	Recommend	Recommend
General Government					
Administration	\$72,337,128	\$75,372,626	\$105,708,104	\$107,303,232	\$96,766,240
Business Regulation	-	-	-	-	-
Executive Office Of Commerce (1)	-	259,557	1,300,000	751,683	2,900,000
Labor and Training	349,574,263	346,245,303	349,268,389	357,547,434	360,081,583
Revenue	336,014,138	342,707,847	363,531,235	371,465,878	376,220,071
Legislature	-	-	-	-	-
Lieutenant Governor	-	-	-	-	-
Secretary of State	37,079	430,168	100,000	150,000	-
General Treasurer	203,337	8,533,903	550,410	8,648,808	8,550,242
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	-	-	-	-
Commission for Human Rights	-	-	-	-	-
Public Utilities Commission	-	-	-	-	-
Subtotal - General Government	\$758,165,945	\$773,549,404	\$820,458,138	\$845,867,035	\$844,518,136
Health and Human Services					
Executive Office of Health & Human Services	-	-	-	-	-
Children, Youth, and Families	416,591	566,274	840,000	959,673	1,100,000
Health	2,331	0	0	0	-
Human Services	4,409,445	4,936,162	5,093,478	5,004,012	4,593,478
Behavioral Healthcare, Developmental Disabilities and Hospitals	4,303,746	5,217,765	10,973,736	13,610,541	7,065,000
Governor's Commission on Disabilities	589,099	0	0	0	-
Commission On Deaf and Hard of Hearing	-	-	-	-	-
Office of the Child Advocate	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	\$9,721,212	\$10,720,201	\$16,907,214	\$19,574,226	\$12,758,478
Education					
Elementary and Secondary	3,934,578	4,203,349	4,709,000	7,267,715	6,908,000
Higher Education	853,959,808	885,442,819	949,592,108	920,401,419	946,108,756
RI Council on the Arts	183,075	450,859	303,200	980,700	345,800
RI Atomic Energy Commission	315,624	332,055	319,527	330,494	322,216
Higher Education Assistance Authority (2)	7,668,540	-	-	-	-
Historical Preservation and Heritage Comm.	2,075,881	200,291	79,998	79,854	80,970
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	\$868,137,506	\$890,629,373	\$955,003,833	\$929,060,182	\$953,765,742

Expenditures from Other Funds

	FY 2015 Actual	FY 2016 Actual	FY 2017 Enacted	FY 2017 Recommend	FY 2018 Recommend
Public Safety					
Attorney General	3,400	182,470	300,000	417,530	150,000
Corrections	3,524,382	2,712,801	11,900,000	8,035,421	15,758,185
Judicial	1,347,914	5,007,480	5,525,000	6,103,756	7,100,000
Military Staff	835,920	1,009,674	2,682,500	1,578,491	7,696,925
Rhode Island Emergency Mgmt Agency (3)	-	-	1,189,750	1,916,239	-
Public Safety	5,495,038	6,025,890	6,785,535	8,895,635	6,896,821
Office Of Public Defender	-	-	-	-	-
Subtotal - Public Safety	\$11,206,654	\$14,938,315	\$28,382,785	\$26,947,072	\$37,601,931
Natural Resources					
Environmental Management	14,260,579	6,147,827	13,830,089	14,039,974	18,373,513
Coastal Resources Management Council	298,374	-	471,775	471,775	775,000
Subtotal - Natural Resources	\$14,558,953	\$6,147,827	\$14,301,864	\$14,511,749	\$19,148,513
Transportation					
Transportation	145,572,928	138,170,980	205,867,646	259,303,952	231,932,138
Subtotal - Transportation	\$145,572,928	\$138,170,980	\$205,867,646	\$259,303,952	\$231,932,138
Total	\$1,807,363,198	\$1,834,156,100	\$2,040,921,480	\$2,095,264,216	\$2,099,724,938

(1) New Agency effective February 1, 2015.

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

(3) In FY 2018, the Governor recommends merging the Rhode Island Emergency Management Agency into the Department of Public Safety.

GENERAL FUND OPERATING RESULTS AND 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 2019 through FY 2022, which were based on the FY 2018 recommended budget and revenue forecasts from November 2016, forecasts deficits of \$150.6 million for FY 2019, \$184.1 million for FY 2020, \$192.6 million for FY 2021 and \$194.1 million for FY 2022. 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 Funds and Financial Controls -- Budget Procedures and -- Financial Controls" will be put into effect.

FY 2016 Audited Closing

The State Controller's Office issued its final closing report for FY 2016 on January 5, 2017. The report showed a general revenue surplus of \$167.8 million. General revenue receipts were \$28.6 million more than estimated and spending was \$24.7 million less than budgeted. The Budget Reserve and Cash Stabilization account was fully funded at \$191.6 million.

As reflected in the Free Surplus table, a surplus of \$123.3 million was projected for FY 2016, so the final surplus of \$167.8 million was \$44.5 million better than expected.

FY 2017 Revised Budget

The FY 2017 Revised Budget, as recommended by the Governor to the General Assembly on January 19, 2017, increases general revenue expenditures by \$16.7 million, including reappropriations of \$7.8 million for total spending of \$3.700 billion. On an all funds basis, the budget increases by \$261.8 million for total spending of \$9.201 billion. The revised budget includes additional funding for increased Medicaid caseload projections of \$4.7 million as estimated at the November 2016 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 2018 Recommended Budget

The FY 2018 recommended budget provides for general revenue expenditures of \$3.793 billion, an increase of \$92.3 million over the FY 2017 revised budget of \$3.700 billion for total spending of \$3.793 billion. The initial projected budget gap for FY 2018 was \$184.5 million and was adjusted downward to \$66.2 million subsequent to the November 2016 Revenue and Caseload Estimating Conferences and the preliminary FY 2016 closing. The November 2016 Revenue and Caseload Estimating Conferences resulted in additional revenues of \$44.6 million in FY 2017 and additional carry forward from FY 2016 of \$44.5 million. On an all funds basis, the FY 2018 recommended budget is \$9.248 billion, an increase of \$47.5 million from the FY 2017 revised budget.

FY 2018 General Revenue Budget Surplus

	FY 2015 Audited ⁽¹⁾	FY 2016 Audited ⁽²⁾	FY 2017 Enacted ⁽³⁾	FY 2017 Revised ⁽⁴⁾	FY 2018 Recommend ⁽⁵⁾
Surplus					
Opening Surplus	\$67,806,737	\$168,038,072	\$123,283,301	\$167,818,206	\$78,032,073
Adjustment to Opening Surplus	13,794,502	-	-	-	-
Reappropriated Surplus	7,378,665	6,890,273	-	7,848,853	-
Subtotal	\$88,979,904	\$174,928,345	\$123,283,301	\$175,667,059	\$78,032,073
General Taxes	2,882,561,175	\$2,907,921,389	2,931,655,618	2,931,655,618	3,029,500,000
November REC Changes	-	-	-	41,444,382	-
Changes to the Adopted Estimates	-	-	-	-	38,571,692
Subtotal	\$2,882,561,175	\$2,907,921,389	\$2,931,655,618	2,973,100,000	3,068,071,692
Departmental Revenues	354,121,814	\$367,641,395	361,522,050	361,522,050	206,700,000
November REC Changes	-	-	-	3,277,950	-
Changes to the Adopted Estimates	-	-	-	(935,975)	168,287,001
Subtotal	\$354,121,814	\$367,641,395	\$361,522,050	363,864,025	\$374,987,001
Other Sources					
Other Miscellaneous	8,778,364	4,102,234	7,065,000	7,065,000	847,000
November REC Changes	-	-	-	124,000	14,131,021
Changes to the Adopted Estimates	-	-	-	733,093	-
Lottery	381,935,510	369,760,879	365,300,000	365,300,000	365,000,000
November REC Changes	-	-	-	(1,800,000)	-
Unclaimed Property	13,711,780	14,166,740	9,200,000	9,200,000	9,600,000
November REC Changes	-	-	-	1,800,000	-
Subtotal	\$404,425,654	\$388,029,853	381,565,000	382,422,093	389,578,021
Total Revenues	\$3,641,108,643	\$3,663,592,637	\$3,674,742,669	\$3,719,386,118	\$3,832,636,714
Transfer to Budget Reserve	(111,267,461)	(114,948,921)	(113,940,779)	(116,616,130)	(117,320,064)
Total Available	\$3,618,821,086	\$3,723,572,060	\$3,684,085,190	\$3,778,437,048	3,793,348,723
Actual/Enacted Expenditures	\$3,453,892,741	\$3,547,905,001	\$3,683,715,867	\$3,683,715,867	\$3,809,932,904
Reappropriations	-	-	-	7,848,853	-
Caseload Conference Changes	-	-	-	4,717,676	2,826,814
Other Changes in Expenditures	-	-	-	4,122,579	(20,050,730)
Total Expenditures	\$3,453,892,741	\$3,547,905,001	\$3,683,715,867	\$3,700,404,975	\$3,792,708,988
Total Ending Balances	\$164,928,345	\$175,667,059	\$369,323	\$78,032,073	\$639,735
Reappropriations	(6,890,273)	(7,848,853)	-	-	-
Free Surplus	\$168,038,072	\$167,818,206	\$369,323	\$78,032,073	\$639,735
Budget Reserve and Cash					
Stabilization Account	\$185,445,769	\$191,581,536	\$189,901,299	\$194,360,216	\$195,533,439

⁽¹⁾ Reflects the State Contoller's Final Audit Report dated January 5, 2016.

⁽²⁾ Reflects the State Contoller's Final Audit Report dated January 5, 2017.

⁽³⁾ Reflects the FY 2017 Budget enacted by the General Assembly and signed into law by the Governor on June 24, 2016.

⁽⁴⁾ Reflects the enacted revenues and expenditures for FY 2017 adjusted for revenue and caseload estimates adopted at the November 2016 Revenue and Caseload Estimating Conferences and any proposed legislative changes to modify adopted estimates.

⁽⁵⁾ Reflects the Governor's recommended FY 2018 budget, including results of the November 2016 Revenue and Caseload

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, 2016 were completed on December 23, 2016. The CAFR for the fiscal year ending June 30, 2016, including the audited financial statements for such fiscal year included in the CAFR, were updated as of February 2, 2017 to reflect certain restated amounts by the Rhode Island Turnpike and Bridge Authority, a discretely presented component unit of the State, without any change to net position.

As part of the auditing process for the fiscal year ended June 30, 2016, 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 2016 Single Audit Report was completed on March 31, 2017 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 2016 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.

The Executive Office of Health and Human Services is currently working with the Centers for Medicaid and Medicare Services to resolve audit findings included in the State's annual Single Audit for fiscal years 2007 to 2015 involving amounts at issue of approximately \$83 million in the aggregate. Resolution of the findings will likely result in the return of some federal funds, although the amount cannot be reasonably estimated at this time.

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 Commerce RI, 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 to issuers of tax-exempt debt in the State. PFMB is charged with the responsibility of collecting, maintaining and providing information on State, municipal and regional authorities, agency boards, commissions, public or quasi-public corporations, and fire districts and other special districts having authority to issue revenue or general obligation bonds or GARVEE bonds or notes or various types of conduit debt or enter into financing leases with respect to issuance of and financial planning related to all such bonds, leases and notes. The Chair of PFMB 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 General Assembly approved certain changes to the statutes governing 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.

Beginning January 1, 2017, PFMB is now required to annually report the total amount of public state, regional, municipal, public and quasi-public corporation, and fire district and other special district debt authorized, sold and unsold. PFMB is also required to undertake a Debt Affordability Study ("DAS"), which must include recommended limits for debt capacity at least every two years for each public issuer.

To support these new PFMB functions, PFMB has amended its Rules and Regulations to assess the statutory fee of 1/40th of 1% to the lead underwriter or purchaser of any taxable or tax exempt debt issue of the State, all State departments, any city or town, any State, municipal and regional authorities, agencies, boards,

commissions, public or quasi-public corporations, and fire districts and other special districts in the amount of \$1 million or more. This fee will now also be assessed on refunding issuances as well. Taken together, these recent legislative changes empower PFMB to improve public debt management and oversight in Rhode Island.

PFMB is also authorized to allocate private activity tax exempt, taxable and/or federal tax credit bond issuance capacity under Section 146 of the Internal Revenue Code of 1986 among all issuers in the State of Rhode Island. While all issuers of tax-exempt debt are required to give written notice to PFMB of a proposed debt issuance, failure to do so does not affect the validity of the issuance of any bond or note.

PFMB 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 part of the ongoing DAS, PFMB is considering revising the Credit Guidelines and will review them concurrently with each biennial DAS. In connection with the development of the FY 2018 Capital Budget, the State estimated net tax supported debt to be 3.13 percent of personal income, and annual debt service to be 5.19 percent of general revenues in FY 2017. 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. PFMB 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, PFMB 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. 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.

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 2016, 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 2017 or FY 2018.

Since FY 2002, the State has utilized the powers described above in the following manner:

<u>Fiscal Year</u>	<u>Maximum Principal Amount Outstanding</u>	<u>Percent of Prior Year's Tax Receipts</u>
2002	\$ 90,000,000	4.4%
2003	150,000,000	7.9
2004	200,000,000	7.4
2005	-	-
2006	-	-
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	-	-
2014	-	-
2015	-	-
2016	-	-
2017	- *	-

* No issuance is currently planned or authorized at this time for 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 January 1, 2017, authorized but unissued direct general obligation debt totaled \$486,575,000 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, 2014	Obligations June 30, 2015	Obligations June 30, 2016
Direct Debt:			
Various purpose bonds	\$1,103,945	\$1,022,895	\$1,051,810
Subtotal	\$1,103,945	\$1,022,895	\$1,051,810
Other Debt Subject to Annual Appropriation:			
Convention Center Authority	\$226,900	\$215,210	\$203,880
Economic Development Corporation - Transportation (Motor Fuel)	62,525	58,340	53,965
Economic Development Corporation - URI Power Plant	6,565	5,600	4,585
Economic Development Corporation - Job Creation Guaranty	73,577	64,515	54,866
Projected Economic Development Corporation - I-195 Land Sale	38,400	38,400	38,400
Rhode Island Turnpike and Bridge Authority - Motor Fuel Bonds	-	-	117,590
Certificates of Participation - Attorney General	505	170	-
Certificates of Participation - DLT Howard Complex	4,705	2,865	930
Certificates of Participation - Shepard's Building (originally EDC)	8,320	5,710	2,940
Certificates of Participation - Pastore Center Power Plant	13,580	11,905	10,145
Certificates of Participation - Kent County Courthouse	33,180	31,875	30,515
Certificates of Participation - Traffic Tribunal Court Complex	14,115	13,320	12,510
Certificates of Participation - Training School	33,825	32,270	30,655
Certificates of Participation - Information Technology	16,890	42,865	36,195
Certificates of Participation - School for the Deaf	25,185	24,005	22,775
Certificates of Participation - CCRI Energy Conservation	4,925	4,290	3,635
Certificates of Participation - DOA Energy Conservation	35,060	42,800	37,785
Certificates of Participation - URI Energy Conservation	17,305	15,590	13,750
Certificates of Participation - RIC Energy Conservation	-	7,465	7,465
Loan Agreement - Historic Structures Tax Credit Fund	74,400	132,390	49,005
Loan Agreement - Divison of Motor Vehicle System	5,110	3,075	-
Subtotal	\$695,072	\$752,660	\$731,591
Performance Based Agreements			
Economic Development Corporation- Fidelity Building	13,038	11,600	10,043
Economic Development Corporation- Fidelity Building II	7,950	7,565	7,151
Economic Development Corporation- Fleet Bank	7,710	7,345	6,950
Subtotal	\$28,698	\$26,510	\$24,144
Gross Debt	1,827,715	1,802,065	1,807,545
Less: Adjustments for Agency Payments	(12,152)	(10,795)	(9,507)
Net Tax Supported Debt	\$1,815,563	\$1,791,270	\$1,798,038
Debt Ratios			
Personal Income	\$50,451,809	\$52,487,457	\$55,593,707
Debt as a percent of Personal Income	3.60%	3.41%	3.23%

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, 2016, the State had approximately \$1.052 billion of general obligation tax supported bonds outstanding. The State currently has no variable rate debt or capital appreciation bonds outstanding.

The following table sets forth the debt service requirements on outstanding general obligation bonds of the State which are supported by State revenues for FY 2017 through FY 2036.

**Outstanding Debt Service Payments
General Obligation Bonds ***

Fiscal Year	Principal	Interest	Total Debt Service
2017	47,930,000	47,746,734	95,676,734
2018	79,995,000	45,916,491	125,911,491
2019	81,155,000	42,285,620	123,440,620
2020	85,865,000	38,411,227	124,276,227
2021	82,470,000	34,586,994	117,056,994
2022	81,520,000	30,724,126	112,244,126
2023	77,880,000	26,836,108	104,716,108
2024	78,185,000	23,116,083	101,301,083
2025	73,785,000	19,544,813	93,329,813
2026	76,740,000	15,887,573	92,627,573
2027	64,790,000	12,406,865	77,196,865
2028	50,890,000	9,532,571	60,422,571
2029	36,060,000	7,414,218	43,474,218
2030	37,685,000	5,523,162	43,208,162
2031	26,840,000	3,561,981	30,401,981
2032	28,105,000	2,302,037	30,407,037
2033	17,230,000	1,332,761	18,562,761
2034	11,770,000	753,466	12,523,466
2035	8,110,000	366,678	8,476,678
2036	4,805,000	144,150	4,949,150
2037	-	-	-
	\$ 1,051,810,000	\$ 368,393,658	\$ 1,420,203,658

* Reflects full fiscal year general obligation tax supported debt service for bonds issued as of June 30, 2016. Excludes guaranteed and contingent debt.

In addition, the following table sets forth the amounts, purposes and statutory authorizations of authorized but unissued general obligation direct debt of the State as of January 1, 2017 that have been approved by voter referenda.

Authorized but Unissued Direct Debt

<u>Purpose</u>	<u>Statutory Authorization</u>	<u>Authorized but Unissued Debt as of January 1, 2017</u>
Direct Debt:		
Higher Education	Ch. 241-P.L. of 2012	\$ 38,000,000
Environmental Management	Ch. 241-P.L. of 2012	5,000,000
Clean Water Finance Agency	Ch. 241-P.L. of 2012	7,175,000
Higher Education	Ch. 145-P.L. of 2014	117,500,000
Creative and Cultural Economy	Ch. 145-P.L. of 2014	18,500,000
Clean Water, Open Space, and Healthy Communities	Ch. 145-P.L. of 2014	38,400,000
Mass Transit Hub Infrastructure	Ch. 145-P.L. of 2014	34,500,000
Quonset Point/Davisville/Port Infrastructure	Ch. 142-P.L. of 2016	70,000,000
Affordable Housing/Blight Remediation	Ch. 142-P.L. of 2016	50,000,000
Veterans' Home	Ch. 142-P.L. of 2016	27,000,000
Higher Education	Ch. 142-P.L. of 2016	45,500,000
Green Economy	Ch. 142-P.L. of 2016	35,000,000
Total Authorized but Unissued Direct Debt		\$486,575,000

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, 2016, 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 that authorizes the issuance of general obligation bonds or notes of the State, which has a balance that remains unissued, and is seven years old or older is invalid as to that portion that remains unissued. Notwithstanding, the General Assembly may, by special act, extend any authorization for a period of one to five years upon a petition of the Department of Administration. Such extension may be granted more than one 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, or otherwise treats as extinguished, a total of \$142,633,042, which was previously reflected in the above table as authorized but unissued debt.

Obligations Carrying Moral Obligation of State

Certain agencies of the State have the ability to issue bonds that 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.

The State entered into a lease agreement with a financial institution that 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, 2016, \$930,000 of such certificates were outstanding.

In November 1994, the State entered into a lease agreement with the Commerce RI 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 Commerce RI 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, 2016, \$2,940,000 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, 2016, there were \$10,145,000 of such certificates outstanding.

In November 2003, the State entered into a payment agreement with the 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 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, 2016, \$53,965,000 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, 2016, \$30,515,000 was 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, 2016, there was \$12,510,000 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, 2016, there was \$30,655,000 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, 2016, there was \$36,195,000 outstanding.

In 2007, the State entered into a lease agreement with a financial institution that issued certificates of participation for energy conservation projects that were intended to result in cost savings; \$6.0 million was issued for Department of Administration energy projects, and \$6.75 million was issued for the University of Rhode Island. In 2009, an additional \$11,805,000 was issued for University of Rhode Island projects. In July 2011, an additional \$31,980,000 in certificates of participation was issued for energy conservation projects for the Department of Administration, University of Rhode Island and Community College of Rhode Island. 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, 2016, there was \$62,635,000 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, 2016, there was \$22,775,000 outstanding.

In June 2009, the State entered into a payment agreement with Commerce RI 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. In May 2015, the State entered into a payment agreement with Commerce RI 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, 2016, there was \$106,995,000 of such revenue bonds outstanding.

In April 2013, Commerce RI 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, 2016, there was \$38,400,000 outstanding.

In March 2017, RITBA issued \$117.6 million in Motor Fuel Tax Revenue bonds secured by three and one-half cents (\$0.035) of the State's thirty-three cents (\$0.33) per gallon Motor Fuel tax. These funds are subject to appropriation by the State in the annual budget. The proceeds from this issuance are being used for maintenance of RITBA assets, including the Pell, Jamestown, Mt. Hope and Sakonnet River Bridges.

Moral Obligation of the State Regarding 38 Studios

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 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 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 Commerce RI, the bond trustee and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, Commerce RI 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 Commerce RI 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 Commerce RI

to guarantee further loans under this program. As of June 30, 2016, there was \$51,315,000 of such revenue bonds outstanding.

During the fiscal year ended June 30, 2016, the State transferred \$12.5 million to Commerce RI to satisfy debt service obligations related to 38 Studios. For fiscal year 2017, the State budgeted \$2.5 million to cover debt service obligations related to 38 Studios. The Governor's recommended FY 2018 Budget does not include funding for 38 Studios debt service due to available resources in the debt service reserve account from the settlements described below.

In November 2012, Commerce RI sued various individuals and entities involved with the loan to 38 Studios including principals of 38 Studios, former employees of Commerce RI and various advisors to Commerce RI alleging fraud, negligence, breach of fiduciary duty and other charges. Commerce RI has reached settlements with all of the defendants in this litigation as discussed in more detail below:

- (a) In July 2014, a Rhode Island Superior Court ruling upheld an initial legal settlement, 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 "38 Studios Bond Trustee"). The FY 2015 revised budget accounted for this settlement payment, which reduced the required general revenue appropriation by a like amount.
- (b) In October 2015, Commerce RI reached settlements with four defendants in the case that resulted in a gross payment of \$12,500,000. After payment of fees, costs and expenses, the net amount from this settlement of \$9,926,027.20 was paid to the 38 Studios Bond Trustee. The FY 2017 enacted budget accounted for this settlement payment, which reduced the required general revenue appropriation by a like amount.
- (c) In September 2016, Commerce RI entered into two separate settlement agreements involving seven defendants that resulted in gross payments of \$28,125,000. After payment of fees, costs and expenses, the net amount from these settlements of \$23,338,450.61 was paid to the 38 Studios Bond Trustee. The FY 2018 recommended budget accounted for these settlement fund and eliminated the \$12.5 million that would otherwise have been required of the State.
- (d) In February 2017, Commerce RI reached a settlement with the remaining defendant in the litigation, which resulted in a gross payment of \$16,000,000 and, after payment of fees, costs and expenses, the net settlement amount to be determined will be paid to the 38 Studios Bond Trustee and will be used to reduce the amount of future appropriations from the State.

Subsequent to application of all settlements described above, the State's remaining obligation for debt service on the 38 Studios debt will be approximately \$12.5 million.

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 Commerce RI and Wells Fargo Securities with defrauding investors in the 38 Studios bond offering and certain individuals, including an employee of Wells Fargo and the former Executive Director and Deputy Director of Commerce RI with aiding and abetting the fraud. According to an SEC news release, the former employees of Commerce RI agreed to settle the charges without admitting or denying the allegations and must each pay a \$25,000 penalty. Commerce RI reached a settlement with the SEC without admitting or denying the allegations contained in the complaint. As part of the conditions of the settlement, Commerce RI is permanently enjoined from violating Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933 (the "Securities Act") in the offer or sale of any securities and has agreed to pay a civil penalty in the amount of \$50,000 pursuant to Section 20(d) of the Securities Act. The settlement was approved by the U.S. District Court for the District of Rhode Island by entry of final judgment on April 3, 2017.

Obligations for Which Appropriation Has Not Been Made

In December 1999, Commerce RI 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. Commerce RI'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 Commerce RI's limited recourse guaranty, which, in addition to limiting payment to \$3,000,000, limits the obligations of Commerce RI to funds received by the General Assembly for this purpose and further limits Commerce RI's obligations to request the Governor to submit an appropriation request to the General Assembly for any payment obligation of Commerce RI pursuant to the limited recourse guaranty. Commerce RI has annually 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 Commerce RI, pursuant to the enabling act of Commerce RI, 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 Commerce RI's limited recourse guaranty to ERSRI. A total of \$1,749,148 would be required if this obligation were funded.

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. On July 2, 2015, the State discovered 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 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 outstanding on the certificates at the time was \$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 that is subject to annual appropriation. As of January 1, 2017, the following authorizations have been enacted and the State may issue the debt over the next several years:

<u>Purpose</u>	<u>Total Remaining Authorization</u>
Energy Conservation Certificates of Participation	\$7,437,000
Nursing Education Center Debt Authorizations*	\$10,500,000
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	\$194,137,000

* Authorization for issuance of \$25.5 million for tenant improvements at the Nursing Education Center reflected previously in this table will not be used.

It is expected that Commerce RI will issue additional debt of \$75.0 million in FY 2019 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 depend on 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 (the “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, Commerce RI issued \$25,000,000 of bonds to finance infrastructure for Fidelity Investments (“Fidelity”). 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 annual 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, 2016, \$17.194 million of Fidelity bonds were outstanding. Job rent credits are expected to result in an annual State obligation of \$3.4 million in FY 2018 through FY 2021 and \$954,054 in FY 2022 through FY 2027. 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, 2016, \$6,950,000 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 job levels in excess of the base number of jobs (approximately 3,900) and thus no State obligation has been required. 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 Rhode Island Employment Security 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 \$279.1 million as of November 30, 2016. This was an increase of \$133.0 million from November 30, 2015 when the fund balance was \$146.1 million. The Rhode Island Department of Labor and Training completely repaid its federal unemployment insurance (UI) loans on May 5, 2015 and has increased fund reserves. No additional borrowing has been 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 and through November 30th for 2016. 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
(in millions of \$'s)**

Year Ended <u>Dec. 31</u>	Fund <u>Balance</u>	Amount <u>Borrowed</u>	Amount <u>Repaid</u>
1995	\$ 107.6	-	-
1996	112.5	-	-
1997	157.0	-	-
1998	220.0	-	-
1999	260.5	-	-
2000	295.7	-	-
2001	278.0	-	-
2002	253.8	-	-
2003	205.5	-	-
2004	184.3	-	-
2005	185.8	-	-
2006	197.9	-	-
2007	168.4	-	-
2008	79.2	-	-
2009	-127.5	\$ 127.5	-
2010	-194.3	98.0	-
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	136.8	20.6	20.6
2016 ¹ (thru Nov. 30, 2016)	279.1	-	-

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"). 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 calendar year ("CY") 2012, the taxable wage base for most employers was \$19,600. The taxable wage base for employers with the highest negative reserve account percentages was \$21,100, which is \$1,500 above the level set for all other employers. In CY 2013, the taxable wage base rose by \$600 to \$20,200 for most employers and \$21,700 for employers with the highest negative reserve account percentages. In CY 2014, the taxable wage base rose by \$400 to \$20,600 for most employers and \$22,100 for employers with the highest negative reserve account percentages. In CY 2015, the taxable wage base rose by \$600 to \$21,200 for most employers and \$22,700 for employers with the highest negative reserve account percentages. 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. For CY 2017, the taxable wage base will rise by \$400 to \$22,400 for most employers and \$23,900 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 67.0 percent of the State-wide average weekly wage. Article 4 reduced the percentage to 57.5 percent of the State-wide 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.

¹ Unaudited as of November 30, 2016 including outstanding federal loans

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 60.0 percent to 57.0 percent on July 1, 2012, to 54.0 percent on July 7, 2013 and was further reduced to 50.0 percent on July 6, 2014.

These changes and an improved economy have enabled the Employment Security Fund to rebuild its reserves to \$279.1 million by the end of November 2016. Based on improved trust fund reserves, Article 3 of the FY 2016 Appropriations Act ("Article 3") was enacted which made several changes to the UI tax structure. The range of tax rates was expanded by adding three new categories at the lower end of the tables. This change reduced the minimum UI tax on employers from 1.69% to 0.99% for CY 2017. Article 3 also lowered the reserve percentages for each of the nine tax schedules to make it easier to move to a lower tax schedule as reserves built up. As a result, Rhode Island will move off the highest tax schedule, Schedule I, for the first time in 25 years to the next lowest tax schedule, Tax Schedule H, for CY 2017. This will reduce RI employer UI taxes by approximately \$30 million per year.

Current projections show a continued 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 ("RITBA") has rights and obligations under agreements which secure its outstanding bonds. On August 21, 1997, RITBA 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, RITBA issued \$35,765,000 Taxable Refunding Bonds Series 2003A and together with other funds defeased the outstanding balance of the Series 1997 Revenue Refunding Bonds. The outstanding balance of the 2003A issue of taxable refunding bonds is \$6,160,000 at June 30, 2016.

On April 28, 2010, RITBA 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, 2016.

In connection with the enacted FY 2011 Budget, the General Assembly authorized RITBA 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 RITBA and approved tolling the Sakonnet River Bridge subject to federal regulations and approvals. The transfer from the Department of Transportation to RITBA occurred during FY 2013. RITBA 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 RITBA 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 RITBA 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 RITBA will be approximately \$15.5 million in FY 2017, and \$7,845,017 was received by RITBA for the period July 1, 2016 through December 31, 2016. Revenues from toll receipts, the motor fuel tax and other revenues of RITBA are estimated to be sufficient to cover debt service on all the RITBA outstanding debt.

On February 13, 2013, RITBA issued a revenue bond anticipation note in the amount of \$30,000,000 pursuant to the authorization therefore contained in the enacted FY 2011 Budget. On November 14, 2014, RITBA refinanced the 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 such authorization.

In the enacted FY 2016 budget, the General Assembly approved RITBA'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, RITBA 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 outstanding balance of the Series 2016 Revenue Bonds is \$117,590,000 at June 30, 2016.

The remaining amount of authorized but unissued bonds of RITBA under all authorizations of the General Assembly is \$15,500,000.

In the Governor's recommended FY 2018 budget, a transfer of \$2.6 million from RITBA prior to June 30, 2018 is proposed.

Narragansett Bay Commission. The Narragansett Bay Commission ("NBC") 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 NBC.

All of NBC's full-time union employees participate in the Employees' Retirement System ("ERSRI") of the State. NBC contributed \$1,370,821, \$1,329,983 and \$1,317,046 for the fiscal years ended June 30, 2016, 2015 and 2014, respectively, equal to 100% of the required contributions to the ERSRI defined benefit plan for each year. The Commission's full-time union employees participating in the ERSRI defined benefit plan also participate in a defined contribution plan established by the State pursuant to 401(a) of the Internal Revenue Code. NBC contributed \$46,948 for the fiscal year ended June 30, 2016, equal to 100% of the required contribution for the fiscal year. For the fiscal year ended June 30, 2016, NBC fully funded its required contribution to the trust established by the State in FY 2012 to accumulate assets and pay benefits and costs associated with other post-retirement health benefits. See "*State Retirement Systems*" for a description of the ERSRI and information regarding the financial impact on NBC of challenges to, and settlement of, State pension reform.

Pursuant to the Narragansett Bay Commission Act, NBC 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. NBC currently has no outstanding advances from the State. As of June 30, 2016, NBC 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 \$385,089,111.

NBC has filed its audited financial statements for the fiscal year ended June 30, 2016 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 2018 budget, a transfer of \$2.5 million from NBC prior to June 30, 2018 is proposed.

Rhode Island Industrial-Recreational Building Authority. The Rhode Island Industrial-Recreational Building Authority ("RII-RBA") was created in 1958, 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 RII-RBA is a body corporate and politic and a public instrumentality of the State, consisting of five members appointed by the Governor. Voter approval enabled RII-RBA to pledge the States 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 RII-RBA are limited to certain specified percentages of total project cost. RII-RBA 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, 2016, RII-RBA had outstanding mortgage agreements and other commitments for \$9,333,608 mainly in connection with revenue bonds issued by the Rhode Island Industrial Facilities Corporation. In accordance with State law, all premiums received by RII-RBA 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 RII-RBA and all losses on insured mortgages are chargeable to this Fund. As of June 30, 2016, the Fund had a cash and cash equivalents balance of \$1,753,335. The State has agreed to appropriate or borrow and pay to RII-RBA 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 2017 or FY 2018.

In February 2012, RII-RBA 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, 2016, the outstanding loan guarantee was \$2,250,000.

Rhode Island Industrial Facilities Corporation. The Rhode Island Industrial Facilities Corporation ("RIIFC") is a public body corporate and agency of the State established under Chapter 37.1, Title 45 of the General Laws. RIIFC 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 RII-RBA; (e) acquisition costs of any existing building, machinery and equipment for any project which would otherwise qualify for a loan guarantee through RII-RBA; and (f) any "recreational project" as described in Chapter 34 of title 42, relating to the loan guarantee program of RII-RBA.

RIIFC 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 RIIFC shall be payable solely out of the revenues and receipts derived from the leasing or sale by RIIFC of its projects, or from any other financing arrangement which may be designated in the proceedings

of RIIFC under which the bonds or notes shall be authorized to be issued. As of June 30, 2016, RIIFC had an outstanding principal balance of conduit debt of \$42,245,577. Except for any obligations secured by mortgages which are insured by the RII-RBA, the State shall not be liable for the payment of the principal of or interest on any bonds or notes of RIIFC, or for the performance of any pledge, mortgage obligation or agreement of any kind whatsoever which may be undertaken by RIIFC nor shall such bonds and notes be construed to constitute an indebtedness of the State. Outstanding mortgage obligations of RIIFC which are insured by RII-RBA, totaled \$9,333,608 as of June 30, 2016.

Rhode Island Convention Center Authority. The Rhode Island Convention Center Authority (“RICCA”) 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. RICCA 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 RICCA do not constitute a debt or liability or obligation of the State, but are secured solely from the pledged revenues or assets of RICCA. In November 1991, RICCA sold \$225 million in bonds to finance the construction of the Rhode Island Convention Center and in July 1993, RICCA 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 RICCA to refund all or portions of its 1991 and 1993 bonds. In addition, during 2005, RICCA sold the Westin Hotel and defeased \$90,085,000 in RICCA bonds and refunded a portion of its 1993 Series C Bonds. The 1993 Series C Bonds were retired in FY 2008. During FY 2009, RICCA 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, RICCA 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 RICCA’s outstanding 2005 Series A Bonds and a portion of RICCA’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 \$127,070,000 as of June 30, 2016.

RICCA 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 \$76,810,000 as of June 30, 2016.

Pursuant to a Lease and Agreement dated as of November 1, 1991, between RICCA, as lessor and the State, as lessee, RICCA leased the Convention Center facilities to the State. Pursuant to a Lease and Agreement dated as of November 30, 2005 between RICCA, as lessor, and the State, as lessee, RICCA 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 RICCA 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 (“RIRRC”), 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, RIRRC 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, RIRRC 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, RIRRC 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 Landfill together with all related infrastructure improvements. The outstanding balance at June 30, 2016 totaled \$29,142,861.

The outstanding indebtedness is collateralized by all revenues of RIRRC, certain restricted funds created pursuant to the Bonds issuance, and any revenues and property specifically conveyed, pledged, assigned or transferred by RIRRC 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 States financial participation as a subsidy to the local "tipping fee" paid by municipalities, and establishes a formula for calculating the subsidy. The State provided RIRRC a one-time subsidy of \$6,000,000 in FY 1994; the only year such a subsidy has been provided. However, in years when RIRRC took in excess volumes of solid waste that generated surplus cash, the General Assembly required RIRRC to transfer a portion of those surpluses to the State's General Fund. RIRRC 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 RIRRC to charge \$32.00 per ton for municipal solid waste. For FY 2016, this fee was allowed to be set by contract and in FY 2018, the fee will be set by a mathematical calculation as allowed in the State's rulemaking process. A portion of RIRRC's landfill is a designated Superfund site. During FY 1996, RIRRC 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-two years are included RIRRC'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, RIRRC projects that the amount reserved plus cash flow over the next twenty-two years will be adequate to fund the Superfund remedy. RIRRC would seek appropriations from the General Assembly to fund any shortfall. The State, virtually every municipality in the State, and numerous businesses within and outside of the State are all potentially responsible parties ("PRPs") for the costs of remedial actions at RIRRC'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 RIRRC is performing the remedy.

RIRRC 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 December 31, 2016, RIRRC had approximately \$91,721,680 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 RIRRC to satisfy these closure and post closure care costs. RIRRC's total estimate of future landfill closure and post-closure costs for existing phases is approximately \$96,517,220 as of June 30, 2016. RIDEM approved RIRRC's application for licensure of Phase VI, which has now started accepting waste. Based on current cost estimates, RIRRC expects to record an additional \$83,000,000 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 RIRRC funds raised by RIRRC'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 RIRRC. Although none of the findings have a significant future impact on RIRRC's financial position, the audit did reveal \$75,000,000 of mismanagement losses during the eight year period examined. In 2010, RIRRC began the legal process to collect against insurance policies that covered against fiduciary losses and various third-parties. As of December 31, 2016, all suits have been settled, with one suit, decided in the RIRRC'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 RIRRC, its former Executive Director and other defendants (unrelated to RIRRC) 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. RIRRC and the former Executive Director have answered and denied the allegations. As of September 2013, RIRRC 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 RIRRC alleging that odors emanating from the 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 RIRRC entered into a settlement agreement and release whereby the Town agreed to voluntarily dismiss RIRRC from the lawsuit in exchange for RIRRC 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 RIRRC. This settlement increased the payment from \$107,143 to \$250,000.

On February 2, 2012 the RIDEM issued a Notice of Violation (“NOV”) to RIRRC and Broadrock Gas Services LLC relating to alleged air pollution violations at the Landfill. The Notice of Violation required RIRRC and Broadrock Gas Services LLC to take certain action to remediate the alleged violations and assessed a \$55,000 penalty. In April 2013 RIRRC 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 RIRRC 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 RIRRC contributes to WPCF. The invoice also states that the O&M costs are associated with the excess (above average concentrations) Total Nitrogen discharged from RIRRC to the WPCF.

On August 19, 2011, the City issued its annual industrial pretreatment (“IP”) charge to RIRRC 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, RIRRC 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, RIRRC also filed a request for a fee adjustment to the 2012 IP charge of \$271,461.24. On October 15, 2012, RIRRC 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, RIRRC 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, RIRRC 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 RIRRC 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 RIRRC for alleged exceedances of the Total Toxics Organic limits in RIRRC’s Industrial Wastewater Discharge Permit. The Fine Notice assessed a penalty of \$190,000. On August 24, 2012, RIRRC filed a “Request for Reconsideration” to reduce this fine to \$40,000. On November 13, 2012, the City denied the RIRRC’s Request for Reconsideration. On December 7, 2012, RIRRC

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 RIRRC 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 RIRRC'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, RIRRC answered the first amended complaint denying Broadrock's allegations. On September 25, 2014, a Non-Binding Memorandum of Understanding was reached in which RIRRC 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. Since the non-binding agreement was signed, the parties remain unable to reach a definitive agreement despite federal mediation in November 2016. However, the parties did agree at the mediation to stand down any further legal activity for a twelve month period.

On July 18, 2013, the Conservation Law Foundation ("CLF") sent a notice of intent to file a citizens suit against Broadrock and RIRRC alleging that Broadrock has violated emission standards and exceeded operational standards established in the Clean Air Act. The letter also alleges that RIRRC is also "legally responsible" for noncompliance of these standards. The letter further alleges that RIRRC 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 June 30, 2016 a settlement was reached totaling a combined \$700,000, split evenly between Broadrock and RIRRC to cover legal fees, consulting fees and implementation of recommendations.

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 RIRRC 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. There has been no substantive activity since this filing and it is not feasible to estimate any potential liability to RIRRC at this time.

The State, in conjunction with its annual budgeting process, may include a provision in its budget requiring RIRRC to pay an amount to the State's General Fund. From FY 1995 through FY 2016, the RIRRC has paid approximately \$70,215,000 to the State's General Fund. The enacted FY 2017 budget does not include any transfer from RIRRC to the General Fund, but the Governor's recommended FY 2018 budget includes a proposal to transfer \$6.0 million by June 30, 2018.

Rhode Island Public Transit Authority. The Rhode Island Public Transit Authority ("RIPTA") 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. RIPTA, 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. RIPTA has expanded its operations statewide and at fiscal year ended June 30, 2016 operated a fleet of approximately 249 buses and 99 vans carrying approximately 18.2 million passengers annually.

RIPTA is authorized to issue bonds and notes secured solely by its revenues. RIPTA has no bonds or notes outstanding. Also, in order to increase the financial stability of RIPTA, (1) the General Assembly authorized dedication of a portion of the State's motor fuel tax receipts in support of appropriations to RIPTA, and (2) the Authority increased its base fare from time to time with the most recent increase being from \$1.75 to \$2.00 in

September 2010. RIPTA, 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, 2016, audited results of operations reveal that State-operating assistance to RIPTA totaled \$44,068,106, operating revenues totaled \$22,691,981 and other revenues totaled \$32,443,079.

The State has issued general obligation bonds on behalf of RIPTA and for which RIPTA is responsible for the debt service payments. For FY 2013 through FY 2017, the Governor recommended and the General Assembly approved funding RIPTA's debt service payments with general revenue, thereby providing budgetary relief to the Authority. The Governor's FY 2018 Budget proposes to extend this funding for one additional year. As of June 30, 2016, there was \$13,647,000 in outstanding State general obligation bonds attributable to RIPTA.

The FY 2017 Budget includes a one-time \$900,000 grant to RIPTA to assist with revenue shortfalls. In addition, commencing in FY 2016, RIPTA began receiving 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 11 members. The board oversees the development and implementation of many State-level economic development initiatives and works with the Executive Office of Commerce 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, 2016, the total aggregate principal amount outstanding under all conduit debt obligations was estimated to be \$991,395,633. 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, 2016, the outstanding balance was \$10,043,399. 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, 2016, the outstanding balance was \$7,150,896. 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 2016, the State's expenditure for this purpose was \$3,295,026. 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, 2016, the outstanding balance was \$6,950,000. See "State Indebtedness – Performance-Based Obligations of the Rhode Island Commerce Corporation".

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 is 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 to the State. The State is not obligated to fund the note payments if the sales tax generated is not sufficient. To date, the sales tax revenue generated by the Providence Place Mall has been more than sufficient to meet these obligations. This transfer will continue until FY 2021 when the bonds will be fully defeased. As of June 30, 2016, there was \$15,390,000 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. 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 June 2016, \$230,280,000 of GARVEE bonds were issued to refund all of the outstanding GARVEE Bonds from the prior issuances, and as of June 30, 2016 this entire issue was outstanding. Additional GARVEE bonds of \$245.925 million were issued for new money projects in October 2016. 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.

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, 2016, \$53,965,000 was outstanding.

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, 2016, there was \$106,995,000 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 Commerce RI, the trustee and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, Commerce RI 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 Commerce RI and the trustee for the bonds 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 and Commerce RI, was \$88 million. The maturity dates on the bonds range from 2014 to 2021 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.

As of June 30, 2016, there was \$51,315,000 of such revenue bonds outstanding. For further information regarding the current status of 38 Studios, the bonds issued by Commerce RI for 38 Studios and the lawsuit brought by Commerce RI against various parties involved with the loan to 38 Studios and the settlements reached, see "State Indebtedness – Moral Obligation of the State Regarding 38 Studios".

An additional \$6,500,000 in guarantees were issued by Commerce RI under the Job Creation Guaranty Program ("JCGP") for three companies, NuLabel, Corporate Marketplace and eNow, of which \$2,250,000 remains outstanding as of June 30, 2016. In the 2013 Session, the General Assembly repealed the JCGP statute.

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. 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. 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, 2016 was \$4,601,252.

Information regarding bonds issued by Commerce RI on behalf of the I-195 Redevelopment District Commission and, the Rhode Island Airport Corporation, respectively, both subsidiaries 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 Commerce RI 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 Commerce RI with aiding and abetting the fraud. According to an SEC news release, the former employees of Commerce RI 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. Commerce RI

reached a settlement with the SEC without admitting or denying the allegations contained in the complaint. As part of the conditions of the settlement, Commerce RI is permanently enjoined from violating Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933 (the “Securities Act”) in the offer or sale of any securities and has agreed to pay a civil penalty in the amount of \$50,000 pursuant to Section 20(d) of the Securities Act. The settlement was approved by the U.S. District Court for the District of Rhode Island by entry of final judgment on April 3, 2017.

I-195 Redevelopment District Commission. The I-195 Redevelopment Act of 2011 created the I-195 Redevelopment District Commission (the “Commission”) as a subsidiary of Commerce RI and authorized the District Commission to purchase I-195 surplus land from the Department of Transportation. The Act also authorized Commerce RI to issue bonds in the amount of the purchase price for the land. Commerce RI provides office space and technical support to the 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 Commerce RI to issue bonds or other obligations not to exceed \$42,000,000 to finance the acquisition by the Commission of the surplus land from the State. The actual balance of total outstanding bonds issued, as of June 30, 2016, 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 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. The Rhode Island Airport Corporation (“RIAC”) was created by the Rhode Island Commerce Corporation, (Commerce RI) and (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 Commerce RI, 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 “RIAC Act”). “Airport facility” is defined in the RIAC 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, Airport’s) 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 99% of the passengers at the Airport either began or ended their journeys at the Airport. As of June 2016, the Airport has scheduled passenger service provided by five mainline carriers and twelve affiliate carriers. Three airlines provide international service and three airlines provide all-cargo service.

T.F. Green Airport was ranked as the 64th busiest airport in the country for calendar year 2015 according to the latest published data produced by the FAA. This compares with rankings of 64th busiest in calendar year 2014 and 63rd busiest in calendar years 2013, 2012, and 2011. Actual enplaned passengers for FY 2016 were 43,799 over FY 2015 resulting in an increase of 2.5%.

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 AFCA AvPORTS Management, LLC (AvPORTS). These include: North Central Airport, Quonset Airport, Westerly Airport, Newport Airport, and Block Island Airport.

Long-Term Debt Administration - General

Under the State Lease Agreement, RIAC has agreed to reimburse the State for G.O. Bond debt service accruing after July 1, 1993. In the event there are not sufficient funds 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, 2016 was \$390 thousand.

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. On the same date, RIAC issued \$18.03 million Series C Airport Revenue Refunding Bonds to defease \$18.06 million of 1998 Series B General Airport Revenue Bonds. The RIAC Series C refunding bonds mature annually from 2010 through 2018. As of June 30, 2016, the outstanding balance for the RIAC 2008 Series A Bonds was \$15,695,000 and for the 2008 Series B and C Bonds was \$36.36 million.

In 2013, RIAC obtained 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%. Interest payments accrue as amounts are drawn down from this loan. The outstanding balance for the 2013 Series A as of June 30, 2016 was \$31.328 million.

In 2013, RIAC issued \$30.7 million Series B and \$2.055 million Series C Airport Revenue Refunding Bonds, the proceeds of which were used to defease \$32.06 million of 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. The 2013 Series C refund issue matured annually from 2014 to 2015. The outstanding balance for the 2013 Series B and C as of June 30, 2016 was \$30.7 million.

In 2015, RIAC issued \$42.98 million Series A Direct Placement Airport Revenue Refunding Bonds, the proceeds of which were used to defease \$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 2.0 percent. The outstanding balance for the 2015 Series as of June 30, 2016 was \$42.345 million.

In January 2016, RIAC issued \$27.66 million Series A Direct Placement Airport Revenue Refunding Bonds, \$26.97 million Series B Direct Placement Airport Revenue Refunding Bonds 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, \$27.245 million in 2005 Series B General Airport Revenue Bonds, and \$35.930

million in 2005 Series C General Airport Revenue Refunding Bonds, respectively. The 2016 Series A refund issue matures monthly from 2016 through 2025. The 2016 Series B refund issue matures monthly from 2023 through 2030. The 2016 Series C refund issue matures monthly from 2016 through 2025. The outstanding balances for the 2016 Series A, B, and C as of June 30, 2016 was \$26.65 million, \$26.97 million, and \$30.212 million, respectively.

Long-Term Debt Administration – Special Facility

In 2006, RIAC issued \$48.765 million Series 2006 First Lien Special Facility Bonds for the InterLink Project (2006 First Lien Bonds) dated June 14, 2006 maturing annually from 2011 through 2036 with interest coupons ranging from 4% to 5%. The balance outstanding for the 2006 First Lien Bonds was \$45.265 million as of June 30, 2016. 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 United State Department of Transportation's Transportation Infrastructure Finance and Innovation Act ("TIFIA") Bond 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 million. The outstanding balance for the TIFIA Bond as of June 30, 2016 was \$41.541 million.

Current Operations and Financial Situation

Effective July 1, 2016, the Lease Agreement between RIAC and the State was extended for a 30 year term through June 30, 2046.

On July 1, 2016, RIAC issued \$36.885 million 2016 Series D General Airport Revenue Bonds and \$3.445 million 2016 Series E General Airport Revenue Bonds. The 2016 Series D issue matures annually from 2026 through 2046 with interest coupons of 5%. The 2016 Series E issue matures annually from 2017 through 2021 with interest coupons from 1.95% to 2.75%.

On July 5, 2016, RIAC entered into a tax exempt equipment lease financing agreement for \$3.1 million for the purchase of airfield equipment. The agreement is payable annually from 2017 through 2023 with a fixed interest rate of 1.71%.

Condor Airlines has indicated that it will not continue its seasonal service to Frankfurt, Germany in 2017.

On February 23, 2017, Norwegian announced regularly scheduled year-round non-stop service to Europe beginning in summer 2017. Flights will operate on a Boeing 737-MAX to Belfast, Cork, Dublin, Edinburgh and Shannon.

Rhode Island Housing and Mortgage Finance Corporation. The Rhode Island Housing and Mortgage Finance Corporation (the "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, 2016 was

\$1,326,562,054, consisting of \$1,211,166,218 of long-term bonds and notes and \$115,395,837 of short-term or convertible-option bonds and notes. Included in the total outstanding is \$65,669,132 in bonds, which are secured in part by capital reserve funds which have aggregated to \$24,431,211 on June 30, 2016. 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 Rhode Island Student Loan Authority (“RISLA”) 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 RISLA 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 RISLA. As of December 31, 2016, RISLA held \$251,616,121 in Federal Family Education Loans that were insured by the Rhode Island Higher Education Assistance Authority and other Guarantors. RISLA also held on December 31, 2016, \$384,080,135 in state based private education loans. As of December 31, 2016 RISLA had \$500,780,000 of bonds outstanding.

Rhode Island Higher Education Assistance Authority. The Rhode Island Higher Education Authority (“RIHEAA”) 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. RIHEAA 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 RIHEAA (e.g. Rhode Island State Scholarship/Grant Program and College Bound*fund*®, Rhode Island’s IRS Section 529 college savings program). Guarantees made by RIHEAA shall not constitute a pledge of the faith and credit of the State, but shall be payable solely from the revenues and assets of RIHEAA. The FY 2016 enacted budget has eliminated RIHEAA and merged its functions into the Office of the Postsecondary 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 (the “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 applicable 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 October 31, 2016, the Bank has issued bonds in the aggregate amount of over \$1.55 billion. The Bank has funded over \$1.92 billion in total loans, \$1.258 billion in loans in the Clean Water SRF, \$428.6 million in loans in the Drinking Water SRF, \$106.8 million in conduit loans, \$58.8 million in loans out of the RI Water Pollution Control Revolving Fund, \$26.3 million out of the Administrative Loan Program, \$24.8 million in loans out of the Municipal Road and Bridge Program and \$17.18 million in loan out of the Efficient Building Program. The outstanding bonded indebtedness of the Bank, as of October 31, 2016 is \$743 million, consisting of Clean Water bonds outstanding in the amount of \$487.8 million, Drinking Water bonds outstanding in the amount of \$178.6 million and the Bank’s Conduit bonds outstanding in the amount of \$76.6 million.

In the Governor’s recommended FY 2018 Budget, a transfer of \$1.0 million from the Bank prior to June 30, 2018 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 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. 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.

During the 2009 Session, the General Assembly enacted legislation which provides that upon the repayment by WRBC of all of its existing debt, 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 WRBC ceased to exist.

Rhode Island Health and Educational Building Corporation. The Rhode Island Health and Educational Building Corporation (“RIHEBC”) was organized in 1966 as a Rhode Island non-business corporation with the name Rhode Island Educational Building Corporation. In 1967, RIHEBC was constituted as a public body corporate and an agency of the State under Chapter 38.1, title 45 of the General Laws. RIHEBC 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, RIHEBC may issue bonds and notes which are special obligations of RIHEBC 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 RIHEBC, or for the performance of any pledge, mortgage, obligation, or agreement of any kind whatsoever which may be undertaken by RIHEBC, and none of the bonds or notes of RIHEBC nor any of its agreements or obligations shall be construed to constitute an indebtedness of the State. As of June 30, 2016, RIHEBC had \$3,133,129,418 of bonds and notes outstanding (excluding series secured by funds held in trust for future redemption). Of this amount, \$229,255,000 is debt of the state colleges. In the FY 2018 Governor’s recommended revenues, a transfer of \$1.2 million from RIHEBC to the State’s general fund prior to June 30, 2018 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. 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 (the “MSA”) 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 “Tobacco Receipts”).

TSFC issued \$685,390,000 of its Tobacco Settlement Asset-Backed Bonds, Series 2002A (the “2002A TSFC Bonds”) and Series 2002B (the “2002B TSFC Bonds”) in June 2002 to finance the costs of acquisition of the right, title and interest to one hundred percent (100%) of the Tobacco Receipts. TSFC issued an additional \$197.0 million of its Tobacco Settlement Asset-Backed Bonds, Series 2007A, Series 2007B and Series 2007C (collectively the “2007 TSFC Bonds”) on June 27, 2007. The Series 2007A Bonds and the Series 2007B Bonds are currently outstanding. The 2007 TSFC Bonds were issued to pay the cash portion of the purchase price for certain residual tobacco assets.

At its meeting on July 15, 2014, the TSFC Board approved resolutions authorizing an additional 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 outstanding 2002A TSFC Bonds (the 2002B TSFC Bonds were no longer outstanding); 3) to fund the open market purchase of certain maturities of the 2007 TSFC Bonds accepted for purchase by the TSFC; 4) to make deposits to the debt service reserve accounts with respect to such bonds and 5) to pay related costs of issuance of such bonds. On August 4, 2014, a holder of certain 2002 TSFC Bonds and certain 2007 TSFC Bonds and related entities filed a complaint in Rhode Island Superior Court contending that the proposed transaction would

violate State law and provisions in the indenture governing the 2007 TSFC Bonds. The TSFC filed an answer on August 25, 2014 asserting that State law enacted by the General Assembly authorized this transaction and that provisions of the indenture governing the 2007 TSFC Bonds were being followed as required, and filed a counterclaim for damages. The parties subsequently settled and on March 19, 2015, a stipulation of dismissal with prejudice and withdrawal of appeal were filed with the court. As a result, the TSFC proceeded with the transaction, which closed on March 19, 2015 with the issuance of the TSFC's \$620,935,000 Tobacco Settlement Asset-Backed Bonds, Series 2015A and Series 2015B (collectively, the "2015 TSFC Bonds" and collectively with the 2007 TSFC Bonds, the "TSFC 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.

TSFC Bonds are secured solely by and are payable solely from the tobacco receipts sold to TSFC and other monies of TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof, other than the TSFC. Combined, there was \$695,645,586 of principal outstanding, or \$786,269,586 including accreted interest, on the TSFC Bonds as of June 30, 2016.

On March 24, 2017, the Rhode Island Attorney General announced that his office had reached a settlement in principle with various tobacco companies over disputed payments relating to the MSA for years 2004 through 2014. The settlement would result in projected transfers to the TSFC of \$50.7 million. Of this amount, pursuant to the indentures governing the 2007 TSFC Bonds, the State is entitled to 30% of the disputed payments on deposit as of the date of issuance of the 2015 TSFC Bonds. The remaining 70% of this portion of the disputed payments will be used to pay down a portion of the outstanding 2007 TSFC Bonds. The disputed payments deposited subsequent to the date of issuance of the 2015 TSFC Bonds will be applied to the payment of 2015 TSFC Bonds in accordance with the terms of the indenture governing the 2015 TSFC Bonds. The amount on deposit in the disputed payment account as of the date of issuance of the 2015 TSFC Bonds is estimated at \$38.3 million, of which approximately \$11.5 million will be paid to the State and \$26.8 million will be used to redeem a portion of the 2007 TSFC Bonds. Disputed payments made after the issuance of the 2015 TSFC Bonds is estimated at \$12.4 million, all of which will be applied to the redemption of a portion of the 2015 TSFC Bonds. Also as part of the settlement, the bondholders are projected to receive an additional \$20.0 million over the next five years from monies that would otherwise have likely been deposited in the disputed payment account. The settlement is also expected to reduce the expected final redemption date of the 2007 TSFC Bonds.

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, et al.), Rhode Island Brotherhood of Correctional Officers (R.I.G.L. §28-9.7-1, et al.), and E911 Employees (R.I.G.L. §28-9.6-1, et al.) have specific statutory authority to proceed to arbitration on all matters, including the just settlement of wage or hour disputes.

As of March 2017 the State had 14,849 paid employees. This equates to approximately 13,850 full-time equivalent positions. Of this amount, 11,211 employees organized in numerous unions represented by various collective bargaining units, the largest of which is the American Federation of State, County and Municipal Employees, Council 94. This union represents approximately 3,806 employees, or 33.9 percent of total organized

State employees. Several other major bargaining groups are represented by the Rhode Island Alliance of Social Service Employees, Local 580 (752 employees); the Rhode Island Brotherhood of Correctional Officers (1,059 employees); the American Association of University Professors (743 employees) to name a few. In addition, there are 3,638 non-union employees. As of March 2017, there were 13,850 FTE positions filled, 1,102 less than the authorized amount in the FY 2017 Enacted Budget.

As of March 2017, twelve of the fifteen parent unions representing various local bargaining units within their respective organizations 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 was a wage reopener in the fourth and final year of the contract term, which did not result in any additional increase in wages. 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 decreased 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. The State and the various unions representing certain State employees will commence negotiations on a new contract on or about April 2017.

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 completing negotiations with the State and a draft agreement has been circulated. The RI Brotherhood of Correctional Officers and the State engaged in Interest Arbitration in May 2016, (the RIBCO Professional Unit has ratified a new contract as described above), which resulted in an agreement which has been ratified resulting in salary increases of two percent (2%) effective July 1, 2012, two percent (2%) effective July 1, 2013, two percent (2%) effective July 1, 2014, two percent (2%) effective July 1, 2015 and two and one quarter percent (2.25%) effective January 1, 2017. 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 five-year average investment return of the aggregate funds with a maximum adjustment of 4% and a minimum adjustment of 0.0%. 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 1.0% 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 5.0% employee contribution and 1.0% employer contribution. For teachers not participating in Social Security, the defined contribution plan required a 7.0% 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, 2016 actuarial valuation are approximately \$4.63 billion and \$442.2 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, 2016 is 56% for State employees and 58.3% 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, 50 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.

Subsequently, 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 were filed from the July 8, 2015 judgments. Four *pro se* appeals were 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, filed four appeals with respect to that judgment. Seventy retirees, through counsel, filed an appeal with respect to the judgment in *Clifford v. Chafee*, KC 14-0345. Three of the nine appeals were dismissed by the Supreme Court. The State intends to vigorously defend the remaining six appeals. 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 has moved to dismiss all counts in the Plaintiffs complaint and, on March 7, 2017, the Court granted the State's motion and dismissed Counts I, II and III without prejudice and Count IV with prejudice. The Plaintiff's have filed an appeal with the United States Court of Appeals for the First Circuit. The State intends to vigorously defend the case on appeal.

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. There is no trial date set.

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 a cost of \$6,103,401 as of June 30, 2016. Effective July 1, 2012, active judges in the pay-as-you-go system are contributing 12.0% 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 2017 Budget and recommended FY 2018 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-as-you-go basis and have a cost of \$17,500,457 at June 30, 2016 and is estimated to be a similar amount in fiscal year 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 was 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 appropriations act stipulated actuarially appropriate contributions based on an eighteen (18) year funding period beginning July 1, 2015, plus the initial supplemental contribution from the State to start the Trust. The trust has been established as of June 30, 2016 and the \$15.0 million seed money from the Google Settlement, as well as the first installment of \$16.4 million was deposited into the trust in July 2016. Future annual payments will be made with general revenue until the Trust Fund is fully funded in approximately 18 years.

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, 2016 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, 2016 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"). Management comments resulting from the 2016 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.

In 2016 the Commission performed an asset and liability review that resulted in the adoption of a new set of investment asset allocation targets for the Plans’ assets, approved by the Commission in September 2016. The new asset allocation targets include the elimination of the Equity Hedge Fund allocation (previously targeted at 8% of the portfolio), and a reduction to Core Fixed Income from 15% to 11.5%. The new targeted asset allocation adopted by the SIC also includes the introduction of four new functional strategies to the portfolio. Many of the existing asset classes are now under these new functional strategies. The new strategies include: a “Crisis Protection Class” that is designed to appreciate in value during times of economic distress, a “Private Growth Class” which will focus on illiquid assets that target returns driven by capital appreciate with an illiquidity premium, an “Inflation Protection Class” which will provide returns that are correlated with inflation, and an “Income Class” that includes assets with returns driven by a cash yield component. The Crisis Protection Class will be comprised of long-duration fixed income securities backed by the full faith and credit of the United States Treasury, and trend-following strategies, and is targeted to be 8% of the total portfolio. The Private Growth Class which includes opportunistic credit, non-core real estate and an increased exposure to private equity will have a target allocation of 15%. The “Inflation Class” which will include bank loans, TIPs, and core real estate will target 10%. The Income Class, which will include Master Limited Partnerships, other liquid high yielding securities and private credit, is targeted to be 6% of the portfolio. The implementation of the new asset allocation is currently underway, and the new targets are expected to be met gradually over the next 3-5 years.

Table R-1 sets forth the asset allocation targets approved by the Commission in September 2016 and the actual percentage and fair value of the assets in the portfolio at December 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

	Old Policy Targets	New Policy Targets	Actual Allocation	Valuation (Millions)
Global Equity	38.0%	40.0%	45.7%	\$ 3,511
Equity Hedge Funds	8.0%	0.0%	3.9%	\$ 297
Private Growth*	0.0%	15.0%	8.2%	\$ 626
Private Equity	7.0%	0.0%	0.0%	-
Core Fixed Income	15.0%	11.5%	12.7%	\$ 974
Absolute Return Funds*	7.0%	6.5%	10.2%	\$ 783
Crisis Risk Offset	0.0%	8.0%	0.0%	-
Income Class**	0.0%	6.0%	3.0%	\$ 231
Inflation Protection***	0.0%	10.0%	15.3%	\$ 1,196
Credit and Inflation Protected Securities	9.0%	0.0%	0.0%	-
Infrastructure	5.0%	0.0%	0.0%	-
Real Estate	8.0%	0.0%	0.0%	-
Cash, Overlay and Money Market	3.0%	3.0%	0.8%	\$ 60
TOTAL	100%	100%	100%	\$ 7,679

* Private Growth includes Private Equity, Opportunistic Credit and Non-Core Real Estate

** Income Class includes Private Credit, MLPs and Liquid High Yield Credit

*** Inflation Protection includes Core Real Estate, Infrastructure, Bank Loans and TIPs

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, 2016 Actuarial Valuation.

**TABLE R-2
MEMBERSHIP AND MEMBER CONTRIBUTIONS**

	<u>Retirees and Beneficiaries</u>	<u>Active</u>	<u>Inactive</u>	<u>Total by Plan</u>	<u>Member Contributions (As A Percentage of Salary-<i>effective</i> 7/1/12)</u>
ERS State Employees	11,058	11,083	3,071	25,212	3.75%*
ERS Teachers	<u>11,087</u>	<u>13,206</u>	<u>3,313</u>	<u>27,606</u>	3.75%*
Total By Type	22,145	24,289	6,384	52,818	

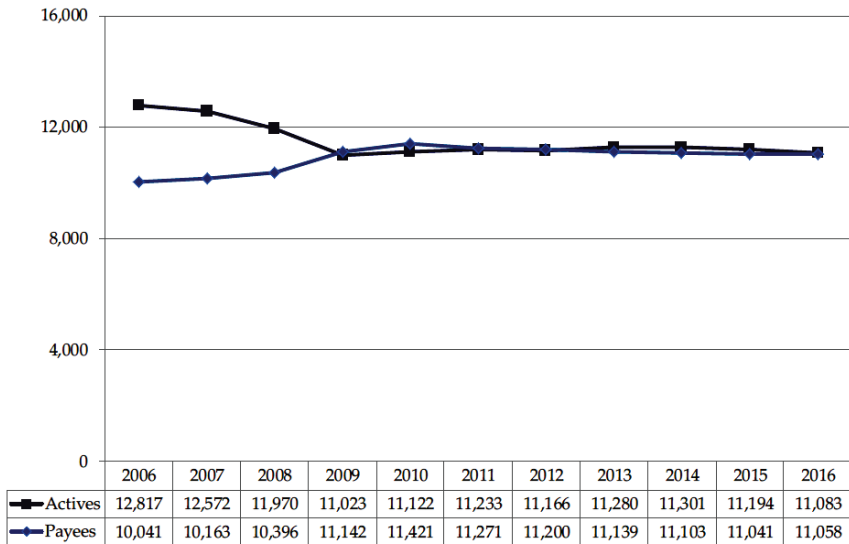
Source: ERSRI Actuarial Valuation Report as of June 30, 2016 (Executive Summary, pages 3-4).

*11% for member that had a minimum of 20 years of service at June 30, 2012.

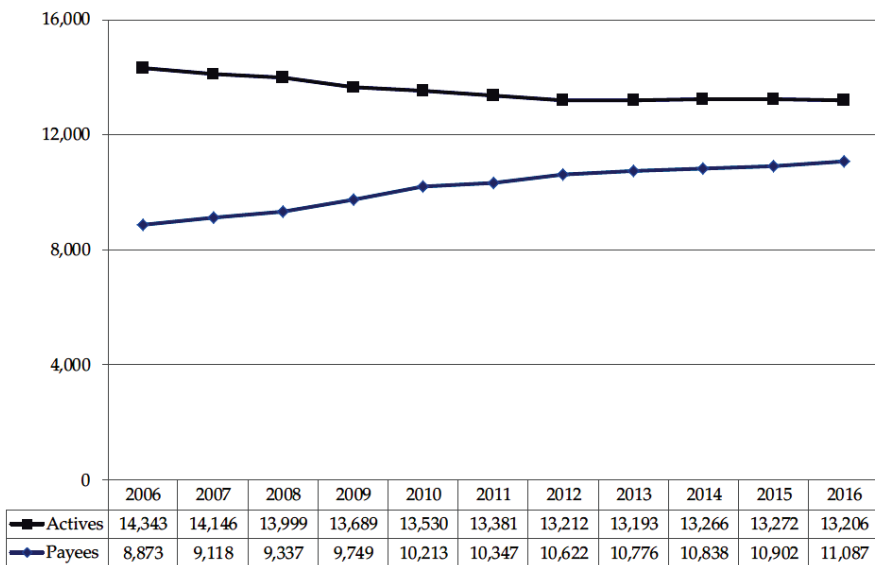
Table R-2 demonstrates a growing concern with respect to State employees and teachers. For State employees, there are now nearly as many retirees and beneficiaries as active members. For teachers, there are still more active members than retirees and beneficiaries, but current trends indicate a likelihood 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 2006 through 2016.

**CHART R-1
MEMBERSHIP TRENDS
STATE EMPLOYEES**



TEACHERS



Source: ERSRI Actuarial Valuations as from June 30, 2006 to June 30, 2016 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 24.0% of salary in FY 2017.

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. The Retirement Board is currently in the process of conducting a new experience study that will include a re-evaluation of all actuarial assumptions governing the pension system. The Retirement Board is expected to consider adoption of updated assumptions at its May 2016 meeting. 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 2016, 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, 2016 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, 2016
1. Market value of assets at beginning of year (prior to adjustment)	\$ 2,428,989,395
2. Net new investments	
a. Contributions	\$ 200,685,239
b. Benefits paid	(333,637,199)
c. Refunds	(3,901,219)
d. Transfers	(249,302)
e. Subtotal	(137,102,481)
3. Market value of assets at end of year	\$ 2,288,446,139
4. Net earnings (3-1-2) (includes misc revenues)	\$ (3,440,775)
5. Assumed investment return rate for fiscal year	7.50%
6. Expected return	\$ 177,032,862
7. Excess return (4-6)	\$ (180,473,637)
8. Development of amounts to be recognized as of June 30, 2016:	

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)
2012	\$ 0	\$ 0	\$ 0	1	\$ 0	\$ 0
2013	0	0	0	2	0	0
2014	0	0	0	3	0	0
2015	(47,495,932)	0	(47,495,932)	4	(11,873,983)	(35,621,949)
2016	(180,473,637)	0	(180,473,637)	5	(36,094,727)	(144,378,910)
Total	\$ (227,969,569)	\$ 0	\$ (227,969,569)		\$ (47,968,710)	\$ (180,000,859)

9. Actuarial value of assets as of June 30, 2016 (Item 3 - Item 8)	\$ 2,468,446,998
10. Ratio of actuarial value to market value	107.9%

*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, 2016 (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, 2016																																																								
1.	Market value of assets at beginning of year	\$ 3,730,047,183																																																								
2.	Net new investments																																																									
	a. Contributions	\$ 276,027,881																																																								
	b. Benefits paid	(488,062,120)																																																								
	c. Refunds	(2,405,021)																																																								
	d. Transfers	252,229																																																								
	e. Subtotal	(214,187,031)																																																								
3.	Market value of assets at end of year	\$ 3,510,586,538																																																								
4.	Net earnings (3-1-2) (includes misc revenues)	\$ (5,273,614)																																																								
5.	Assumed investment return rate for fiscal year	7.50%																																																								
6.	Expected return	\$ 271,721,525																																																								
7.	Excess return (4-6)	\$ (276,995,139)																																																								
8.	Development of amounts to be recognized as of June 30, 2016:																																																									
	<table style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="text-align: left;">Fiscal Year End</th> <th style="text-align: center;">Remaining Deferrals of Excess (Shortfall) of Investment Income*</th> <th style="text-align: center;">Offsetting of Gains/(Losses)</th> <th style="text-align: center;">Net Deferrals Remaining</th> <th style="text-align: center;">Years Remaining</th> <th style="text-align: center;">Recognized for this valuation</th> <th style="text-align: center;">Remaining after this valuation</th> </tr> <tr> <th></th> <th style="text-align: center;">(1)</th> <th style="text-align: center;">(2)</th> <th style="text-align: center;">(3) = (1) + (2)</th> <th style="text-align: center;">(4)</th> <th style="text-align: center;">(5) = (3) / (4)</th> <th style="text-align: center;">(6) = (3) - (5)</th> </tr> </thead> <tbody> <tr> <td>2012</td> <td style="text-align: right;">\$ 0</td> <td style="text-align: right;">\$ 0</td> <td style="text-align: right;">\$ 0</td> <td style="text-align: center;">1</td> <td style="text-align: right;">\$ 0</td> <td style="text-align: right;">\$ 0</td> </tr> <tr> <td>2013</td> <td style="text-align: right;">0</td> <td style="text-align: right;">0</td> <td style="text-align: right;">0</td> <td style="text-align: center;">2</td> <td style="text-align: right;">0</td> <td style="text-align: right;">0</td> </tr> <tr> <td>2014</td> <td style="text-align: right;">0</td> <td style="text-align: right;">0</td> <td style="text-align: right;">0</td> <td style="text-align: center;">3</td> <td style="text-align: right;">0</td> <td style="text-align: right;">0</td> </tr> <tr> <td>2015</td> <td style="text-align: right;">(53,553,870)</td> <td style="text-align: right;">0</td> <td style="text-align: right;">(53,553,870)</td> <td style="text-align: center;">4</td> <td style="text-align: right;">(13,388,468)</td> <td style="text-align: right;">(40,165,402)</td> </tr> <tr> <td>2016</td> <td style="text-align: right;">(276,995,139)</td> <td style="text-align: right;">0</td> <td style="text-align: right;">(276,995,139)</td> <td style="text-align: center;">5</td> <td style="text-align: right;">(55,399,028)</td> <td style="text-align: right;">(221,596,111)</td> </tr> <tr> <td>Total</td> <td style="text-align: right; border-top: 1px solid black;">\$ (330,549,009)</td> <td style="text-align: right; border-top: 1px solid black;">\$ 0</td> <td style="text-align: right; border-top: 1px solid black;">\$ (330,549,009)</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">\$ (68,787,496)</td> <td style="text-align: right; border-top: 1px solid black;">\$ (261,761,513)</td> </tr> </tbody> </table>	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)	2012	\$ 0	\$ 0	\$ 0	1	\$ 0	\$ 0	2013	0	0	0	2	0	0	2014	0	0	0	3	0	0	2015	(53,553,870)	0	(53,553,870)	4	(13,388,468)	(40,165,402)	2016	(276,995,139)	0	(276,995,139)	5	(55,399,028)	(221,596,111)	Total	\$ (330,549,009)	\$ 0	\$ (330,549,009)		\$ (68,787,496)	\$ (261,761,513)	
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)																																																				
2012	\$ 0	\$ 0	\$ 0	1	\$ 0	\$ 0																																																				
2013	0	0	0	2	0	0																																																				
2014	0	0	0	3	0	0																																																				
2015	(53,553,870)	0	(53,553,870)	4	(13,388,468)	(40,165,402)																																																				
2016	(276,995,139)	0	(276,995,139)	5	(55,399,028)	(221,596,111)																																																				
Total	\$ (330,549,009)	\$ 0	\$ (330,549,009)		\$ (68,787,496)	\$ (261,761,513)																																																				
9.	Actuarial value of assets as of June 30, 2016 (Item 3 - Item 8)	\$ 3,772,348,051																																																								
10.	Ratio of actuarial value to market value	107.5%																																																								

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

Source: ERSRI Actuarial Valuation Report as of June 30, 2016 (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, 2016, the UAAL for State employees was \$1,935,851,650 and the Actuarial Funded Ratio went from 56.6% to 56.0%. As of June 30, 2016, the UAAL for teachers was \$2,694,130,419 and the Actuarial Funded Ratio went from 58.8% to 58.3%.

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								
6/30/2007	\$ 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%
6/30/2016	2,468,446,998	4,404,298,648	1,935,851,650	56.0	693,242,177	279.2	2,288,446,139	51.9%
TEACHERS								
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%
6/30/2016	3,772,348,051	6,466,478,470	2,694,130,419	58.3	1,009,979,725	266.8	3,510,586,538	54.3%

Source: For fiscal years 2007-2010, see ERSRI Actuarial Valuation Report as of June 30, 2010 (Section C – Table 3, page 15). For fiscal years 2011-2016, see ERSRI Actuarial Valuation Report as of June 30th, Section C-Table 4. 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)								
6/30/2006	\$ 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%
6/30/2016	123,788,498	135,505,152	11,716,654	91.4%	22,555,315	51.9%	116,316,582	85.8%
JRBT (JUDGES)								
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%
6/30/2016	64,401,616	65,287,527	885,911	98.6%	9,034,080	9.8%	60,418,485	92.5%

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 years 2013-2016, see JRBT Actuarial Valuation Report as of June 30, 2016 (Schedule of Funding Progress (as required by GASB 25), page 11) and SPRBT Actuarial Valuation Report as of June 30, 2016 (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 State's calculated contribution rates for State employees and teachers as of June 30, 2016. 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)

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
	(1)	(2)
1. Aggregate payroll		
(a) Supplied by ERSRI for previous fiscal year	\$ 671,420,995	\$ 669,787,489
(b) Adjusted for one-year's payroll growth	693,242,177	691,555,582
2. Actuarial accrued liability	4,404,298,648	4,371,789,900
3. Actuarial value of assets	2,468,446,998	2,476,485,327
4. Unfunded actuarial accrued liability (UAAL) (2 - 3)	1,935,851,650	1,895,304,573
5. Remaining amortization period at valuation date	19.1	20.0
6. Contribution effective for fiscal year ending:	June 30, 2019	June 30, 2018
7. Payroll projected for two-year delay	739,035,156	737,237,151
8. Amortization of UAAL	157,945,514	149,555,558
9. Normal cost		
(a) Total normal cost rate	8.59%	8.79%
(b) Employee contribution rate	4.21%	4.21%
(c) Employer normal cost rate (a - b)	4.38%	4.58%
10. Employer contribution rate as percent of payroll		
(a) Employer normal cost rate	4.38%	4.58%
(b) Amortization payments (8 / 7)	21.37%	20.29%
(c) Total (a + b)	25.75%	24.87%
11. Estimated employer contribution amount (7 * 10(c))	\$ 190,301,553	\$ 183,350,879

Source: ERSRI Actuarial Valuation Report as of June 30, 2016 (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)

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
	(1)	(2)
1. Aggregate payroll		
(a) Supplied by ERSRI for previous fiscal year	\$ 980,562,840	\$ 966,985,115
(b) Adjusted for one-year's payroll growth	1,009,979,725	995,994,669
2. Actuarial accrued liability	6,466,478,470	6,438,732,100
3. Actuarial value of assets	3,772,348,051	3,783,601,053
4. Unfunded actuarial accrued liability (UAAL) (2 - 3)	2,694,130,419	2,655,131,047
5. Remaining amortization period at valuation date	21.2	22.3
6. Contribution effective for fiscal year ending:	June 30, 2019	June 30, 2018
7. Payroll projected for two-year delay	1,071,487,490	1,056,650,744
8. Amortization of UAAL	208,032,616	199,489,698
9. Normal cost		
(a) Total normal cost rate	7.84%	8.00%
(b) Employee contribution rate	<u>3.75%</u>	<u>3.75%</u>
(c) Employer normal cost rate (a - b)	4.09%	4.25%
10. Employer contribution rate as percent of payroll		
(a) Employer normal cost rate	4.09%	4.25%
(b) Amortization payments (8 / 7)	<u>19.42%</u>	<u>18.88%</u>
(c) Total (a + b)	23.51%	23.13%
11. Estimated employer contribution amount (7 * 10(c))	\$ 251,906,709	\$ 244,403,317

Source: ERSRI Actuarial Valuation Report as of June 30, 2016 (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
2016	159,534,421	100	87,997,637	100	137,571,919	100

Source: For fiscal years 2015-2016, see Audited Financial Statements of ERSRI for the Fiscal Year ended June 30, 2016 (Required Supplementary Information, Schedules of Employer and Other Non-Employer Entity Contributions, page 55). 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,	Fiscal Year Ending June 30,	Employer Contribution Rate
(1)	(2)	(3)
<i>State Employees</i>		
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%
2016	2019	25.75%
<i>Teachers</i>		
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%
2016	2019	23.51%

¹ Restated after adopting the amendment of Article 7.

² Restated after adopting the amendment of Article 16.

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

⁴ Restated after adopting the amendment of Article 21.

The following table provides an analysis of the change in the employer ARC from the June 30, 2015 Actuarial Valuation to the June 30, 2016 Actuarial Valuation:

TABLE R-12
ANALYSIS OF CHANGE IN EMPLOYER COST

Basis	State Employees	Teachers
(1)	(2)	(3)
1. Employer contribution rates from prior valuation	24.87%	23.13%
2. Impact of changes, gains and losses		
a. Non-economic liability experience (gain)/loss	0.03%	(0.10%)
b. Salary (gain)/loss	(0.18%)	(0.18%)
c. Total payroll growth (gain)/loss	0.72%	0.38%
d. Investment experience (gain)/loss	0.60%	0.59%
e. Actual COLA (0.74%)	(0.29%)	(0.31%)
f. Changes in assumptions/methods	0.00%	0.00%
g. Changes in plan provisions	0.00%	0.00%
h. Total	0.88%	0.38%
3. Employer contribution rates from current valuation	25.75%	23.51%

Source: ERSRI Actuarial Valuation Report as of June 30, 2016 (Section C - Table 11A, page 26).

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

**TABLE R-13
PROSPECTIVE FUNDING STATUS (ERS)⁽¹⁾**

Actuarial Valuation Date	Actuarial Value of Assets (in Millions \$) (a)	Actuarial Accrued Liability (AAL) (in Millions \$) (b)	Unfunded AAL (UAAL) (in Millions \$) (b-a)	Actuarial Funded Ratio (a / b)	Annual Required Contribution (ARC) (in Millions \$)	Market Value of Assets (in Millions \$) (d)	Funded Ratio at Market Value (d / b)
STATE EMPLOYEES							
6/30/2016	\$2,468.40	\$4,404.30	\$1,935.90	56.00%	\$175.70	\$2,288.40	52.00%
6/30/2017	2,457.40	4,449.70	1,992.30	55.20%	178.0	2,325.40	52.30%
6/30/2018	2,442.60	4,488.10	2,045.50	54.40%	190.3	2,358.50	52.60%
6/30/2019	2,440.20	4,525.60	2,085.40	53.90%	198.2	2,404.10	53.10%
6/30/2020	2,455.80	4,559.80	2,104.00	53.90%	205.6	2,455.80	53.90%
6/30/2021	2,515.60	4,575.90	2,060.30	55.00%	213.6	2,515.60	55.00%
6/30/2022	2,579.40	4,600.70	2,021.30	56.10%	223.0	2,579.40	56.10%
6/30/2023	2,653.10	4,622.50	1,969.40	57.40%	229.6	2,653.10	57.40%
6/30/2024	2,735.90	4,642.90	1,907.00	58.90%	238.1	2,735.90	58.90%
6/30/2025	2,830.80	4,665.20	1,834.40	60.70%	244.8	2,830.80	60.70%
TEACHERS							
6/30/2016	\$3,772.30	\$6,466.50	\$2,694.20	58.30%	\$233.60	\$3,510.60	54.30%
6/30/2017	3,737.40	6,520.80	2,783.40	57.30%	240.6	3,544.40	54.40%
6/30/2018	3,709.60	6,575.60	2,866.00	56.40%	251.9	3,585.40	54.50%
6/30/2019	3,699.20	6,636.70	2,937.50	55.70%	265.1	3,643.80	54.90%
6/30/2020	3,718.60	6,700.00	2,981.40	55.50%	277.6	3,718.60	55.50%
6/30/2021	3,812.30	6,742.90	2,930.60	56.50%	289.9	3,812.30	56.50%
6/30/2022	3,917.00	6,804.90	2,887.90	57.60%	301.8	3,917.00	57.60%
6/30/2023	4,039.50	6,868.70	2,829.20	58.80%	307.1	4,039.50	58.80%
6/30/2024	4,175.40	6,936.00	2,760.60	60.20%	315.0	4,175.40	60.20%
6/30/2025	4,327.20	7,010.20	2,683.00	61.70%	323.0	4,327.20	61.70%

Source: The figures in Table R-13 were calculated for ERSRI by the Actuary.

(1) The ERS is projected to be 100% funded as of June 30, 2036. These figures assume the accuracy of all actuarial calculations and that the State continues to contribute 100% of the ARC

Actuarial Assumptions

General

The Actuarial Valuations use actuarial assumptions to calculate the Actuarial Accrued Liability and the Actuarial Value of Assets. Although the majority of the assumptions are the same across all of ERSRI, the Retirement Board separately determines certain assumptions for State employees and teachers unless a specific assumption is required by the RIGL. The actuarial cost method and the amortization period are set by the RIGL. The remaining assumptions are determined by the Retirement Board with the advice of the Actuary. While experience studies are performed regularly, no assurance can be given that any of the assumptions underlying the Actuarial Valuations will reflect the actual results experienced by the Plans, or that the assumptions will not be changed from time to time. Actual results can and almost certainly will differ as the actual experience deviates from the assumptions. Even seemingly minor deviations from the assumptions used to determine the value of a Plan's assets and liabilities can materially change the liabilities and contribution rates. Assumptions used can significantly impact the Actuarial Accrued Liability and the Actuarial Value of Assets reported. Certain of the assumptions used by ERSRI are summarized in Table R-14 below. For additional information on these assumptions, please refer to the Actuarial Valuations of the Plans, which are public documents and are available at ERSRI's website.

**TABLE R-14
CERTAIN ACTUARIAL ASSUMPTIONS AND METHODS USED BY ERSRI**

Item	State Employees	Teachers
Valuation date	June 30, 2016	June 30, 2016
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percentage, closed	Level percentage, closed
Remaining amortization period	19 years	21 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⁾ :	2.20%	2.20%

Source: ERSRI Actuarial Valuation Report as of June 30, 2016 (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 11 years due to the current funding level of the plans; however, an interim COLA will be granted in four-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 2016, 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.

The Retirement Board is currently in the process of conducting a new experience study that will include a re-evaluation of all actuarial assumptions governing the pension system. The Retirement Board is expected to consider adoption of updated assumptions at its May 2016 meeting.

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

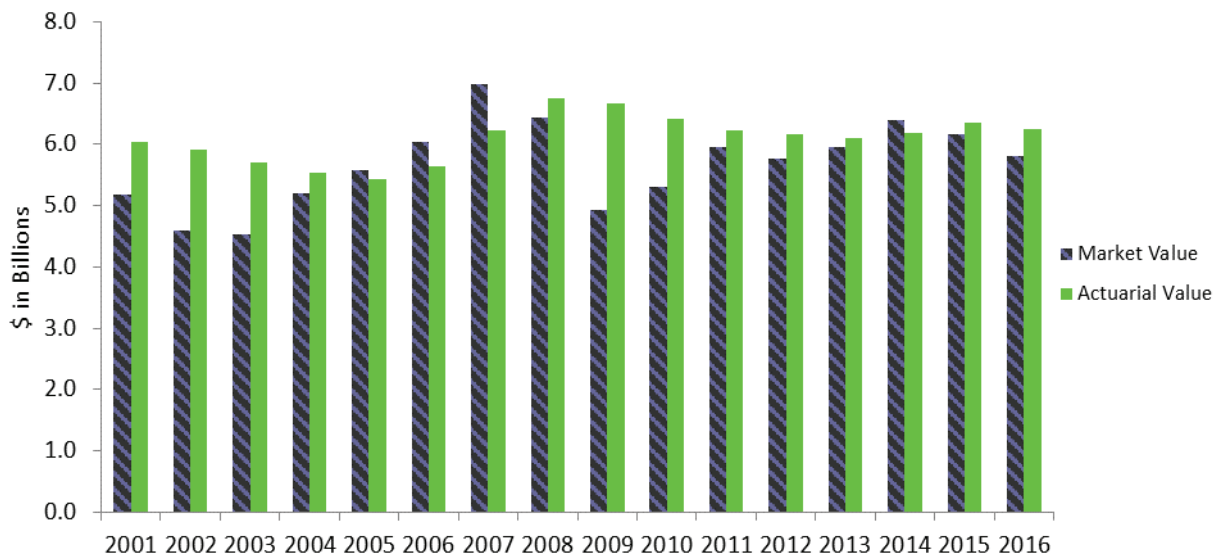
History of Investment Return Rates
(Net of Investment and Administrative Expenses)

Year Ending June 30 of	Market	Actuarial
(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%
2016	-0.2%	5.5%
Average Returns:		
Last 5 Years	5.7%	6.2%
Last 10 Years	4.8%	5.9%
Since 1995	6.9%	7.0%

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 2016.

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.

Subsequently, 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 were have been filed from the July 8, 2015 judgments. Four *pro se* appeals were 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, filed four appeals with respect to the judgment in *Clifford v. Chafee*, KC 14-0345. Three of the nine appeals were dismissed by the Supreme Court. The State intends to vigorously defend the remaining six appeals. 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 challenging the 2009 and 2010 pension reform. As in the challenge to the 2009-2010 reform, the parties filed motions to continue the trial until January 2016, which were denied, and the plaintiffs filed Petitions for Issuance of a Writ of Certiorari and Supporting Memorandum of Law with the Rhode Island Supreme Court, to which the Defendants joined. A conference was held with a single justice of the Rhode Island Supreme Court on March 2, 2015, and on March 5, 2015 the full court denied the petition.

On March 9, 2015, the court entered an order appointing former Rhode Island Supreme Court Chief Justice Frank J. Williams to serve as Master with duties, including "addressing all discovery issues, motions, and assisting the parties in narrowing and/or resolving disputed issues by agreement, subject to further approval by the Court." On April 2, 2015, the Special Master presented an interim report to the Court stating that a settlement has been reached in five of the nine consolidated pension cases. 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.

Subsequently, 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 were filed from the July 8, 2015 judgments. Four *pro se* appeals were 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. Three of the nine appeals were dismissed by the Supreme Court. The State intends to vigorously defend the remaining six appeals. 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 has moved to dismiss all counts in the Plaintiffs complaint and, on March 7, 2017, the Court granted the State's motion and dismissed Counts I, II and III without prejudice and Count IV with prejudice. The Plaintiff's have filed an appeal with the United States Court of Appeals for the First Circuit. The State intends to vigorously defend the case on appeal.

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. There is no trial date set.

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% contribution 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 remaining lawsuits. 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, 2016 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	\$ 4,410,709,110	\$ 2,288,446,139	\$ 2,122,262,971	51.9%
Teachers	6,494,164,064	3,510,586,538	2,983,577,526	54.1%
TSB	209,118,520	286,485,057	(77,366,537)	137.0%
State Police	125,557,246	116,316,582	9,240,664	92.6%
JRBT	66,951,367	60,418,485	6,532,882	90.2%
RIJRFT	21,631,112	533,525	21,097,587	2.5%
MERS				
General employees	1,143,357,181	901,383,814	241,973,367	78.8%
Police and fire	601,947,331	456,492,511	145,454,820	75.8%

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, (2.85%, 3.80% and 4.29% at June 30, 2016, 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. The analysis for the RIJRFT plan uses the municipal bond index rate of 2.85% to determine the net pension liability for the with a similar +1/-1% sensitivity analysis.

	Current		
	1.00% Decrease (6.50%)	Discount Rate (7.5%)	1.00% Increase (8.50%)
ERS - State employees	\$ 2,398,795,821	\$ 2,122,262,971	\$ 1,732,145,629
ERS - Teachers	\$ 3,684,457,175	\$ 2,983,577,526	\$ 2,409,802,443
TSB	\$ (55,612,638)	\$ (77,366,537)	\$ (95,169,057)
SPRBT	\$ 22,274,893	\$ 9,240,664	\$ (1,425,705)
JRBT	\$ 13,495,323	\$ 6,532,882	\$ 835,192
MERS - General Employees	\$ 363,727,901	\$ 241,973,367	\$ 142,312,004
MERS - Police and Fire	\$ 208,282,267	\$ 145,454,820	\$ 94,038,066
	Municipal Bond		
	1.00% Decrease (1.85%)	Index Discount Rate (2.85%)	1.00% Increase (3.85%)
RIJRFT	\$ 23,271,117	\$ 21,097,587	\$ 19,319,057

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, 2015 for these plans is \$266.1 million for the State Police Non-Contributory Retirement Plan and \$52 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, 2016 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 <i>Government Auditing Standards</i> ."
Retirement Board:	The State of Rhode Island Retirement Board
RIGL:	The State of Rhode Island General Laws
RIJRFT:	Rhode Island Judicial Retirement Fund Trust
SPRBT:	The State Police Retirement Benefits Trust
TSB	Teachers Survivor Benefits
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, 2015 (reports are updated every other year), the date of the latest valuation, was determined to be approximately \$647.5 million, including \$530.7 million for State employees, \$55.9 million for State Police, \$0 for Legislators, \$0 for Judges, \$54.5 million for Board of Education and \$6.4 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 2018 will be 5.98%, 34.89%, 4.36%, 0.81% and 0% (no rate for teachers), respectively.

Several changes were made in OPEB specific actuarial assumptions and methods between the June 30, 2013 and June 30, 2015 valuations (next valuation will be for the fiscal year ending June 30, 2017). Changes to the OPEB specific assumptions include a decrease in the wage inflation and long term health care cost inflation assumptions from 4.0 percent to 3.5 percent; changes to the anticipated rates of separation from active membership; rates of retirement and rates of disability. 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 11.0 percent to 13.8 percent.

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, 2015 valuation.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. These future revisions in actuarial assumptions could have a material effect on the unfunded actuarial accrued liability or actuarially required contribution in the future. In the event of material changes in the unfunded actuarial accrued liability with respect to retiree healthcare, there is no assurance that the State will be able to fund its actuarially required contributions in the future. In the event that the State is not able to fund such contributions, the State may be required to raise additional revenue, to reduce State services, to modify benefits, to implement a combination of the foregoing or take other necessary measures.

The total contributions made by the State and the other participating employees for retiree health care benefits were \$58.7 million in FY 2015 and \$53.4 million in FY 2016. 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 14 Other Post-Employment Benefits to the State's audited financial statements for the FY 2016.

FINANCIAL OVERSIGHT OF LOCAL GOVERNMENTS

General

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 consisted 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. Up until the Commission's final recommendation report released in January 2015, all municipalities that had a pension plan in critical status had submitted a Funding Improvement Plan to the Commission. All Funding Improvement Plans were reviewed by the Commission through January 2015.

On January 9, 2015, the Commission issued its final report to the Governor and General Assembly. According to the executive summary, 22 plans were still in critical status, but as of February 2017, this number has decreased to 18, based on an analysis by the Division of Municipal Finance. The Division of Municipal Finance continues to monitor all local plans and receives report submissions. Please Note that Central Falls was not required 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 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 had 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.

In June 2016, the General Assembly enacted legislation establishing an advisory council for oversight and reporting on the status of locally administered pension plans.

The advisory council consists of the General Treasurer, serving as the chairperson; the auditor general; a representative of organized labor appointed by the governor; a representative of the Rhode Island League of Cities and Towns; and the Director of Revenue or his designee from the Division of Municipal Finance.

On or before April 30 of each year, the advisory council is required to provide the Governor and both chambers of the general assembly an annual report "performance dashboard" of all pension plans used by either the State or any municipality or municipal employees. For each plan, the dashboard must include fund performance for each plan's most recently completed and previous five (5) and ten (10) fiscal years, the total percentage of the plan that is funded the percentage of administrative costs of the fund as measured against the fund's assets, the assumed and projected rates of return for the funds, and the municipality's capacity to pay the required funding payment as a percentage of their tax levy ratio.

The report will be accompanied by an opinion prepared by the General Treasurer regarding the sustainability of each plan and any potential areas of concern.

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 2017 enacted budgets, as well as the Governor's FY 2018 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 2017, not including aid to State-operated schools, the State appropriated \$84.95 million in education aid to local school districts and charter schools through the funding formula (\$875.9 million with the inclusion of formula aid to 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 eight 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. 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, 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), density aid support for Local Education Authorities (LEAs or districts) which send more than 5.0 percent of their total enrollment to schools of choice, and support for English Learners (ELs) for new and innovative programs. Existing permanent bonuses for regionalized school districts will be replaced with temporary bonuses that phase out over two years. Lastly, the State will finance Stabilization Funds for the William M. Davies Vocational Technical School (Davies), the Metropolitan Career and Technical School (Met School), and the Central Falls School Department from the City of Central Falls (currently, the State pays 100 percent of the local contribution for Central Falls). These Stabilization Funds will restore the State aid reduced due to the ten-year transition of the funding formula. The State appropriated \$31.0 million for these categories in FY 2017.

There are also a handful of aid categories still being funded that pre-date the funding formula. In the FY 2017 Budget, State general aid support of \$6.3 million is provided for internet access, administering the school breakfast program, textbooks for non-public schools, implementation of full day kindergarten, aid to the State's recovery high school, 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 would appropriate \$80.0 million for this category in the FY 2018 recommended budget. In addition, the FY 2016 enacted budget included \$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 would be provided approximately \$2.3 million in the FY 2018 recommended budget to provide aid to cities and towns 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 Governor's recommended FY 2018 budget includes \$100.7 million in state share contribution based on projected FY 2018 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 2017, 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 2018 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 2017 enacted budget includes \$42.0 million for this program. The Governor's FY 2018 proposed budget includes an amount of \$45.2 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 2017: Central Falls, Cranston, East Providence, North Providence, Pawtucket, Providence, West Warwick and Woonsocket. In the Governor's FY 2018 proposed budget, the following municipalities qualify to receive funds from the Distressed Communities Relief Fund: Central Falls, Cranston, Johnston, North Providence, Pawtucket, Providence, West Warwick, and Woonsocket. Since Johnston is newly qualifying for the program in FY 2018, they shall be paid 50 percent of current law requirements the first year it qualifies. The City of Cranston is falling out of the program in FY 2018. 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 has increased to \$12.4 million in the FY 2017 revised and FY 2018 proposed Budgets.

State library aid provides financial support for local public library services and for the construction and capital improvement of any free public library. A portion of library aid is disbursed directly to local libraries, including private libraries, while other aid is disbursed to the individual cities and towns. Appropriations of \$9.4 million are included in the FY 2018 proposed budget.

Rhode Island also distributes to communities the proceeds of a State-wide tax imposed on the tangible personal property of telephone, telegraph, cable, express and telecommunications companies. For the FY 2017 revised budget and in the FY 2018 proposed budget, an amount of \$13.6 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 2018, the meals and beverage tax is estimated at \$28.9 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 2018, an amount of \$10.7 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 2018.

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. There were no funds appropriated in FY 2017 or in the Governor’s proposed FY 2018 budget.

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 was not eligible for incentive aid for FY 2015 because the Town did not fund 100 percent of its ARC as required by the guidelines established by the Pension Study Commission. Johnston's FY 2015 share of \$136,438 has been allocated to the 38 qualifying municipalities in May 2016.

The FY 2016 Municipal Incentive Aid Program cost was budgeted at five million dollars in accordance with RIGL § 45-13 .2-6. All communities except the Town of Johnston were eligible and have received the funds appropriated. The above cited law was amended to allow a municipality not meeting the eligibility requirements in the current fiscal year to be eligible to receive the appropriated funds in the following fiscal year, provided the municipality satisfied the eligibility requirements of both the prior and current fiscal years. The total allocation for the Town of Johnston for FY 2016 was \$137,340. In the event that the Town of Johnston fails to satisfy the eligibility requirement by March 2017, then the amount that would have been distributed to that municipality will be distributed in May 2017 among the municipalities that received a distribution in the prior fiscal year, with the share being calculated in the same manner as distributions were calculated in the prior fiscal year.

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 enacted in 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 provides that the Superior Court has only limited jurisdiction to ratify certain actions taken prior to the enactment of the legislation upon the request of the Director of Revenue and to take such further actions as may be necessary to ensure an orderly transition. When the Director of Revenue abolishes a fiscal overseer, budget commission or 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 is 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 then appoint one of those individuals for a period of not more than five (5) years as the officer who shall be responsible for the department of administration and finance. The appointment and removal of said officer must be approved in writing by the Division of Municipal Finance. The Fiscal Stability Act applied retroactively to May 15, 2010. 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 – are 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 is shared 50/50 by the State and the municipality. 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. 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.

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 that a member of a town or city council 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 the filing of a Chapter 9 bankruptcy, the director of information technology and the director of human resources for the municipality 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 Fiscal Stability Act 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 has 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 those five years.

Also, as a result of the agreement with the retirees, the City's five-year budget plan contained 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 cost of this position.

One litigation matter relating to the Central Falls receivership and bankruptcy remains pending. In a decision by the Rhode Island Superior Court in June, 2015, that court held that the City of Central Falls was liable to indemnify certain elected officials for their reasonable attorney's fees and expenses that were incurred as a result of their legal challenge to the Fiscal Stability Act. The City of Central Falls then filed a motion in the United States Bankruptcy Court for the District of Rhode Island seeking a determination that those elected officials were barred from collecting on their indemnification claims against the City because they had failed to timely file proofs of claim in the Chapter 9 case as required by federal bankruptcy law. The federal bankruptcy court entered an order on November 12, 2015 holding that the indemnification claims of the elected officials were discharged. Thereafter the elected officials sought an order from the Rhode Island Superior Court requiring that the elected officials' attorney's fees and expenses be paid by the State of Rhode Island. Counsel for the State has vigorously denied that the state has any legal obligation to indemnify the elected officials for those fees and expenses and has vigorously defended against those claims. The matter was briefed by the parties in the summer of 2016. The parties are awaiting a decision from the Superior Court with respect to this matter. An appeal of the Superior Court decision to the Rhode Island Supreme Court is likely regardless of which side prevails.

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, is projected to 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 recognized a \$10.28M operating surplus in FY 2016 and as a result reduced their cumulative deficit to \$3.16M. The City has budgeted additional deficit reduction contributions in FY 2017 and the City expects to have an operating surplus by the end of FY 2017. According to the Division of Municipal Finance, progress on these operating measures, the City still faces an unfunded liability for its locally-administered pension plan of roughly \$1 billion and for its OPEB liability of another \$1 billion. Such structural challenges without tangible long term solutions remain a concern for the State.

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 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.

In the enacted FY 2017 Budget, Article 8 made various amendments to State law impacting municipalities. It implemented a municipal transparency portal and made changes to municipal data reporting, amending R.I. General Laws §45-12-22.2 and §44-35-10. The intent of this legislation 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 amendments to the law include that 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" is 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 enacted FY 2017 Budget, as part of the annual audited financial statements of a municipality, a municipal data report will be submitted by the municipality through the use of the transparency portal. The data are included in the municipality's financial statements as supplementary information.

All budget-to-actual financial information, municipal data report, and reports required pursuant to the provisions of §44-35-10 have to be submitted to the division of municipal finance through the use of the division's Transparency Portal, once implemented, in the format required by the division, which will be located on the division's website. The division will create a finalized report and will submit the Transparency Report to the municipality to be signed by the chief executive officer, chief financial officer, superintendent of the school district, and chief financial officer for the school district. All signed Transparency Reports will be posted to the municipality's website. The municipalities will provide a copy of the signed Transparency Report to the commissioner of education, the office of the auditor general, the municipality's council president, and the school committee chair.

Article 8 also included 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. The forecast includes any and all underlying assumptions.

Article 8 also includes language 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.

Lastly, Article 8 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. Currently, fifteen municipalities participate in the refund offset program. The municipalities are Bristol, Burrillville, Central Falls, Cranston, Coventry, East Providence, Lincoln, Little Compton, North Providence, Pawtucket, Providence, Richmond, Tiverton, West Warwick, and Woonsocket where approximately a combined \$2.1 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.

In addition to the above mentioned financial reporting requirements, Rhode Island General Laws §45-12-22.2 has been amended to provide that if a budget-to-actual 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 in which budget-to-actual financial information is required.

RI Gen. Laws §45-12-22.3 requires that 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 requires that 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 requires 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 State-wide implementation.

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.

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 State-wide implementation.

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, 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.

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

For discussion of pension litigation see the section titled: “Pension Litigation – Challenges to the 2009 and 2010 Pension Reforms” and “Pension Litigation – Challenges to the 2011 Pension Reform” 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 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. Children’s 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. The Superior Court recently issued a decision denying the State’s motion claiming that the parents failed to file their Complaint within the applicable limitations period. The State is contemplating filing a petition for Certiorari with the R.I. Supreme Court in the issue. 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 tortious 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 has been bifurcated into a liability and damages phase. The case is now in expert discovery on the issues of liability and if no settlement is reached, the case may proceed to trial on the liability phase in 2017.

A wrongful death action arising out of drowning at Pulaski Park has been brought against the Department of Environmental Management. This case is being defended with assistance from the Department of the Attorney General. Potential liability could be in the seven figures.

Lionel Monsanto has filed a civil suit against the General Treasurer, Seth Magaziner, Rhode Island State Police Troopers James Donnelly Taylor and Gregory Palmar and Superintendent of the State Police, Colonel Steven G. O’Donnell for violation of his First, Fourth, Fifth, Sixth and Fourteenth Amendment Rights. This cases arises out of the alleged assault of a criminal defendant by a Rhode Island State Police trooper while in State custody.

Cashman Equipment has filed suit against Cardi Corporation and the Rhode Island Department of Transportation for construction claims for work on the Sakonnet River Bride Project, 2008-CB-056. The matter is currently in the discovery phase. Cashman alleged \$1,537,943.52 as pass through claims and additional damages for Type F concrete. Cardi filed a Supplemental First Amended, Third Party complaint against the State for the pass through claims plus alleging damages for project delays and for monies withheld by RIDOT. The State denies the allegations. The parties have participated in three court- ordered mediations for this case. Chief Justice (retired) Frank Williams is the current Mediator.

The Quidnessett Memorial Cemetery has filed a lawsuit against the Rhode Island Department of Transportation (“RIDOT”) alleging inverse condemnation, continuous trespass, and violations of substantive and procedure due process. The allegations stem from an easement that was entered with the cemetery in 1984 for RIDOT to construct a “seepage pit” on cemetery property for overflow of highway runoff. There has been no formal demand, but the Cemetery alleges at least \$2.5 million in damages for value of the easement, which does not include lost use. The Cemetery also wants a solution to flooding, which may require major highway reconstruction with a cost in the millions. The case is in discovery, with a scheduling order in place.

On March 31, 2017, the Narragansett Indian Tribe filed an action for declaratory judgment, breach of contract and injunctive relief against the RI Department of Transportation (“RIDOT”) and the RI State Historic Preservation Commission in Federal District Court seeking to enjoin further construction on the I-95 Viaduct Bridge Replacement project. The Tribe is seeking to require RIDOT to convey certain lands to the Tribe as mitigation for

historical tribal land discovered to exist under the I-95 Viaduct project pursuant to a Programmatic Agreement reached between the Tribe, State, and Federal Highway Administration. The State has not been served, and the Programmatic Agreement is currently under review in a federal administrative proceeding. The Tribe will not accept the proffered deeds to the land from RIDOT. For the State to transfer the land to the Tribe for its intended purpose, however, the State needs the deeds to remain enforceable and therefore require a limited waiver of the Tribe's sovereign immunity. The purpose of the Programmatic Agreement requires the land to be kept in its natural state and to preserve its historic value. Properties at issue are worth millions of dollars and the funds associated with the I-95 Viaduct Bridge Replacement project are in the \$80 million range.

FINANCIAL STATEMENTS

The financial statements and notes of the State for fiscal year ended June 30, 2016, and the report thereon by the Auditor General, are included in the State's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016 ("2016 CAFR"), which has been filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Marketing Access System in connection with the State's continuing disclosure obligations with respect to its general obligation bonds, certificates of participation and certain other obligations. In addition, the 2016 CAFR is posted on the Rhode Island State Controller's website and can be accessed at www.controller.admin.ri.gov under "Financial Reports" or by going directly to: http://controller.admin.ri.gov/documents/Financial%20Reports//118_Comprehensive%20Annual%20Financial%20Report_06-30-2016.pdf. The financial statements and notes of the State for the fiscal year ended June 30, 2016, and the report thereon by the Auditor General, as reflected in the 2016 CAFR (updated February 2, 2017) are incorporated herein by reference.

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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 decrease of 0.9 percent between 2002 and 2016. The U.S. Census Bureau estimated that Rhode Island's population increased by 0.1 percent in 2016 as compared to 2015. The 2016 United States census estimate for Rhode Island was 1,056,426 or 0.8 percent less than the 1,064,989 estimated in 2005. In contrast, the population of the New England region is estimated to have increased by 3.6 percent for this period and the United States population is estimated to have increased by 9.3 percent between 2005 and 2016.

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 2015 was \$45,695 versus U.S. per capita real personal income of \$43,996 (real personal income is in 2009 dollars). In addition, Rhode Island has maintained a poverty rate below the national average. Over the 2001 – 2015 period Rhode Island's average poverty rate was 11.9 percent versus the U.S. average poverty rate of 13.5 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, 1.5 percent in 2014; 1.4 percent in 2015, and most recently slowed to 1.0 percent in 2016. The average annual growth rate for Rhode Island nonfarm employment for the 2002 to 2016 period was 0.2 percent.

Economic Base and Performance. Rhode Island has a diversified economic base that includes traditional manufacturing, high technology, and service industries. A substantial portion of products produced by these and other sectors is exported. Like most other historically industrial states, Rhode Island has seen a shift in employment from labor-intensive manufacturing industries to technology and service-based industries, particularly education and health services and leisure, hospitality & other services.

Human Resources. Skilled human capital is the foundation of economic strength in Rhode Island. It provides the basis for a technologically dynamic and industrially diverse regional economy. The Rhode Island economy benefits from a vigorous post-secondary education sector, which conferred over 18,600 degrees during the 2013-14 academic year. The Rhode Island population is well-educated with 31.9 percent of its residents over the age of 25 having received a Bachelor's degree or a graduate or professional degree in 2015 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 1999-2000 school year. For 2013-14 Rhode Island spent 41.2 percent more per pupil than the national average.

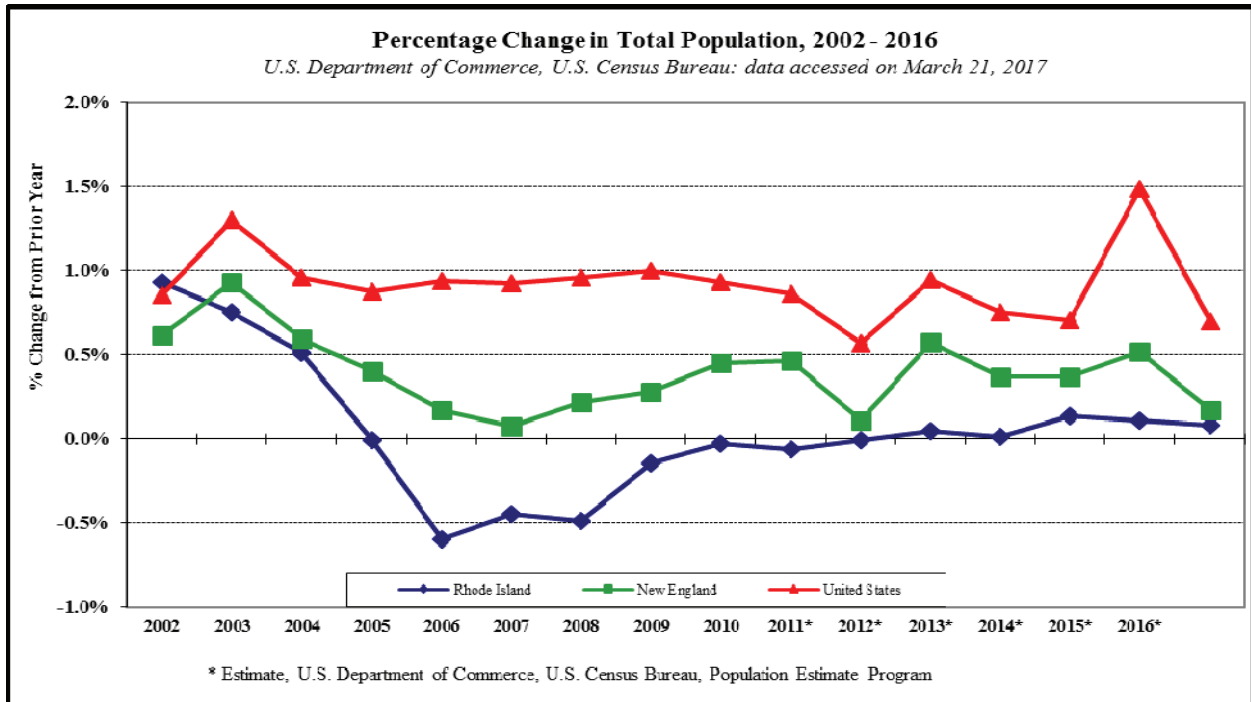
Population Characteristics

Between 2005 and 2016 Rhode Island's population decreased by 0.8 percent, compared to a 3.6 percent increase for the New England region, and a 9.3 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 0.1 percent, averaging -0.1 percent between 2004 and 2016. 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 0.8 percent, respectively. While Rhode Island experienced negative growth rates between 2005 and 2010, the trend reversed itself in recent years as the state population has undergone modest expansion, averaging 0.1 percent annual growth in 2011 through 2016.

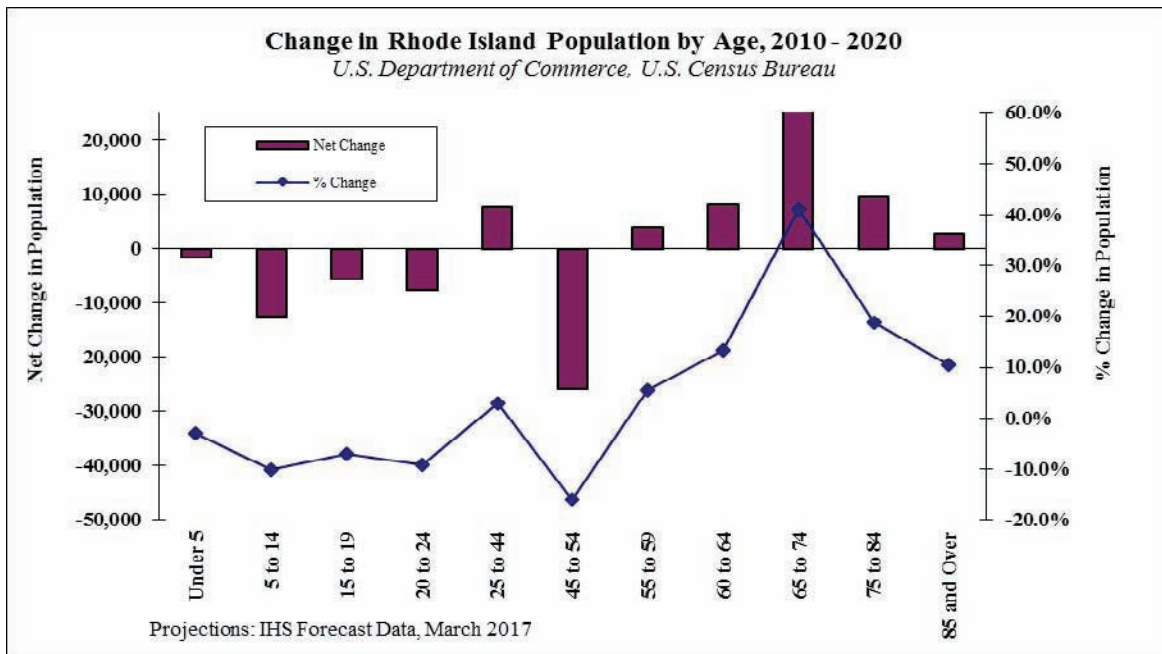
Population, 2002 - 2016						
(in thousands)						
Year	Rhode Island		New England		United States	
	Total	% Change	Total	% Change	Total	% Change
2002	1,066	0.8%	14,135	0.6%	287,804	1.0%
2003	1,072	0.5%	14,192	0.4%	290,326	0.9%
2004	1,071	0.0%	14,216	0.2%	293,046	0.9%
2005	1,065	-0.6%	14,227	0.1%	295,753	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	0.0%	14,528	0.6%	311,663	0.9%
2012	1,053	0.0%	14,581	0.4%	313,998	0.7%
2013	1,053	0.0%	14,635	0.4%	316,205	0.7%
2014	1,054	0.1%	14,683	0.3%	318,563	0.7%
2015	1,056	0.1%	14,710	0.2%	320,897	0.7%
2016	1,056	0.1%	14,736	0.2%	323,128	0.7%

Source: U.S. Department of Commerce, U.S. Census Bureau, Population Estimate Program.
Data accessed on March 21, 2017.

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.



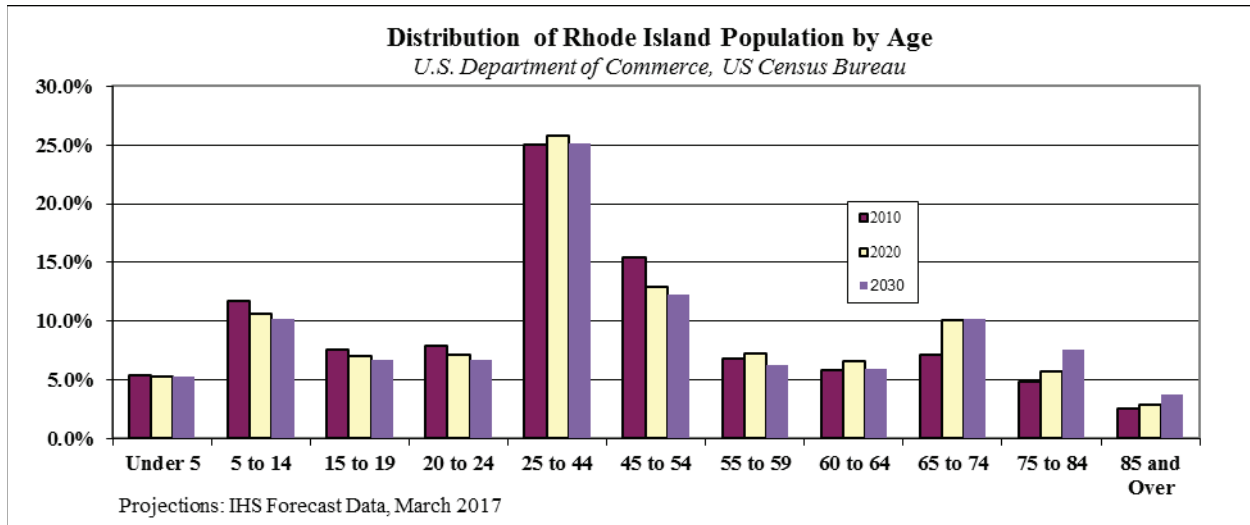
The following chart shows the projected net change in Rhode Island’s population between 2010 and 2020 by age group. Note that, like the rest of the country, Rhode Island has seen a sharp change in the age distribution of its population in accordance with the chronological advancement of the “baby boom” 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), a decrease in the youth, young adult and adolescent populations (i.e., 5 to 24) and an increase in the early adult

cohort (i.e., 25 to 44). 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, IHS 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 2015, Rhode Island per capita nominal personal income was \$50,050 relative to \$48,190 for the United States. Note that Rhode Island per capita nominal personal income has trailed that of the New England region from 2001 through 2015 by an average of \$8,254.

The average annual percentage change in real personal income growth for the 2001 to 2015 period in Rhode Island was 1.5 percent which is slightly more than the 1.4 percent average growth for New England but greater than the 1.2 percent average growth for the United States during this time period. Rhode Island per capita real income growth reached 3.1 percent in 2006 before declining to 2.0 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 the United States. For 2011 and 2012, Rhode Island's per capita real personal income growth was 1.1 percent and 2.2 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 1.2 percent in 2011 and 1.2 percent in 2012. In 2013, Rhode Island, New England and the United States have all experienced a negative per capita real income growth of 1.0 percent, 1.7 percent, and 0.8 percent respectively. In 2014 and 2015, Rhode Island experienced real per capita personal income increases of 2.2 and 3.8 percent, respectively, while New England and the United States saw growth of 2.6 percent and 2.9 percent respectively in 2014 and 3.9 and 3.4 percent respectively in 2015 marking the first year since 2010 that Rhode Island's real personal income growth exceeded that of the United States.

Per Capita Personal Income, 2001 - 2015										
Year	Nominal Income* (in current dollars)			Real Income (in 2009 dollars)			Percentage Change in Real Income			
	R.I.	N.E.	U.S.	PCE Deflator^	R.I.	N.E.	U.S.	R.I.	N.E.	U.S.
2001	31,652	38,870	31,527	84.7%	37,354	45,872	37,207	2.3%	1.9%	0.8%
2002	32,729	38,964	31,795	85.9%	38,113	45,374	37,026	2.0%	-1.1%	-0.5%
2003	34,267	39,832	32,667	87.6%	39,130	45,484	37,304	2.7%	0.2%	0.8%
2004	35,863	41,809	34,288	89.7%	39,979	46,608	38,224	2.2%	2.5%	2.5%
2005	37,028	43,611	35,876	92.3%	40,134	47,269	38,885	0.4%	1.4%	1.7%
2006	39,213	46,815	38,117	94.7%	41,395	49,420	40,237	3.1%	4.5%	3.5%
2007	41,001	49,137	39,775	97.1%	42,225	50,603	40,962	2.0%	2.4%	1.8%
2008	42,036	51,198	41,044	100.1%	42,009	51,165	41,017	-0.5%	1.1%	0.1%
2009	40,953	50,446	39,346	100.0%	40,953	50,446	39,346	-2.5%	-1.4%	-4.1%
2010	42,775	52,149	40,356	101.7%	42,079	51,301	39,699	2.8%	1.7%	0.9%
2011	44,316	54,056	42,461	104.1%	42,551	51,903	40,769	1.1%	1.2%	2.7%
2012	46,159	55,728	44,282	106.1%	43,497	52,513	41,728	2.2%	1.2%	2.4%
2013	46,316	55,517	44,493	107.5%	43,071	51,628	41,377	-1.0%	-1.7%	-0.8%
2014	48,043	57,806	46,464	109.2%	44,015	52,960	42,569	2.2%	2.6%	2.9%
2015	50,050	60,271	48,190	109.5%	45,695	55,026	43,996	3.8%	3.9%	3.4%

*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 2015. 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 3.3 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 2000-2015 period. In 2015, the ratio of Rhode Island's average annual pay to United States' average annual pay decreased to 95.7 percent as a result of a decreasing Rhode Island average annual pay growth rate of 2.7 percent compared to the previous year. The relationship between Rhode Island and U.S. average annual pay is shown in the table below.

Average Annual Pay, 2001 - 2015 (in current dollars)					
Year	Annual Pay		Ratio	Percentage Change	
	R.I.	U.S.	R.I. / U.S.	R.I.	U.S.
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	49,297	51,364	96.0%	3.3%	3.1%
2015	50,651	52,942	95.7%	2.7%	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 2001 – 2015 period.



Consumer Prices. The following table presents consumer price index trends for the Northeast region and the United States for the period between 2002 and 2016. 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 2002 to 2016, 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 – 2016. 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 2007 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 2016. In 2009 – 2013 the rate averaged 0.1 percentage points above the United States. In 2016 the rate was 0.2 percentage points below the United States.

Consumer Price Index for All Urban Consumers (CPI-U), 2002 - 2016					
Year	CPI-U		Ratio	Pct. Change	
	Northeast	U.S.	Northeast/U.S.	Northeast	U.S.
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%	-0.1%	0.1%
2016	254.9	240.0	106.2%	1.1%	1.3%

U.S. Department of Labor, Bureau of Labor Statistics

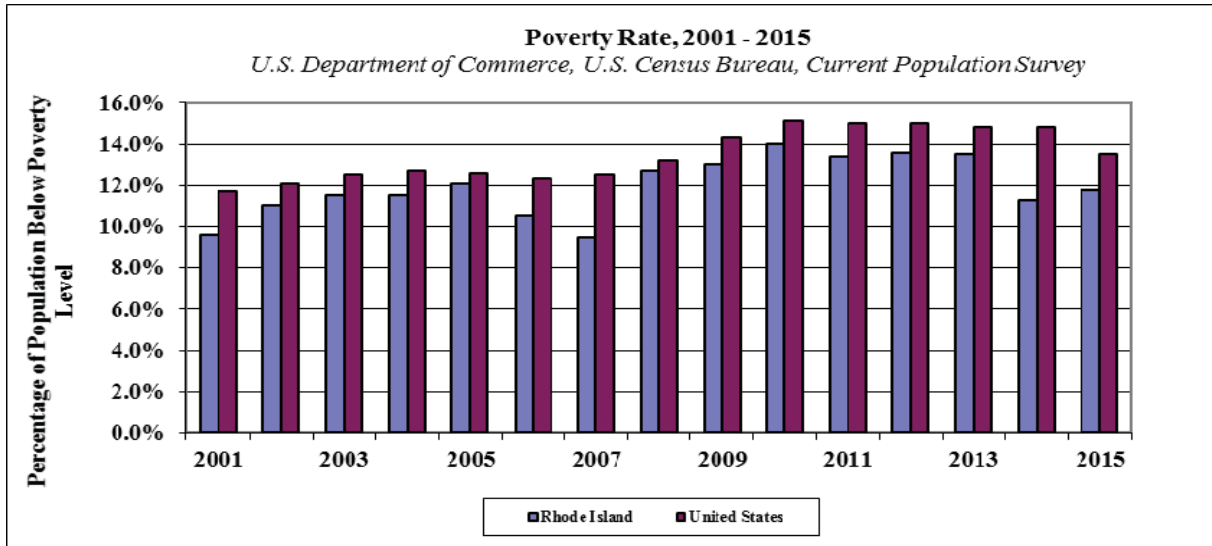
Poverty. From 2001 – 2015 Rhode Island’s poverty rate has been below the poverty rate for the United States as a whole. The poverty rate is measured as the percent of a region’s population that lives below the federal poverty level (FPL) as determined by the U.S. Census Bureau’s Current Population Survey. Between 2001 and 2015, 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 11.7 percent in 2001 to a high of 15.1 percent in 2010. Interestingly, in the 2002, 2003, 2005, 2008, 2010, 2012, and 2015 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 2001 through 2015.

Poverty Rate, 2001 - 2015						
Year	Ratio		Percentage Change			
	R.I.	U.S.	R.I./U.S.	R.I.	U.S.	
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%	-16.3%	0.0%	
2015	11.8	13.5	87.4%	4.4%	-8.8%	

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 2001-2015. 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 2002 to 2016 period. The table reflects the new North American Industrial Classification System (NAICS) composition of employment.

Year	Construction, Natural Resources & Mining		Manufacturing		Trade, Transportation & Utilities		Information, Financial Activities, & Business Services		Educational & Health Services		Leisure, Hospitality & Other Services		Government		Nonfarm Employment	
	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
	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
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	16,300	0.6%	40,000	1.0%	74,100	-0.7%	99,967	2.8%	104,642	1.3%	76,175	2.5%	60,208	0.1%	471,392	1.3%
2014	16,700	2.5%	40,900	2.3%	75,100	1.3%	102,150	2.2%	105,400	0.7%	78,058	2.5%	60,358	0.2%	478,667	1.5%
2015	17,200	3.0%	41,100	0.5%	76,400	1.7%	105,400	3.2%	105,700	0.3%	79,283	1.6%	60,200	-0.3%	485,283	1.4%
2016	18,400	7.0%	40,400	-1.7%	76,400	0.0%	107,100	1.6%	106,400	0.7%	80,900	2.0%	60,500	0.5%	490,000	1.0%

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 2002 and 2016, total nonfarm employment in Rhode Island increased by 2.2 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 15.2 percent, 20.9 percent and 15.6 percent respectively. In 2002, the Rhode Island nonfarm employment growth rate was 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 1.5 percent before tapering off to 1.0 percent in 2016. Five consecutive years of job growth in excess of 1.0 percent indicate that Rhode Island is on its way to recovering jobs

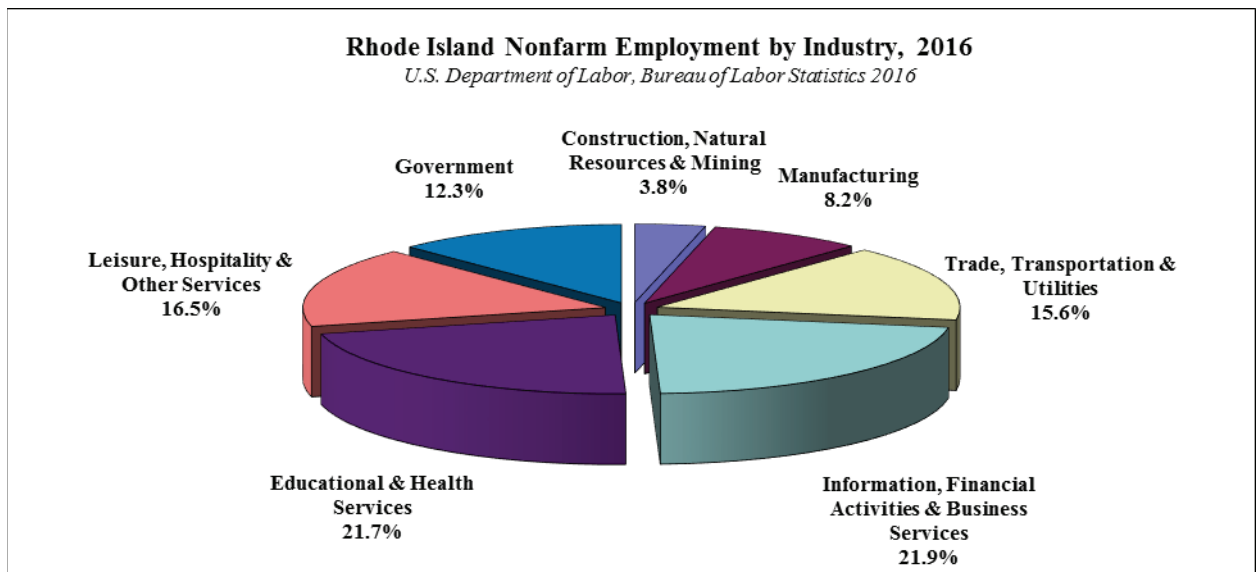
lost in the Great Recession. Total non-farm employment of 490,000 in 2016, however, is still 2,867 jobs short of the peak level of 492,867 experienced in 2006.

Non-farm Employment by Industry. The following table summarizes the changes in Rhode Island nonfarm employment by sector from 2006 to 2016. Total nonfarm employment decreased by 0.6 percent during this period, and the composition of total employment changed markedly. Employment declined on average by 11.2 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 8.1 percent. The sector which saw the largest gain during this period was leisure, hospitality and other services, which grew by 10.5 percent. Clearly, the Rhode Island economy underwent a significant restructuring during the 2006 to 2016 period, transforming further from a manufacturing and construction based economy to a service based economy.

Rhode Island Nonfarm Employment by Industry, 2006 & 2016					
Employment Sector	2006	% of Total	2016	% of Total	% Change 2005-2016
Construction, Natural Resources & Mining	23,092	4.7%	18,400	3.8%	-20.3%
Manufacturing	52,692	10.7%	40,400	8.2%	-23.3%
Trade, Transportation & Utilities	79,750	16.2%	76,400	15.6%	-4.2%
Information, Financial Activities & Business Services	102,467	20.8%	107,100	21.9%	4.5%
Educational & Health Services	96,700	19.6%	106,400	21.7%	10.0%
Leisure, Hospitality & Other Services	73,225	14.9%	80,900	16.5%	10.5%
Government	64,942	13.2%	60,500	12.3%	-6.8%
Total Employment	492,867	100.0%	490,000	100.0%	-0.6%

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 information, financial activities and business services sector, with 21.9 percent of the nonfarm work force in 2016, is the largest employment sector in the Rhode Island economy, followed closely by educational and health services, 21.7 percent; leisure, hospitality and other services, 16.5 percent; trade, transportation and utilities, 15.6 percent; government, 12.3 percent; manufacturing, 8.2 percent; and construction, natural resources and mining, 3.8 percent.



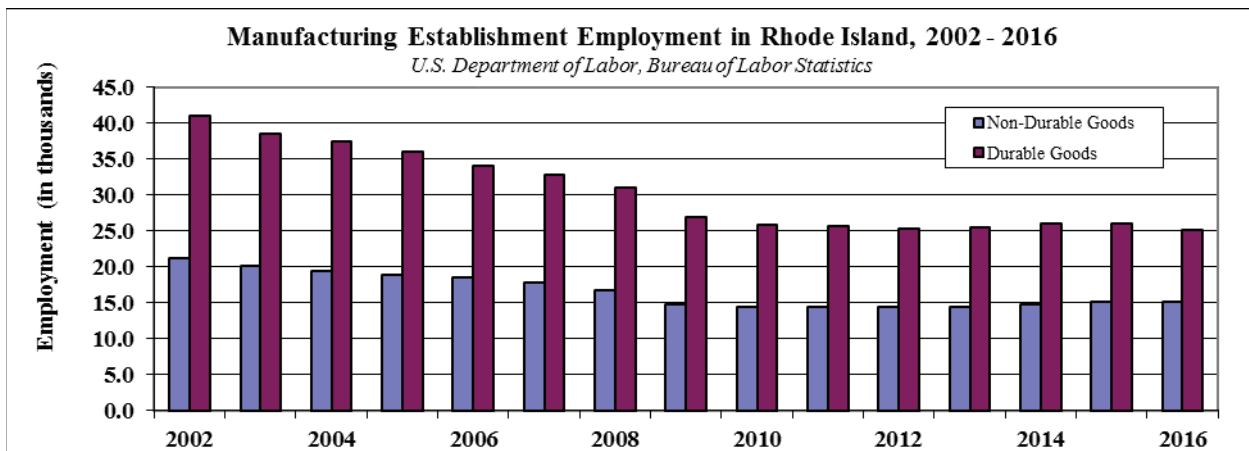
Manufacturing Employment. Like many industrial states, Rhode Island has seen a steady diminution of its manufacturing jobs base over the last decade. There was, however, a notable expansion of employment by Rhode Island manufacturing establishments in the 2013 through 2015 period followed by a substantive contraction in 2016

Total employment in the manufacturing sector declined between 2002 and 2016, falling by 35.2 percent. In 2002, the decline in manufacturing employment was 8.1 percent. The decline continued with a manufacturing growth rate of -5.8 percent in 2003, -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 2002 through 2016 time period. In 2014, growth in manufacturing employment accelerated to 2.1 percent followed by growth of 0.7 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, non-durable goods manufacturing employment has grown by 1.9 percent whereas durable goods manufacturing employment remained constant. In 2016, manufacturing employment for non-durable goods slightly increased by 0.2 percent but this increase was more than offset by a decline in durable goods manufacturing employment of 3.1 percent. The combined result was a negative growth rate of 1.9 percent in total manufacturing employment in 2016.

Manufacturing Establishment Employment in Rhode Island, 2002 - 2016 (In Thousands)*															
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Non-Durable Goods	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	15.1	15.2
Percentage Change	-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%	1.9%	0.2%
Durable Goods	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	26.0	25.2
Percentage Change	-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%	0.0%	-3.1%
Total Manufacturing Employment	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	41.1	40.4
Percentage Change	-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%	0.7%	-1.9%

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 2002 and 2010 before rebounding in 2011 through 2015. The downturn in 2016 hopefully is not the start of a new downward trend in manufacturing employment in Rhode Island.



Unemployment. Rhode Island’s unemployment rate from 2002 to 2004 was lower than that of the United States. From 2006 to 2016, Rhode Island’s unemployment rate rose above the United States by an average of 1.4

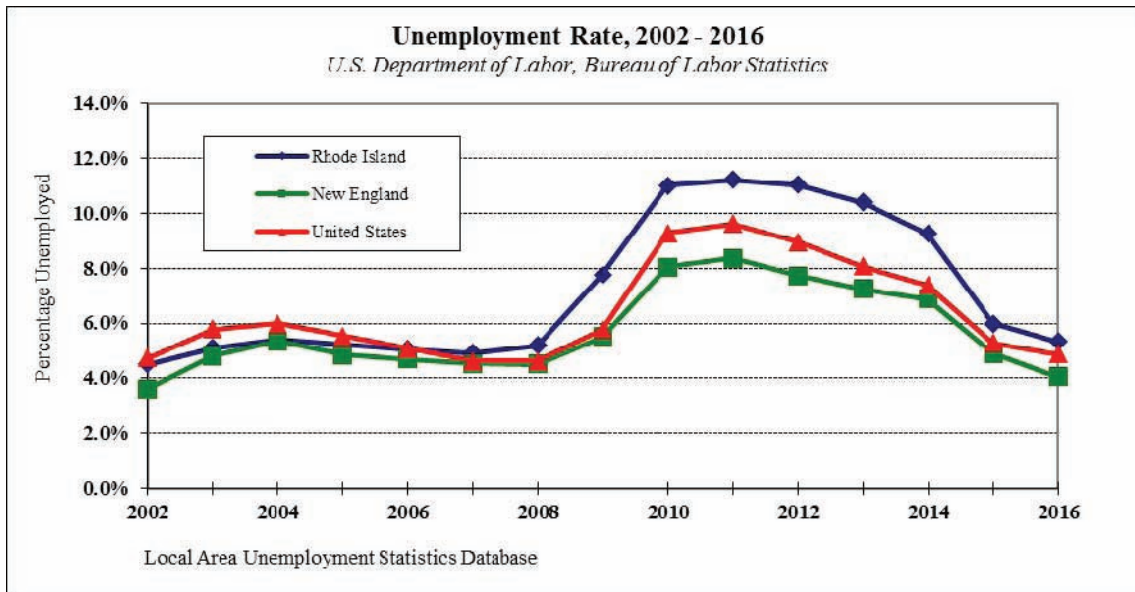
percentage points. The following table compares the annual civilian labor force, the number unemployed, and the unemployment rate averages of Rhode Island, New England, and the United States between 2002 and 2016. In 2016, the State's unemployment rate was 5.3 percent and New England's unemployment rate was 4.1 percent.

Annual Average Civilian Labor Force and Unemployment, 2002 - 2016 (in thousands)										
Year	Civilian Labor Force			Unemployed			Unemployment Rate			R.I. Rate as a % of U.S.
	R.I.	N.E.	U.S.	R.I.	N.E.	U.S.	R.I.	N.E.	U.S.	
2002	554	7,476	136,485	28	360	8,378	5.1%	4.8%	5.8%	88.3%
2003	564	7,504	137,736	30	401	8,774	5.4%	5.4%	6.0%	90.1%
2004	555	7,478	139,252	29	363	8,149	5.2%	4.9%	5.5%	94.7%
2005	566	7,521	141,730	29	352	7,591	5.1%	4.7%	5.1%	99.8%
2006	573	7,605	144,427	28	345	7,001	4.9%	4.5%	4.6%	106.5%
2007	573	7,648	146,047	30	344	7,078	5.2%	4.5%	4.6%	112.5%
2008	570	7,704	145,363	44	426	8,924	7.8%	5.5%	5.8%	134.6%
2009	567	7,729	139,878	62	620	14,265	11.0%	8.0%	9.3%	118.7%
2010	567	7,751	139,064	63	649	14,825	11.2%	8.4%	9.6%	116.6%
2011	560	7,738	139,869	62	597	13,747	11.0%	7.7%	9.0%	123.3%
2012	558	7,730	142,469	58	559	12,506	10.4%	7.2%	8.1%	128.8%
2013	557	7,738	143,929	52	533	11,460	9.3%	6.9%	7.4%	125.5%
2014	555	7,778	146,305	43	457	9,616	7.7%	5.9%	6.2%	125.0%
2015	554	7,795	148,833	33	383	8,296	6.0%	4.9%	5.3%	113.2%
2016	552	7,817	151,436	29	317	7,751	5.3%	4.1%	4.9%	109.4%

U.S. Department of Labor, Bureau of Labor Statistics; Current Population Survey Database
 U.S. Department of Labor, Bureau of Labor Statistics; Local Area Unemployment Statistics Database,
 Data reflects twelve month average of nonseasonally adjusted data.

In February 2017, the State's unemployment rate dropped below the national rate to 4.5 percent.

The chart below graphs the unemployment rates for Rhode Island, New England, and the United States over the 2002 to 2016 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. In 2016, however, there was a 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.

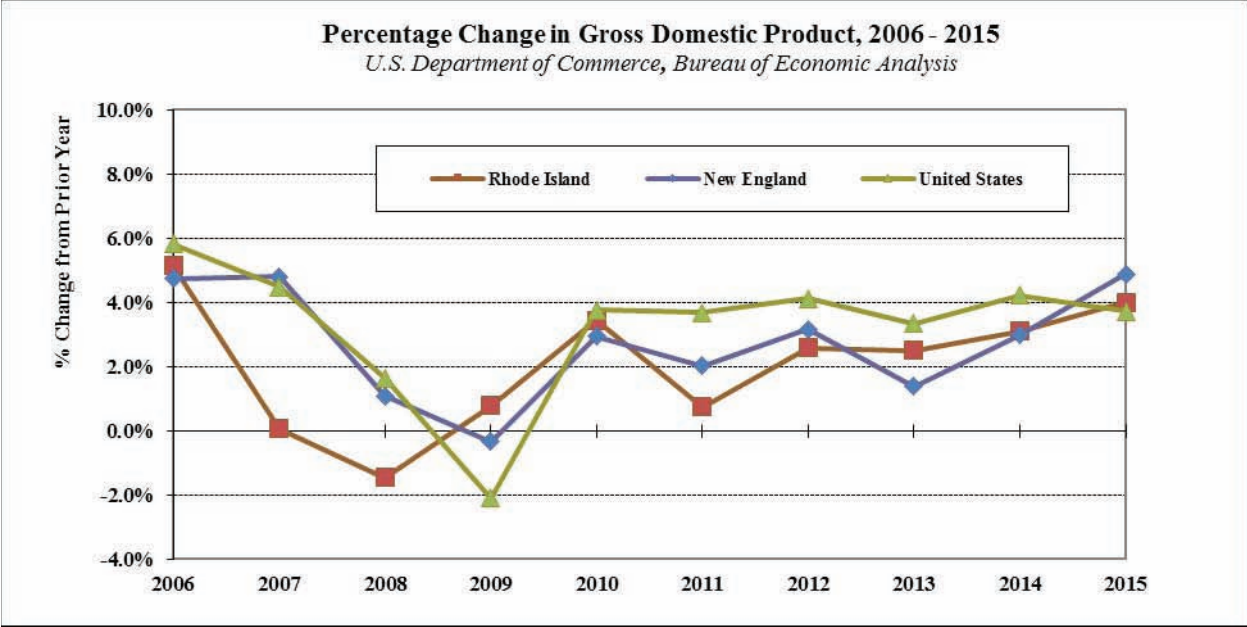
Economic Base and Performance

From 2006 – 2015, growth in Rhode Island Gross Domestic Product (GDP) was less than growth in United States GDP with the exception of 2009 and 2015. Rhode Island GDP grew at a modest rate of 0.8 percent in 2009, which was greater than the negative 0.3 percent GDP growth in New England and the negative 2.1 percent GDP growth in the United States. In 2015, compared to United States and New England GDP growth rates, Rhode Island GDP had a growth rate that was higher than the former but lower than the latter. 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 2006 – 2015.

Gross Domestic Product, 2006 - 2015 (millions of current dollars)						
Year	Rhode Island		New England		United States	
	GDP	Change	GDP	Change	GDP	Change
2006	48,011	5.1%	762,565	4.7%	13,773,226	5.8%
2007	48,044	0.1%	799,219	4.8%	14,391,149	4.5%
2008	47,343	-1.5%	807,857	1.1%	14,626,598	1.6%
2009	47,709	0.8%	805,107	-0.3%	14,320,114	-2.1%
2010	49,351	3.4%	828,780	2.9%	14,859,772	3.8%
2011	49,716	0.7%	845,612	2.0%	15,406,002	3.7%
2012	50,997	2.6%	872,280	3.2%	16,041,243	4.1%
2013	52,274	2.5%	884,417	1.4%	16,576,808	3.3%
2014	53,898	3.1%	910,699	3.0%	17,277,548	4.2%
2015	56,052	4.0%	955,127	4.9%	17,919,651	3.7%

U.S. Department of Commerce. Bureau of Economic Analysis; Gross Domestic Product by State - All industry total
Data reflect revised statistics for 1997-2015, updated December 2015.

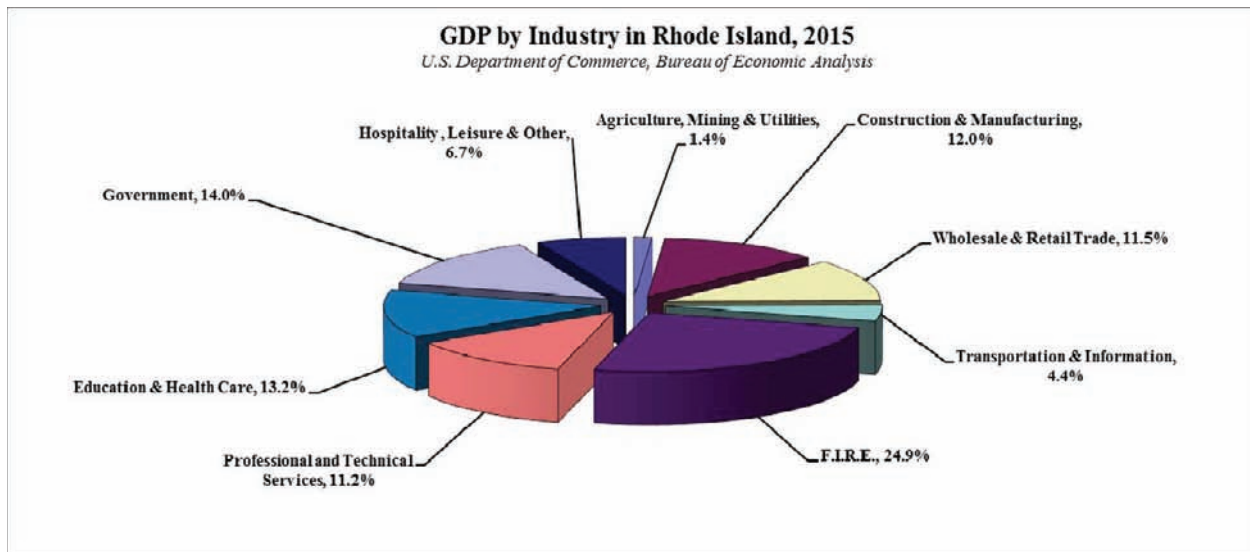
The graph below plots the percentage change in GDP for Rhode Island, New England and the United States from 2006 – 2015. As indicated by the graph, Rhode Island GDP growth was substantially lower than that of New England and the United States during the onset of the recession until 2009 when Rhode Island’s GDP growth was greater than both the U.S. and New England. In 2010, Rhode Island GDP growth trailed the United States but was higher than New England. Rhode Island’s GDP growth trailed that of New England and the United States in 2011, and 2012. In 2013 and 2014, Rhode Island’s GDP grew at a faster pace than New England but behind that of the nation as a whole. In 2015, Rhode Island’s GDP increased by 4.0 percent which was lower than the 4.9 percent growth rate of New England GDP but higher than the 3.7 percent growth rate of the US.



Economic Base and Performance -- Sector Detail. The economy of Rhode Island is well diversified. The table below shows the contribution to Rhode Island Gross Domestic Product (GDP) of several industrial and non-industrial sectors. As is apparent, Rhode Island has experienced positive growth in most sectors from 2006 to 2015. 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 - 2015 (millions of current dollars)										
Industrial Sector	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Agriculture, forestry, fishing and hunting	127	107	103	102	112	109	106	103	100	(D)
Mining	28	32	37	41	27	20	29	22	46	(D)
Utilities	674	656	694	727	759	728	535	577	594	588
Construction	2,603	2,555	2,298	2,125	2,013	1,953	2,058	2,023	2,063	2,194
Manufacturing	4,941	4,230	4,224	3,706	4,013	3,877	3,899	4,323	4,404	4,524
Wholesale Trade	2,306	2,407	2,405	2,360	2,564	2,666	2,863	3,022	3,140	3,345
Retail Trade	2,938	2,920	2,829	2,747	2,866	2,890	2,959	3,020	3,012	3,089
Transportation and warehousing, excluding postal service	743	720	756	732	765	810	848	846	841	867
Information	1,861	1,813	1,954	1,872	1,864	1,793	1,663	1,611	1,629	1,605
Finance and insurance	3,889	4,154	3,025	4,090	3,924	3,919	4,411	4,498	5,277	5,314
Real estate, rental and leasing	7,162	7,380	7,185	7,695	7,912	8,024	8,165	8,193	8,101	8,653
Professional, scientific, and technical services	2,597	2,544	2,759	2,612	2,666	2,697	2,746	2,828	2,895	3,018
Management of companies and enterprises	1,280	1,350	1,403	1,251	1,421	1,464	1,656	1,827	1,987	2,103
Administrative and waste management services	1,166	1,241	1,266	1,230	1,337	1,346	1,411	1,524	1,575	1,662
Educational services	1,158	1,232	1,307	1,405	1,455	1,513	1,507	1,547	1,639	1,682
Health care and social assistance	4,411	4,510	4,748	4,923	5,149	5,128	5,218	5,340	5,421	5,697
Government	6,972	7,219	7,334	7,163	7,409	7,622	7,602	7,522	7,685	7,829
Hospitality , Leisure & Other	3,155	2,973	3,016	2,928	3,097	3,159	3,322	3,448	3,491	3,742
Total GDP*	48,011	48,044	47,343	47,709	49,351	49,716	50,997	52,274	53,898	56,052
U.S. Department of Commerce, Bureau of Economic Analysis; Gross Domestic Product by State										
* Differences are attributed to rounding for 2007, 2010, 2011, 2012 and 2014. Non-disclosure in 2015.										

The pie chart below shows the share of total Rhode Island Gross Domestic Product in 2015 attributable to each of the industry sectors noted above.



Finance, Insurance and Real Estate (FIRE). This is the second largest sector of Rhode Island's economy in terms of number of dollars. FIRE contributed 24.9 percent of GDP in 2015. In 2015, FIRE accounted for \$13.97 billion of the \$56.05 billion total gross domestic product. For the period 2006 - 2015 this sector expanded by a respectable 26.4 percent.

Construction and Manufacturing. In 2015, construction and manufacturing was the fourth largest sector of Rhode Island's economy at \$6.7 billion, or 12.0 percent of the total Gross Domestic Product. This sector decreased by 10.9 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 12.0 percent for 2015.

Government. At 14.0 percent of GDP in 2015, the government sector has grown at an average annual growth rate of 1.6 percent since 2006. Yet, due to the gains in other sectors, particularly FIRE, government contributes 0.3 percentage points less as a percentage of GDP in 2015 than it did in 2006. In 2006, the government sector accounted for 14.5 percent of GDP. This sector grew by 4.4 percent in 2006, 3.5 percent in 2007, 1.6 percent in 2008, -2.3 percent in 2009, 3.4 percent in 2010, 2.9 percent in 2011 and -0.3 percent in 2012. The government sector saw growth of -1.1 percent in 2013, 2.2 percent in 2014 and 1.9 percent in 2015. In 2015, the government sector contributed \$7.83 billion of total gross state product compared to \$7.685 billion in 2014.

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 25.3 percent of Rhode Island's GDP in 2015, the largest portion. From 2006 to 2015, services have grown by 33.5 percent, indicating the continuing shift from Rhode Island's traditional role as a manufacturing based economy to that of a service based economy.

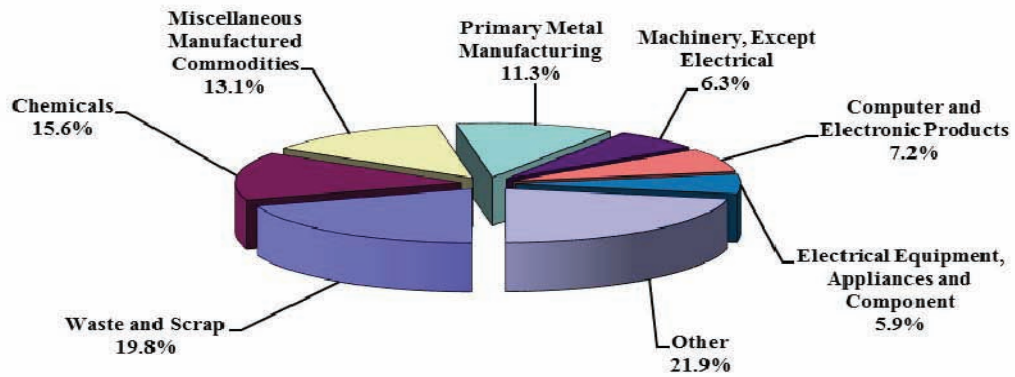
International Trade and the Rhode Island Economy

Rhode Island products are exported throughout the United States and the world. The total value of all international shipments from Rhode Island in 2012 was \$2.37 billion. This represented 4.6 percent of Rhode Island Gross Domestic Product of \$51.0 billion. In 2013, Rhode Island's exports fell to \$2.16 billion, a decrease of 8.5 percent when compared to 2012 levels. For 2014, Rhode Island's exports attained a value of \$2.39 billion or 4.4 percent of Rhode Island Gross Domestic Product. The year-over-year increase in Rhode Island exports was 10.4 percent in 2014. In 2015, Rhode Island's exports decreased to \$2.13 billion which represents an 11.0 percent decrease compared to 2014. In 2016, Rhode Island total exports rebounded to \$2.27 billion which is equivalent to a 6.7 percent year-over-year increase.

Composition of Rhode Island Exports by Industry Group 2016

U.S. Census Bureau, Foreign Trade Division

(ITA) - International Trade Administration - U.S. Department of Commerce



In 2016, the most important exports, as shown in the chart above, were waste and scrap, 19.8 percent; chemicals, 15.6 percent; miscellaneous manufactured commodities, 13.1 percent; primary metal manufacturing, 11.3 percent; computers and electronic products, 7.2 percent; machinery, except electrical, 6.3 percent; electrical equipment appliances and components, 5.9 percent; and all other exports, 21.9 percent.

The table below provides greater detail of Rhode Island exports by industry (in thousands of dollars) for 2012 - 2016.

Rhode Island Exports by Industry, 2012 - 2016 (in thousands of dollars)					
	2012	2013	2014	2015	2016
Total All Industries	2,365,686	2,164,108	2,388,479	2,125,672	2,269,117
Waste and Scrap	644,326	566,321	593,618	462,168	449,604
Chemicals	288,309	252,053	377,484	333,361	327,615
Miscellaneous Manufactured Commodities	202,545	178,339	209,008	233,438	298,093
Primary Metal Manufacturing	263,546	247,050	236,703	172,795	257,123
Machinery, Except Electrical	223,570	174,085	150,564	159,178	143,318
Computer and Electronic Products	155,090	144,798	148,510	144,857	162,571
Electrical Equipment, Appliances and Component	125,564	156,526	157,302	135,996	133,099
Plastics and Rubber Products	85,884	90,075	94,334	99,095	86,269
Transportation Equipment	55,940	55,980	93,348	85,281	97,029
Fabricated Metal Products, NESOI	47,888	51,790	54,520	60,727	76,106
Textiles and Fabrics	61,667	50,835	55,199	53,534	82,065
Used or Second-Hand Merchandise	81,505	76,232	80,761	48,576	14,281
Fish - Fresh, Chilled or Frozen & Other Marine Products	25,966	31,835	38,131	35,104	46,531
Nonmetallic Mineral Products	19,592	18,189	21,661	24,239	24,441
Food Manufacturers	19,257	16,110	15,931	16,931	14,335
Paper	15,263	14,090	15,844	14,184	12,735
Furniture and Fixtures	5,036	6,220	7,454	11,253	10,754
Textile Mill Products	11,095	10,147	12,715	10,847	8,211
Printed Matter and Related Products, Nesoi	12,055	8,869	10,017	8,345	6,019
Special Classification Provisions, Nesoi	3,593	5,568	4,649	4,947	9,232
Petroleum and Coal Products	2,112	2,566	3,630	4,412	3,290
Leather and Allied Products	2,159	1,588	2,029	2,413	2,722
Apparel Manufacturing Products	3,580	3,151	3,035	1,752	1,309
Minerals and Ores	8,580	749	967	757	616
Wood Products	958	477	735	608	561
Other Animals	49	90	126	568	631
Forestry Products, Nesoi	133	155	81	157	218
Agricultural Products	138	132	97	125	278
Goods Ret. to Canada (Exp.); Goods Ret & Reimps (Imp.)	43	47	25	13	34
Beverages and Tobacco Products	204	38	3	12	20
Oil and Gas	36	0	0	0	4
Newspapers, Books & Other Published Matter, Nesoi	0	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 2002, the number of housing permits authorized in Rhode Island decreased by 0.5 percent followed by an additional decline of 9.2 percent in 2003. Authorized housing permits in Rhode Island continued to decrease during the period between 2002 and 2009. The number of housing permits authorized in

Rhode Island had a double digit percent decrease in 2006, 2008 and 2009 before increasing by 10.1 percent in 2010. In 2011, the number of housing permits authorized in Rhode Island decreased by 22.6 percent, compared to a decrease of 16.4 percent for New England and an increase of 3.2 percent for the United States. In 2012, the number of housing permits authorized increased by 13.9 percent in Rhode Island, compared to an increase of 33.7 percent for New England and an increase of 32.9 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 21.2 percent, 20.3 percent and 19.4 percent respectively. In 2014, authorized housing permits increased by 2.2 percent in Rhode Island, 0.8 percent in New England, and 6.2 percent in the United States. In 2015 authorized housing permits fell by 1.0 percent in Rhode Island, while increasing in both New England and the U.S. as a whole. In 2016 the number of housing permits in Rhode Island countered regional and national trends once again with an increase in number of permits authorized of 8.6 percent, while permits authorized in New England and United States fell by 10.8 and 0.8 percent, respectively.

Housing Permits Authorized, 2002 - 2016 (not seasonally adjusted)							
Year	Rhode Island		New England		United States		
	Total Permits	Percent Change	Total Permits	Percent Change	Total Permits	Percent Change	
2002	2,192	-0.5%	47,173	10.3%	1,747,600	6.8%	
2003	1,990	-9.2%	48,845	3.5%	1,889,400	8.1%	
2004	1,939	-2.6%	56,310	15.3%	2,069,900	9.6%	
2005	1,805	-6.9%	57,076	1.4%	2,155,200	4.1%	
2006	1,598	-11.5%	47,623	-16.6%	1,838,900	-14.7%	
2007	1,440	-9.9%	35,902	-24.6%	1,398,200	-24.0%	
2008	884	-38.6%	24,350	-32.2%	905,400	-35.2%	
2009	690	-21.9%	17,173	-29.5%	583,000	-35.6%	
2010	760	10.1%	20,231	17.8%	604,800	3.7%	
2011	588	-22.6%	16,906	-16.4%	624,100	3.2%	
2012	670	13.9%	22,611	33.7%	829,700	32.9%	
2013	812	21.2%	27,192	20.3%	990,900	19.4%	
2014	830	2.2%	27,397	0.8%	1,052,100	6.2%	
2015	822	-1.0%	32,717	19.4%	1,182,500	12.4%	
2016	893	8.6%	29,177	-10.8%	1,173,400	-0.8%	

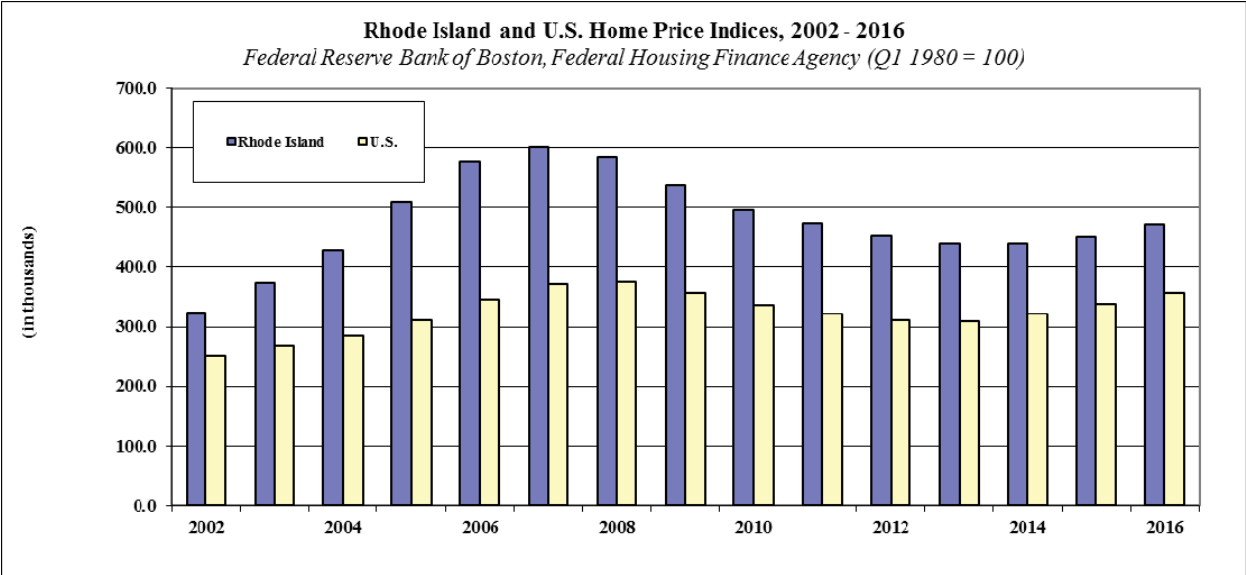
Federal Reserve Bank of St. Louis

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 2002 through 2005, hitting a peak of 166.7 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 2015, the ratio of the Rhode Island home price index to the U.S. home price index stood at 131.9 percent and slightly declined to 131.0 percent in 2016.

Home Price Index			
Rhode Island and the U.S., 2002 - 2016			
(not seasonally adjusted, in thousands)			
Year	R.I.	U.S.	R.I. Home Prices as a Percentage of the U.S.
2002	373.8	268.1	139.4%
2003	428.7	284.8	150.5%
2004	508.6	311.4	163.3%
2005	578.0	346.7	166.7%
2006	601.4	371.5	161.9%
2007	585.4	375.7	155.8%
2008	538.3	356.7	150.9%
2009	495.3	336.9	147.0%
2010	473.6	323.1	146.6%
2011	452.9	310.8	145.7%
2012	440.7	310.1	142.1%
2013	439.8	322.5	136.4%
2014	451.3	339.6	132.9%
2015	472.4	358.1	131.9%
2016	495.5	378.4	131.0%

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 2002 totaled \$365 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 \$826 million in DOD contracts, the highest nominal amount ever, while in 2015 the amount of contracts awarded dropped to \$591 million. In 2016, military contract spending in Rhode Island increased to \$641 million

Rhode Island’s DOD contract awards as a percentage of total U.S. contract awards declined from 2002 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 and 2016. Since 2002, Rhode Island’s share of New England DOD contract awards has decreased from 2.8 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 2002. In 2015 and 2016, the percentage of Rhode Island awards as a share of New England fell to 2.38 percent and 2.34 percent respectively. 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 2002 and 2016.

Department of Defense Contract Awards, 2002 - 2016					
(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.
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	27,236	397,552	2.60%	0.18%
2009	670	29,526	373,465	2.27%	0.18%
2010	775	27,657	368,237	2.80%	0.21%
2011	800	32,088	374,405	2.49%	0.21%
2012	618	28,317	362,867	2.18%	0.17%
2013	679	25,140	309,115	2.70%	0.22%
2014	826	26,210	284,370	3.15%	0.29%
2015	591	24,873	273,517	2.38%	0.22%
2016	641	27,337	297,369	2.34%	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 1999. The ratio of Rhode Island spending to the national average has varied from 130.5 percent in 1999-00 to a high of 145.2 percent in 2011-12. For the 2012-13 academic year Rhode Island spent 40.6 percent more on public elementary and secondary education than the United States. Rhode Island spent \$16,187 per pupil in comparison to a per pupil national average of \$11,509. During the 2013-14 academic year Rhode Island spent 41.2 percent more on public elementary and secondary education than the United States. Rhode Island spent \$16,702 per pupil in comparison to a per pupil national average of \$11,831. The following table shows expenditures per pupil for Rhode Island and the United States since the 1999-00 academic year.

Current Expenditure per Pupil in Public Elementary and Secondary Schools			
Academic Years 1999-2000 to 2013-14			
(Based on Average Daily Attendance)			
Academic Year	Rhode Island	United States	Ratio (R.I./U.S.)
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	11,362	145.2%
2012-13	16,187	11,509	140.6%
2013-14	16,702	11,831	141.2%

U.S. Department of Education, National Center for Education Statistics; Unadjusted Dollars

For the academic year 2013-14, Rhode Island per pupil expenditures were the eighth highest in the nation. The following table shows each of the fifty states and the District of Columbia ranked in terms of average expenditure per pupil.

National Ranking of Expenditure per Pupil in Public Elementary and Secondary Schools					
Academic Year 2013-2014					
(Based on Average Daily Attendance)					
Ranking	State	Expenditure	Ranking	State	Expenditure
	United States	11,831			
1	New York	22,048	27	Iowa	11,359
2	District of Columbia	21,442	28	Washington	11,199
3	Alaska	20,254	29	Kansas	11,180
4	New Jersey	19,282	30	Missouri	10,764
5	Vermont	19,032	31	Oregon	10,739
6	Connecticut	19,029	32	Arkansas	10,622
7	Wyoming	17,165	33	South Carolina	10,408
8	Rhode Island	16,702	34	Kentucky	10,248
9	Massachusetts	16,646	35	California	10,094
10	Maryland	15,109	36	Indiana	10,078
11	shire	15,013	37	Colorado	9,924
12	Maine	14,926	38	New Mexico	9,546
13	Pennsylvania	14,789	39	Alabama	9,543
14	Illinois	14,682	40	South Dakota	9,539
15	Delaware	14,203	41	Georgia	9,529
16	Hawaii	13,219	42	Tennessee	9,431
17	North Dakota	12,585	43	Florida	9,345
18	Nebraska	12,502	44	Texas	9,273
19	Ohio	12,447	45	North Carolina	8,948
20	Minnesota	12,140	46	Mississippi	8,926
21	Wisconsin	11,963	47	Nevada	8,734
22	Montana	11,840	48	Oklahoma	8,526
23	West Virginia	11,800	49	Arizona	8,327
24	Virginia	11,716	50	Idaho	7,215
25	Michigan	11,678	51	Utah	7,156
26	Louisiana	11,415			

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. During the time period between the 1999-2000 and 2013-2014 academic years, Rhode Island has experienced growth in the number of college degrees conferred in each year 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 academic year, Rhode Island institutions of higher education conferred 18,202 degrees and certificates with 61 percent of these degrees being Bachelor degrees. In the 2013-2014 academic year, Rhode Island growth rate of degrees conferred was 2.2 percent which was higher than the 0.8 percent U.S. growth rate. During this year, 62 percent of the degrees conferred were Bachelor's degrees, 20

percent were Associates degrees, 14 percent were Master's degrees, and four percent were Doctoral degrees. The average growth rate of Rhode Island degrees conferred in 2012-2013 and 2013-2014 academic years was 2.2 percent which was 1.4 percentage points higher than the 0.8 percent national average for these years.

Earned Degrees Conferred (by level of degree) 1999-2000 to 2013-2014													
Academic Year	Rhode Island						United States						
	Associates	Bachelors	Masters	Doctoral	Total	% Change	Associates	Bachelors	Masters	Doctoral	Total	% Change	
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%	1,007,427	1,840,381	751,718	175,026	3,774,552	0.9%	
2013-14	3,780	11,455	2,618	753	18,606	2.2%	1,003,364	1,869,814	754,475	177,580	3,805,233	0.8%	

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 separately 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	Rhode Island		United States	
Year	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

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APPENDIX B

Table of Refunded 2007 Series B Certificates, 2009 Series C Certificates
and 2007 Series D Certificates

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APPENDIX B

TABLE OF REFUNDED 2007 SERIES B CERTIFICATES, 2009 SERIES C CERTIFICATES AND 2007 SERIES D CERTIFICATES						
Bond Series	Maturity Date	Interest Rate	Par Amount	Payment or Redemption Date	Payment or Redemption Price	CUSIP Number*
2007 Series B	5/1/2018	4.375%	\$1,090,000	7/21/2017	100%	76222WBC4
2007 Series B	5/1/2019	4.500	1,170,000	7/21/2017	100	76222WBD2
2007 Series B	5/1/2020	4.500	1,245,000	7/21/2017	100	76222WBE0
2007 Series B	5/1/2021	4.625	595,000	7/21/2017	100	76222WBF7
2007 Series B	5/1/2022	4.625	650,000	7/21/2017	100	76222WBG5
2007 Series B	5/1/2023	4.625	710,000	7/21/2017	100	76222WBH3
2009 Series C	4/1/2018	4.500	1,330,000	4/1/2018	100	76222WEK3
2009 Series C	4/1/2019	4.625	1,390,000	4/1/2019	100	76222WEL1
2009 Series C	4/1/2021	6.125	3,000,000	4/1/2019	100	76222WEU1
2009 Series C	4/1/2022	5.000	1,640,000	4/1/2019	100	76222WEM9
2009 Series C	4/1/2023	5.000	1,720,000	4/1/2019	100	76222WEN7
2009 Series C	4/1/2024	5.250	1,810,000	4/1/2019	100	76222WEP2
2009 Series C	4/1/2026	5.375	3,910,000	4/1/2019	100	76222WEV9
2009 Series C	4/1/2027	5.500	2,115,000	4/1/2019	100	76222WEQ0
2009 Series C	4/1/2028	5.375	2,230,000	4/1/2019	100	76222WER8
2009 Series C	4/1/2029	5.625	2,350,000	4/1/2019	100	76222WES6
2007 Series D	10/1/2017	3.750	1,175,000	10/1/2017	100	76222WCB5
2007 Series D	10/1/2017	5.000	765,000	10/1/2017	100	76222WCC3
2007 Series D	10/1/2018	5.000	2,030,000	10/1/2017	100	76222WCD1
2007 Series D	10/1/2019	4.000	2,120,000	10/1/2017	100	76222WCE9
2007 Series D	10/1/2020	4.000	2,205,000	10/1/2017	100	76222WCF6

* CUSIP® is a registered trademark of the American Bankers Association (the “ABA”). CUSIP-based identifiers are assigned by CUSIP Global Services. CUSIP Global Services is managed on behalf of the ABA by S&P Global Marketing Intelligence, a division of S&P Global, Inc. The CUSIP Numbers have been assigned by an independent company not affiliated with the State and are included solely for the convenience of the holders of the Certificates. None of the Underwriters, the State, or the Financial Advisor is responsible for the selection or uses of the CUSIP numbers, and no representation is made as to their correctness on the Certificates or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Certificates as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Certificates.

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APPENDIX C

Proposed Forms of Legal Opinion

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[Date of Delivery]

State of Rhode Island and Providence Plantations
State House
82 Smith Street
Providence, Rhode Island 02903

Re: \$9,050,000 State of Rhode Island and Providence Plantations Lease
Participation Certificates (Nursing Education Center Project – 2017 Series
A) (the “Certificates”)

Ladies and Gentlemen:

We have acted as Special Counsel to the State of Rhode Island and Providence Plantations (the “State”) in connection with the issuance of the Certificates and the related execution of a Sublease Agreement dated as of June 1, 2017 (the “Sublease”) by and between The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee (hereinafter defined) as lessor (the “Lessor”) and the State, as lessee (the “Lessee”), and a Lease Agreement dated as of June 1, 2017 by and between the State, as lessor, and The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee (hereinafter defined) as lessee (the “Lease”). The Lessor has established a grantor trust (the “Trust”) pursuant to a Declaration of Trust dated as of June 1, 2017 (the “Declaration of Trust”) wherein The Bank of New York Mellon Trust Company, N.A., shall act as trustee (the “Trustee”) and pursuant to which the Lessor’s interest in and to the Lease Payments (defined in the Sublease) and other amounts received pursuant to the Sublease has been granted to the Trust for the benefit of the owners (the “Certificate Owners”) of the Certificates issued pursuant to the Declaration of Trust.

In such capacity, we have examined the Declaration of Trust, the Sublease, the Lease, the Official Statement dated June 6, 2017, relating to the sale of the Certificates (the “Official Statement”), and such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations of the State and its officials, and upon certified proceedings and other certificates of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under the law in effect on the date hereof:

1. The Sublease and the Lease have each been duly authorized, executed and delivered by the Lessee and are legal, valid, binding obligations of the Lessee, enforceable in accordance with their terms.

2. The Declaration of Trust has been duly authorized, executed and delivered by the Lessor and the obligations of the Trustee thereunder have been accepted by the Trustee and constitute legal, valid, and binding and enforceable obligations of the Trustee in accordance with the terms of the Declaration of Trust.

3. The Certificates have been duly authorized, executed, issued and delivered by the Trustee pursuant to the Declaration of Trust and are legal, valid, binding and enforceable in accordance with their terms.

4. The portion of payments made by the Lessee under the Sublease (the "Lease Payments") designated as interest and distributable to the Certificate Owners to the extent such payments are appropriated by the State and received by the Certificate Owners (the "Interest") is excludable from gross income of such Certificate Owners for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and such portion of the Lease Payments designated as Interest on the Certificates will not be treated as an item of tax preference for purposes of computing the federal alternative minimum tax. However, the portion of the Lease Payments designated as Interest on the Certificates will be taken into account in computing an adjustment made in determining a corporate Certificate Owner's minimum tax based on such Certificate Owner's adjusted current earnings. The opinions set forth in this paragraph are subject to the condition that the State comply with all requirements of the Code that must be satisfied subsequent to the issuance described herein in order that the Interest be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Such requirements include, but may not be limited to, requirements regarding the use, expenditure and investment of proceeds of the Certificates and the payment of rebates to the United States which must be continuously satisfied subsequent to the issuance of the Certificates in order for the portion of the Lease Payments designated as Interest on the Certificates to remain excludable from gross income for federal income tax purposes. Failure by the State to comply with certain of such requirements may cause the Interest to be come included in gross income for federal tax purposes retroactive to the date of issuance. We express no opinion regarding any other federal tax consequences arising with respect to the issuance. We are also of the opinion that the portion of Lease Payments distributable as Interest on the Certificates is excludable from State of Rhode Island personal income taxation to the extent such Interest is excludable from gross income for federal income tax purposes. However, such amounts may be included in the measure of Rhode Island estate taxes and certain corporate and business taxes. We express no opinion regarding any other Rhode Island tax consequences arising with respect to the issuance or any tax consequences arising with respect to the issuance under the laws of any state other than Rhode Island.

We express no opinion as to the exclusion from gross income for federal income tax purposes of the portion of the Lease Payments distributable to the Certificate Owners as Interest on the Certificates in the event of non-appropriation by the State of the Lease Payments. In addition, we express no opinion as to the effect that termination of the Sublease may have upon the treatment for federal or state income tax purposes of amounts received by Certificate Owners.

The opinions as to enforceability of the Sublease, the Lease, the Declaration of Trust and the Certificates contained in paragraphs one, two, and three above are qualified in that the enforceability thereof is subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws in effect from time to time which might affect the rights of creditors and further in that the enforceability thereof may be limited by the application of general principles of equity.

With respect to the due authorization, execution and delivery by, and enforceability against the Lessor and the Trustee of the Lease and the Declaration of Trust, we have relied on the opinion of even date of counsel to the Lessor and the Trustee. With respect to the due authorization, execution and delivery by, and enforceability against, the Lessee of the Sublease and the Lease, we have relied on the opinion of even date herewith of the Attorney General of the State of Rhode Island.

This opinion is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreement, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion letter to reflect any future actions, facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretation thereof, that may hereafter occur, or for any reason whatsoever.

The rights of the holders of the Certificates and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

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[Date of Delivery]

State of Rhode Island and Providence Plantations
State House
82 Smith Street
Providence, Rhode Island 02903

Re: \$6,910,000 State of Rhode Island and Providence Plantations Lease
Participation Certificates (URI Energy Conservation Project – 2017 Series
B) (the “Certificates”)

Ladies and Gentlemen:

We have acted as Special Counsel to the State of Rhode Island and Providence Plantations (the “State”) in connection with the issuance of the Certificates and the related execution of a Sublease Agreement dated as of June 1, 2017 (the “Sublease”) by and between The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee (hereinafter defined) as lessor (the “Lessor”) and the State, as lessee (the “Lessee”), and a Lease Agreement dated as of June 1, 2017 by and between the State, as lessor, and The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee (hereinafter defined) as lessee (the “Lease”). The Lessor has established a grantor trust (the “Trust”) pursuant to a Declaration of Trust dated as of June 1, 2017 (the “Declaration of Trust”) wherein The Bank of New York Mellon Trust Company, N.A., shall act as trustee (the “Trustee”) and pursuant to which the Lessor’s interest in and to the Lease Payments (defined in the Sublease) and other amounts received pursuant to the Sublease has been granted to the Trust for the benefit of the owners (the “Certificate Owners”) of the Certificates issued pursuant to the Declaration of Trust.

In such capacity, we have examined the Declaration of Trust, the Sublease, the Lease, the Official Statement dated June 6, 2017, relating to the sale of the Certificates (the “Official Statement”), and such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations of the State and its officials, and upon certified proceedings and other certificates of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under the law in effect on the date hereof:

1. The Sublease and the Lease have each been duly authorized, executed and delivered by the Lessee and are legal, valid, binding obligations of the Lessee, enforceable in accordance with their terms.

2. The Declaration of Trust has been duly authorized, executed and delivered by the Lessor and the obligations of the Trustee thereunder have been accepted by the Trustee and constitute legal, valid, and binding and enforceable obligations of the Trustee in accordance with the terms of the Declaration of Trust.

3. The Certificates have been duly authorized, executed, issued and delivered by the Trustee pursuant to the Declaration of Trust and are legal, valid, binding and enforceable in accordance with their terms.

4. The portion of payments made by the Lessee under the Sublease (the "Lease Payments") designated as interest and distributable to the Certificate Owners to the extent such payments are appropriated by the State and received by the Certificate Owners (the "Interest") is excludable from gross income of such Certificate Owners for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and such portion of the Lease Payments designated as Interest on the Certificates will not be treated as an item of tax preference for purposes of computing the federal alternative minimum tax. However, the portion of the Lease Payments designated as Interest on the Certificates will be taken into account in computing an adjustment made in determining a corporate Certificate Owner's minimum tax based on such Certificate Owner's adjusted current earnings. The opinions set forth in this paragraph are subject to the condition that the State comply with all requirements of the Code that must be satisfied subsequent to the issuance described herein in order that the Interest be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Such requirements include, but may not be limited to, requirements regarding the use, expenditure and investment of proceeds of the Certificates and the payment of rebates to the United States which must be continuously satisfied subsequent to the issuance of the Certificates in order for the portion of the Lease Payments designated as Interest on the Certificates to remain excludable from gross income for federal income tax purposes. Failure by the State to comply with certain of such requirements may cause the Interest to be come included in gross income for federal tax purposes retroactive to the date of issuance. We express no opinion regarding any other federal tax consequences arising with respect to the issuance. We are also of the opinion that the portion of Lease Payments distributable as Interest on the Certificates is excludable from State of Rhode Island personal income taxation to the extent such Interest is excludable from gross income for federal income tax purposes. However, such amounts may be included in the measure of Rhode Island estate taxes and certain corporate and business taxes. We express no opinion regarding any other Rhode Island tax consequences arising with respect to the issuance or any tax consequences arising with respect to the issuance under the laws of any state other than Rhode Island.

We express no opinion as to the exclusion from gross income for federal income tax purposes of the portion of the Lease Payments distributable to the Certificate Owners as Interest on the Certificates in the event of non-appropriation by the State of the Lease Payments. In addition, we express no opinion as to the effect that termination of the Sublease may have upon the treatment for federal or state income tax purposes of amounts received by Certificate Owners.

The opinions as to enforceability of the Sublease, the Lease, the Declaration of Trust and the Certificates contained in paragraphs one, two, and three above are qualified in that the enforceability thereof is subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws in effect from time to time which might affect the rights of creditors and further in that the enforceability thereof may be limited by the application of general principles of equity.

With respect to the due authorization, execution and delivery by, and enforceability against the Lessor and the Trustee of the Lease and the Declaration of Trust, we have relied on the opinion of even date of counsel to the Lessor and the Trustee. With respect to the due authorization, execution and delivery by, and enforceability against, the Lessee of the Sublease and the Lease, we have relied on the opinion of even date herewith of the Attorney General of the State of Rhode Island.

This opinion is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreement, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion letter to reflect any future actions, facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretation thereof, that may hereafter occur, or for any reason whatsoever.

The rights of the holders of the Certificates and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

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[Date of Delivery]

State of Rhode Island and Providence Plantations
State House
82 Smith Street
Providence, Rhode Island 02903

Re: \$5,005,000 State of Rhode Island and Providence Plantations Lease
Participation Certificates (Energy Conservation Project – 2017 Refunding
Series C) (the “Certificates”)

Ladies and Gentlemen:

We have acted as Special Counsel to the State of Rhode Island and Providence Plantations (the “State”) in connection with the issuance of the Certificates and the related execution of a Sublease Agreement dated as of June 1, 2017 (the “Sublease”) by and between The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee (hereinafter defined) as lessor (the “Lessor”) and the State, as lessee (the “Lessee”), and a Lease Agreement dated as of June 1, 2017 by and between the State, as lessor, and The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee (hereinafter defined) as lessee (the “Lease”). The Lessor has established a grantor trust (the “Trust”) pursuant to a Declaration of Trust dated as of June 1, 2017 (the “Declaration of Trust”) wherein The Bank of New York Mellon Trust Company, N.A., shall act as trustee (the “Trustee”) and pursuant to which the Lessor’s interest in and to the Lease Payments (defined in the Sublease) and other amounts received pursuant to the Sublease has been granted to the Trust for the benefit of the owners (the “Certificate Owners”) of the Certificates issued pursuant to the Declaration of Trust.

In such capacity, we have examined the Declaration of Trust, the Sublease, the Lease, the Official Statement dated June 6, 2017, relating to the sale of the Certificates (the “Official Statement”), and such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations of the State and its officials, and upon certified proceedings and other certificates of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under the law in effect on the date hereof:

1. The Sublease and the Lease have each been duly authorized, executed and delivered by the Lessee and are legal, valid, binding obligations of the Lessee, enforceable in accordance with their terms.

2. The Declaration of Trust has been duly authorized, executed and delivered by the Lessor and the obligations of the Trustee thereunder have been accepted by the Trustee and constitute legal, valid, and binding and enforceable obligations of the Trustee in accordance with the terms of the Declaration of Trust.

3. The Certificates have been duly authorized, executed, issued and delivered by the Trustee pursuant to the Declaration of Trust and are legal, valid, binding and enforceable in accordance with their terms.

4. The portion of payments made by the Lessee under the Sublease (the "Lease Payments") designated as interest and distributable to the Certificate Owners to the extent such payments are appropriated by the State and received by the Certificate Owners (the "Interest") is excludable from gross income of such Certificate Owners for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and such portion of the Lease Payments designated as Interest on the Certificates will not be treated as an item of tax preference for purposes of computing the federal alternative minimum tax. However, the portion of the Lease Payments designated as Interest on the Certificates will be taken into account in computing an adjustment made in determining a corporate Certificate Owner's minimum tax based on such Certificate Owner's adjusted current earnings. The opinions set forth in this paragraph are subject to the condition that the State comply with all requirements of the Code that must be satisfied subsequent to the issuance described herein in order that the Interest be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Such requirements include, but may not be limited to, requirements regarding the use, expenditure and investment of proceeds of the Certificates and the payment of rebates to the United States which must be continuously satisfied subsequent to the issuance of the Certificates in order for the portion of the Lease Payments designated as Interest on the Certificates to remain excludable from gross income for federal income tax purposes. Failure by the State to comply with certain of such requirements may cause the Interest to be come included in gross income for federal tax purposes retroactive to the date of issuance. We express no opinion regarding any other federal tax consequences arising with respect to the issuance. We are also of the opinion that the portion of Lease Payments distributable as Interest on the Certificates is excludable from State of Rhode Island personal income taxation to the extent such Interest is excludable from gross income for federal income tax purposes. However, such amounts may be included in the measure of Rhode Island estate taxes and certain corporate and business taxes. We express no opinion regarding any other Rhode Island tax consequences arising with respect to the issuance or any tax consequences arising with respect to the issuance under the laws of any state other than Rhode Island.

We express no opinion as to the exclusion from gross income for federal income tax purposes of the portion of the Lease Payments distributable to the Certificate Owners as Interest on the Certificates in the event of non-appropriation by the State of the Lease Payments. In addition, we express no opinion as to the effect that termination of the Sublease may have upon the treatment for federal or state income tax purposes of amounts received by Certificate Owners.

The opinions as to enforceability of the Sublease, the Lease, the Declaration of Trust and the Certificates contained in paragraphs one, two, and three above are qualified in that the enforceability thereof is subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws in effect from time to time which might affect the rights of creditors and further in that the enforceability thereof may be limited by the application of general principles of equity.

With respect to the due authorization, execution and delivery by, and enforceability against the Lessor and the Trustee of the Lease and the Declaration of Trust, we have relied on the opinion of even date of counsel to the Lessor and the Trustee. With respect to the due authorization, execution and delivery by, and enforceability against, the Lessee of the Sublease and the Lease, we have relied on the opinion of even date herewith of the Attorney General of the State of Rhode Island.

This opinion is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreement, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion letter to reflect any future actions, facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretation thereof, that may hereafter occur, or for any reason whatsoever.

The rights of the holders of the Certificates and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

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[Date of Delivery]

State of Rhode Island and Providence Plantations
State House
82 Smith Street
Providence, Rhode Island 02903

Re: \$19,635,000 State of Rhode Island and Providence Plantations Lease
Participation Certificates (School for the Deaf Project – 2017 Refunding
Series D) (the “Certificates”)

Ladies and Gentlemen:

We have acted as Special Counsel to the State of Rhode Island and Providence Plantations (the “State”) in connection with the issuance of the Certificates and the related execution of a Sublease Agreement dated as of June 1, 2017 (the “Sublease”) by and between The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee (hereinafter defined) as lessor (the “Lessor”) and the State and the Council for Elementary and Secondary Education (the “Council”), collectively as lessee (the “Lessee”), and a Lease Agreement dated as of June 1, 2017 by and between the State and the Council, collectively as lessor, and The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee (hereinafter defined) as lessee (the “Lease”). The Lessor has established a grantor trust (the “Trust”) pursuant to a Declaration of Trust dated as of June 1, 2017 (the “Declaration of Trust”) wherein The Bank of New York Mellon Trust Company, N.A., shall act as trustee (the “Trustee”) and pursuant to which the Lessor’s interest in and to the Lease Payments (defined in the Sublease) and other amounts received pursuant to the Sublease has been granted to the Trust for the benefit of the owners (the “Certificate Owners”) of the Certificates issued pursuant to the Declaration of Trust.

In such capacity, we have examined the Declaration of Trust, the Sublease, the Lease, the Official Statement dated June 6, 2017, relating to the sale of the Certificates (the “Official Statement”), and such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations of the State and its officials, and upon certified proceedings and other certificates of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under the law in effect on the date hereof:

1. The Sublease and the Lease have each been duly authorized, executed and delivered by the Lessee and are legal, valid, binding obligations of the Lessee, enforceable in accordance with their terms.

2. The Declaration of Trust has been duly authorized, executed and delivered by the Lessor and the obligations of the Trustee thereunder have been accepted by the Trustee and constitute legal, valid, and binding and enforceable obligations of the Trustee in accordance with the terms of the Declaration of Trust.

3. The Certificates have been duly authorized, executed, issued and delivered by the Trustee pursuant to the Declaration of Trust and are legal, valid, binding and enforceable in accordance with their terms.

4. The portion of payments made by the Lessee under the Sublease (the "Lease Payments") designated as interest and distributable to the Certificate Owners to the extent such payments are appropriated by the State and received by the Certificate Owners (the "Interest") is excludable from gross income of such Certificate Owners for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and such portion of the Lease Payments designated as Interest on the Certificates will not be treated as an item of tax preference for purposes of computing the federal alternative minimum tax. However, the portion of the Lease Payments designated as Interest on the Certificates will be taken into account in computing an adjustment made in determining a corporate Certificate Owner's minimum tax based on such Certificate Owner's adjusted current earnings. The opinions set forth in this paragraph are subject to the condition that the State comply with all requirements of the Code that must be satisfied subsequent to the issuance described herein in order that the Interest be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Such requirements include, but may not be limited to, requirements regarding the use, expenditure and investment of proceeds of the Certificates and the payment of rebates to the United States which must be continuously satisfied subsequent to the issuance of the Certificates in order for the portion of the Lease Payments designated as Interest on the Certificates to remain excludable from gross income for federal income tax purposes. Failure by the State to comply with certain of such requirements may cause the Interest to be come included in gross income for federal tax purposes retroactive to the date of issuance. We express no opinion regarding any other federal tax consequences arising with respect to the issuance. We are also of the opinion that the portion of Lease Payments distributable as Interest on the Certificates is excludable from State of Rhode Island personal income taxation to the extent such Interest is excludable from gross income for federal income tax purposes. However, such amounts may be included in the measure of Rhode Island estate taxes and certain corporate and business taxes. We express no opinion regarding any other Rhode Island tax consequences arising with respect to the issuance or any tax consequences arising with respect to the issuance under the laws of any state other than Rhode Island.

We express no opinion as to the exclusion from gross income for federal income tax purposes of the portion of the Lease Payments distributable to the Certificate Owners as Interest on the Certificates in the event of non-appropriation by the State of the Lease Payments. In addition, we express no opinion as to the effect that termination of the Sublease may have upon the treatment for federal or state income tax purposes of amounts received by Certificate Owners.

The opinions as to enforceability of the Sublease, the Lease, the Declaration of Trust and the Certificates contained in paragraphs one, two, and three above are qualified in that the enforceability thereof is subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws in effect from time to time which might affect the rights of creditors and further in that the enforceability thereof may be limited by the application of general principles of equity.

With respect to the due authorization, execution and delivery by, and enforceability against the Lessor and the Trustee of the Lease and the Declaration of Trust, we have relied on the opinion of even date of counsel to the Lessor and the Trustee. With respect to the due authorization, execution and delivery by, and enforceability against, the Lessee of the Sublease and the Lease, we have relied on the opinion of even date herewith of the Attorney General of the State of Rhode Island and legal counsel to the Council.

This opinion is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreement, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion letter to reflect any future actions, facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretation thereof, that may hereafter occur, or for any reason whatsoever.

The rights of the holders of the Certificates and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

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[Date of Delivery]

State of Rhode Island and Providence Plantations
State House
82 Smith Street
Providence, Rhode Island 02903

Re: \$8,000,000 State of Rhode Island and Providence Plantations Lease
Participation Certificates (Central Power Plant Project – 2017 Refunding
Series E) (the “Certificates”)

Ladies and Gentlemen:

We have acted as Special Counsel to the State of Rhode Island and Providence Plantations (the “State”) in connection with the issuance of the Certificates and the related execution of a Sublease Agreement dated as of July 1, 2017 (the “Sublease”) by and between The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee (hereinafter defined) as lessor (the “Lessor”) and the State, as lessee (the “Lessee”), and a Lease Agreement dated as of July 1, 2017 by and between the State, as lessor, and The Bank of New York Mellon Trust Company, N.A., in its capacity as Trustee (hereinafter defined) as lessee (the “Lease”). The Lessor has established a grantor trust (the “Trust”) pursuant to a Declaration of Trust dated as of July 1, 2017 (the “Declaration of Trust”) wherein The Bank of New York Mellon Trust Company, N.A., shall act as trustee (the “Trustee”) and pursuant to which the Lessor’s interest in and to the Lease Payments (defined in the Sublease) and other amounts received pursuant to the Sublease has been granted to the Trust for the benefit of the owners (the “Certificate Owners”) of the Certificates issued pursuant to the Declaration of Trust.

In such capacity, we have examined the Declaration of Trust, the Sublease, the Lease, the Official Statement dated June 6, 2017, relating to the sale of the Certificates (the “Official Statement”), and such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations of the State and its officials, and upon certified proceedings and other certificates of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under the law in effect on the date hereof:

1. The Sublease and the Lease have each been duly authorized, executed and delivered by the Lessee and are legal, valid, binding obligations of the Lessee, enforceable in accordance with their terms.

2. The Declaration of Trust has been duly authorized, executed and delivered by the Lessor and the obligations of the Trustee thereunder have been accepted by the Trustee and constitute legal, valid, and binding and enforceable obligations of the Trustee in accordance with the terms of the Declaration of Trust.

3. The Certificates have been duly authorized, executed, issued and delivered by the Trustee pursuant to the Declaration of Trust and are legal, valid, binding and enforceable in accordance with their terms.

4. The portion of payments made by the Lessee under the Sublease (the "Lease Payments") designated as interest and distributable to the Certificate Owners to the extent such payments are appropriated by the State and received by the Certificate Owners (the "Interest") is excludable from gross income of such Certificate Owners for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and such portion of the Lease Payments designated as Interest on the Certificates will not be treated as an item of tax preference for purposes of computing the federal alternative minimum tax. However, the portion of the Lease Payments designated as Interest on the Certificates will be taken into account in computing an adjustment made in determining a corporate Certificate Owner's minimum tax based on such Certificate Owner's adjusted current earnings. The opinions set forth in this paragraph are subject to the condition that the State comply with all requirements of the Code that must be satisfied subsequent to the issuance described herein in order that the Interest be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Such requirements include, but may not be limited to, requirements regarding the use, expenditure and investment of proceeds of the Certificates and the payment of rebates to the United States which must be continuously satisfied subsequent to the issuance of the Certificates in order for the portion of the Lease Payments designated as Interest on the Certificates to remain excludable from gross income for federal income tax purposes. Failure by the State to comply with certain of such requirements may cause the Interest to be come included in gross income for federal tax purposes retroactive to the date of issuance. We express no opinion regarding any other federal tax consequences arising with respect to the issuance. We are also of the opinion that the portion of Lease Payments distributable as Interest on the Certificates is excludable from State of Rhode Island personal income taxation to the extent such Interest is excludable from gross income for federal income tax purposes. However, such amounts may be included in the measure of Rhode Island estate taxes and certain corporate and business taxes. We express no opinion regarding any other Rhode Island tax consequences arising with respect to the issuance or any tax consequences arising with respect to the issuance under the laws of any state other than Rhode Island.

We express no opinion as to the exclusion from gross income for federal income tax purposes of the portion of the Lease Payments distributable to the Certificate Owners as Interest on the Certificates in the event of non-appropriation by the State of the Lease Payments. In addition, we express no opinion as to the effect that termination of the Sublease may have upon the treatment for federal or state income tax purposes of amounts received by Certificate Owners.

The opinions as to enforceability of the Sublease, the Lease, the Declaration of Trust and the Certificates contained in paragraphs one, two, and three above are qualified in that the enforceability thereof is subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws in effect from time to time which might affect the rights of creditors and further in that the enforceability thereof may be limited by the application of general principles of equity.

With respect to the due authorization, execution and delivery by, and enforceability against the Lessor and the Trustee of the Lease and the Declaration of Trust, we have relied on the opinion of even date of counsel to the Lessor and the Trustee. With respect to the due authorization, execution and delivery by, and enforceability against, the Lessee of the Sublease and the Lease, we have relied on the opinion of even date herewith of the Attorney General of the State of Rhode Island.

This opinion is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreement, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion letter to reflect any future actions, facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretation thereof, that may hereafter occur, or for any reason whatsoever.

The rights of the holders of the Certificates and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

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