2006 - 2007 Report on Debt Management
to the
Public Finance Management Board

December 2007

State of Rhode Island
and Providence Plantations

OFFICE OF THE GENERAL TREASURER

FRANK T. CAPRIO
GENERAL TREASURER

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Exhibit

December 2007

Members of the Rhode Island Public Finance Management Board

Ms. Rosemary Booth Gallogly, RI State Budget Officer
The Honorable A. Ralph Mollis, Secretary of State, State of Rhode Island
Mr. Lincoln Mossop, Public Member
Mr. William Fazioli, Public Member

Dear Members of the Board:

I hereby submit the 2006 - 2007 Debt Management Report for the State of Rhode Island and Providence Plantations. This report demonstrates the continued importance of closely monitoring the State's debt position relative to the State's borrowing capacity as part of Rhode Island's efforts to maintain fiscal discipline.

Rhode Island's debt burden peaked in the 1990's and for years the State was ranked in the top three nationally in terms of debt as a percentage of personal income and debt per capita. In recent years, debt management has been a top priority of the State resulting in significant improvement in several long-term debt trends. As recently as 1999, Rhode Island's debt burden was the 5th highest nationally according to Moody's Investors Service. The 2006 State Debt Medians Moody's recently published show that Rhode Island's ranking has dropped to 9th for debt per capita and 13th for debt as a percentage of personal income.

Net tax supported debt totaled $1.54 billion at the close of FY 2006, considerably below the peak level of $1.88 billion reached in FY 1994. Current Budget Office forecasts project the State's debt level to increase to $1.70 billion by FY 2011. While Rhode Island's debt burden has significantly improved, it remains above the national average.

Efforts to increase pay-as-you-go financing of projects, reactivate the sinking fund to defease high-cost debt or to limit, to the extent possible, issuing new debt, and improve bonds proceeds management must be continued. We are also pleased to report that in 2005, the Office of the General Treasurer, the Budget Office and the Office of Accounts and Control, implemented an integrated debt management system.

In order to maintain its current credit ratings, the State must continue to make fiscal responsibility a top priority. A major responsibility of the Treasurer's Office and the PFMB is to monitor State debt ratios and to preserve and enhance Rhode Island's credit rating and presence in the financial markets. Maintenance of prudent debt ratios and securing positive ratings from the credit rating agencies will allow Rhode Island to obtain financing at the lowest possible interest rates.

During a period when other states have experienced improved revenues and credit ratings, Rhode Island's fiscal situation has been characterized as "strained" by the three major credit rating agencies.

While all three ratings agencies recently affirmed the State's ratings in connection with the 2007 General Obligation Bond issuance, the reports are a warning and a call to action. One rating agency noted the State's use of one-time tobacco revenues to balance the 2007 and 2008 budgets which evidenced "continuing financial strain at a time when most states are moving toward structurally balanced budgets." Another agency said it would "closely monitor" the State's actions as the 2008 budget proceeds and the 2009 process evolves. No longer can the State balance its annual budget with one-time revenues.

In past years, Rhode Island was favorably cited for its fiscal discipline. Notably, when Standard & Poor's Corporation last upgraded the State of Rhode Island from "AA-" to "AA" in November 2005, the rating report credited the State's pension reform measures as one of the positive factors in the upgrade. According to Standard & Poor's other credit characteristics that supported the rating at that time included ***consistent financial performance and statutory reserves.*** The rating agency also noted that certain factors offset these strengths, including: a sizable unfunded pension liability along with other post-employment benefit unfunded liability estimated at $630 million.

In order to preserve its current rating level, Rhode Island will need to demonstrate structural balance between revenues and expenditures. To that end, I have communicated with the Legislative Leadership and to discuss the concerns raised by the rating agencies.

The State's credit rating agencies will continue to scrutinize budgetary decisions during this challenging time.

Finally, completion of this report required the cooperation of Treasury staff, the State Budget Office, and State's financial advisor, First Southwest Company. On behalf of the PFMB, I express my appreciation for the dedicated work of all those who helped compile this year's report.

Sincerely,

Frank T. Caprio
General Treasurer

SECTION 1
2006 Findings

The 2006 – 2007 Report includes the following:

- Φ Analysis of current State debt position and trends.
- Φ Status report on the implementation of debt management methods and policies.
- Φ Evaluation of projected new debt issuance in compliance with the Public Finance Management Board's ("PFMB") adopted Credit Guidelines.
- Φ Information about outstanding debt issued by State-related agencies and summary information on local government debt position and trends.

The principal findings of this report are summarized below.

Rhode Island's Debt Burden Remains Moderately High

Rhode Island's debt levels continue to improve, but are still relatively high, as evidenced by the following statistics provided by a Moody's Investor Service Special Comment Report, April 2007 and the FY 2008 Capital Budget:

- Rhode Island ranks 13th highest among all states in Net Tax Supported Debt as a percent of personal income, at 4.6% (based on Moody's calculations and 2005 national income levels).
- Rhode Island ranks 9th highest among all states in Net Tax Supported Debt per capita at $1,687 (based on Moody's calculations).
- Net Tax Supported Debt increased annually by 3.6% from FY02 - FY06. Personal income growth for the same period was 3.6%.
- In FY06 the general obligation debt increased at a rate of 5.2% over FY05. From FY02 - FY06 general obligation debt increased at a rate of 4.3%, compared to a 10.6% annual increase from FY92 - FY96.

Over the last four years Net Tax-Supported Debt increased by $249.5 million, from $1.29 billion at FY02 to $1.54 billion at FY06. Current tax-supported debt of $1.54 billion represents an increase of 10.6% from $1.39 billion at FY05. Rhode Island's Tax-Supported Debt peaked at FYE94 at $1.88 billion.

According to the FY 2008 Capital Budget, the State's outstanding Net Tax Supported Debt (includes adjustment for agency payments) is projected to increase to $1.70 billion for FY11. This projection assumes the issuance of no new Tax Supported Debt during this period other than as projected in the Capital Budget.

The Capital Budget for FY08, also indicates that State general obligation debt will increase at a compound annual growth rate of 4.1% from $935.5 million at FY07 to $1,146.4 million at FY11. During the same period, it is estimated that capital leases will decrease by $83.7 million (-6.4% CAGR), There were declines in all other categories of tax-supported debt, including the Refunding Bond Authority, Convention Center Authority, Economic Development Corporation and Rhode Island Housing and Mortgage Finance Corporation.

Rhode Island's efforts to improve its debt position continue to be recognized by the municipal credit rating agencies. Recent pension reform measures that were adopted during the 2005 legislative session contributed to Standard and Poor's upgrade of the State's bond rating from AA- to AA. Protecting the gains made in debt reduction is critical and important to preserving financial flexibility.

PFMB's Credit Guidelines and Debt Ratio Targets

In recognition of Rhode Island's high debt burden, the PFMB adopted Credit Guidelines recommended in the 1997 report for use in evaluating certain elements of the State's debt. The original Credit Guidelines were adopted after extensive research on State debt trends and a comparative analysis of certain "peer" states with demographic, geographic, and financial characteristics similar to Rhode Island. The Credit Guidelines were intended to be restrictive enough to be relevant in managing debt levels, but flexible enough to allow for the funding of critical infrastructure needs. However, in light of the State's already high debt burden at the time of adoption, the Credit Guidelines did not necessarily represent an "ideal" level of State debt.

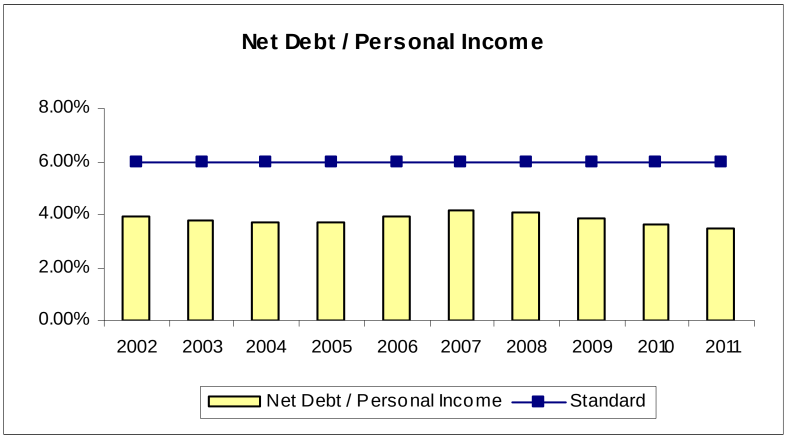
In line with its goal of trending toward more conservative levels of debt, in June 2000, the PFMB approved the revisions to the Tax Supported Debt to Personal Income target debt ratios recommended in the 1999 Report on Debt Management. Approved guidelines are as follows:

- ***Credit Guideline 1:*** Tax Supported Debt to not exceed the target range of 5% to 6.0% of personal income, and annual debt service for Tax Supported Debt to not exceed 7.5% of General Revenues. It is anticipated that fluctuation of this ratio over the long-term will be affected by both variations in personal income levels and debt issuance. The target ranges will continue to be reviewed on an annual basis with consideration given to trends in the State's debt level and upcoming infrastructure projects.

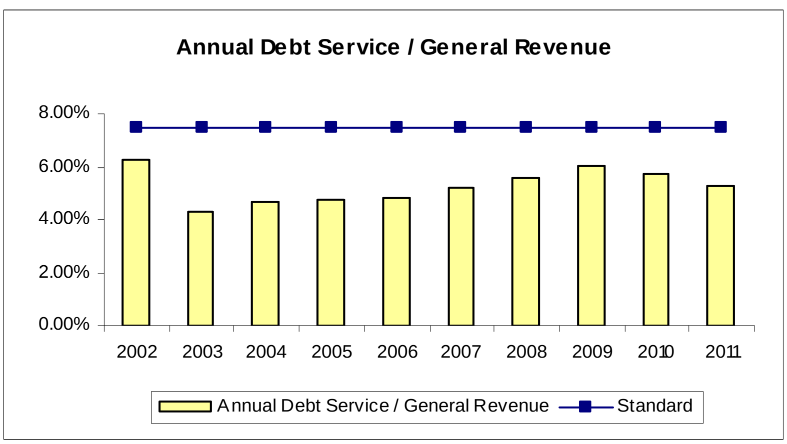
- ***Credit Guideline 2:*** The Board should monitor the total amount of Tax Supported Debt, State Supported Revenue Debt, and Agency Revenue Debt in relation to the State's personal income.

- ***Credit Guideline 3:*** The Credit Guidelines may be exceeded temporarily under certain extraordinary conditions. If a Credit Guideline is exceeded due to economic or financial circumstances, the Board should request that the Governor and the Legislature recommend a plan to return debt levels to the Guidelines within five years.

The debt projections in this report will remain within the Credit Guidelines relating to Net Debt to Personal Income, as the ratio will decline from 4.1% at FY07 to 3.5% at FY11. From FY02 to FY06, Personal Income grew at a rate of 3.6%, while Net Tax-Supported Debt increased by 3.6%. The combination of positive Personal Income growth and moderate debt growth resulted in the Net Debt to Personal Income ratio of 3.9% at FY02 to remain flat at 3.9% for FY06.



Annual Debt Service as a percentage of revenues improved from 6.3% in FY02 to 4.8% in FY06. Projections from FY07 to FY11 indicate continued compliance with the PFMB's guidelines as FY11 debt service to revenues ratio remains below the 7.5% target at 5.3%.

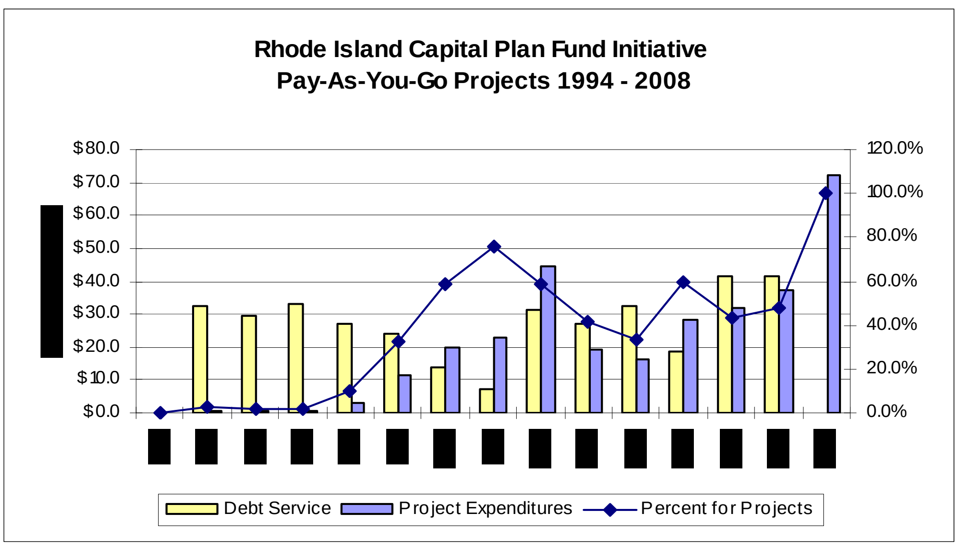


Positive Steps in Debt Administration

Rhode Island has made improvements to its debt planning and administration, beginning with the implementation of a formal capital budgeting process and the adoption of the Public Corporation Debt Management Act in 1994 (§RIGL 35-18). The State's debt load has a negative impact on the flexibility of the operating budget and limits the State's ability to meet unanticipated capital financing and economic development needs. Listed below are several initiatives related to debt administration undertaken by the State in recent years.

1. **Pay-As-You-Go Capital Financing.** During a period of sustained economic expansion from 1998 – 2001, along with improved cash management, the State was able to forego cash flow borrowing, a positive trend in the State's debt management. However, an economic downturn compelled the State to borrow on a short-term basis in March 2002, November 2003 and December 2003. Greater financial flexibility during periods of economic expansion have enabled the State to increase the proportion of pay-as-you-go capital spending, which includes using both gas tax funds and funds dedicated to the Rhode Island Capital Fund.

   Included in the governor's recommended FY08 Budget was a $72.4 million appropriation ($24.8 million in FY07 which includes funding reappropriations from FY06) for pay-as-you-go capital financing through the Rhode Island Capital Plan Fund. Funds may be used to pay for debt service or project expenditures. According to the FY08 Capital Budget, 100.0% of the Fund's resources will be used for capital asset protection projects in FY08 up from 47.5% in FY07. Given budgetary concerns, the State has not been in a position to maximize pay-as-you-go capital financing. However, it is recommended that the State once again emphasize pay-as-you-go capital spending when the economic climate improves.



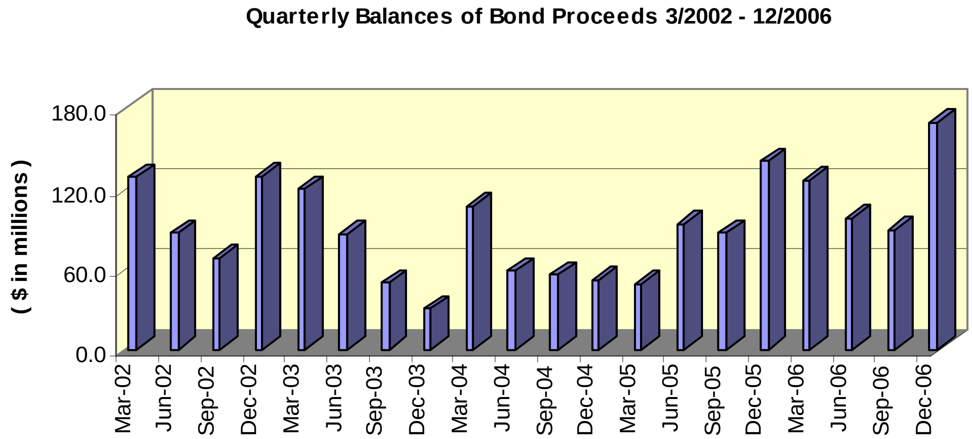
2. **Sinking Fund Commission.** During the 1998 legislative session, the Sinking Fund Commission was reconstituted and given the responsibility of overseeing a program of debt reduction that would be the result of the increased allocation of current revenues to defease or prepay debt. The goal of the Sinking Fund Commission is to reduce debt levels with an increasing appropriation of savings and other revenues to prepay additional debt.

Bond Proceeds Management. The State continues to monitor the issue of unexpended balances of general obligation bond proceeds. Past reports have noted this as an issue of concern. Unexpended proceeds have declined from a peak of $167.9 million in 28 accounts at September 30, 1999 to $169.9 million in 32 accounts as of December 31, 2006. From FY98 – FY00, a total of eleven bond proceeds accounts were closed. Twelve additional accounts were closed from FY01 – FY05 and one account was closed during FY06.

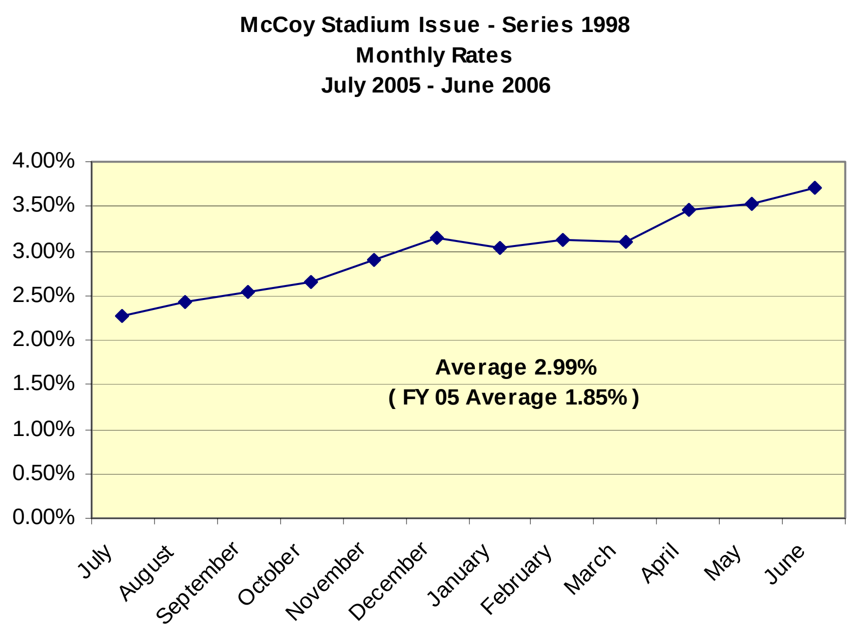
Invested Bond Proceeds By Fund
December 31, 2006

Fund	Amount
Clean Water 1993 Series A	$ 8.90
Clean Water CCDL 1998 Series B	149,533.41
Clean Water 1996 Series A	12,709.44
Clean Water CCDL 1994 Series A	6,255.73
Capital Development Loan 1997 Series A	19,723.33
Clean Water CCDL 2002 Series B	322,555.57
Clean Water CCDL 2004 Series A	731,218.01
Clean Water CCDL 2005 Series E	893,660.53
Capital Development Loan 1997 Series A	8,620.81
Pollution Control 1994 Series A	6,445.41
CCDL 1999 Series A	346,057.14
Pollution Control 2002 Series B	46,131.86
Pollution Control 2004 Series A	959,558.16
Pollution Control 2005 Series C	89,565.20
Pollution Control 2005 Series E	675,906.86
Pollution Control 2006 Series C	1,607,283.42
G.O. Note 1991 Series B	3,848.97
Bond CCDL 1993 Series A	473.75
Bond CCDL 1994 Series A	685,432.63
Bond CCDL 1996 Series A	1,280,220.20
Capital Development Loan 1997 Series A	944,324.90
CCDL 1998 Series B	2,246,795.21
CCDL 1999 Series A	12,766.20
Multi-Modal 1999 Series B	2,889.01
Bond Capital CCDL 2000 Series A	1,574,715.84
Multi-Modal 2000 Series B	2,860.27
G.O. CCDL 2001	38.55
CCDL 2004 Series A	13,843,449.70
CCDL 2005 Series C	24,434,656.15
CCDL 2005 Series E	21,244,766.45
CCDL 2006 Series B	6,240,732.62
CCDL 2006 Series C	91,561,634.85
	$ 169,954,839.08

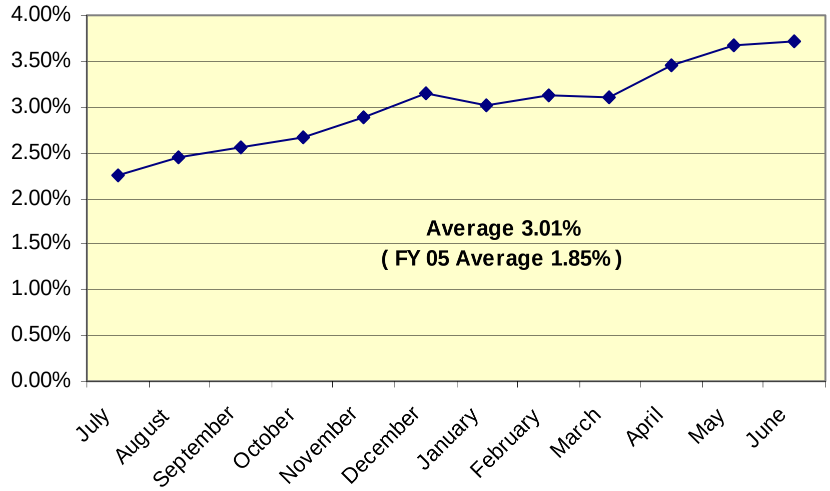
As shown in the chart below, there is a cyclical peak at the end of the second or third quarter, which is indicative of the traditional timing of bond issuance.



3. **Variable Rate Debt Obligations Issued.** The State has issued a total of $100.3 million of multi-modal variable rate general obligations bonds: $36.5 million in July 1998, $32.4 million in September 1999 and $31.4 million in July 2000. In addition, the State was also involved in a variable rate financing for McCoy Stadium that was issued by the Economic Development Corp in July 1998. These floating rate structures offered (1) low initial interest rates, (2) principal structuring flexibility, including prepayment without penalty, and (3) the ability to convert to a fixed rate on one month's notice. The variable rate component improves the match of State assets and liabilities and provides a lower overall cost of capital for the State. The 1998 and 1999 variable rate bonds were refunded with fixed rate bonds in February 2001 as part of a $118.9 million refunding.



Multi-Modal General Obligation Bonds CCDL of 2000, Series B
Monthly Rates
July 2005 - June 2006



The Rhode Island Convention Center Authority currently has one variable rate debt issue with an outstanding balance of $65,085,000. The Authority's variable rate series is swapped to a fixed rate however, beginning May, 2006 is subject to an option through which it could revert to all variable. Therefore, it is included in the variable portion of the State's tax supported debt. The General Treasurer and the State Budget Office have implemented a policy which restricts the total amount of variable rate exposure to 10% of net tax supported debt outstanding. The amount of variable rate debt outstanding as of June 30, 2006, including the Convention Center Authority series was 6.8%.

In the 2001 session of the RI General Assembly, the Legislature approved a bill proposed by the Treasurer's office to permit the State to enter into interest rate swap agreements with the goal of reducing borrowing costs. This effectively permits the State to convert a fixed rate obligation to a variable rate obligation or vice-versa. The fiscal impact of future transactions is not possible to quantify since any benefit derived from the use of variable rate debt and related interest rate swaps is extremely dependent upon market conditions, the extent to which the investment vehicle is utilized and the specifics of the individual transaction. Market conditions have, from time to time, resulted in the fixed rates achieved synthetically through swaps being as much as 50 basis points below traditional fixed rate debt. The State can only enter into such transactions when there are demonstrated savings.

5. **Municipal Debt Report.** The PFMB published its initial Local Debt Study for cities and towns in 1998. This report demonstrated that the State's debt load can, in part, be attributed to governmental functions assumed at the state level that in other states are assumed at the local or county level. Examples of this include the State's convention center and correctional facilities. This argument implies that Rhode Island's local governments are relieved of a relatively heavy debt burden. Based on the municipal debt report, this is true for the majority of Rhode Island cities and towns. The report showed that, on average, Rhode Island's city and town debt ratios were approximately half of the Standard and Poor's "moderate" benchmark of cities and towns of comparable size in other states, which partially explains the State's high debt ratios. The PFMB publishes the Municipal Debt Report biannually and is expected to publish the next local debt study in December 2007.

SECTION 2

Rhode Island State Debt

Table 2-1 below is a summary detail statement of outstanding State debt, with a brief glossary of terms describing each category of debt following.

Table 2-1
Rhode Island Debt Statement
(as of June 30, 2006, dollars in millions, principal amount)

	6/30/2004	6/30/2005	6/30/2006
Tax Supported Debt			
General Obligation Bonds	$ 762.6	$ 800.9	$ 842.6
Capital Leases	92.4	224.6	218.9
Convention Center Authority	302.3	202.9	287.2
Economic Development Corporation	136.3	128.3	139.0
Narragansett Bay Commission Bonds	11.3	-	-
R.I.H.M.F.C. Neighborhood Opportunities Housing Program	12.6	13.1	18.8
Refunding Bond Authority	84.7	74.6	60.3
Gross Tax Supported Debt	$ 1,402.2	$ 1,444.4	$ 1,566.8
Agency Payments	(67.4)	(55.0)	(29.7)
Subtotal Net Tax Supported Debt	**$ 1,334.8**	**$ 1,389.4**	**$ 1,537.1**
State Supported Revenue Debt			
Blackstone Valley Commission	$ 7.6	$ -	$ -
Narragansett Bay Commission	3.6	-	-
EDC - Collaborative	25.0	24.5	-
EDC - Providence Place Mall	38.2	36.7	35.2
EDC - URI Power Plant	14.1	13.5	12.9
R.I. Housing	260.5	273.0	246.1
Industrial Recreational Building Authority - Insured Industrial Facilities Corporation	27.1	26.0	21.9
Subtotal State Supported Revenue Debt	**$ 376.1**	**$ 373.7**	**$ 316.1**
Agency Revenue Debt			
Airport Corporation	$ 199.9	$ 269.5	$ 314.3
Economic Development Corporation	41.2	46.6	65.5
EDC - Fidelity Building II	10.0	10.0	10.0
EDC - Fleet Bank	7.0	10.0	9.8
EDC - GARVEE Bonds, Federally Funded	216.8	186.0	338.4
R.I. Housing	5.0	5.0	5.0
Narragansett Bay Commission	186.2	292.7	363.8
Resource Recovery Corporation	18.3	19.6	20.4
State University and Colleges	113.6	183.7	201.7
Turnpike and Bridge Authority	33.6	31.7	29.8
Water Resources Board	10.5	9.8	9.1
Subtotal Agency Revenue Debt	**$ 842.1**	**$ 1,064.6**	**$ 1,367.8**
Conduit Debt			
Clean Water Finance Agency	$ 411.7	$ 504.6	$ 535.8
Health and Educational Building Corporation	1,492.5	1,519.3	1,659.5
R.I. Housing	1,115.5	1,083.2	1,041.9
Industrial Facilities Corporation	86.0	84.7	98.6
Student Loan Authority	806.2	803.4	793.9
Water Resources Board	5.6	4.7	3.9
Subtotal Conduit Debt	**$ 3,917.5**	**$ 3,999.9**	**$ 4,133.6**
Total State Related Debt	**$ 6,470.5**	**$ 6,827.6**	**$ 7,354.6**

Sources: FY 08 Capital Budget and Treasury Survey of R. I. Quasi-Public Corporations.

Explanation of Categories of Debt

Below is a definition of the categories of debt, which are used throughout this report and reflected in Table 2-1 on the previous page. These categories are listed in declining relationship to the State's general credit. To the extent possible, the categories are consistent with the methods credit analysts use in reviewing a state's debt levels. Credit analysts are the professionals who assign credit ratings and recommend and evaluate debt as investments for investors in tax exempt bonds.

Tax Supported Debt

Tax Supported Debt is payable from or secured by general taxes and revenues of the State or by specific State collected taxes that are pledged to pay a particular debt. Because of the claim this debt has on the State's credit, this is the most relevant debt figure to State taxpayers.

State Supported Revenue Debt

State Supported Revenue Debt is payable from specified revenues pledged for debt service which are not general taxes and revenues of the State. However, the State provides additional credit support to repay this debt if the pledged revenues are insufficient to meet scheduled debt service requirements. Because of the contingent nature of the State Credit Support, this figure is somewhat less important than Tax Supported Debt. This type of debt includes "moral obligation" debt.

Agency Revenue Debt

Agency Revenue Debt is similar to State Supported Revenue Debt; except that no State credit support is legally pledged for repayment and the assets financed are State owned enterprises that are intended to be supported by internally generated fees and revenues. While this type of debt is not supported by State taxes, the agencies and public corporations responsible for this debt may also have financed some assets with State general obligation debt, thereby indirectly linking such debt to the State.

Conduit Debt

Conduit Debt is issued by a state agency or public corporation on behalf of borrowers which include businesses, health care institutions, private higher education institutions, local governments, and qualified individuals (loans for higher education and housing purposes). No State credit support is provided.

SECTION 3
Classification and Analysis of State Debt

The Debt Issuers

The electorate of the State and the General Assembly authorize certain State officers, State agencies, and municipalities to issue debt for various purposes. This report uses the terms "issuers" and "debt issuing agencies" to describe any State office, department, corporation, or agency which issues bonds, notes, or other securities. These issuers finance construction and other capital improvements to State buildings; State highways; local water, sewer, and other capital improvement projects; loans to businesses; health care organizations; loans to low and moderate income persons for single family housing and higher education; loans to developers for multifamily housing; and private and public university buildings.

There are currently 16 different State debt issuers that have been authorized to sell various types of obligations. Table 3-1 presents a list of each issuer and the type of debt each has issued.

Table 3-1
State Debt Issuing Agencies

Issuer	Tax Supported Debt	Revenue Debt (State Credit Support)	Agency Revenue Debt	Conduit Debt
Airport Corporation* (1)			X	
Clean Water Finance Agency				X
Convention Center Authority	X			
Economic Development Corporation	X	X	X	
Health and Education Building Corp.				X
Housing, Mortgage, and Finance Corp.	X	X	X	X
Industrial Facilities Corp.		X		X
Narragansett Bay Commission*	X	X	X	
Refunding Bond Authority	X			
Resource Recovery Corporation			X	
State of Rhode Island-Capital Leases	X			
State of Rhode Island-GO Bonds	X			
State Universities and Colleges			X	
Student Loan Authority				X
Turnpike and Bridge Authority			X	
Water Resources Board			X	X

* The State has outstanding general obligation bonds issued on behalf of these agencies.

(1) Borrows through the Economic Development Corporation.

There are four general categories of debt issued by these entities: Tax Supported Debt, State Supported Revenue Debt, Agency Revenue Debt, and Conduit Debt. The total amount of debt for these four classes of State debt outstanding as of June 30, 2006 is summarized in Table 3-2.

Table 3-2
Outstanding State Debt
as of June 30, 2006
(Dollars in millions, principal amount)

Tax Supported Debt	$1,537.1
State Supported Revenue Debt	316.1
Agency Revenue Debt	1,367.8
Conduit Debt	4,133.6
Total	**$7,354.6**

Source: FY 08 Capital Budget and Treasury Survey of R.I. Quasi-Public Corporations.
Note: Due to data collection lags, does not include local government debt, which totaled approximately $1,433.7 million at June 30, 2006, up from $1,380.3 million at June 30, 2005.

How the Debt Issuers Are Related and Evaluated

All debt issued by the State and its agencies is analyzed for institutional investors, individual investors, and providers of credit guarantees including insurance companies and commercial banks. Credit analysts include the major credit rating services (Moody's Investors Service, Standard & Poor's, and Fitch Ratings); municipal bond insurance companies which guarantee many bonds issued by the State (AMBAC, FSA, MBIA, FGIC, and others); broker-dealers and dealer banks which underwrite State bonds; and institutional investors which purchase State bonds (mutual funds, casualty insurance companies, and investment advisors).

One of the factors these analysts use to evaluate debt issued by state agencies is the degree to which the State's general taxes and revenues may be called upon to pay or support the payment of these debts. Tax Supported Debt, for example, is paid directly by State collected taxes and revenues, while Conduit Debt is solely an obligation of a borrower that is not a State agency. Investors do not expect the State to be directly or indirectly responsible for payment of debt service for Conduit Debt.

Each class of debt is defined in Section 2 on page 9. The following discussion presents historical information about the level of such debt.

Tax Supported Debt: FY02 to FY06

Tax Supported Debt includes general obligation bonds, bonds payable from leases which are subject to appropriation from the State's general fund. Credit ratings for this debt are largely dependent on the general fiscal condition of the State, amount of Tax Supported Debt currently outstanding, the characteristics of the specific tax that is pledged for repayment, and the economic conditions of the State.

Table 3-3 presents the amounts and types of Tax Supported Debt for the five years ending June 30, 2006 with resulting debt ratios. For FY06, the State's Debt to Personal Income ratio of 3.9% and Debt Service to Revenue ratio of 4.8% were in compliance with the Credit Guideline maximums of 6.0% and 7.5%, respectively. A detailed statement of Outstanding Tax Supported Debt (actual) as of June 30, 2006 is presented in Appendix A.

Table 3-3
Tax Supported Debt: Fiscal Years 2002 - 2006
(dollars in millions, principal amount)

Fiscal Years	2002	2003	2004	2005	2006	CAGR FY 02 - 06
General Obligation Bonds	$ 683.0	$ 722.9	$ 762.6	$ 800.9	$ 842.6	4.3%
Capital Leases	103.9	100.5	92.4	224.6	218.9	16.1%
Convention Center Authority	319.4	310.0	302.3	202.9	287.2	-2.1%
Economic Development Corp.	93.2	91.1	136.3	128.3	139.0	8.3%
Narragansett Bay Commission Bonds	15.0	13.1	11.3	-	-	-
R.I.H.M.F.C. Neighborhood Opp. Hsing Prog.	12.6	12.6	12.6	13.1	18.8	8.3%
Refunding Bond Authority (1)	133.1	100.7	84.7	74.6	60.3	-14.6%
Gross Tax Supported Debt	$ 1,360.2	$ 1,350.9	$ 1,402.2	$ 1,444.4	$ 1,566.8	2.9%
Agency Payments	(72.6)	(70.0)	(67.4)	(55.0)	(29.7)	-16.4%
Net Tax Supported Debt	**$ 1,287.6**	**$ 1,280.9**	**$ 1,334.8**	**$ 1,389.4**	**$ 1,537.1**	**3.6%**
Annual Net Tax Supported Debt Service (2)	$ 167.6	$ 122.0	$ 136.5	$ 147.1	$ 160.4	-0.9%
Debt Ratios: (3)						
Annual Debt Service/Revenues (7.5%)	6.3%	4.3%	4.7%	4.7%	4.8%	-5.0%
Net Debt/Personal Income (5% - 6%)	3.9%	3.8%	3.7%	3.7%	3.9%	0.1%
Net Debt/Capita	$ 1,205.0	$ 1,190.7	$ 1,236.0	$ 1,291.0	$ 1,428.3	3.5%
Assumptions:						
Revenues (2), (4)	$ 2,676.8	$ 2,846.5	$ 2,935.2	$ 3,111.4	$ 3,308.3	4.3%
Personal Income	$ 32,767.7	$ 33,747.4	$ 35,816.5	$ 37,317.5	$ 39,018.3	3.6%
Population (5)	1,068,550	1,075,729	1,079,916	1,076,189	1,076,189	0.1%

CAGR = Compound Annual Growth Rate
Source: FY 08 Capital Budget

(1) The Public Building Authority was merged into the Refunding Bond Authority on 7/21/97. Balances and CAGR are for merged entity FY 02 - FY 06.
(2) FY 03 - FY 07 Capital Budgets.
(3) Based on Net Tax Supported Debt which includes agency payments.
(4) Revenues include actual general revenues plus dedicated gas tax transfers.
(5) Population estimates are from the U.S. Census Bureau, December 2005.

As the result of an increase in General Obligation debt, Capital Leases, Economic Development Corporation debt and R.I.H.M.F.C. Neighborhood Opportunities Housing Program debt, total Net Tax Supported Debt increased by 3.6% from FY02 to FY06. These increases were partially offset by a 14.6% decrease in Refunding Bond Authority debt and a 2.1% decrease in Convention Center Authority debt. State personal income and revenues grew at an annual compound rate of 3.6% and 4.3%, respectively over the same period.

The Governor, with approval by the General Assembly, also authorizes certain departments to finance the acquisition of equipment and the acquisition and improvement of buildings by using capital leases. Capital leases have been used to finance various projects such as the Attorney General's office, the ACI Intake Center, the office complex at Howard Center for the Department of Labor and Training and power generation facilities at the State Colleges and Universities. These capital leases are considered Tax Supported Debt by bond credit analysts.

The Economic Development Corporation issues debt that will be paid from State taxes and revenues which represents 9.0% of Tax Supported Debt. This debt contains unusual credit features, which obligate the State to pay debt service under certain expected circumstances. Two such issues (Fidelity and Fleet leases) carry a moral obligation pledge, which requires the State to appropriate funds in the event that certain job hiring targets are met. In the event performance targets are not met, the State is not obligated to pay under the agreements. The purpose of this type of performance-based credit structure is to foster economic development, and to justify such appropriations by the generation of incremental income tax receipts. For this reason, issuance must be carefully monitored and measured for budget purposes.

Projected Tax Supported Debt: FY07 to FY11

Using figures provided by the State Budget Office, an estimate of the Tax Supported Debt for the FY07 – FY11 period has been developed along with a forecast of certain debt ratios.

Table 3-4
Tax Supported Debt: Fiscal Years 2007 - 2011
(dollars in millions, principal amount)

Fiscal Years	2007	2008	2009	2010	2011	CAGR FY 07 - 11
General Obligation Bonds	$ 935.5	$ 1,007.1	$ 1,066.9	$ 1,118.3	$ 1,146.4	4.1%
Capital Leases	297.0	274.3	257.0	233.0	213.3	-6.4%
Convention Center Authority	279.9	271.0	261.7	251.9	241.7	-2.9%
Economic Development Corp.	147.1	136.1	139.4	127.5	120.1	-4.0%
R.I.H.M.F.C. Neighborhood Opp. Hsing Prog.	23.0	18.2	13.3	8.6	3.7	-30.6%
Refunding Bond Authority	42.7	24.2	6.1	-	-	-
Gross Tax Supported Debt	$ 1,725.2	$ 1,730.9	$ 1,744.4	$ 1,739.3	$ 1,725.2	0.0%
Agency Payments	(28.9)	(28.0)	(26.9)	(25.7)	(24.4)	-3.3%
Net Tax Supported Debt	**$ 1,696.3**	**$ 1,702.9**	**$ 1,717.5**	**$ 1,713.6**	**$ 1,700.8**	**0.1%**
Annual Net Tax Supported Debt Service (1)	$ 174.8	$ 196.3	$ 209.1	$ 208.0	$ 200.6	2.8%
Debt Ratios: (2)						
Annual Debt Service/Revenues (7.5%)	5.2%	5.6%	6.0%	5.7%	5.3%	0.4%
Net Debt/Personal Income (5% - 6%)	4.1%	4.1%	3.8%	3.6%	3.5%	-3.5%
Net Debt/Capita	$ 1,576.2	$ 1,582.3	$ 1,595.9	$ 1,592.3	$ 1,580.4	0.1%
Assumptions:						
Revenues	$ 3,361.0	$ 3,496.7	$ 3,468.6	$ 3,643.8	$ 3,786.7	2.4%
Personal Income	$ 41,086.2	$ 42,020.9	$ 44,910.1	$ 47,020.9	$ 49,183.9	3.7%
Population (3)	1,076,189	1,076,189	1,076,189	1,076,189	1,076,189	0.0%

CAGR = Compound Annual Growth Rate
Source: FY 08 Capital Budget

(1) Projected Net Tax Supported Debt Service.
(2) Based on Net Tax Supported Debt which includes agency payments.
(3) Population estimates are from the U.S. Census Bureau, December 2005.

Gross Tax Supported Debt (excludes adjustments for agency payments) is projected to remain flat at $1.725 billion from FY07 to FY11.

Total forecast additions to tax-supported debt are projected to increase by 31.6% from FY07 – FY11. According to the FY08 Capital Budget, General Obligation Debt Issues are projected to increase by approximately 83.4% from 2007 – 2011. Total Capital Lease issuance is projected to decrease by 6.7% and R.I.H.M.F.C. Neighborhood Opportunities Housing Program by 24.0% on a compound annual growth rate basis.

Table 3-5
Forecast Additions to Tax Supported Debt: Fiscal Years 2007 - 2011
General Obligation Bonds and Capital Leases
(dollars in millions, principal amount)

Fiscal Years	**2007**	**2008**	**2009**	**2010**	**2011**	**CAGR FY 07 - 11**
General Obligation Bonds	$ 22.0	$ 141.0	$ 256.7	$ 368.5	$ 456.2	83.4%
Masonic Temple Historic Tax Credit Avoidance	14.3	9.8	5.1	-	-	-
Master Lease for Vehicles / DOT Trucks	10.5	7.6	4.6	1.7	1.3	-34.2%
E.D.C. - Transportation Motor Fuel Bonds	-	-	15.0	14.5	13.9	-
D.M.V. Technology - C.O.P.'s	6.8	5.9	11.3	9.4	7.5	2.0%
Innovative Technology - C.O.P.'s	21.7	19.0	16.1	13.2	10.1	-14.2%
School for the Deaf	31.3	30.4	29.4	28.4	27.4	-2.6%
D.O.A. Energy Conservation Equipment Leases	6.0	6.0	5.7	5.3	5.0	-3.6%
Consolidated Facilities for D.O.I.T.	9.1	8.8	8.4	8.1	7.8	-3.0%
State Police Radio Towers	7.1	6.9	6.7	6.4	6.1	-3.0%
R.I.H.M.F.C. Neighborhood Opp. Hsing Prog.	7.5	6.1	4.8	3.4	1.9	-24.0%
Total Capital Leases	$ 114.3	$ 100.5	$ 107.1	$ 90.4	$ 81.0	-6.7%
Total	**$ 136.3**	**$ 241.5**	**$ 363.8**	**$ 458.9**	**$ 537.2**	**31.6%**

Sources: FY 08 Capital Budget, Office of the General Treasurer.

State Supported Revenue Debt

State Supported Revenue Debt is payable from specified revenues pledged for debt service which are not general taxes and revenues of the State. The State provides additional credit support to repay this debt only if the pledged revenues are insufficient to meet scheduled debt service payments.

The State provides credit support in a variety of forms. For purposes of this report, State Credit Support is broadly defined to include a contingent commitment to make annual appropriations under a lease, a contingent commitment to seek appropriations to replenish a special debt reserve, direct guarantees of debt payments, commitments to pay all or a portion of debt service under certain conditions, and commitments to provide other payments which indirectly secure or directly pay debt service.

A contingent commitment to seek appropriations to replenish a special debt reserve is known as a “moral obligation” and has special meaning to credit analysts. State laws that authorize moral obligation debt require notification by the Governor to the General Assembly when a deficiency in a special debt service reserve has occurred. The Governor then is required to request an appropriation to replenish the reserve to its required level. Credit analysts view "moral obligation" bonds as a contingent state obligation even though the legislative body is not contractually required to make the requested appropriation.

State Supported Revenue Debt represents a substantial contingent obligation of the State of $316.1 million at June 30, 2006, down from $373.7 million at June 30, 2005. While this type of debt is intended to be paid from dedicated revenues generated from financed projects, the State has provided credit support to additionally secure this debt. Because of the implied financial commitment of State support in the event of any unanticipated revenue shortfall, the level of this debt is an important consideration for the credit ratings of the State's Tax Supported Debt. Table 3-6 presents the amounts and types of State Supported Revenue Debt for the five years ending June 30, 2006.

Table 3-6
State Supported Revenue Debt: Fiscal Years 2002 - 2006
(dollars in millions, principal amount)

Fiscal Years	2002	2003	2004	2005	2006	CAGR FY 02 - 06
Blackstone Valley Commission (1)	$ 9.9	$ 8.7	$ 7.6	$ -	$ -	$ -
Narragansett Bay Commission (1)	5.1	4.4	3.6	-	-	-
EDC - Collaborative	25.0	25.0	25.0	24.5	-	-
EDC - Providence Place Mall	40.8	39.3	38.2	36.7	35.2	-2.9%
EDC - URI Power Plant	15.3	14.7	14.1	13.5	12.9	-3.4%
R.I. Housing	195.4	209.9	260.5	273.0	246.1	4.7%
Industrial Recreational Building Authority - Insured						
Industrial Facilities Corporation	18.5	17.2	27.1	26.0	21.9	3.4%
Other	2.4	-	-	-	-	-
Total	**$ 312.4**	**$ 319.2**	**$ 376.1**	**$ 373.7**	**$ 316.1**	**0.2%**

CARG = Compound Annual Growth Rate
Source: Treasury Survey of R.I. Quasi-Public Corporations.

(1) General Obligations guaranteed but supported by agency revenues.

The largest component of State Supported Revenue Debt is the moral obligation debt of the Rhode Island Housing, which has increased by 25.9% (CAGR of 4.7%) since 2002. When combined with the defeasance of the Blackstone Valley Commission and Narragansett Bay Commission debt, State Supported Revenue Debt increased by an annual compound rate of only 0.2% for the period from FY02 to FY06.

The Rhode Island Industrial Facilities Corporation ("RIIFC") issues bonds which are secured by loans and mortgages of private borrowers, but the bonds may be additionally secured by a voter authorized commitment provided by the Industrial-Recreational Building Authority ("IRBA") which is funded by State appropriations. The portion of RIIFC's debt which is guaranteed by IRBA is shown in this category.

The Economic Development Corporation is authorized to secure its revenue bonds with the State moral obligation with the approval of the Governor and as of FY00; all debt issues previously secured under the traditional moral obligation pledge had been paid off.

Agency Revenue Debt

Agency Revenue Debt is similar to the previous classification, except that the State has not provided any form of credit support and no general taxes or revenues are pledged for payment of these bonds. This type of debt is isolated from the State's general credit, but because the borrowers are agencies or corporations created by the General Assembly, this debt is not as removed as Conduit Debt.

Investors would expect that the State would take no actions which would cause these bond issuers financial harm, and the State has no legal responsibility to prevent financial defaults. However, as a practical matter, the State facilities which are financed in this manner, such as the University of Rhode Island, the Claiborne Pell and Mt. Hope Bridges, and the T.F. Green Airport expansion, are important public facilities, the use of which the State would not likely surrender in the event that the pledged revenues were insufficient to pay debt service. For this reason, this type of debt is important to the State's credit standing.

The State has issued general obligation bonds to finance facilities of several of the agencies shown in Table 3-7. Only the Revenue Debt of these agencies is presented in Table 3-7, and any other debt is presented in the sections relating to Tax Supported Debt. Table 3-7 presents the amounts and types of Agency Revenue Debt for five fiscal years ending June 30, 2006.

Table 3-7
Agency Revenue Debt: Fiscal Years 2002 - 2006
(dollars in millions, principal amount)

Fiscal Years	2002	2003	2004	2005	2006	CAGR FY 02 - 06
Airport Corporation	$ 209.0	$ 205.2	$ 199.9	$ 269.5	$ 314.3	8.5%
Economic Development Corporation	62.4	60.4	41.2	46.6	65.5	1.0%
EDC - Fidelity Building II	10.0	10.0	10.0	10.0	10.0	0.0%
EDC - Fleet Bank	7.3	7.2	7.0	10.0	9.8	6.1%
EDC - GARVEE Bonds, Federally Funded	-	-	216.8	186.0	338.4	-
R.I. Housing	5.0	5.0	5.0	5.0	5.0	0.0%
Narragansett Bay Commission	74.8	136.6	186.2	292.7	363.8	37.2%
Resource Recovery Corporation	19.5	19.0	18.3	19.6	20.4	0.9%
State University and Colleges	113.5	112.5	113.6	183.7	201.7	12.2%
Turnpike and Bridge Authority	37.2	35.6	33.6	31.7	29.8	-4.3%
Water Resources Board	8.2	18.9	10.5	9.8	9.1	2.1%
Total	**$ 546.9**	**$ 610.4**	**$ 842.1**	**$ 1,064.6**	**$ 1,367.8**	**20.1%**

CARG = Compound Annual Growth Rate
Source: Treasury Survey of R.I. Quasi-Public Corporations.

The Narragansett Bay Commission experienced the largest increase of 37.2% due to the combined sewer overflow project. The State University and Colleges had the second largest increase of 12.2% because of various construction and improvement projects. The third largest increase of 8.5% was from the Airport Corporation. Overall, Agency Revenue debt grew at a compound annual rate of 20.1% from FY02 - FY06. Because payment of this category of debt is supported by fees, charges, or other revenues, an increase in this type of debt may be considered as one indicator of economic growth. However, either a stable or growing economy is needed to support such debt.

Conduit Debt

Conduit Debt is issued by a state agency on behalf of borrowers, which include businesses, health care institutions, private higher education institutions, local governments, and qualified individuals (loans for housing and higher education purposes). These borrowers are able to borrow at the favorable tax exempt interest rates under the federal tax laws by having a State agency issue bonds on their behalf.

Conduit Bonds are payable from repayment of loans by the borrowers and are independent of the State's credit. Investors would not expect any assistance by the State in the event the borrower experienced financial difficulties or if the debt were to default. None of the debt presented in Table 3-8 is secured by any form of State Credit Support.

Table 3-8
Conduit Debt: Fiscal Years 2002 - 2006
(dollars in millions, principal amount)

Fiscal Years	2002	2003	2004	2005	2006	CAGR FY 02 - 06
Clean Water Finance Agency	$ 203.1	$ 286.9	$ 411.7	$ 504.6	$ 535.8	21.4%
Health and Educational Building Authority	1,067.9	1,192.2	1,492.5	1,519.3	1,659.5	9.2%
R.I. Housing	1,369.1	1,348.7	1,115.5	1,083.2	1,041.9	-5.3%
Industrial Facilities Corporation	101.2	67.4	86.0	84.7	98.6	-0.5%
Student Loan Authority	782.4	883.6	806.2	803.4	793.9	0.3%
Water Resources Board	7.1	6.3	5.6	4.7	3.9	-11.3%
Total	**$ 3,530.8**	**$ 3,785.1**	**$ 3,917.5**	**$ 3,999.9**	**$ 4,133.6**	**3.2%**

CARG = Compound Annual Growth Rate
Source: Treasury Survey of R.I. Quasi-Public Corporations.

Conduit Debt, which represents the largest category of debt, grew at a compound annual rate of 3.2% from FY02 - FY06. The agencies which experienced the most significant growth in debt were the Clean Water Finance Agency and the Health and Educational Building Authority, with compound annual growth rates reaching 21.4% and 9.2%, respectively. Student Loan Authority's debt levels have also been on the rise, but at a much slower rate of 0.3%.

Local Government Debt

Local governments issue various types of debt which may be secured by a general obligation of the local government or may be payable from a specific revenue source.

Table 3-9 presents the amounts of Local Government Debt for the five years ending June 30, 2005. This table does not include the debt of certain regional and municipal authorities including the Bristol County Water Authority, the Foster Glocester Regional School District, Kent County Water Authority, and the Providence Public Building Authority.

Table 3-9
Local Government Debt: Fiscal Years 2002 - 2006
(in millions)

Fiscal Years	2002	2003	2004	2005	2006	CAGR FY 02 - 06
Local Government Debt	$ 1,211.8	$ 1,365.4	$ 1,393.5	$ 1,380.3	$ 1,433.7	**3.4%**

CARG = Compound Annual Growth Rate
Source: Office of the General Treasurer and the Audited Financial Statements of the 39 Cities and Towns.

Local government debt includes the general obligation bonds, revenue bonds, and capital leases of Rhode Island's 39 local governments. During the five years shown in Table 3-9 this debt grew at an average annual rate of 3.4 %. Local Debt Studies, issued in 1998, 2001, 2003 and 2005, indicated that debt levels for Rhode Island cities and towns were relatively low when compared to national indices. Given the inconsistencies among state and local revenue structures, overlapping debt and unavailability of timely data, this report does not draw a comparison of Rhode Island's combined State and local debt with that of other States. The Local Debt Study will be updated in the forth quarter of 2007. In light of the availability of published information on cities and towns, the Local Debt Study will continue to be produced on a biennial basis.

SECTION 4

Debt Policies and Practices

Importance of Debt Management

The State of Rhode Island and its local governments use debt to finance capital improvements and to make loans at tax exempt interest rates to various government, nonprofit, and private borrowers for capital investments for economic development and other public purposes. The ability to fund capital investments through borrowing is important because the State and its local governments do not have sufficient cash reserves or dedicated revenue resources necessary to fund these expenditures. Of course, not all capital investments are funded or should be funded with debt. Current revenues and cash reserves also are and should remain as funding sources for capital improvements for the State and its local governments.

Maintaining an ability to borrow, often called "debt capacity," is a critical resource for most states and local governments. Without debt capacity the State may not be able to pay for restoration of aging infrastructure and make new capital investment. Public capital investment attracts private capital to be invested, which creates employment and a high quality of life for the citizens of the State. Capital investment in transportation infrastructure, including highways, airports, and ports, is a basic building block for the State's economy. Other essential capital investments must be continually made for purposes such as water, wastewater, recreation, local schools, and higher education. The State's capital budget lays out future State capital needs. Because of the State's current debt profile, prudent debt management is critical to satisfying these capital investment needs.

Debt Limits and Targets

Setting debt targets is a policy exercise involving balancing the cost of debt against the need for debt financed capital improvements. Many states set limits on debt that is paid from state general taxes and revenues. Maintaining a high credit rating or improving an average rating is a key objective in limiting debt in most states. The PFMB has set debt limits based on personal income levels and debt service as a percentage of General Revenues. However, municipal/public credit ratings are based on not only debt levels, but also financial, economic and management characteristics of the jurisdiction. There are no fixed formulas for the optimal combination of these factors. In reality, some factors, such as the economy or demographics, are beyond the issuer's control. However, because debt issuance can be controlled, most borrowers focus on debt levels as a critical rating factor. The principal benefit of higher credit ratings is that investors are willing to accept lower interest rates on highly rated debt relative to lower rated debt; thereby reducing the State's borrowing costs.

Debt Capacity

For purposes of this analysis, debt capacity is a term used to define how much debt can be issued by the State or an agency of the State, either on an absolute basis or without adverse consequences to its credit rating or the marketability of its debt. Debt capacity is customarily evaluated in view of the income, wealth, or asset base by which the debt is secured or from which it is paid. With the variety of debt types, payment sources and legal means used to secure debt, there is no single measure of debt capacity to which all debt issued by all state agencies would be subject.

In November 2006, Rhode Island made presentations to the State's credit rating agencies. The agencies were provided with an update of the State's budget, economic development initiatives and current debt profile. The ratings were based on the State's economic performance, effective management of the State's financial operations, and success in reducing the State's debt burden, economic development efforts and recent pension reform. Rhode Island's general obligation bonds are currently rated "Aa3/AA/AA" by Moody's Investors

Service, Standard & Poor's and Fitch, respectively. It is important to note that the State maintained its ratings level during the period 2001-2004, when many states were downgraded or placed on credit watch. However in November 2007 when the State again met with all three rating agencies, their focus was on the State's budget situation. While all three rating agencies affirmed the State's ratings in connection with the 2007 General Obligation Bond issuance, the reports are a warning and a call to action. One rating agency noted the State's use of one-time tobacco revenues to balance the 2007 and 2008 budgets which evidenced "continuing financial strain at a time when most states are moving toward structurally balanced budgets." Another agency said it would "closely monitor" the State's actions as the 2008 budget proceeds and the 2009 process evolves. It is clear that the rating agencies will scrutinize the budget process carefully. No longer can the State balance its annual budget with one-time revenues. Table 4-1 presents the credit ratings for all states with general obligation bonds.

While Rhode Island's debt levels are moderately high, they have steadily improved since FY95. Debt projections for FY07 through FY11, as presented in Table 3-4, indicate that Debt to Personal Income will decrease from 4.1% to 3.5% during this period. These projections also show Debt Per Capita increasing by only 0.1% from $1,576.2 to $1,580.4 over the same period.

Because the rating agencies also evaluate economic and demographic factors in their rating analyses, the State's economic and demographic growth relative to other states will be a key factor in future comparisons. Finally, while the State's Debt to Personal Income of 3.9% in FY06 compares favorably to Moody's 2006 Peer Group average of 4.7%, this ratio is high relative to Moody's 2006 median (includes all states) of 2.4%. Likewise, the State's FY06 Debt per Capita of $1,428.3 compares unfavorably to the current Moody's median at $787, but favorably to the 2006 Peer Group Average of $1,944. Debt levels tend to be relatively higher in Rhode Island's Peer Group states in light of their aging infrastructure and practice of financing projects at the state level rather than at the municipal level. These comparisons indicate that even after projected debt ratio improvements, Rhode Island's debt profile will continue to remain high relative to other states. These projections support Rhode Island's continued discipline in debt management.

Table 4-1
Long Term Credit Ratings
General Obligation Bonds

	Moody's	S & P	Fitch
Alabama	Aa2	AA	AA
Alaska	Aa2	AA	AA
Arizona	Aa3	AA	NR
Arkansas	Aa2	AA	NR
California	A1	A+	A+
Colorado	NGO	Lease AA-	NR
Connecticut	Aa3	AA	AA
Delaware	Aaa	AAA	AAA
Florida	Aa1	AAA	AA+
Georgia	Aaa	AAA	AAA
Hawaii	Aa2	AA	AA
Idaho	Aa2	Lease AA-	Lease AA-
Illinois	Aa3	AA	AA
Indiana	Aa1	AA+	AA
Iowa	Aa1	AA+	AA+
Kansas	Aa1	AA+	Lease AA-
Kentucky	Aa2	AA-	AA-
Louisiana	A2	A	A
Maine	Aa3	AA-	AA
Maryland	Aaa	AAA	AAA
Massachusetts	Aa2	AA	AA
Michigan	Aa2	AA	AA-
Minnesota	Aa1	AAA	AAA
Mississippi	Aa3	AA	AA
Missouri	Aaa	AAA	AAA
Montana	Aa2	AA-	AA-
Nebraska	NGO	AA+	NR
Nevada	Aa1	AA+	AA+
New Hampshire	Aa2	AA	AA
New Jersey	Aa3	AA	AA-
New Mexico	Aa1	AA+	NR
New York	Aa3	AA	AA-
North Carolina	Aaa	AAA	AAA
North Dakota	Aa2	AA	NR
Ohio	Aa1	AA+	AA+
Oklahoma	Aa3	AA	AA
Oregon	Aa3	AA-	AA-
Pennsylvania	Aa2	AA	AA
Rhode Island	**Aa3**	**AA**	**AA**
South Carolina	Aaa	AA+	AAA
South Dakota	NGO	AA	NR
Tennessee	Aa2	AA+	AA+
Texas	Aa1	AA	AA+
Utah	Aaa	AAA	AAA
Vermont	Aaa	AA+	AA+
Virginia	Aaa	AAA	AAA
Washington	Aa1	AA	AA
West Virginia	Aa3	AA-	AA-
Wisconsin	Aa3	AA-	AA-
Wyoming	NGO	AA	NR

Rhode Island rating compared to other states:

	Moody's	S & P	Fitch
Above Rhode Island	32	19	16
Same as Rhode Island	11	20	13
Below Rhode Island	2	10	12
NGO or NR	4	0	8

Source: First Southwest Company 2007.

Tax Supported Debt

Tables 4-2, 4-3, and 4-4 present the history for the key debt ratios for Rhode Island and the median level for all states as determined periodically by Moody's Investors Service. The peer states of Delaware, Connecticut, Massachusetts, Maine, New Hampshire, and Vermont were selected due to geographical proximity (the New England states), population (Delaware, Vermont, New Hampshire, Maine), age of infrastructure (all), and concentration of services at the state level (Delaware).

Table 4-2
Comparison to Peer States
Net Tax Supported Debt to Personal Income

Year	RI	RI National Rank	Moody's Median	Peer State Ave	DE	CT	MA	ME	NH	VT
1996	8.5%	3rd	2.1%	6.0%	7.6%	9.7%	8.3%	2.7%	2.9%	4.9%
1997	8.7%	3rd	2.1%	5.6%	6.4%	9.4%	8.1%	2.6%	2.5%	4.7%
1998	6.6%	4th	1.9%	5.2%	5.9%	8.7%	7.8%	1.9%	2.4%	4.2%
1999	6.5%	5th	2.0%	5.1%	5.7%	8.7%	7.8%	1.9%	2.3%	4.2%
2000	6.2%	5th	2.2%	4.9%	5.2%	8.1%	8.0%	2.1%	2.0%	3.8%
2001	5.3%	7th	2.1%	4.8%	5.5%	8.0%	8.5%	2.0%	1.5%	3.3%
2002	5.2%	7th	2.3%	4.7%	5.3%	8.0%	8.5%	1.9%	1.5%	3.0%
2003	5.0%	7th	2.2%	4.7%	5.0%	8.2%	8.5%	1.8%	1.4%	3.0%
2004	4.4%	12th	2.4%	4.7%	5.6%	8.4%	8.5%	1.8%	1.5%	2.5%
2005	4.1%	16th	2.5%	4.8%	5.3%	8.0%	9.8%	2.0%	1.4%	2.2%
2006	4.6%	13th	2.4%	4.7%	5.5%	7.8%	9.4%	1.9%	1.3%	2.1%

Source: Moody's Investors Service
Global Credit Research
April 2007 Special Comment

Note: Due to slight variations in calculation methods used by Moody's and those used to prepare Table 3-3, Rhode Island's debt ratios in this table are different than the same ratios which are presented in Table 3-3.

The Tax Supported Debt to personal income ratio measures the State's debt paid from general taxes and revenues in comparison to personal income which is considered to be a good measure of the State's aggregate wealth. Rhode Island's Net Tax Supported Debt to Personal Income ratio had decreased every year from 1997 - 2005 and its ranking dropped from the 3rd highest in the country to the 16th highest. The 2005 ratio of 4.1% improved due to Tobacco Securitization and was below the peer group average of 4.8%, but it still remains well above Moody's median of 2.5%. However, in 2006 the ratio increased to 4.6% giving Rhode Island a ranking of 13th highest. This indicates that Rhode Island's Tax Supported Debt is a greater burden on the State's economy than is typical of most states. Personal income represents the wealth of the State which is taxed to support Tax Supported Debt or could be taxed to support State Credit Supported Revenue Debt.

Table 4-3
Comparison to Peer States
Net Tax Supported Debt per Capita

Year	RI	RI National Rank	Moody's Median	Peer State Ave	DE	CT	MA	ME	NH	VT
1996	$ 1,846	4th	$ 409	$ 1,421	$ 1,728	$ 2,682	$ 2,053	$ 512	$ 637	$ 914
1997	$ 1,889	4th	$ 431	$ 1,472	$ 1,715	$ 2,813	$ 2,117	$ 523	$ 681	$ 984
1998	$ 1,618	6th	$ 446	$ 1,480	$ 1,619	$ 2,962	$ 2,329	$ 391	$ 633	$ 946
1999	$ 1,670	5th	$ 505	$ 1,523	$ 1,581	$ 3,131	$ 2,436	$ 418	$ 620	$ 953
2000	$ 1,661	6th	$ 540	$ 1,531	$ 1,544	$ 3,052	$ 2,612	$ 488	$ 567	$ 925
2001	$ 1,497	7th	$ 541	$ 1,565	$ 1,616	$ 3,037	$ 2,957	$ 487	$ 463	$ 828
2002	$ 1,552	7th	$ 573	$ 1,660	$ 1,650	$ 3,240	$ 3,267	$ 485	$ 503	$ 813
2003	$ 1,508	7th	$ 606	$ 1,692	$ 1,599	$ 3,440	$ 3,298	$ 471	$ 485	$ 861
2004	$ 1,385	9th	$ 701	$ 1,734	$ 1,800	$ 3,558	$ 3,333	$ 492	$ 496	$ 724
2005	$ 1,402	11th	$ 754	$ 1,904	$ 1,845	$ 3,624	$ 4,128	$ 606	$ 514	$ 707
2006	$ 1,687	9th	$ 787	$ 1,944	$ 1,998	$ 3,713	$ 4,153	$ 603	$ 492	$ 706

Source: Moody's Investors Service
Global Credit Research
April 2007 Special Comment

Note: Due to slight variations in calculation methods used by Moody's and those used to prepare Table 3-3, Rhode Island's debt ratios in this table are different than the same ratios which are presented in Table 3-3.

The ratio of Tax Supported Debt to population fails to consider the economic wealth that supports the debt or the portion of the State's budget used to pay debt service. This ratio shows that three of the six peer states (Maine, New Hampshire and Vermont), have levels of debt per capita below the national median. This may be due to the combined factors of age of infrastructure, low population, and the dependency on the state to shoulder greater financing responsibilities. Since 2001, Rhode Island's Net Tax Supported Debt per Capita has consistently been below that of the peer state average.

Table 4-4
Net Tax Supported Debt Service as a Percent of General Revenues

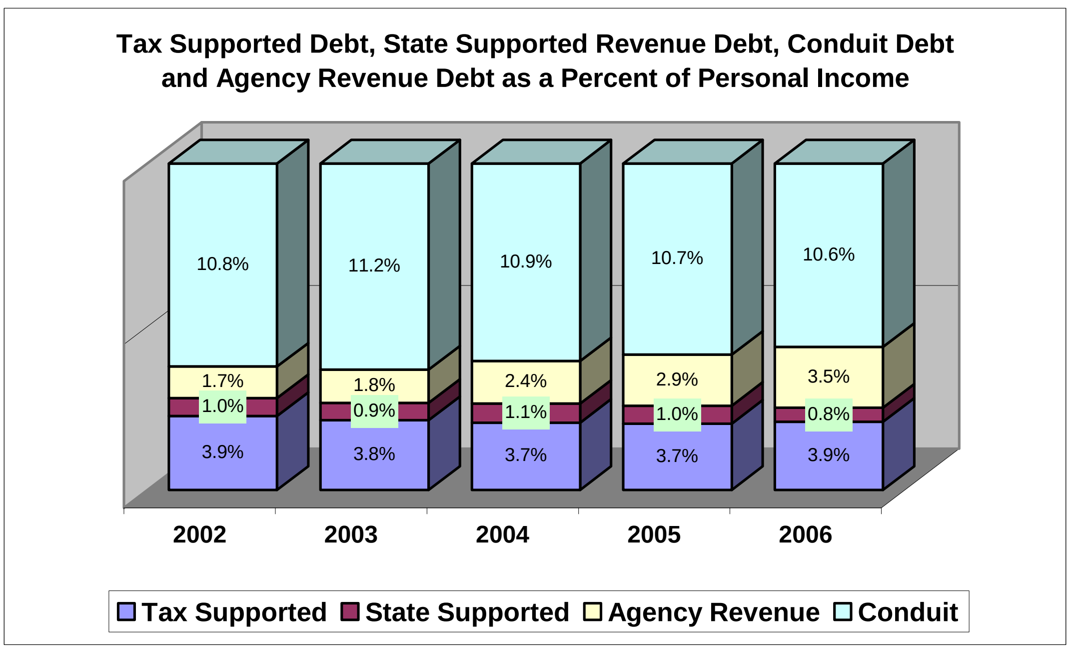
Year	RI
2002	6.3%
2003	4.3%
2004	4.7%
2005	4.7%
2006	4.9%

Source: FY 03 - FY 07 Capital Budgets.

Tax-Supported Debt Service to General Revenues is used for internal trend analysis, but no longer for peer group comparison analysis since the rating agencies no longer publish this data.

As Tables 4-2 and 4-3 show, Rhode Island has moderately high levels of Tax Supported Debt according to these ratio measures. High debt levels can lead to lower credit ratings, which result in higher borrowing costs, and a diminished financial capacity to respond to needed infrastructure improvements to support economic development.

As shown in the chart below, the total amount of Rhode Island's Tax Supported Debt, State Supported Revenue Debt, Agency Revenue Debt, and Conduit Debt and its relationship to State personal income has increased from 17.3% of Personal Income in FY02 to 18.8% in FY06. This increase came as Personal Income grew at the compound annual growth rate of 3.6%.



Section 5

Recommended Priorities for 2008

Based on the findings of this and the preceding Debt Management Reports, the following debt management priorities are recommended for 2007:

1. Continued Emphasis on Debt Management

Rhode Island's improved debt position is the product of stringent policies and fiscal discipline adopted after the State's debt peaked in the early '90s. The policies included greater scrutiny of debt issues, the development of debt level benchmarks and refinement of the capital budgeting process. Rhode Island has lived up to its commitment to reduce its debt burden and is now realizing the benefits of this consistent discipline. Continued vigilance is required. Rhode Island's current debt ratings are based on the expectation that the State will continue this debt management course. For example, the significant portion of the proceeds from Rhode Island's tobacco securitization devoted to debt reduction, won favorable reaction from the rating agencies.

The credit guidelines and more conservative debt ratios targets approved by the PFMB in June 2000 provide the structure necessary to achieve further debt reduction while not overly constricting state debt. It is also appropriate, going forward, to look broadly at the debt approval process of the State and quasi-public agencies for opportunities to improve the review process and to strengthen controls.

Municipal Market participants are also concerned with Pension Funding levels of States and the impact of the implementation of GASB Statement 45 related to Other Post Employment Benefits (OPEB). Rhode Island's efforts to reform the pension system and recent improved investment performance are a positive development. However, more progress needs to be made in this area to manage future liabilities.

2. More Pay-as-You-Go Funding

In November 2006, the voters approved a constitutional amendment which restricts the use of the Rhode Island Capital Plan Fund to capital projects. Previous language allowed for the fund's resources to be used for debt service. The multi-year plan of dedicating increased resources towards pay-as-you-go capital projects was modified in past fiscal years to address operating budget deficits and resulted in numerous planned capital projects being deferred. Given the magnitude of the FY 2007 and FY 2008 deficits, the Governor recommended that some of these projects be deferred and/or funded from resources to be made available from the proceeds of the Securitization of Tobacco Master Settlement revenues.

The Governor's proposed Capital Improvement Plan for FY 2008 – FY 2012 reflects the tenth year in a comprehensive, yet affordable asset protection program that will result in the dedication of over $250.0 million of current revenues and $160.0 million of tobacco securitization proceeds towards preserving Rhode Island's buildings, roads, bridges, and other assets over the next five years. Adoption of a responsible asset protection program will help reduce Rhode Island's debt burden in the future when allocated funds are available to fund not only asset protection projects, but also new construction. The ultimate success of the PFMB's pay-as-you-go initiative going forward will be dependent upon the balance between the State's long-term and realistic capital funding sources with a prudent, responsible and long-term comprehensive expenditure plan.

3. Continued Diligence in Reporting

The PFMB's reporting responsibilities also should continue to include the review of local government debt every two years based on the expected timing of available information. The PFMB should also report on special projects as warranted. One such project that has been implemented is an integrated debt management system.

4. Sponsor Educational Programs for Municipalities

The PFMB can provide a much-needed service in offering continuing education on topical issues to municipal officers. Initiatives in this area have continued. Staff from the Office of General Treasurer worked with municipal finance officers and the Rhode Island Public Expenditure Council ("RIPEC") to develop a "Municipal Fiscal Healthcheck" to provide uniform data on the fiscal practices, policies, and status of all municipalities. RIPEC's Municipal Fiscal Healthcheck was published in April, 2003. The Office of the General Treasurer also supports the efforts of the Rhode Island Government Finance Officers Association ("RIGFOA") and has been involved in reviewing legislation to improve local borrowing practices, making presentations at RIGFOA meetings and the development of programs for RIGFOA members. In past years, topics included the State Retirement System, Cash Management and Other Post Employment Benefits. Future topics will include Performance Measures and Benchmarks.

5. Explore Alternative Funding Mechanisms for Major Infrastructure Projects

The State's Capital Budget and Transportation Improvement Plan ("TIP") projects significant increases in capital spending for major infrastructure projects such as the relocation of Route I-195. Revenues from the gasoline tax provide support for Transportation projects and the State General Fund. Dedication of additional portions of the gasoline tax to Transportation – when resources permit more of that revenue source to be redirected from the General Fund – will foster the stated PFMB and State goals of reducing or moderating Rhode Island's reliance on tax-supported debt for such projects. The PFMB should also monitor the work of Treasury staff and the State Administration to explore innovative funding mechanisms for major infrastructure projects. Treasury staff did review the Garvee and Motor Fuel Tax bond issue structures as part of the November 2003 and March 2006 transactions.

Several states are exploring public private partnerships or privatization of certain government assets to finance and/or manage certain projects such as roads and bridges. While private management can be a benefit with appropriate oversight, leveraging government assets often results in the loss of control over the project and user fees and costs to constituents. Recent trends in the credit markets have also increased the cost differential between conventional financing and private financing. All such factors must be considered prior to moving forward with such an initiative.

6. Development of Swaps Policy

As noted in Section 1, the R.I. General Assembly approved legislation proposed by the Treasurer's office to permit the State to enter into interest rate swap agreements with the goal of reducing borrowing costs. This effectively permits the State to convert a fixed rate obligation to a variable rate obligation or vice-versa. The State can only enter into such transactions when there are demonstrated savings. It is recommended that the

Treasurer's office work with the Budget office to formalize this policy and review it on an annual basis. In subsequent years, it may be necessary to update the authorizing legislation.

7. Disclosure Practices and Investor Relations

The Municipal Markets place increasing importance on Issuer Disclosure Information, not only when bonds are issued, but on a continuing basis. It is recommended that the State develop an Investor Relations program to provide appropriate information to the marketplace on an ongoing basis. This initiative will require the assistance of the State's Bond Counsel, Disclosure Counsel and Financial Advisor. Recent developments in the monoline insurance industry have made analysis of the issuer's underlying credit more important to the investment decision. Therefore, improved Disclosure and Investor Relations can enhance an issuer's place in the market. The Investor Relations program will be internet based, but will also include in person conferences as needed.

EXHIBIT A

Schedule of Tax Supported Debt

State of Rhode Island - Office of the General Treasurer
Schedule of Tax Supported Debt
As of 6/30/06

Description of Issue	Year Issued	Maturity Date	Principal Paid in FY 06	(Actual) Interest Paid in FY 06	Principal Outstanding 6/30/2006	(Projected) Interest Outstanding 6/30/2006
General Obligation Bonds						
G.O. CCDL of 1994, Series A	1994	7/15/2005	3,395,000.00	88,270.00	0.00	0.00
G.O. CCDL of 1995, Series A	1995	8/1/2006	0.00	93,860.00	1,805,000.00	46,930.00
G.O. CCDL of 2002, Refunding Series A	2002	12/1/2006	6,260,000.00	189,800.00	1,615,000.00	32,300.00
G.O. CCDL of 1995, Series B	1995	8/1/2007	805,000.00	116,732.50	1,750,000.00	97,200.00
G.O. CCDL of 1996, Series A	1996	8/1/2007	0.00	161,650.00	3,050,000.00	242,475.00
G.O. CCDL of 1996, Refunding Series	1996	8/1/2008	10,996,921.00	1,510,635.73	21,024,135.00	1,508,362.53
G.O. CCDL of 1997, Series A	1997	8/1/2008	0.00	197,715.00	4,035,000.00	494,287.50
G.O. CCDL of 1993 Refunding Series (CAB's)	1993	6/15/2009	305,825.40	6,084,174.60	303,963.25	8,651,036.75
G.O. CCDL of 1997, Refunding Series	1997	8/1/2009	3,926,500.00	575,077.50	9,538,300.00	1,085,057.50
G.O. CCDL of 1999, Series A	1999	9/1/2010	0.00	141,250.00	2,825,000.00	635,625.00
Multi - Modal G.O. Bonds CCDL of 2000, Series B	2000	8/1/2010	3,000,000.00	597,828.72	19,665,000.00	626,907.00
G.O. CCDL of 2002, Refunding Series C	2002	11/1/2013	4,900,000.00	2,772,000.00	52,075,000.00	11,039,250.00
G.O. CCDL of 2001, Refunding Series B	2001	6/1/2014	0.00	526,000.00	10,200,000.00	3,536,000.00
G.O. CCDL of 1998, Refunding Series A	1998	7/15/2014	6,950,000.00	3,822,193.78	72,730,000.00	14,966,153.33
G.O. CCDL of 2005, Refunding Series B	2005	8/1/2014	160,000.00	233,947.47	8,200,000.00	1,808,965.70
G.O. CCDL of 2001, Refunding Series A	2001	8/1/2015	55,000.00	2,532,452.50	49,230,000.00	16,559,261.25
G.O. CCDL of 2004, Refunding Series B	2004	8/1/2015	360,000.00	2,934,098.76	64,775,000.00	18,663,525.66
G.O. CCDL of 1998, Series A	1998	9/1/2017	0.00	276,062.50	5,690,000.00	2,248,718.75
G.O. CCDL of 2005, Refunding Series D	2005	7/15/2018	850,000.00	1,829,652.78	55,465,000.00	21,001,900.00
G.O. CCDL of 2005, Refunding Series A	2005	8/1/2018	710,000.00	1,890,480.64	51,625,000.00	27,152,614.50
G.O. CCDL of 2000, Series A	2000	7/15/2019	0.00	380,750.00	7,390,000.00	3,984,125.00
G.O. CCDL of 2001, Series C	2001	9/1/2020	0.00	4,266,700.00	80,395,000.00	45,834,500.00
G.O. CCDL of 2002, Series B	2002	11/1/2022	3,145,000.00	3,592,550.00	68,075,000.00	32,751,812.50
G.O. CCDL of 2004, Series A	2004	2/1/2023	3,080,000.00	3,186,250.00	73,460,000.00	33,007,150.00
G.O. CCDL of 2005, Series C	2005	2/15/2024	2,855,000.00	3,100,241.67	84,240,000.00	43,647,962.50
G.O. CCDL of 2005, Series E	2005	11/1/2025	0.00	2,169,785.63	93,385,000.00	50,071,343.31
Total General Obligation Bonds			**51,754,246.40**	**43,270,159.78**	**842,546,398.25**	**339,693,463.78**

Description of Issue	Year Issued	Maturity Date	Principal Paid in FY 06	Interest Paid in FY 06	Principal Outstanding 6/30/2006	Interest Outstanding 6/30/2006
Capital Leases						
LPC, Correctional Facilities - 1997 Refunding (Intake Center)	1997	10/1/2009	2,370,000.00	630,618.76	10,655,000.00	1,140,178.14
LPC, State Vehicles Project - 2005 Series C	2005	4/1/2012	1,260,000.00	195,744.79	5,690,000.00	637,537.50
C.O.P. in L.P.A. (State Vehicles Projects), 2002 Series A	2002	12/15/2012	665,000.00	75,480.00	1,890,000.00	254,745.00
LPC, State Vehicles Project - 2006 Series A	2006	4/15/2013	0.00	0.00	6,000,000.00	686,136.00
Certificates of Participation, Series 1995 - Attorney General	1995	10/1/2015	0.00	147,740.00	2,795,000.00	812,775.00
LPC, Howard Center Improvements - 1997 Series	1997	10/1/2016	1,125,000.00	938,398.76	17,150,000.00	5,533,143.18
LPC, Shepard's Building - 1997 Refunding Series A	1997	6/1/2017	1,425,000.00	1,268,735.00	23,655,000.00	7,897,197.50
LPC, Central Power Plant Project - 2000 Series C	2000	10/1/2020	0.00	1,198,160.00	23,440,000.00	10,391,526.28
LPC, Kent County Courthouse Project - 2004 Series A	2004	10/1/2023	2,225,000.00	2,392,727.50	56,685,000.00	26,446,041.25
LPC, Training School Project - 2005 Series A	2005	10/1/2024	0.00	1,870,012.08	51,985,000.00	28,081,025.00
LPC, Traffic Tribunal Project - 2005 Series B	2005	10/1/2024	0.00	674,152.65	21,565,000.00	10,291,238.85
Total Capital Leases			**9,070,000.00**	**9,391,769.54**	**221,510,000.00**	**92,171,543.70**
Refunding Bond Authority						
Refunding Bond Authority State Public Projects, 2003 Series A	2003	10/1/2008	7,650,000.00	1,986,025.00	36,135,000.00	2,596,375.00
Refunding Bond Authority State Public Projects, 1998 Series A	1998	2/1/2010	6,645,000.00	1,576,181.26	24,185,000.00	3,289,650.02
Total Refunding Bond Authority			**14,295,000.00**	**3,562,206.26**	**60,320,000.00**	**5,886,025.02**
R.I. Economic Development Corporation						
Fidelity Building (C-29)	1996	5/1/2021	693,202.00	1,795,324.00	21,154,249.00	16,208,928.00
Fleet Bank (C-31)	1997	5/1/2027	185,000.00	758,717.00	9,830,000.00	10,007,693.00
McCoy Stadium Issue, Series 1998 (C-20)	1998	12/1/2010	935,000.00	192,670.28	5,245,000.00	337,813.00
Collaborative Smithfield Corp (C-20)	1999	7/1/2019	969,745.00	1,864,113.00	23,572,077.00	14,685,002.00
URI Power Plant (C-19)	1999	11/1/2019	645,000.00	647,550.00	12,869,000.00	5,236,503.00
Fidelity Building II (C-30)	2002	5/1/2021	0.00	724,000.00	10,000,000.00	9,805,071.00
Transportation Motor Fuel (C-12)	2003	6/15/2023	5,150,000.00	6,700,298.00	37,095,000.00	13,552,628.00
Total R.I. Economic Development Corporation			**8,577,947.00**	**12,682,672.28**	**119,765,326.00**	**69,833,638.00**
Convention Center Authority (C-8)	2001	5/15/2027	**9,825,000.00**	**13,719,461.00**	**283,115,000.00**	**142,681,349.00**
Grand Total			**93,522,193.40**	**82,626,268.86**	**1,527,256,724.25**	**650,266,019.50**

EXHIBIT B

Public Finance Management Board Statute

TITLE 42
STATE AFFAIRS AND GOVERNMENT

CHAPTER 42-10.1
PUBLIC FINANCE MANAGEMENT BOARD

§ 42-10.1-1. Creation - Members. [Effective until January 7, 2003.] (a) There is hereby created a public finance management board to consist of nine (9) members, one of whom shall be the general treasurer or his or her designee, one of whom shall represent the department of administration and shall be appointed by the governor, two (2) of whom shall represent cities and towns and shall be appointed by the general treasurer from a list of five (5) candidates submitted by the league of cities and towns, one of whom shall be a member of the general public who is experienced in the issuance and sale of bonds by public agencies and shall be appointed by the governor, two (2) of whom shall be members of the house of representatives and shall be appointed by the speaker, one from the minority party, and two (2) of whom shall be members of the senate and shall be appointed by the majority leader of the senate, one from the minority party.
(b) All appointed members shall serve at the pleasure of the appointing authority. A vacancy shall be filled in like manner as the original appointment.

§ 42-10.1-2. Purpose. It shall be the purpose and responsibility of the board:
(a) To advise and assist all state departments, authorities, agencies, boards, commissions, and public and quasi-public corporations having authority to issue revenue or general obligation bonds or notes with respect to issuance of and financial planning related to all those bonds and notes;
(b) Upon request, to advise and/or assist any city or town and any municipal or regional agency, authority, board, commission, or public or quasi-public corporation having authority to issue revenue or general obligation bonds or notes with respect to the issuance and financial planning related to those bonds and notes;
(c) To collect, maintain, and provide information on state, municipal and public or quasi-public corporation debt authorization, sold and outstanding, and serve as a statistical center for all state and municipal debt issues;
(d) To maintain contact with state municipal and public or quasi-public corporation bond issuers, underwriters, credit rating agencies, investors, and others to improve the market for state and local government debt issues;
(e) To undertake or commission studies on methods to reduce the costs and improve credit ratings of state and local debt issues;
(f) To recommend changes in state laws and local practices to improve the sale and servicing of state and local debts.

§ 42-10.1-3. Allocation of statewide financing limitation. The board is hereby authorized to allocate tax exempt bond issuance capacity among all issuers in the state of Rhode Island, pursuant to 26 U.S.C. § 103, 26 U.S.C. § 145, and any similar federal legislation heretofore or hereinafter enacted. The allocations of tax exempt bond issuance capacity shall be pursuant to rules and regulations to be promulgated by the board in accordance with the Administrative Procedures Act, chapter 35 of this title.

§ 42-10.1-4. Notice of debt issue to board. (a) Each state, municipal and regional department, authority, agency, board, commission, and public and quasi-public corporation having authority to issue revenue or general obligation bonds or notes shall, no later than thirty (30) days prior to the sale of any such debt issue at public or private sale, give written notice of the proposed sale to the board.
(b) The notice shall include one proposed sale date, the name of the issuer, the nature of the debt issue, and the estimated principal amount thereof, and such further information as may be required by rule of the board and shall be delivered in accordance with procedures to be established by rule of the board.
(c) Failure of delivery of the above notice or of the time or efficiency thereof shall not affect the validity of the issuance of any debt, bond or note.

§ 42-10.1-5. Fees authorized - Fund established. In connection with the discharge of its duties under this chapter, the board is authorized to charge and impose fees for its services upon the lead underwriter or purchaser of any affected debt issue, bond, or note in an amount equal to one-fortieth of one percent (1/40%) of the issued principal amount of the issue. Amounts received under this section shall be deposited as general revenue.

§ 42-10.1-6. Officers - Meetings. (a) The general treasurer or his or her designee shall serve as chairperson and shall preside at meetings of the board.
(b) The board members shall annually elect, by majority vote, one of the members as vice chairman and one of the members as secretary.
(c) The board shall meet on the call of the chairperson, or at the request of a majority of the members, or at the request of the governor. Three (3) members of the board shall constitute a quorum for the transaction of business, only one of whom may be a legislative member.
(d) The board shall adopt rules and regulations for the conduct of its business pursuant to the provisions of chapter 35 of this title.

§ 42-10.1-7. Compensation - Staff - Advice from other agencies - Office space. (a) The membership of the board shall receive no compensation for their services. The general treasurer shall provide the clerical and administrative support required to develop and evaluate the comprehensive state plan.
(b) All departments and agencies of the state shall furnish such advice and information, documentary and otherwise, to the board and its agents as is deemed necessary or desirable by the board to facilitate the purposes of this resolution.
(c) The director of administration is hereby authorized and directed to provide suitable quarters for the board.

§ 42-10.1-8. Comprehensive review. a) The board shall comprehensively review the financing of capital improvements by all state, municipal, and regional departments, authorities, agencies, boards, commissions, and public and quasi-public corporations and study the comparative debt of all state and local governmental units for capital improvements and the use of bond financing as a source of the indebtedness. The review shall include an analysis of all outstanding general obligation and revenue bonds. Annually, on the thirtieth (30th) day of September, the board shall submit to the general assembly a report of its findings and recommendations, if any, for revising the laws governing such financing devices.
(b) Neither the board nor its individual members shall have any liability as a result of the performance of the responsibilities or the exercise of the powers described herein. They shall not be deemed to have expressed an opinion regarding or deemed to have approved any aspect of any bonds or notes, including but not limited to, the proper authorization of any bonds or notes, the availability of funds for the repayment of any bonds or notes, the tax exempt status of any bonds or notes, or compliance by the issuer of any bonds or notes with any federal or state tax or securities law.
(c) In the event that any liability shall accrue to the board or its members because of the performance of the responsibilities or exercise of the powers described herein, the issuer who issued the bonds or notes which cause the liability shall fully indemnify the board and the members.

TITLE 35
PUBLIC FINANCE

CHAPTER 35-8
BONDED INDEBTEDNESS OF STATE

§ 35-8-1. Certificates of indebtedness issued for coupon bonds surrendered - Transfer.
(a) Whenever the holder of any coupon bond of this state shall surrender the bond, with the unpaid coupons belonging thereto, to the general treasurer, and shall request that he or she issue a certificate of that surrender, the general treasurer shall make an entry of the surrender in a book, to be by him or her kept for that purpose, and he or she shall issue a certificate thereof to the person surrendering the bond, countersigned by the secretary of state, who shall affix thereto the seal of the state, which certificate shall be duly recorded, and shall entitle the person receiving the certificate to receive the amount mentioned in the surrendered bond, and the interest thereon, at the times and places in the surrendered bond set forth.
(b) The certificate shall not be transferable except by order of the holder thereof, or of his or her personal representative, made thereon, with notice to the general treasurer of the assignment. Upon the receipt of notice of the assignment, the general treasurer shall enter a memorandum thereof upon the record of the certificate. Whenever a certificate of indebtedness issued in accordance with these provisions is transferred, the general treasurer shall, on application of the person to whom the certificate is so transferred, cancel the certificate, and thereupon issue to the person a new certificate, countersigned and sealed, for the amount of principal then due on the certificate so cancelled.

§ 35-8-2. Destruction of bonds and certificates unsold or repurchased by state - Certificate.
(a) All bonds, coupons, and certificates of indebtedness which have or shall become the property of the state, except those held by the sinking fund commission, and all bonds, coupons, and certificates of indebtedness which have been issued by the state but which have not been sold during a period of five (5) years after the issuance of the bonds, coupons, and certificates of indebtedness, shall, within a reasonable time after the five-year period, be destroyed by the general treasurer by burning the bonds and certificates, in the presence of the secretary of state, the director of administration, and the attorney general, who shall make, sign, and deliver to the general treasurer a certificate containing the number, date of issue, and denomination of each bond, and of each coupon and certificate of indebtedness so destroyed, and of the time when destroyed, which certificate shall be, by the general treasurer, with his or her next report, transmitted to the general assembly.
(b) At his or her discretion, the general treasurer may authorize the banks acting as fiscal agents of the state for these bonds and certificates of indebtedness to destroy the bonds, coupons, and certificates of indebtedness paid by them and submit to the general treasurer a notarized certificate of destruction in place of the paid bonds, coupons, and certificate of indebtedness, listing in numerical order the bond issue, bond and/or coupon number, date of issue, and denominations of each bond and of each coupon and certificate of indebtedness so destroyed and the time when destroyed. The destruction certificate, to be provided by the general treasurer, shall be submitted by the fiscal agents in regular intervals each month, together with a certification of the balance of the funds remaining in each bond account for the indebtedness matured and not presented for payment. The general treasurer and the state shall not be held liable for any bond, coupon, or certificate of indebtedness certified as reported destroyed by any bank acting as fiscal agents of the state.

§ 35-8-3. Sinking fund commission - Composition - Elective members - Quorum. [Effective until January 7, 2003.]
There shall be a sinking fund commission which shall perform the duties formerly performed by the board of commissioners of sinking funds as prescribed by this chapter, which board of commissioners is hereby abolished. The sinking fund commission shall consist of the governor or his or her designee, the general treasurer or his or her designee, the director of administration or his or her designee, the chairperson of the finance committee of the Senate or his or her designee, the chairperson of the finance committee of the House of Representatives or his or her designee, and one person to be appointed by the speaker of the house of representatives, one person to be appointed by the house minority leader, one person to be appointed by the senate majority leader, and one person to be appointed by the senate minority leader. A majority of all the members of the commission is necessary to constitute a quorum.

§ 35-8-4. Succession of sinking fund commission to previous board. The sinking fund commission shall perform the duties prescribed by this chapter. Wherever in any general law, public law, or resolution of the general assembly, or in any document, record, instrument, or proceeding authorized by law or resolution, unless the context or subject matter otherwise requires, the words 'board of commissioners of sinking funds' or any reference to that board of commissioners appears, the words or reference shall be construed to mean the 'sinking fund commission' created by this chapter, and wherever the words 'state budget director and comptroller' appear, they shall be construed to mean 'director of administration'.

§ 35-8-5. Officers of sinking fund commission. The governor shall be the chairperson, the general treasurer shall be the vice-chairperson, and the director of administration shall be the secretary of the sinking fund commission, and the general treasurer shall keep the accounts of the commission. In the event of the governor's absence, the general treasurer shall be the chairperson. A designee of any member shall not serve as chairperson.

§ 35-8-6. Control and management of sinking funds - Investment. The sinking fund commission shall have the control and management of all sinking funds established for the redemption of any bonds or certificates of indebtedness issued by the state, except for investments which are made by the state investment commission under the provisions of chapter 10 of this title. Any and all bonds or certificates of indebtedness of the state purchased as an investment for the sinking fund for the redemption of bonds of the same issue shall be held in the sinking fund subject to the order of the commission or until the bonds shall by their terms become due and payable. For the purposes of this section, refunding escrows established by the state in connection with the refinancing of any bonds, notes or certificates of indebtedness including, without limitation, refunding escrows established in connection with the refinancing of any certificates of participation issued by or at the direction of the state, shall not constitute sinking funds established for the redemption of any bonds or certificates of indebtedness issued by the state.

§ 35-8-6.1. Exclusion from sinking fund commission authority. Notwithstanding any general law or special law to the contrary, the sinking fund commission shall have no authority to take or cause to be taken any action or actions that would adversely affect the exclusion from income taxation of interest on any bonds, notes or certificates of indebtedness, including without limitation the interest portion of any certificates of participation issued by or at the direction of the state.

§ 35-8-6.2. Sinking funds to replace bond issuance. (a) Prior to the issuance of previously authorized general obligation debt contained in the capital improvement plan, the sinking fund commission may cause a savings analysis to be performed to determine if the estimated savings resulting from the defeasance of the general obligation debt recommended for defeasance by the sinking fund is more or less than the savings which would be achieved if the previously authorized general obligation debt were not issued. In the event that the sinking fund commission makes a finding that the savings would be greater from not issuing the previously authorized general obligation debt, then the sinking fund commission may use sinking funds to replace, in whole or in part, the same debt authorization.
(b) Upon the sinking fund commission's determination to use sinking funds to replace, in whole or in part, authorized but unissued general obligation debt authorization, the amount designated by the sinking fund commission is hereby appropriated for that purpose.

§ 35-8-7. [Obsolete.]

§ 35-8-8. Safekeeping of securities and records of sinking fund commission. The sinking fund commission shall make provision for the safekeeping of its securities, and it may hire and pay for a place of security. The records and books of account of the commission shall be deposited in the vault in the office of the general treasurer.

§ 35-8-9. Records and annual report of sinking fund commission. The sinking fund commission shall keep a full record of its meetings and proceedings. The commission shall make a full report in writing to the general assembly on or before the tenth day of January in each year, showing respectively the conditions and manner of the investments of the sinking fund or sinking funds on the thirtieth day of June preceding, the estimated savings from the commission's refinancing of debt in the prior fiscal year, the estimated total debt service payments of the debt retired by the commission in the prior fiscal year, and shall in the report certify that the various investment securities in the sinking funds have been examined by the director of administration.

§ 35-8-10. Expenses of sinking fund commission members. The actual expenses of the members of the sinking fund commission, when certified by the secretary and approved by the governor, shall be paid from the state treasury.

§ 35-8-10.1. Expenses of sinking fund commission. The commission may incur reasonable expenses in the fulfillment of its duties, including but not limited to bond counsel and financial advisement. These expenses shall be paid out of the commission's annual appropriation.

§ 35-8-11. Payments into sinking funds. In fiscal year 2000, and each subsequent fiscal year, there shall be appropriated a sum at least equal to the total of the following: the sinking fund commission's estimate of savings generated for that fiscal year from the commission's prior fiscal years' refinancing of debt; the sinking fund commission's estimate of the total debt service payments, principal and interest, of the debt retired by the commission in prior fiscal year; the sinking fund commission's estimate of the total debt service payments, principal and interest, of the general obligation debt not issued in accordance with § 35-8-6.2 in prior fiscal year; and the total interest generated by the proceeds of general obligation bond, net of the arbitrage rebate for that year, as estimated by the Revenue Estimating Conference. Payments into the sinking fund shall also include those received pursuant to § 42-116-25, net of costs incurred by the department or agency assuming management of the assets of the Depositors' Economic Protection Corporation, which shall not be subject to annual appropriation. In fiscal years 2001 and 2002 there shall be appropriated a sum at least equal to the total of the following: the sinking fund commission's estimate of savings generated for that fiscal year from the commission's prior fiscal years' refinancing of debt; the sinking fund commission's estimate of the total debt service payments, principal and interest, of the debt retired by the commission in prior fiscal year; and the sinking fund commission's estimate of the total debt service payments, principal and interest, of the general obligation debt not issued in accordance with § 35-8-6.2 in prior fiscal year.

§ 35-8-12. Annual deficit payments to sinking fund commission. Annually, within five (5) days after the fifteenth of June in each fiscal year, the sinking fund commission shall certify in writing to the controller the sum necessary to offset any deficit then existing in the sinking fund and thereupon, on or before the last business day of the fiscal year, it shall be the duty of the controller to draw his or her order upon the general treasurer, directing the treasurer to transfer that sum from the general fund to the sinking fund.

§ 35-8-13. Surplus remaining after redemption of bonds. All sums of money remaining in the hands of the sinking fund commission, after the redemption of any bonds, shall, if not otherwise directed by the general assembly, be added by them to the sinking fund for the bonds yet to mature.

§ 35-8-14. General sinking fund established. The general treasurer is authorized and directed to establish a general sinking fund for the purpose of providing funds for the payment of all state bonds at maturity, including all bonds authorized and issued according to law, and to transfer all the existing sinking funds to the general sinking fund. Wherever in any general law, public law, act, or resolution of the general assembly provision is made for the establishment of a sinking fund to extinguish a state debt at its maturity, that provision shall be construed to mean an addition to the general sinking fund for the redemption of state bonds at their maturity in conformity with this section.

§ 35-8-15. Custody of securities in general sinking fund. Subject to the provisions of § 35-8-8, and to the orders of the sinking fund commission or the state investment commission, the general treasurer shall have the custody of all securities in the general sinking fund established under the provisions of this chapter.

§ 35-8-16. Board for replacement of lost, destroyed, or mutilated bonds or notes. The attorney general, the secretary of state, and the general treasurer are hereby constituted a board, hereinafter referred to in §§ 35-8-17 - 35-8-18 as 'the board', to carry out the provisions of those sections.

§ 35-8-17. Replacement or repair of damaged bonds or notes. Whenever the board is satisfied that any instrument or printed or written paper presented to it is in fact a valid bond or note of the state but it is so damaged that its condition is such as to hinder or prevent the owner or holder thereof from making good delivery of the bond or note, the board may, upon payment to it by the owner or holder thereof of such a sum as it deems necessary to cover the actual expense involved, cause the damage to be repaired or remedied by requiring the proper officers of the state to sign the bond or note in place of their damaged or destroyed signatures or those of their predecessors in office, to issue a duplicate bond or note, or to do whatever else the board may require of them to repair or remedy the damage. But no duplicate bond or note shall be so issued except upon the surrender of the original bond or note, which shall thereupon be cancelled forthwith, and the repaired or duplicate bond or note shall be treated in all respects as a valid obligation of the state. On every repaired or duplicate bond or note the general treasurer shall certify on the back thereof that the bond or note has been repaired or issued under the provisions of this section and the certification shall be conclusive proof that the bond or note has been repaired or issued in accordance with the requirements of the board and that it is a valid obligation of the state in accordance with its terms.

§ 35-8-18. Replacement of lost or destroyed bond or note - Bond to protect state. Whenever the board is satisfied that any bond or note of the state has been lost or destroyed, the board may, upon payment to it by the owner or holder thereof of such a sum as it deems necessary to cover the actual expense involved and under such regulations and with such restrictions as it may prescribe, order the general treasurer and/or such other officers of the state as the board may designate to issue a duplicate of the bond or note, payable at the same time, bearing the same rate of interest as the bond or note so lost or destroyed, and so marked as to show the number if known and date of the original bond or note. No duplicate shall be issued until the owner of the lost or destroyed bond or note shall give to the general treasurer a bond in double the amount of the lost or destroyed bond or note and of the interest which would accrue until the principal is due and payable, with two (2) sufficient sureties both residents of the state, or with a surety company authorized to do business in this state, approved by the board, conditioned to indemnify and save harmless the state from any claim or demand on account of the lost or destroyed bond or note.

§ 35-8-19. Substitution of coupon bond for registered bond or registered bond for coupon bond. Whenever the holder of any registered or coupon bond of this state which is now or shall hereafter be issued or outstanding shall desire to substitute the registered bond for a coupon bond, or the coupon bond for a registered bond, he or she shall present the coupon bond to the general treasurer with a request in writing for the substitution for the bond of one or more other bonds. The general treasurer, upon payment to him or her for the use of the state of such a sum as he or she deems necessary to cover the actual expense involved and under such regulations and restrictions as he or she may prescribe, is authorized and empowered to accept the bond so presented and to issue and deliver in substitution thereof one or more new bonds of denominations of one thousand dollars ($1,000), five thousand dollars ($5,000), ten thousand dollars ($10,000), or fifty thousand dollars ($50,000); provided, that the aggregate face value of the new bonds shall not exceed the face value of the bond so presented; provided, further, that if the new bonds bear coupons, the coupons shall cover only future interest payments. The new bonds shall in all substantial respect (except the denomination thereof) be similar to the bond so presented as to the date of maturity, interest rate, and dates of interest payments; and every new bond so issued in substitution shall be as valid for all purposes as the bond so presented for substitution, notwithstanding the fact that the number thereof or the signatures thereon or the denomination thereof may be different from the bond so presented for substitution. In every case the general treasurer shall mutilate the bond so presented for substitution and shall make a record of the date, number, and amount thereof, and of the date, number, and amount of every new bond issued in substitution. Thereafter the mutilated bond shall be kept in the files of the general treasurer or may be destroyed in the same manner as provided in § 35-8-2. Every new bond issued in substitution shall be signed by the general treasurer and by the secretary of state.

§ 35-8-20. Minibonds. Notwithstanding any provision of general or public law to the contrary, whenever the general treasurer is authorized by any general or public law to issue and sell bonds of the state, he or she may determine, with the approval of the governor, to issue and sell all or a portion of the bonds in denominations of one hundred dollars ($100), five hundred dollars ($500), one thousand dollars ($1,000), or any multiple of one thousand dollars ($1,000). Bonds issued in denominations of one hundred dollars ($100), five hundred dollars ($500), or one thousand dollars ($1,000) are hereinafter called 'minibonds'. The general treasurer may issue and sell minibonds at public or private sale at par or at a discount, maturing in such amounts and upon such dates, bearing interest at such rate or rates, payable as to both principal and interest at such time or times and in such manner, in bearer or registered form, and upon such other terms and conditions, all as the general treasurer, with the approval of the governor, shall determine to be in the best interest of the state. Each minibond may, at the determination of the general treasurer, also provide that it shall be redeemed by the state at the option of the holder or registered owner upon due presentment on any business day at least one month from its date at such price and on such terms as the general treasurer shall fix, with the approval of the governor, at the time of issue of the minibonds; provided, that if so determined and provided:

(1) Not more than ten percent (10%) of the face amount originally authorized shall be sold by the general treasurer in any one fiscal year;

(2) No minibond shall mature more than five (5) years after its date; and

(3) No one sale to a single purchaser of minibonds shall be in an aggregate face amount greater than five thousand dollars ($5,000).

§ 35-8-21. Consolidation of bond issues. Bonds or notes issued pursuant to two (2) or more bond or note authorization acts may be consolidated for the purpose of sale and issued, sold, printed, and delivered as a single bond or note issue despite the requirement of any bond or note authorization act requiring or designating a particular total for bonds or notes issued pursuant to that act. Notwithstanding any requirement of the authorization act that bonds or notes issued thereunder shall bear any particular designation, bonds or notes consolidated pursuant to this section shall be designated on their face 'Consolidated Capital Development Loan of'; followed by the year of issue and the series thereof in that year, or shall bear such other designation on their face as the general treasurer shall deem appropriate. Notwithstanding the provisions of this section, the general treasurer shall separately account for the bonds or notes issued under the proceeds received from bond or note sales under the particular authorizing act.

§ 35-8-22. Rebate to federal government. Notwithstanding any contrary provision of general or special law, the state and its agencies may rebate to the United States treasury any income from investments (including gains from the disposition of investments) of proceeds of bonds or notes to the extent deemed necessary to exempt (in whole or in part) the interest paid on the bonds or notes from federal income taxation.

§ 35-8-23. [Repealed.]

§ 35-8-24. Bonds to be eligible for Rhode Island savings bond program. Unless otherwise provided therein, public laws which authorize the state to issue its general obligation bonds are 'general obligation bond acts' as that term is defined in § 35-15-2(2).

§ 35-8-25. Extinguishment of authorized but unissued debt.
(a) Any special act of the state which:
(1) Authorizes the issuance of general obligation bonds or notes of the state;
(2) Has a balance which remains unissued; and
(3) Is seven (7) years or older; shall become invalid, but only as to that portion which remains unissued. The seven (7) year period shall be measured form the date the debt authorization was approved by the vote of the people.
(b) Notwithstanding subsection (a) of this section, the general assembly by special act may extend any authorization for a period of one to five (5) years, upon a petition of the department of administration. The extension may be granted one or more times.
(c) Upon certification by the general treasurer to the governor, debt authorizations described in subsection (a) of this section and not extended under the provisions of subsection (b) of this section shall no longer be deemed or be counted toward the authorized but unissued debt of the state. No petition under subsection (b) of this section may be made with respect to any authorization the expiration of which has been so certified.
(d) Upon the disbursement of sinking funds to replace the unissued general obligation debt authorization, the replaced unissued general obligation debt authorization shall be extinguished in the amount equal to the disbursement from the sinking fund.

§ 35-8-26. Refunding bonds.
When bonds or notes have been issued as provided in this chapter, the general treasurer shall be authorized and empowered hereby, with the approval of the governor and in accordance with this chapter, to issue, from time to time, refunding bonds or notes of the state to refund any of such outstanding bonds or notes as may be specified from time to time by the governor provided that the outstanding amount of debt on account of any project shall not be increased thereby to an amount in excess of the amount approved for such project by the people.
If the people shall have approved the issuance of refunding bonds or notes, at the election at which the incurring of debt for the respective project or projects was approved or as a separate approval at another time, the proceeds of the refunding bonds or notes, exclusive of any premium or accrued interest thereon, shall upon receipt be applied to retire the bonds or notes being refunded or shall be deposited by the general treasurer with an escrow agent, which may be the paying agent for the bonds being refunded, in trust for application to payment of such bonds or notes at maturity or upon earlier call. Such escrowed amounts shall be invested for the benefit of the owners of the refunded bonds or notes and shall be invested only in direct or guaranteed obligations of the United States of America or the state of Rhode Island. Money held in escrow, together with the earnings thereon, shall be applied to any principal, interest and early redemption premiums, if any, to the owners of the refunded bonds or notes, in accordance with the instructions of the general treasurer included in the terms of the escrow. An amount of bonds or notes being refunded, which is the largest amount of such bonds or notes for which the escrowed deposit will provide sufficient funds to pay all principal, interest

and early redemption premiums, if any, when due, will be considered no longer outstanding and not debts of the state for the purpose of determining the amount of debt outstanding for the respective project or projects from and after the deposit of funds into escrow.

If the people have not approved the issuance of refunding bonds or notes as aforesaid, the general treasurer may nevertheless issue refunding bonds or notes as provided herein for the purpose of paying or refunding all or any portion of an issue of bonds or notes then outstanding, including the amount of any redemption premium and costs of issuance related thereto; provided, however, that no such refunding bonds shall be payable over a period longer than the period during which the original bonds or notes so refunded must be paid pursuant to law, and provided further that the present value of the principal and interest payments due on refunding bonds issued under this section shall not exceed the present value of the principal and interest payments to be paid by the state on account of bonds or notes to be refunded.

§ 35-8-27. Variable rate obligations and interest rate exchange agreements. In connection with the issuance of duly authorized bonds or notes of the state, notwithstanding any other authority to the contrary, such bonds or notes may be issued in the form of variable rate obligations, so-called. In connection therewith, the state, acting through the general treasurer, may enter into agreements with banks, trust companies or other financial institutions within or without the state, whether in the form of letters or lines of credit, liquidity facilities, insurance or other support arrangements. Any debt issued as variable rate obligations shall bear such terms as the general treasurer shall determine, including provisions for prepayment at any time with or without premium at the option of the state, may be sold at a premium or discount, and may bear interest or not and if interest bearing, may bear interest at such rate or rates variable from time to time as determined by such index, banking loan rate or other method specified in any such agreement. Any such agreement may also include such other covenants and provisions for protecting the rights, security and remedy of the lenders as may, in the discretion of the general treasurer, be reasonable and proper and not in violation of law. The general treasurer may also enter into agreements with brokers for the placement or marketing of any such debt or notes of the state issued as variable rate obligations.

In addition, the general treasurer, with the approval of the governor, may from time to time, enter into and amend interest rate exchange agreements including, but not limited to, interest rate 'caps', 'floors', 'collars', or 'swaps' that the general treasurer determines to be necessary or desirable for the purpose of generating savings, managing an interest rate, or similar risk that arises in connection with, or subsequent to or is incidental to the issuance, carrying or securing of variable rate obligations, fixed rate bonds or fixed rate obligations. Such interest rate exchange agreements entered into by the state shall contain such provisions, including payment, term, security, default and remedy provisions, and shall be with such parties, as the general treasurer shall determine to be necessary or desirable after due consideration to the creditworthiness of those parties.

EXHIBIT C

Public Finance Management Board Rules

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

PUBLIC FINANCE MANAGEMENT BOARD

Rules and Regulations

1. CREATION.

The Public Finance Management Board (the "Board") is established under the provisions of Section 42-10.1-1 of the Rhode Island General Laws, as enacted by Chapter 477 of the Public Laws of 1986, effective June 25, 1986.

2. PURPOSE.

The purposes and responsibilities of the Board are:

(a) To allocate tax-exempt bond issuance capacity among all bond issuers in the State of Rhode Island.

(b) To advise and assist all state departments, authorities, agencies, boards, commissions, and public and quasi-public corporations having authority to issue revenue or general obligation bonds or notes with respect to issuance of and financial planning related to all such bonds and notes.

(c) Upon request, to advise and/or assist any city or town and any municipal or regional agency, authority, board, commission, or public or quasi-public corporation having authority to issue revenue or general obligation bonds or notes with respect to the issuance and financial planning related to such bonds and notes.

(d) To collect, maintain, and provide information on state, municipal and public or quasi-public corporation debt authorization, sold and outstanding, and serve as a statistical center for all state and municipal debt issues.

(e) To maintain contact with state, municipal and public or quasi-public corporation bond issuers, underwriters, credit rating agencies, investors, and others to improve the market for state and local government debt issues.

(f) To undertake or commission studies on methods to reduce the costs and improve credit ratings of state and local debt issues.

(g) To recommend changes in state laws and local practices to improve the sale and servicing of state and local debts.

3. MEMBERSHIP.

The Board shall consist of nine (9) members, comprised as follows:

(a) The General Treasurer, or his or her designee;

(b) One (1) representative of the Department of Administration who shall be appointed by the Governor;

(c) Two (2) representatives of cities and towns who shall be appointed by the General Treasurer from a list of five candidates submitted by the League of Cities and Towns;

(d) One (1) member of the General public who is experienced in the issuance and sale of bonds by public agencies and who shall be appointed by the Governor;

(e) Two (2) members of the House of Representatives, one of whom shall be from the minority party, who shall be appointed by the Speaker; and

(f) Two (2) members of the Senate, one of whom shall be from the minority party, who shall be appointed by the Majority Leader of the Senate.

4. OFFICERS.

(a) The General Treasurer, or his or her designee, shall serve as Chairperson and shall preside at meetings of the Board.

(b) The Board shall annually elect, by majority vote, one of its members as Vice-Chairperson and one of its members as Secretary.

(c) The Board may elect such additional officers or assistant officers as it shall, from time to time, deem appropriate.

(d) The Chairperson of the Board shall designate the chair of any committee which may be created by the Board.

5. MEETINGS.

(a) The Board shall meet on the call of the Chairperson, at the request of the Governor, at the request of a majority of the members of the Board, and/or upon a regular schedule established by the Board.

(b) The Chairperson or other person(s) requesting a meeting shall give reasonable notice thereof to all members of the Board.

(c) A record of all business transacted at each meeting shall be kept and shall be certified by the Secretary or the Chairperson.

(d) All meetings shall be conducted pursuant to the provisions of Chapter 42-46 of the Rhode Island General Laws.

6. QUORUM/MAJORITY.

(a) A majority of all non-legislative members of the Board shall constitute a quorum for the transaction of business.

(b) At any meeting, a majority vote of all members of the Board shall be required for the election of officers and the enactment, material modification or repeal of any allocation or rule.

(c) At any meeting, a majority of those members present shall be sufficient to enact any other business.

7. DEBT CEILINGS.

The Board shall, as soon as it is practicable after the effective date of these rules and thereafter in January of each calendar year, determine and announce the State tax-exempt bond issuance capacity for that calendar year as provided under the provisions of Section 103(n) of the Internal Revenue Code.

8. ALLOCATION.

(a) For the calendar year 1986, the Board shall have, prior to or coincident with the enactment of these rules, enacted a 1986 Allocation Resolution, establishing the general allocation of tax-exempt bond issuance capacity.

(b) For each subsequent calendar year, the Board shall enact, after notice and opportunity for hearing thereon, an Allocation Resolution establishing a general allocation of tax-exempt bond issuance capacity among bond issuers in the State of Rhode Island.

(c) Any allocation enacted by the Board may contain such conditions, as the Board may deem appropriate.

(d) Any general allocation may provide for a reserve allocation to the Board of amounts within the State tax-exempt debt issuance capacity not otherwise allocated to bond issuers.

(e) The Board may subsequently, after hearing and at its discretion, allocate part or all of such reserve amounts upon application(s) of bond issuer(s).

(f) Any allocation made by the Board shall be irrevocable upon issuance of bonds pursuant thereto at least to the extent of the principal amount of such bonds so issued.

(g) Except as provided in (f), above, upon request by any bond issuer, or upon its own initiative, the Board may at any time, after hearing, modify, amend or repeal any allocation.

9. REPORTING REQUIREMENTS.

(a) Each state, municipal and regional department, authority, agency, board, commission, and public or quasi-public corporation having authority to issue revenue or general obligation bonds or notes shall, no later than thirty (30) days prior to the sale of any such debt issue at public or private sale, give written notice of the proposed sale to the Board. Said notice shall be made on a form approved by the Board and shall contain all of the information requested on said form.

(b) Each such issuer shall, within thirty (30) days after such sale, submit to the Board a report of sale on a form approved by the Board and the report shall contain all of the information requested on said form.

10. FEES.

(i) The lead underwriter or purchaser of any debt issue of all state departments, authorities, agencies, boards, commissions and public or quasi-public commissions, shall pay to the Public Finance Management Board an amount equal to one-fortieth of one percent (1/40%) of the issued principal amount of the issue.

(ii) The lead underwriter or purchaser of any debt issue of any city or town and any municipal or regional agency, authority, board, commission or public or quasi-public corporation, which has requested the advice and/or assistance of the Board with respect to such issue, shall pay to the Public Financial Management Board an amount equal to one-fortieth of one percent (1/40%) of the issued principal amount of the issue.

(b) Amounts received under this Section shall be deposited in the Public Finance Management Board Fund (the "Fund") in the State Treasury.

(c) The General Treasurer is authorized to draw upon the Fund, in accordance with applicable rules and procedures, to pay for the expenses incurred by the Board and by the General Treasurer's Office in carrying out the purposes of Chapter 42-10.1 of the Rhode Island General Laws.

11. SUPPORT SERVICES.

The Board may employ such staff, contract for such services and incur such expenses, as it may deem necessary and appropriate to carry out the purposes of Chapter 42-10.1 of the Rhode Island General Laws.

12. OPEN RECORDS.

All records of the Board shall be subject to public access pursuant to the provisions of Chapter 38-2 of the Rhode Island General Laws.

13. AMENDMENTS.

(a) Any interested person may petition the Board requesting the enactment, amendment or repeal of any rule.

(b) Whether the petition requests the enactment of a rule, the proposed rule must be set out in full. The petition must also include all the reasons for the proposed rule together with briefs of any applicable law. Where no petition requests the amendment or repeal of a rule presently in effect, the rule or portion of the rule in question must be set out as well as a suggested amended form, if any. The petition must include all reasons for the requested amendment or repeal of the rule.

(c) All petitions shall be considered by the Board and the Board may, at its discretion, order a hearing for the further consideration and discussion of the requested enactment, amendment or repeal of any rule.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

PUBLIC FINANCE MANAGEMENT BOARD

Amendment to Rules and Regulations

I hereby move that Rule 10 of the Rules and Regulations of the Public Finance Management Board be amended as follows:

10. FEES.

(a)(i) The lead underwriter or purchaser of any debt issue of all state departments, authorities, agencies, boards, commissions and public or quasi-public commissions, shall pay to the Public Finance Management Board an amount equal to one-fortieth of one percent (1/40%) of the issued principal amount of the issue.

(ii) The lead underwriter or purchaser of any debt issue of any city or town and any municipal or regional agency, authority, board, commission or public or quasi-public corporation, which has requested the advice and/or assistance of the Board with respect to such issue, shall pay to the Public Finance Management Board an amount equal to one-fortieth of one percent (1/40%) of the issued principal amount of the issue.

(b) Amounts received under this Section shall be deposited in the Public Finance Management Board Fund (the "Fund") in the State Treasury.

(c) The General Treasurer is authorized to draw upon the Fund, in accordance with applicable rules and procedures, to pay for the expenses incurred by the Board and by the General Treasurer's Office in carrying out the purposes of Chapter 42-10.1 of the Rhode Island General Laws.

PFMB Rules and Regulations.doc

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

PUBLIC FINANCE MANAGEMENT BOARD

Amendment to Rules and Regulations

1. That Section 10 of the Rules and Regulations of the Public Finance Management Board is hereby amended in its entirety as follows:

"SECTION 1. 10. FEES.

(i) The lead underwriter or purchaser of any tax exempt debt issue of the state, all state departments, authorities, agencies, boards, commissions and public or quasi-public commissions, shall pay to the Public Finance Management Board an amount equal to one-fortieth of one percent (1/40%) of the issued principal amount of the issue; *provided, however,* that any tax exempt debt issue that would be classified as a refinancing of a note by the issuance of additional note(s) or bonds, or current or advance refunding of bonds shall receive a credit against the above assessment in an amount equal to the fee assessed to, and paid in connection with, the issuance of the initial underlying debt obligation that is being refinanced or refunded up to, but not exceeding, the fee assessed.

(ii) The lead underwriter or purchaser of any taxable or tax exempt debt issue of the state, any city or town and any state, municipal or regional agency, authority, board, commission or public or quasi-public corporation, which has requested the advice and/or assistance of the Board with respect to such issue, shall pay to the Public Financial Management Board an amount equal to one-fortieth of one percent (1/40%) of the issued principal amount of the issue.

(b) Amounts received under this Section shall be deposited in the Public Finance Management Board Fund (the "Fund") in the State Treasury.

(c) The General Treasurer is authorized to draw upon the Fund, in accordance with applicable rules and procedures, to pay for the expenses incurred by the Board and by the General Treasurer's Office in carrying out the purposes of Chapter 42-10.1 of the Rhode Island General Laws."

2. That this Amendment shall take effect upon passage.

Adopted: 6/19/03

EXHIBIT D

Recent Credit Rating Reports

New Issue: Rhode Island (State of)

MOODY'S ASSIGNS Aa3 RATING AND STABLE OUTLOOK TO STATE OF RHODE ISLAND $129 MILLION GENERAL OBLIGATION BONDS

Aa3 RATING AND STABLE OUTLOOK APPLY TO $913 MILLION GENERAL OBLIGATION BONDS

State
RI

Moody's Rating

ISSUE		RATING
General Obligation Consolidated Capital Development Loan of 2007, Series A		Aa3
Sale Amount	$120,745,000	
Expected Sale Date	08/20/07	
Rating Description	General Obligation	
General Obligation Bonds Capital Development Loan of 2007, Series B (Federally Taxable)		Aa3
Sale Amount	$8,500,000	
Expected Sale Date	08/20/07	
Rating Description	General Obligation	

Opinion

NEW YORK, Aug 17, 2007 -- Moody's has assigned a rating of Aa3, with a stable outlook, to the State of Rhode Island's General Obligation Bonds. The rating incorporates Rhode Island's effective financial management through periods of revenue weakness; maintenance of adequate reserve levels that provide some financial cushion; and the state's improving debt ratios. More recently the state has experienced revenue underperformance at a time when most states are revising estimates upward. In addition, Rhode Island's job gains have been less than half the national average in the past several years, although the pace of the state's employment growth has picked up in calendar year 2007.

Credit strengths are:

*Effective fiscal management following revenue weakening during recession.

*Budget reserve fund maintained at statutory cap during recession, providing some financial flexibility.

*Slower than average but relatively stable employment trends.

*Improving debt ratios reflecting debt reduction policies.

Credit challenges are:

*Revenue underperformance and spending pressures create challenges to achieving structural budget balance.

*Combined available reserves remain well below pre-recession peak levels.

*Continuing job losses in manufacturing sector undermine Rhode Island's overall economic growth prospects.

ADOPTED FISCAL YEAR 2008 REFLECTS LOWERED REVENUE ESTIMATES; DEFICIT BONDS ISSUED TO HELP CLOSE BUDGET GAP

Going into the fiscal year 2008 budget deliberations, Rhode Island faced a gap of approximately $350 million based on current services and the revenue estimate as of the November 2006 Revenue Estimating Conference (REC). The May 2007 REC lowered the state's revenue estimates for fiscal year 2008 by $102.5 million relative to the prior REC estimates, although lower caseload growth estimates provided some relief on the expenditure side of the equation. In addition to lower projections for personal income tax receipts and sales and use taxes, the state eliminated from the planning horizon $80 million in receipts expected from a one-time settlement with AIG. The enacted budget for fiscal 2008 reflects baseline general revenue growth of 2.3%, about half the fiscal year 2007 increase of 5%. The budget incorporates approximately $310 million in new revenues, with $124 million coming from the June 2007 issuance of about $195 million in bonds secured by residual tobacco settlement funds after repayment of the state's 2002 tobacco bonds. The state will use almost $43 million of the proceeds to fill the fiscal year 2007 operating gap. This is the second time in six years that Rhode Island has resorted to deficit bonds to resolve its budget imbalance, underscoring the state's continuing financial strain at a time when most states are moving toward structurally balanced budgets.

Personal income taxes, the state's largest revenue source at about 30%, are estimated to increase by 2.5% in fiscal year 2008, down from 6.0% last year. The underlying growth rate is stronger, at about 5%, but considerably slower than the 11.7% growth recorded in fiscal year 2007. The fiscal year 2008 budget incorporates a net reduction of $124 million in personal income taxes due largely to various credits ($65 million for motion picture and historic tax credits) and about $49 million due to a capital gains phase-out. Sales and use taxes, which make up about one-fourth of General Fund revenues, are budgeted at baseline growth of 2.8% for fiscal year 2008 reflecting the state's anticipation of a recovery in Rhode Island's housing market and continued economic improvement. The fiscal 2007 budget incorporated sales and use tax growth of nearly 6%, although the May 2007 final adopted estimate shows a modest increase of only 1%. A delay in the state's housing recovery and/or an economic slowdown could result in revenue underperformance in the current budget.

Other than the one-time revenue derived from the tobacco securitization, the largest revenue increases reflected in the enacted budget include $17 million in additional lottery transfers due to new construction finally completed at a gambling facility; $15 million in additional revenues from insurance companies due to an increase in the gross premiums tax on HMO's and non-profit hospitals; and a net $13 million in higher corporate franchise taxes from certain tax and credit changes. The budget reflects a very slim surplus of about $67,000 although the budget reserve and cash stabilization account is fully funded, at $104 million (3% of General Fund revenues).

On the spending side, Rhode Island expects to benefit from the reduced caseload estimates and slower growth rates for medical costs. The fiscal 2008 budget reflects total General Fund expenditure growth of 5.5%, up slightly from 4.9% year-over-year growth in fiscal year 2007. The state does face some pressure in the area of corrections costs, which are estimated to increase by nearly 20% in fiscal year 2008 due in part to a rapidly growing inmate population, a situation the state plans to address in the next legislative session. The increase also includes an estimated retroactive payment to union members, although agreements have not been settled yet. Education spending is budgeted to increase by 3.2%, a slower pace than the 5.9% and 4.9% in fiscal years 2007 and 2006, respectively.

FISCAL YEAR 2007 OPERATING GAP FILLED WITH BOND PROCEEDS; RESERVES DECLINE, REVERSING IMPROVING TREND

At the May REC 2007, Rhode Island projected a budget shortfall for fiscal year 2007 due to reduced estimates for taxes on sales, motor vehicles, and cigarettes as well as lower than expected lottery receipts. In addition, the state had originally budgeted $40 million for a settlement with AIG that was pushed back to fiscal year 2008 and then eliminated from the planning horizon. The revenue shortfalls were to some extent offset by reduced spending relative to the enacted budget. The state used about $43 million of proceeds from the securitization of tobacco settlement revenues to balance the fiscal year 2007 budget. While preliminary results indicate a budget reserve account fully funded at 3% of General Fund revenues, other available balances will essentially be depleted, leaving the state with reduced budgetary flexibility for subsequent years.

Rhode Island ended fiscal year 2006 with a General Fund balance of $55.7 million, a significant improvement over the nearly zero balance originally budgeted. The budget reserve account remained fully funded as it was prior to and through the recent recession. This account is funded by limiting annual appropriations to 98% of estimated revenues. Once fully funded, additional revenues are deposited into the state's capital project fund for pay-go financing. In order to maintain the capacity to transfer money to the capital project fund, it is in the state's interest to keep the budget reserve account. This goal decreases, but does not eliminate, the likelihood that the state would draw on the BRF to resolve potential budget gaps.

As the 2001 recession exerted downward pressure on Rhode Island's revenues, reserves were drawn down to address operating deficits. The state's unreserved, undesignated General Fund balance peaked at approximately $131 million (5.1% of General Fund revenues) at year-end fiscal 2001 and then dropped to a modest $31 million the following year. Rhode Island used $249 million of tobacco bond proceeds for operating expenditures in fiscal years 2002 and 2003, with a modest amount applied to the fiscal year 2004 budget. The state ended fiscal 2005 with $52 million in General Fund balance, the full amount of which was budgeted for fiscal year 2006. With budget adjustments over the course of the year, the draw on the General Fund balance was less than originally planned. Final audited numbers for fiscal 2006 results showed combined budget reserve and unreserved, undesignated General Fund balances of about $151 million, almost 6% of General Fund revenues.

STATE DEBT BURDEN SIGNIFICANTLY REDUCED BUT REMAINS ABOVE AVERAGE

Rhode Island's debt burden has dropped considerably over the past ten years although the state's ratios rose last year. Total tax-supported debt for the 2007 median calculation was $1.8 billion, up from $1.5 billion the prior year. Net tax-supported debt was 4.6% of total state personal income, ranking it 13th in the nation, higher than the state's 16th place ranking last year. While still notably higher than Moody's 2007 50-state median of 2.4%, Rhode Island's debt burden remains well below the near 9% level the state experienced in the early 1990s. Rhode Island's debt per capita is also above average at $1,687 (ranking it 9th) and rising from 11th last year. The 2007 median debt per capita for states is $787. These improved debt ratios reflect deliberate debt reduction policies, increased pay-as-you-go capital funding, as well as gains in personal income. The state also applied $295 million of its 2002 tobacco bond proceeds to the defeasance of outstanding general obligation bonds and certificates of participation for debt service savings.

Rhode Island's liquidity position narrowed in the fiscal year 2007 and in December 2006 the state returned to the issuance of tax anticipation notes (TAN) after two years without the need for cash flow borrowing. The state's alternative liquidity was reduced relative to pre-recession years due to the use of tobacco securitization proceeds in prior years. Available reserves remain modest, leaving the state with slim cash flow margins. The size of Rhode Island's 2006 TAN ($120 million) was manageable at less than 3% of unrestricted receipts. In addition, on a percentage basis the borrowing level was well below amounts issued in the recession of the early 1990s. Rhode Island sold $90 million in TANs in fiscal 2002, $150 million in fiscal 2003, and $200 million in fiscal year 2004.

PENSION FUNDING STATUS DECLINES WITH WEAK PORTFOLIO RETURNS

Rhode Island's principal pension plans have declined in actuarial funding position over the past few years, reflecting weak financial market returns in 2001 and 2002 still captured by five-year smoothed market asset valuation methods. Recently enacted pension reforms should improve the state's pension funding position over time, although these do not apply to all employees. As a result, the state may need to increase its annual pension contributions, an additional expense that would compound the state's spending pressures at a time of rising health care costs. The state employees' pension program had a funding ratio of about 56%, based on the June 2005 actuarial valuation. This represents a steady, multi-year decline from a funding level of about 84% as of June 1999. The funding ratio for the teachers' pension program is similar, at 55%, also down substantially from June 1999 when the plan had a funding ratio of 82%. Together these plans make up about 86% of the state's pension programs.

Rhode Island's unfunded liability for other post employment benefit costs (OPEB) is estimated at approximately $480 million as of June 30, 2005. The amount includes $427 million for state employees, $31 million for state police, and about $18 million for the state's share of teachers OPEB costs. The enacted budget includes about $27 million in pay-go funding for fiscal year 2008, $12.7 million less than the annual required contribution.

SERVICE SECTOR JOB GROWTH HELPS OFFSET CONTINUED MANUFACTURING DECLINE

Rhode Island has succeeded in attracting and retaining businesses through various efforts to improve the competitiveness of the state's economy, including significant transportation improvements, state tax reductions, innovative incentive programs, and reduced electricity costs resulting from deregulation. The state continues to invest in road and rail links targeted at increasing seaport activity which, once completed, could potentially generate job growth. In contrast to the negative trends exhibited by national non-farm employment figures in 2002 and 2003, Rhode Island realized overall job growth through the recession. With fewer high tech industries than its northern neighboring state, Rhode Island did not benefit from the job gains during the boom years of the 1990s. On the other hand, Rhode Island's lack of exposure to high technology also helped insulate the state from the kind of job contraction experienced by the high-tech sector during the recent recession. Overall gains in Rhode Island's service sector jobs continued to offset a decade-long contraction of the state's manufacturing sector.

More recently, the state's pace of job growth (average annual increase of 0.5% in calendar year 2006) has lagged the national average of 1.8%. Average monthly year-over-year job growth figures have improved to 1.2% in the first half of 2007, now only slightly below the national average of 1.5% over the same period. Manufacturing and government jobs continue to decline, offset by gains in other sectors, notably services and construction. Recent data showing increased foreclosure rates in Rhode Island could lead to a weaker-than-expected housing market which could limit the state's overall economic growth.

Outlook

Rhode Island's credit outlook is stable, reflecting Moody's expectation that the state will take appropriate actions to address budgetary challenges that may arise in the event of an economic slowdown that leads to further revenue underperformance or additional spending pressures.

What would make the rating move - UP

*Maintenance of stronger reserve levels.

*Sustained job growth.

*Restoration of structural budget balance.

What could change the rating - DOWN

*Deterioration of state's reserve and balance sheet position.

*Narrowed liquidity leading to reduced cash flow margins.

*Economic slowdown leading to revenue weakening.

*Increased use of one-time budget solutions.

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Rhode Island and Providence Plantations

Credit Profile		
US$134.8 mil cons cap dev & cap dev loan bnds ser 2007A&B dtd 08/15/2007 due 08/15/2027		
Long Term Rating	AA/Stable	New
Rhode Island & Providence Plantations GO		
Long Term Rating	AA/Stable	Affirmed
Short Term Rating	NR	

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating, and stable outlook, to Rhode Island and Providence Plantation's series 2007A and 2007B consolidated capital development and capital development loan bonds.

The rating reflects Rhode Island's:

- Continued economic growth and diversification;
- Average wealth indicators, with median household effective buying income at 101% of the national level; and
- Adequate financial position, with a fully funded statutory reserve equal to 3% of general revenues, or more than $95 million, at fiscal year-end 2006.

Offsetting factors include the state's:

- Lack of structural balance in fiscals 2007 and 2008, requiring the use of one-shot revenues, and a projected gap for fiscal 2009;
- Above-average debt burden, although the burden has been reduced in recent years; and
- Sizable unfunded pension liability, which is expected to be reduced as a result of pension reform measures taken in fiscal 2006.

Over the past 10 years, the state's population has grown by 4.6% to an estimated 1.07 million in 2006, although it has declined by 1.0% over the past two years. The state's two leading nongovernmental employers are hospitals: Lifespan, with about 11,000 employees, and Care

New England, with 6,610. The state's other leading private employers remain constant and include the Roman Catholic Diocese of Providence (6,200 employees), CVS Corp. (5,680), and Royal Bank of Scotland (doing business as Citizen's Bank, 5,500). Other large private employers include two universities, Brown University (3,943) and Rhode Island University (2,300). Fidelity Investments continues to expand its operations in Rhode Island and currently employs 2,050 in the state. Rhode Island's unemployment rate was 5% in 2006, equal to the 2005 level. Income levels have historically been on par with the nation; in 2006, the state's per capita income was 103% of the national level. Inflation-adjusted real income has grown by 12% since 2000, compared with 6% growth in national real income. State officials project that personal income will grow by an average of 4.5% annually over the next five years.

A structural imbalance in fiscals 2007 and 2008 resulted in the use of onetime revenues in those years: $42.5 million in fiscal 2007 from the proceeds of the securitization of the state's residual tobacco settlement payments (1.3% of general revenues), and $124.0 million of tobacco securitization proceeds and $28.0 million from land sales in the fiscal 2008 budget (a total of 4.4% of general revenues). State officials estimate fiscal 2007 will end with a $38.2 million reduction in free surplus, closing with a free surplus of just $174,000. However, the state will continue to maintain a statutory budget reserve at the required level of 3% of general revenues, equal to $98.2 million at fiscal year-end 2007. Total available state general revenues for fiscal 2007 are estimated to be $3.22 billion—including the use of $38.3 million of fiscal 2006 free surplus and $17.4 million of reappropriated surplus—against expenditures of $3.22 billion. The fiscal 2008 budget, as enacted, totals nearly $7.0 billion, with $3.4 billion of expenditures funded from general revenues. The 2008 budget includes the use of the aforementioned onetime revenues while maintaining the state's budgetary reserve at required levels. The gap between revenues and expenditures for fiscal 2009 is estimated at $216 million; the amount includes an adjustment for onetime revenues in the 2008 budget and the projection of expenditure increases outpacing revenue growth. The state will look to address the gap as it prepares the 2009 budget. At fiscal year-end 2006, the general fund had an operating surplus of $18.4 million, which increased the total fund balance to $203.2 million. In addition to the statutory budget reserve—which was fully funded at $95.4 million, equivalent to the required level—the unreserved balance was $38.3 million, about equal to the 2005 level.

The state's direct debt burden was above average, at about $1,500 per capita, as of fiscal year-end 2007. While Rhode Island was the only state with an eight-year trend of declining debt to personal income through fiscal 2005, that ratio increased slightly in fiscal 2006 to 3.8%, although it is still down significantly from 8.7% in fiscal 1997. Despite the recent decline, the state remains above the national median of 2.3%. Much of the improvement in the debt ratios is due to the defeasing of debt through the proceeds of a $685 million tobacco securitization.

As of June 30, 2006, the Rhode Island Employees' Retirement System and the State Teachers' Retirement System were 54.6% and 52.7% funded, respectively, with a combined unfunded actuarial accrued liability of $4.92 billion. With the changes put into place in fiscal 2006, the pension system is projecting the attainment of fully funded status in 2029, which is sooner and less costly than projected before the pension reforms.

Outlook

While the outlook remains stable, Rhode Island's use of one-shot revenues to balance operations is growing. The state needs to make measurable progress in better balancing recurring revenues to expenditures; failure to address this concern will pressure the rating.

Economy: Growing And Diverse

The major sectors of Rhode Island's economy are manufacturing, health care, and education services. The state has historically been a manufacturing-anchored economy; while this sector has declined significantly, the state's service-oriented economy has grown. Rhode Island's unemployment rate was 5.1% in 2006, equal to the 2005 level and higher than the national rate of 4.6%. Median household and per capita effective buying income figures for the state are both 101% of the national rate.

From 2000-2006, the state economy generated 16,700 new nonfarm jobs; the average annual growth rate of 0.5% was equivalent to the growth rate in each of the past two years. The state's consensus forecast is for nonfarm employment growth to increase to an annual average of 0.9% over the next five calendar years. In the 10 years from 1996-2006, all employment sectors in the state experienced job growth except manufacturing, which declined by 32%. Information, financial, and business services make up the economy's largest sector, accounting for 21% of the state's jobs, followed by education and health services, with 20%. Providence, the state's largest economic engine, hosts more than 25% of the state's total jobs, continuing a strong trend of development growth, with multiple commercial projects being undertaken in the city's downtown area. Significant development in Providence includes a new Fidelity office, with 325 workers relocated from Boston, and the headquarters of the GTECH lottery corporation, with 500 employees.

Rhode Island's education and health services employment has increased to 20% of total employment from 15% in 1990, compared with just 13% employment in that sector for the nation. Health care services alone account for about 15% of state employment, compared with 11% of national employment. Financial services is another growing sector of the economy, and employment increased at a significant 4.8% year-over-year rate following the opening of Fidelity's office in Providence. Fidelity employs 2,050 workers throughout the state, primarily in Smithfield.

Finances: Use Of Onetime Revenues For Fiscals 2007 And 2008

Fiscal 2006 Audited Financial Statements

On the government-wide statement of net assets, Rhode Island's beginning net assets in fiscal 2006 were restated upwards by $747 million to reflect the addition of infrastructure assets for fiscals 1981-2001, as required by Governmental Accounting Standards Board Statement 34. Total net assets increased by $96.6 million during fiscal 2006 to $1.03 billion. The state carries a large negative unrestricted net asset balance of $929 million, with much of that balance attributable to the transfer of GO bond proceeds to component units of the state, municipalities, and nonprofit organizations. The general fund, the intermodal surface transportation (ISTEA) fund, and the grant anticipation revenue vehicle (GARVEE) fund are included as major governmental funds within the primary government. The general fund closed fiscal 2006 with an operating surplus of $18.4 million, which increased the total fund balance to $203.2 million. In addition to the statutory budget reserve, which was fully funded at $95.4 million (equivalent to 3% of expenditures), the unreserved balance was $38.3 million, about equal to the 2005 level. Personal income tax revenues (40% of general tax revenue and 22% of total general revenue) grew by a modest 1.8% from fiscal 2005 collections, but 3.6% below the level projected in the original enacted budget. In the previous year, fiscal 2005 personal income tax collections had increased by 12.4% from 2004 collections. The sales and use tax made up 19.0% of general revenues and grew 2.5% from fiscal 2005, but was 2.1% below the original budget. Business corporation taxes had another year of strong growth, increasing 42% from fiscal 2005 and ending the year 51% above budget. That tax now accounts for 3.6% general revenues.

Fiscal 2007

State officials estimate a $38.2 million reduction in free surplus at fiscal year-end 2007, closing with a free surplus of just $174,000. However, the state will continue to maintain a statutory budget reserve at required levels, equal to $98.2 million at fiscal year-end 2007. Total available state general revenues for fiscal 2007 were $3.22 billion—including the use of $38.3 million of fiscal 2006 free surplus, plus $17.4 million of reappropriated surplus—against expenditures of $3.22 billion. The available revenue is set at 98% of estimated general revenue, with the excess used to replenish the budget reserve stabilization fund to the required 2% level and finally flowing to the Rhode Island Capital Fund. In November 2006, state voters approved a constitutional amendment to limit appropriations to 97% of estimated revenues and to raise the cap on the budget reserve to 5% of revenues; the state will make incremental progress toward these levels beginning in fiscal 2009.

The revised year-end revenue estimate projects a 3.0% increase in total general revenues from fiscal 2006, but a 0.9% decline from the original enacted budget. The most significant declines are projected for lottery receipts ($40.2 million, or 11.1%, below the original budget) and sales and use taxes ($35.8 million, or 3.9%, below the original budget). In addition, $40 million of revenue from a projected settlement from AIG over worker's compensation insurance premiums was originally included in the fiscal 2007 enacted budget, but removed from the revised budget due to a delay in that settlement. While the state had originally projected that it would receive $100 million from that settlement, officials are now unsure if the state will receive any funding from the settlement. The largest positive variance is in business corporation taxes, which are projected to be $44.7 million, or 37%, above budget. The revised 2007 budget included as a revenue source $42.5 million of proceeds from a $195.0 million net securitization of the state's residual tobacco proceeds. The state's first securitization of tobacco payments was in 2002, and the state used $249 million of proceeds to fund operating budget expenditures in fiscals 2002-2004. Total general revenue expenditures for fiscal 2007 are estimated to be 0.1% higher than the original enacted budget and 5.0% higher than in fiscal 2006.

Fiscal 2008 Budget And Fiscal 2009

The fiscal 2008 budget, as enacted, totals $6.98 billion, including $3.40 billion of expenditures funded from general revenues, a 5.5% increase from the estimated 2007 level. The largest functional areas of expenditures are human services, at $1.26 billion (37% of the general revenue budget), and education, at $1.12 billion (33%). Human service expenditures are budgeted at 6.1% higher than estimated 2006 levels, while education expenditures are budgeted at 3.2% higher. The budget reserve fund is fully funded at $104.2 million, or 3% of total state revenues, in the 2008 enacted budget.

The largest sources of general revenues are personal income taxes, at 31% of general revenue, and sales and use taxes, at 26%. The personal income taxes are projected to grow 2.5% from the estimated

2007 level, and sales and use taxes are projected to grow 2.7%. Business corporation taxes, which significantly exceeded budget estimates in fiscals 2005-2007, are budgeted to increase by 1.2% from the estimated 2007 level to $167 million, or 4.8% of general revenues. A significant change in the state's income tax code beginning in 2006 was a flat-tax option that allows taxpayers to opt for an income tax of 8% of adjusted gross income, without credits or deductions, for tax year 2006 in lieu of the current income tax calculations. The 8.0% flat tax will be decreased by 0.5% per year until it reaches 5.5% for 2011; the tax is estimated to reduce revenues by $12.5 million for fiscal 2008.

The 2008 budget also includes the use of $124 million from the proceeds of the securitization of the state's residual tobacco settlement payments. The gap between revenues and expenditures for fiscal 2009 is estimated at $216 million, which includes an adjustment for onetime revenues in the 2008 budget ($124 million of tobacco securitization proceeds and $28 million from land sales) and the projection of expenditure increases outpacing revenue growth. Expenditure projections for fiscal 2009 include the funding of other postretirement employee benefits (OPEB) payments at the full actuarial required contribution (ARC) level, which would result in expenditures about $13 million higher than the pay-as-you-go funding method currently employed by the state.

Financial Management Assessment: 'Strong'

Rhode Island's management practices are considered strong under Standard & Poor's Financial Management Assessment (FMA). An FMA of strong indicates that practices are strong, well embedded, and likely sustainable. Based on a review of several key financial practices, Rhode Island has made continuing efforts to institutionalize sound financial management practices. In reviewing its practices and policies, it is very apparent that the state's use of a five-year financial plan, which is updated annually with the adopted budget, provides the basis for future fiscal decisions and recognizes out-year gaps. Quarterly monitoring and reporting of key revenues allows the state to make midyear financial adjustments, if necessary, to maintain balance. The state's statutory rainy-day fund has been consistently maintained at its legal maximum of 3% of revenues, which could be increased over time to 5% with a voter-approved constitutional amendment. While not a formal debt-management policy, the state, through the public financial management board, monitors its debt issuance to ensure that debt levels stay within desired guidelines based on defined measurements, including debt as a percent of personal income. The state produces a five-year capital plan that outlines expected capital requirements and identifies funding sources. The state's investment practices are conservative and actively adhered to.

Debt: Above-Average Per Capita And Debt-to-Income Levels

Rhode Island ranks a low 33rd in the nation in its total amount of tax-supported debt, but 13th in both tax-supported debt per capita ($1,438 per capita at fiscal year-end 2006) and tax-supported debt to personal income (3.8%, see "Public Finance Report Card: U.S. States Debt," published June 5, 2007, on RatingsDirect). Rhode Island's debt ratios have improved over recent years as the state has defeased debt through the proceeds of a $685 million tobacco securitization in 2002. The state has one GO variable-rate demand obligation in the amount of approximately $16 million (1% of net tax-supported debt), and has no interest-rate swap exposure. The largest uses of the current $129.0 million issue will be for transportation projects ($40.6 million) and open space and watershed protection ($15.8 million). After this issuance, the state will have $279 million of authorized, but unissued, debt.

Pensions: Recent Reforms Aimed At Reducing Liabilities

Pension reform was adopted in June 2005 following a year-long, 12-member state pension study committee report established by the governor. The committee had broad representation throughout state government, with half of the members coming from the administration or legislature and half representing union interests. Nothing in the reform will affect currently vested employees; those active employees with less than 10 years experience, however, will have decreased pension benefits. The proposal had three main features, each of which are typically difficult to achieve politically:

- Raising the minimum retirement age,
- Changing the benefit formula, and
- Capping the cost-of-living adjustment.

The reforms increased the age of eligibility for retirement to 59 with 29 years of service, or to 65 with 10 years of service. For the vested employees, there is no age requirement if an employee has 28 years of service and can retire at 60 with 10 years of service. The benefit formula change adjusts accrual rates by years of service; the maximum accrual will be 75% of the average of the three highest payroll years at 38 years of service, from the current 80% with 35 years of service. The cost-of-living adjustment change is straightforward; currently, a 3% annual increase is guaranteed, but the proposal caps the increase at 3% or the CPI, whichever is less. As of June 30, 2006, the Rhode Island Employees' Retirement System and the State Teachers' Retirement System were 54.6% and 52.7% funded, respectively, with a combined unfunded actuarial accrued liability of $4.92 billion.

Other Postretirement Employee Benefits

The state has updated its OPEB study, which now estimates an unfunded OPEB liability at $479.8 million as of June 30, 2005. The largest portions of this unfunded liability due to state employees ($427.3 million) and state police ($32.2 million). This estimate was calculated using an estimated investment rate of return of 8.25%. The actuarial analysis also calculated unfunded OPEB liability estimates using alternative rates of return. The assumption of a 7% rate of return resulted in an unfunded liability estimate of $549.7 million; an assumed 5% rate of return resulted in an unfunded liability estimate of $696.2 million. Although officials had considered beginning to amortize the unfunded OPEB liability in the fiscal 2008 budget, the enacted 2008 budget only provides funding for pay-as-you-go OPEB costs.

Ratings Detail (As Of 16-Aug-2007)		
Rhode Island GO (FGIC)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Rhode Island & Providence Plantations GO (FSA)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Rhode Island & Providence Plantations (GO) (MBIA)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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The McGraw-Hill Companies

Tax Supported
New Issue

State of Rhode Island and Providence Plantations

Ratings

General Obligation Bonds .... AA
Rating Outlook .... Stable

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New Issue Details

$134,800,000 General Obligation (GO) Bonds, consisting of $126,300,000 Consolidated Capital Development Loan of 2007, Series A, and $8,500,000 Capital Development Loan of 2007, Series B (Federally Taxable), were sold competitively on Aug. 22. The tax-exempt bonds are due Aug. 1, 2008–2027, callable beginning Aug. 1, 2017. The taxable bonds are due Aug. 1, 2008–2017 and are not callable prior to maturity.

Security: GOs of the state of Rhode Island and Providence Plantations; full faith and credit pledged.

■ Outlook

The state of Rhode Island's financial position is strained, reflecting weakness in certain key revenue sources and numerous tax credit and tax cut programs undertaken in recent years. The state recently issued residual tobacco settlement bonds and used the majority of proceeds for budget balancing purposes. This was necessary despite revenue-raising measures and limited spending growth in the fiscal 2008 budget. Rhode Island's institutionalized financial controls, particularly a 98% constitutional appropriation limit and the fully funded 3% reserve (both of which will be strengthened in the coming years), support maintenance of the 'AA' rating and Stable Rating Outlook at this time. Fitch Ratings will closely monitor the state's economic and financial position as fiscal 2008 progresses and the budget for fiscal 2009 begins to take shape. Additional stress or failure to achieve spending restraint goals could result in downward rating pressure.

■ Rating Comment

Rhode Island's 'AA' GO bond rating is based on a history of actions, along with institutional controls to protect its debt and financial position. The state performs consensus revenue forecasting, limits spending to 98% of projected revenues, and engages in multiyear budgeting and capital planning. Reserves continue to be fully funded at the statutory maximum of 3% of revenues. The economy has grown and diversified away from manufacturing, and the state has added jobs every year since 1992, although growth has lagged during the recovery. Debt levels are above average but still in the moderate range, well below historical highs. Pension funding levels are low.

The fiscal 2007 budget addressed an estimated $222 million shortfall; it did not include any broad-based tax increases or cuts. The budget provided for an alternative income tax flat-tax option for individuals, which was designed to enhance competitiveness with surrounding states. The state has taken other actions in recent years with the same goal, including capital gains tax reductions and historic structures and motion-picture tax credits.

Rhode Island reviews revenue estimates at least twice a year, in May and November. In recent years, revenues have been revised meaningfully upwards from November to May. However, the May 2007 revision lowered revenue estimates, compared with those used in preparation of the executive budget, adding about $92 million to the budget gap to be addressed. This was largely due to the removal of $80 million in expected legal settlement revenues from the forecast.

The final budget for fiscal 2008 froze education aid at fiscal 2007 levels, raised some fees and corporate tax revenues, and halted the scheduled phase-out of the capital gains tax. It also included some cuts to social services. As mentioned above, the state used the majority of the $195 million in proceeds from the issuance of tobacco settlement residual bonds for budget balancing purposes ($43 million in fiscal 2007 and $124 million in fiscal 2008). The governor, who does not have line-item veto authority, vetoed the entire budget. This veto was subsequently overridden.

Tax revenue growth is forecast at 2.8% in fiscal 2008 (2.3% baseline growth), compared with 2.5% in fiscal 2007 (5.0% baseline). The pace of personal income and corporate tax growth is expected to moderate in fiscal 2008 while sluggish sales and use tax revenues, which grew 1.8% (1.0% baseline) in fiscal 2007, are expected to rise 2.7% (2.8% baseline) in fiscal 2008. Lottery revenues, a significant source of income for the state that declined in fiscal 2007, are expected to recover in fiscal 2008. Legislation passed in the 2007 session requires that any revenue exceeding the enacted revenue estimate be applied to the retirement system, which is significantly underfunded.

2% of revenues each fiscal year are automatically deposited in the budget reserve fund, which has a maximum balance of 3% of revenues. When the maximum balance is reached, the excess revenues are deposited into the Rhode Island capital fund. In November 2006, voters approved an amendment to the state constitution that restricts, beginning July 1, 2007, use of excess funds in the Rhode Island capital fund solely for capital projects. The state had heretofore been able to use these funds for capital projects, debt service, or debt reduction, and it used about $40 million for debt service in fiscal years 2006 and 2007. The amendment also will limit annual appropriations to 97% of estimated revenues and increase the cap on the budget reserve account to 5% of estimated revenues (from the current 98% and 3%), beginning on July 1, 2012. The Legislature has adopted a phase-in schedule for the new constitutional requirement that will move the state to a 97% appropriation limit and 5% budget reserve starting in fiscal 2013. For fiscal 2009, appropriations will be limited to 97.8% of estimated revenues, and the reserve will rise to 3.4%.

Rhode Island's economy made a radical shift in the 1980s as dependence moved from manufacturing to services. Aided by regional growth, as well as targeted tax credits and incentives directed toward the higher-wage financial services industry, the state has added jobs every year since 1992 and outperformed the U.S. and neighboring states in the most recent recession. However, growth has lagged during the recovery. Nonfarm employment was up 0.5% in 2006, matching the state's 2005 growth rate but falling below the nation's 1.8% rise. The pace of employment growth picked up in the last few months of 2006 and, with the exception of April, this trend has continued in 2007. July 2007 employment was 1.4% above the July 2006 level, with strong growth in construction (5.7%), financial activities (2.5%), and professional and business services (4.2%) offset by continued manufacturing declines. The state's most recent (May 2007) consensus economic forecast projects 2007 nonfarm employment growth of 0.7%.

The state's unemployment rate has been rising as a percentage of the U.S. level; it was 5.1%, or 111% of the nation's, in 2006. July 2007 unemployment was 109% of the U.S. level at 5.0%. Rhode Island is experiencing one of the highest rates of growth in overall mortgage delinquencies in the nation, fueled by subprime delinquencies, although foreclosure levels are in the middle of the pack. The state's personal income per capita equals 103% of the U.S. figure, ranking 15th among the states.

Rhode Island's debt burden is above average but still in the moderate range at 5.3% of 2006 personal income. This represents a meaningful reduction from the historical peak of 8.5% in 1994. The funding level of the state employee pension system has dropped to less than 60%; the state passed significant pension reform in the 2005 session. The state's current estimate of its other post-employment benefits liability is $480 million, assuming an 8.25% earnings rate.

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EXHIBIT E

Schedule of Debt Issuances

State of Rhode Island
Public Finance Management Board
Summary of Debt Issuance by Cities & Towns
For the Period 1/1/06 - 12/31/2006

Date	Amount	City or Town	Type	Description of Issue	Report of Final Sale Received
1/9/06	17,500,000.00	City of Warwick, Rhode Island	G.O.	General Obligation Bonds dated 1/15/06	1/30/06
1/23/06	192,500.00	Town of New Shoreham	G.O.	General Obligation Bond	5/1/06
2/7/06	1,320,000.00	Town of Warren	G.O.	General Obligation Bonds dated 2/15/06	3/3/06
3/23/06	2,840,000.00	Town of North Kingstown	G.O.	General Obligation Bonds	5/10/06
3/27/06	3,000,000.00	Town of Cumberland	G.O.	General Obligation Bonds dated 5/1/06	5/4/06
3/27/06	20,000,000.00	Town of Cumberland	BAN's	G.O. Bond Anticipation Notes dated 5/3/06	5/4/06
3/27/06	2,450,000.00	Town of New Shoreham	G.O.	General Obligation Bonds dated 5/1/06	5/3/06
3/28/06	7,900,000.00	City of Central Falls, R. I.	G.O.	General Obligation Bonds	4/26/06
3/28/06	3,000,000.00	Town of Charlestown, R. I.	G.O.	General Obligation Bonds	7/28/06
3/30/06	1,238,674.00	Richmond - Carolina Fire Dist.	G.O.	General Obligation Bonds	11/28/06
4/13/06	2,000,000.00	Town of Scituate, R. I.	TAN's	Tax Anticipation Note	4/25/06
4/27/06	14,150,000.00	Bristol/Warren Reg. Sch. Dist.	BAN's	G.O. Bond Anticipation Notes dated 5/4/06	5/5/06
5/1/06	1,300,000.00	City of Cranston, Rhode Island	BAN's	G.O. Bond Anticipation Notes dated 5/4/06	5/16/06
5/2/06	6,587,571.15	Providence Redevelopment Agncy	COP's	COP's - Port of Providence Lease Series 2006 A	9/15/06
5/9/06	461,000.00	Town of Scituate, R. I.	G.O.	General Obligation Bonds dated 5/15/06	5/15/06
5/9/06	1,000,000.00	Town of Bristol, Rhode Island	G.O.	General Obligation Bonds dated 5/1/06	5/12/06
5/9/06	2,000,000.00	Town of Bristol, Rhode Island	BAN's	G.O. Bond Anticipation Notes dated 5/11/06	5/12/06
5/9/06	1,645,000.00	Town of Johnston, R. I.	BAN's	G.O. Bond Anticipation Notes	8/7/06
5/9/06	5,000,000.00	Town of Johnston, R. I.	State Aid	State Aid Anticipation Notes	Canceled
5/19/06	1,200,000.00	City of East Providence, R. I.	RAN's	G.O. Revenue Anticipation Notes dated 5/23/06	6/7/06
5/24/06	474,000.00	Town of Portsmouth, R.I.	G.O.	General Obligation Bonds dated 6/1/06	6/2/06
5/26/06	23,900,000.00	City of Cranston, Rhode Island	G.O.	General Obligation Bonds	8/8/06
6/5/06	16,575,000.00	Town of Westerly, R. I.	G.O.	General Obligation Bonds dated 7/1/06	7/7/06
6/6/06	3,850,000.00	Town of Portsmouth, R.I.	Revenue	G.O. Revenue Bonds, Series 2006 A (Pooled Issue)	8/21/06
6/6/06	7,500,000.00	Town of Burrillville	Revenue	G.O. Revenue Bonds, Series 2006 A (Pooled Issue)	8/21/06
6/6/06	3,735,000.00	Town of Tiverton	Revenue	G.O. Revenue Bonds, Series 2006 A (Pooled Issue)	8/21/06
6/6/06	1,500,000.00	City of Pawtucket, R. I.	Revenue	G.O. Revenue Bonds, Series 2006 A (Pooled Issue)	8/21/06
6/7/06	1,018,000.00	Harris Fire and Lighting Dist.	BAN's	G.O. Bond Anticipation Notes dated 6/15/06	6/15/06
6/12/06	1,250,000.00	North Tiverton Fire District	BAN's	G.O. Bond Anticipation Notes dated 6/16/06	11/29/06
6/21/06	1,700,000.00	Bristol/Warren Reg. Sch. Dist.	G.O.	G.O. Bonds dated 6/27/06	8/21/06
6/21/06	3,765,000.00	Town of Barrington, R. I.	G.O.	G.O. Bonds dated 6/15/06	6/28/06
7/11/06	1,384,637.00	Town of Westerly, R. I.	Lease	Tax-Exempt Lease	1/11/07
7/24/06	3,000,000.00	City of Pawtucket, R. I.	BAN's	G.O. Bond Anticipation Notes dated 7/27/06	5/2/07
7/27/06	6,000,000.00	Town of Coventry, R.I.	TAN's	Tax Anticipation Notes dated 7/27/06	8/3/06
8/8/06	7,000,000.00	Town of Tiverton	BAN's	G.O. Bond Anticipation Notes dated 8/21/06	9/15/06
8/1/06	35,000,000.00	Town of Lincoln, Rhode Island	BAN's	G.O. Bond Anticipation Notes dated 8/1/06	9/18/06
8/15/06	29,910,000.00	City of Providence, R. I.	Multi-Modal	Multi-Modal G.O. Refunding Bonds, 2006 Series A	7/12/07
8/16/06	600,000.00	Town of Little Compton, R. I.	BAN's	Bond Anticipation Notes dated 8/23/06	9/12/06
8/17/06	8,000,000.00	Town of West Greenwich, R.I.	G.O.	General Obligation Bonds	9/11/06
8/23/06	2,215,000.00	Town of Glocester	G.O.	General Obligation Bonds	11/8/06
8/24/06	500,000.00	Town of Narragansett	G.O.	General Obligation Term Notes	11/22/06
9/15/06	340,000.00	Lonsdale Fire District	BAN's	G.O. Bond Anticipation Notes	10/18/06
9/18/06	1,500,000.00	Town of Jamestown, R. I.	BAN's	G.O. Bond Anticipation Note to be issued by R.I.C.W.F.A.	11/8/06
9/19/06	1,500,000.00	Charlestown Fire District	G.O.	General Obligation Bonds	11/8/06
9/19/06	60,000,000.00	Providence Public Bldgs Auth	Revenue	G.O. Prov. Public Schools Rev. Bonds, Series 2006 A	8/10/07
9/26/06	3,250,000.00	Town of Middletown	BAN's	G.O. Bond Anticipation Notes dated 10/5/06	10/11/06
10/6/06	2,800,000.00	Town of North Providence	TAN's	Tax Anticipation Notes	10/13/06
10/10/06	9,800,000.00	Foster-Glocester Reg Sch Dist	BAN's	G.O. Bond Anticipation Notes dated 10/25/06	11/3/06
10/13/06	164,775.00	Harris Fire and Lighting Dist.	G.O.	General Obligation Bonds	2/9/07
10/16/06	7,490,000.00	Town of Burrillville	G.O.	G.O. Bds, 2006 Ser. A & G.O. Refunding Bds, 2006 Ser. B	11/20/06
10/19/06	4,500,000.00	Town of North Smithfield, R.I.	BAN's	G.O. Bond Anticipation Notes dated 11/9/06	11/14/06
11/20/06	500,000.00	Town of West Warwick, R. I.	Revenue	Wastewater System Revenue Bonds, 2006 Series A	1/8/07
11/23/06	3,500,000.00	Town of Burrillville	G.O.	G.O. Clean Water Bonds dated 12/21/06	12/21/06
11/23/03	2,750,000.00	Town of Middletown	Revenue	Wastewater System Revenue Bonds, 2006 Series A	12/21/06
12/4/06	3,700,000.00	Town of Bristol, Rhode Island	G.O.	G.O. Bonds dated 12/21/06	12/22/06
12/6/06	450,000.00	Town of Hopkinton, R. I.	BAN's	G.O. Bond Anticipation Notes dated 12/28/06	1/25/07
12/1/06	9,500,000.00	City of Warwick, Rhode Island	Revenue	Wastewater System Revenue Bonds, 2006 Series A	12/29/06
12/8/06	3,205,000.00	Town of Coventry, R.I.	Revenue	Wastewater System Revenue Bonds, 2006 Series A	12/29/06
12/13/06	6,203,000.00	City of Warwick, Rhode Island	Lease	Tax-Exempt Lease	1/5/07
12/18/06	3,908,000.00	Town of Barrington, R. I.	G.O.	G.O. Clean Water Bonds dated 12/21/06	12/29/06
12/18/06	7,600,000.00	Town of East Greenwich, R. I.	G.O.	G.O. Clean Water Bonds dated 12/21/06	12/29/06
12/29/06	23,000,000.00	City of East Providence, R. I.	TAN's	G.O. Tax Anticipation Notes	1/12/07
	409,322,157.15				

State of Rhode Island
Public Finance Management Board
Summary of Fees by Agency
Calendar Year 2006

Initial Date		Delivery Date	Maturity Date	Original Issue Amount	Fees Due	Total Due by Agency	% of Total	Total Rec.'d	Date Rec.'d		Report of Final Sale Received
	R I Health & Educ Bldg Corp										
1/30/06	Hospital Financing Revenue Bonds	2/23/06	9/15/2035	52,000,000.00	13,000.00						
	South County Hospital Healthcare System Issue, Series 2006		Refunding Portion	(32,030,000.00)	(8,007.50)	4,992.50		4,992.50	2/23/06		5/3/06
1/30/06	Hospital Financing Revenue Refunding Bonds	2/14/06	5/15/2032	192,135,000.00	48,033.75						
	Lifespan Obligated Group Issue, Series 2006 A		Refunding Portion	(188,720,000.00)	(47,180.00)	853.75		853.75	2/9/06		7/17/06
5/25/06	Higher Education Facility Revenue Bonds	5/31/06	11/1/2036	13,400,000.00	3,350.00			3,350.00	6/8/06		6/8/06
	Providence College Issue, Series 2006										
6/6/06	Public School Districts Revenue Bond	6/27/06	5/15/2026	18,285,000.00	4,571.25			4,571.25	6/23/06		8/21/06
	Financing Program Revenue Bonds, Series 2006 A (Pooled Issue)										
6/22/06	Higher Education Facility Revenue and Refunding Bonds										
	Rhode Island School of Design Issue, Series 2006A	7/6/06	8/15/2036	31,550,000.00	7,887.50	7,887.50		7,887.50	9/29/06		11/9/06
	Rhode Island School of Design Issue, Refunding Series 2006B	7/6/06	8/15/2011	7,950,000.00	0.00						11/9/06
				39,500,000.00							
7/14/06	Educational Facility Revenue Bonds	7/26/06	4/1/2036	17,500,000.00	4,375.00			4,375.00	10/12/06		10/11/06
	Catholic School Pool Program Issue, Series 2006 A										
7/27/06	Hospital Facilities Tax-Exempt Master Lease and Loan and	8/30/06	9/1/2027	3,520,000.00	880.00			880.00	7/11/07		12/28/06
	Security Agreement Kent County Memorial Hospital (Schedule No. 3)										
9/18/06	Providence Public Schools Revenue Bond Financing Program	9/21/06	5/15/2027	60,000,000.00	15,000.00			15,000.00	9/28/06		1/8/07
	Revenue Bonds, Ser. 2006 A (Providence Public Buildings Authority)										
10/10/06	Higher Education Facility Revenue Refunding Bonds	10/17/06	11/15/2024	26,800,000.00	0.00						12/8/06
	Roger Williams University Issue, Series 2006 A										
	Higher Education Facility Revenue Bonds	10/17/06	11/15/2036	17,200,000.00	4,300.00			4,300.00	12/6/06		12/8/06
	Roger Williams University Issue, Series 2006 B										
11/20/06	Revenue Bonds	12/14/06	12/1/2036	12,000,000.00	3,000.00			3,000.00	8/16/07		12/21/06
	(Child and Family Services of Newport County Issue - Series 2006)										
11/28/06	Tax-Exempt Standard Commercial Paper Notes	12/18/06	270 days	50,000,000.00	12,500.00			12,500.00	2/1/07		5/10/07
	Brown University, Series A										
	Tax-Exempt Extendible Commercial Paper Notes		1 - 90 days								
	Brown University, Series B		extendible								
					61,710.00	61,710.00	21.5%	61,710.00			

Initial Date		Delivery Date	Maturity Date	Original Issue Amount	Fees Due	Total Due by Agency	% of Total	Total Rec.'d	Date Rec.'d		Report of Final Sale Received
	R I Hsing & Mtge Finance Corp										
3/21/06	Multi-Family Mortgage Revenue Bonds										
	University Heights Project - Series 2006 (AMT)	3/31/06	4/1/2039	26,700,000.00	6,675.00						
	Sutterfield Project - Series 2006 (AMT)	3/31/06	4/1/2039	7,000,000.00	1,750.00	8,425.00		8,425.00	4/28/06		10/17/06
				33,700,000.00							
12/19/05	Homeownership Opportunity Bonds, Series 51-A (Non-AMT)	1/19/06	4/1/2033	47,165,000.00	11,791.25						4/3/06
12/19/05	Homeownership Opportunity Bonds, Series 51-B (AMT)	1/19/06	10/1/2036	7,605,000.00	1,901.25						4/3/06
12/19/05	Homeownership Opportunity Notes, Series 51-C (Non-AMT)	1/19/06	10/1/2008	3,765,000.00	941.25						4/3/06
12/19/05	Homeownership Opportunity Notes, Series 51-D (AMT)	1/19/06	10/1/2008	27,120,000.00	6,780.00	21,413.75		21,413.75	1/27/06		4/3/06
				85,655,000.00							
6/1/06	Homeownership Opportunity Bonds, Series 52-A (Non-AMT)	6/15/06	4/1/2033	25,000,000.00	6,250.00						10/17/06
	Homeownership Opportunity Bonds, Series 52-B (AMT)	6/15/06	10/1/2036	25,000,000.00	6,250.00						10/17/06
				50,000,000.00							
	Refunding Portion			(25,000,000.00)	(6,250.00)	6,250.00		6,250.00	6/30/2006		
6/1/06	Multi-Family Mortgage Revenue Bonds	9/21/06	3/1/2040	35,000,000.00	8,750.00	8,750.00					10/17/06
	The Groves at Johnston Project, Series 2006 (AMT)										
8/16/06	Homeownership Opportunity Bonds, Series 53-A (Non-AMT)	9/13/06	10/1/2034	21,310,000.00	5,327.50						2/27/07
	Homeownership Opportunity Bonds, Series 53-B (AMT)	9/13/06	10/1/2046	48,690,000.00	12,172.50						2/27/07
				70,000,000.00							
	Refunding Portion for Series 44-B			(18,890,000.00)	(4,722.50)						
	Refunding Portion for Series 45-C			(30,000,000.00)	(7,500.00)	5,277.50		14,027.50	10/10/06		
10/23/06	Homeownership Opportunity Bonds, Series 54 (AMT)	11/14/06	10/1/2046	68,085,000.00	17,021.25						1/30/07
11/28/06	Series A-1 (AMT) Rental Housing Program	12/21/06	10/1/2048	26,785,000.00	6,696.25						1/30/07
	Series A-2T (Taxable) Rental Housing Program	12/21/06	10/1/2048	4,660,000.00	0.00	6,696.25		23,717.50	1/5/07		1/30/07
				31,445,000.00							
					73,833.75	73,833.75	25.7%	73,833.75			

Initial Date		Delivery Date	Maturity Date	Original Issue Amount	Fees Due	Total Due by Agency	% of Total	Total Rec.'d	Date Rec.'d		Report of Final Sale Received
	R I Clean Wtr Pro Finance Agcy										
12/26/06	Water Pollution Control Revolving Fund Revenue Bonds	12/21/06	10/1/2027	57,795,000.00	14,448.75			14,448.75	1/8/07		12/26/06
	Series 2006 A (Pooled Loan Issue)										
					14,448.75	14,448.75	5.0%	14,448.75			
	R I Water Resources Board										
					0.00	0.00	0.0%	0.00			
	Rhode Island Student Loan Auth										
7/28/06	Student Loan Program Revenue Bonds (Taxable)										
	2006 Series 1 (AMT) (Auction Rate Bonds)	8/8/06	12/1/2040	30,000,000.00	0.00						12/26/06
	2006 Series 2 (AMT) (Auction Rate Bonds)	8/8/06	12/1/2040	30,000,000.00	0.00						12/26/06
	2006 Series 3 (AMT) (Fixed Rate Bonds)	8/8/06	12/1/2026	40,000,000.00	0.00						12/26/06
				100,000,000.00							
					0.00	0.00	0.0%	0.00			
	R I Refunding Bond Authority										
	(Considered to be a State of Rhode Island Issue)										
					0.00	0.00	0.0%	0.00			

Initial Date		Delivery Date	Maturity Date	Original Issue Amount	Fees Due	Total Due by Agency	% of Total	Total Rec.'d	Date Rec.'d		Report of Final Sale Received
	Narr Bay Wtr Qlty Mgt Dist Com										
11/20/06	Wastewater System Revenue Bonds, 2006 Series A	12/21/06	9/1/2027	30,000,000.00	0.00						1/8/07
					0.00	0.00	0.0%	0.00			
	R I Solid Waste Management Bd										
	(R.I. Resource Recovery Corporation)										
					0.00	0.00	0.0%	0.00			
	Providence Housing Authority										
					0.00	0.00	0.0%	0.00			
	RI Turnpike & Bridge Authority										
					0.00	0.00	0.0%	0.00			
	Woonsocket Housing Authority										
					0.00			0.00			

Initial Date		Delivery Date	Maturity Date	Original Issue Amount	Fees Due	Total Due by Agency	% of Total	Total Rec.'d	Date Rec.'d		Report of Final Sale Received
	R I Industrial Facilities Corp										
11/8/05	Economic Development Revenue Bond	5/10/06	2/1/2012	20,000,000.00	5,000.00			5,000.00	8/20/07		5/19/06
	Perot Systems Corporation and										
	Perot Systems Healthcare Services, LLC Project - 2006 Series										
10/27/06	Economic Development Revenue Bond (Taxable)	10/30/06	10/30/2008	8,500,000.00	0.00						10/31/06
	Island Hotel Group, LLC Project - 2006 Series		extendable								
			to 2011								
12/6/06	Variable Rate Demand Industrial Development Revenue Bonds,	12/21/06	12/1/2036	4,325,000.00	1,081.25			1,081.25	12/22/06		12/27/06
	(Eric Goetz Custom Sailboats, Inc. Project - 2006 Series)										
					6,081.25	6,081.25	2.1%	6,081.25			
	The Convention Ctr Authority										
4/27/06	Civic Center Revenue Bonds, 2006 Series A (Taxable)	6/8/06	5/15/2035	92,500,000.00	0.00						10/10/06
					0.00	0.00	0.0%	0.00			

Initial Date		Delivery Date	Maturity Date	Original Issue Amount	Fees Due	Total Due by Agency	% of Total	Total Rec.'d	Date Rec.'d		Report of Final Sale Received
	State of Rhode Island										
	(RBA is considered to be a State of R.I. Issue)										
6/14/06	Lease Participation Certificates	6/29/06	4/15/2013	6,000,000.00	1,500.00			1,500.00	6/29/06	Wire Transfer	7/12/06
	State Vehicles Project - 2006 Series A										
9/12/06	G.O. Bonds CCDL of 2006, Refunding Series A	9/28/06	8/1/2022	72,930,000.00	0.00						11/3/06
		New Money Portion		1,905,000.00	476.25						
				74,835,000.00							
	G.O. Bonds CDL of 2006, Series B		8/1/2026	20,680,000.00	5,170.00	5,646.25		5,646.25	9/28/06		11/3/06
				95,515,000.00							
10/23/06	G.O. Bonds CCDL of 2006 Series C	10/31/06	11/15/2025	98,105,000.00	24,526.25			24,526.25	10/31/06	Wire Transfer	11/3/06
11/28/06	2006 Tax Anticipation Notes	12/14/06	6/30/2007	120,000,000.00	30,000.00			30,000.00	12/21/06	Wire Transfer	1/30/07
					61,672.50	61,672.50	21.5%	61,672.50			
	R I Economic Development Corp										
1/18/06	Economic Development Revenue Bond (Taxable)	2/28/06	12/15/2012	20,000,000.00	0.00						3/28/06
	Toray Plastics (America), Inc. Project 2006 Series										
2/17/06	Grant Anticipation Bonds	3/2/06	6/15/2018	184,620,000.00	46,155.00			46,155.00	3/1/06		3/3/06
	R.I. Department of Transportation, Series 2006 A										
2/17/06	R.I. Motor Fuel Tax Revenue Bonds	3/2/06	6/15/2026	42,815,000.00	10,703.75			10,703.75	3/1/06		3/3/06
	R.I. Department of Transportation, Series 2006 A										
5/22/06	First Lien Special Facility Revenue Bonds	6/28/06	7/1/2036	48,765,000.00	12,191.25			12,191.25	8/14/06		8/10/06
	R. I. Airport Corporation Intermodal Facility Project, Series 2006										
					69,050.00	69,050.00	24.1%	69,050.00			
	Totals				286,796.25	286,796.25	100.0%	286,796.25			