

**NEW ISSUE/BOOK-ENTRY-ONLY**

**Ratings:** *Moody's: Aaa*  
*Standard & Poor's: AAA*  
*Fitch: AAA*  
See "RATINGS" herein  
(Insured)

*In the opinion of Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed on corporations and taxpayers other than corporations. Interest on the Bonds will, however, be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed upon certain corporations. In addition, the Bonds will be exempt from Rhode Island taxes although the Bonds and the interest thereon may be included in the measure of Rhode Island estate and gift taxes and certain business and corporate taxes. See "TAX STATUS" and "APPENDIX B – Proposed Form of Legal Opinion" herein.*

**\$118,995,000**  
**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**General Obligation Bonds**

**\$55,990,000 Consolidated Capital Development Loan of 2001, Refunding Series A**  
**\$63,005,000 Consolidated Capital Development Loan of 2001, Refunding Series B**

**Dated:** February 1, 2001

**Due:** As shown below

The Bonds will be issued as fully registered bonds and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. Purchases of the Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof and no physical delivery of the Bonds will be made to purchasers. So long as Cede & Co. is the registered owner of the Bonds, principal and semiannual interest are payable to DTC by First Union National Bank, as Paying Agent. Interest on the Series A Bonds is payable on February 1 and August 1, commencing August 1, 2001. Interest on the Series B Bonds is payable on June 1 and December 1, commencing June 1, 2001. The Bonds constitute general obligations of the State for the payment of which the full faith and credit of the State will be pledged. **The Bonds are subject to redemption prior to maturity as described herein.**

Payment of the principal of and interest on the Bonds when due will be guaranteed by a municipal bond insurance policy issued simultaneously with the delivery of the Bonds by Financial Guaranty Insurance Company.



FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

**\$55,990,000 Consolidated Capital Development Loan of 2001, Refunding Series A**

<u>Maturity</u> <u>August 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Price/ Yield</u>	<u>Maturity</u> <u>August 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Price/ Yield</u>
2002	\$ 50,000	4.00%	3.35%	2009	\$ 2,170,000	4.125%	4.15%
2003	55,000	4.00	3.60	2010	2,000,000	5.50	4.25
2004	3,845,000	5.00	3.63	2010	3,845,000	4.20	4.25
2004	2,500,000	5.50	3.63	2011	15,765,000	5.50	4.35
2005	55,000	4.00	3.75	2012	6,565,000	5.25	106.287
2006	55,000	4.00	3.86	2013	6,935,000	5.25	105.262
2007	55,000	4.00	3.96	2014	7,310,000	5.00	101.957
2008	60,000	4.00	4.06	2015	4,725,000	5.00	101.135

**\$63,005,000 Consolidated Capital Development Loan of 2001, Refunding Series B**

<u>Maturity</u> <u>June 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Price/ Yield</u>	<u>Maturity</u> <u>June 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Price/ Yield</u>
2008	\$2,300,000	5.25%	4.06%	2013	\$3,600,000	5.25%	105.191%
2008	4,065,000	4.00	4.06	2014	3,800,000	5.00	101.928
2009	1,250,000	4.125	4.15	2015	3,800,000	5.00	101.116
2010	5,600,000	4.20	4.25	2016	6,400,000	5.375	104.042
2011	7,900,000	5.50	4.35	2017	7,700,000	5.375	103.551
2011	1,500,000	4.30	4.35	2018	4,200,000	5.375	103.062
2012	6,400,000	5.25	106.203	2019	4,490,000	5.375	102.656

*The Bonds are offered when, as and if issued by the State and delivered to the Underwriters, subject to the approval of legality by Tillinghast Licht Perkins Smith & Cohen, LLP, Providence, Rhode Island, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the State by its Disclosure Counsel, Partridge Snow & Hahn LLP, Providence, Rhode Island. Certain matters will be passed upon for the Underwriters by their counsel, Holland & Knight, LLP, Providence, Rhode Island. Delivery of the Bonds to DTC is expected in New York, New York on or about February 15, 2001.*

**PaineWebber Incorporated**

**Morgan Stanley Dean Witter**

**Salomon Smith Barney**

**STATE OF RHODE ISLAND  
AND PROVIDENCE PLANTATIONS**



**CONSTITUTIONAL OFFICERS**

Governor.....	Lincoln C. Almond
Lieutenant Governor.....	Charles J. Fogarty
General Treasurer.....	Paul J. Tavares
Attorney General.....	Sheldon Whitehouse
Secretary of State.....	Edward S. Inman, III

**APPOINTED OFFICIALS**

Director of Administration .....	Robert L. Carl, Jr., Ph.D.
Budget Officer .....	Stephen P. McAllister
State Controller .....	Lawrence C. Franklin, Jr.
Auditor General .....	Ernest A. Almonte

**BOND COUNSEL**

Tillinghast Licht Perkins Smith & Cohen, LLP  
Providence, Rhode Island

**DISCLOSURE COUNSEL**

Partridge Snow & Hahn LLP  
Providence, Rhode Island

**FINANCIAL ADVISOR**

Fleet National Bank

No dealer, broker, salesperson or other person has been authorized by the State or the original purchasers of the Bonds to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of the Bonds offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the State, and other sources that are deemed to be reliable but is not guaranteed as to accuracy or completeness by the original purchasers of the Bonds or, as to information from other sources, the State. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof.

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

Table of Contents

INTRODUCTION .....	1
SECURITY FOR THE BONDS .....	1
SOURCES AND USES OF FUNDS .....	1
PLAN OF REFUNDING .....	2
DESCRIPTION OF THE BONDS .....	2
General .....	2
Redemption .....	3
Book-Entry-Only System .....	3
Record Date .....	5
BOND INSURANCE .....	5
RATINGS .....	6
LEGAL MATTERS .....	6
TAX STATUS .....	6
LITIGATION .....	7
FINANCIAL ADVISOR .....	8
CONTINUING DISCLOSURE .....	8
VERIFICATION OF MATHEMATICAL COMPUTATIONS .....	9
UNDERWRITING .....	9
ADDITIONAL INFORMATION .....	9
APPENDIX A - Information Statement of the State dated January 31, 2001	
Exhibit A - Audited Financial Statements of the State for the Fiscal Year Ended June 30, 1999	
Exhibit B - State Economic Information	
APPENDIX B - Proposed Form of Legal Opinion	
APPENDIX C - Table of Refunded Bonds	
APPENDIX D - Specimen Bond Insurance Policy	

For New Hampshire residents: In making an investment decision, investors must rely on their own examination of the issuer and the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

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**OFFICIAL STATEMENT**

**\$118,995,000**

**State of Rhode Island and Providence Plantations  
General Obligation Bonds**

**\$55,990,000 Consolidated Capital Development Loan of 2001, Refunding Series A**

**\$63,005,000 Consolidated Capital Development Loan of 2001, Refunding Series B**

**INTRODUCTION**

The purpose of this Official Statement, including the cover page and appendices hereto, is to set forth certain information concerning the State of Rhode Island and Providence Plantations (the "State" or "Rhode Island") and its \$55,990,000 Consolidated Capital Development Loan of 2001, Refunding Series A Bonds (the "Series A Bonds") and \$63,005,000 Consolidated Capital Development Loan of 2001, Refunding Series B Bonds (the "Series B Bonds" and collectively, the "Bonds"), dated February 1, 2001. The proceeds of the Bonds will be used primarily to refund certain outstanding bonds of the State (the "Refunded Bonds"). See "PLAN OF REFUNDING" and "APPENDIX C - Table of Refunded Bonds" herein.

**SECURITY FOR THE BONDS**

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

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

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

**SOURCES AND USES OF FUNDS**

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

Sources		
Par Amount of Bonds		\$55,990,000.00
Premium		2,981,188.70
Accrued Interest		<u>112,059.40</u>
Total Sources		\$59,083,248.10
Uses		
Refunding Trust Account Deposit		58,572,226.13
Costs of Issuance*		398,962.57
Accrued Interest		<u>112,059.40</u>
Total Uses		\$59,083,248.10

\*Includes bond insurance premium and underwriters' discount.

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

Sources	
Par Amount of Bonds	\$63,005,000.00
Premium	2,351,913.75
Accrued Interest	<u>124,408.47</u>
Total Sources	\$65,481,322.22
Uses	
Refunding Trust Account Deposit	64,892,963.04
Costs of Issuance*	463,950.71
Accrued Interest	<u>124,408.47</u>
Total Uses	\$65,481,322.22

\*Includes bond insurance premium and underwriters' discount.

### PLAN OF REFUNDING

The State, upon delivery of the Bonds, will enter into a refunding trust agreement (the "Refunding Trust Agreement") with First Union National Bank, as refunding trustee (the "Refunding Trustee") to be selected for the Refunded Bonds. The Refunding Trust Agreement will provide for the deposit of the net proceeds of the respective series of the Bonds with the Refunding Trustee in a separate account to be applied immediately upon receipt to purchase non-callable direct obligations of the United States of America (the "Government Obligations") and to fund, if needed, a cash deposit in such account. The Refunding Trust Agreement will require that maturing principal of and interest on the Government Obligations, plus any initial cash deposit, be held in trust in such accounts and be paid to the paying agent of the Refunded Bonds solely for the payment of the principal of and redemption premium, if any, and interest on the Refunded Bonds. According to the report described in "VERIFICATION OF MATHEMATICAL COMPUTATIONS," the Government Obligations will mature at such times and earn interest in such amounts that, together with any initial cash deposit, they will produce sufficient moneys to make such payments on the Refunded Bonds to and including their respective maturity or redemption dates. For a list of the outstanding bonds of the State to be refunded through the proceeds of the Bonds, see "APPENDIX C - Table of Refunded Bonds" herein.

### DESCRIPTION OF THE BONDS

#### General

Pursuant to Section 35-8-21 of the General Laws of the State, the Series A Bonds will constitute the Consolidated Capital Development Loan of 2001, Refunding Series A and the Series B Bonds will constitute the Consolidated Capital Development Loan of 2001, Refunding Series B.

The Bonds will be dated February 1, 2001 and will bear interest at the rates set forth on the cover page hereof. Interest on the Series A Bonds will be payable on August 1, 2001 and semi-annually thereafter on February 1 and August 1 of each year in which the Series A Bonds mature. Interest on the Series B Bonds will be payable on June 1, 2001 and semi-annually thereafter on June 1 and December 1 of each year in which the Series B Bonds mature. So long as The Depository Trust Company ("DTC"), or its nominee Cede & Co., is the Bondholder, such payments will be made directly to such Bondholder. Disbursement of such payments to Beneficial Owners will be the responsibility of the DTC Participants and Indirect Participants, as more fully described herein. Interest is computed on the basis of a 360-day year consisting of twelve 30-day months. Principal of the Bonds will be payable on August 1 of each year as set forth on the cover page hereof.

## **Redemption**

### Series A Bonds

*Optional Redemption.* The Series A Bonds maturing on and before August 1, 2011 are not subject to redemption prior to their stated dates of maturity. The Series A Bonds maturing on and after August 1, 2012 are subject to redemption prior to their stated dates of maturity on and after August 1, 2011, at the option of the State, as a whole or in part at any time (by lot by DTC), in any order of maturity designated by the State, at a redemption price of 100% of the principal amount of the Series A Bonds to be redeemed together with interest accrued and unpaid to the redemption date.

### Series B Bonds

*Optional Redemption.* The Series B Bonds maturing on and before June 1, 2011 are not subject to redemption prior to their stated dates of maturity. The Series B Bonds maturing on and after June 1, 2012 are subject to redemption prior to their stated dates of maturity on and after June 1, 2011, at the option of the State, as a whole or in part at any time (by lot by DTC), in any order of maturity designated by the State, at a redemption price of 100% of the principal amount of the Series B Bonds to be redeemed, together with interest accrued and unpaid to the redemption date.

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

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

## **Book-Entry-Only System**

*The information set forth in this section concerning DTC and DTC's book-entry system has been obtained from the office of General Counsel to DTC and has been described by DTC as accurately describing DTC, its methods of effecting book-entry transfers of securities distributed through DTC and certain related matters. No representation is made by any person, including the State, other than DTC as to the completeness or the accuracy of such information or as to the absence or material adverse changes in such information subsequent to the date hereof.*

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate will be issued for each maturity of the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Participants (defined below) of securities

transactions, such as transfers and pledges, in deposited Securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Direct and Indirect Participants ("Participants") are on file with the Securities and Exchange Commission.

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

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

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

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

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails a proxy ("Omnibus Proxy") to the Paying Agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment by the payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the State or the Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct Participants and Indirect Participants.

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

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

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

### **Record Date**

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

### **BOND INSURANCE**

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Bonds (the "Issuer"). Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Bonds or the Paying Agent of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal and interest shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Bond includes any payment of principal or interest made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Bonds. The Policy covers failure to pay principal of the Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

This Official Statement contains a section regarding the ratings assigned to the Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Bonds. Reference should be made to the description of the Issuer for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of September 30, 2000, the total capital and surplus of Financial Guaranty was

approximately \$1.126 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

### **RATINGS**

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

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

### **LEGAL MATTERS**

The legality of the Bonds will be approved by Tillinghast Licht Perkins Smith & Cohen, LLP, Providence, Rhode Island, Bond Counsel. A copy of the opinion of Bond Counsel in substantially the form to be delivered at closing is included herein as Appendix B. The State will be advised on certain legal matters by Partridge Snow & Hahn LLP, Providence, Rhode Island, Disclosure Counsel. Certain matters will be passed upon for the Underwriters by their counsel, Holland & Knight, LLP, Providence, Rhode Island.

### **TAX STATUS**

In the opinion of Tillinghast Licht Perkins Smith & Cohen, LLP, Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Bonds will be taken into account, however, in the calculation of adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. For purposes of this opinion, interest on the Bonds includes original issue discount, if any, properly allocable to the Bonds. (See "APPENDIX B - Proposed Form of Legal Opinion").

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements regarding the use, expenditure and investment of bond and note proceeds and the payment of rebates to the United States which must be continuously satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to remain excludable from gross income for federal income tax purposes. Failure to comply with these requirements may cause inclusion of interest on the Bonds in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The State will covenant to take all lawful action necessary to comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest on the Bonds be or continue to be excludable from gross income for federal income tax purposes.

## **Bond Premium**

Under the Code, a purchaser (other than a purchaser who holds such Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) who acquires a Bond (a "Premium Bond") for a price in excess of (i) in the case of a Bond initially offered at a price less than its stated redemption value, its initial offering price plus accrued original issue discount (OID), if any, to the date of purchase or (ii) in the case of any other non-callable Bond, its stated redemption value at maturity, has acquired the Bond with "bond premium". In the case of Bonds that are callable at the Applicable Call Date (defined below) at a price less than the holder's acquisition price, the bond premium is the excess of the holder's acquisition price over the redemption price on the Applicable Call Date. The Applicable Call Date is the first date on which the Bond may be redeemed for a redemption price less than the holder's acquisition price. Series A Bonds maturing on August 1, 2002-2007 or 2011-2015 and certain Series A Bonds maturing on August 1, 2010, and Series B Bonds maturing on June 1, 2012-2019 and certain Series B Bonds maturing on June 1, 2008 or 2011 are Premium Bonds if acquired for investment at the initial offering prices set forth in the Official Statement.

In the case of non-callable bonds, bond premium is amortized over the remaining term of the Premium Bond for federal income tax purposes. In the case of Premium Bonds maturing after 2011, the bond premium will be amortizable to the Applicable Call Date. For purposes of calculating amortizable bond premium only, a bond not redeemed on the Applicable Call Date shall be treated as if sold and reacquired on such date at the optional redemption price. The purchaser of a Premium Bond is required to decrease his adjusted basis in the Premium Bond by the amount of amortizable bond premium attributable to each taxable year he holds the Premium Bond. The amount of amortizable bond premium attributable to each taxable year is determined actuarially at a constant yield. The amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes. Purchasers of Premium Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of the treatment of bond premium upon sale, redemption or other disposition of Premium Bonds and with respect to the state and local consequences of owning and disposing of Premium Bonds.

The foregoing analysis of the exclusion of interest from gross income for purposes of federal income taxation is limited to the initial issuance of the Bonds. Bondholders should consult their tax advisors with respect to any federal tax consequences of secondary market transactions.

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

In the opinion of Bond Counsel, the Bonds are exempt from Rhode Island taxes, although the Bonds and the interest thereon may be included in the measure of Rhode Island estate and gift taxes and certain business and corporate taxes.

## **LITIGATION**

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

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

## **FINANCIAL ADVISOR**

Fleet National Bank has served as the State's Financial Advisor for the Bonds. The services of Fleet National Bank have included limited advice as to the scheduling of maturities and other details of the issue. The rendering of the advice may cause Fleet National Bank to have a financial advisory relationship with the State under Rule G-23 of the Municipal Securities Rulemaking Board.

## **CONTINUING DISCLOSURE**

Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, and officially interpreted from time to time (the "Rule") provides that underwriters may not purchase or sell municipal securities unless the issuer of the municipal securities undertakes to provide continuing disclosure with respect to those securities, subject to certain exemptions. The State will covenant, at the time of the delivery of the Bonds, to provide continuing disclosure consistent with the terms of the Rule, as provided in a Continuing Disclosure Certificate to be dated as of the date of the Bonds and incorporated by reference therein.

Pursuant to the Continuing Disclosure Certificate, the State will covenant, agree and undertake to provide the following continuing disclosure with respect to the Bonds:

(1) The State will provide to each nationally recognized municipal securities information repository ("NRMSIR") and the appropriate state information depository for the State ("SID"), if any: (a) on or before the end of each calendar year commencing December 31, 2001, financial information and operating data relating to the State for the preceding fiscal year of the type presented in Appendix A of the Official Statement prepared in connection with the Bonds regarding (i) revenues and expenditures relating to operating budgets, (ii) capital expenditures, (iii) fund balances, (iv) tax information, (v) outstanding direct and indirect indebtedness, (vi) pension obligations and (vii) such other financial information and operating data as may be required to comply with the Rule; and (b) promptly upon their public release, the audited financial statements of the State for the most recently ended fiscal year, to the extent such statements have been commissioned, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by Rhode Island law. The State reserves the right to modify from time to time the specific types of information provided under clause (a) above or the format of the presentation of such information, provided that any such modification will be done in a manner consistent with the Rule.

(2) The State will provide in a timely manner to each NRMSIR or to the Municipal Securities Rulemaking Board and to the SID, if any, notice of the occurrence of any of the following events with respect to the Bonds, if material: (a) principal and interest payment delinquencies; (b) nonpayment related defaults; (c) unscheduled draws on debt service reserves reflecting financial difficulties; (d) unscheduled draws on credit enhancements reflecting financial difficulties; (e) substitution of credit or liquidity providers or their failure to perform; (f) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (g) modifications to rights of beneficial owners of the Bonds, (h) Bond calls; (i) defeasances; (j) release, substitution or sale of property securing repayment of the Bonds; or (k) rating changes to the Bonds by any nationally recognized credit agency which has rated the Bonds at the request of the State. The State from time to time may choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgement of the State, such other event is material with respect to the Bonds, but the State does not undertake to commit to provide any such notice of the occurrence of any material event except those listed above.

(3) The State will provide, in a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board and to the SID, if any, notice of a failure to satisfy the requirements of paragraph (1) above.

The provisions of the Continuing Disclosure Certificate may be amended by the State without the consent of, or notice to, any owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments to the Rule or authoritative interpretations thereto by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make necessary or desirable provisions with respect thereto, (c) to add to the covenants of the State for the benefit of the owners of the Bonds, (d) to modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise

modify the undertakings in a manner consistent with the provisions of state legislation establishing a SID or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clauses (d) and (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any changes in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Bonds, as determined either by a party unaffiliated with the State, (such as bond counsel) or by a vote or consent of owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment. The Continuing Disclosure Certificate will also state that to the extent the Rule no longer requires issuers such as the State to provide continuing disclosure with respect to securities such as the Bonds, the State's obligation to provide continuing disclosure shall terminate immediately.

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

The State has never failed to comply, in all material respects, with any previous undertakings to provide annual reports or notices of material events in accordance with the Rule.

The State Budget Officer, or such official's designee from time to time, shall be the contact person on behalf of the State from whom the foregoing information, data and notices may be obtained. The name, address and telephone number of the initial contact person is Stephen P. McAllister, State Budget Officer, State Administration Building, One Capitol Hill, Providence, Rhode Island, 02903, Telephone (401) 222-6300.

#### **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Causey Demgen & Moore Inc., Certified Public Accountants and Consultants, will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of (1) the computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposited listed in such schedules, to be held in escrow, will be sufficient to pay, when due, the principal, interest and call premium payment requirements of the Refunded Bonds, and (2) the computations of yield on both the securities and the Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest on the Bonds is not included in gross income for federal income tax purposes. Causey Demgen & Moore Inc. will express no opinion on the assumptions provided to them, nor as of the exclusion of interest on the Bonds from gross income for federal income tax purposes.

#### **UNDERWRITING**

The Bonds are being purchased by PaineWebber Incorporated, as representative of the Underwriters (the "Underwriters"). The aggregate offering price of the Bonds to the public is \$124,328,102.45, plus accrued interest, and the Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Bonds from the State at a purchase price of \$123,787,056.74, plus accrued interest, and to reoffer the Bonds at no greater than the initial public offering prices stated on the cover page hereof. The purchase contract provides that the Underwriters will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the purchase contract.

#### **ADDITIONAL INFORMATION**

Information with respect to the State and a detailed description of the State's financial condition are set forth in the State's Information Statement dated January 31, 2001 and the General Purpose Financial Statements of the State, as of and for the year ended June 30, 1999, both of which have been prepared and furnished by the State and which are included in Appendix A.

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

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

STATE OF RHODE ISLAND AND  
PROVIDENCE PLANTATIONS

By: /s/ Paul J. Tavares  
General Treasurer

Dated: February 8, 2001

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

**DATED: January 31, 2001**

## Table of Contents

	<u>Page</u>
Table of Contents .....	A-2
State Government Organization and Finances .....	A-3
General Information .....	A-3
Municipalities .....	A-3
Principal Governmental Services .....	A-6
State Fund Structure - Accounting Basis .....	A-9
Budget Procedures .....	A-10
Financial Controls .....	A-11
General Fund Revenues and Expenditures .....	A-12
Major Sources of State Revenue .....	A-12
Economic Forecast .....	A-17
Revenue Estimates .....	A-18
Comparative Statements of Revenues and Expenditures .....	A-20
Revenue Tables .....	A-21
Expenditure Tables .....	A-22
Free Surplus .....	A-30
State Indebtedness .....	A-33
Authorization and Debt Limits .....	A-33
Public Finance Management Board .....	A-33
Sinking Fund Commission .....	A-33
Tax Anticipation Notes .....	A-33
Net Tax Supported State Debt .....	A-34
Net Tax Supported Debt Ratios .....	A-35
Debt Service Schedule .....	A-36
Authorized but Unissued Direct Debt .....	A-37
Authorized but Unissued Guaranteed Debt .....	A-38
State Agencies and Authorities .....	A-39
Employee Relations .....	A-47
State Retirement Systems .....	A-48
Employees' Retirement System .....	A-48
Financial Objectives and Funding Policy .....	A-48
Progress Toward Realization of Financing Objectives .....	A-48
GASB 25 and Funding Progress .....	A-49
Schedule of Funding Progress .....	A-50
Determination of the Equivalent Single Amortization Period .....	A-51
Other Benefits .....	A-52
Litigation .....	A-52
Financial Statements .....	A-52
General Purpose Financial Statements of the State of Rhode Island and Providence Plantations as of and for the Year Ended June 30, 1999 .....	Exhibit A
Economic Information .....	Exhibit B

## STATE GOVERNMENT ORGANIZATION AND FINANCES

### General Information

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

Under the State Constitution, the powers of government are divided into three branches: legislative, executive and judicial. The legislative power of the government is vested in the General Assembly, which consists of a 50 member Senate and a 100 member House of Representatives. A referendum approved by the voters at the November 8, 1994 election changes the composition, pay scale and pension plan of the General Assembly. Commencing in 2003, there will be seventy-five (75) members of the House of Representatives and thirty-eight (38) members of the Senate. They shall be constituted on the basis of population and the representative districts shall be as nearly equal in population and as compact in territory as possible. All members of the General Assembly are elected biennially from senatorial and representative districts established by general law on the basis of population. The General Assembly meets annually beginning on the first Tuesday in January.

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

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

### Municipalities

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

The 1985 Session of the General Assembly passed a law entitled "An Act Providing Property Tax Relief and Replacement and Establishing a Cap on City and Town Property Tax Levy Growth". Enacted as section 44-5-2 of

the General Laws and entitled "Maximum Levy", this legislation limits tax levy or rate increases by municipalities to an increase no greater than 5½ percent over the previous year. Legislation was also enacted that authorized tax levy or rate increases of greater than 5½ percent in the event that debt service costs on present and future general obligation debt increases at a rate greater than 5½ percent. The legislation also provides for the certification by a State agency of the appropriate property tax base to be used in computations in any year when revaluation is being implemented. Provisions of section 44-5-2 also include authorization to exceed this limitation in the event of loss of non-property tax revenue, or when an emergency situation arises and is certified by the State Auditor General. In such an emergency situation, such levy in excess of a 5½ percent increase must be approved by a majority of the city or town governing body or electors voting at the financial town meeting. The statute was amended to clarify that nothing in the tax levy cap provisions was intended to constrain the payment of obligations of cities and towns. The power of the cities and towns to pay their general obligation bonds and notes is unlimited and each city or town is required to levy *ad valorem* taxes upon all the taxable property for the payment of such bonds and notes and the interest thereon, without limitation as to rate or amount.

### ***Local Tax Relief***

During the 1998 session, the General Assembly enacted three separate measures designed to provide taxpayer relief from local property taxes. The first measure expanded the existing homestead tax credit program, by allowing eligible households with incomes of up to \$25,000 to claim a refundable credit against the state income tax. Previously, a credit was allowed for eligible households with incomes of up to \$18,000. The second and third measures would phase out, over a number of years, two separate components of the local tax levy.

The first component of the local tax levy that would be phased out is the local property tax levy on inventories. The phase out period would span ten years and would progressively eliminate ten percent of the tax levy each year. Local communities would be reimbursed for lost revenues through the State's General Revenue Sharing Program, which would be increased from 1.0 percent of tax revenues in FY 1998 to 4.7 percent of tax receipts in FY 2009.

The second component of the local property tax levy that would be eliminated is the local excise tax levy on motor vehicles and trailers. This tax would now be phased out over an eight year period by providing increasing exemptions against the assessed value of all motor vehicles. Local communities would be reimbursed by the State on the value of the exempted amounts and assumed cumulative growth in the tax rate equal to the CPI.

### ***State Aid to Local Communities***

Total State aid to cities and towns has risen from approximately \$389.7 million in FY 1991 to \$768.0 million in the FY 2001 Enacted Budget. The largest category of State aid to cities and towns is assistance programs for school operations and school buildings. The general school aid program reimbursed communities on the basis of the relationship between the number of students and the property wealth and personal income of the community. The formula for school aid was modified in fiscal year 1995 to weight the distribution more heavily towards districts with proportionally more children from poorer families. This was adopted in response to a Superior Court ruling that challenged the then existing formulae.

The Legislature, recognizing that the method of education aid distribution required evaluation, created a "Joint Commission on School Funding" to study modifications to the system of state aid distribution. The Commission reported its recommendations to the Governor and the General Assembly with the FY 1998 Budget Act. It was recommended that support for specific targeted student investments (need, technology, limited English proficiency, early childhood, core instructional cost, and professional development) be included in the FY 1998 budget with the previous distributions frozen in place.

The FY 1999 budget continued the method of distributions established in the prior year and established two new investment funds, Targeted School Aid and On-Site School Visits. The FY 2000 budget continued the initiatives adopted in both the FY 1998 and FY 1999 budgets and provided for an additional \$47.5 million in Education Aid to Local Governments. Of the increase, \$32.0 is reflected in Student Investment Funds with an additional \$3.9 million reflected in State Support for Local School Operations which includes Literacy Set-Aside. A new Student Investment

Fund, the Charter School Fund, was created and funded with \$2.9 million. The FY 2000 budget increased funding for the other Funds as follows: Core Instruction Equity was increased by \$10.0 million, Student Equity was increased by \$15.0 million, Early Childhood was increased by \$1.0 million, Student Language Assistance was increased by \$2.0 million and Professional Development increased by \$1.1 million. It should be noted that Article 23 of the FY 2000 Appropriations Bill provides for \$555,000 of the Professional Development increase to be used for statewide development activities. The funds provided for the Student Investment Fund and On-Site Visits decreased from \$461,318 in FY 1999 to \$408,635 in FY 2000. Other changes in Education Aid include the increase in Aid to the Central Falls School District by \$3.0 million, and the increase in Teacher Retirement Contributions of \$8.6 million. The Teacher Retirement change was mainly driven by changes in the assumption on teacher life expectancy, age of retirement and teacher payroll base.

The FY 2001 budget provided \$46.4 million in Education Aid to Local Governments above FY 2000 levels. This budget added investment funds for Progressive Support and Intervention, Full-Day Kindergarten and Vocational Rehabilitation. It also added a category for textbook expansions and moved payments for the teaching support for children at Hasbro Hospital to Education Aid. The FY 2001 budget in addition to the basic State Support for Local School Operations category, which encompasses all funds distributed to local school districts prior to the advent of the investment funds, now reflects fourteen investment funds or categories. These are Student Technology, Core Instruction Equity, Student Equity, Early Childhood, Student Language Assistance, Professional Development, Targeted Aid, On-site Visits, Charter School Fund, Full-Day Kindergarten, Progressive Support and Intervention, Vocational Rehabilitation, Textbook Expansion and the Hasbro Children's Hospital.

The FY 2001 increase of \$46.4 million is distributed mainly to the investment funds, \$39.9 million, with teachers' retirement decreasing by \$4.8 million, State Support of Local School Operations increasing by \$7.1 million, and Central Falls increasing by \$4.2 million. The increases in the funds are as follows: Core Instruction Equity, \$7.4 million; Student Equity, \$20.2 million; Full-Day Kindergarten, \$2.4 million; Student Language Assistance, \$1.8 million; On-Site Visits, \$.2 million; Charter School Fund, \$1.1 million; Progressive Support and Intervention, \$4.7 million; Vocational Rehabilitation, \$1.7 million; Textbook Expansions, \$.3 million; and the Hasbro Children's Hospital, \$.1 million.

In addition to reimbursement of school operations costs, State school construction aid is provided at levels ranging from 30 percent to 88 percent of the construction cost of new facilities. The level is also based upon the relationship between student counts and community wealth, and takes into consideration the relative weight of school debt in the particular city or town to its total debt. Beginning in fiscal year 1997, the definition of reimbursable expenditures was expanded to include capital expenditures made through a capital lease or lease revenue bonds or from a municipality's capital reserve account. A related program will provide approximately \$2.0 million in FY 2001 to cities and towns to provide aid in the construction of libraries.

Other local aid programs include the general revenue sharing and payment-in-lieu of taxes programs. The 1987 session of the General Assembly enacted legislation that consolidated all prior revenue sharing components into one general revenue sharing program and incorporated a distribution formula based upon relative population, tax effort and personal income of each city and town. In addition, Rhode Island distributes the proceeds of a statewide tax imposed on the tangible personal property of telephone, telegraph, cable, express and telecommunications companies. The 1991 General Assembly passed legislation to dedicate, beginning in fiscal year 1994, an amount equal to one percent of second prior year total state tax revenues to general state aid. Funding for this program has varied since FY 1991, between no funding in FY 1993 to \$27.6 million in FY 2000. The FY 2001 Enacted Budget includes \$33.5 million for this program, and increases the share dedicated to 2.0% of state tax revenues. This percentage will increase annually until it reaches 4.7% in FY 2009.

The payment-in-lieu of taxes program authorizes the General Assembly to appropriate and distribute to communities amounts not to exceed twenty-seven percent of the property taxes that would have been collected on tax exempt properties. Properties included in this program are non-profit educational institutions, non-profit or state-owned hospitals, veterans' residential facility, and correctional facilities. Funding was provided in fiscal years 1988 (\$2.5 million), 1989 (\$3.1 million), 1991 (\$3.5 million), 1992-1994 (\$2.8 million), 1995-1997 (\$12.2 million), 1998 (\$14.2 million), and 1999 (\$15.9 million). The enacted FY 2000 Budget provided \$16.0 million for this program.

The FY 2001 Enacted Budget includes funding of \$17.6 million.

The Central Falls Review Commission was established under Chapter 65 of the Public Laws of 1990 and published its report in January of 1991. The report found the City of Central Falls to be in a serious financial condition and made thirteen recommendations for city and State action. The recommendation most widely publicized is the State's assumption of responsibility for funding education in Central Falls. The FY 1992 enacted budget provided statutory authority for full funding of educational programs in the City of Central Falls. Full financial and administrative takeover of the Central Falls school system occurred July 1, 1992. Another equally important provision established a continuing review commission to monitor, stabilize and improve the fiscal health of the municipality, particularly in light of the Rhode Island's unique relationship with, and investment in, the Central Falls School District.

### **Principal Governmental Services**

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

#### ***General Government***

*General Government* includes those agencies that provide general administrative services to all other State agencies and those that carryout State licensure and regulatory functions. This function includes most elected officials; administrative agencies including the Department of Administration, the Department of Labor and Training, and the Board of Elections; and regulatory agencies including the Department of Business Regulation and the Public Utilities Commission.

The two major departments in the General Government function are the Department of Administration and the Department of Labor and Training.

*Department of Administration.* The Department of Administration is generally responsible for all central staff and auxiliary services for the State including planning, budgeting, taxation, personnel management, purchasing, information processing, accounting, auditing, building maintenance, property management and labor relations. The Department directs the accounting and fiscal control procedures and is responsible for the preparation of the State's annual fiscal plan and capital development program, supervising the assessment and collection of all State taxes and administering the statewide planning program for the comprehensive development of the social, economic and physical resources of the State. The Department also includes the State Bureau of Audits which examines the books of account of all State departments and agencies, required by law to be done at least once every two years. The Department is also responsible for programs relating to State aid, tax equalization, and planning for municipalities, as well as building code administration. The FY 1994 State Budget transferred the Registry of Motor Vehicles from the Department of Transportation to the Department of Administration, under the oversight of the Division of Taxation. This combines two revenue-generating programs into one, with the goal of increased efficiency and reduced overhead costs.

The FY 1997 Enacted Budget included several additional agency consolidations and mergers. The Department of State Library Services was merged into the Department of Administration to form the new Office of Library and Information Services. This merger also resulted in the creation of the new position of Chief Information Officer, which is responsible for the oversight of future statewide developments in the area of information technology. In addition, the FY 1997 enacted budget included the merging into the Taxation Division of the revenue collection activities from the Departments of Human Services (child support collections), Labor and Training (unemployment and temporary disability insurance collections), and Business Regulation (liquor tax activities).

*Department of Labor and Training.* The Department of Labor and Training is responsible for administering

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

The workforce regulation and safety programs enforce wage, child labor, parental and family medical leave laws; examines, licenses and registers professions such as electricians, pipefitters, and refrigeration technicians; and inspects all state buildings, public buildings, and city and town educational facilities for compliance with building codes.

The Department also has primary responsibility for the collection of data on employment and unemployment in Rhode Island. The Department of Labor and Training was created in 1996 upon recommendation of the Governor by merging the Department of Employment and Training and the Department of Labor.

### ***Human Services***

*Human Services* includes those agencies that provide services to individuals. Services provided include the nutrition programs of the Department of Elderly Affairs; care of the disabled by the Department of Mental Health, Retardation and Hospitals; child protective and social services provided by the Department of Children, Youth and Families; health programs at the Department of Health and the Department of Human Services; and financial assistance and social services provided by the Department of Human Services.

The three major departments in the Human Services function include the Departments of Human Services; Children, Youth and Families; and Mental Health, Retardation and Hospitals.

*Department of Human Services.* The Department of Human Services operates as the principal State agency for the administration and coordination of local, State and federal programs for cash and medical assistance and social services. The responsibilities of the Department include supervision of the following programs: Medicaid, vocational rehabilitation, supplemental security income, general public assistance, food stamps, family independence program, and social services. The Department also maintains the Rhode Island Veterans' Home, the Veterans' cemetery, and administers vocational rehabilitative services and services for the blind and visually impaired.

*Department of Children, Youth, and Families.* The Department of Children, Youth, and Families is responsible for providing comprehensive, integrated services to children in the State in need of assistance. The Department was created in 1980 to assure the consolidation of services to children and their families formerly provided by four other departments. The Department is responsible for providing services to children who are without families or whose families need help in meeting the children's basic needs. Major functions of the Department include investigation of child abuse, direct service delivery to children and their families in their own homes or foster homes, development and provision of alternative community-based living situations and the administrative operation of the juvenile corrections facilities and programs. Executive Order 85-20, issued on October 31, 1985, placed with the Department the responsibility for development and implementation of a statewide mental health plan for children and youth.

*Department of Mental Health, Retardation and Hospitals.* The Department of Mental Health, Retardation and Hospitals provides services which may include hospitalization, housing, vocational programs, inpatient and outpatient treatment, counseling, rehabilitation, transportation, and hospital level care and treatment. The Department of Mental Health, Retardation and Hospitals either provides these services directly through the Eleanor Slater Hospital system which operates at two sites, the Cranston Unit and the Zambarano Unit, or provides them through contracts

with private, non-profit hospitals, and agencies. The Department organizes, sets standards, monitors and funds programs primarily according to the nature of a client's disability. Mental health services help people who have psychiatric disorders and severe mental illness such as manic depression or schizophrenia. Mental retardation and developmental disabilities services assist individuals whose handicap is often accompanied by disabilities like cerebral palsy, epilepsy, autism, behavioral problems and other physical and mental conditions. MHRH hospitals provide long term-care for people who need medical treatment and nursing care for problems associated with chronic illness.

### ***Education***

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

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

*Board of Governors for Higher Education.* The Board of Governors for Higher Education is responsible for the formulation and implementation of broad goals and objectives for higher education in the State, including a comprehensive capital development program. In addition, the Board holds title to all public higher education institutions of the State, which are the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island. While there is institutional autonomy, the Board is responsible for general supervision of public higher education, including adoption and submittal of the State higher education budget, allocation of appropriations, property acquisition and management and approval of organizational and curriculum structures. The Commissioner of Higher Education is appointed by the Board to serve as chief executive officer of the Board and chief administrative officer of the Office of Higher Education.

### ***Public Safety***

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

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

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

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

## ***Natural Resources***

*Natural Resources* includes those agencies responsible for protecting the natural and physical resources of the State and regulating the use of those resources. Agencies included in this function are the Department of Environmental Management, the Coastal Resources Management Council, and the Water Resources Board.

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

## ***Transportation***

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

The Intermodal Surface Transportation Fund is supported by 27 cents per gallon of the State's total gasoline tax (in FY 2001 2.0 cents are transferred to the General Fund). These receipts fund operating and debt service expenditures of the Department of Transportation, as well as specific portions of transportation-related expenditures by the Rhode Island Public Transit Authority (RIPTA) and the Department of Elderly Affairs.

*Department of Transportation.* The Department of Transportation is responsible for the integration of all modes of transportation into a single transportation system. The Department is organized to carry out its responsibilities for the construction and maintenance of all State roads, bridges, transportation facilities (other than those operated and maintained by the Rhode Island Turnpike and Bridge Authority), and the administration of State and Federal highway construction assistance programs. The Department's activities have substantially increased primarily due to the continued road funding resulting from passage of the Intermodal Surface Transportation Efficiency Act of 1991, and major construction and rehabilitation relating to the Northeast Corridor Improvement Project, Providence River Relocation Project, Route 195 Relocation and Capital Center Project, including the completion of Memorial Boulevard and relocation of downtown rivers with associated land improvements.

## **State Fund Structure - Accounting Basis**

The accounting system of the State, and that of most of the public authorities and corporations described herein, is organized and operated on a fund basis. Financial operations are recorded on a fiscal year basis (commencing July 1 and ending June 30). Individual funds and account groups have been established as separate fiscal and accounting entities to account for financial resources and related liabilities and equities. Financial statements of the State for each fiscal year are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

The State's General Purpose Financial Statements, the combined statements for fiscal year 1999, present an aggregation by fund type and account group of the individual funds and account groups encompassed within the State's

accounting system and of the financial statements of certain public authorities and corporations, not part of the system but considered to be part of the reporting entity of the State. The combined statements present financial data in summary form. Memorandum totals in such statements do not represent consolidated amounts. The financial statements are presented in Exhibit A hereto.

## **Budget Procedures**

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

According to Article IX Section 16 of the Rhode Island Constitution and Rhode Island General Laws section 35-3-7, the Governor must present spending recommendations to the Legislature on or before the third Wednesday in February, unless extended by statute. The budget contains a complete plan of estimated revenues and proposed expenditures with a personnel supplement detailing number and titles of positions of each agency and estimates of personnel costs for the next fiscal year.

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

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

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

The State Consensus Revenue Estimating Conference was created by the 1990 General Assembly to provide the Governor and the Assembly with estimates of general revenues. It is composed of the State Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor, with the chair rotating among the three. It must meet twice a year (specifically November and May) and can be called at any other time by any member, and must reach consensus on revenues. The 1991 Assembly created a Medical Assistance and Public Assistance Caseload Estimating Conference, similar to the Revenue Estimating Conference, to adopt welfare and medical assistance caseload estimates.

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

The 1990 Assembly instituted a limit on State expenditures commencing in FY 1992 such that appropriations do not result in general fund expenditures exceeding 99.5 percent of general fund revenues in FY 1993, 98.5 percent in FY 1994 and 98.0 percent thereafter. The remaining balance is to be deposited into a budget reserve account, capped at 3 percent of general fund revenues. Once capped, the excess is deposited in a Capital Account, to be used for capital projects, debt reduction, and/or debt service. The 1991 Assembly suspended those provisions for FY 1992, but provided that any revenues received in excess of the amount estimated shall be deposited in the account, up to one half percent of general revenues. Excess revenues were received in FY 1993, largely as a result of medicaid disproportionate share and provider tax receipts, and an \$8.4 million deposit was made into the fund.

The 1992 General Assembly approved placing the spending limits on the ballot as a constitutional requirement, which the voters approved on November 3, 1992. The FY 2000 unaudited reserve fund balance was \$71.2 million.

### **Financial Controls**

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

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

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

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

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

The Finance Committee of the House of Representatives is required by law to provide for a complete post-audit of the financial transactions and accounts of the State on an annual basis, which must be performed by the Auditor General, who is appointed by the Joint Committee on Legislative Affairs of the General Assembly. This post-audit is performed traditionally on the basis of financial statements prepared by the State Controller with specific

attention to the violation of laws within the scope of the audit, illegal or improper expenditures or accounting procedures and recommendations for accounting and fiscal controls. The Auditor General is additionally directed to review annually all capital development programs of the State to determine: (a) the status of such programs; (b) whether funds are being properly expended; (c) completion dates; and, (d) expended and unexpended fund balances. The Auditor General also has the power, when directed by the Joint Committee, to make post-audits and performance audits of all State and local public bodies or any private entity receiving State funds.

## GENERAL FUND REVENUES AND EXPENDITURES

The State draws nearly all of its revenue from a series of non-property related taxes and excises, principally the personal income tax and general retail sales and use tax, from federal assistance payments and grants-in-aid, and from earnings and receipts from certain State-operated programs and facilities. The State additionally derives revenue from a variety of special purpose fees and charges that must be used for specific purposes as required by State law.

### Major Sources of State Revenue

*Tax Revenues:* Approximately 71.6 percent of all taxes and departmental receipts in FY 2000 were derived from the Rhode Island personal income tax and the sales and use tax. They constituted 63.6 percent of all general revenues.

*Personal Income Tax.* State law provides for a personal income tax on residents and non-residents (including estates and trusts) equal to a percentage of the federal income tax liability attributable to the taxpayer's Rhode Island income. A resident's Rhode Island taxable income is equal to his or her federal taxable income, subject to specified modifications. A non-resident's Rhode Island income is equal to such non-resident's income less deductions (including such taxpayer's share of the income and deductions of any partnership, trust, estate, electing small business corporations, or domestic international sales corporation), subject to specified modifications which are included in computing his or her federal adjusted gross income and are derived from or connected with any property located or deemed to be located in the State and any income producing activity or occupation carried on in the State. Although the law provides for certain adjustments to be made to federal taxable income to arrive at the Rhode Island income of residents and non-residents, the Rhode Island personal income tax essentially "piggy-backs" federal income tax law and thus is affected by any modifications to the federal tax base. The FY 1997 Appropriations Act, however, provided that new federal credits enacted after January 1, 1996 shall not be allowed as a deduction when computing the state tax. Current law allows the Tax Administrator to modify income tax rates as necessary when the Assembly is not in session to adjust for federal tax law changes to ensure maintenance of the revenue base upon which appropriations are made.

Effective with the passage of Chapter 6 of the 1991 Rhode Island Public Laws, the State rate became 27.5 percent of the taxpayer's federal income tax liability for the period January 1, 1991 and thereafter. However, Article 30 of the 1993 Appropriations Act provided for a second tier rate of 32.0 percent on the amount of a taxpayer's federal tax liability which is in excess of fifteen thousand dollars. This provision remained in effect through tax year 1993, although the Tax Administrator, using his authority to adjust rates (as described below), modified the second tier rates in October 1993. This was done to offset the effects of changes in federal tax law contained in the Omnibus Budget Reconciliation Act of 1993 (H.R. 2264). The FY 1998 Appropriations Act reduced the personal income tax rate from 27.5 percent of federal liability to 27.0 percent, effective January 1, 1998, from 27.0 percent to 26.5 percent effective January 1, 1999, from 26.5 percent to 26.0 percent of federal liability effective January 1, 2000, and from 26.0 to 25.5 effective January 1, 2001. It also increased the Investment Tax Credit from 4.0 percent to 10.0 percent, and increased the Research and Development Tax Credit from 5.0 percent to 22.5 percent effective January 1, 1998. The Rhode Island personal income tax accounted for approximately 35.9 percent of the State's FY 2000 general revenues.

*Sales and Use Tax.* The State assesses a tax on all retail sales, subject to certain exceptions, and on hotel and other public accommodation rentals, as well as upon the storage, use or other consumption of tangible personal property in the State. The sales and use tax is imposed upon the retailer at the rate of 7.0 percent of the gross receipts from taxable sales. Included as major exemptions from the tax are: (a) food (excluding food sold by restaurants,

drive-ins or other eating places) for human consumption off the premises of the retailer; (b) clothing; (c) medicines sold on prescription; (d) fuel used in the heating of homes and residential premises; (e) domestic water usage; (f) gasoline and other motor fuels otherwise specifically taxed; (g) sales of tangible property and public utility services when the property or service becomes a component part of a manufactured product for resale, or when the property or service is consumed directly in the process of manufacturing or processing products for resale and such consumption occurs within one year from the date such property is first used in such production; (h) tools, dies and molds and machinery and equipment (including replacement parts thereof) used directly and exclusively in an industrial plant in the actual manufacture, conversion or processing of tangible personal property to be sold; (i) sales of air and water pollution control equipment for installation pursuant to an order by the State Director of Environmental Management; and (j) sales of boats or vessels.

The FY 1991 Reissuance of Appropriations Act, Article 4, provided that the sales tax rate would remain at 7.0 percent for the period commencing July 1, 1990. In addition, subject to annual appropriation by the General Assembly, the Rhode Island Depositors Economic Protection Corporation Act dedicated one-half cent of the total levy per dollar to "...be utilized to pay the debt service of the corporation and otherwise effectuate the purposes of the corporation" effective July 1, 1991. Legislation enacted by the 1992 Assembly increased the dedication under the Rhode Island Depositors Economic Protection Corporation Act from one-half to six-tenths of one cent, exclusive of any receipts resulting from any expansion of the coverage in sale and use taxes through legislation enacted subsequent to February 1, 1992.

In May 2000 the Rhode Island Economic Development Corporation issued revenue note obligations in the amount of \$40,820,000 to finance a portion of the costs of the Providence Place Mall. Such financing will be supported by two-thirds of the sales taxes generated at the mall (up to a cap of \$3.68 million in years 1-5, and \$3.56 million in years 6-20) as provided in the Mall Act (R.I.G.L. § 42-63.5-1 et. seq.) enacted by the General Assembly in 1996 and Public Investment and HOV Agreement. It is expected that sales tax revenues generated at the Mall will be sufficient to fully support the revenue note obligations. Sales tax generated at the Mall is recorded as general revenues. The State is not obligated to fund the note payments if the sales tax generated is not sufficient.

The sales and use tax accounted for approximately 27.8 percent of the State's FY 2000 general revenues.

*Business Corporation Tax.* The business corporation tax is imposed on corporations deriving income from sources within the State or engaging in activities for the purpose of profit or gain. Article 20 of the 1990 Budget as amended set a rate of 9.0 percent effective July 1, 1989. In addition, Chapter 27 of the Rhode Island Public Laws of 1990 requires that two installments of the Business Corporation Tax shall be paid in advance, based upon the estimated tax declared for taxable years ending December 31, 1990 or thereafter. Passage of the FY 1991 Reissuance of Appropriations Act provided for a surtax of 11.0 percent on the amount otherwise due for corporations whose taxable year ends on or after March 31, 1991 and before January 1, 1993.

The Corporation tax was amended in 1993 to change the carry-back, carry-forward provisions from 3 years back, fifteen years forward to five years forward. In addition, the minimum business or franchise tax was raised from \$100 to \$250. Two reductions to the business corporations tax were enacted as part of the FY 1994 Budget; the first repealed the 11.0 percent surtax for corporations whose taxable years begin on or after January 1, 1994 (an extension to January 1, 1997 was enacted in 1993), and the second doubled the Investment Tax Credit from 2.0 percent to 4.0 percent for investments made beginning January 1, 1994. The FY 1998 Appropriations Act modified taxes due under the Business Corporations Tax by providing for enhanced credits. Specifically, the budget provided for an increase in the Investment Tax Credit from 4.0 percent to 10.0 percent for machinery and equipment expenditures and increased the Research and Development Tax Credit for qualified research expenses from 5.0 percent to 22.5 percent, both effective January 1, 1998.

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

deduct from net income 50.0 percent of the excess of capital gains over capital losses realized during the taxable year when computing the tax.

*Health Care Provider Assessment.* The 1992 Legislature enacted a health care provider assessment on residential facilities for the mentally retarded in the FY 1992 Supplemental Budget Bill. This was a medicaid provider specific tax levy of 25.0 percent on gross revenues on community residences for the mentally retarded. That assessment fell within the guidelines of the federal legislation enacted in November of 1991 concerning medicaid provider specific taxes. In mid-September 1994, the levy dropped to 6.0 percent because of new federal limitations on reimbursements for this tax.

The Legislature also enacted a 2.75 percent tax on gross revenues for nursing homes and a 1.50 percent tax on gross revenues from free-standing medicaid facilities not associated with hospitals as part of the FY 1993 budget. This tax was scheduled to end September 30, 1995; however, the FY 1996 Appropriations Act extended the tax on nursing facilities to September 30, 1997 and raised the rate to 3.75 percent effective October 1, 1995. The FY 1998 Budget provided for elimination of the previously enacted sunset date and made the tax permanent.

*Taxes on Public Service Corporations.* A tax ranging from 1.25 percent to 8.0 percent of gross earnings is assessed annually against any corporation enumerated in Title 44, Chapter 13 of the General Laws, incorporated under the laws of the State or doing business in Rhode Island. In the case of corporations whose principal business is manufacturing, selling or distributing currents of electricity, the rate of tax imposed is 4.0 percent. For those corporations manufacturing, selling or distributing illuminating or heating gas, the rate of tax imposed is 3.0 percent of gross earnings. Corporations providing telecommunications services were assessed at a rate of 6.0 percent, until July 1, 1997, at which time the rate was reduced to 5.0 percent. However, 100.0 percent of the amounts paid by a corporation to another corporation for connecting fees, switching charges and carrier access charges are excluded from the gross earnings of the paying company. The minimum tax payable is \$100. The tangible personal property within the State of telegraph, cable, and telephone corporations used exclusively for the corporate business, is exempt from taxation, subject to certain exceptions.

Article 14 of the FY 1995 Appropriations Act provided for a phase out of the portion of the public service corporation tax imposed on energy used in manufacturing effective July 1, 1994. The tax on electricity was lowered one percent per year for four years, and was fully eliminated on July 1, 1997. The tax on natural gas was lowered one percent per year for the next three years, and was fully eliminated on July 1, 1996. The article contained provisions to ensure that the tax savings would be passed on directly to manufacturers.

*Tax on Insurance Companies.* Each insurance company transacting business in Rhode Island must file a return each year on or before March 1 and pay a tax of 2.0 percent of its gross premiums. These are premiums on insurance contracts written during the preceding calendar year on Rhode Island businesses. The same tax applies to an out-of-state insurance company, but the tax cannot be less than that which would be levied by the State or foreign country on a similar Rhode Island insurance company or its agent doing business to the same extent there. Effective December 31, 1989, premiums from marine insurance issued in Rhode Island became exempt from the tax on gross premiums. The FY 1998 Appropriations Act provided for an increase in the investment tax credit for insurance companies from 4.0 percent to 10.0 percent for machinery and equipment expenditures effective January 1, 1998.

Insurance and surety companies are exempt from the business corporation tax and annual franchise tax, but they are subject to provisions concerning any estimated taxes which may be due. Through the provisions of Article 33 of the FY 1990 Appropriations Act, surplus line brokers were included under the statutes relative to estimated taxes. Refer also to discussion above under "Business Corporation Tax" for requirements relating to advance payments.

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

January 1, 1998. Refer also to discussion above under "Business Corporation Tax" for requirements relating to advance payments. The FY 1998 Appropriations Act provided for an increase in the investment tax credit for banking institutions from 4.0 percent to 10.0 percent for machinery and equipment expenditures effective January 1, 1998.

*Tax on Banking Institutions-Interest Bearing Deposits.* Chapter 410 of the Public Laws of 1986 established current tax rates on banking institutions. For institutions with over \$150 million in deposits, the rate was .0695¢ on each one hundred dollars (\$100) of deposits. For institutions with \$150 million or less in deposits, the rate was .0625¢ on each one hundred dollars (\$100). Under Article 29 of the FY 1993 Appropriations Act, the tax rates applied to credit unions were set equal to those levied on other banking institutions and the tax is applied to average daily deposits held for the full calendar year for all types of banking institutions. Article 34 of the FY 1996 Appropriations Act reduces the rates on banking institutions with over \$150 million in deposits to .0348 cents on each one hundred dollars of deposits and to .0313 cents on each one hundred dollars of deposits for those institutions with less than \$150 million in deposits for the 1997 calendar year. The deposits base includes all but that percentage equivalent to total assets as are invested in obligations of the United States and excludes those deposits of a branch or office located outside the State of Rhode Island or those of an international banking facility of any banking institution. The FY 1996 Appropriations Act eliminated certain exclusions relative to the tax on credit unions effective January 1, 1996, but did not make changes relative to the rate of tax for credit unions. The rate was set to zero for banks beginning January 1, 1998 and thereafter.

Chapter 15 of the 1992 Rhode Island Public Laws changed the timing of the estimated payments. The legislation placed the bank deposit tax on the same calendar basis as the other business taxes.

*Estate Tax.* For decedents who died before January 1, 1986, a tax was assessed on each decedent's estate at rates ranging from 2.0 percent to 9.0 percent of the net estate depending on its value. The exemption for all estates is \$25,000, and the marital deduction is \$175,000. An orphan's deduction is allowed similar to the deduction allowed under federal law.

Current law, established under the provisions of the 1991 Appropriations Act, provides for the phasing out of the estate tax, with the minimum tax set equal to the maximum credit allowable under federal estate tax law. Rates are equal to 40 percent of the tax otherwise payable for estates of decedents whose deaths occurred on or after June 1, 1990 and prior to January 1, 1992. For decedents whose deaths occurred on or after January 1, 1992, the estate tax equaled the maximum credit allowable under federal estate tax law, providing for the full implementation of the phase out. The time period for filing a return was reduced from ten to nine months under this legislation.

*Cigarette Tax.* Article 17 of the 1990 Appropriations Act established rates equal to 18.5 mills per cigarette (37 cents per package of 20) effective on June 29, 1989. The FY 1994 Budget increased the rate from 18.5 mills per cigarette to 22.0 mills per cigarette (from 37 cents to 44 cents per package of 20 cigarettes) and to 56 cents per pack, effective July 1, 1994. The FY 1996 Appropriations Act increased the tax by five cents to 61 cents per pack effective July 1, 1995. Article 12 of the FY 1998 Appropriations Act raised the tax by 10 cents to 71 cents per pack effective July 1, 1997.

*Gasoline Tax.* The tax is due and is not refundable on the sale of all fuels used or suitable for operating internal combustion engines other than fuel used: (a) for commercial fishing and other marine purposes other than operating pleasure craft; (b) in engines, tractors, or motor vehicles not registered for use or used on public highways by lumbermen, water well drillers and farmers; (c) for the operation of airplanes; (d) by manufacturers who use diesel engine fuel for the manufacture of power and who use fuels other than gasoline and diesel engine fuel as industrial raw material; and (e) for municipalities and sewer commissions using fuel in the operation of vehicles not registered for use on public highways.

Chapter 6 of the 1991 Rhode Island Public Laws modified the gasoline tax floor from 18 cents per gallon to 23 cents per gallon, effective upon passage. In addition, the minimum tax under the gasoline excise component was changed from 2 cents to 3 cents per gallon for a total gasoline tax floor of 26 cents per gallon upon passage of the Act.

The FY 1993 Budget increased the dedicated portion of gas tax receipts to the Highway Reconstruction and Repair Account from 5 cents to 7 cents and from zero to 3 cents to the Rhode Island Public Transit Authority

(RIPTA). The 1994 Appropriations Act raised the gasoline tax to 28 cents per gallon, an increase of 2 cents. One cent continued to be deposited as general revenue through June 30, 1998, and the remaining 27 cents were deposited in the Intermodal Surface Transportation Fund (ISTF). ISTF funds were distributed to RIPTA (3 cents), Elderly and Handicapped Transportation (1 cent), and the General Revenue Fund (10 cents), with the remainder used to finance the Department of Transportation (13 cents). The FY 1996 Appropriations Act decreased the portion of the tax deposited in General Revenue by 1 cent (to 9 cents), and reallocated that portion to the Department of Transportation. The FY 1998 Appropriations Act again modified the distribution of ISTF receipts. The share of the gasoline tax transferred to the general fund decreased by 2 cents (to 7 cents), thereby increasing the Department of Transportation share by 2 cents (to 16.0 cents). The FY 1999 Appropriations Act requires that the full 28 cents of the gas tax be deposited in the ISTF, and again modified the distribution. Beginning in FY 1999, the tax is allocated as follows: Department of Elderly Affairs (1 cent), RIPTA (5 cents), Department of Transportation (17.5 cents), and transfer to General Fund (4.5 cents). The FY 2000 Appropriations Act increased the RIPTA allocation to 5.5 cents beginning in FY 2000, and further modified the transportation and general fund distribution. The Department of Transportation was to receive 18.0 cents in FY 2000, DEA was to receive 1.0 cent, and the transfer to the general fund was to equal 3.5 cents. The FY 2001 Appropriations Act again modified the distribution for FY 2000, such that the general fund would receive 3.25 cents, Transportation would receive 18.25 cents, and DEA and RIPTA would receive 1.0 cent and 5.5 cents, respectively. In FY 2001, the distribution was arranged by allocating RIPTA 5.75 cents and DEA 1.0 cent. Under the 2001 Appropriations Act, DOT will receive 19.5 cents in FY 2001, 20.5 cents in FY 2002, and 21.25 cents thereafter. The FY 2001 General Fund transfer would equal 1.75 cents in FY 2001, and 0.75 cents in FY 2002. All gas tax proceeds would be allocated for transportation purposes in FY 2003.

*Other Taxes.* In addition to the above described taxes, the State imposes various fees, taxes and excises for the registration of domestic and foreign corporations, the sale of liquor and other alcoholic beverages, the registration of motor vehicles and the operation of pari-mutuel betting.

*Departmental Revenues:* The largest category of departmental earnings is the group defined as licenses and fees, due largely to the assessment of the hospital licensing fee, which was intended to be a one year fee that yielded \$77.3 million in FY 1995. The FY 1996 Appropriations Act extended the fee one year but at a lower rate, generating \$37.5 million. The FY 1997 Appropriations Act extended the fee for an additional year at the same rate of 2.2 percent, yielding \$37.5 million. The FY 1998, FY 1999, and FY 2000 Appropriations Acts each extended the fee for one year, at the rate of 2.0 percent of gross patient receipts. The FY 2001 Appropriations Act amended the rate in FY 2000 to 2.65 percent. It also extended the fee for FY 2001 at the rate of 4.0 percent of net receipts.

The second largest category of revenue is sales and services, which includes disproportionate share revenues. Other departmental revenues include fines and penalties and various miscellaneous receipts such as investment earnings on General Fund balances.

*Restricted Receipts:* In FY 2000, the State expended \$144.0 million which was received in restricted receipts, excluding transfers into the General Fund. These reflect various specialized fees and charges, interest on certain funds and accounts maintained by the State and private contributions and grants to certain State programs. Such receipts are restricted under State law to offset State expenditures for the program under which such receipts are derived. Of the total restricted receipts received in FY 2000, the most significant revenues reflected the dedication of sales tax revenues to the Depositors Economic Protection Corporation (DEPCO) totaling \$54.8 million in restricted receipts.

*Other Sources:* The largest component of Other Sources is the transfer from the State Lottery. The State Lottery Fund was created in 1974 for the receipt and disbursement of revenues of the State Lottery Commission from sales of lottery tickets and license fees. The monies in the fund are allotted for: (1) establishing a prize fund from which payments of the prize are disbursed to holders of winning lottery tickets, the total of which prize payments equals, as nearly as is practicable, 45 percent of the total revenue accruing from the sale of lottery tickets; (2) payment of expenses incurred by the Commission in the operation of the State lotteries; and (3) payment to the State's General Fund of all revenues remaining in the State Lottery Fund, provided that the amount to be transferred into the General Fund must equal not less than 30 percent of the total revenue received and accrued from the sale of lottery tickets plus any other income earned from the lottery. The FY 1996 Appropriations Act increased the percentage of video lottery terminal receipts which are transferred to the General Fund and increased the payout to keno game players, which has

increased lottery income. Lottery transfers to the general fund totaled \$150.3 million in FY 2000. The FY 2001 Appropriations Act increased the allowable payout percentages for certain lottery and keno games, and also redistributed net terminal income from video lottery games, resulting in a greater portion of net terminal income being retained by the state.

Other Miscellaneous Sources in FY 2000 totaled \$83.4 million, the largest components of which are \$58.9 million in Tobacco Settlement Funds, a \$12.2 million transfer from DEPCO, and \$6.0 million from the City of Providence Capital Properties legal settlement.

Also included in the Other Sources category is the gas tax transfer from the Intermodal Surface Transportation Fund. Gasoline tax receipts not dedicated for use by transportation agencies become available to the general fund. This amounted to \$14.3 million in FY 2000.

The Unclaimed Property Transfer reflects funds which have escheated to the State. They include unclaimed items such as bank deposits, funds held by life insurance companies, deposits and refunds held by utilities, dividends, and property held by courts and public agencies. The General Treasurer deposits escheated funds in the general fund, with deductions made for administrative costs. Unclaimed property transfers totaled \$3.5 million in FY 2000.

*Federal Receipts:* In FY 2000, the State expended \$1.291 billion of revenues from the federal government, representing grants-in-aid and reimbursements to the State for expenditures for various health, welfare and educational programs and distribution of various restricted or categorical grants-in-aid.

Federal grants-in-aid reimbursements are normally conditioned to some degree, depending on the particular program being funded, on matching resources by the State ranging from a 50 percent matching expenditure to in-kind contributions. The largest categories of federal grants and reimbursements are made for medical assistance payments for the indigent (Title XIX) and Temporary Assistance to Needy Families (TANF). The federal participatory rates for Title XIX are recalculated annually, and the major determinant in the rate calculation is the relative wealth of the State. The federal match rate is 52.45% percent as of October 1, 2000. Beginning in FY 1997, TANF funds became block grants; state eligibility is conditional on maintenance of effort expenditure floors.

## ECONOMIC FORECAST

This section describes the economic forecast used as input for the Revenue Estimating Conference's consensus estimate. For historical information, please refer to Exhibit B.

The Revenue Estimating Conference incorporates a range of economic forecasts and economic information in making revenue estimates. During its November 2000 meeting, forecasts were presented by Economy.com, Data Resources, Inc. (DRI) and New England Economic Project (NEEP). The Department of Labor and Training also presented current employment and labor force trends.

During the 1997-1998 legislative session, the statutes governing the Revenue Estimating Conference were amended. Beginning in Fiscal Year 1999, the statute requires that the principal members (the Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor) "shall adopt a consensus forecast upon which to base revenue estimates." (R.I.G.L. 35-16-5 (e)).

The economic outlook provided by the economists for Rhode Island was generally optimistic. Rhode Island's forecast includes steady employment and income growth, as well as improving demographic trends. Also noteworthy is the fact that Rhode Island's household balance sheets are improving due to increasing home values.

Though there was a disparity among the forecasts, the principals adopted a forecast characterized by low consumer price inflation, continued employment growth, and continued personal income growth. The following table shows the final adopted economic consensus forecast.

<b>The Consensus Economic Forecast</b>			
	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>
<b>Total Employment</b>			
<i>Annual Percentage Change</i>	1.7%	0.9%	0.8%
<b>Total Personal Income</b>			
<i>Annual Percentage Change</i>	5.4%	5.4%	5.3%
<b>Consumer Price Index</b>			
<i>Fiscal Year Annual Percentage Change</i>	2.9%	3.0%	2.2%
<i>Calendar Year Annual Percentage Change</i>	3.4%	2.4%	2.3%

### **REVENUE ESTIMATES**

Revenue estimates are predicated upon the FY 2001 Appropriations Act, and were modified by the Consensus Revenue Estimating Conference in November 2000. The Consensus Revenue Estimating Conference is required by legislation to convene at least twice annually to forecast general revenues for the current year and the budget year, based upon current law and collection trends, as well as the economic forecast.

#### **FY 2001 Revenue Estimate**

The FY 2001 estimate adopted in November 2000 was \$102.6 million greater than the estimate enacted by the legislature, for a total of \$2.492 billion. FY 2001 revenues are expected to be 9.6 percent greater than those collected in FY 2000. Total taxes in FY 2001 are expected to rise by 8.6 percent over the prior fiscal year, largely due to growth in personal income and sales taxes. It should also be noted that FY 2001 revenues include the full (7 percent) value of the sales tax, whereas FY 2000 contained 6.4 percent of the sales tax, since a portion was restricted for the purpose of DEPCO debt repayment. Personal income taxes are expected to total \$863.5 million in FY 2001. Annual growth of 5.7 percent is expected. The income tax estimate includes the fourth phase of the tax rate reduction (to 25.5 percent of federal liability) which becomes effective on January 1, 2001.

Significant revisions were made to several of the general business taxes. The business corporation tax was increased by \$7.3 million, and is expected to yield a total of \$70.0 million for the year. Taxes on financial institutions were increased by \$6.3 million, and are expected to yield \$9.1 million this fiscal year. Revisions in these taxes were made based upon greater than expected FY 2000 collections, as well as current year to date collections. The public utilities gross earnings tax was revised upward by \$2.6 million for a total of \$73.0 million. Franchise and bank deposits taxes, and the health care provider assessment are expected to yield \$7.8 million, \$1.0 million, and \$25.5 million, respectively.

Expected sales tax collections are \$741.3 million, and include the full value of the sales tax, including the portion previously restricted to DEPCO debt repayment. Motor Vehicle taxes are expected to yield \$45.4 million, and motor fuel taxes are expected to yield \$0.6 million. Alcohol tax collections are expected total \$9.3 million. The cigarette tax estimate increased \$0.9 million from the enacted estimate to \$58.2 million. Inheritance tax estimates remain at the enacted level, or an expected total of \$31.0 million. Racing and athletics and realty transfer taxes are expected to garner \$5.3 million, and \$2.2 million, respectively.

Departmental receipts, which include licenses and fees, fines and penalties, sales and services, and miscellaneous revenues collected by individual departments, are expected to total \$252.0 million in the current fiscal year. The total reflects an increase of \$8.2 million from the enacted estimate.

The gas tax transfer to the general fund reflects a decrease from the enacted estimate, with expected collections of \$8.2 million. Lottery receipts are expected to garner \$177.2 million. The revised estimate reflects a decrease from the enacted estimate of \$1.0 million, based on year to date collection patterns. Unclaimed property receipts are expected to total \$3.5 million.

“Other Miscellaneous” receipts are expected to total \$76.2 million. The components in this category include: airport lease payments (\$3.2 million); reimbursements from the Underground Storage Tank Fund (\$1.0 million); Blue Cross Settlement (\$1.7 million); interyear adjustments (\$0.5 million); tobacco settlement proceeds (\$43.9 million); employee medical recovery (\$6.0 million); elderly transportation Medicaid reimbursements (\$0.8 million); bond closeouts (\$0.8 million); Resource Recovery transfers (\$3.1 million) and DEPCO surplus transfers of \$15.2 million contained in the enacted budget. The enacted budget also contained \$61.7 million for sales tax proceeds dedicated to DEPCO, but not required for debt defeasance; since the debt is now fully repaid, the excess sales tax is contained within the general revenue sales tax estimate, and is no longer reflected in the Other Miscellaneous transfer category.

### **FY 2002 Revenue Estimate**

FY 2002 revenues are expected to be 0.5 percent less than those collected in FY 2001. The enacted estimate for the budget year totals \$2.479 billion.

Total taxes in FY 2002 are expected to rise by 3.7 percent over the prior fiscal year, largely due to growth in personal income and sales taxes. Personal income taxes are expected to total \$906.5 million in FY 2002. Annual growth of 5.0 percent is expected. The income tax estimate includes the last phase of the tax rate reduction (to 25.0 percent of federal liability) which will become effective on January 1, 2002.

Reductions were made in the budget year to the business corporations and financial institutions taxes, reflecting FY 2001 collection experience, which included significant one-time and late payments for prior year liabilities. The business corporation tax was reduced by \$2.0 million, and is expected to yield a total of \$68.0 million for the year. Financial institutions taxes were reduced by \$3.1 million, with total anticipated collections of \$6.0 million.

With the exception of the health care provider tax, which was increased by \$1.1 million (for a total of \$26.6 million), the remaining business taxes were maintained at FY 2001 levels.

The sales tax estimate for FY 2002 is \$775.8 million, anticipating an annual increase of \$34.5 million, or growth of 4.7 percent. Motor Vehicle taxes are expected to yield \$46.0 million, and motor fuel taxes are expected to yield \$0.6 million. Alcohol tax collections are expected to remain at the FY 2001 level of \$9.3 million.

Cigarette tax collections are expected to further decline by \$1.2 million or 2.1 percent, due to a continued decline in consumption. Total collections of \$57.0 million are expected in the budget year.

Inheritance tax, racing and athletics taxes, and realty transfer tax collections are expected to remain at FY 2001 levels of \$31.0 million, \$5.3 million, and \$2.2 million, respectively. Departmental receipts are expected to total \$177.7 million in FY 2002. The annual reduction of \$74.3 million is chiefly caused by the expiration of the hospital license fee.

The gas tax yield per penny for FY 2002 is estimated to be \$4.71 million. The general fund transfer of three-fourths of one cent equals \$3.5 million. The FY 2002 estimate for lottery transfers equals \$187.2 million, or annual growth of 5.6 percent. Unclaimed property receipts are expected to be equal to those collected in FY 2001, for a total of \$3.5 million.

“Other Miscellaneous” receipts are expected to total \$59.2 million. The FY 2002 estimate is \$17.0 million less than FY 2001. Most of the difference is attributable to exclusion of \$3.1 million in Resource Recovery Transfers; \$6.0 million for employee medical recovery; \$0.8 million for elderly transportation Medicaid reimbursement; and \$15.2 million for DEPCO transfers. These reductions are offset in large part by tobacco settlement proceeds of \$53.3 million (which are \$9.4 million greater than the FY 2001 payment of \$43.9 million).

Other components of this category include the airport lease payment (\$3.2 million); anticipated reimbursement from the Underground Storage Tank Fund (\$1.0 million); interyear adjustments (\$0.4 million); and bond closeouts (\$0.8 million). Lastly, \$0.5 million is estimated for Blue Cross settlement payments.

## COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES

The following tables set forth comparative summaries for all State General Revenues for fiscal years 1998 through 2002 and expenditures for the fiscal years 1998 through 2001. General Fund data for FY 1998 and FY 1999 is derived from financial statements prepared by the State Controller, and post audited by the Auditor General. General Fund data for FY 2000 is derived from the unaudited preliminary closing report of the State Controller. It is predicated on the basis of revenues, expenditures and other financing sources (uses) as reported by the State Controller's Office. In addition, expenditures include other sources of funds that are appropriated for budgetary purposes. These include all expenditures shown from other fund sources, as well as certain expenditures from Federal and Restricted Sources. The expenditure tables restate amounts classified by the Controller as "operating transfers", or amounts received by or transferred to other funds, as expenditures. As shown in the free surplus table, the unaudited closing surplus for FY 2000 was \$92.3 million, and there were \$21.7 million reappropriated to FY 2001.

General Fund revenues for FY 2000 reflect the unaudited actual revenues as reported by the State Controller. These estimates are explained under the section entitled *Revenue Estimates* and *Free Surplus*. General Fund revenues for FY 2001 and FY 2002 are predicated upon consensus estimates of the Revenue Estimating Conference of November 2000. General Fund expenditures and expenditures from other fund sources are the expenditure levels as contained in the FY 2001 Appropriations Act enacted on June 29, 2000, as adjusted by the reappropriations from FY 2000 totaling \$21.7 million. The Governor has released the first quarter report for FY 2001, which reveals that general revenue expenditures are anticipated to be \$53.5 million higher than the enacted budget. The Governor will present his recommended expenditures for FY 2002 in February 2001.

# General Revenues

	<b>FY 1998</b> <b>(Audited)</b>	<b>FY 1999</b> <b>(Audited)</b>	<b>FY 2000</b> <b>(Unaudited)</b>	<b>FY 2001</b> <b>(Revised)</b>	<b>FY 2002</b>
<b>Personal Income Tax</b>	\$722,809,063	\$757,557,456	\$817,079,620	\$863,500,000	\$906,500,000
<b>General Business Taxes</b>					
Business Corporations	71,541,900	66,497,243	68,505,553	70,000,000	68,000,000
Franchise	7,314,729	7,896,372	7,746,246	7,800,000	7,800,000
Public Utilities Gross Earn	62,330,189	66,349,690	73,011,717	73,000,000	73,000,000
Financial Institutions	(1,157,614)	(1,639,532)	7,683,012	9,100,000	6,000,000
Insurance Companies	41,817,850	31,648,918	31,324,916	31,300,000	31,300,000
Bank Deposits	1,387,514	(612,474)	947,979	1,000,000	1,000,000
Health Care Provider Assc	23,546,817	23,974,976	24,641,523	25,500,000	26,600,000
<b>Sales and Use Taxes</b>					
Sales and Use	530,649,386	564,807,963	631,304,598	741,300,000	775,800,000
Motor Vehicle	40,328,576	41,991,608	42,960,129	45,400,000	46,000,000
Motor Fuel	4,947,942	1,010,393	641,041	641,000	641,000
Cigarettes	64,188,077	61,576,289	59,392,252	58,200,000	57,000,000
Alcohol	8,586,546	9,027,601	9,209,855	9,300,000	9,300,000
Controlled Substances	7	-	165	-	-
<b>Other Taxes</b>					
Inheritance and Gift	31,524,415	36,324,715	35,563,398	31,000,000	31,000,000
Racing and Athletics	5,979,095	5,806,170	5,374,515	5,300,000	5,300,000
Realty Transfer	6,428,808	2,585,090	2,173,033	2,200,000	2,200,000
<b>Total Taxes</b>	<b>1,622,223,300</b>	<b>1,674,802,478</b>	<b>1,817,559,552</b>	<b>1,974,541,000</b>	<b>2,047,441,000</b>
<b>Departmental Receipts</b>					
Licenses and Fees	101,455,524	103,243,938	108,899,760	146,700,000	74,600,000
Fines and Penalties	25,514,709	27,648,766	27,946,627	23,000,000	23,000,000
Sales and Services	30,422,087	32,137,957	33,386,484	24,800,000	24,600,000
Miscellaneous	32,873,694	36,614,148	34,758,870	57,500,000	55,500,000
<b>Total Departmental Receipts</b>	<b>190,266,014</b>	<b>199,644,809</b>	<b>204,991,741</b>	<b>252,000,000</b>	<b>177,700,000</b>
<b>Taxes and Departmentals</b>	<b>1,812,489,314</b>	<b>1,874,447,287</b>	<b>2,022,551,293</b>	<b>2,226,541,000</b>	<b>2,225,141,000</b>
<b>Other Sources</b>					
Gas Tax Transfer	30,412,271	20,041,618	14,320,229	8,167,250	3,532,500
Other Miscellaneous	32,721,004	15,891,757	83,412,911	76,190,797	59,193,763
Lottery	115,071,622	133,475,047	150,283,635	177,200,000	187,200,000
Unclaimed Property	3,693,926	4,488,559	3,520,488	3,500,000	3,500,000
<b>Other Sources</b>	<b>181,898,823</b>	<b>173,896,981</b>	<b>251,537,263</b>	<b>265,058,047</b>	<b>253,426,263</b>
<b>Total General Revenues</b>	<b>\$1,994,388,137</b>	<b>\$2,048,344,268</b>	<b>\$2,274,088,556</b>	<b>\$2,491,599,047</b>	<b>\$2,478,567,263</b>

## Expenditures from General Revenues

	FY 1998 Audited	FY 1999 Audited	FY 2000 Unaudited	FY 2001 Revised
<b>General Government</b>				
Administration*	\$ 135,056,066	\$ 194,998,423	\$ 299,291,192	\$339,313,145
Business Regulation	6,572,901	6,733,959	7,829,950	8,174,271
Labor and Training	6,076,463	6,587,743	6,693,891	6,839,233
Legislature	20,802,328	20,966,470	22,015,951	31,818,568
Lieutenant Governor General	423,676	629,328	685,387	701,599
State	4,218,986	5,302,823	4,422,428	5,478,516
Treasury	2,328,343	2,626,857	4,767,465	4,974,909
Boards For Design Professionals	307,219	340,956	340,377	291,087
Board of Elections	1,161,695	4,572,787	2,055,786	2,295,544
R I Ethics Commissions	783,671	722,055	726,788	866,448
Office of Governor	3,389,389	3,607,299	3,728,678	3,975,054
Public Utilities Commission	671,290	706,370	742,169	730,664
Rhode Island Commission on Women	61,808	115,131	121,997	130,406
<b>Subtotal - General Government</b>	<b>181,853,835</b>	<b>247,910,201</b>	<b>353,422,059</b>	<b>\$ 405,589,444</b>
<b>Human Resources</b>				
Children, Youth, and Families	106,226,311	110,719,504	116,192,209	121,444,817
Elderly Affairs	17,752,065	18,296,740	19,555,225	22,194,691
Health	24,840,587	27,687,207	29,131,192	31,589,711
Human Services	412,118,638	435,388,992	467,905,415	543,566,715
Mental Health, Retardation, & Hospitals	176,185,400	193,043,474	196,424,224	198,460,605
Child Advocate	371,887	425,444	425,938	458,875
Comm on Deaf & Hard of Hearing	172,384	149,285	230,478	246,761
Governor's Commission On Disabilities	238,559	245,474	268,701	284,704
Commission For Human Rights	545,342	579,717	686,150	702,324
Mental Health Advocate	205,554	216,162	232,528	240,730
<b>Subtotal - Human Resources</b>	<b>738,656,727</b>	<b>786,751,999</b>	<b>831,052,060</b>	<b>919,189,933</b>
<b>Education</b>				
Elementary and Secondary	521,073,353	563,299,688	615,254,166	664,318,141
Board of Governors	144,899,547	153,719,601	152,110,006	162,841,878
RI State Council On The Arts - General	684,503	877,730	972,210	1,169,907
Atomic Energy Commission	517,665	544,774	576,744	620,263
Higher Education Assistance Authority	7,149,435	7,076,902	7,611,009	7,551,010
Historical Preservation Commission	1,143,623	2,161,789	1,755,721	2,894,383
Public Telecommunications Authority	1,796,882	1,728,666	1,028,823	1,272,132
<b>Subtotal - Education</b>	<b>677,265,008</b>	<b>729,409,150</b>	<b>779,308,679</b>	<b>840,667,714</b>

## Expenditures from General Revenues

	FY 1998 Audited	FY 1999 Audited	FY 2000 Unaudited	FY 2001 Revised
<b>Public Safety</b>				
Attorney General	12,236,495	12,486,493	12,952,277	14,548,236
Corrections	125,341,520	127,271,319	116,328,001	114,861,930
Judiciary	49,851,805	51,818,746	51,713,328	52,407,914
Military Staff	1,866,762	2,005,517	2,245,775	2,034,977
E-911	-	-	-	3,563,041
Fire Safety Code Commission	208,045	176,862	164,708	187,512
State Fire Marshal	1,156,824	1,200,871	1,248,143	1,266,541
Comm. on Judicial Tenure & Discipline	84,473	89,757	109,158	100,201
Rhode Island Justice Commission	183,306	213,795	184,855	179,638
Municipal Police Training Academy	312,190	322,744	546,468	473,258
Rhode Island State Police	28,784,602	29,341,284	32,458,939	33,124,140
Office Of Public Defender	4,007,219	4,750,679	4,862,356	5,340,142
Sheriffs of Several Counties	7,429,387	8,396,738	8,261,430	8,767,198
<b>Subtotal - Public Safety</b>	<b>231,462,628</b>	<b>238,074,805</b>	<b>231,075,438</b>	<b>236,854,728</b>
<b>Natural Resources</b>				
Environmental Management	27,057,986	29,316,735	30,288,364	31,474,351
Coastal Resources Management Council	741,832	1,220,909	937,344	1,076,714
Water Resources Board	3,569,464	3,598,796	915,363	975,861
<b>Subtotal - Natural Resources</b>	<b>31,369,282</b>	<b>34,136,440</b>	<b>32,141,071</b>	<b>33,526,926</b>
<b>Transportation</b>				
Transportation	1,933,933	-	-	-
<b>Subtotal - Transportation</b>	<b>1,933,933</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>\$ 1,862,541,413</b>	<b>\$ 2,036,282,595</b>	<b>\$ 2,226,999,307</b>	<b>\$ 2,435,828,745</b>
Projected variance from enacted expenditures**				53,488,758
<b>Total</b>				<b>\$ 2,489,317,503</b>

*\*Effective in FY 2000, all debt service is budgeted within the Department of Administration rather than in individual agencies.*

*\*\*The first quarter report released on November 20, 2000, projects revenues and expenditures which are higher than the enacted levels. The report shows anticipated general revenue expenditures which are \$53.5 million greater.*

## Expenditures from Federal Funds

	FY 1998 Audited	FY 1999 Audited	FY 2000 Unaudited	FY 2001 Revised
<b>General Government</b>				
Administration	\$ 24,612,441	\$ 23,111,937	\$ 27,294,882	\$ 24,467,560
Labor and Training	39,956,633	42,571,904	44,430,719	39,618,106
State	-	-	-	27,015
Treasury	607,930	648,538	1,514,331	1,600,249
Office of Governor	64,446	69,145	58,472	73,789
Public Utilities Commission	72,439	41,855	57,819	61,549
Rhode Island Commission on Women	-	791	482	-
<b>Subtotal - General Government</b>	<b>65,313,889</b>	<b>66,444,170</b>	<b>73,356,705</b>	<b>65,848,268</b>
<b>Human Resources</b>				
Children, Youth, and Families	61,500,399	66,993,017	74,980,208	77,399,850
Elderly Affairs	7,437,679	6,704,121	7,504,008	8,038,672
Health	38,134,955	42,070,611	42,223,447	42,302,260
Human Services	532,799,121	573,777,947	607,127,607	682,438,772
Mental Health, Retardation, & Hospitals	156,782,357	164,851,057	176,829,884	191,748,490
Child Advocate	337,629	307,942	354,686	339,970
Comm on Deaf & Hard of Hearing	-	600	-	-
RI Developmental Disabilities	340,988	337,163	436,352	455,589
Governor's Commission On Disabilities	19,251	11,770	6,607	23,575
Commission For Human Rights	244,915	154,086	189,610	306,467
<b>Subtotal - Human Resources</b>	<b>797,597,294</b>	<b>855,208,314</b>	<b>909,652,409</b>	<b>1,003,053,645</b>
<b>Education</b>				
Elementary and Secondary	79,649,519	88,921,416	93,803,298	110,785,691
Board of Governors	687,852	702,100	973,744	1,311,940
RI State Council On The Arts - General	441,545	505,662	553,644	572,155
Atomic Energy Commission	22,759	12,249	1,635	83,000
Higher Education Assistance Authority	1,784,573	1,773,761	3,970,919	6,465,442
Historical Preservation Commission	520,348	512,897	570,147	546,081
Public Telecommunications Authority	80	5,192	-	350,000
<b>Subtotal - Education</b>	<b>83,106,676</b>	<b>92,433,277</b>	<b>99,873,387</b>	<b>120,114,309</b>
<b>Public Safety</b>				
Attorney General	853,409	1,884,409	1,522,014	1,283,303
Corrections	1,565,313	3,627,856	3,632,681	4,829,801
Judiciary	2,359,074	3,283,770	4,443,475	3,190,605
Military Staff	5,358,426	5,610,502	5,842,256	7,312,699
State Fire Marshal	68,861	42,821	94,555	39,185
Rhode Island Justice Commission	3,628,606	3,130,550	3,840,098	5,201,575
Municipal Police Training Academy	81,345	10,361	60,491	65,106
Rhode Island State Police	789,737	1,171,087	1,355,115	559,667
Office Of Public Defender	354,378	400,045	243,457	-

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## Expenditures from Federal Funds

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	FY 1998 Audited	FY 1999 Audited	FY 2000 Unaudited	FY 2001 Revised
<b>Subtotal - Public Safety</b>	<b>15,059,149</b>	<b>19,161,401</b>	<b>21,034,142</b>	<b>22,481,941</b>
<b>Natural Resources</b>				
Environmental Management	9,681,959	12,369,064	11,073,984	21,257,560
Coastal Resources Management Council	822,265	869,828	915,407	1,022,857
<b>Subtotal - Natural Resources</b>	<b>10,504,224</b>	<b>13,238,892</b>	<b>11,989,391</b>	<b>22,280,417</b>
<b>Transportation</b>				
Transportation	91,253,421	184,723,274	175,454,955	205,749,573
<b>Subtotal - Transportation</b>	<b>91,253,421</b>	<b>184,723,274</b>	<b>175,454,955</b>	<b>205,749,573</b>
<b>Total</b>	<b>\$1,062,834,653</b>	<b>\$1,231,209,328</b>	<b>\$1,291,360,989</b>	<b>\$1,439,528,153</b>

## Expenditures from Restricted Receipts

	FY 1998 Audited	FY 1999 Audited	FY 2000 Unaudited	FY 2001 Revised
<b>General Government</b>				
Administration*	\$ 63,975,643	\$ 60,493,082	\$ 60,030,564	\$ 6,975,774
Business Regulation	910,987	808,171	240,522	440,836
Labor and Training	16,428,387	16,125,123	17,395,871	19,609,603
Legislature	851,162	758,670	929,609	719,491
State	113,223	138,643	140,036	177,959
Treasury	16,992,855	16,438,762	16,779,202	11,398,076
Public Utilities Commission	3,017,215	2,873,890	3,113,117	4,117,697
<b>Subtotal - General Government</b>	<b>102,289,472</b>	<b>97,636,341</b>	<b>98,628,921</b>	<b>43,439,436</b>
<b>Human Resources</b>				
Children, Youth, and Families	1,052,741	1,768,686	1,329,895	1,331,999
Health	2,879,024	3,447,940	5,722,083	5,266,481
Human Services	3,006,218	3,627,855	2,797,981	3,817,827
Mental Health, Retardation, & Hospitals	35,116	50,000	50,000	55,000
Child Advocate	9,391	8,148	3,591	-
Governor's Commission On Disabilities	(983)	3,202	3,378	1,750
<b>Subtotal - Human Resources</b>	<b>6,981,507</b>	<b>8,905,831</b>	<b>9,906,928</b>	<b>10,473,057</b>
<b>Education</b>				
Elementary and Secondary	684,586	890,111	861,773	624,553
RI State Council On The Arts - General	117,261	27,227	(1,930)	66,610
Historical Preservation Commission	418,672	310,926	152,869	320,417
Public Telecommunications Authority	2,107	-	-	-
<b>Subtotal - Education</b>	<b>1,222,626</b>	<b>1,228,264</b>	<b>1,012,712</b>	<b>1,011,580</b>
<b>Public Safety</b>				
Attorney General	684,455	556,482	662,737	663,296
Corrections	1,620,983	672,000	475,074	5,428,500
Judiciary	4,812,849	5,710,477	4,863,986	5,483,897
Military Staff	-	2,664	1,645	103,000
E 9-1-1 Commission	2,759,007	2,851,594	3,265,079	-
Rhode Island Justice Commission	-	382	12,395	-
Rhode Island State Police	265,523	1,506,185	1,561,551	648,609
<b>Subtotal - Public Safety</b>	<b>10,142,817</b>	<b>11,299,784</b>	<b>10,842,467</b>	<b>12,327,302</b>
<b>Natural Resources</b>				
Environmental Management	6,277,435	6,695,150	8,241,125	10,826,555
Water Resources Board			16,402	
<b>Subtotal - Natural Resources</b>	<b>6,277,435</b>	<b>6,695,150</b>	<b>8,257,527</b>	<b>10,826,555</b>
<b>Transportation</b>				
Transportation	1,030,764	4,921,146	15,342,890	68,520,000
<b>Subtotal - Transportation</b>	<b>1,030,764</b>	<b>4,921,146</b>	<b>15,342,890</b>	<b>68,520,000</b>
<b>Total</b>	<b>\$ 127,944,621</b>	<b>\$ 130,686,516</b>	<b>\$ 143,991,445</b>	<b>\$ 146,597,930</b>

\*Reduction in expenditures is due to the termination in August 2000 of the State's requirement to pay DEPCO six-tenth of one percent of sales tax.

## Expenditures from Other Funds

	FY 1998 Audited	FY 1999 Audited	FY 2000 Unaudited	FY 2001 Revised
<b>General Government</b>				
Administration	\$ 8,724,103	\$ 14,477,121	\$ 74,335,410	\$ 74,442,653
Labor and Training	253,753,664	261,767,936	273,739,344	275,825,471
Treasury	2,904,673	3,015,070	3,243,553	11,860,259
<b>Subtotal - General Government</b>	<b>265,382,440</b>	<b>279,260,127</b>	<b>351,318,307</b>	<b>362,128,383</b>
<b>Human Resources</b>				
Children, Youth, and Families	-	203,329	103,054	199,000
Elderly Affairs	4,491,056	4,363,092	4,850,406	4,800,000
Health	-	96,116	17,902	50,000
Human Services	-	-	672,396	580,000
Mental Health, Retardation, & Hospitals	2,393,315	288,356	1,219,695	2,814,942
<b>Subtotal - Human Resources</b>	<b>6,884,371</b>	<b>4,950,893</b>	<b>6,863,453</b>	<b>8,443,942</b>
<b>Education</b>				
Elementary and Secondary	10,891	331,317	438,786	1,644,104
Board of Governors	287,943,686	306,836,646	326,371,517	335,452,567
Atomic Energy Commission	116,276	102,215	156,882	175,792
Higher Education Assistance Authority	8,173	44,748	83,144	108,647
Historical Preservation Commission	-	-	-	20,000
Public Telecommunications Authority	476,774	456,498	503,502	1,437,632
<b>Subtotal - Education</b>	<b>288,555,800</b>	<b>307,771,424</b>	<b>327,553,831</b>	<b>338,838,742</b>
<b>Public Safety</b>				
Corrections	305,564	1,480,783	1,475,955	5,756,696
Judiciary	297,980	296,576	62,226	1,812,774
Military Staff	180,239	474,806	833,672	1,059,896
Rhode Island State Police	207,907	2,381,877	2,348,885	2,402,571
<b>Subtotal - Public Safety</b>	<b>991,690</b>	<b>4,634,042</b>	<b>4,720,738</b>	<b>11,031,937</b>
<b>Natural Resources</b>				
Environmental Management	25,850,327	28,191,639	3,173,096	6,354,137
Coastal Resources Management Council	-	-	-	36,000
Water Resources Board	-	54,373	563,248	777,086
<b>Subtotal - Natural Resources</b>	<b>25,850,327</b>	<b>28,246,012</b>	<b>3,736,344</b>	<b>7,167,223</b>
<b>Transportation</b>				
Transportation	82,007,709	106,790,825	73,790,421	79,440,010
<b>Subtotal - Transportation</b>	<b>82,007,709</b>	<b>106,790,825</b>	<b>73,790,421</b>	<b>79,440,010</b>
<b>Total</b>	<b>\$ 669,672,337</b>	<b>\$ 731,653,323</b>	<b>\$ 767,983,094</b>	<b>\$ 807,050,237</b>

# Expenditures from All Funds

	FY 1998 Audited	FY 1999 Audited	FY 2000 Unaudited	FY 2001 Revised
<b>General Government</b>				
Administration*	\$ 232,368,253	\$ 293,080,563	\$ 460,952,048	\$445,199,132
Business Regulation	7,483,888	7,542,130	8,070,472	8,615,107
Labor and Training	316,215,147	327,052,706	342,259,825	341,892,413
Legislature	21,653,490	21,725,140	22,945,560	32,538,059
Lieutenant Governor General	423,676	629,328	685,387	701,599
State	4,332,209	5,441,466	4,562,464	5,683,490
Treasury	22,833,801	22,729,227	26,304,551	29,833,493
Boards For Design Professionals	307,219	340,956	340,377	291,087
Board of Elections	1,161,695	4,572,787	2,055,786	2,295,544
R I Ethics Commissions	783,671	722,055	726,788	866,448
Office of Governor	3,453,835	3,676,444	3,787,150	4,048,843
Public Utilities Commission	3,760,944	3,622,115	3,913,105	4,909,910
Rhode Island Commission on Women	61,808	115,922	122,479	130,406
<b>Subtotal - General Government</b>	<b>\$ 614,839,636</b>	<b>\$ 691,250,839</b>	<b>\$ 876,725,992</b>	<b>\$ 877,005,531</b>
<b>Human Resources</b>				
Children, Youth, and Families	168,779,451	179,684,536	192,605,366	200,375,666
Elderly Affairs	29,680,800	29,363,953	31,909,639	35,033,363
Health	65,854,566	73,301,874	77,094,624	79,208,452
Human Services	947,923,977	1,012,794,794	1,078,503,399	1,230,403,314
Mental Health, Retardation, & Hospitals	335,396,188	358,232,887	374,523,803	393,079,037
Child Advocate	718,907	741,534	784,215	798,845
Comm On Deaf & Hard of Hearing	172,384	149,885	230,478	246,761
RI Developmental Disabilities	340,988	337,163	436,352	455,589
Governor's Commission On Disabilities	256,827	260,446	278,686	310,029
Commission For Human Rights	790,257	733,803	875,760	1,008,791
Mental Health Advocate	205,554	216,162	232,528	240,730
<b>Subtotal - Human Resources</b>	<b>1,550,119,899</b>	<b>1,655,817,037</b>	<b>1,757,474,850</b>	<b>1,941,160,577</b>
<b>Education</b>				
Elementary and Secondary	601,418,349	653,442,532	710,358,023	777,372,489
Board of Governors	433,531,085	461,258,347	479,455,267	499,606,385
RI State Council On The Arts - General	1,243,309	1,410,619	1,523,924	1,808,672
Atomic Energy Commission	656,700	659,238	735,261	879,055
Higher Education Assistance Authority	8,942,181	8,895,411	11,665,072	14,125,099
Historical Preservation Commission	2,082,643	2,985,612	2,478,737	3,780,881
Public Telecommunications Authority	2,275,843	2,190,356	1,532,325	3,059,764
<b>Subtotal - Education</b>	<b>1,050,150,110</b>	<b>1,130,842,115</b>	<b>1,207,748,609</b>	<b>1,300,632,345</b>

## Expenditures from All Funds

	<b>FY 1998 Audited</b>	<b>FY 1999 Audited</b>	<b>FY 2000 Unaudited</b>	<b>FY 2001 Revised</b>
<b>Public Safety</b>				
Attorney General	13,774,359	14,927,384	15,137,028	16,494,835
Corrections	128,833,380	133,051,958	121,911,711	130,876,927
Judiciary	57,321,708	61,109,569	61,083,015	62,895,190
Military Staff	7,405,427	8,093,489	8,923,348	10,510,572
E 9-1-1 Commision	2,759,007	2,851,594	3,265,079	3,563,041
Fire Safety Code Commision	208,045	176,862	164,708	187,512
State Fire Marshal	1,225,685	1,243,692	1,342,698	1,305,726
Comm. on Judicial Tenure & Discipline	84,473	89,757	109,158	100,201
Rhode Island Justice Commission	3,811,912	3,344,727	4,037,348	5,381,213
Municipal Police Training Academy	393,535	333,105	606,959	538,364
Rhode Island State Police	30,047,769	34,400,433	37,724,490	36,734,987
Office Of Public Defender	4,361,597	5,150,724	5,105,813	5,340,142
Sheriffs of Several Counties	7,429,387	8,396,738	8,261,430	8,767,198
<b>Subtotal - Public Safety</b>	<b>257,656,284</b>	<b>273,170,032</b>	<b>267,672,785</b>	<b>282,695,908</b>
<b>Natural Resources</b>				
Environmental Management	68,867,707	76,572,588	52,776,569	69,912,603
Coastal Resources Management Council	1,564,097	2,090,737	1,852,751	2,135,571
Water Resources Board	3,569,464	3,653,169	1,495,013	1,752,947
<b>Subtotal - Natural Resources</b>	<b>74,001,268</b>	<b>82,316,494</b>	<b>56,124,333</b>	<b>73,801,121</b>
<b>Transportation</b>				
Transportation	176,225,827	296,435,245	264,588,266	353,709,583
<b>Subtotal - Transportation</b>	<b>176,225,827</b>	<b>296,435,245</b>	<b>264,588,266</b>	<b>353,709,583</b>
<b>Total</b>	<b>\$ 3,722,993,024</b>	<b>\$ 4,129,831,762</b>	<b>\$ 4,430,334,835</b>	<b>\$4,829,005,065</b>
Projected variance from enacted expenditures**				53,488,758
<b>Total</b>				<b>\$4,882,493,823</b>

*\*Effective in FY 2000, all debt service is budgeted within the Department of Administration rather than in individual agencies.*

*\*\*The first quarter report released on November 20, 2000, projects revenues and expenditures which are higher than the enacted levels. The report shows anticipated general revenue expenditures which are \$53.5 million greater.*

## Free Surplus

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

The preliminary unaudited results for FY 2000 reveal an increase in available resources of \$18.2 million compared to revised estimates, and expenditures which were \$21.5 million less than enacted. The unaudited free surplus for FY 2000 is \$92.3 million, and there are \$21.7 million of reappropriations carried forward. The budget enacted by the General Assembly on June 29, 2000 for FY 2001 was predicated upon available resources of \$2.4142 billion net of reserve fund contributions, and expenditures of \$2.4141 billion resulting in an estimated closing surplus of \$0.1 million. The current projections reflect an estimated free surplus of \$68.9 million. These projections are based upon the revenues estimated by the November Revenue Estimating Conference and expenditures projected in the first quarter report released on November 20, 2000. The estimated surplus in FY 2001 reflects an increase in net available resources of \$144.0 million, and an increase in expenditures of \$75.2 million. Included within the expenditure change are \$21.7 million of reappropriations from FY 1999, and a \$53.5 million estimated net increase in expenditures. The table below summarizes the general revenue budgets for FY 2000 and FY 2001.

	<b>FY 2000 Enacted*</b> (In Millions)	<b>FY 2000 Revised*</b> (In Millions)	<b>FY 2000 Unaudited*</b> (In Millions)	<b>FY 2001 Enacted*</b> (In Millions)	<b>FY 2001 Revised*</b> (In Millions)
<b>Free Surplus</b>	\$78.6	\$98.3	\$98.3	\$74.4	\$92.3
<b>Anticipated Audit Adjustments</b>	0.0	0.0	0.0	0.0	4.4
<b>Reappropriated Surplus</b>	<u>0.0</u>	<u>16.1</u>	<u>16.1</u>	<u>0.0</u>	<u>21.7</u>
Subtotal	78.6	114.4	114.4	74.4	118.4
<b>Revenues and Transfers</b>					
Revenues	1,928.2	1,993.8	2,022.6	2,081.5	2,226.5
Other Sources	<u>243.7</u>	<u>261.7</u>	<u>251.6</u>	<u>307.5</u>	<u>265.1</u>
Subtotal	2,171.8	2,255.6	2,274.1	2,389.0	2,491.6
<b>Budget Reserve Fund</b>	(45.0)	(47.1)	(47.4)	(49.3)	(51.8)
<b>Total Available</b>	<b>\$2,205.5</b>	<b>\$2,322.9</b>	<b>\$2,341.1</b>	<b>\$2,414.2</b>	<b>\$2,558.3</b>
<b>Expenditures</b>	<b>2,205.3</b>	<b>2,248.5</b>	<b>2,227.0</b>	<b>2,414.1</b>	<b>2,489.3</b>
<b>Free Surplus</b>	<b>\$0.1</b>	<b>\$74.4</b>	<b>92.3</b>	<b>\$0.1</b>	<b>68.9</b>
<b>Reappropriations</b>	<b>0.0</b>	<b>0.0</b>	<b>21.7</b>	<b>0.0</b>	<b>0.0</b>
<b>Total Ending Balances</b>	<b>\$0.1</b>	<b>\$74.4</b>	<b>\$114.1</b>	<b>0.1</b>	<b>68.9</b>
<b>Budget Reserve and Cash Stabilization Fund</b>	<b>\$67.5</b>	<b>\$70.6</b>	<b>\$71.2</b>	<b>\$73.9</b>	<b>\$77.6</b>

\* May not add due to rounding

The following table sets forth a comparative statement of General Fund free surplus for fiscal years 1998 through 2001. FY 1998 and FY 1999 data is derived from the audited financial statements prepared by the Office of the State Controller and post audited by the Auditor General. FY 2000 reflects unaudited data prepared by the State Controller. Expenditures for FY 2001 reflect those enacted on June 29, 2000 in the FY 2001 Appropriations Act, as amended by \$21.7 million reappropriations from FY 2000, and \$53.5 million of anticipated increased spending

requirements. General Revenues for FY 2001 are predicated upon consensus estimates of the Revenue Estimating Conference of November 2000.

The State is required to enact and maintain a balanced budget. In the event of a budgetary imbalance, the available free surplus will be reduced and/or additional resources (i.e. taxes, fines, fees, licenses, etc.) will be required and/or certain of the expenditure controls discussed under "State Government Organization and Finances - Budget Procedures" will be put into effect. A combination of these measures will be utilized by the State in order to maintain a balanced budget.

# General Revenue Budget Surplus Statement

	FY1998 Audited	FY1999 Audited	FY2000 Unaudited	FY2001 Revised
<b>Surplus</b>				
Opening Surplus	\$45,891,343	\$132,040,419	\$98,299,619	\$92,325,456
Anticipated Audit adjustments				\$4,366,444
Reappropriated Surplus	9,036,469	13,928,523	16,123,307	21,738,955
Subtotal	<b>54,927,812</b>	<b>145,968,942</b>	<b>114,422,926</b>	<b>118,430,855</b>
<b>General Taxes</b>	1,622,223,300	1,674,802,478	1,817,559,552	1,837,678,175
Revenue estimators' revision				136,862,825
Subtotal	<b>1,622,223,300</b>	<b>1,674,802,478</b>	<b>1,817,559,552</b>	<b>1,974,541,000</b>
<b>Departmental Revenues</b>	190,266,014	199,644,809	204,991,741	243,203,903
Revenue estimators' revision				8,169,082
Subtotal	<b>190,266,014</b>	<b>199,644,809</b>	<b>204,991,741</b>	<b>251,372,985</b>
<b>Other Sources</b>				
Gas Tax Transfers	30,412,271	20,041,618	14,320,229	8,400,000
Rev Estimators' revision-Gas Tax				(232,750)
Other Miscellaneous	32,721,004	15,891,757	83,412,911	118,079,557
Rev Estimators' revision-Miscellaneous				(41,261,745)
Lottery	115,071,622	133,475,047	150,283,635	178,165,586
Revenue Estimators' revision-Lottery				(965,586)
Unclaimed Property	3,693,926	4,488,559	3,520,488	3,500,000
Revenue Estimators' revision-Unclaimed				
Subtotal	<b>181,898,823</b>	<b>173,896,981</b>	<b>251,537,263</b>	<b>265,685,062</b>
<b>Total Revenues</b>	<b>\$1,994,388,137</b>	<b>\$2,048,344,268</b>	<b>\$2,274,088,556</b>	<b>\$2,491,599,047</b>
<b>Budget Stabilization</b>	<b>(40,805,590)</b>	<b>(43,607,694)</b>	<b>(47,447,763)</b>	<b>(51,765,819)</b>
<b>Total Available</b>	<b>\$2,008,510,359</b>	<b>\$2,150,705,517</b>	<b>2,341,063,718</b>	<b>\$2,558,264,083</b>
Actual/Enacted Expenditures	<b>\$1,862,541,417</b>	<b>\$2,036,282,591</b>	<b>\$2,226,999,307</b>	<b>\$2,414,089,790</b>
Reappropriations				21,738,955
Projected over/under expenditure				53,488,758
<b>Total Expenditures</b>	<b>\$1,862,541,417</b>	<b>\$2,036,282,591</b>	<b>\$2,226,999,307</b>	<b>\$2,489,317,503</b>
<b>Free Surplus</b>	<b>\$132,040,419</b>	<b>\$98,299,619</b>	<b>\$92,325,456</b>	<b>\$68,946,580</b>
<b>Reappropriations</b>	<b>13,928,523</b>	<b>16,123,307</b>	<b>21,738,955</b>	<b>-</b>
<b>Total Ending Balances</b>	<b>\$145,968,942</b>	<b>\$114,422,926</b>	<b>\$114,064,411</b>	<b>\$68,946,580</b>
<b>Budget Reserve and Cash</b>				
<b>Stabilization Account</b>	<b>\$61,208,384</b>	<b>\$65,411,541</b>	<b>\$71,171,645</b>	<b>\$77,648,728</b>

## STATE INDEBTEDNESS

### Authorization and Debt Limits

Under the State Constitution, the General Assembly has no power to incur State debts in excess of \$50,000 without the consent of the people, except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. By judicial interpretation, the limitation stated above has been judged to include all debts of the State for which its full faith and credit are pledged, including general obligation bonds and notes; bonds and notes guaranteed by the State; and debts or loans insured by agencies of the State, such as the Industrial-Recreational Building Authority. However, non-binding agreements of the State to appropriate monies in aid of obligations of a State agency, such as the provisions of law governing the capital reserve funds of the Port Authority and Economic Development Corporation, now known as the Rhode Island Economic Development Corporation, the Housing and Mortgage Finance Corporation, or to appropriate monies to pay rental obligations under State long-term leases, such as the State's lease agreements with the Convention Center Authority, are not subject to this limitation.

### Public Finance Management Board

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

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

### Sinking Fund Commission

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

### Tax Anticipation Notes

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

the 1997 Session, the General Assembly authorized the use of commercial paper as a means of short-term borrowing under these constitutional and statutory provisions.

The State has undertaken a series of measures to improve the timing of receipts and disbursements and to reduce the level of short-term borrowing. These measures include accelerating the collection of certain taxes, the partial restructuring of the State's disbursement pattern, and moving certain special revenue funds into the General Fund as accounts within the General Fund.

Since FY 1981, the State has utilized the powers described above in the following manner:

<u>Fiscal Year</u>	<u>Maximum Principal Amount Outstanding</u>	<u>Percent of Prior Year's Tax Receipts</u>
1981	\$ 35,000,000	6.0%
1982	85,000,000	14.0
1983	85,000,000	13.0
1984	85,000,000	12.0
1985	70,000,000	9.0
1986	60,000,000	7.0
1987	50,000,000	6.0
1988	0	0.0
1989	0	0.0
1990	70,000,000	6.0
1991	200,000,000	17.0
1992	240,000,000	20.0
1993	225,000,000	18.0
1994	150,000,000	11.0
1995	125,000,000	9.0
1996	100,000,000	8.0
1997	108,000,000	8.0
1998	0	0.0
1999	0	0.0
2000	0	0.0

### **Net Tax Supported State Debt**

The State has multiple categories of State debt, direct debt, guaranteed debt, and other obligations subject to annual appropriation. The following table shows these obligations.

The gross debt totals are adjusted for those obligations covered by revenue streams of the quasi-independent agencies. The intent of this presentation is to be consistent with rating agencies' practices.

As of June 30, 2000, authorized but unissued direct and guaranteed debt totaled \$158,081,940. As of October 1, 2000, authorized but unissued direct and guaranteed debt totaled \$125,089,450, reflecting the issuance of bonds totaling \$31,365,000 in July 2000 and the extinguishment of certain authorized but unissued debt totaling \$1,627,490.

**Net Tax Supported Debt Ratios**  
(in thousands)

	<b>Debt Outstanding June 30, 1997</b>	<b>Debt Outstanding June 30, 1998</b>	<b>Debt Outstanding June 30, 1999</b>	<b>Debt Outstanding June 30, 2000</b>
<b>Direct Debt:</b>				
Various Purpose Bonds Outstanding	\$774,622	\$731,133	753,544	816,268
Variable rate General Obligation	<u>          </u>	<u>36,500</u>	<u>36,500</u>	<u>64,790</u>
<b>Subtotal</b>	<b><u>\$774,622</u></b>	<b><u>\$767,633</u></b>	<b><u>\$790,044</u></b>	<b><u>\$881,058</u></b>
<b>Guaranteed Debt:</b>				
Turnpike and Bridge Authority Bonds	31,000	-	-	-
Blackstone Valley District Commission Bonds	14,818	-	-	-
Narragansett Bay District Commission Bonds	<u>9,088</u>	<u>22,635</u>	<u>21,388</u>	<u>19,869</u>
<b>Subtotal</b>	<b><u>54,906</u></b>	<b><u>22,635</u></b>	<b><u>21,388</u></b>	<b><u>\$19,869</u></b>
<b>Other Debt Subject to Annual Appropriation:</b>				
RI Depositors Economic Protection Corp.	312,725	196,420	107,990	41,725
RI Refunding Bond Authority - Direct	5,275	3,940	2,615	1,955
RI Refunding Bond Auth. - Gurntd Narr. Bay	90	75	60	45
Convention Center Authority Outstanding	341,880	335,970	329,665	322,930
Certificates of Participation - Master Equipment Lease	190	-	-	9,525
Certificates of Participation - Intake Center	28,185	26,895	25,160	23,355
Certificates of Participation - Attorney General	4,360	4,215	4,065	3,905
RI Refunding Bond Authority Lease Rental Bonds	202,750	184,405	171,640	159,210
Certificates of Participation - DLT Howard Complex	24,000	24,000	24,000	23,150
Certificates of Participation - Shepards Building	33,265	33,620	32,535	31,400
Economic Development - Collaborative	-	-	-	25,000
Economic Development - URI Power Plant	-	-	16,395	16,395
Economic Development - Apha Beta Corporation	29,380	29,040	28,675	-
Economic Development - McCoy Stadium	-	11,825	11,105	10,360
Economic Development Corp - Central Falls Det. Ctr.	<u>29,274</u>	<u>28,949</u>	<u>-</u>	<u>-</u>
<b>Subtotal</b>	<b><u>1,011,374</u></b>	<b><u>879,354</u></b>	<b><u>753,905</u></b>	<b><u>669,273</u></b>
<b>Performance Based Agreements</b>				
Economic Development - Fidelity Building	25,000	25,000	25,000	24,579
Economic Development - Fleet Bank Lease	<u>-</u>	<u>11,000</u>	<u>10,890</u>	<u>10,770</u>
<b>Subtotal</b>	<b><u>25,000</u></b>	<b><u>36,000</u></b>	<b><u>35,890</u></b>	<b><u>35,349</u></b>
Gross Debt	1,865,902	1,705,622	1,601,227	1,605,549
Less: Adjustments for Agency Payments:	(113,650)	(88,300)	(45,368)	(68,751)
<b>Net Tax Supported Debt</b>	<b><u>\$1,752,252</u></b>	<b><u>\$1,617,322</u></b>	<b><u>1,555,859</u></b>	<b><u>1,536,798</u></b>
<b>Debt Ratios</b>				
<b>Personal Income</b>	<b><u>\$25,646,000</u></b>	<b><u>\$27,190,000</u></b>	<b><u>\$28,635,500</u></b>	<b><u>\$30,205,400</u></b>
<b>Debt as a Percent of Personal Income</b>	<b>6.83%</b>	<b>5.95%</b>	<b>5.43%</b>	<b>5.09%</b>

\*Excludes contract for Providence Place Mall described under "State Revenues - Sales Tax", and non-certificated lease obligations.

*Direct debt* is authorized by the voters as general obligation bonds and notes. Current interest bonds require the State to make annual payments of principal and semi-annual payments of interest on bonds outstanding, and the capital appreciation bonds of the State require the payment of principal and interest at maturity. As of June 30, 2000, the State had approximately \$881.1 million of bonds outstanding, and \$156.4 million of authorized but unissued direct debt.

The following table sets forth the debt service requirements on general obligation bonds of the State issued as of June 30, 2000 which are supported by general revenues for FY 2001 through FY 2019.

**Debt Service Schedule for Debt Issued as of June 30, 2000\***

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2001	\$56,998,242	\$46,854,083	\$103,852,325
2002	62,551,518	42,704,408	105,255,926
2003	64,247,471	39,587,453	103,834,925
2004	63,999,925	36,342,337	100,342,261
2005	63,696,126	32,473,364	96,169,490
2006	57,845,990	36,837,140	94,683,130
2007	52,383,296	30,565,730	82,949,026
2008	45,925,561	29,677,206	75,602,767
2009	48,712,434	27,267,619	75,980,053
2010	46,497,458	20,991,497	67,488,954
2011	39,475,000	12,422,090	51,897,090
2012	41,335,000	10,320,992	51,665,922
2013	43,680,000	8,108,320	51,788,320
2014	35,500,000	6,008,466	41,508,466
2015	30,115,000	4,230,274	34,345,274
2016	21,455,000	2,818,937	24,273,937
2017	17,535,000	1,762,581	19,297,581
2018	11,375,000	998,090	12,373,090
2019	8,440,000	468,349	8,908,349
2020	4,500,000	118,125	4,618,125
2021	-	-	-
2022	-	-	-
2023	-	-	-
2024	-	-	-
2025	-	-	-
2026	-	-	-
2027	-	-	-
Subtotal-Fixed Rate Debt	<u>\$816,268,021</u>	<u>\$390,556,987</u>	<u>\$1,206,825,008</u>
Subtotal-Variable Rate Debt**	64,790,000		64,790,000
Total:	\$881,058,021	\$390,556,987	\$1,271,615,008

\* Reflects full fiscal year debt service for bonds issued as of June 30, 2000. Reflects defeasance of \$4,415,000 on June 15, 2000. Excludes guaranteed and contingent debt; includes the actual amount of principal and interest payable for capital appreciation bonds.

\*\* Reflects multi-modal general obligation bonds which bear interest at variable rates. Reflects total principal outstanding as of June 30, 2000, an additional \$31,365,000 was issued in July 2000.

In addition, the following table sets forth the amounts, purposes and statutory authorizations of authorized but unissued general obligation direct debt of the State as of November 15, 2000 which has been approved by referenda of the electors.

<u>Purpose</u>	<u>Statutory Authorization</u>	<u>Balance of Authority as of November 15, 2000</u>
<b>Direct Debt:</b>		
Land acquisition - Industrial Development	Ch. 157-P.L. of 1979	\$449,925
Underground Storage Tank Replacement	Ch. 486-P.L. of 1985	1,964
Clean Water Act Environmental Trust Fund	Ch. 289-P.L. of 1986	3,839,627
Water Resources	Ch. 419-P.L. of 1986	155,000
Environmental Management	Ch. 419-P.L. of 1986	4,842
Open Space	Ch. 425-P.L. of 1987	4,438,254
Water Resources	Ch. 417-P.L. of 1987	3,415,000
Mental Health, Retardation and Hospitals	Ch. 449-P.L. of 1988	970,000
Rhode Island Aqua Fund	Ch. 443-P.L. of 1988	343
Environmental Management	Ch. 552-P.L. of 1989	2,271,010
Mental Health, Retardation and Hospitals	Ch. 552-P.L. of 1989	1,235,000
Mental Health, Retardation and Hospitals	Ch. 434-P.L. of 1990	18,390,000
R.I. Water Pollution Revolving Loan and Trust Fund as amended by Ch. 303-P.L. of 1989 and Ch. 434-P.L. of 1990	Ch. 238-P.L. of 1988	13,960,000
Blackstone Valley -Narragansett Bay Water Quality Management District Commission re-allocation	Ch. 434-P.L. of 1990	5,300,000
Pawtuxet River -Narragansett Bay Water Quality Management District Commission re-allocation	Ch. 434-P.L. of 1990	3,825,000
Narragansett Bay Water Quality Management District Commission	Ch. 434-P.L. of 1990	3,810,000
Elementary & Secondary Education	Ch. 70-P.L. of 1994	8,115,000
Transportation	Ch. 100-P.L. of 1996	1,365,000
Higher Education - Telecommunication	Ch. 100-P.L. of 1996	3,695,000
Higher Education Facilities	Ch. 100-P.L. of 1996	4,808,485
Quonset Point/Davisville	Ch. 100-P.L. of 1996	17,185,000
Transportation	Ch. 31-P.L. of 1998	3,445,000
Environmental Management	Ch. 31-P.L. of 1998	9,990,000
Higher Education Facilities	Ch. 31-P.L. of 1998	14,420,000
Environmental Management	Ch. 55-P.L. of 2000	34,000,000
Rhode Island Clean Water Finance Agency – Water Quality Management Bonds	Ch. 55-P.L. of 2000	60,000,000
Transportation	Ch. 55-P.L. of 2000	62,510,000
Higher Education	Ch. 55-P.L. of 2000	36,950,000
<b>Total Direct and Guaranteed Debt</b>		<b>\$318,549,450</b>

Source: State Budget Office

**Guaranteed debt** of the State includes bonds and notes issued by, or on behalf of, certain agencies, commissions and authorities created by the General Assembly and charged with enterprise undertakings, for the payment of which debt the full faith and credit of the State are pledged in the event that the revenues of such entities may at any time be insufficient. These include the Blackstone Valley District Commission, and the Narragansett Bay Water Quality Management District Commission. As of June 30, 2000, these entities had bonds outstanding of \$19,869,000 and no authorized but unissued debt.

Chapter 438 of the Public Laws of 1988, which took effect on December 31, 1991, provides that any special act of the State which authorizes the issuance of general obligation bonds or notes of the State, which has a balance that remains unissued, and is seven (7) years old or older is invalid as to that portion which remains unissued. Notwithstanding, the General Assembly may, by special act, extend any authorization for a period of one (1) to five (5) years upon a petition of the Department of Administration. Such extension may be granted more than one (1) time. Upon a certification of the General Treasurer to the Governor as to debt authorizations described above the authorization shall not be deemed or counted toward the authorized but unissued debt of the State. Since then, the State has extinguished a total of \$21,090,082.99, which was previously reflected in the above table.

**Obligations Carrying Moral Obligation of State.** Certain agencies of the State have the ability to issue bonds which are also secured by a capital reserve fund. If at any time the capital reserve fund falls below its funding requirement, the agency is authorized to request the General Assembly to appropriate the amount of the deficiency. The General Assembly may, but is not obligated to, appropriate the amount of the deficiency. See "Rhode Island Economic Development Corporation" and "Rhode Island Housing and Mortgage Finance Corporation" below.

**Other Obligations Subject to Annual Appropriation.** The State has entered into certain contractual agreements which, although of a long-term nature, are subject to annual appropriation by the General Assembly. Certain of these obligations are contractual agreements with State Agencies or Authorities (See "State Agencies and Authorities"). A brief description of the most significant of other such commitments for which the State has or may appropriate funds is provided below.

In December 1995, the State entered into a lease agreement with a financial institution which issued \$4,500,000 in certificates of participation to finance acquisition and renovation of an office building to house the Office of the Attorney General. As of June 30, 2000, \$3,905,000 of these certificates were outstanding. The State has also entered into a lease agreement with a financial institution that issued \$33,000,000 in certificates of participation to finance construction of an Intake Center for the Department of Corrections. These certificates were refunded in January 1997. As of June 30, 2000, \$23,355,000 was outstanding.

The State has also entered into a lease agreement with a financial institution which issued \$24.0 million in the certificates of participation to finance the renovation of a group of buildings at the State-owned John O. Pastore Center, formerly known as Howard Center in Cranston, Rhode Island for use as an office facility for the Department of Labor and Training. As of June 30, 2000, \$23,150,000 of such certificates were outstanding. In November 1994 the State entered into a lease agreement with the Economic Development Corporation which issued \$34.07 million of long-term bonds for the renovation of the Shepard Building. During August 1997, the State of Rhode Island issued \$34,805,000 Certificates of Participation that were used to defease the Economic Development Corporation bonds. As of June 30, 2000, \$31,400,000 in Certificates of Participation were outstanding.

In January 1998, the Economic Development Corporation issued revenue bonds in the amount of \$11,825,000 to finance improvements to McCoy Stadium in Pawtucket. These bonds are supported by State lease payments subject to annual appropriations. As of June 30, 2000, \$10,360,000 was outstanding.

On June 29, 2000, the State entered into a lease agreement with a financial institution which issued \$9,525,000 of certificates of participation for the purchase and installation of telecommunications equipment, furnishings and vehicles and rolling stock. As of June 30, 2000, \$9,525,000 was outstanding. In December, 2000, the State entered into a lease agreement with a financial institution that issued \$28,180,000 in certificates of participation to finance improvements to the Central Power Plant at the state-owned John O. Pastore Center.

**Performance-based obligations of the Rhode Island Economic Development Corporation.** In May 1996 the Economic Development Corporation issued \$25,000,000 of bonds to finance infrastructure for Fidelity Investments. These bonds carry a moral obligation of the State. If at any time, the amount in the capital reserve fund pledged for this bond issue fall below the capital reserve fund requirement as defined in the documents executed in connection with the transaction, a request will be made to the General Assembly to appropriate the amount of the deficiency. In addition, pursuant to the lease agreement the Economic Development Corporation and FMR Rhode Island, Inc. to secure the bonds, job rent credits are provided for lease payments if certain targeted new job goals are met for the financed project. Currently, it is projected that these job goals will be met. If the job goals are met, the Economic Development Corporation will credit FMR Rhode Island, Inc.'s lease payments and make annual requests to the General Assembly for appropriation which will be used to pay the debt service on this bond issue. As of June 30, 2000, \$24.579 million of Fidelity bonds were outstanding. Job rent credits are expected to result in a State obligation of \$2.5 million per year by 2002.

In November 1997, the Economic Development Corporation entered into a similar agreement with Fleet Bank; bonds issued for that transaction totaled \$11.0 million. As of June 30, 2000, \$10.77 million of Fleet bonds were outstanding. Under the lease agreement with Fleet, debt service on only \$3.4 million of the total debt would be reimbursed through the applications of job rent credits. Job rent credits are estimated to result in a State obligation of approximately \$.3 million per year.

### **State Agencies and Authorities**

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

***Rhode Island Turnpike and Bridge Authority.*** Originally created by an act of the General Assembly, Chapter 12, title 24, in 1954, the Rhode Island Turnpike and Bridge Authority has rights and obligations under agreements which secure its outstanding bonds. On August 21, 1997, the Authority issued \$42,985,000 Refunding Revenue Bonds Series 1997 providing escrowed funds to defease bond issues outstanding totaling \$41,355,000, (the original issues in 1965 and 1967 totaled \$61,000,000). The Authority voted to remove the tolls from the Mt. Hope Bridge on May 1, 1998. The Mt. Hope Bridge will continue to be maintained by the Authority. Tolls on the Claiborne Pell Bridge are the primary source of revenues and together with interest earned on investments are anticipated to be adequate to service debt and maintain the Authority's facilities.

Effective October 1, 1999, token purchases for \$10 (11 tokens) and \$50 (60 tokens) were authorized to provide savings to commuters as compared to the \$1.00 per axle cash fare.

***Narragansett Bay Commission.*** The Commission is a public corporation of the State of Rhode Island, having a legal existence distinct from the State, and not constituting a part of State government, created in 1980 pursuant to Chapter 25 of title 46 of the General Laws of Rhode Island. The Act authorized the Commission to acquire, operate and upgrade the metropolitan Providence wastewater collection and treatment facilities. Full responsibility for the metropolitan Providence system was assumed on May 2, 1982.

As part of the Assumption Agreement between the Commission and the City of Providence, the Commission has assumed repayment responsibility for certain long-term debt of the City. These City bond issues have been refunded with a total principal amount under the Assumption Agreement currently outstanding of \$724,786 as of June 30, 1999.

In addition, certain general obligation bonds of the State were issued on behalf of the Commission, with certain user fees and charges dedicated to support debt service. Operating and maintenance expenses of the

Commission also are funded with user charges. As of June 30, 1999, the State had \$67,485,000 of outstanding general obligation bonds issued on behalf of the Commission. Of this amount, the Commission is responsible for paying debt service on \$13,485,000 from its user fee revenues. The total outstanding payable from user fees is \$8,246,868, as reflected in the financial statements.

The State also has issued \$42,585,000 general obligation bonds on behalf of the Blackstone Valley District Commission. Bonds issued on behalf of the Blackstone Valley District Commission are supported by the rates and charges levied by the Commission for services provided to municipalities and other users of its facilities. On January 1, 1992, the Blackstone Valley District Commission was merged into the Commission. Outstanding bonds attributable to the Blackstone Valley District Commission as of June 30, 1999, totaled \$13,200,684, including the issuance of capital appreciation bonds in 1993.

Pursuant to the Narragansett Bay Commission Act, the Commission is authorized to accept advances or loans of funds of up to \$3.0 million from the General Fund of the State (a) in anticipation of the receipt of federal funds and (b) for the purpose of meeting debt service liabilities and providing for the construction, maintenance and operation for the project during such periods of time as the Narragansett Bay Water Quality Management District Commission Fund may be insufficient for any such purposes. The Commission currently has no outstanding advances from the State.

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

As of June 30, 1999, the Authority had outstanding mortgage agreements and other commitments for \$32,789,599, mainly in connection with revenue bonds issued by the Rhode Island Industrial Facilities Corporation. In accordance with State law, all premiums received by the Authority and all amounts realized upon foreclosure or other proceeds of defaulted mortgages are payable into the Industrial Recreational Building Mortgage Insurance Fund. All expenses of the Authority and all losses on insured mortgages are chargeable to this Fund. As of June 30, 1999, the Fund had a balance of \$3,007,045. The State has agreed to appropriate or borrow and pay to the Authority any amounts required to service defaulted insured loans should the Fund be insufficient. The State has never been called upon to replenish the Industrial-Recreational Building Mortgage Insurance Fund.

***Rhode Island Refunding Bond Authority.*** The Authority was created in 1987 under Chapter 8.1, title 35 of the General Laws of Rhode Island, as a public corporation, having a distinct legal existence from the State and not constituting a department of State government. The Authority was created for the purpose of providing a legal means to advance refund two series of general obligation bonds of the State of Rhode Island. The Authority is authorized to issue bonds and notes, secured solely by its revenues, derived from payments pursuant to a loan and trust agreement with the State of Rhode Island, subject to annual appropriation. The payment of such loans by the State is subject to and dependent upon annual appropriations being made by the General Assembly. As of June 30, 1999, the Authority's 1998 Series A bonds in the amount of \$2,675,000 were outstanding.

Article 2 of the Fiscal Year 1998 Appropriations Act, effective July 1, 1997, transferred the functions, powers, rights, duties and liabilities of the Rhode Island Public Buildings Authority to the Rhode Island Refunding Bond Authority. Until this consolidation, the Rhode Island Public Buildings Authority, created by Chapter 14 of title 37 of the General Laws of Rhode Island, was a body corporate and politic which was generally authorized to acquire,

construct, improve, equip, furnish, install, maintain and operate public facilities and public equipment through the use of public financing, for lease to federal, State, regional and municipal government branches, departments and agencies, in order to provide for the conduct of the executive, legislative and judicial functions of government. The various types of projects financed by the Public Buildings Authority included judicial, administrative, educational, residential, rehabilitative, medical, correctional, recreational, transportation, sanitation, public water supply system and other projects.

The Public Buildings Authority had six series of bonds outstanding as of June 30, 1997, in the amount of \$202,750,000, which are payable solely from revenues derived from lease rentals pursuant to lease agreements between the Authority and the State. The State's payment of such lease rentals is subject to and dependent upon annual appropriations being made by the General Assembly. In June 1998, the Refunding Bond Authority refunded portions of four of these series of bonds with the issuance of the 1998 Series A bonds in the amount of \$39,875,000. Total debt outstanding as of June 30, 1999 totals \$174,315,000 (excluding the 1988 Series A bonds).

***Rhode Island Depositors Economic Protection Corporation.*** The Rhode Island Depositors Economic Protection Corporation (DEPCO) was created in 1991 under Chapter 116, title 42, as a public corporation, having a distinct legal existence from the State and not constituting a department of State government. DEPCO was created for the purpose of protecting depositors of certain credit unions and other financial institutions ("Eligible Institutions") in the State whose deposits were previously insured by the Rhode Island Share and Deposit Indemnity Corporation ("RISDIC"), a private deposit insurance fund which ceased operations and entered conservatorship on December 31, 1990. DEPCO is authorized to purchase assets and to assume liabilities including depositor liabilities of Eligible Institutions. DEPCO is also authorized to assist any Eligible Institutions in the acquisition of federal deposit insurance. The Corporation is carrying out a plan which included successfully paying substantially all depositors one hundred percent (100%) of their original deposit claims prior to October 31, 1993 through a combination of Corporation supported acquisitions and direct payments to depositors. The Corporation is authorized to issue general and/or special obligation bonds. Special obligation bonds are secured solely by a portion of the State sales and use tax receipts, subject to annual appropriation by the General Assembly or from other funds appropriated by the General Assembly for such purposes.

The Corporation issued special obligation bonds in the amount of \$149,996,923.60 in 1991. The Corporation also issued parity special obligation bonds in the principal amount of \$306,470,000 in 1992. In March 1995, DEPCO issued Special Obligation Refunding Bonds in the principal amount of \$138,835,000 to provide for the advance refunding of \$119,465,000 principal amount of the 1991 Special Obligation Bonds. In July 1993, the Corporation issued Special Obligation Refunding Bonds in the principal amount of \$206,635,000 to refund \$187,990,000 of the 1992 Special Obligation Bonds. As of June 30, 1999, DEPCO had Special Obligation Bonds outstanding of \$107,990,000 reduced by the net bond premiums and discounts to a total of \$107,342,780 as reflect in the financial statements. In August 1999, DEPCO defeased \$4,980,000 of the 1991 Series A Special Obligation Bonds, \$20,975,000 of the 1992 Series B Special Obligation Bonds, and \$7,050,000 of the 1993 Series A Special Obligation Bonds. In February 2000, an additional \$25,860,000 in 1992 Series A Special Obligation Bonds were defeased. At the conclusion of the transaction, \$41,725,000 remained as the outstanding balance of the Special Obligation Bonds reduced by net bond premiums and discounts to a total of \$41,651,400. All other bonded debt of DEPCO was repaid on July 3, 1995.

***Rhode Island Convention Center Authority.*** The Authority was created in 1987, under Chapter 99, title 42 of the General Laws of Rhode Island as a public corporation having a distinct legal existence from the State and not constituting a department of State government. The Authority was created for the purpose of acquiring, constructing, managing and operating a convention center and related facilities. Obligations issued by the Authority do not constitute a debt or liability or obligation of the State, but are secured solely from the pledged revenues or assets of the Authority. The Authority has issued \$225,000,000 1991 Series A Bonds, \$182,395,000 of 1993 Series B Refunding Bonds, \$56,755,000 of 1993 Series C Refunding Bonds and \$98,000,000 of 1993 Series A Bonds. As of June 30, 1999, \$329,665,000 of bonds remain outstanding. After adjusting for additional principal outstanding which is attributable to the issuance of refunding bonds, the outstanding principal totals \$304 million, as reflected in the financial statements.

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

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

On July 29, 1999, the Corporation issued Landfill Lease Notes, 1999 Series A in the amount of \$5.0 million which were secured by rentals as set forth in a Lease and Agreement between the Corporation and the State of Rhode Island. The 1999 Series A Landfill Lease Notes were retired on July 28, 2000.

The General Assembly approved legislation establishing a mechanism for a State subsidy in implementing a comprehensive waste disposal program during its 1986 session. The General Law defines the State's financial participation as a subsidy to the local "tipping fee" paid by municipalities, and establishes a formula for calculating the subsidy. The State provided the Corporation with a \$6,000,000 subsidy in FY 94. In light of the significantly improved financial condition of the Corporation, the 1995 Session of the General Assembly required the Corporation to transfer \$6,000,000 to the State's General Fund in FY 1995. Additionally, a provision in the enacted FY 1997 and FY 1998 Budgets required the Corporation to transfer \$15,000,000 and \$2,000,000 to the State for FY 1996 and FY 1998, respectively. No transfer was required or made for FY 1997. The FY 1999 Budget provided for a \$4,000,000 operating transfer to the State for FY 1999, and the FY 2000 Budget does not contain a transfer provision. The proposed FY 2001 Budget contains a \$3,000,000 transfer provision.

In FY 1994, the General Assembly approved a municipal tip fee of \$32.00 per ton. Annually, the legislature has maintained the municipal tip fee at the FY 1994 level by reauthorizing the Corporation to charge \$32.00 per ton for municipal solid waste. A portion of the Corporation's landfill is a designated Superfund site. During 1996, the Corporation entered into a Consent Decree with the United States Environmental Protection Agency (EPA) concerning remedial actions taken by the Corporation for groundwater contamination. The Consent Decree requires the establishment of a trust in the amount of \$27,000,000 for remedial purposes. The Central Landfill Remediation Trust Fund Agreement was approved August 22, 1996 by the EPA. In accordance with the terms of the agreement, the Corporation has deposited approximately \$25,333,337 into the trust fund and has disbursed approximately \$5,000,000 for remediation expenses through December 31, 1999. The terms of the agreement further require the Corporation to fund an additional \$1,666,663 to the trust through September 1, 2001.

The Corporation estimates that the cost of remedial actions will substantially exceed the amount to be reserved. However, the Corporation projects that the amount reserved plus cash flow over the next three years will be adequate to fund the Superfund remedy, as currently proposed. The Corporation would seek appropriations from the General Assembly to fund any shortfall. The State, virtually every municipality in the State, and numerous businesses within and without the State are all potentially responsible parties ("PRPs") for the costs of remedial actions at the Corporation's Superfund site. Under federal law, PRPs are jointly and severally liable for all costs of remediation. EPA has agreed not to seek contributions from any other PRP as long as the Corporation is performing the remedy.

***Rhode Island Clean Water Finance Agency.*** Pursuant to Chapter 12.2 of title 46 of the Rhode Island General Laws, the Rhode Island Clean Water Finance Agency (the Agency) is a body politic and corporate and a public instrumentality of the State, having distinct legal existence from the State and not constituting a department of the State government. The purpose of the Agency is to operate revolving loan funds capitalized by federal grants, proceeds of the 1986 and 1990 general obligation bond referenda, and other revenues and borrowing as authorized. Eligible applicants to the revolving loan fund include local government units and/or water suppliers for use for water

pollution control facility capital improvements and/or drinking water capital improvements. Project selection will be determined according to federal EPA criteria, DEM and DOH prioritization, and Agency criteria as to security and fiscal soundness.

The Agency is empowered to issue revenue bonds and notes that are not guaranteed by the State. As of January 2000, the Agency has issued bonds in the aggregate amount of \$173,710,000 to fund \$187,552,231 in low-interest loans for various local wastewater pollution abatement projects, safe drinking water projects and the privatization of the City of Cranston sewage treatment plant. The outstanding bonded indebtedness of the Agency, as of January 2000, is \$117,263,982 in the Clean Water State Revolving Fund (CWSRF wastewater projects), \$28,495,000 for the Cranston Privatization Issue and \$10,200,000 as conduit financing for safe drinking water projects. Also, in years 1997 through 1999, the Agency made a total of \$30,225,000 in direct loans (loans issued without bond financing) out of the CWSRF. The Agency made a total of \$5,010,000 in direct loans (loans made without bond financing) cut out of the Drinking Water State Revolving Fund and \$1,095,000 out of the Rhode Island Water Pollution Control Revolving Fund.

***Rhode Island Public Transit Authority.*** The Public Transit Authority was created under Chapter 18, title 39 of the General Laws of Rhode Island, by the General Assembly in 1964 as a body politic and corporate in response to the continuing financial difficulties being experienced by private bus transportation companies in the State resulting in the disruption of service. The Authority, with assistance from the State and with the proceeds of a federal loan, acquired the assets of the former United Transit Company and is authorized to acquire any other bus passenger systems or routes in the State which have filed with the Chairman of the State Public Utilities Commission a petition to discontinue service, and which the Authority deems necessary in the public interest. The Authority has expanded its operations statewide and operates a fleet of approximately 235 buses carrying approximately 19,000,000 passengers annually.

The Authority is authorized to issue bonds and notes secured solely by its revenues. The Authority has no bonds or notes outstanding. Also, in order to increase the financial stability of the Authority, (1) the General Assembly authorized dedication of a portion of the State's gasoline tax receipts in support of appropriations to the Authority, and (2) the Authority increased its base fare from 70¢ to 75¢ to 85¢ to \$1.00 and then to \$1.25 in October 1998. The Authority, in an effort to build ridership, has maintained rates at a level that has necessitated State appropriations assistance to support its operations. In the fiscal year ended June 30, 1999, audited results of operations reveal that State operating assistance to the Authority totaled \$22,516,024, passenger revenues totaled \$10,847,824 and other revenues totaled \$10,744,901.

***Rhode Island Economic Development Corporation.*** The Rhode Island Economic Development Corporation is a public corporation of the State for the purpose of stimulating the economic and industrial development of the State through assistance in financing of port, industrial, pollution control, recreational, solid waste and water supply facilities, and through the management of surplus properties acquired by the State from the federal government. The Corporation is generally authorized to acquire, contract and assist in the financing of its projects through the issuance of industrial development revenue bonds which do not constitute a debt or liability of the State.

The Corporation, which changed its name in 1995, was previously known as the Rhode Island Port Authority and Economic Development Corporation, created in 1974 under Chapter 64, title 42 of the General Laws of Rhode Island. The Economic Development Corporation continues the function of the Port Authority, but also incorporates other activities performed by the State Department of Economic Development and provides assistance to economic related agencies including the Rhode Island Airport Corporation and the Rhode Island Industrial Facilities Corporation. The new corporation provides a single State agency to deal with economic development for the State.

As of June 30, 1999, the Corporation had revenue bonds outstanding of \$320,758,121, including conduit debt of \$53,941,013 for the former Rhode Island Port Authority and Economic Development Corporation. Certain of the bonds of the Corporation can be secured, in addition to a pledge of revenues, by a capital reserve fund established by the Corporation for the applicable bond issue. In accordance with its enabling legislation, if at any time the balance in such capital reserve fund falls below its requirement, the Corporation is authorized to request the

General Assembly to appropriate the amount of the deficiency. The General Assembly may, but is not obligated to, appropriate such amounts.

In February 1993, the Corporation issued \$30,000,000 in taxable revenue bonds on behalf of Alpha Beta Technology, Inc. for acquisition, construction and equipping of a new plant facility for the clinical and commercial manufacture of biopharmaceutical products. In January 1999, this issue was placed in default. These bonds were secured by a letter of credit that was secured in part by the Corporation's capital reserve fund. The bondholders were paid in full from a draw on the letter of credit. The Economic Development Corporation repaid the debt to the letter of credit bank and receivership costs by utilizing funds on hand in FY 2000, the proceeds from the sale of the facility, and state appropriations authorized during the 1999 General Assembly. The state appropriations, disbursed in the amount of \$5.8 million, were partially reimbursed as a result of additional receivership proceedings, resulting in net state support of \$5.5 million. As of June 30, 1999, the balance outstanding was \$28,675,000. As of January 1, 2000, there were no bonds outstanding for the original Alpha Beta debt. A new series of bonds in the amount of \$35.0 million were issued to finance the purchase of the building for Collaborative Smithfield Corporation. These bonds are also secured by the Corporation's capital reserve fund.

In May 1996, the Rhode Island Economic Development Corporation issued \$25,000,000 in revenue bonds on behalf of Fidelity Management Resources for development of infrastructure improvements at a site in Smithfield, Rhode Island to be utilized for Fidelity of Rhode Island, Inc. These bonds are also secured, in part, by the Corporation's capital reserve fund. In addition, pursuant to the lease, the Economic Development Corporation entered into an agreement with FMR Rhode Island, Inc., for the Fidelity Management Resources project described above, to secure those bonds, credits are provided for lease payments if certain targeted new job goals are met for the financed project. If the job goals are met, the Economic Development Corporation will credit FMR Rhode Island, Inc.'s lease payments and make annual requests to the General Assembly for appropriations which will be used to pay the debt service on this bond issue. In FY 2000, the State's expenditure for this purpose was \$222,176, reflecting approximately 9% of the total debt service. It is expected that within two years the full credits will be achieved.

In November 1997, the Rhode Island Economic Development Corporation issued \$11,000,000 in revenue bonds on behalf of Fleet National Bank for development of infrastructure improvements at a site in Lincoln, Rhode Island to be utilized for Fleet National Bank. These bonds are also secured, in part, by the Corporation's capital reserve fund. In addition, the State has provided for credits if certain targeted new job goals are met. No expenditures have been made to date.

Bonds secured by the Corporation's capital reserve fund (including bonds for the Collaborative Smithfield Corporation, Fidelity Management Resources and Fleet National Bank described above) carry a moral obligation of the State. If at any time, certain reserve funds of the Economic Development Corporation pledged fall below their funding requirements, a request will be made to the General Assembly to appropriate the amount of the deficiency. The General Assembly may (but it is not obligated to) appropriate the amount of the deficiency.

In January 1998, the Rhode Island Economic Development Corporation issued revenue bonds in the amount of \$11,825,000 to finance improvements to McCoy Stadium in Pawtucket. These bonds are supported by State lease payments subject to annual appropriations.

In May 2000 the Rhode Island Economic Development Corporation issued revenue note obligations in the amount of \$40,820,000 to finance a portion of the costs of the Providence Place Mall. Such financing will be supported by two-thirds of the sales taxes generated at the mall (up to a cap of \$3.68 million in years 1-5, and \$3.56 million in years 6-20) as provided in the Mall Act (R.I.G.L. § 42-63.5-1 et. seq.) enacted by the General Assembly in 1996 and Public Investment and HOV Agreement. It is expected that sales tax revenues generated at the Mall will be sufficient to fully support the revenue note obligations. Sales tax generated at the Mall are recorded as general revenues. The State is not obligated to fund the note payments if the sales tax generated is not sufficient.

On December 9, 1992, a subsidiary corporation of the Port Authority was established, known as the Rhode Island Airport Corporation. The Port Authority has since been reorganized into the Economic Development Corporation (EDC). The Airport Corporation was established to oversee operations at Rhode Island's six airports and

manage the process of designing and constructing a new passenger terminal facility, commonly known as the Airport Terminal Improvement Project, to replace the old terminal at T.F. Green Airport. The Airport Corporation's financial position and results of operations are presented in the financial statements by discrete presentation. This presentation involves reporting the Airport Corporation's financial position and results of operations in one column separate from the financial position of the Economic Development Corporation and its results of operations.

On July 1, 1993, properties of the State of Rhode Island Department of Transportation's (the State's) six airports (which include Theodore Francis Green, North Central, Newport, Block Island, Quonset and Westerly Airport) were transferred to the Airport Corporation under a lease and operating agreement dated June 25, 1993, by and between the State of Rhode Island, the Rhode Island Department of Transportation and the Airport Corporation. The Corporation is obligated under the lease agreement to reimburse the State for debt service on general obligation bonds issued to finance a portion of the improvement at the airports.

The Economic Development Corporation issued Airport Revenue Bonds of \$78,100,000 in 1993 and \$30,000,000 in 1994 to finance construction of a new terminal facility at T.F. Green Airport as well as other related capital improvement projects. In 1998, EDC issued \$61,175,000 of Airport Revenue Bonds for additional capital improvements. On September 23, 1996 a new two-level terminal facility was opened. The new terminal facility contains approximately 302,000 square feet and includes 17 hold rooms, 15 of which have access or can be accessed to aircraft by jet loading bridges. There are also four additional commuter aircraft parking positions. Upon the opening of the new terminal facility, T.F. Green Airport experienced dramatic increases in passenger traffic due largely to introduction of low-fare carrier services first being provided by Southwest Airlines and then later by Delta Express and recently by Metrojet, which is operated by U.S. Airways.

In calendar year 1997, T.F. Green Airport experienced an increase in passenger traffic of more than 64% over calendar year 1996. Unofficially, T.F. Green was, during 1997, the fastest growing airport in the country. During calendar year 1998, T.F. Green Airport serviced a total of more than 4.6 million passengers that represented an increase of 13.4% over calendar year 1997. Passenger numbers for calendar year 1999 was almost 5.2 million and reported an 11.4% increase over 1998. Year-to-date passenger numbers for calendar year 2000 through March 2000, reflect a 7.9% increase in passenger activity over calendar year 1999.

The increased demands for capacity at T.F. Green Airport resulted in the addition of four additional gates to the terminal facility. These four new gates were opened in May 1998 and were supported in part through the Economic Development Corporation (EDC) issuance of \$61,175,000 of Airport Revenue Bonds sold in June, 1998. The terminal expansion of May, 1998 resulted in five additional hold room facilities, one of which is for commuter use and the remaining four have access to aircraft jet loading bridges. The 1998 expansion now gives T.F. Green terminal a capacity of 19 jet gates and two commuter gates for a total of 21 gates.

In response to additional increased demand for capacity at the Airport, the EDC issued \$50,545,000 Airport Revenue Bonds in May 2000 for the 2000 Airport Bonds Project. The 2000 Airport Bonds Project included noise mitigation, terminal expansion and improvements, runway and taxi improvements and land acquisition.

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

through the Rhode Island Industrial-Recreational Building Authority; (e) acquisition costs of any existing building, machinery and equipment for any project which would otherwise qualify for a loan guarantee through the Rhode Island Industrial-Recreational Building Authority; and (f) any "recreational project" as such term is described in Chapter 34 of title 42, relating to the loan guarantee program of the Rhode Island Industrial-Recreational Building Authority.

The Corporation is authorized to issue its revenue bonds and notes from time to time for any of its corporate purposes. All bonds and notes issued by the Corporation shall be payable solely out of the revenues and receipts derived from the leasing or sale by the Corporation of its projects, or from any other financing arrangement which may be designated in the proceedings of the Corporation under which the bonds or notes shall be authorized to be issued. As of June 30, 1999, the Corporation had an outstanding principal balance of conduit debt of \$131,617,053. Except for any obligations secured by mortgages which are insured by the Rhode Island Industrial-Recreational Building Authority, the State shall not be liable for the payment of the principal of or interest on any bonds or notes of the Corporation, or for the performance of any pledge, mortgage obligation or agreement of any kind whatsoever which may be undertaken by the Corporation nor shall such bonds and notes be construed to constitute an indebtedness of the State. Outstanding mortgage obligations of the Corporation which are insured by the Rhode Island Industrial-Recreational Building Authority totaled \$22,979,360 as of June 30, 1999.

***Rhode Island Housing and Mortgage Finance Corporation.*** The Rhode Island Housing and Mortgage Finance Corporation is a public corporation and instrumentality of the State created in 1973 to assist in the construction and financing of low and moderate income housing and health care facilities in the State. In addition to its general powers, the Corporation is authorized to issue revenue bonds and to originate and make mortgage loans to low and moderate income persons and families, to purchase mortgage loans from and to make loans to private mortgage lenders in the State in order to increase the amount of mortgage money generally available, and to make mortgage loans to contractors and developers of low and moderate single-family and multi-family housing developments and to acquire and operate, both solely and in conjunction with others, housing projects. The total outstanding indebtedness of the Corporation at December 31, 1999 was \$1,552,125,320 consisting of \$1,426,690,320 of long-term bonds and \$125,435,000 of short-term or convertible-option bonds. Included in the \$1,426,690,320 is \$197,221,224 in bonds that are secured in part by capital reserve funds, which have aggregated to \$29,751,600 on December 31, 1999. Under provisions similar to those governing the Rhode Island Economic Development Corporation, the General Assembly may, but is not obligated to, provide appropriations for any deficiency in such reserve funds. The Corporation has never been required to request any such appropriations. Such reserve funds relate solely to multi-family issues of the Corporation. As of December 31, 1999, the Corporation had a combined total reserved and designated fund balance of approximately \$220,614,598.

***Rhode Island Student Loan Authority.*** The Authority was created in 1981 under Chapter 62, title 16 of the General Laws, for the purpose of increasing the supply of loans made to students and their families to finance the cost of obtaining a post-secondary education. To achieve this purpose, one of the powers of the Authority is the ability to issue bonds and notes. Obligations of the Authority shall not constitute a debt, liability or obligation of the State or any political subdivision thereof, and shall be payable solely from the revenues or assets of the Authority. As of March 31, 2000, the Authority held \$504,052,605 Federal Family Education Loans that were insured by the Rhode Island Higher Education Assistance Authority and other guarantors. The Authority also held on March 31, 2000, \$27,939,408 in Rhode Island Family Education Loans. As of March 31, 2000, the Authority had outstanding \$623,345,000 of tax-exempt and taxable bonds.

***Rhode Island Higher Education Assistance Authority.*** The Authority was created in 1977 under Chapter 57, title 16 of the General Laws as a public corporation of the State having a distinct legal existence from the State and not constituting a department of State government. It was created for the purpose of guaranteeing eligible loans to students and parents of students attending eligible institutions and of administering other programs of post-secondary student financial assistance assigned by law to the Authority. Guarantees made by the Authority shall not constitute a pledge of the faith and credit of the State, but shall be payable solely from the revenues and assets of the Authority.

***Rhode Island Water Resources Board Corporate.*** Pursuant to Chapter 15.1 of title 46 of the Rhode Island General Laws, the Water Resources Board Corporate is a body politic and corporate and a public instrumentality of

the State having a distinct legal existence from the State. The purpose of the Board is to foster and guide the development of water resources including the establishment of water supply facilities and lease the same to cities, towns, districts and other municipal, quasi-municipal or private corporations or companies engaged in the water supply business in Rhode Island, contract for the use of the same by such parties, or sell to such parties the water derived from, carried by or processed in such facilities. The Board is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water and the water surcharge (.01054). On July 13, 1989, the Board issued bonds for the benefit of the Providence Water Supply Board. On July 15, 1997, the Board issued refunding bonds in the amount of \$9,930,000 to advance refund the Providence Project Bonds which were redeemed on September 15, 1999. The amount of the Refunding Bonds outstanding as of March 31, 2000 is \$8,500,000. On March 1, 1994, the Board issued revenue bonds for public drinking water protection in the amount of \$11,835,000, of which \$9,260,000 were outstanding as of March 31, 2000.

***Rhode Island Health and Educational Building Corporation.*** The Corporation was organized in 1966 as a Rhode Island non-business corporation with the name of Rhode Island Educational Building Corporation. In 1967, the Corporation was constituted as a public body corporate and an agency of the State by the Rhode Island General Assembly under Chapter 38.1, title 45 of the General Laws. The Corporation has broad powers to assist in providing educational facilities for colleges and universities operating in the State, to assist hospitals in the State in the financing of health care facilities, to assist students and families of students attending institutions for higher education in the State to finance the cost or a portion of the cost of higher education, to assist in financing a broad range of non-profit health care providers, and to assist in financing non-profit secondary schools; child day care centers; adult day care centers; and free standing assisted living facilities; and to assist it in carrying out its powers, the Corporation may issue bonds and notes which are special obligations of the Corporation payable from revenues derived from the project financed or other monies of the participating educational institution or health care institution available for such purpose. The State is not liable for the payment of the principal of, premium, if any, or interest on any bonds or notes of the Corporation, or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever which may be undertaken by the Corporation, and none of the bonds or notes of the Corporation nor any of its agreements or obligations shall be construed to constitute an indebtedness of the State. As of June 30, 1999, the Corporation had \$990,050,067 of bonds and notes outstanding (excluding series secured by trust funds for future redemption).

## EMPLOYEE RELATIONS

Under State law, all State employees, with certain exceptions, have the right to organize, to designate representatives for the purpose of collective bargaining and to negotiate with the Governor or his designee on matters pertaining to wages, hours and other conditions of employment, except the State employees' retirement system. State employees have all rights given to private employees under the State Labor Relations Act other than the right to strike. If the representatives of employee organizations and the State representatives are unable to reach agreement in collective bargaining negotiations, State law provides for the submission of unresolved issues to arbitration. The decision of the arbitrators is binding on the parties with respect to all issues and matters other than issues, which involve wages for all bargaining units other than the State Police. With respect to the State Police, an arbitrator's decision involving wages is binding. For all other bargaining units, the arbitrators' decision on issues involving wages is advisory only, and subject to subsequent mutual agreement of the parties.

Below the level of State government, municipal employees, including uniformed and non-uniformed employees and teachers have rights similar to State employees to organize, engage in collective bargaining and submit unresolved issues to arbitration. State law or judicial interpretation forbids all such employees to engage in any work stoppage, slowdown or strike. Except as to teachers and non-uniformed employees, the decision of the arbitrators on contract term disputes is binding on the parties with respect to all matters, including those involving the expenditure of money. With respect to teachers and non-uniformed employees, the arbitrators' decision is binding on all unresolved issues other than those involving the expenditure of money, which matters remain subject to the subsequent mutual agreement of the parties.

As of October 23, 2000 the State had 13,533 employees organized in numerous unions represented by various collective bargaining units, the largest of which is the American Federation of State, County and Municipal

Employees, Council 94. This union represents approximately 5,375 employees, or 40 percent of total organized State employees. Several other major bargaining groups are represented by the Rhode Island Alliance of Social Service Employees, Local 580 (1,099 employees); the Rhode Island Brotherhood Correctional Officers (1,193 employees); the American Association of University Professors (725 employees); and the National Education Association (1,065 employees). Thirty-seven union contracts expired on June 30, 2000 and they are being negotiated.

## **STATE RETIREMENT SYSTEMS**

### **Employees' Retirement System**

The State of Rhode Island Employees' Retirement System (ERSRI) is a multiple employer, cost-sharing, public employee retirement system that acts as a common investment and administrative agent for pension benefits to be provided to State employees who meet eligibility requirements as well as teachers and certain other employees employed by local school districts in Rhode Island. A separate retirement program is maintained for members of the faculty of the State University and colleges and certain administrative employees in education and higher education. This program is provided through Teachers' Insurance and Annuity Association Plan (TIAA).

The System provides retirement, disability and death benefit coverage as well as health insurance benefits for members retiring on or after July 1, 1989. Pension, disability and death benefits are funded (a) for State employees by contributions from the State and the employees and (b) for public school teachers by contributions from the teachers with employer contributions shared by the local education agencies (LEAs) and the State, except that, benefits under the Teachers' Survivors' Plan are financed by the LEAs and the teachers. The System's Actuary, Watson, Wyatt & Company, states the following:

### **Financing objectives and funding policy**

The actuarial cost method and the amortization periods are set by statute. The frozen entry age cost method (also called the frozen initial liability method) is mandated (ref. General Laws Section 36-10-2 and 36-10-2.1). The frozen liability is amortized over a period of 30-years from July 1, 1985. In the case of certain significant changes in plan provisions, assumptions or methodology, a new amortization base is created, and this base is amortized over thirty years from the creation date. More minor changes in provisions, assumptions or methods are included with the existing frozen actuarial liability and amortized over the remaining period. Amortization payments are determined as a level percent of expected payroll. Gains and losses from experience—i.e., from differences between actual experience and the actuarial assumptions—are included in the normal cost. This produces relatively level contribution rates over time.

### **Progress toward realization of financing objectives**

The funded ratio (the ratio of the actuarial value of assets to the frozen actuarial accrued liability) is a standard measure of a plan's funded status. In the absence of benefit improvements, it should increase over time, until it reaches 100%. For the state employees, the funded ratio increased from 80.6% to 81.6%, while for teachers the rate increased from 76.2% to 77.4%.

The fiscal-2002 employer contribution rate increased for state employees, from 7.99% to 8.72%, and for teachers, from 12.01% to 13.18%. (The State contribution for teachers was 5.61% with an additional 7.57% paid by LEAs.) These changes reflect the combined impact of (i) actuarial asset gains for the prior year, and (ii) the modification of the asset valuation method. Pursuant to Rhode Island General Laws, State Employees contribute 8.75% and Teachers contribute 9.50%.

## **GASB 25 and Funding Progress**

Accounting requirements for ERSRI are set by Governmental Accounting Standards Board Statement No. 25 (GASB 25). The Schedule of Funding Progress shows a historical summary of the funded ratios and other information for ERSRI. As shown on the table, the funded ratio for State Employees improved from 78.3% to 80.6%, and for Teachers from 73.4% to 76.2%. GASB 25 requires that plans calculate an Annual Required Contribution (ARC), and, if actual contributions received are less than the ARC, this must be disclosed. The ARC must be calculated in accordance with certain parameters. In particular, it must include a payment to amortize the UAAL. This amortization payment eventually will have to be computed using a funding period no greater than thirty years, but a forty-year maximum amortization period may be used during a ten-year transition period. Further, the amortization payment included in the ARC may be computed as a level amount, or it may be computed as an amount that increases with payroll. However, if payments are computed on a level percent of payroll approach, the payroll growth assumption may not anticipate future membership growth.

The table of the Determination of the Equivalent Single Amortization Period demonstrates that the average amortization period is less than 30 years. The payroll growth rate used in the amortization calculations is set equal to the assumed inflation rate, and does not include any allowance for membership growth.

## Schedules of Funding Progress

Valuation Date (1)	Actuarial Value of Assets (AVA) (2)	Unfunded Frozen Actuarial Liability (UFAL) (3)	Frozen Actuarial Liability (3) + (2) (4)	Funded Ratio (2)/(4) (5)	Annual Covered Payroll (6)	UFAL as % of Payroll (3)/(6) (7)
<b>State Employees</b>						
June 30, 1992	\$1,056,085,500	\$428,793,000	\$1,484,878,500	71.1%	\$418,683,300	102.4%
June 30, 1993	1,151,128,700	434,225,700	1,585,354,400	72.6%	444,572,000	97.7%
June 30, 1994	1,234,373,500	438,794,100	1,673,167,600	73.8%	454,687,000	96.5%
June 30, 1995	1,345,530,000	442,370,600	1,787,900,600	75.3%	440,574,000	100.4%
June 30, 1996	1,529,403,200	444,814,700	1,974,217,900	77.5%	452,608,500	98.3%
June 30, 1997	1,810,447,649	502,116,116	2,312,563,765	78.3%	443,709,290	113.2%
June 30, 1998	2,075,619,320	500,662,814	2,576,282,134	80.6%	477,319,627	104.9%
June 30, 1999	2,201,890,748	497,589,001	2,699,479,749	81.6%	494,815,513	100.6%
<b>Teachers</b>						
June 30, 1992	\$1,352,892,300	\$735,319,400	\$2,088,211,700	64.8%	\$458,958,600	160.2%
June 30, 1993	1,492,915,800	745,698,400	2,238,614,200	66.7%	473,295,000	157.6%
June 30, 1994	1,642,292,300	754,727,900	2,397,020,200	68.5%	485,325,000	155.5%
June 30, 1995	1,824,102,300	762,202,100	2,586,304,400	70.5%	507,125,000	150.3%
June 30, 1996	2,181,535,900	767,893,900	2,949,429,800	74.0%	556,114,500	138.1%
June 30, 1997	2,626,621,502	953,031,035	3,579,652,537	73.4%	604,076,573	157.8%
June 30, 1998	3,045,858,851	953,863,955	3,999,722,806	76.2%	636,246,593	149.9%
June 30, 1999	3,259,015,814	952,042,896	4,211,058,710	77.4%	673,484,467	141.4%

**State Employees**

	Original Base	1989 Assumption Changes	1989 Early Retirement Window	1991 Assumption Changes	1990 Early Retirement Window	90/91 Deferral	91/92 Deferral	1997 Assumption Changes	Total
1. Projected covered payroll 2001-2002	\$ 495,076,201	\$ (56,964,080)	\$57,462,141	\$ (143,339,701)	\$57,336,448	\$ 8,469,208	\$ 21,392,536	\$ 58,156,248	\$ 530,058,748
2. Unamortized amount	16	20	21	22	22	16	16	28	\$ 497,589,001
3. Remaining amortization period	1.67	13.50	13.91	14.30	14.30	11.67	11.67	6.30	
4. Amortization factor	42,409,000	(4,219,500)	4,131,700	(10,025,500)	4,010,200	725,500	1,832,500	3,567,500	\$ 42,431,400
5. Amortization payment (2)/(4)	8.00%	-0.80%	0.78%	-1.89%	0.76%	0.14%	0.35%	0.67%	8.01%
6. Payment as level % of payroll (5)/(1)									11.73
7. Weighted average amortization factor (2)/(5)									16
8. Equivalent single amortization period (nearest whole year)									16

**Teachers**

	Original Base	1991 Assumption Changes	1990 Early Retirement Window	90/91 Deferral	91/92 Deferral	1997 Assumption Changes	Total
1. Projected covered payroll 2001-2002	\$ 770,898,845	\$ (183,583,602)	\$ 137,295,409	\$ 17,278,094	\$ 22,172,360	\$ 187,981,789	\$721,453,398
2. Unamortized amount	16	16	16	16	16	28	\$952,042,896
3. Remaining amortization period	11.67	11.67	11.67	11.67	11.67	16.30	
4. Amortization factor	66,036,300	(15,726,000)	11,760,900	1,480,100	1,899,300	11,531,300	\$ 76,981,900
5. Amortization payment (2)/(4)	12.46%	-2.97%	2.22%	0.28%	0.36%	2.18%	14.52%
6. Payment as level % of payroll (5)/(1)							12.37
7. Weighted average amortization factor (2)/(5)							17
8. Equivalent single amortization period (nearest whole year)							17

**Other Benefits**

In addition to benefits provided to State employees by the State Retirement System described above, State employees since 1956 have also been covered under the provisions of the Federal Old-Age and Survivor's Insurance Program (Title II of the Federal Social Security Act). Benefit rates, State, and member contributions are governed by federal law. The State is also subject to the unemployment compensation provisions of the federal employment security law. Contributions under this program by the State are made by annual appropriation of actual benefit costs incurred rather than a percentage of payroll.

**LITIGATION**

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

The State, its officers and employees are defendants in numerous lawsuits. With respect to any such litigation, State officials are of the opinion that the lawsuits are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position.

**FINANCIAL STATEMENTS**

Attached are the combined financial statements and notes of the State for fiscal year ended June 30, 1999, and the report thereon by the Auditor General, a certified public account appointed by the Joint Committee on Legislative Services.

EXHIBIT A

Audited Financial Statements of the State  
for the Fiscal Year Ending June 30, 1999



ERNEST A. ALMONTE, CPA, CFE  
Auditor General

State of Rhode Island and Providence Plantations

GENERAL ASSEMBLY

## Office of the Auditor General

1145 Main Street  
Pawtucket, Rhode Island 02860-4807

OFFICE  
(401) 222-2435  
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(401) 222-2111

### INDEPENDENT AUDITOR'S REPORT

Finance Committee of the House of Representatives and  
Joint Committee on Legislative Services, General Assembly,  
State of Rhode Island and Providence Plantations:

We have audited the accompanying general-purpose financial statements of the State of Rhode Island and Providence Plantations (the State) as of and for the year ended June 30, 1999 as listed in the Table of Contents. These general-purpose financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. We did not audit the financial statements of certain component units which represent 100% of the assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

The general-purpose financial statements do not include the statement of the general fixed assets account group which should be included in order to conform with generally accepted accounting principles. The State has not completed the accumulation of historical information as to the cost and classification of its investment in general fixed assets. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, based on our audit and the reports of other auditors, except for the effect on the general-purpose financial statements of the omission of the statement of the general fixed assets account group, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the State at June 30, 1999, and the results of its operations, the cash flows of its proprietary fund types, nonexpendable trust funds and proprietary component units, and the changes in plan net assets of its pension trust funds for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 1(W), the State changed its definition of the reporting entity.

As discussed in Note 21, the R.I. Depositors Economic Protection Corporation, a proprietary component unit, is dependent upon annual appropriations by the General Assembly of the State of a portion of the State's sales and use tax revenue to fund debt service on certain bonded indebtedness totaling \$107.3 million at June 30, 1999.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2000, on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.



Ernest A. Almonte, CPA, CFE  
Auditor General

February 23, 2000

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**COMBINED BALANCE SHEET**

**ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNITS**

June 30, 1999

(Expressed in thousands)

Assets	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise (State Lottery)	Internal Service
Cash and cash equivalents	\$ 226,078	\$ 45,806	\$	\$ 86,937	\$ 12,839	\$ 2,666
Funds on deposit with fiscal agent				22,771		
Investments		27,869		15,846	4,159	
Receivables (net)	92,590	15,497		24	10,697	1,577
Due from other funds	19,093	1,645	4,000	1,922		7,162
Due from component units	1,010	2,797				
Due from primary government						
Due from other governments and agencies (net)	152,537	31,863		3,803		
Inventories					571	2,474
Loans to other funds	7,748					
Loans and real estate held						
Fixed assets (net)					600	6,490
Other assets	4,934			3,483	845	
Amount available in debt service reserves						
Amount to be provided for retirement of general long-term obligations						
Rentals due						
<b>Total assets</b>	<b>\$ 503,990</b>	<b>\$ 125,477</b>	<b>\$ 4,000</b>	<b>\$ 134,786</b>	<b>\$ 29,711</b>	<b>\$ 20,369</b>
<b>Liabilities and Fund Equity</b>						
<b>Liabilities:</b>						
Cash overdraft	\$	\$ 3,097		\$	\$	\$ 33
Vouchers and accounts payable	218,310	25,714		5,202	5,512	4,923
Due to other funds	19,118	6,673		1,252	12,385	1,155
Due to component units	13,933	499		5,170		
Due to primary government						
Due to other governments and agencies	4,035					
Accrued liabilities	17,183	2,100			248	1,976
Deferred revenue	3,272	2,132			897	
Loans from other funds				3,489		4,259
Other current liabilities	19,141			4,461		
Compensated absences						
Notes payable						
Loans payable						
Obligations under capital leases						2,330
Bonds payable						
Other long-term liabilities					10,418	
<b>Total liabilities</b>	<b>294,992</b>	<b>40,215</b>		<b>19,574</b>	<b>29,460</b>	<b>14,676</b>
<b>Fund equity:</b>						
Contributed capital						
Retained earnings:						
Reserved						896
Unreserved (deficit)					251	4,797
Fund balances:						
Reserved	110,698	242,737	4,000	41,266		
Unreserved:						
Designated		25,164		74,071		
Undesignated (deficit)	98,300	(182,639)		(125)		
<b>Total fund equity</b>	<b>208,998</b>	<b>85,262</b>	<b>4,000</b>	<b>115,212</b>	<b>251</b>	<b>5,693</b>
<b>Total liabilities and fund equity</b>	<b>\$ 503,990</b>	<b>\$ 125,477</b>	<b>\$ 4,000</b>	<b>\$ 134,786</b>	<b>\$ 29,711</b>	<b>\$ 20,369</b>

The accompanying notes are an integral part of these financial statements.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

Fiduciary Fund Types Trust and Agency	Account Group General Long-term Debt	TOTAL PRIMARY GOVERNMENT (Memorandum only)	Component Units		TOTAL REPORTING ENTITY (Memorandum only)
			Governmental	Proprietary	
\$ 1,526	\$	\$ 375,852	\$ 35,954	\$ 333,170	\$ 744,976
240,130		262,901			262,901
6,617,340		6,665,214	1,818	780,707	7,447,739
21,259		141,644	35,143	1,969,471	2,146,258
6,848		40,670	17,507		58,177
		3,807			3,807
			5,475	29,183	34,658
1,069		189,272		20,328	209,600
		3,045	2,628	1,719	7,392
		7,748			7,748
				22,015	22,015
		7,090	1,992	932,965	942,047
		9,262	4,935	153,823	168,020
	22,656	22,656	855		23,511
	1,482,541	1,482,541	83,351		1,565,892
				9,150	9,150
<u>\$ 6,888,172</u>	<u>\$ 1,505,197</u>	<u>\$ 9,211,702</u>	<u>\$ 189,658</u>	<u>\$ 4,252,531</u>	<u>\$ 13,653,891</u>
\$ 7,979	\$	\$ 11,109	\$ 12,890	\$ 128	\$ 24,127
4,146		263,807	21,051	22,915	307,773
87		40,670	17,507		58,177
		19,602			19,602
			927	83	1,010
758		4,793		18,473	23,266
		21,507		75,942	97,449
		6,301	11,553	7,261	25,115
		7,748			7,748
58,776		82,378	2,433		84,811
	62,478	62,478	34,033		96,511
			2,366	28,332	30,698
			495	43,397	43,892
	426,530	428,860	7,392	36,265	472,517
	998,961	998,961	40,322	2,921,156	3,960,439
	17,228	27,646	1,153	271,974	300,773
<u>71,746</u>	<u>1,505,197</u>	<u>1,975,860</u>	<u>152,122</u>	<u>3,425,926</u>	<u>5,553,908</u>
				372,028	372,028
		896		238,959	239,855
		5,048	(2,783)	215,618	217,883
6,813,208		7,211,909	62,508		7,274,417
		99,235			99,235
3,218		(81,246)	(22,189)		(103,435)
<u>6,816,426</u>		<u>7,235,842</u>	<u>37,536</u>	<u>826,605</u>	<u>8,099,983</u>
<u>\$ 6,888,172</u>	<u>\$ 1,505,197</u>	<u>\$ 9,211,702</u>	<u>\$ 189,658</u>	<u>\$ 4,252,531</u>	<u>\$ 13,653,891</u>

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

### ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS, AND DISCRETELY PRESENTED GOVERNMENTAL COMPONENT UNITS

For the Fiscal Year Ended June 30, 1999

(Expressed in thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>Revenues:</b>				
Taxes	\$ 1,674,802	\$ 244,206	\$	\$
Licenses, fines, sales, and services	163,031	4,308		8,586
Departmental restricted revenue	106,968	240		
Federal grants	1,002,940	208,499		3,994
Income from investments	7,378	4,284		8,764
Other revenues	29,236	3,421		
Total revenues	2,984,355	464,958		21,344
<b>Other financing sources:</b>				
Bonds and notes issued				146,870
Operating transfers in	211,158	30,759	4,000	39,405
Operating transfers from primary government				
Operating transfers from component units	4,000	6,467		
Other	16,380			5,199
Total revenues and other financing sources	3,215,893	502,184	4,000	212,818
<b>Expenditures:</b>				
Current:				
General government	180,185	31,340		
Human services	1,630,699	131,241		
Education	43,723			
Public safety	246,057			
Environment	47,895	6,834		
Transportation		43,660		
Capital outlays	26,034	172,977		28,562
Intergovernmental	681,374	79		3,437
Debt service:				
Principal	40,655	18,588		
Interest and other charges	33,630	19,621		12,568
Total expenditures	2,930,252	424,340		44,567
<b>Other financing uses:</b>				
Payments to refunded bonds escrow agents				84,763
Operating transfers out	43,845	32,302		73,066
Operating transfers to component units	267,864	45,580		36,749
Other				
Total expenditures and other financing uses	3,241,961	502,222		239,145
Revenues and other financing sources over (under) expenditures and other financing uses	(26,068)	(38)	4,000	(26,327)
Net gain from proprietary operations				
Fund balances, July 1, 1998	235,066	85,300		141,539
Fund balances, June 30, 1999	\$ 208,998	\$ 85,262	\$ 4,000	\$ 115,212

The accompanying notes are an integral part of these financial statements.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

<u>Fiduciary Fund Types Expendable Trust</u>	<u>TOTAL PRIMARY GOVERNMENT (Memorandum only)</u>	<u>Component Units Governmental</u>	<u>TOTAL REPORTING ENTITY (Memorandum only)</u>
\$ 184,811	\$ 2,103,819	\$	\$ 2,103,819
	175,925	174,263	350,188
	107,208		107,208
1,596	1,217,029	59,681	1,276,710
14,460	34,886		34,886
1,280	33,937	35,170	69,107
<u>202,147</u>	<u>3,672,804</u>	<u>269,114</u>	<u>3,941,918</u>
	146,870		146,870
	285,322	4,732	290,054
		180,991	180,991
	10,467		10,467
5,018	26,597	7,999	34,596
<u>207,165</u>	<u>4,142,060</u>	<u>462,836</u>	<u>4,604,896</u>
	211,525		211,525
145,161	1,907,101		1,907,101
	43,723	424,583	468,306
	246,057		246,057
	54,729		54,729
	43,660		43,660
	227,573	17,473	245,046
	684,890		684,890
	59,243	3,706	62,949
	65,819	5,465	71,284
<u>145,161</u>	<u>3,544,320</u>	<u>451,227</u>	<u>3,995,547</u>
	84,763		84,763
	149,213	4,653	153,866
	350,193		350,193
3,151	3,151		3,151
<u>148,312</u>	<u>4,131,640</u>	<u>455,880</u>	<u>4,587,520</u>
58,853	10,420	6,956	17,376
		1	1
185,332	647,237	30,579	677,816
<u>\$ 244,185</u>	<u>\$ 657,657</u>	<u>\$ 37,536</u>	<u>\$ 695,193</u>

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY**  
**ALL PROPRIETARY FUND TYPES, SIMILAR TRUST FUNDS, AND DISCRETELY**  
**PRESENTED PROPRIETARY COMPONENT UNITS**

For the Fiscal Year Ended June 30, 1999

(Expressed in thousands)

	Proprietary Fund Types		Fiduciary	TOTAL	Component	TOTAL
	Enterprise (State Lottery)	Internal Service	Nonexpendable Trust	PRIMARY GOVERNMENT (Memorandum only)	Units Proprietary	REPORTING ENTITY (Memorandum only)
<b>Operating revenues:</b>						
Charges for services	\$ 741,170	\$ 76,876	\$ 69	\$ 818,115	\$ 173,189	\$ 991,304
Interest income			340	340	175,633	175,973
Other operating income					34,477	34,477
Total operating revenues	741,170	76,876	409	818,455	383,299	1,201,754
<b>Operating expenses:</b>						
Personal services	2,792	11,680		14,472	87,513	101,985
Supplies, materials, and services	104,382	63,039		167,421	84,710	252,131
Interest expense					123,758	123,758
Grant, scholarships, and contract programs					9,678	9,678
Prize awards	501,224			501,224		501,224
Depreciation, depletion, and amortization	191	655		846	44,575	45,421
Other operating expenses			131	131	18,627	18,758
Total operating expenses	608,589	75,374	131	684,094	368,861	1,052,955
Operating income	132,581	1,502	278	134,361	14,438	148,799
<b>Nonoperating revenues (expenses):</b>						
Income from investments	528	8		536	7,705	8,241
Grants					22,274	22,274
Gain on sale of property					371	371
Interest expense		(99)		(99)	(41,982)	(42,081)
Other nonoperating revenues	384			384	9,733	10,117
Total nonoperating revenue (expenses)	912	(91)		821	(1,899)	(1,078)
Income before transfers	133,493	1,411	278	135,182	12,539	147,721
Operating transfers in		330		330		330
Operating transfers out	(133,565)			(133,565)		(133,565)
Operating transfers from primary government					112,718	112,718
Operating transfers to primary government					(4,000)	(4,000)
Income (loss) before extraordinary items and cumulative effect of change in accounting principle	(72)	1,741	278	1,947	121,257	123,204
Extraordinary items					(5,693)	(5,693)
Cumulative effect of change in accounting principle					2,064	2,064
Net income (loss)	(72)	1,741	278	1,947	117,628	119,575
<b>Other changes in fund equity:</b>						
Increase in contributed capital					40,055	40,055
Other					(5,493)	(5,493)
Net increase (decrease) in fund equity	(72)	1,741	278	1,947	152,190	154,137
Fund equity, July 1, 1998, as restated	323	3,952	2,940	7,215	674,415	681,630
Fund equity, June 30, 1999	\$ 251	\$ 5,693	\$ 3,218	\$ 9,162	\$ 826,605	\$ 835,767

The accompanying notes are an integral part of these financial statements.

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## COMBINED STATEMENT OF CASH FLOWS

### ALL PROPRIETARY FUND TYPES, SIMILAR TRUST FUNDS, AND DISCRETELY PRESENTED PROPRIETARY COMPONENT UNITS

For the Fiscal Year Ended June 30, 1999

(Expressed in thousands)

	Proprietary Fund Types		Fiduciary	TOTAL	Component	TOTAL
	Enterprise (State Lottery)	Internal Service	Fund Types Nonexpendable Trust	PRIMARY GOVERNMENT (Memorandum only)	Units Proprietary	REPORTING ENTITY (Memorandum only)
<b>Cash flows from operating activities</b>						
Cash received from customers	\$ 758,279	\$ 70,252	\$	\$ 828,531	\$ 553,162	\$ 1,381,693
Cash received from grants					316	316
Collections from loans and receivership assets					35,691	35,691
Proceeds from the sale of real estate owned					701	701
Cash payments to suppliers for goods and services	(2,872)	(62,438)		(65,310)	(109,970)	(175,280)
Cash payments to employees for services	(2,765)	(11,551)		(14,316)	(76,273)	(90,589)
Loans issued					(138,209)	(138,209)
Cash payments for claims, grants, and scholarships					(147,837)	(147,837)
Other operating revenue	168	483	69	720	14,362	15,082
Other operating expenses	(623,261)		(179)	(623,440)	(447)	(623,887)
Net cash provided by (used for) operating activities	129,549	(3,254)	(110)	126,185	131,496	257,681
<b>Cash flows from noncapital financing activities:</b>						
Proceeds from issuance of long-term debt					420,173	420,173
Payment of bonds and notes					(360,241)	(360,241)
Payment of interest					(134,258)	(134,258)
Proceeds from grants					19,317	19,317
Loans from other funds		2,139		2,139		2,139
Repayment of loans to other funds		(116)		(116)		(116)
Collection of loans and mortgages					2	2
Contract revenue					3,238	3,238
Operating transfers out	(122,353)			(122,353)	(943)	(123,296)
Operating transfers from primary government					112,651	112,651
Operating transfers to primary government					(4,000)	(4,000)
Grants issued					(1,522)	(1,522)
Negative cash balance implicitly financed		33		33	128	161
Net cash provided by (used for) noncapital financing activities	(122,353)	2,056		(120,297)	54,545	(65,752)
<b>Cash flows from capital and related financing activities:</b>						
Principal paid on revenue bonds					(13,264)	(13,264)
Proceeds from issuance of long-term debt					22,514	22,514
Payment of interest		(99)		(99)	(33,814)	(33,913)
Payment of notes and loans					(16,347)	(16,347)
Payment of capital lease obligations		(574)		(574)	(3,582)	(4,156)
Payment of financing costs					(1,047)	(1,047)
Payment for the purchase of program rights					(298)	(298)
Acquisition of capital assets	(173)	(2,466)		(2,639)	(93,589)	(96,228)
Contributed capital		330		330	39,259	39,589
Proceeds from capital grants used for operating activities					5,385	5,385
Proceeds from sale of assets					519	519
Net cash provided by (used for) capital and related financing activities	(173)	(2,809)		(2,982)	(94,264)	(97,246)
<b>Cash flows from investing activities:</b>						
Purchase of investments			(1,617)	(1,617)	(837,084)	(838,701)
Proceeds from sale and maturity of investments	1,809		1,744	3,553	627,827	631,380
Interest on investments	529	8	85	622	52,150	52,772
Net cash provided by (used for) investing activities	2,338	8	212	2,558	(157,107)	(154,549)
Net increase (decrease) in cash and cash equivalents	9,361	(3,999)	102	5,464	(65,330)	(59,866)
Cash and cash equivalents, July 1, 1998	3,478	6,665	524	10,667	389,302	399,969
Cash and cash equivalents, June 30, 1999	\$ 12,839	\$ 2,666	\$ 626	\$ 16,131	\$ 323,972	\$ 340,103

The accompanying notes are an integral part of these financial statements.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**COMBINED STATEMENT OF PLAN NET ASSETS**

**PENSION TRUST FUNDS**

June 30, 1999

*(Expressed in thousands)*

	<b>Employees' Retirement System</b>	<b>Municipal Employees' Retirement System</b>	<b>State Police Retirement Benefits Trust</b>	<b>Judicial Retirement Benefits Trust</b>	<b>TOTAL (Memorandum only)</b>
<b>Assets</b>					
Cash and cash equivalents	\$	\$	\$ 124	\$ 115	\$ 239
Receivables:					
Member contributions	8,158	1,375			9,533
Employer contributions	7,680	979			8,659
Due from other funds	6,603	7	1	1	6,612
Total receivables	<u>22,441</u>	<u>2,361</u>	<u>1</u>	<u>1</u>	<u>24,804</u>
Investments, at fair value:					
Equity in short-term investment fund	193	1			194
Equity in pooled trust	5,683,181	831,580	8,509	5,513	6,528,783
Plan specific investments	27,787				27,787
Total investments	<u>5,711,161</u>	<u>831,581</u>	<u>8,509</u>	<u>5,513</u>	<u>6,556,764</u>
Total assets	<u>5,733,602</u>	<u>833,942</u>	<u>8,634</u>	<u>5,629</u>	<u>6,581,807</u>
<b>Liabilities</b>					
Cash overdraft	6,786	1,193			7,979
Vouchers and accounts payable	3,609	528	5	4	4,146
Due to other funds	5				5
Payable to certain individuals	654				654
Total liabilities	<u>11,054</u>	<u>1,721</u>	<u>5</u>	<u>4</u>	<u>12,784</u>
<b>Net assets held in trust for pension benefits</b>	<u>\$ 5,722,548</u>	<u>\$ 832,221</u>	<u>\$ 8,629</u>	<u>\$ 5,625</u>	<u>\$ 6,569,023</u>

*The accompanying notes are an integral part of these financial statements.*

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY**

**ALL PROPRIETARY FUND TYPES, SIMILAR TRUST FUNDS, AND DISCRETELY PRESENTED PROPRIETARY COMPONENT UNITS**

For the Fiscal Year Ended June 30, 1999

(Expressed in thousands)

	Proprietary Fund Types		Fiduciary	TOTAL	Component	TOTAL
	Enterprise (State Lottery)	Internal Service	Nonexpendable Trust	PRIMARY GOVERNMENT (Memorandum only)	Units Proprietary	REPORTING ENTITY (Memorandum only)
<b>Reconciliation of operating income to net cash provided by (used for) operating activities:</b>						
Operating income	\$ 132,581	\$ 1,502	\$ 278	\$ 134,361	\$ 14,438	\$ 148,799
<b>Adjustments to reconcile operating income to net cash provided by (used for) operating activities:</b>						
Depreciation, depletion, and amortization	191	655		846	44,575	45,421
Interest on investments and other income	(2,080)		(340)	(2,420)	(50,612)	(53,032)
Interest expense					124,849	124,849
Provision for cost of scholarships					2,100	2,100
Landfill postclosure costs					(2,709)	(2,709)
(Increase) decrease in assets:						
Receivables	(3,675)	(7,405)		(11,080)	(17,252)	(28,332)
Inventories	142	(497)		(355)	189	(166)
Prepaid items					(713)	(713)
Other assets	1,787			1,787	1,142	2,929
Increase (decrease) in liabilities:						
Accounts payable and accrued expenses	(34)	2,362	(48)	2,280	7,008	9,288
Deferred revenue	170			170	(629)	(459)
Escrow deposits					9,110	9,110
Other liabilities	467	129		596		596
Subtotal	(3,032)	(4,756)	(388)	(8,176)	117,058	108,882
Net cash provided by (used for) operating activities	\$ 129,549	\$ (3,254)	\$ (110)	\$ 126,185	\$ 131,496	\$ 257,681
<b>Noncash investing, capital, and financing activities:</b>						
Assets acquired through loan program	\$	\$	\$	\$	\$ 4,943	\$ 4,943
Interest capitalized					3	3
Accretion of interest on investment for jackpot awards	385			385		385
Increase in funds on deposit and deferred revenue	271			271		271
Total noncash transactions	\$ 656	\$	\$	\$ 656	\$ 4,946	\$ 5,602

**Cash and cash equivalents in the Fiduciary Fund Types on the Combined Balance Sheet include:**

Expendable Trust Funds	\$ 523
Pension Trust Funds	239
Agency Fund	138
Nonexpendable Trust Funds	626
Total	\$ 1,526

**Cash and cash equivalents for Proprietary Component Units on the Combined Balance Sheet include:**

Cash and cash equivalents from Statement of Cash Flow	\$ 323,972
R.I. Housing Mortgage Finance Corporation - Affordability Housing Trust	2,168
R.I. Higher Education Assistance Authority - Savings Trust	14
R.I. Higher Education Assistance Authority - Federal Student Loan Reserve Fund	7,016
Total	\$ 333,170

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS

### PENSION TRUST FUNDS

For the Fiscal Year Ended June 30, 1999

(Expressed in thousands)

	<u>Employees' Retirement System</u>	<u>Municipal Employees' Retirement System</u>	<u>State Police Retirement Benefits Trust</u>	<u>Judicial Retirement Benefits Trust</u>	<u>TOTAL (Memorandum only)</u>
<b>Additions:</b>					
<b>Contributions:</b>					
Member contributions	\$ 106,124	\$ 13,229	\$ 482	\$ 276	\$ 120,111
Employer contributions	92,287	6,609	631	737	100,264
State contributions for teachers	30,203				30,203
Interest on service credits purchased	1,284	195			1,479
Service credit transfer payments	372	130			502
Total contributions	<u>230,270</u>	<u>20,163</u>	<u>1,113</u>	<u>1,013</u>	<u>252,559</u>
<b>Investment income:</b>					
Net appreciation in fair value of investments	376,448	55,000	578	378	432,404
Interest	114,890	16,511	157	99	131,657
Dividends	41,937	6,133	59	37	48,166
Other investment income	14,062	2,057	20	13	16,152
	<u>547,337</u>	<u>79,701</u>	<u>814</u>	<u>527</u>	<u>628,379</u>
Less investment expense	<u>18,633</u>	<u>2,724</u>	<u>28</u>	<u>17</u>	<u>21,402</u>
Net investment income	<u>528,704</u>	<u>76,977</u>	<u>786</u>	<u>510</u>	<u>606,977</u>
Total additions	<u>758,974</u>	<u>97,140</u>	<u>1,899</u>	<u>1,523</u>	<u>859,536</u>
<b>Deductions:</b>					
Retirement benefits	303,036	28,689			331,725
Refund of contributions	5,485	1,689			7,174
Administrative expense	2,178	319			2,497
Service credit transfer payments	131	372			503
Total deductions	<u>310,830</u>	<u>31,069</u>			<u>341,899</u>
Net increase	448,144	66,071	1,899	1,523	517,637
<b>Net assets held in trust for pension benefits</b>					
July 1, 1998	<u>5,274,404</u>	<u>766,150</u>	<u>6,730</u>	<u>4,102</u>	<u>6,051,386</u>
June 30, 1999	<u>\$ 5,722,548</u>	<u>\$ 832,221</u>	<u>\$ 8,629</u>	<u>\$ 5,625</u>	<u>\$ 6,569,023</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS****COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL****GENERAL FUND AND BUDGETED SPECIAL REVENUE FUNDS**

For the Fiscal Year Ended June 30, 1999

*(Expressed in thousands)*

	General Fund		
	Budget	Actual	Variance
<b>Revenues:</b>			
Taxes	\$ 1,664,950	\$ 1,674,802	\$ 9,852
Licenses, fines, sales, and services	160,200	163,031	2,831
Departmental restricted revenue	110,609	106,968	(3,641)
Federal grants	1,059,177	1,002,940	(56,237)
Other revenues	36,000	36,614	614
Total revenues	3,030,936	2,984,355	(46,581)
<b>Other financing sources:</b>			
Operating transfers in	211,728	211,158	(570)
Operating transfers from component units	4,000	4,000	
Other	15,015	16,380	1,365
Total revenues and other financing sources	3,261,679	3,215,893	(45,786)
<b>Expenditures:</b>			
Current:			
General government	210,667	180,185	30,482
Human services	1,672,800	1,630,699	42,101
Education	51,013	43,723	7,290
Public safety	256,445	246,057	10,388
Environment	68,389	47,895	20,494
Transportation			
Capital outlays	26,034	26,034	
Intergovernmental	681,374	681,374	
Debt service:			
Principal	40,655	40,655	
Interest and other charges	33,630	33,630	
Total expenditures	3,041,007	2,930,252	110,755
<b>Other financing uses:</b>			
Operating transfers out	39,876	43,845	(3,969)
Operating transfers to component units	266,938	267,864	(926)
Total expenditures and other financing uses	3,347,821	3,241,961	105,860
Revenues and other financing sources over (under) expenditures and other financing uses	(86,142)	(26,068)	60,074
Fund balances, July 1, 1998	235,066	235,066	
Fund balances, June 30, 1999	\$ 148,924	\$ 208,998	\$ 60,074

*The accompanying notes are an integral part of these financial statements.*

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

<b>Budgeted Special Revenue Funds</b>			<b>Total (Memorandum Only)</b>		
<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
\$ 247,120	\$ 244,206	\$ (2,914)	\$ 1,912,070	\$ 1,919,008	\$ 6,938
180	240	60	160,200	163,031	2,831
260,709	208,499	(52,210)	110,789	107,208	(3,581)
2,114	7,050	4,936	1,319,886	1,211,439	(108,447)
<u>510,123</u>	<u>459,995</u>	<u>(50,128)</u>	<u>38,114</u>	<u>43,664</u>	<u>5,550</u>
			3,541,059	3,444,350	(96,709)
45,000	36,202	(8,798)	256,728	247,360	(9,368)
			4,000	4,000	
			15,015	16,380	1,365
<u>555,123</u>	<u>496,197</u>	<u>(58,926)</u>	<u>3,816,802</u>	<u>3,712,090</u>	<u>(104,712)</u>
31,912	31,340	572	242,579	211,525	31,054
136,093	131,241	4,852	1,808,893	1,761,940	46,953
			51,013	43,723	7,290
			256,445	246,057	10,388
			68,389	47,895	20,494
67,636	42,167	25,469	67,636	42,167	25,469
201,536	172,977	28,559	227,570	199,011	28,559
	79	(79)	681,374	681,453	(79)
18,588	18,588		59,243	59,243	
19,754	19,621	133	53,384	53,251	133
<u>475,519</u>	<u>416,013</u>	<u>59,506</u>	<u>3,516,526</u>	<u>3,346,265</u>	<u>170,261</u>
27,205	32,302	(5,097)	67,081	76,147	(9,066)
64,289	45,580	18,709	331,227	313,444	17,783
<u>567,013</u>	<u>493,895</u>	<u>73,118</u>	<u>3,914,834</u>	<u>3,735,856</u>	<u>178,978</u>
(11,890)	2,302	14,192	(98,032)	(23,766)	74,266
7,500	80,913	73,413	242,566	315,979	73,413
<u>\$ (4,390)</u>	<u>\$ 83,215</u>	<u>\$ 87,605</u>	<u>\$ 144,534</u>	<u>\$ 292,213</u>	<u>\$ 147,679</u>

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**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

**Note 1. Summary Of Significant Accounting Policies**

**A. Basis of Presentation**

The accompanying general-purpose financial statements have been prepared in conformance with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), except as described in Note 1(D). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," in the absence of specific guidance from GASB pronouncements, pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989 have been followed.

**B. Reporting Entity**

The general-purpose financial statements include all funds and account groups of the State of Rhode Island and Providence Plantations (the state) and its component units. GASB defines component units as legally separate entities for which a primary government (the state) is financially accountable or, if not financially accountable, their exclusion would cause the state's financial statements to be misleading. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an entity's governing body and (1) the ability of the state to impose its will on that entity or (2) the potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the state. The state has considered all agencies, boards, commissions, public benefit authorities and corporations, the state university and colleges and the Central Falls School District as potential component units. Audited financial statements of the individual component units can be obtained from their respective administrative offices.

**Blended Component Units**

These component units are entities which are legally separate from the state, but are so intertwined with the state that they are in substance, the same as the state. They are reported as part of the state and blended into the appropriate funds.

**State Lottery Fund (Lottery)** - This fund is used to account for the revenues generated by the State Lottery Commission in conducting various lottery games. According to statute, earnings after allocation for prize awards and payment of expenses shall be transferred to the state's general fund. For more detailed information, a copy of the financial statements can be obtained by writing to the State Lottery Commission, 1425 Pontiac Avenue, Cranston, RI 02920.

**Rhode Island Refunding Bond Authority (RIRBA)** - This authority was created by law for the purpose of loaning money to the state to provide funds to pay, redeem, or retire certain general obligation bonds. In fiscal 1988, the state abolished the R.I. Public Buildings Authority (RIPBA) and assigned the responsibility for managing RIPBA's outstanding debt to the RIRBA. RIPBA was previously reported as a blended component unit. The RIRBA is authorized to issue bonds. Even though it is legally separate, the RIRBA is reported as if it were part of the primary government because it provides services entirely to the primary government. It is blended into the Capital Projects Funds and the General Long-Term Debt/Account Group. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Refunding Bond Authority, State House, Providence, RI 02903.

**Discretely Presented Component Units**

Discretely presented component units are reported in separate columns in the combined financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discretely presented component units serve or benefit those outside of the primary government. Discretely presented component units are:

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**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

**Governmental Component Units**

**University and Colleges** - The Board of Governors for Higher Education has oversight responsibility for the University of Rhode Island, Rhode Island College and Community College of Rhode Island. The Board is appointed by the Governor with approval of the Senate. The university and colleges are funded through state appropriations, tuition, federal grants, private donations and grants. For more detailed information, a copy of the financial statements can be obtained by writing to the University of Rhode Island, Carloff Administration Building, Kingston, RI 02881; Rhode Island College, Mount Pleasant Avenue, Providence, RI 02908; and Community College of Rhode Island, 400 East Avenue, Warwick, RI 02886-1805.

**Central Falls School District** - The Rhode Island General Assembly passed an act which provided for the state to assume an administrative takeover of the Central Falls School District. The Governor appointed a special state administrator who replaced the school committee. The state administrator reports to the Commissioner of Elementary and Secondary Education. The District's purpose is to provide elementary and secondary education to residents of the City of Central Falls. For more detailed information, a copy of the financial statements can be obtained by writing to the Central Falls School District, 21 Hadley Street, Central Falls, RI 02863.

**Proprietary Component Units**

**Rhode Island Housing and Mortgage Finance Corporation (RIHMFC)** - This Corporation, established in 1973, was created in order to expand the supply of housing available to persons of low and moderate income and to stimulate the construction and rehabilitation of housing and health care facilities in the state. It has the power to issue notes and bonds to achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Housing and Mortgage Finance Corporation, 44 Washington Street, Providence, RI 02903-1721.

**Rhode Island Student Loan Authority (RISLA)** - This Authority, established in 1981, was created in order to provide a statewide student loan program through the acquisition of student loans. It has the power to issue bonds and notes, payable solely from its revenues. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Student Loan Authority, 560 Jefferson Boulevard, Warwick, RI 02886.

**Rhode Island Turnpike and Bridge Authority (RITBA)** - This Authority was created by the General Assembly as a body corporate and politic, with powers to construct, acquire, maintain and operate bridge projects as defined by law. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Turnpike and Bridge Authority, P.O. Box 437, Jamestown, RI 02883.

**Rhode Island Economic Development Corporation (RIEDC)** - This Corporation was created by law in 1974 for the purpose of acquiring and developing real and personal property to promote the economic development of the state. It has the power to issue tax-exempt industrial development bonds to accomplish its corporate purpose. In fiscal year 1993, RIEDC created a subsidiary corporation, the R. I. Airport Corporation, to manage the state's six airports. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Economic Development Corporation, One West Exchange Street, Providence, RI 02903.

**Rhode Island Convention Center Authority (RISCCA)** - This Authority was created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One West Exchange Street, Providence, RI 02903.

**Narragansett Bay Water Quality Management District Commission (NBC)** - This Commission was created for the purposes of acquiring, planning, constructing, extending, improving, operating and maintaining publicly owned wastewater treatment facilities. NBC receives contributed capital from the state to upgrade its facilities. For more detailed information, a copy of the financial statements can be obtained by

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**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

writing to the Narragansett Bay Water Quality District Management Commission, 235 Promenade Street, Suite 500, Providence, RI 02908-5739.

**Rhode Island Health and Educational Building Corporation (RIHEBC)** - This Corporation has the following purposes: (1) to assist in providing financing for education facilities for colleges and universities operating in the state; (2) to assist hospitals in the state in the financing of health care facilities; (3) to assist stand-alone, non-profit assisted-living and adult daycare facilities; (4) to assist in financing a broad range of non-profit health care providers; and (5) to assist in financing non-profit secondary schools and child care centers. RIHEBC issues bonds, notes and leases which are special obligations of RIHEBC payable from revenues derived from the projects financed or other moneys of the participating education institution or health care institution. The bonds, notes and leases do not constitute a debt or pledge of the faith and credit of RIHEBC or the state and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Health and Educational Building Corporation, 400 Westminster Street, Providence, RI 02903.

**Rhode Island Resource Recovery Corporation (RIRRC)** - This Corporation was established in 1974 in order to provide and/or coordinate solid waste management services to municipalities and persons within the state. RIRRC has the power to issue negotiable bonds and notes to achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Resource Recovery Corporation, 65 Shurn Pike, Johnston, RI 02919.

**Rhode Island Depositors Economic Protection Corporation (DEPCO)** - This Corporation was created in 1991 to assist in protecting the interests of depositors of certain financial institutions in the state which had been closed when their private deposit insurer failed, thereby leaving those institutions without deposit insurance as required by statute. DEPCO is empowered to acquire all or a portion of the assets of the closed institutions thereby aiding the prompt repayment of the deposit liabilities of the closed institutions. DEPCO has the power to issue negotiable bonds and notes to achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Depositors Economic Protection Corporation, P. O. Box 8399, Warwick, RI 02888.

**Rhode Island Higher Education Assistance Authority (RIHEAA)** - This Authority was created by law in 1977 for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post secondary student assistance. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Higher Education Assistance Authority, 560 Jefferson Boulevard, Warwick, RI 02886.

**Rhode Island Public Transit Authority (RIPTA)** - This Authority was established in 1964 to acquire any mass motor bus transportation system if that system has previously filed a petition to discontinue its service and further, if RIPTA determines it is in the public interest to continue such service. Revenues of RIPTA include operating assistance grants from the federal and state governments. For more detailed information, a copy of their financial statements can be obtained by writing to the R.I. Public Transit Authority, 265 Melrose Street, Providence, RI 02907.

**Rhode Island Industrial Facilities Corporation (RIIFC)** - The purpose of this Corporation is to issue revenue bonds, construction loan notes and equipment acquisition notes for the financing of projects which further industrial development in the state. All bonds and notes issued by RIIFC are payable solely from the revenues derived from leasing or sale by RIIFC of its projects. The bonds and notes do not constitute a debt or pledge of the faith and credit of RIIFC or the state and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Industrial Facilities Corporation, One West Exchange Street, Providence, RI 02903.

**Rhode Island Clean Water Finance Agency (RICWFA)** - This Agency was established in 1991 for the purpose of providing financial assistance in the form of loans to municipalities, sewer commissions and waste water management districts in the state for the construction or upgrading of water pollution abatement projects. RICWFA receives capital grants from the state and federal governments and is authorized to issue

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**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

revenue bonds and notes. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Clean Water Finance Agency, 235 Promenade Street, Providence, RI 02908.

**Rhode Island Industrial-Recreational Building Authority (RIIRBA)** - This Authority is authorized to insure first mortgages and first security agreements granted by financial institutions and the Rhode Island Industrial Facilities Corporation for companies conducting business in the state. Any losses realized in excess of the fund balance would be funded by the state. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Industrial-Recreational Building Authority, One West Exchange Street, Providence, RI 02903.

**Rhode Island Water Resources Board Corporate (RIWRBC)** - This Board was created by law to foster and guide the development of water resources including the establishment of water supply facilities and lease these facilities to cities, towns, districts, and other municipal, quasi-municipal or private corporations engaged in the water supply business in the state. RIWRBC is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Water Resources Board Corporate, 100 North Main Street, Providence, RI 02903.

**Rhode Island Public Telecommunications Authority (RIPTCA)** - This Authority owns and operates a non-commercial educational television station in the state. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Public Telecommunications Authority, 50 Park Lane, Providence, RI 02907-3124.

**Rhode Island Children's Crusade for Higher Education (RICCHE)** - This is a Rhode Island nonprofit corporation formed for the purpose of fostering the education of economically disadvantaged youth through scholarship awards, summer jobs programs, and mentoring programs for parents and students. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Children's Crusade for Higher Education, One Allens Avenue, Providence, RI 02903.

**C. Fund Accounting**

The general-purpose financial statements have been prepared from accounts maintained by the State Controller and from reports prescribed by the State Controller and prepared by the component units based on independent accounting systems maintained by those entities.

The state uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The state records its transactions in the fund types and account group described below.

**Governmental Fund Types**

**General** - is the general operating fund of the state and is used to account for all financial transactions except those required to be accounted for in another fund. Included within this fund are the operations of most jointly financed state - federal programs.

**Special Revenue** - is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes and where a separate fund is mandated.

**Debt Service** - is used to account for the accumulation of resources for, and the payment of, long-term debt. The state's debt service fund is funded by annual appropriations that approximate the annual interest savings from debt refundings.

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**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

Capital Projects - accounts for resources obtained and used for the acquisition, construction or improvement of capital facilities not reported in other governmental or proprietary funds. Such resources are derived principally from the proceeds of general obligation bonds, revenue bonds, lease participation certificates, and operating transfers from the general fund.

**Proprietary Fund Types**

Enterprise - is used to account for activities that are financed and operated in a manner similar to private business enterprises (1) where the costs of providing goods or services to the general public on a continuing basis are to be financed or recovered through user charges; or (2) where the periodic determination of revenues earned, expenses incurred and/or net income is appropriate. The State Lottery Fund is the only fund in this category.

Internal Service - is used to account for the financing and providing of specified goods and services, on a centralized basis, for other departments and agencies.

**Fiduciary Fund Types**

Trust and Agency - is used to account for transactions related to assets held by the state in a trustee or agency capacity. These include pension trust funds, expendable and nonexpendable trust funds, and agency funds.

**Account Group**

General Long-Term Debt Account Group - accounts for all general long-term debt and other long-term obligations of the primary government not accounted for in the proprietary funds. Significant long-term obligations include general obligation bonds, revenue bonds, capital leases and compensated absences.

**D. Basis of Accounting**

All governmental fund types, expendable trust funds, agency funds and governmental component units are accounted for using the current financial resources measurement focus and are maintained on the modified accrual basis of accounting. Under this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) as changes in net current assets.

Under the modified accrual basis of accounting, revenues, grants, entitlements and related receivables are recorded in the accounting period that they become both measurable and available, i.e., earned and collected or expected to be collected within the next 12 months. Tax revenues are recorded by the state as taxpayers earn income (personal and business income taxes) or as sales are made (sales and use taxes) or as cash is received (miscellaneous taxes), net of estimated refunds. Grant revenue is recorded when the related expenditure has been made. Cash advances from grants are reported as deferred revenue.

Expenditures are recorded when the related fund liability is incurred. Exceptions to the general modified accrual expenditure recognition criteria include principal and interest on general long-term debt which are recognized when due and compensated absences which are recognized when paid.

On-behalf payments for fringe benefits are reported the same as direct payments to grantees. Therefore, both the state aid to local public school districts and the state's share of the employers' contribution, as required by General Laws, to the Employees' Retirement System for teachers employed by local public school districts are reported as intergovernmental expenditures (operating transfers out for the Central Falls School District) in the general fund.

Unexpended general revenue appropriations, as reappropriated by the Governor, and unexpended restricted revenues and operating transfers in are carried forward at fiscal year end and are available for expenditure in the following fiscal year. The amounts carried forward are reflected in the combined balance sheet as part of fund equity.

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**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

All proprietary fund types, pension trust funds, nonexpendable trust funds and proprietary component units are accounted for using the economic resources measurement focus and are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues and grants are recognized when earned and expenses are recognized at the time related liabilities are incurred. All assets and liabilities associated with the operation of these funds are included on the combined balance sheet. Fund equity is segregated into contributed capital and retained earnings/fund balance.

The financial statements of R.I. Children's Crusade for Higher Education (RICCHE) are prepared in conformity with generally accepted accounting principles using FASB guidance. RICCHE adopted FASB Statement No. 116, "Accounting for Contributions Received and Contributions Made," FASB Statement No. 117, "Financial Statements of Not-for-Profit Organizations" and FASB Statement No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations."

**E. Cash and Cash Equivalents**

Cash represents amounts in demand deposit accounts with financial institutions. Cash equivalents are highly liquid investments with a maturity of three months or less at the time of purchase.

The state does not pool its cash deposits.

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**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

**F. Funds on Deposit with Fiscal Agent**

Funds on deposit with fiscal agent in the capital projects funds and trust and agency funds are the unexpended portion of certificates of participation and funds held by the United States Treasury Department for the payment of unemployment benefits, respectively.

**G. Investments**

Investments are generally stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. Short-term investments are stated at amortized cost, which approximates fair value, except for non-participating repurchase agreements, which are stated at cost.

The pension trust funds may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on the asset and liability positions of foreign investments. The gains or losses on these contracts are included in income in the period in which the exchange rates change. Gains and losses on contracts which hedge specific foreign currency denominated commitments are deferred and recognized in the period in which the transaction is completed. By policy, no more than 50% of actively managed foreign equity securities (at fair value) may be hedged into the base currency (U.S. dollars).

**H. Receivables**

Receivables are stated net of allowances for uncollectible and unavailable amounts.

**I. Due From Other Governments and Agencies**

Due from other governments and agencies represents principally amounts owed to the state in reimbursement of federal expenditures.

**J. Due from/to Other Funds/Component Units/Primary Government**

During the course of operations, numerous transactions occur between individual funds within the primary government and between the primary government and discretely presented component units. These intra-entity receivables and payables are classified as "due from other funds/component units/primary government" or "due to other funds/component units/primary government" in the combined balance sheet.

**K. Inventories**

Inventory type items acquired by governmental funds are accounted for as expenditures at the time of purchase.

Inventories of governmental component units are stated at the lower of cost (first-in, first-out and retail inventory method) or market, and consist primarily of bookstore and dining, health and residential life services items.

Inventories of the proprietary funds and proprietary component units are stated at cost.

**L. Loans and Real Estate Owned**

The R.I. Depositors Economic Protection Corporation (DEPCO) acquired loans collateralized by real estate, real estate owned and amounts due from receiverships. They are recorded at estimated fair values. Fair value is the amount that can reasonably be expected to be received in a current sale between a willing buyer and a willing seller, that is, other than a forced or liquidation sale. Estimated fair value is determined by appraisals of individual properties or similar procedures which management believes results in a reasonable estimation of the fair values of the assets and are consistent with the methodology used by appraisers. Such methodology is based on estimated cash flows from the collection, sale, orderly liquidation or other realization of these assets, net of any direct operating expenses and selling costs of the assets. In formulating the estimates, management takes into account economic conditions and specific factors applicable to each

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**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

asset (i.e. financial condition of borrower and guarantor, condition and marketability of collateral or property owned, collection and workout costs and advances, liabilities, bankruptcy and pending litigation, etc.). The estimated cash flows are then discounted at rates believed to result in appropriate market rates of return given the inherent uncertainties associated with these assets. Amounts realized in excess of or less than carrying value are recorded in the period in which the corresponding asset is sold.

Interest on most loans is included in income as earned based upon interest rates applied to unpaid principal. No interest is accrued when loans are greater than 90 days delinquent. When a loan is placed on nonaccrual, all interest previously accrued but not collected is charged against current period income. Subsequent cash receipts on nonaccrual loans are applied to the outstanding principal balance of the loan, or recognized as interest income depending on management's assessment of the ultimate collectability of the loan. Nonaccrual loans may be returned to full accrual status when principal and interest payments are not delinquent.

DEPCO's loans and real estate owned are concentrated in the state. Repayment of loans and sales of other real estate is in part dependent upon economic conditions of the area.

**M. Fixed Assets**

The cost of fixed assets acquired by governmental fund types is accounted for as an expenditure upon purchase.

A statement of general fixed assets is not included herein since the information required to prepare such a statement has not been fully developed.

Fixed assets used in the operation of internal service funds are generally capitalized in the fund in which they are utilized and are depreciated on the straight-line basis over their estimated useful lives. Certain internal service funds use capital leases to finance assets. Since the lease costs are recovered through service charges, such assets and related debt are accounted for within the internal service funds. These assets are depreciated over their estimated useful lives.

The cost of fixed assets used by the enterprise fund is capitalized and depreciation is provided on a straight-line basis over the estimated useful lives of the assets.

The cost of fixed assets used by the component units is capitalized and depreciation is provided on a straight-line basis over the estimated useful lives of the assets. With the exception of the R.I. Economic Development Corporation and the Narragansett Bay Water Quality Management Commission, interest is not capitalized.

**N. Other Assets**

Other assets include, among other things, deferred bond issuance and financing costs, present value of future scholarships pledged by institutions of higher learning, airport noise mitigation assets, restricted assets held in trust, and property held for sale and development.

**O. Rentals Due**

Rentals due for payment of principal and current interest on revenue bonds represent amounts due as required under several lease arrangements relating to capital projects.

**P. Other Liabilities**

Other liabilities include, among other things, deferred scholarships, landfill post-closure costs, and deposits pending distribution.

**Q. Bonds Payable**

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**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

In governmental fund types, bond discounts/premiums and issuance costs are recognized in the current period; bond proceeds are recorded net of these amounts. Bond discounts, premiums and issuance costs for proprietary fund types are generally deferred and amortized over the term of the bonds using the straight-line method for issuance costs and the interest method for discounts and premiums. Bond discounts and premiums are presented as an adjustment to the face amount of bonds payable.

The R.I. Convention Center Authority has entered into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

**R. Obligations Under Capital Leases**

The construction and acquisition of certain state office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds and notes issued by the R.I. Refunding Bond Authority, the R.I. Convention Center Authority, the R.I. Economic Development Corporation, or by a trustee pursuant to a lease/purchase agreement with the state (See Note 7(D)).

**S. Accrued Liabilities**

Accrued liabilities generally represent accrued salary and fringe benefits in the governmental fund types and accrued interest payable, accrued salaries and accrued vacation and sick leave in the proprietary fund types.

**T. Compensated Absences**

Vacation pay may be discharged, subject to limitations as to carry-over from year to year, by future paid leave or by cash payment upon termination of service. Sick pay may be discharged by payment for an employee's future absence caused by illness or, to the extent of vested rights, by cash payment upon death or retirement. For governmental fund types, such obligations are recorded in the General Long-Term Debt Account Group and for proprietary fund types, they are recorded as fund liabilities.

**U. Fund Equity**

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from the federal and/or state governments. Depreciation expense is recognized on assets acquired or constructed with these funds. Certain funds record transfers from contributed capital to retained earnings in an amount equal to the annual depreciation charge.

Reserved fund balances represent amounts which are (1) not appropriate for expenditure or (2) legally segregated for a specific future use.

Designated fund balances represent amounts segregated to indicate management's tentative plans or intent for future use of financial resources.

**V. Memorandum Only - Total Columns**

Total columns on the general-purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns are not comparable to a consolidation. Intra-entity eliminations have not been made in the aggregation of this data.

**W. Change in the Reporting Entity**

The state had previously reported deferred compensation assets and liabilities in an agency fund. With the implementation of GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans", that agency fund was eliminated.

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**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

In fiscal year 1999 the state began reporting the assets and liabilities of custodial deposits in an agency fund. These deposits are required from financial institutions, principally insurance companies, doing business in the state.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

**Note 2. Budgeting and Budgetary Control**

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund and certain special revenue funds. Preparation and submission of the budget is governed by both the State Constitution and the Rhode Island General Laws. The budget, as enacted by the General Assembly and signed by the governor, contains a complete plan of estimated general, federal, restricted revenues and operating transfers in and proposed expenditures.

The legal level of budgetary control, i.e. the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is as follows:

- (1) For general revenue appropriations, it is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch.
- (2) For federal grants, it is the total of all grants available to a department under the same Catalog of Federal Domestic Assistance (CFDA) number. Federal grant appropriations may also be limited by the availability of matching funds and may also require special approval from a federal agency before reallocating resources among programs.
- (3) For restricted programs and operating transfers in, it is the account level. By its very nature, a restricted account is created by statute for a special purpose and management cannot reassign the resources without special approval. Operating transfers in are accounted for separately because they are reported under "Other Financing Sources" in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Fund Types, Expendable Trust Funds and Discretely Presented Governmental Component Units.

Internal administrative and accounting budgetary controls utilized by the state consist principally of statutory restrictions on the expenditure of funds in excess of appropriations and the supervisory powers and functions exercised by management. Management cannot reduce the budget without special approval.

Unexpended general revenue appropriations lapse at the end of the fiscal year, unless the department/agency directors identify unspent appropriations related to specific projects/purchases and request a reappropriation. If the requests are approved by the governor, such amounts are reappropriated for the ensuing fiscal year and made immediately available for the same purposes as the former appropriations. Unexpended appropriations of the General Assembly and its legislative commissions and agencies may be reappropriated by the Joint Committee on Legislative Services. If the sum total of all departments and agencies general revenue expenditures exceeds the total general revenue appropriations, it is the policy of management to lapse all unexpended appropriations, except those of the legislative branch and the Justice Link program.

For the fiscal year ended June 30, 1999 expenditures exceeded appropriations in the following departments and agencies (expressed in thousands):

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

**General Fund**

Department - Division Grant or Program:	CFDA Number	Account Number	Amount
Administration			
General revenue appropriations:			\$ 100
Accounts and Control			172
Human Resources			841
Taxation			2,146
Central Services			7
Personnel Appeal Board			
Federal grants:			
Rural Housing Preservation Grants	10433		32
Emergency Shelter Grants Program	14231		167
Motor Carrier Safety	20,217		56
Federal Transit Technical Studies Grants	20,505		9
Weatherization Assistance for Low-Income Persons	81,042		130
Safe and Drug-Free Schools - State Grants	84,186		3
Child Support Enforcement	93,563		1,215
Restricted programs:			
DEFCO Escrow Account	2450-80200		149
Tire Site Remediation - Port Authority	2450-80300		3
Indirect Cost Recovery - Child Support Enforcement	2450-80400		2
Vehicle Value Commission - Municipal	2457-80100		1
Integrated Resource Plan	2460-80400		30
Eastern Utilities Grant - Electric Conservation	2460-80900		12
RI Urban and Community Forest Council	2472-80100		9
RI Independent Insurance Grant	2480-81000		2
Operating transfers in:			
FHWA - T2 - Systems Planning	2472-90200		9
Debt Service Special Account	2480-90200		7,088
Business Regulation			
General revenue appropriations:			
Securities Regulation			47
Commercial Licensing and Regulation			16
Restricted programs:			
Assessment for Cost of Rate Filings	1830-80101		1
Labor and Training			
General revenue appropriations:			
Workforce Regulation and Safety			190
Restricted programs:			
Donley Rehab Center & Second Injury Fund	1652-80000		29
Claims Monitoring & Data Processing Unit	1652-80200		19
Donley Center Operations - Workers Compensation	1652-80300		79
Legislature			
Restricted programs:			
Audit of Federal Assistance Programs	2626-80100		158
Secretary of State			
General revenue appropriations:			
Administration			19
State Archives			11

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

General Fund

Department - Division Grant or Program	CFDA Number	Account Number	Amount
General Treasurer			
General revenue appropriations:			18
General Treasurer - General			
Boards for Design Professionals			34
General revenue appropriation			
Children, Youth and Families			
General revenue appropriations:			11
Central Management			
Child Welfare - General			2,687
Federal grants:			
Byrne Formula Grant Program	16,579		1
Desegregation Assistance, Civil Rights Training, and Advisory Services	84,004		19
Title I Program for Neglected and Delinquent Children	84,013		77
Vocational Education - Basic Grants to States	84,048		16
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93,104		306
Mental Health Planning and Demonstration Projects	93,125		45
Family Preservation and Support Services	93,556		3
Temporary Assistance for Needy Families	93,558		257
Children's Justice Grants to States	93,643		8
Independent Living	93,674		129
Other Expenditures of Federal Awards			83
Restricted programs:			
Social Security Income		3340-80200	501
Operating transfers in:			
Delaware - Youth Correctional Center			
Elderly Affairs			
Federal grants:			65
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93,044		181
Low-Income Home Energy Assistance	93,568		9
Operating transfers in:			
Almacs - Dislocated Workers		3260-90100	1
Health			
General revenue appropriations:			
Central Management			21
State Medical Examiner			10
Health Laboratories			3
Federal grants:			1,849
Special Supplemental Food Program for Women, Infants, and Children	10,557		70
Air Pollution Control Program Support	66,001		195
Emergency Medical Services for Children	93,127		8
Demonstration Grants for the Prevention of Alcohol and Drug Abuse Among High Risk Population	93,144		12
Disabilities Prevention	93,184		
Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children			92
Drug Abuse National Research Service Awards for Research Training	93,197		99
Child Support Enforcement	93,278		21
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93,563		25
Indirect Cost Recovery - Central Management			54
Asset Forfeiture		1102-80601	31
Health Care Accessibility and Quality		1142-80400	17

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

General Fund

Department - Division Grant or Program	CFDA Number	Account Number	Amount
Human Services			
General revenue appropriations:			28
Health Care Quality, Financing and Purchasing			
Federal grants:			593
State Administrative Matching Grants for Food Stamp Program	10,561		6
Rehabilitation Long - Term Training	84,129		374
State's Children Insurance Program	93,767		2,274
Medical Assistance Program	93,778		
Restricted programs:			
Indirect Cost Recovery - Central Management		1210-80101	77
Veterans Home Collections		1235-80100	625
Medicaid Provider Participation		1260-80200	13
Mental Health, Retardation and Hospitals			
General revenue appropriations:			
Central Management			120
Hospital and Community Rehabilitation			2,289
Federal grants:			
Block Grants for Prevention and Treatment of Substance Abuse	93,959		938
Operating transfers in:			
Delaware Asbestos		1032-90100	153
Office of the Child Advocate			14
General revenue appropriation			
Federal grants:			3
Crime Victim Assistance	16,575		
Commission on the Handicapped			
Restricted programs:			
Technical Assistance Projects		2041-80100	1
Commission for Human Rights			
Federal grants:			3
Fair Housing Assistance Program - State and Local Elementary and Secondary Education	14,401		
General revenue appropriations:			
Rhode Island School for the Deaf			86
Davies Career and Technical School			20
Special Needs Services			12
Integration of Social Services			8
Nutrition Program			5
Board Relations			7
Human Resources			101
Federal grants:			78
Summer Food Service Program for Children	10,559		1,855
Title I Grants to Local Educational Agencies	84,010		51
Migrant Education - Basic State Grant Program	84,011		3
Title I Program for Neglected and Delinquent Children	84,013		54
Special Education - Preschool Grants	84,173		2
Bilingual Education Support Services	84,194		11
Goals 2000 - State and Local Education Systemic Improvement Grants	84,276		
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances		93,104	10
Office of Higher Education			
Federal grants:			132
National Early Intervention Scholarship and Partnership	84,272		
Rhode Island State Council on the Arts			
Federal grants:			2
Tech-Prep Education	84,243		

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

General Fund

Department - Division Grant or Program: Historical Preservation and Heritage Commission Restricted Programs: Survey and Planning - Restricted Fund Historic Preservation Revolving Fund-Interest Rhode Island Public Telecommunications Authority Federal grants: Telecommunications and Informal Infrastructure Assistance Program Attorney General Federal grants: Juvenile Justice and Delinquency Prevention - Allocation to States Local Law Enforcement Block Grant Program Restricted programs: Foreclosure of Property Corrections Federal grants: Special Education - Grants to States Preventive Health Services - Sexually Transmitted Diseases Control Grants Governor's Justice Commission Federal grants: Juvenile Accountability Incentive Block Grant State Justice Statistics Program for Statistical Analysis Centers Judicial General revenue appropriations: Supreme Court Family Court Federal grants: Byrne Formula Grant Program Grants to States for Access and Visitation Programs Operating Transfers in: Delaware - Garratty Judicial Complex Renovation Military Staff General revenue appropriations: Emergency Management State Police Restricted programs: Seized and Forfeited Property - Federal Distribution Operating transfers in: Traffic Enforcement Road Construction Detail Reimbursements Sheriffs of Several Counties General revenue appropriations Environmental Management General revenue appropriations: Policy and Administration Natural Resources Environmental Protection Federal Grants: State Memorandum of Agreement Program for the Reimbursement of Technical Services Highway Planning and Construction Water Pollution Control - State and Interstate Program Support Slate Underground Storage Tanks Program	CFDA Number	Account Number	Amount
	2062-80100	2062-80600	2
	2062-80600		21
	11.552		7
	16.540		1
	16.592		2
	2230-80100		25
	84.027		8
	93.977		1
	16.523		201
	16.550		1
			452
			223
	16.579		52
	93.597		7
	2710-90200		4
			13
	2070-80200		151
	2070-90500		106
	2070-90700		388
			220
			137
			120
			39
	12.113		27
	20.205		10
	66.419		339
	66.804		199

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

General Fund

Department - Division Grant or Program: Environmental Management (continued) Restricted programs: Fishing License Receipts Shellfish and Marine License Receipts State Forestry Fund Water & Air Protection Program Underground Storage Tank Fees Special Revenue Funds Employment Insurance Federal Grants: Labor Force Statistics Unemployment Insurance Trade Adjustment Assistance - Workers Disabled Veterans Outreach Program Intermodal Surface Transportation Federal Grants: Capital Assistance for Elderly Persons and Persons with Disabilities Restricted programs: Transit Vehicle Disposal Match Antrak Projects	CFDA Number	Account Number	Amount
	1732-80100		17
	1732-80400		76
	1733-80200		2
	1794-80600		179
	1759-80100		6
	17.002		85
	17.225		1,681
	17.245		466
	17.801		82
	20.513		139
	5332-80300		9
	Various		237

**Note 3. Cash, Cash Equivalents and Investments**

**Cash Deposits**

Primary Government

At June 30, 1999, the carrying amount of the state's cash deposits was \$38,156,911 and the bank balance was \$34,628,254. Of the bank balance, \$1,080,352 was covered by federal depository insurance. The remaining amount, \$33,547,902 was uninsured and uncollateralized. The carrying amount and bank balance include \$11,728,711 of certificates of deposit.

Component Units

At June 30, 1999, the carrying amount of the component units' cash deposits was \$133,495,255 and the bank balance was \$123,187,979. Of the bank balance, \$4,271,467 was covered by federal depository insurance and \$20,080,396 was collateralized with investments held by a bank in a component unit's name. The remaining amount, \$98,836,116 was uninsured and uncollateralized. The carrying amount and the bank balance include \$200,000 of certificates of deposit.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the state, its agencies or governmental subdivisions of the state, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government was required to be collateralized at June 30, 1999.

**Investments**

The State Investment Commission (Commission) is responsible for the investment of all state funds. Pursuant to Chapter 35-10 of the General Laws, the Commission may, in general, "invest in securities as

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

would be acquired by prudent persons of discretion and intelligence in these matters who are seeking a reasonable income and the preservation of their capital."

Short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of the pension trust funds are made by investment managers in accordance with the Commission's stated investment objectives and policies.

Investments of certain component units are not made at the direction of the Commission, but are governed by specific statutes or policies established by their governing body.

The state's investments (expressed in thousands) are categorized in the following table to give an indication of the level of risk assumed by the entity at June 30, 1999.

- Category 1: Insured or registered, or securities held by the state or its agent in the state's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the state's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the state's name.

Primary Government	Category			Fair Value
	1	2	3	
U.S. Government and Agency Securities	\$ 1,285,242	\$ 503	\$	\$ 1,285,745
Commercial Paper	161,202			161,202
Repurchase Agreements	34,950			34,950
Corporate Bonds	680,724	171		680,895
Equity Securities	3,142,119	1,519		3,143,638
Foreign Securities	973,076			973,076
	<u>\$ 6,277,313</u>	<u>\$ 2,193</u>	<u>\$</u>	<u>6,279,506</u>
Money Market Mutual Funds				396,259
Emerging Markets Equity Mutual Funds				21,998
Real Estate and Venture Capital Limited Partnership Investments of Statutory Deposits Held in Trust				233,109
Other				58,122
Total	<u>7,002,909</u>			<u>11,916</u>
Less amount classified as cash equivalents				<u>337,695</u>
Total Investments				<u>\$ 6,665,214</u>

Component Units	Category			Fair Value
	1	2	3	
U.S. Government and Agency Securities	\$ 112,259	\$ 230,534	\$ 41,237	\$ 384,030
Commercial Paper	9,500			9,500
Repurchase Agreements	104,864	1,089	65,005	170,958
Equity Securities		72		72
Other	2,061			2,061
	<u>\$ 228,684</u>	<u>\$ 231,695</u>	<u>\$ 106,242</u>	<u>566,621</u>
Corporate Bonds				2,283
Money Market Mutual Funds				53,802
Investment Agreements				384,870
Investments of the R.I. Children's Crusade for Higher Education				10,187
Other				391
Total	<u>1,018,154</u>			<u>235,629</u>
Less amount classified as cash equivalents				<u>\$ 782,525</u>
Total Investments				

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

**Derivatives**

Primary Government

The Employees' Retirement System (System) may enter into forward foreign currency contracts. These contracts involve risk in excess of the amount reflected in the balance sheet. The face or contract amount in U.S. dollars reflects the total exposure the System has in that particular currency contract. The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

The System may invest in interest-only (IO) and principal-only strips (PO) (forms of mortgage-backed securities) in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to pre-payments by mortgagées, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments. If actual prepayment rates are lower than anticipated, the time remaining until the return of principal is increased. There were no IO strips or PO strips at June 30, 1999.

**Cash and Cash Equivalents**

Primary Government

Cash and cash equivalents of \$375,852,000 consists of the \$38,157,000 cash carrying amount and \$337,695,000 of investments determined to be cash equivalents.

Component Units

Cash and cash equivalents of \$369,124,000 consists of the \$133,495,000 cash carrying amount and \$235,629,000 of investments determined to be cash equivalents.

**Note 4. Receivables**

Receivables at June 30, 1999 (expressed in thousands) consist of the following:

	Taxes	Accounts	Accrued	Notes	Contributions	Allowance	Total
			Interest	and		for	
				Unavailable		Uncollectible	
				Amounts		and	
						Unavailable	
						Amounts	
Primary Government:							
General fund	\$ 125,720	\$ 15,999	\$	\$	\$	(49,129)	\$ 92,590
Special revenue funds	14,612	5,055				(4,170)	15,497
Capital projects funds	24						24
Enterprise fund	10,918	1,567		10		(221)	10,697
Internal service fund		8,374					1,577
Trust and agency funds	5,533				18,192	(10,840)	21,259
Total Primary Government	<u>145,865</u>	<u>41,937</u>		<u>10</u>	<u>18,192</u>	<u>(64,360)</u>	<u>141,644</u>
Component Units:							
Governmental		24,218		6		(4,895)	35,143
Proprietary		44,231	26,728	1,831,801		(33,289)	1,869,471
Total Receivables	<u>\$ 145,865</u>	<u>\$ 110,386</u>	<u>\$ 26,734</u>	<u>\$ 1,947,625</u>	<u>\$ 18,192</u>	<u>\$ (102,544)</u>	<u>\$ 2,146,258</u>

**Component Units**

Loans receivable of the R.I. Housing and Mortgage Finance Corporation are secured by a first lien on real and personal property and, in some instances, are federally insured. Loans receivable of the R.I. Student

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

Loan Authority are insured by the R.I. Higher Education Assistance Authority, which in turn has a reinsurance agreement with the federal government. The R.I. Clean Water Finance Agency provides loans to municipalities, sewer commissions, or wastewater management districts in the state for constructing or upgrading water pollution abatement projects.

**Other**

The amount reported in the special revenue funds as due from other governments and agencies, \$31,863,000, is net of \$4,982,000, which is considered unavailable to meet current year expenditures.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

**Note 5. Intra-Entity Receivables and Payables**

Intra-entity receivables and payables (operations - due from/duo to and working capital loans - loan to/loan from), as of June 30, 1999, are summarized below (expressed in thousands):

Fund Type/Fund	Due from Other Funds	Due to Other Funds	Due from Component Units	Due to Component Units
General	\$ 19,093	\$ 19,118	\$ 1,010	\$ 13,933
Special Revenue:				
Employment Insurance - Federal Programs	620	463		
Employment Insurance - Job Development	49	688		
Employment Insurance - Interest	77	1		
Employment Insurance - Trudy		208		
R.I. Temporary Disability Insurance	421	444		
Intermodal Surface Transportation	295	4,846	2,797	489
R.I. Underground Storage Tank		21		
Providence River Relocation-Memorial Boulevard Ext	183			
Subtotal	1,645	6,673	2,797	489
Debt Service	4,000			
Capital Projects:				
Bond Capital	130	1,233		5,170
R.I. Clean Water Act Environmental Trust	1,792	19		
Subtotal	1,922	1,252		5,170
Enterprise:				
State Lottery		12,385		
Subtotal		12,385		
Internal Service:				
Central Utilities	829			
Central Services	1,723	227		
Workers' Compensation	906	31		
Special Facilities	1,032	860		
Automotive Equipment Maintenance	372	12		
Central Warehouse	137	7		
Correctional Industries	2,084	18		
Records Center Fund	79			
Subtotal	7,162	1,155		
Trust and Agency:				
Pension Trust	6,612	5		
Expendable Trust - ES	236	82		
Subtotal	6,848	87		
Total	\$ 40,670	\$ 40,670	\$ 3,807	\$ 19,602

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

Component Units:	Due from Other Funds	Due to Other Funds	Due to Primary Government	Due from Primary Government
<b>Governmental:</b>				
University of Rhode Island	\$ 15,167	\$ 15,167	\$ 627	\$ 4,535
Rhode Island College	1,691	1,691	139	531
Community College of Rhode Island	421	421	161	409
Central Falls School District	228	228		
Subtotal	17,507	17,507	927	5,475
<b>Proprietary:</b>				
R.I. Economic Development Corporation				20,226
R.I. Depositors Economic Protection Corporation				8,422
R.I. Higher Education Assistance Authority			6	36
R.I. Public Telecommunications Authority			58	
Narragansett Bay Water Authority			19	489
R.I. Public Transit Authority			83	29,183
Subtotal			1,010	34,658
<b>Total</b>	<b>\$ 17,507</b>	<b>\$ 17,507</b>	<b>\$ 1,937</b>	<b>\$ 39,828</b>

Reconciliation	Due to Component Units	Due from Primary Government
Fund Type/Fund		
Amounts recorded		
Capital Projects:		
Bond Capital	\$ 20,226	5,170
	\$ 39,828	\$ 39,828

The R.I. Economic Development Corporation (RIEDC) reported \$20,226,000 as due from the primary government because the state issued general obligation bonds earmarked for a RIEDC project. The Capital Projects Fund reported \$5,170,000 as due to component units that were not reported as due from primary government in the component units. The Intermodal Surface Transportation Fund reported \$2,797,000 due from RIEDC for certain project costs. RIEDC did not report a corresponding liability because it was not aware of it at the time its financial statements were prepared.

Fund Type/Fund	Loans to Other Funds	Loans from Other Funds
<b>General</b>	<b>\$ 7,748</b>	
Capital Projects:		
Bond Capital		3,437
Certificates of Participation		52
Subtotal		3,489
Internal Services:		
Workers Compensation		650
Central Services		1,889
Central Warehouse		570
Central Utilities		400
Correctional Industries		750
Subtotal		4,259
<b>Total</b>	<b>\$ 7,748</b>	<b>\$ 7,748</b>

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

**Note 6. Fixed Assets**  
The fixed assets by fund type consist of the following (expressed in thousands):

Estimated useful lives	Land Improvements	Structures and Improvements 15-100	Machinery and Equipment 5-10	Construction in Progress	Accumulated Depreciation	Net Fixed Assets
<b>Primary Government:</b>						
Enterprise fund	\$	1,670	\$ 690	\$	(1,760)	\$ 600
Internal service funds		4,313	4,638		(2,461)	6,490
Total Primary Government		5,983	5,328		(4,221)	7,090
<b>Component Units:</b>						
Governmental	526	642	286	1,169	(631)	1,992
Proprietary	158,000	850,784	116,920	75,757	(268,496)	832,985
<b>Total</b>	<b>\$ 158,526</b>	<b>\$ 857,409</b>	<b>\$ 122,534</b>	<b>\$ 76,926</b>	<b>\$ (273,348)</b>	<b>\$ 942,047</b>

The R.I. Economic Development Corporation capitalized interest expense of approximately \$2,070,000. The Narragansett Bay Water Quality Management District Commission capitalized approximately \$3,200 of interest expense as a component of the cost of construction. For the Proprietary Component Units, actual nonoperating interest expense was \$44,055,100 which represents an increase of \$2,073,200 over the amount reported in Combined Statement of Revenues, Expenses, and Changes in Fund Equity - All Proprietary Fund Types, Similar Trust Funds, and Discretely Presented Proprietary Component Units.

**Note 7. Long-Term Obligations**

Long-term obligations include bonds, notes and loans payable, obligations under capital leases, compensated absences, and other long-term liabilities.

**A. Bonds Payable**

At June 30, 1999, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government		Governmental Component Units		Proprietary Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
2000	\$ 66,316	\$ 49,909	\$ 1,225	\$ 2,055	\$ 131,554	\$ 159,903
2001	68,278	50,286	1,323	2,005	167,402	153,191
2002	72,281	44,336	1,412	2,022	94,758	145,436
2003	74,572	40,755	1,421	1,992	100,631	139,975
2004	73,875	36,998	1,468	1,959	99,745	134,377
Later Years	699,036	197,856	34,707	21,384	2,382,184	1,676,510
	<b>\$ 964,358</b>	<b>\$ 420,140</b>	<b>\$ 41,556</b>	<b>\$ 31,417</b>	<b>\$ 2,956,274</b>	<b>\$ 2,409,392</b>

**Primary Government**

Current interest bonds of the state are serial bonds with interest payable semi-annually and multi-modal bonds that were initially issued at the weekly rate mode but can be changed by the issuer (the state) to a daily rate mode, a commercial paper rate mode or a term rate mode. Capital appreciation bonds are designated as College and University Savings Bonds. The College and University Savings Bonds mature in varying amounts to 2010 with all interest payable at maturity. Interest requirements for the multi-modal variable rate bonds are not reflected in the amortization table shown above since the amounts are indeterminate.

Revenue bonds of the R.I. Refunding Bond Authority (RIRBA) are secured by lease rentals payable by the state pursuant to lease agreements relating to projects financed by the authority and leased to the state. Proceeds from the RIRBA bonds have been used (1) to loan funds to the state to effect the advance

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**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

refunding of general obligation bonds issued by the state in 1984; (2) to finance construction and renovation of certain buildings, and (3) to finance acquisition of equipment used by various state agencies.

**Governmental Component Units**

Revenue bonds of the Governmental Component Units were issued under trust indentures and are collateralized by a pledge of revenues from the facilities financed. The facilities include housing, student union (including bookstores) and dining operations. Under terms of the trust indentures, certain net revenues from these operations must be transferred to the trustees for payment of interest, retirement of bonds, and maintenance of facilities. The bonds are payable in annual or semi-annual installments to various maturity dates. Revenue bonds of the Governmental Component Units also include amounts borrowed under a loan and trust agreement between the R.I. Health and Educational Building Corporation (RIHEBC) (a proprietary component unit) and the Board of Governors for Higher Education acting for URI, RIC, and CCRI. The agreement provides for RIHEBC's issuance of the bonds with a loan of the proceeds to the university and colleges and the payment by the university and colleges to RIHEBC of loan payments that are at least equal to debt service on the bonds. The bonds are secured by a pledge of revenues of the respective institutions.

**Proprietary Component Units**

Bonds of the R.I. Housing and Mortgage Finance Corporation (RIHMFC) are special obligations of RIHMFC, payable from the revenue, prepayments and all the funds and accounts pledged under the various bond resolutions to the holders of the bonds. The proceeds of the bonds were generally used to acquire mortgage loans which are secured principally by a first lien upon real property and improvements.

The R.I. Student Loan Authority issued tax exempt Student Loan Revenue Bonds that are secured by eligible student loans; the monies in restricted funds established by the trust indenture and all related income. The proceeds of the issuance and operating cash were used to refund bonds and to originate and purchase eligible student loans.

The R.I. Economic Development Corporation (RIEDC) has bonds outstanding referred to as Airport Revenue Bonds. They were issued to finance the construction and related costs of certain capital improvements at T.F. Green State Airport. The proceeds of the bonds were loaned to the R.I. Airport Corporation, a subsidiary and component unit of RIEDC. The remainder of bonds outstanding comprise the financing to purchase land and make land improvements at Island Woods Industrial Park in Smithfield, R.I. and to acquire land, make improvements and renovations of a building and parking lot (The Fleet National Bank Project).

Revenue bonds of the R.I. Convention Center Authority (RICCA) were issued to (a) refund bonds and notes, (b) pay construction costs, (c) pay operating expenses, (d) pay interest on revenue bonds prior to completion of construction, (e) fund a debt service reserve and (f) pay costs of issuance. The revenue bonds are secured by all rents receivable, if any, under a lease and agreement between the RICCA and the state covering all property purchased by the RICCA. It also covers a mortgage on facilities and land financed by the proceeds of the revenue bonds and amounts held in various accounts into which bond proceeds were deposited.

The R.I. Depositors Economic Protection Corporation (DEPCO) has special obligation bonds outstanding at June 30, 1999. They are payable from amounts, if any, appropriated annually to and deposited in DEPCO's Special Revenue Fund created by statute and amounts realized from the liquidation of assets and other activity (See Note 21 - Related Party Transactions). The proceeds of the bonds were used to pay deposit liabilities of certain financial institutions in the state which had been closed when their private insurer, Rhode Island Share and Deposit Indemnity Corporation, failed.

The proceeds of the revenue bonds of the R.I. Clean Water Finance Agency provide funds to make low interest loans to municipalities in the state and quasi-state agencies to finance or refinance the costs of construction or rehabilitation of water pollution abatement projects.

Bonds of the Narragansett Bay Water Quality Management District Commission (NBC) represent the NBC's portion of the state's general obligation bonds. Debt service on NBC's portion is recovered through charges levied for services provided to users of its facilities. These bonds are guaranteed by the state.

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**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

Bonds of the R.I. Water Resources Board Corporate were issued to provide financing to various cities, towns, private corporations and companies engaged in the sale of potable water and the water supply business.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

**B. Notes Payable**  
Notes payable (expressed in thousands) at June 30, 1999 are as follows:

Component Units - Governmental Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024.	\$ 2,366
Component Units - Proprietary R.I. Housing and Mortgage Finance Corporation bank notes, 5% to 6.71% interest, payable through 2008. Narragansett Bay Water Quality Management District Commission; mortgage note, interest rate is 81% of prime, payable through 2001. R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 6.75% interest, payable through 2005 R.I. Resource Recovery Corporation landfill lease notes, 4% interest. R.I. Higher Education Assistance Authority notes payable to the Student Loan Marketing Association, interest is 1.5% above the Treasury Bill rate, through 2001. R.I. Convention Center Authority notes payable under management agreements.	\$ 9,587
	323
	691
	15,000
	678
	2,053
	<u>\$ 28,332</u>

**C. Loans Payable**  
Loans payable of the Proprietary Component Units represent liabilities of the Narragansett Bay Water Quality Management District Commission (NBC) to the City of Providence (\$724,786), to the R.I. Clean Water Finance Agency (RICWFA) (\$42,611,926) and to the R.I. Refunding Bond Authority (\$60,000). The amounts due to the city are liabilities assumed by NBC upon the acquisition of the city's sewage treatment facilities. The loans payable to the RICWFA are for projects financed by that agency.

**D. Obligations Under Capital Leases**  
**Primary Government**  
The state's obligation to the R.I. Convention Center Authority (RICCA) consists of RICCA's outstanding debt at June 30, 1999 based on a lease and agreement between RICCA and the state in effect at that date. The state makes lease payments to pay the operating expenses of RICCA and the debt service on its obligations to the extent they are not supported by RICCA revenues.  
The state has entered into capital lease agreements with financial institutions which have issued certificates of participation (COP). These financing arrangements have been used by the state to acquire, construct or renovate facilities and acquire equipment.  
The state's obligation under capital leases at June 30, 1999 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds. The portion of the state's obligation under capital leases that is payable from general fund appropriations and capital leases not recorded in proprietary fund types is reflected in the general long-term debt account group at June 30, 1999.  
Obligation of the state to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.  
The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 1999. Interest for variable rate COP is not reported since the amount is indeterminable.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

A summary of general obligation bonds authorized by the voters and unissued (expressed in thousands) at June 30, 1999 is shown below.

	Authorized and Unissued July 1	Authorized	Issued	Extinguished	Authorized and Unissued June 30
General Obligation Bonds Supported by Taxes:					
Capital Development Plan - 1986	\$ 4,325	\$	\$ 3,365	\$	\$ 960
Capital Development Plan - 1988	1,337				1,337
Capital Development Plan - 1989	8,300		1,145		7,245
Capital Development Plan - 1990	25,635		4,025		21,610
Capital Development Plan - 1984	25,690		6,525		19,165
Capital Development Plan - 1986	129,078		43,495		85,583
Capital Development Plan - 1998		101,690			101,690
R.I. Economic Development Fund	450				450
Heritage Capital Development Fund	779			779	
Underground Storage Tank Replacement Revolving Loan Fund	1,307			705	602
Narragansett Bay Water Quality Management District Commission Fund	34,641		2,110		32,531
Clean Water Act Environmental Trust Fund	4,740		700		4,040
Open Space and Recreational Area Fund	10,188		2,045		8,143
Drinking Water Protection Fund	4,235				4,235
Rhode Island Aqua Fund	645		205		440
Clean Water Finance Agency - Water Pollution Revolving Loan Fund	24,895		2,105		22,790
General Obligation Bonds Supported by Taxes	276,335	101,690	65,720	1,484	310,821
Blackstone Valley District Commission 1986, Series C	940				940
Narragansett Bay Water Quality Management District Commission Loan of 1980	574			574	
R. I. Industrial-Recreational Building Authority	80,000				80,000
Total	<u>\$ 357,849</u>	<u>\$ 101,690</u>	<u>\$ 65,720</u>	<u>\$ 2,998</u>	<u>\$ 390,821</u>

In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved unless extended by the General Assembly.  
The amount of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority is limited by mortgage balances that it has insured, \$32,789,599 at June 30, 1999 (See Note 21). The insured mortgages are guaranteed by the state.  
See Note 12 for information concerning contingent liabilities relating to "Moral Obligation" bonds.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

Fiscal Year Ending June 30	RICCA	COP	Total
2000	\$ 23,855	\$ 8,931	\$ 32,886
2001	23,955	8,954	32,909
2002	23,952	9,139	33,091
2003	23,952	8,672	32,824
2004	23,952	8,930	32,882
Later Years	462,157	92,925	575,082
Total future minimum lease payments	601,923	137,751	739,674
Amount representing interest	(272,258)	(40,886)	(313,144)
Present value of future minimum lease payments	\$ 329,665	\$ 96,865	\$ 426,530

**Component Units**

The University of Rhode Island (URI), Rhode Island College (RIC), Community College of Rhode Island (CCR), and R.I. Public Telecommunications Authority (RIPTCA) obligations under capital leases consist primarily of construction of facilities and equipment acquisitions financed by the R.I. Refunding Bond Authority, a blended component unit.

The R.I. Airport Corporation (RIAC), a subsidiary and component unit of the R.I. Economic Development Corporation (RIEDC), capital lease obligations are for annual payments to the state equal to the principal and interest for airport related general obligation bonds issued by the state.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

Fiscal Year Ending June 30	Governmental			Proprietary	
	URI	RIC	CCR	RIEDC	RIPTCA
2000	\$ 581	\$ 685	\$ 317	\$ 3,776	\$ 799
2001	443	664	268	3,595	795
2002	115	444	157	3,563	791
2003	55	439	156	3,583	788
2004	52	443	156	3,407	788
Later Years	34	2,351	3,127	24,723	5,405
Total future minimum lease payments	1,280	5,026	4,181	42,657	9,366
Amount representing interest	(149)	(1,186)	(1,858)	(12,782)	(3,198)
Present value of future minimum lease payments	\$ 1,131	\$ 3,838	\$ 2,323	\$ 29,875	\$ 6,168

**E. Compensated Absences**

State employees are granted vacation and sick leave in varying amounts based upon years of service. At the termination of service, the employee is paid for accumulated unused vacation leave. Also, the employee is entitled to payment of a percentage of accumulated sick leave at retirement. Payment is calculated at their then-current rate of pay.

**F. Other Long-Term Liabilities**

Income on invested general obligation bond proceeds, determined to be arbitrage earnings in accordance with federal regulations, has been included in the general long-term debt account group. These amounts are generally payable to the federal government five years after the bond issuance date.

The long-term debt portion of violent crimes' claims was transferred to the general long-term debt account group from the general fund. Also included is an advance from the Federal Highway Authority Right of Way Revolving Fund that will be used to acquire land and rights-of-way for the Quonset access road project. Repayment has been budgeted for fiscal year 2002 with federal funds allowable under federal regulations (23 CFR Subpart G 712.701 to 712.703).

**G. Changes in General Long-Term Debt**

During the fiscal year ended June 30, 1999, the following changes (expressed in thousands) occurred in general long-term debt:

The following is a summary of the material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 1999.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

proceeds were used to advance refund \$46,830,000 of 1992 General Obligation Bonds and \$33,460,000 of 1994 General Obligation Bonds. Interest rates of the refunded bonds ranged from 5.40% to 5.80%. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the state's General Long-Term Debt Account Group. The refunding decreased total debt service payments over the next 15 years by \$3,094,681 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,408,924.

The above amounts include \$1,320,000 of refunding bonds issued on behalf of the Narragansett Bay Water Quality Management District Commission (NBC), a component unit, to advance refund \$1,305,000 of outstanding bonds. This advance refunding decreased NBC's total debt service payments over the next 15 years by \$62,106 and resulted in an economic gain of \$59,888.

On February 4, 1999, the Rhode Island Clean Water Finance Agency (RICWFA) issued the 1999 Series B Subordinated Refunding Bonds in the amount of \$16,830,000 at rates varying from 3.0% to 4.75% due annually from October 1, 1999 through October 1, 2015. Proceeds from this issue were used to defease portions of the 1992 and 1994 Series A Bonds totaling \$14,935,000. The advance refunding reduced RICWFA's total debt service payments over the next 17 years by \$1,351,567 and resulted in an economic gain of approximately \$956,000.

During the year ended June 30, 1999, the Rhode Island Depositors Economic Protection Corporation (DEPCO) purchased U.S. Government securities which were deposited into an irrevocable trust with an escrow agent. They are to provide for all future debt service on \$20,520,000 of the 1991 Series A capital appreciation bonds, \$19,390,000 of the 1992 Series A special obligation bonds and \$39,620,000 of the 1993 Series A special obligation bonds. These bonds are legally defeased and the liability has been removed from the financial statements. The defeasance was funded through the liquidation of assets, net settlements and excess State sales tax. It resulted in the recognition of an accounting loss of \$3,674,501. DEPCO reduced its aggregated principal and interest payments by approximately \$124,981,000 over the next 15 years.

**I. Conduit Debt**

The R.I. Industrial Facilities Corporation, the R.I. Health and Educational Building Corporation and the R.I. Economic Development Corporation issue revenue bonds, equipment acquisition notes, and construction loan notes to finance various capital expenditures for Rhode Island business entities. The bonds and notes issued by the corporations are not general obligations of the corporations and are payable solely from the revenues derived from the related projects. They neither constitute nor give rise to a pecuniary liability for the corporations nor do they represent a charge against their general credit. Under the terms of the various indentures and related loan and lease agreements, the business entities make loan and lease payments directly to the trustees of the related bond and note issues in amounts equal to interest and principal payments due on the respective issues. The payments are not shown as receipts and disbursements of the corporations, nor are the related assets and obligations included in the financial statements. The amount of conduit debt outstanding on June 30, 1999 was \$154,596,413, \$990,050,067 and \$117,898,121, respectively.

**Note 8. Reservations and Designations of Fund Equity**

**Reserved Retained Earnings**

The General Laws require that the net income of the Correctional Industries Internal Service Fund be reserved for capital expansion. At June 30, 1999, the balance of the reserve was \$896,200.

The reservations of retained earnings of the R.I. Housing and Mortgage Finance Corporation (RIHMFCC) are restricted by specific bond resolutions, designations by the Board of Commissioners (Board), or by a trust agreement initiated by RIHMFCC. These reserves are made up of four major elements: (1) RIHMFCC's Housing Endowment Fund (Fund), (2) commitments for housing initiatives, (3) designated funds, and (4)

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

**Primary Government**

	Balance July 1	Additions	Reductions	Balance June 30
General obligation bonds payable:				
Current interest bonds	\$ 726,738	\$ 146,870	\$ (118,293)	\$ 755,315
Capital appreciation bonds	40,894		(6,166)	34,728
Accrued interest on capital appreciation bonds	34,720	5,718	(5,835)	34,603
Revenue bonds - RIRBA	188,420		(14,105)	174,315
Bonds payable	990,772	152,588	(144,399)	998,961
Lease obligations to the RICCA	335,970		(6,305)	329,665
Certificates of Participation (COP)	100,555		(3,690)	96,865
Obligation under capital leases	436,525		(9,995)	426,530
Compensated absences	59,886	2,592		62,478
Other long-term liabilities	11,606	7,329	(1,707)	17,228
	<u>\$ 1,498,789</u>	<u>\$ 162,509</u>	<u>\$ (155,101)</u>	<u>\$ 1,506,197</u>

**Governmental Component Units**

	Balance July 1	Additions	Reductions	Balance June 30
Compensated absences	\$ 32,954	\$ 3,477	\$ (2,398)	\$ 34,033
Obligations under capital leases	8,234	273	(1,115)	7,392
Notes payable	2,409		(43)	2,366
Loans payable	69	450	(24)	495
Bonds payable	41,175		(853)	40,322
Other liabilities	1,507		(354)	1,153
	<u>\$ 86,348</u>	<u>\$ 4,200</u>	<u>\$ (4,787)</u>	<u>\$ 85,761</u>

**H. Defeased Debt**

In prior years, the state and its component units defeased certain general obligation bonds and revenue bonds, respectively, and the state defeased COP by placing the proceeds of the new bonds or COP in irrevocable trusts to provide for all future debt service payments on the old bonds and COP. Accordingly, the trust account assets and the liabilities for the defeased bonds and COP are not included in the general-purpose financial statements. On June 30, 1999, the following bonds and COP outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	\$ 192,160
COP	
Revenue Bonds	23,135
R.I. Refunding Bond Authority	88,956
Component Units:	
R.I. Clean Water Finance Agency	14,935
R.I. Convention Center Authority	202,710
R.I. Depositors Economic Protection Corporation	559,365
R.I. Economic Development Corporation	32,535
R.I. Turnpike And Bridge Authority	41,355
R.I. Water Resources Board Corporate	8,860

In September 1998, the state issued \$92,470,000 Consolidated Capital Development Loan of 1998, Refunding Series with interest rates ranging from 3.35% to 5.25%, maturing from 2000 through 2015. The

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

Affordability Housing Trust (Trust). The Fund was established by the Board to provide a reserve against its outstanding indebtedness, future uncertainties related to the marketplace and as a reserve against non-market related uncertainties. In addition to meeting the foregoing objectives, the Fund was established to provide a means whereby RIHMFC can meet the short-term and long-term affordable housing needs targeted to low and moderate income Rhode Island residents. At a minimum the amount of the Fund will be maintained at the greater of \$50,000,000 or 4% of the outstanding long-term indebtedness of RIHMFC. The Fund amounted to \$57,952,228 at June 30, 1999. Commitments for housing initiatives represent amounts set aside by the Board. In order to properly finance and administer various major housing initiatives, the Board approved the utilization of RIHMFC's program fund balances for program expenses, housing loans, subsidies and trust funds. Most of the programs, once established, are accounted for in the Operating Program. Commitments for housing initiatives amounted to \$142,856,472 at June 30, 1999. Designated funds represent amounts designated for RIHMFC's self insurance reserve, the operating budget, and cash flow obligations necessary in each of the programs that have bonded indebtedness. Designated funds amounted to \$17,474,047 at June 30, 1999. The Trust was established to assist in activities that involve the creation and preservation of affordable housing in the state. The Trust accounts for funds held by the Trust in a trustee capacity where both the corpus and earnings may be spent in fulfillment of a variety of designated purposes. The balance of the Trust was \$13,025,470 at June 30, 1999.

Reserved retained earnings of the R.I. Turnpike and Bridge Authority (RITBA) consists of \$4,801,547 for debt service.

The General Laws authorize the Narragansett Bay Water Quality Management District Commission (NBC) to maintain a restricted asset account for environmental enforcement funds. These funds consist of sums recovered by administrative or civil enforcement action and may be used for emergency response or enforcement activities. At June 30, 1999, NBC reported \$73,980 of funds reserved for this purpose.

The reserved retained earnings of the R.I. Higher Education Assistance Authority (RIHEAA) is the trust fund balance of the R.I. Higher Education Savings Trust (RIHEST). RIHEST was created by law to provide a qualified state tuition savings program under Section 529 of the Internal Revenue Code. RIHEST is managed by an independent contractor under the supervision of the R.I. State Investment Commission and RIHEAA. The balance held in trust at June 30, 1999 was \$2,775,105.

**Reserved Fund Balance**

The state and its component units' reserved fund balances represent those portions of fund balance that are (1) not appropriate for expenditure or (2) legally segregated for a specific future use. Reserved fund balances (expressed in thousands) are as follows:

	Governmental Fund Types		Fiduciary Fund Types		Total	Governmental Component Units	
	General	Special Revenue	Capital Projects	Trust and Agency		Primary Government	Component Units
Budget reserve	\$ 65,412	\$ -	\$ -	\$ -	\$ 65,412	\$ -	\$ -
Appropriations carried forward	16,123	-	-	-	16,123	-	-
General revenue	22,191	-	-	-	22,191	-	-
Departmental restricted revenue	6,809	-	-	-	6,809	-	-
Operating transfers in	184,686	-	22,510	244,185	207,196	19,607	19,607
Encumbrances	38,051	-	-	-	38,056	-	-
Employment insurance programs	-	4,000	18,656	100	22,756	2,010	2,010
Capital projects	-	-	-	-	-	-	-
Self insurance	-	-	-	-	-	-	-
Pension benefits	-	-	-	6,550,023	6,550,023	-	-
Academic college overhead	-	-	-	-	-	-	1,879
Inventory	-	-	-	-	-	-	2,588
Asset protection and capital projects	163	-	-	-	163	-	5,235
Auxiliary enterprises	-	-	-	-	-	-	7,988
Restricted grants, gifts, and aid	-	-	-	-	-	-	2,145
Loan fund	-	-	-	-	-	-	19,761
Trust indenture	-	-	-	-	-	-	1,277
Landscaping fund	-	-	-	-	-	-	18
	\$ 110,698	\$ 242,737	\$ 4,000	\$ 41,296	\$ 6,813,208	\$ 7,211,909	\$ 62,508

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

**Changes in General Fund Reserves**

The state maintains certain reserves within the General Fund in accordance with the General Laws. These reserves accumulate in the General Fund until withdrawn by statute or used for the intended purposes pursuant to the enabling legislation.

The state maintains a budget reserve in the general fund. Annually, 2% of general revenues and opening surplus are set aside in this reserve account. Amounts in excess of 3% of the total general revenues and opening surplus are transferred to the bond capital fund to be used for capital projects, debt reduction or debt service.

The reserve account, or any portion thereof, may be appropriated in the event of an emergency involving the health, safety or welfare of the citizens of the state or in the event of an unanticipated deficit in any given fiscal year. Such appropriations must be approved by a majority of each chamber of the General Assembly.

The Public Facilities Asset Protection Account is designed to provide funds for repairs and capital improvements to state-owned facilities.

Appropriations carried forward can only be used for the same purpose as intended in the original budget as enacted by the General Assembly.

The following table summarizes the activity (expressed in thousands) of these reserve accounts for the fiscal year ended June 30, 1999:

	Reserved Fund Balance July 1	Additions	Reductions	Reserved Fund Balance June 30
State Budget Reserve Account	\$ 61,208	\$ 43,608	\$ (39,404)	\$ 65,412
Public Facilities Asset Protection Account	184	-	(21)	163
Appropriations carried forward	13,929	16,123	(13,929)	16,123
General revenue	22,585	22,191	(22,585)	22,191
Departmental restricted revenue	5,120	6,809	(5,120)	6,809
Operating transfers in	-	-	(61,059)	-
Total	\$ 103,026	\$ 88,731	\$ (61,059)	\$ 110,698

**Designations of Fund Balance**

Designated fund balances represent that portion of fund balance segregated to indicate management's tentative plans for future financial resource use.

Designated fund balances in the Special Revenue Funds represent unexpended gasoline tax revenue and unexpended bond proceeds (\$24,917,256) and restricted revenue (\$247,024) brought forward to fiscal year 2000.

Designated fund balance in the Capital Projects Funds (\$74,070,939) represents funds committed to capital projects.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

**Note 9. Operating Transfers**

Operating transfers for the fiscal year ended June 30, 1999 are presented below (expressed in thousands):

Fund Type/Fund	Operating Transfers		
	In	Out	To Component Units
Primary Government:			
General	\$ 211,158	\$ 43,845	\$ 267,864
Special Revenue:			
Employment Insurance Federal Programs	110	1,291	
Employment Insurance Job Development		206	
R.I. Temporary Disability		563	
Intermodal Surface Transportation	29,625	30,242	48,580
Providence River Relocation-Memorial Blvd Ext	1,024		
Subtotal	30,759	32,302	45,580
Capital Projects:			
Bond Capital	39,405	73,066	33,352
RI Clean Water Act/ Environmental Trust Fund			3,397
Subtotal	39,405	73,066	36,749
Debt Service	4,000		
Enterprise - State Lottery		133,565	
Internal Service - Central Warehouse	330		
Total	\$ 295,652	\$ 282,778	\$ 350,193

Component Units:	Operating Transfers		
	In	Out	From Primary Government
Governmental:			
University of Rhode Island	\$ 2,948	\$ 2,869	\$ 81,509
Rhode Island College	1,287	1,287	37,257
Community College of Rhode Island	487	487	34,364
Central Falls School District			27,861
Subtotal	4,732	4,653	180,991
Proprietary:			
R.I. Economic Development Corporation			7,914
R.I. Convention Center Authority			18,346
R.I. Depositors Economic Protection Corporation			53,118
R.I. Higher Education Assistance Authority			7,077
R.I. Public Transit Authority			22,516
R.I. Resource Recovery Corporation		4,000	1,729
R.I. Public Telecommunications Authority			2,018
R.I. Children's Crusade for Higher Education			112,718
Subtotal			\$ 293,709
Total Component Units	\$ 4,732	\$ 4,653	\$ 484,690

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

**Reconciliation**

	From Component Units	To Primary Government	To Component Units	From Primary Government
Amounts recorded	\$ 10,467	\$ 4,000	\$ 350,193	\$ 293,709
Capital Projects			200	
Component Units				
Governmental:				
University of Rhode Island				2,066
Rhode Island College				8,125
Community College of Rhode Island				2,718
Proprietary		6,467		13,170
R.I. Economic Development Corporation				2,101
Narragansett Bay Water Quality Management District Commission				3,397
R.I. Clean Water Finance Agency				288
R.I. Housing Mortgage Finance Corporation				24,829
R.I. Public Transit Authority				\$ 350,393

The difference of \$2,874,000 between operating transfers in/out occurs because the Employees' Retirement System recorded the transactions as expenses as required by GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." The difference of \$79,000 between operating transfers in/out of the governmental component units occurs because the University of Rhode Island reported an operating transfer in from its enterprise fund. Only the enterprise fund's net gain is reported in the financial statements. The differences in operating transfers to governmental component units occur because, as stated in their notes to the financial statements, operating transfers related to asset protection assistance are based primarily on encumbrances. The state has budgeted for these operating transfers in fiscal year 2000 and does not consider them current year transactions because the agreement is for reimbursement of expenditures. The Intermodal Surface Transportation Fund reported \$6,467,000 of operating transfers from the R.I. Economic Development Corporation (RIEDC) as reimbursement for certain project costs. RIEDC did not report a corresponding operating transfer because the project costs were capitalized. The remaining differences occur because some component units reported funds received from the primary government as contributed capital, grants or increases in fixed assets rather than as operating transfers.

**Note 10. Operating Lease Commitments**

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$10,400,000 for the fiscal year ended June 30, 1999.

Most of the operating leases contain an option allowing the state, at the end of the initial lease term, to renew its lease at the then fair rental value. In most cases, it is expected that these leases will be renewed or replaced by other leases.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

The following is a summary of material future minimum rental payments (expressed in thousands) required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 1999:

Fiscal Year Ending June 30	
2000	\$ 8,802
2001	7,512
2002	6,069
2003	5,830
2004	5,665
Later Years	10,597
Total	\$ 44,475

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

**Note 11. Commitments**

Commitments (expressed in thousands) arising from encumbrances outstanding at June 30, 1999 are summarized as follows:

General fund (\$14,200 to be funded by federal funds, \$9,900 to be funded substantially by future appropriations and \$8,500 from other sources)	\$ 32,600
Special revenue funds	184,686
Capital projects funds	22,510
Total	<u>\$ 239,796</u>

Encumbrance accounting, under which contracts, purchase orders and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation during the fiscal year, is employed in the governmental fund types. General Fund encumbrances outstanding at fiscal year end are not reported as a reservation of fund balance. These commitments are funded by future appropriations in the subsequent fiscal year. For financial statement purposes, encumbrances outstanding at June 30 of the Special Revenue Funds and the Capital Projects Funds are shown as a reservation of fund balance.

In fiscal year 1999, the state initiated the development of an integrated financial management information system. The system will be implemented in phases over a period of years. A pilot phase involving three major agencies has begun and should be completed in fiscal year 2000. The state has expended approximately \$1,000,000 thus far and expects to spend \$3,000,000 in the next two fiscal years.

The R.I. Economic Development Corporation (RIEDC) entered into several agreements with Providence Place Group Limited Partnership (PPG). The agreements state the terms by which the state shall perform with regard to a shopping mall, parking garage and related offsite improvements developed by PPG. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer, during the first 20 years only, of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) \$3,600,000 in the first five years and \$3,560,000 in years 6 through 20. Subsequent to June 30, 1999, the obligation of the state to make these payments to the developer was eliminated.

**Component Units**

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

The R.I. Airport Corporation (RIAC), a subsidiary and component unit of RIEDC, was obligated for completion of certain airport improvements under commitments of approximately \$27,722,000 which is expected to be funded from current available resources and future operations.

The Narragansett Bay Water Quality Management District Commission has entered into various engineering and construction contracts for the design and improvement of its facilities as part of a capital improvement program. Commitments under these contracts aggregated approximately \$6,457,000 at June 30, 1999.

The R.I. Resource Recovery Corporation's (RIRRC) currently licensed landfill consists of areas known as Phases II, III, and IV. The capacity of Phase I was reached in May 1993. Phases II and III encompass 34 acres adjoining Phase I. Phase II consists of two areas, referred to as Area I and Area II. Waste disposal commenced on Area II in April 1993 and on Area I in March 1995. Phase III commenced in June 1997. Approximately \$9,440,000 in costs relating to Phase II and \$5,303,000 relating to Phase III have been incurred as of June 30, 1999, and are included in land and improvements in the financial statements. Phase IV consists of four eleven acre cells of which two cells are expected to be ready to accept refuse on or near October 1, 1999. However, waste disposal cannot commence until completion of construction of the leachate pump station which is expected to be completed April 1, 2000. Cost estimates for future development of an additional landfill, Phase V (not yet licensed), are not available. To date, \$12,866,776 has been expended on legal fees, permitting and engineering costs related to Phase IV, and other costs associated with readying the area for use, including relocation of a brook.

The Environmental Protection Agency (EPA) established closure and postclosure care requirements for municipal solid waste landfills as a condition for the right to operate a landfill in the current period. Based on RIRRC's engineers and independent engineering studies, it is estimated that these costs of closure and postclosure activities for Phase I, II and III will be approximately \$28,172,000. The liability at June 30, 1999 is approximately \$23,155,000, with \$1,063,000 remaining to be recognized. RIRRC recognizes an expense and a liability for these costs based on landfill capacity used to date. Based on the estimates of RIRRC's engineers, approximately 87% of landfill capacity for Phase II and III, which has approximately 8 to 10 months of estimated life remaining, has been used to date. Amounts provided for closure and postclosure are based on current costs. These costs may be adjusted each year due to changes in the closure and postclosure care plan, inflation or deflation, technology, or applicable laws and regulations. RIRRC has designated investments in the amount of \$7,636,371 to meet the financial requirements of closure and postclosure costs, and plans to increase these designated investments each year to enable it to pay the costs as they are incurred.

In prior years, the EPA issued administrative orders requiring the RIRRC to conduct environmental studies of the landfill and undertake various plans of action. Additionally, in 1986, the landfill was named to the EPA's Superfund National Priorities List. The majority of the studies were completed and were submitted to the EPA for review. During 1996, the RIRRC entered into a consent decree with the EPA concerning remedial actions taken by the RIRRC for groundwater contamination. The consent decree, which was approved by the U.S. District Court on October 2, 1996, requires the establishment of a trust fund in the amount of \$27,000,000 for remedial purposes. The trust is included in restricted assets held in trust on RIRRC's balance sheet. As of June 30, 1999, the market value of the trust was \$22,538,354. The projected additional deposits into the trust fund on an annual basis are as follows: FYE 2000 - \$1,766,667; FYE 2001 - \$1,000,000 and FYE 2002 - \$166,667. The present value of the estimated remaining total expenditures relating to groundwater contamination that will be required as a result of the consent decree is estimated to be approximately \$16,720,000 and is recorded in the financial statements, net of the amount included in the trust fund.

RIRRC is required by the R.I. Department of Environmental Management to restore certain wetlands which are located at the Central Landfill. The costs for this project can not be estimated at this time.

RIRRC is committed, under various contracts and agreements, for a materials recovery facility and a methane gas collection-flare system.

In addition, RIRRC is required to grant funds to municipalities to assist them in organizing source separation and recycling programs in their communities.

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**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

RIRRC has entered into an agreement with the City of Cranston to furnish sewer and water services to RIRRC's Johnston facilities in exchange for payments by RIRRC.

The R.I. Convention Center Authority (RICCA) has entered into management contracts with vendors under which these vendors will provide various services relating to the operation of the convention center, parking garages, and hotel. In addition, RICCA has entered into a licensing agreement with a major hotel chain that permits the hotel to use its name, trademark, reservation system and other services.

The R.I. Housing and Mortgage Finance Corporation had loan commitments of \$17,511,700 under various loan programs at June 30, 1999.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 1999 remaining commitments on these contracts approximated \$5,172,000.

The R.I. Higher Education Assistance Authority is required to return to the federal government \$4,310,909 in student loan reserve funds over a period of five years, such that the total is returned by September 1, 2002.

The University of Rhode Island, Rhode Island College and Community College of Rhode Island have begun a technology modernization of core administration systems. This is being accomplished system wide through the Office of Higher Education and will be financed over a seven-year period beginning in fiscal year 2000 at a cost of \$3,700,000, \$2,200,000, and \$2,500,000, respectively.

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**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

**Note 12. Contingencies**

**Primary Government**

The state is involved in various civil lawsuits which could result in monetary loss to the state. The lawsuits are in various developmental stages, some to the point that a favorable decision, with no or minimal loss is anticipated, others, where the outcome and amount of loss, if any, cannot be determined and others which are still in the discovery stage.

**Federal Grants**

The state receives significant amounts of federal financial assistance under grant agreements which specify the purpose of the grant and conditions under which the funds may be used. Generally, these grants are subject to audit. Any disallowances as a result of these audits become a liability of the state. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

**Moral Obligation Bonds**

Some component units issue bonds with bond indentures requiring capital reserve funds. Moneys in the capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bond holder(s). These bonds are considered "moral obligations" of the state when the General Laws require the executive director to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget. At June 30, 1999 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had \$214,199,622 and \$65,324,581, respectively, in "moral obligation" bonds outstanding. Certain of the RIEDC bonds are economic development revenue bonds whereby the state will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. One such employer has certified that the employment level has been exceeded, thereby triggering a credit toward the debt. As a result, the state anticipates paying approximately \$142,000 of the debt on the related economic development revenue bonds in fiscal year 2000.

**Component Units**

**R.I. Student Loan Authority**

The R.I. Student Loan Authority maintains letters of credit in the original stated amount of \$31,940,000 on its January 1995 weekly adjustable interest rate bonds and the originally stated amount of \$69,203,000 on its April 1996 Series I, II and III variable rate bonds. The letters of credit obligate the letter of credit provider to pay to the trustee an amount equal to principal and interest on the bonds when the same becomes due and payable (whether by reason of redemption, acceleration, maturity or otherwise) and to pay the purchase price of the bonds tendered or deemed tendered for purchase but not remarketed. The letters of credit will expire on the earliest to occur: a) January 19, 2000, for the January 1995 issue and April 8, 2001 for the April 1996 issue; b) the date the letter of credit is surrendered to the letter of credit provider; c) when an alternative facility is substituted for the letter of credit; d) when the bonds commence bearing interest at a fixed rate; e) when an event of default has occurred or f) when no amount becomes available to the trustee under the letter of credit.

**R.I. Public Transit Authority**

The R.I. Public Transit Authority has a \$2,000,000 line of credit with a financial institution. The line of credit is due on demand with interest payable at a floating rate at the financial institution's base rate or fixed rate options at the financial institution's cost of funds plus 2.25%. No amount was due under this line of credit at June 30, 1999.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

**R.I. Depositors Economic Protection Corporation**

The R.I. Depositors Economic Protection Corporation has available a \$3,000,000 line of credit agreement with Citizens Bank. This line of credit agreement expires on November 30, 1999. Certain assets of DEPCO are pledged as collateral for any borrowings under this agreement. At June 30, 1999, no amounts are outstanding under this line of credit agreement.

**Note 13. Employer Pension Plans**

**Plan Descriptions**

The state, through the Employees' Retirement System (System), administers four defined benefit pension plans. Three of these plans: the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan and the Judicial Retirement Benefits Trust (JRBT) and the State Police Retirement Benefits Trust (SPRBT), single-employer defined benefit pension plans; cover most state employees. The state does not contribute to the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to state employees, which is subject to amendment by the general assembly, is established by the General Laws as listed below. In addition to the state, there are 40 local public school entities that are members of the ERS. The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903.

**Summary of Significant Accounting Policies**

**Basis of Accounting**

The financial statements of the System are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Dividend income is recorded on the ex-dividend date.

**Method Used to Value Investments**

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale. The fair value of fixed income and domestic and international stocks are generally based on published market prices and quotations from national security exchanges and securities pricing services. Real estate is primarily valued on appraisals by independent appraisers or as adjusted by the general partner. Other securities and investments, which are not traded on a national security exchange, are valued by the respective fund manager. Short-term investments are stated at cost, which approximates fair value. Investment transactions are recorded on a trade date basis.

**Funding Policy and Annual Pension Cost**

The state's annual pension cost (expressed in thousands) for the current year and related information for each plan is listed below. The most recent actuarial information may be found in the separately issued audit report referred to above.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

Contribution rates:	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Plan members - state employees	9.85%	11.43%	23.36%
State contribution for teachers	8.75%	8.75%	8.75%
Annual pension cost	4.24% & 4.90%	\$631	\$737
Contributions made - state employees	\$46,526	\$631	\$737
Contributions made - teachers	\$30,203		
Actuarial valuation method	June 30, 1998	June 30, 1998	June 30, 1998
Amortization period	19 years	25 years	26 years
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed
Equivalent Single Remaining Amortization Period	3 - Year Smoothed Market	3 - Year Smoothed Market	3 - Year Smoothed Market
Asset valuation method	19 years	25 years	26 years
Actuarial Assumptions:			
Rate of return	8.00%	8.00%	8.00%
Projected salary increases	4.50%	5.90%	6.00%
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	3% compounded annually	\$1,500 per annum	3% of original retirement,
Level of benefits established by:			
General Laws)	36-8 to 10	42-28-22.1	8-3-16, 8-4-10-1, 28-30-18.1, and 31-43-11.1

**Three-Year Trend Information**

Year Ending	Annual Pension Cost (APC) (in Thousands)	Percentage of APC Covered	Net Pension Obligation
6/30/97	\$ 80,276	100%	0
6/30/98	86,313	100%	0
6/30/99	78,729	100%	0
State Police Retirement Benefits Trust			
6/30/97	454	100%	0
6/30/98	603	100%	0
6/30/99	631	100%	0
Judicial Retirement Benefits Trust			
6/30/97	619	100%	0
6/30/98	744	100%	0
6/30/99	737	100%	0

**Other**

Certain employees of the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island (primarily faculty and administrative personnel) are covered by individual annuity contracts with the Teachers' Insurance and Annuity Association. Total expenditures by the institutions for such annuity contracts amounted to \$9,755,515 during the year ended June 30, 1999.

The R.I. Public Transit Authority has two pension plans that cover employees meeting certain eligibility requirements. Employer contribution paid in fiscal year 1999 was \$2,479,367. At July 1, 1998, the most recent valuation date, the total pension benefit obligation was \$30,793,291 and net assets available for benefits were \$14,829,631.

Certain other component units have defined contribution pension and savings plans. For information regarding these pension and savings plans, please refer to the component units' separately issued financial reports.

**Note 14. Postemployment Benefits**

In accordance with the General Laws, postretirement health care benefits are provided to state employees who retire on or after July 1, 1989. The benefits in general cover medical and hospitalization costs for pre-Medicare retirees and a Medicare supplement for Medicare-eligible retirees. The state is required to pay a portion of the monthly premium. This payment varies with years of service and ranges from 50% for retirees with 10-15 years of service to 100% for retirees with 35 years of service. During fiscal year 1999, the state

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

contributed 0.69% of covered payroll for postretirement healthcare benefits. The contribution rates are not actuarially determined. Postretirement health care expenses for the fiscal year ended June 30, 1999 were \$3,358,416, net of retirees' contributions for the 2,909 retirees receiving benefits.

In addition to the pension benefits described above, expenditures of \$1,018,188 were recognized for postretirement benefits provided under early retirement incentive programs (an average of \$985 for each of the 1,034 retirees covered by the plans).

The employer share of the above plans is financed on a pay-as-you-go basis.

**Note 15. Deferred Compensation**

The state offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The Department of Administration pursuant to Chapter 36-13 of the General Laws administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Benefit payments are not available to employees earlier than the calendar year in which the participant attains age 70½, termination, retirement, death or "unforeseeable emergency".

Current Internal Revenue Service regulations require that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors. The plan assets also may be held in annuity contracts or custodial accounts, which are treated as trusts.

The state does not serve in a trustee capacity. Accordingly, the plan assets are not included in the financial statements.

**Note 16. Fund Deficits**

The Workers' Compensation Internal Service Fund reported a deficit of \$78,509 at June 30, 1999. This deficit will be funded by future revenues.

The University of Rhode Island proprietary operations reported a deficit of \$2,783,377 at June 30, 1999. This deficit will be funded by future revenues.

The R.I. Convention Center Authority reported a deficit of \$55,044,282 at fiscal year ended June 30, 1999. This deficit will be funded by future revenues.

The R.I. Depositors Economic Protection Corporation reported a deficit of \$43,903,044 at fiscal year ended June 30, 1999. This deficit will be funded by future revenues.

The R.I. Public Transit Authority reported a deficit of \$5,756,413 at fiscal year ended June 30, 1999. This deficit will be funded by future revenues.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

**Note 17. Restatement of Fund Equity**

Certain restatements of fund equity balances, as of June 30, 1998, are summarized in the following table (expressed in thousands):

	June 30, 1998 Fund Equity As Previously Reported	Increase	July 1, 1998 Fund Equity Restated
<b>Primary Government</b>			
Internal Service Funds			
Central Services	\$ 832	\$ 19	\$ 851
Correctional Industries	434	206	640
Other Internal Service Funds	2,461		2,461
	<u>\$ 3,727</u>	<u>\$ 225</u>	<u>\$ 3,952</u>
<b>Proprietary Component Units</b>			
R.I. Housing and Mortgage Finance Corporation	\$ 217,254	\$ 10,718	\$ 227,972
R.I. Turnpike and Bridge Authority	25,140	62	25,202
R.I. Economic Development Corporation	218,305	661	218,966
R.I. Resource Recovery Corporation	43,098	1,210	44,308
Other Proprietary Component Units	157,967		157,967
	<u>\$ 661,764</u>	<u>\$ 12,651</u>	<u>\$ 674,415</u>

The beginning retained earnings of the Central Services and Correctional Industries Internal Service Funds were restated to correct errors resulting in an understatement of previously reported assets.

The R.I. Housing and Mortgage Finance Corporation restated fund equity as a result of including the beginning fund balance of a previously unreported component unit, the Affordability Housing Trust. The beginning retained earnings of the R.I. Turnpike and Bridge Authority and the R.I. Resource Recovery Corporation were restated to correct errors resulting in an understatement of previously reported assets. The beginning retained earnings of R.I. Economic Development Corporation were restated to reflect a decrease in net pension obligation.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

**Note 18. Segment Information**

Segment information for the governmental and proprietary component units is presented (expressed in thousands) in the following schedules:

Governmental	URI	RIC	CCRI	CFSD
Due from primary government	\$ 55,727	\$ 15,185	\$ 7,813	\$ 2,958
Other current assets	2,053			
Fixed assets (net)	46,613	24,627	11,386	1,645
Current liabilities	25,843	10,529	4,504	1,934
Bonds payable	22,335	13,798	7,395	1,645
Other long-term liabilities	173,262	43,610	32,651	784
Revenues	234,129	73,981	61,708	24,826
Current expenditures	14,383	2,799	2,784	641
Capital outlay expenditures	5,644	1,357	420	
Debt service expenditures	73,228	33,909	31,565	24,878
Transfers from primary government	1,073	472	125	211
Excess of revenues and expenditures				
Net gain from proprietary operations	45			

Proprietary	RHMFCC	RISLA	RITBA	RIEDC	RICCA	NBC
Due from primary government	\$ 1,887,838	\$ 499,845	\$ 28,119	\$ 18,446	\$ 24,973	\$ 28,440
Other current assets	16,207	114	42,919	156,410	235,114	200,389
Fixed assets (net)	34,339	9,641	1,191	10,257	5,382	5,877
Current liabilities	1,509,381	465,708	45,227	202,968	309,254	22,284
Bonds payable	177,267			44,843	2,053	41,000
Other long-term liabilities	133,550	34,168	11,438	30,189	30,611	27,715
Operating revenue	121,040	27,819	4,409	24,245	27,142	20,775
Operating expenses	2,963	424	772	13,176	10,238	4,343
Depreciation, depletion and amortization	9,547	5,926	6,257	(7,232)	(6,769)	2,596
Operating grants, entitlements and shared revenue				814		49
Transfers from primary government				6,030	11,749	(21)
Net income (loss)	7,827	5,926	5,911	(7,117)	(13,110)	699
Current capital contribution				(9,043)		1,764

Proprietary	RIHEBC	RIRRC	DEPCO	RIHEAA	RIPTA	RIIFC
Due from primary government	\$ 7,263	\$ 35,127	\$ 8,443	\$ 19,760	\$ 355	\$ 1,103
Other current assets	10	38,556	40,740	1,707	29,759	10
Fixed assets (net)	12	5,421	6,201	5,293	13,550	8
Current liabilities			186,470			564
Bonds payable						150
Other long-term liabilities	880	61,536	1,725	958	8	44
Operating revenue	460	45,742	100,736	4,947	9,899	38,666
Operating expenses	3	15,032	7,030	11,430	38,666	4,780
Depreciation, depletion and amortization	416	5,794	188	141	4,780	(33,547)
Operating grants, entitlements and shared revenue		24,916	93,518	(6,624)		269
Transfers from primary government						7,149
Net income (loss)	846	(2,000)	(15,000)	1,704	(3,798)	2,577
Current capital contribution		16,313	110,957			125

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

**Note 19. Risk Management**

The state is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; employee injury, and natural disasters.

The state has entered into agreements with commercial insurance companies for comprehensive insurance coverage on state property to protect the state against loss from fire and other risks. Furthermore, the state is required by the General Laws to provide insurance coverage on all motor vehicles owned by the state and operated by state employees in the sum of \$100,000 per person and \$300,000 per accident for personal injury and \$20,000 for property damage. The state also contracts with various insurance carriers and health maintenance organizations to provide health care benefits to employees.

The state is self-insured for risks of loss related to torts. Tort claims are defended by the state Attorney General and, when necessary, appropriations are provided to pay claims.

The state is self-insured for various risks of loss related to work related injuries of state employees. The state maintains the Workers' Compensation Fund, an internal service fund that services workers' compensation claims. The fund bills to user agencies the costs associated with claims and a service charge to cover the fund's administrative expenses.

There are no funds reserved for pending claims or incurred but not reported liabilities.

Proprietary	RICWFA	RIIRBA	RIWRBC	RIPTCA	RICHE
Due from primary government	\$ 181,494	\$ 2,665	\$ 11,745	\$ 2,287	\$ 10,292
Other current assets	28	649		5,808	58
Fixed assets (net)	1,992	43	1,361	514	350
Current liabilities	114,666		19,111		
Bonds payable	67	500		6,486	47,800
Other long-term liabilities	8,990	395	2,519	2,383	2,531
Operating revenue	7,223	182	25	3,059	4,546
Operating expenses	12	14	113	1,002	18
Depreciation, depletion and amortization	1,755	199	2,380	(1,676)	(2,033)
Operating grants, entitlements and shared revenue				556	1,500
Transfers from primary government				1,797	
Net income (loss)	12,161	283	(277)	249	(350)
Current capital contribution					

**Note 20. Extraordinary Items and Cumulative Effect of a Change in Accounting Principle**

The R.I. Housing and Mortgage Finance Corporation periodically retires bonds prior to the redemption date. Deferred bond issuance costs, along with any premium paid on the call, in the amount of \$2,018,518 were reported as an extraordinary loss in fiscal year 1999.

The R.I. Depositors Economic Protection Corporation reported an extraordinary item of \$3,674,501. This was the result of reporting an accounting loss on a debt defeasance that was funded through the liquidation of assets, net legal settlements, and excess state sales tax.

The R.I. Airport Corporation (RIAC), a subsidiary of the R.I. Economic Development Corporation, reported \$2,064,129 as the cumulative effect of a change in accounting principle. RIAC recognized a Passenger Facility Charges (PFC) receivable and contributed capital for the portion of construction costs incurred that related to PFC-approved projects. The new method of accounting for PFCs was adopted as a result of the issuance by the GASB of definitive guidance related to the accounting for non-exchange transactions.

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**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

**Note 21. Related Party Transactions**

The R.I. Depositors Economic Protection Corporation (DEPCO) is entitled by statute to six-tenths of one percent within the state's sales and use tax rate. For the fiscal year ended June 30, 1999, the portion of the state's sales tax appropriated for DEPCO amounted to \$53,117,924. Payment to DEPCO requires an annual appropriation by the General Assembly. The General Assembly is not legally bound or obligated to make such appropriations. The state budget for fiscal year 2000 as enacted by the General Assembly kept the dedication at six-tenths of one percent within the state's existing sales and use tax rate. The fiscal year 2000 appropriation is estimated to yield approximately \$55,600,000 for deposit to DEPCO.

The R.I. Resource Recovery Corporation (RIRRC) entered into a lease and agreement with the state whereby the RIRRC agreed to lease the landfill to the state. Pursuant to this lease and agreement RIRRC issued \$15,000,000 of notes on August 1, 1998. The principal and interest on these notes are secured by rentals as set forth in the lease and agreement. The notes matured on July 30, 1999. On August 1, 1999, \$5,000,000 of these notes was refinanced with a maturity date of July 28, 2000. The remaining \$10,000,000 was paid out of available cash and investments.

Funds held by the University of Rhode Island Foundation for the future use of the university and its faculty and students are not reflected in the accompanying financial statements. Funds held at June 30, 1999 amounted to \$58,169,400. Distributions of \$7,642,996 during the fiscal year ended June 30, 1999 are included in private gift revenue of the university.

Funds held by the Rhode Island College Foundation for the future use of the college and its faculty and students are not reflected in the accompanying financial statements. Funds held at June 30, 1999 amounted to approximately \$7,940,000. There were no distributions to RIC during the fiscal year ended June 30, 1999.

As of June 30, 1999, the Employees' Retirement System held investments in bonds issued by the R.I. Industrial Facilities Corporation having a fair value of \$23,000,000 and by the R.I. Housing and Mortgage Finance Corporation having a fair value of \$4,050,373. These corporations are included as component units in the accompanying general-purpose financial statements.

The R.I. Industrial-Recreational Building Authority is authorized to insure mortgages and first security agreements for companies conducting business in the state, granted by financial institutions and the R.I. Industrial Facilities Corporation.

The state entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC) a subsidiary of the R.I. Economic Development Corporation providing for the lease and/or transfer from the state to the RIAC all real, personal, and tangible property, intangible property, including accounts receivable, contract rights, choices in action, licenses, permits, grants, and entitlements; and all other assets of the state used or used primarily in connection with the administration, maintenance, management, regulation, operation, improvement, development or use of the state's six airports and other air facilities. RIAC agrees to reimburse the state for principal and interest payments for certain airport related General Obligation Bonds. The term of the agreement is 35 years beginning July 1, 1993, with annual rent of \$1.00.

**Note 22. Subsequent Events**

**Primary Government**

In September 1999, the state issued \$63,120,000 of general obligation serial bonds and \$32,390,000 of general obligation multi-modal bonds. The interest rates of the serial bonds ranged from 5.00% to 5.75% with maturities from 2001 to 2019. The interest rates on the multi-modal bonds varies.

**Component Units**

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**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

Subsequent to June 30, 1999, the Alpha-Beta technology facility was sold for \$20,000,000 through a receivership. The estimated short fall was \$5,712,000 which was paid by the state through a loan to the R.I. Economic Development Corporation.

In August 1999 and November 1999, the R.I. Housing and Mortgage Finance Corporation (RIHMFC) issued bonds in the amount of \$85,000,000 and \$37,185,000 respectively. Additionally in October 1999, RIHMFC called \$72,235,000 of bonds outstanding at June 30, 1999.

In August 1999, DEPCO defeased \$32,005,000 of its special obligation bonds.

In August 1999, the R.I. Clean Water Finance Agency issued \$24,010,000 of Water Pollution Control Revolving Fund Revenue Bonds. The interest rates ranged from 4.15% to 5.63% and the bonds mature in October 2019.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF FUNDING PROGRESS**

*(Expressed in thousands)*

**Employees' Retirement System**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded Frozen Actuarial Liability (UFAL) (b)	Frozen Initial Liability (c) = (a + b)	Funded Ratio (a / c)	Covered Payroll (d)	Excess as a Percentage of Covered Payroll (b / d)
6/30/96	3,710,939	1,212,709	4,923,648	75.4%	1,008,723	120.2%
6/30/97	4,437,070	1,455,147	5,892,217	75.3%	1,047,786	138.9%
6/30/98	5,121,478	1,454,527	6,576,005	77.9%	1,113,567	130.6%

**State Police Retirement Benefits Trust**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded Frozen Actuarial Liability (UFAL) (b)	Frozen Initial Liability (c) = (a + b)	Funded Ratio (a / c)	Covered Payroll (d)	Excess as a Percentage of Covered Payroll (b / d)
6/30/96	3,116	560	3,676	84.8%	4,949	11.3%
6/30/97	4,862	574	5,436	89.4%	5,371	10.7%
6/30/98	6,757	581	7,338	92.1%	7,212	8.1%

**Judicial Retirement Benefits Trust**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded Frozen Actuarial Liability (UFAL) (b)	Frozen Initial Liability (c) = (a + b)	Funded Ratio (a / c)	Covered Payroll (d)	Excess as a Percentage of Covered Payroll (b / d)
6/30/96	1,345	41	1,386	97.0%	2,597	1.6%
6/30/97	2,607	901	3,508	74.3%	2,815	32.0%
6/30/98	4,120	929	5,049	81.6%	3,040	30.6%

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EXHIBIT B

State Economic Information

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## **Economic Information**

The information contained herein was developed from reports provided by Federal and State agencies believed to be reliable and which may be relevant in evaluating the economic and financial condition and prospects of the State of Rhode Island. The demographic information and statistical data, which have been obtained from the sources indicated, do not necessarily present all factors that may have a bearing on the State's fiscal and economic affairs. All information is presented on a calendar-year basis unless otherwise indicated. Sources of information are indicated in the text or immediately following the charts and tables. Although the State considers the sources to be reliable, the State has made no independent verification of the information presented herein and does not warrant its accuracy.

### **Overview**

**Population Characteristics.** Rhode Island experienced modest population increases between 1980 and 1990. The 1990 United States census count for Rhode Island was 1,005,000 or 5.9 percent more than the 949,000 counted in 1980. While the Rhode Island population did not change significantly between 1989 and 1993, it decreased by 0.6 percent between 1994 and 1996. Bureau of the Census estimates for 1998 show the Rhode Island population to be 988,480. In contrast, the total United States population increased by approximately 9.7 percent between 1980 and 1990, 3.4 percent between 1990 and 1993, and 2.9 percent between 1993 and 1996.

**Personal Income, Consumer Prices, and Poverty.** Per capita personal income levels in Rhode Island have been consistent with those in the United States since 1970. In addition, Rhode Island has maintained a poverty rate below the national average. In 1998, 11.6 percent of the Rhode Island population was below the poverty line, while 12.7 percent of the population of the United States fell below the poverty line.

**Employment.** Total employment levels in Rhode Island grew at a rate of 1.9 percent in 1997, 1.8 percent in 1998 and 1.4 percent in 1999. The employment sectors that did not grow in 1999 were Transportation and Utility, Government and Manufacturing, which have experienced declining employment levels since 1985. The sector employing the greatest number of people in Rhode Island continues to be the service sector, which contributed approximately one-third of total non-agricultural employment in 1999.

**Economic Base and Performance.** Rhode Island has a diversified economic base which includes traditional manufacturing, high technology, and service industries. A substantial portion of products produced by these and other sectors is exported. Like most other historically industrial states, Rhode Island has seen a shift in employment from labor-intensive manufacturing industries to technology and service-based industries.

**Human Resources.** Skilled human capital is the foundation of economic strength in Rhode Island. It provides the basis for a technologically dynamic and industrially diverse regional economy. The Rhode Island population is well educated with 27.6 percent of its residents over the age of 25 having received at least an Associate's degree according to the 1990 census. In addition, per pupil spending on public elementary and secondary education in Rhode Island has been significantly higher than the national average since 1983. For the 1997-98 academic year Rhode Island spent twenty-nine and a half percent more per pupil than the national average.

## Population Characteristics

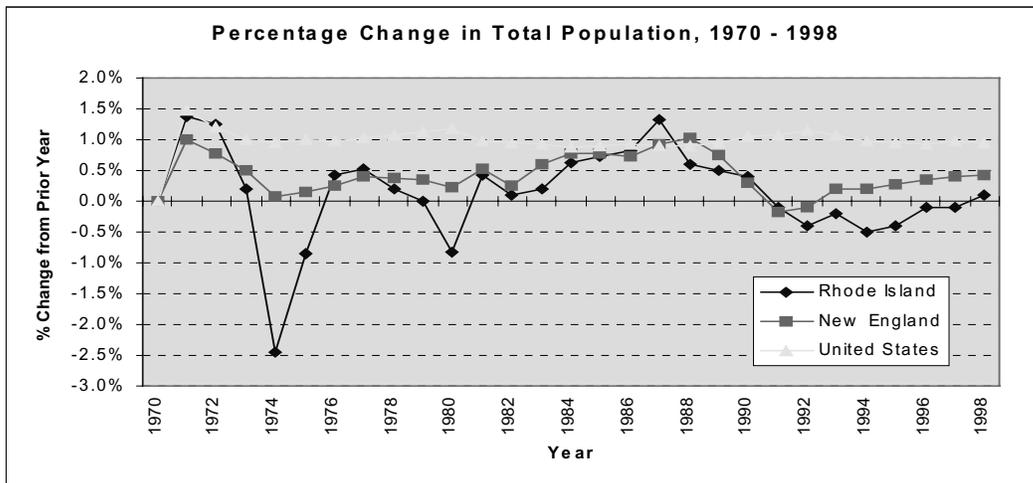
Among the 50 states, Rhode Island is one of the most densely populated with a comparatively large percentage of its residents living in metropolitan areas. The population density of the State in 1990 was 960.3 persons per square mile, as compared to 70.3 for the United States as a whole. The City of Providence had a population of 160,728, according to the 1990 United States Census. The official metropolitan area of Providence County, with a 1990 population of 596,270, contains 59.4 percent of the Rhode Island inhabitants. As the following chart indicates, the percentage change in population in Rhode Island since 1971 has been both lower and more erratic than the change in population for the United States as a whole. It differs considerably from the steady growth rates for the United States over the same period of time. Between 1990 and 1998 population growth in Rhode Island was negative, decreasing by 1.7 percent, compared to a 7.3 percent increase for the United States.

Population, 1970 – 1998  
(in thousands)

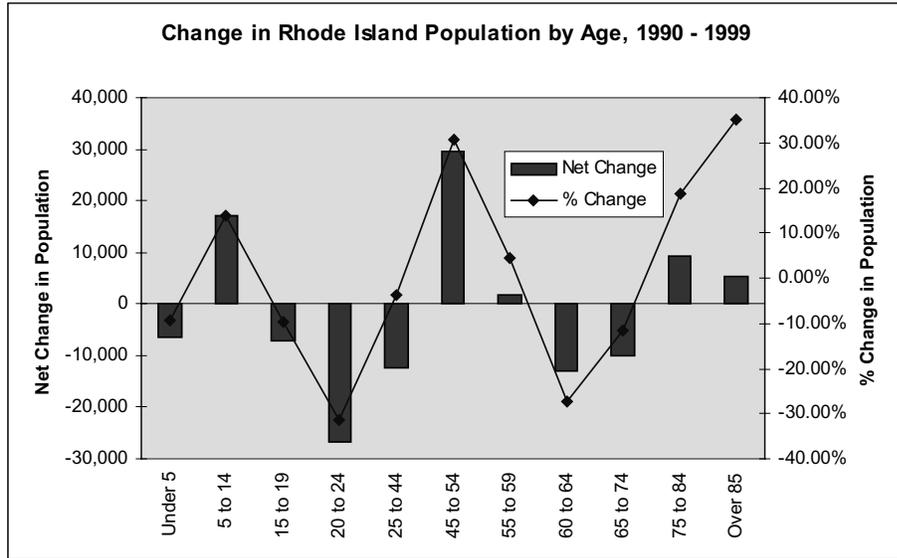
Year	RI	Change	NE	Change	US	Change
1970	951	0.0%	11,878	0.0%	203,799	0.0%
1971	964	1.4%	11,996	1.0%	206,818	1.5%
1972	976	1.2%	12,088	0.8%	209,275	1.2%
1973	978	0.2%	12,148	0.5%	211,349	1.0%
1974	954	-2.5%	12,157	0.1%	213,334	0.9%
1975	946	-0.8%	12,176	0.2%	215,457	1.0%
1976	950	0.4%	12,207	0.3%	217,554	1.0%
1977	955	0.5%	12,257	0.4%	219,761	1.0%
1978	957	0.2%	12,303	0.4%	222,098	1.1%
1979	957	0.0%	12,345	0.3%	224,569	1.1%
1980	949	-0.8%	12,372	0.2%	227,225	1.2%
1981	953	0.4%	12,436	0.5%	229,466	1.0%
1982	954	0.1%	12,468	0.3%	231,664	1.0%
1983	956	0.2%	12,544	0.6%	233,792	0.9%
1984	962	0.6%	12,642	0.8%	235,825	0.9%
1985	969	0.7%	12,741	0.8%	237,924	0.9%
1986	977	0.8%	12,833	0.7%	240,133	0.9%
1987	990	1.3%	12,951	0.9%	242,289	0.9%
1988	996	0.6%	13,085	1.0%	244,499	0.9%
1989	1,001	0.5%	13,182	0.7%	246,819	0.9%
1990	1,005	0.4%	13,220	0.3%	249,439	1.1%
1991	1,004	-0.1%	13,197	-0.2%	252,127	1.1%
1992	1,000	-0.4%	13,183	-0.1%	254,995	1.1%
1993	998	-0.2%	13,208	0.2%	257,746	1.1%
1994	993	-0.5%	13,233	0.2%	260,289	1.0%
1995	989	-0.4%	13,271	0.3%	262,765	1.0%
1996	988	-0.1%	13,319	0.4%	265,190	0.9%
1997	987	-0.1%	13,372	0.4%	267,744	1.0%
1998	988	0.1%	13,430	0.4%	270,299	1.0%

Source: United States Department of Commerce, Bureau of Economic Analysis.

The preceding table and following chart compare the population level and percentage change in population level of Rhode Island with those of the New England States and the United States.

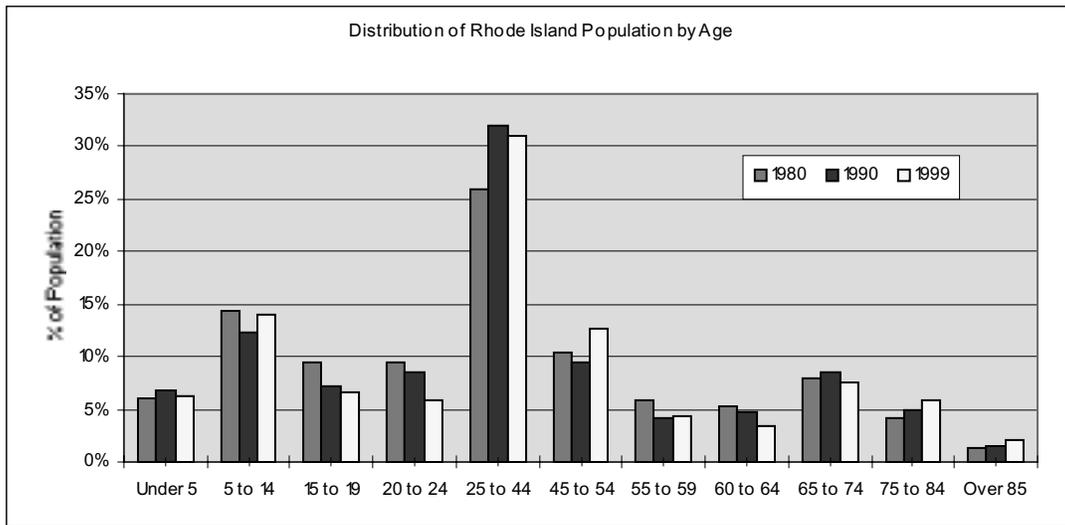


The following chart shows the net change in Rhode Island population between 1990 and 1999 by classification of ages.



Source: Rhode Island Economic Development Corporation, Research Division

The next fifteen years are expected to bring about a considerable change in the age distribution of the Rhode Island population. As the following chart shows, the population of Rhode Island was distributed more heavily in the "25 and over" age groups in 1999 than it was in 1990. At the same time, the percentage of people under the age of 25 declined. The median age for Rhode Islanders in 1990 was 33.8 years and rose to 36.6 years in 1999.



Source: Rhode Island Economic Development Corporation Research Division.

## Personal Income, Consumer Prices, and Poverty

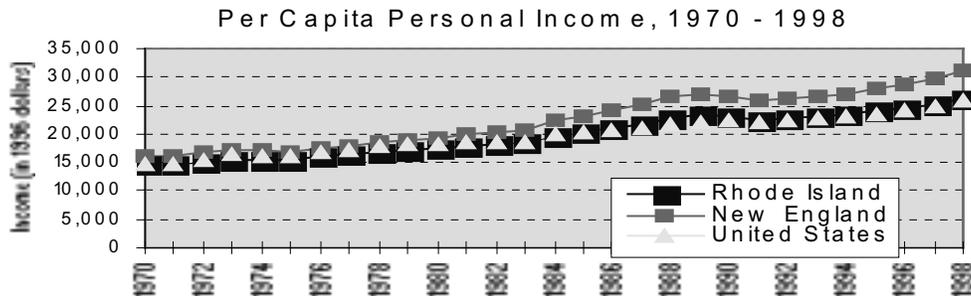
**Personal Income.** Since 1986, real and nominal per capita income levels have been marginally higher in Rhode Island than in the United States. Between 1979 and 1989, real income levels in Rhode Island grew at an annual rate higher than that for the United States. Since 1989, however, real per capita income levels in Rhode Island have grown at a more uneven rate, experiencing declines in 1990 and 1991. In 1995, real per capita income in Rhode Island jumped by 3.0 percent, the largest increase since 1988 and 0.8 of a percentage point higher than the national growth rate of 2.2 percent. Per capita income in Rhode Island remained higher than that in the United States in 1998: \$26,924 versus \$26,482. The following table compares per capita personal income in Rhode Island, New England, and the United States for the period 1970 - 1998.

Per Capita Personal Income 1970-1998

Year	Nominal Income (in current dollars)			Deflator	Real Income (in 1996 dollars)			Percentage Change in Real Income		
	R.I.	N.E.	U.S.		R.I.	N.E.	U.S.	R.I.	N.E.	U.S.
1970	4,090	4,479	4,077	28.0%	14,607	15,996	14,561	-	-	-
1971	4,264	4,702	4,327	29.2%	14,603	16,103	14,818	0.0%	0.7%	1.8%
1972	4,594	5,054	4,699	30.2%	15,212	16,735	15,560	4.2%	3.9%	5.0%
1973	4,940	5,504	5,211	31.9%	15,486	17,254	16,335	1.8%	3.1%	5.0%
1974	5,395	5,978	5,676	35.1%	15,370	17,031	16,171	-0.7%	-1.3%	-1.0%
1975	5,831	6,373	6,100	38.0%	15,345	16,771	16,053	-0.2%	-1.5%	-0.7%
1976	6,402	6,962	6,690	40.1%	15,965	17,362	16,683	4.0%	3.5%	3.9%
1977	6,983	7,606	7,334	42.7%	16,354	17,813	17,176	2.4%	2.6%	3.0%
1978	7,677	8,455	8,196	45.8%	16,762	18,461	17,895	2.5%	3.6%	4.2%
1979	8,555	9,478	9,118	49.8%	17,179	19,032	18,309	2.5%	3.1%	2.3%
1980	9,685	10,705	10,062	55.2%	17,545	19,393	18,228	2.1%	1.9%	-0.4%
1981	10,735	11,899	11,144	60.1%	17,862	19,799	18,542	1.8%	2.1%	1.7%
1982	11,478	12,787	11,715	63.5%	18,076	20,137	18,449	1.2%	1.7%	-0.5%
1983	12,293	13,748	12,356	66.2%	18,569	20,767	18,665	2.7%	3.1%	1.2%
1984	13,540	15,319	13,571	68.6%	19,738	22,331	19,783	6.3%	7.5%	6.0%
1985	14,403	16,420	14,410	71.0%	20,286	23,127	20,296	2.8%	3.6%	2.6%
1986	15,331	17,610	15,106	72.7%	21,088	24,223	20,779	4.0%	4.7%	2.4%
1987	16,412	19,075	15,945	75.5%	21,738	25,265	21,119	3.1%	4.3%	1.6%
1988	17,900	20,810	17,038	78.4%	22,832	26,543	21,732	5.0%	5.1%	2.9%
1989	19,184	22,103	18,153	81.9%	23,424	26,988	22,165	2.6%	1.7%	2.0%
1990	19,698	22,741	19,156	85.6%	23,012	26,567	22,379	-1.8%	-1.6%	1.0%
1991	19,982	23,078	19,623	88.9%	22,477	25,960	22,073	-2.3%	-2.3%	-1.4%
1992	20,819	24,150	20,547	91.6%	22,728	26,365	22,431	1.1%	1.6%	1.6%
1993	21,735	24,903	21,220	93.8%	23,172	26,549	22,623	2.0%	0.7%	0.9%
1994	22,315	25,934	22,056	95.7%	23,318	27,099	23,047	0.6%	2.1%	1.9%
1995	23,520	27,439	23,059	97.9%	24,025	28,028	23,554	3.0%	3.4%	2.2%
1996	24,356	28,872	24,164	100.0%	24,356	28,872	24,164	1.4%	3.0%	2.6%
1997	25,667	30,427	25,288	102.0%	25,164	29,830	24,792	3.3%	3.3%	2.6%
1998	26,924	32,007	26,482	102.9%	26,165	31,105	25,736	4.0%	4.3%	3.8%

Source: United States Department of Commerce, Bureau of Economic Analysis.  
 Note: The 1996 "Real Income" figures are based on national implicit price deflators for personal consumption expenditures

The chart below shows real per capita personal income in Rhode Island and the United States since 1970.



**Average Annual Pay.** Although the growth in per capita personal income has fluctuated, annual pay has grown steadily in Rhode Island over the past fourteen years. Average annual pay is computed by dividing total annual payrolls of employees covered by unemployment insurance programs by the average monthly number of these employees. Data are reported by employers covered under the unemployment insurance programs. As annual pay has increased consistently for the last fourteen years, the ratio of pay levels in Rhode Island to the United States has also narrowed. In 1984 annual pay in Rhode Island was only 88.0 percent of the national average. However, in 1998 that gap closed to 94.5 percent: \$30,148 versus \$31,908.

Average Annual Pay, 1984 - 1998  
(in current dollars)

Year	Annual Pay		Ratio RI/US	Change	
	RI	US		RI	US
1984	16,150	18,353	88.0%	-	-
1985	16,864	19,189	87.9%	4.4%	4.6%
1986	17,733	19,966	88.8%	5.2%	4.0%
1987	18,858	20,857	90.4%	6.3%	4.5%
1988	20,206	21,872	92.4%	7.1%	4.9%
1989	21,128	22,563	93.6%	4.6%	3.2%
1990	22,387	23,602	94.9%	6.0%	4.6%
1991	23,082	24,578	93.9%	3.1%	4.1%
1992	24,315	25,897	93.9%	5.3%	5.4%
1993	24,889	26,361	94.4%	2.4%	1.8%
1994	25,454	26,939	94.5%	2.3%	2.2%
1995	26,375	27,846	94.7%	3.6%	3.4%
1996	27,194	28,946	93.9%	3.1%	4.0%
1997	28,662	30,353	94.4%	5.4%	4.9%
1998(p)	30,148	31,908	94.5%	5.2%	5.1%

Source: United States Department of Labor, Bureau of Labor Statistics. (p)=preliminary.

**Consumer Prices.** The following table presents consumer price trends for the Northeast and the United States for the period between 1975 and 1999. Data for each year indicate the Consumer Price Index for all urban consumers (CPI-U) and the percentage change in the Consumer Price Index for all urban consumers from the previous year. From 1993-1996, the rate of change of the CPI-U for the Northeast has been lower than that of the United States in every year implying that inflation has been lower in the Northeast.

Consumer Price Index for all Urban Consumers (CPI-U),  
1975 - 1999 (1982 = 100)

Year	CPI-U		Ratio Northeast/US	Change	
	Northeast	US		Northeast	US
1975	55.8	53.8	103.7%		
1976	59.0	56.9	103.7%	5.7%	5.8%
1977	62.3	60.6	102.8%	5.6%	6.5%
1978	66.2	65.2	101.5%	6.3%	7.6%
1979	72.8	72.6	100.3%	10.0%	11.3%
1980	82.2	82.4	99.8%	12.9%	13.5%
1981	91.0	90.9	100.1%	10.7%	10.3%
1982	95.8	96.5	99.3%	5.3%	6.2%
1983	99.8	99.6	100.2%	4.2%	3.2%
1984	104.5	103.9	100.6%	4.7%	4.3%
1985	108.4	107.6	100.7%	3.7%	3.6%
1986	111.1	109.6	101.4%	2.5%	1.9%
1987	116.0	113.6	102.1%	4.4%	3.6%
1988	121.8	118.3	103.0%	5.0%	4.1%
1989	128.6	124.0	103.7%	5.6%	4.8%
1990	136.3	130.7	104.3%	6.0%	5.4%
1991	142.5	136.2	104.6%	4.5%	4.2%
1992	147.3	140.3	105.0%	3.4%	3.0%
1993	151.4	144.5	104.8%	2.8%	3.0%
1994	155.1	148.2	104.7%	2.4%	2.6%
1995	159.1	152.4	104.4%	2.6%	2.8%
1996	163.6	156.9	104.3%	2.8%	3.0%
1997	167.6	160.5	104.4%	2.4%	2.3%
1998	170.0	163.0	104.3%	1.4%	1.6%
1999	173.5	166.6	104.1%	2.1%	2.2%

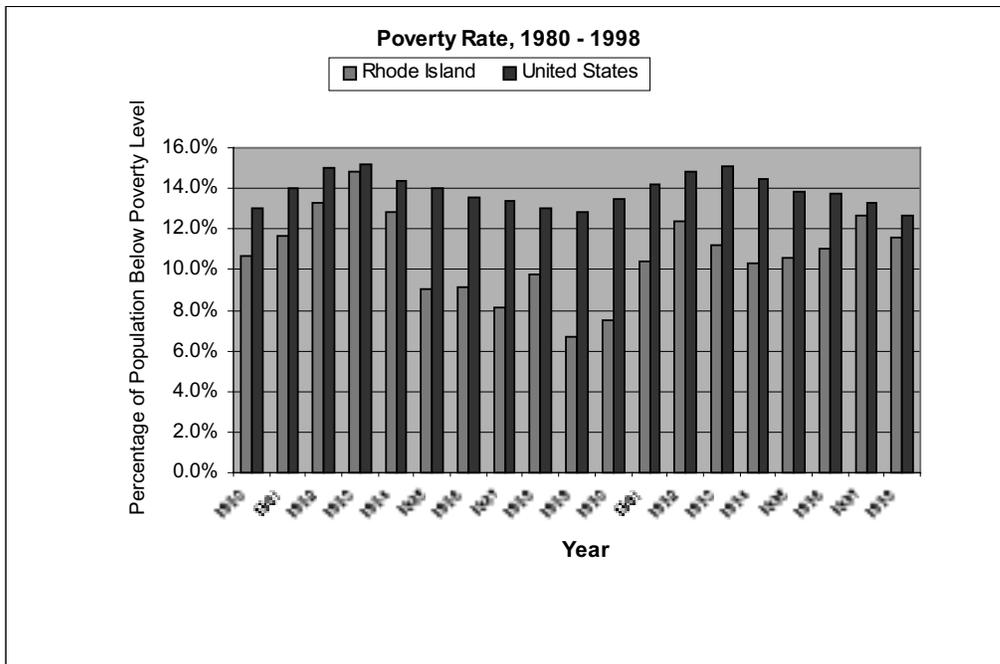
Source: United States Department of Labor, Bureau of Labor Statistics.

**Poverty.** The Rhode Island poverty rate is significantly below the national average. Between 1980 and 1998, the percentage of the Rhode Island population below the poverty line has varied between 6.7 percent and 14.8 percent. During the same time, the national poverty rate varied between 12.7 percent and 15.2 percent. In 1998, the poverty rate in Rhode Island was 11.6 percent while the poverty rate in the United States was 12.7 percent. These official poverty statistics are not adjusted for regional differences in the cost of living. The following chart and table illustrate the lower poverty rates in Rhode Island compared with the national average from 1980 through 1998.

Poverty Rate, 1980 - 1998

Year	RI	US	Ratio RI/US	Change	
				RI	US
1980	10.7	13.0	82.3%	-	-
1981	11.7	14.0	83.6%	9.3%	7.7%
1982	13.3	15.0	88.7%	13.7%	7.1%
1983	14.8	15.2	97.4%	11.3%	1.3%
1984	12.8	14.4	88.9%	-13.5%	-5.3%
1985	9.0	14.0	64.3%	-29.7%	-2.8%
1986	9.1	13.6	66.9%	1.1%	-2.9%
1987	8.1	13.4	60.4%	-11.0%	-1.5%
1988	9.8	13.0	75.4%	21.0%	-3.0%
1989	6.7	12.8	52.3%	-31.6%	-1.5%
1990	7.5	13.5	55.6%	11.9%	5.5%
1991	10.4	14.2	73.2%	38.7%	5.2%
1992	12.4	14.8	83.8%	19.2%	4.2%
1993	11.2	15.1	74.2%	-9.7%	2.0%
1994	10.3	14.5	71.0%	-8.0%	-4.0%
1995	10.6	13.8	76.8%	2.9%	-4.8%
1996	11.0	13.7	80.3%	3.8%	-0.7%
1997	12.7	13.3	95.5%	15.5%	-2.9%
1998	11.6	12.7	91.3%	-8.7%	-4.5%

Source: US Department of Commerce, Bureau of the Census.



## Employment

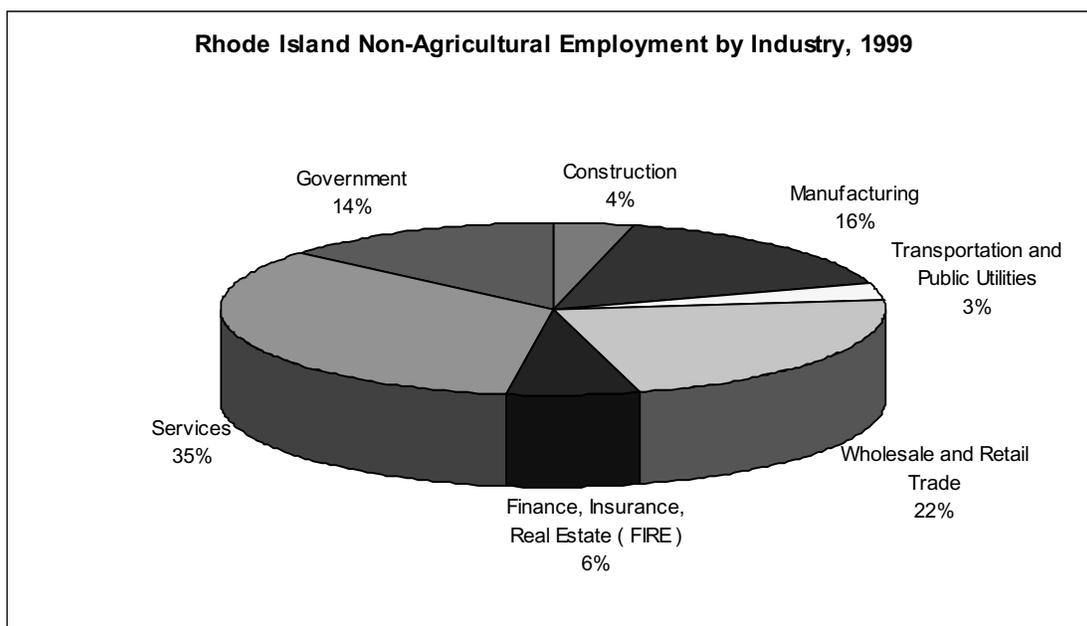
Between 1989 and 1991, total non-agricultural employment in Rhode Island declined 8.7 percent. The construction, manufacturing, and trade sectors experienced the greatest decreases during this time. In 1993, 1994 and 1995, however, total non-agricultural employment increased by 1.3 percent, 1.0 percent and 1.4 percent respectively. Employment levels increased in all sectors except manufacturing. The manufacturing sector has experienced employment declines in every year since 1984. The most rapid growth in 1999 came in the Construction sector, which grew at a rate of 14.1 percent. Total non-agricultural employment increased by 5.5 percent between 1995 and 1999. The following table summarizes the changes in employment by sector from 1989 to 1999. Total non-agricultural employment increased by 0.5 percent during this period. Further detail is presented in the table on the following page.

Rhode Island Non-Agricultural Employment by Industry  
Summary - 1989 & 1999

Employment Sector	1989	% of Total	1999	% of Total	Change 1989-1999
Construction	20,400	4.4%	17,800	3.8%	-12.7%
Manufacturing	108,300	23.4%	74,700	16.1%	-31.0%
Transportation and Public Utilities	15,500	3.4%	16,000	3.4%	3.2%
Wholesale and Retail Trade	106,900	23.1%	104,000	22.4%	-2.7%
Finance, Insurance, Real Estate (FIRE)	26,800	5.8%	29,600	6.4%	10.4%
Services	124,900	27.0%	159,000	34.2%	27.3%
Government	59,100	12.8%	63,200	13.6%	6.9%
<b>Total Employment</b>	<b>461,900</b>	<b>100.0%</b>	<b>464,400</b>	<b>100.0%</b>	<b>0.5%</b>

Source: RI Department of Labor and Training, Labor Market Information.

**Employment by Industry.** The Rhode Island services sector, with 34.2 percent of the non-agricultural work force in 1999, is the largest employment sector in the Rhode Island economy, followed by wholesale and retail trade (22.4 percent), manufacturing (16.1 percent), and government employment (13.6 percent).



Rhode Island Non-Agricultural Wage and Salaried Employment by Industry, 1984 - 1999

Year	Construction		Manufacturing		Transp. & Utility		Wh/Ret Trade		FIRE		Services		Government		Total Non-Ag	
	Jobs	Chg	Jobs	Chg	Jobs	Chg	Jobs	Chg	Jobs	Chg	Jobs	Chg	Jobs	Chg	Jobs	Chg
1984	13,300		121,700		13,500		88,600		22,700		99,200		57,400		416,400	
1985	15,200	14.3%	119,100	-2.1%	13,900	3.0%	94,600	6.8%	23,600	4.0%	105,100	5.9%	57,700	0.5%	429,200	3.1%
1986	17,400	14.5%	118,900	-0.2%	14,600	5.0%	99,200	4.9%	25,000	5.9%	109,400	4.1%	58,000	0.5%	442,500	3.1%
1987	19,600	12.6%	116,400	-2.1%	15,600	6.8%	103,300	4.1%	25,600	2.4%	113,300	3.6%	58,200	0.3%	452,000	2.1%
1988	21,400	9.2%	112,400	-3.4%	15,600	0.0%	105,600	2.2%	27,200	6.3%	118,300	4.4%	58,900	1.2%	459,400	1.6%
1989	20,400	-4.7%	108,300	-3.6%	15,500	-0.6%	106,900	1.2%	26,800	-1.5%	124,900	5.6%	59,100	0.3%	461,900	0.5%
1990	18,700	-8.3%	99,700	-7.9%	15,700	1.3%	98,200	-8.1%	27,400	2.2%	129,200	3.4%	62,500	5.8%	451,200	-2.3%
1991	13,600	-27.3%	91,700	-8.0%	14,400	-8.3%	89,800	-8.6%	26,300	-4.0%	124,800	-3.4%	60,900	-2.6%	421,500	-6.6%
1992	12,400	-8.8%	89,500	-2.4%	14,200	-1.4%	91,000	1.3%	25,400	-3.4%	131,000	5.0%	61,200	0.5%	424,600	0.7%
1993	12,700	2.4%	88,100	-1.6%	14,400	1.4%	93,200	2.4%	25,400	0.0%	134,800	2.9%	61,400	0.3%	430,000	1.3%
1994	13,300	4.7%	86,800	-1.5%	14,900	3.5%	94,900	1.8%	25,400	0.0%	137,200	1.8%	61,700	0.5%	434,200	1.0%
1995	13,600	2.3%	84,900	-2.2%	14,800	0.7%	97,300	2.5%	24,800	-2.4%	143,500	4.6%	61,300	-0.6%	440,100	1.4%
1996	14,100	3.7%	82,100	-3.3%	15,100	2.0%	97,000	-0.3%	25,300	2.0%	146,800	2.3%	61,300	0.0%	441,600	0.3%
1997	14,800	5.0%	79,800	-2.8%	15,400	2.0%	98,400	1.4%	26,800	5.9%	151,700	3.3%	63,200	3.1%	450,000	1.9%
1998	15,600	5.4%	78,900	-1.1%	16,000	3.9%	98,900	0.5%	28,500	6.3%	157,000	3.5%	63,300	0.2%	458,000	1.8%
1999	17,800	14.1%	74,700	-5.3%	16,000	0.0%	104,000	5.2%	29,600	3.9%	159,000	1.3%	63,200	-0.2%	464,400	1.4%

Source: Rhode Island Department of Labor and Training, Labor Market Information.

**Manufacturing Employment.** Like many industrial states, Rhode Island has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined in every year between 1984 and 1999, falling a total of 38.6 percent. However, with the end of the recession and the beginning of recovery in 1992, the rate of overall decline has slowed significantly, from 7.9 percent in 1990 and 8.0 percent in 1991 to 2.8 percent in 1997, 1.1 percent in 1998 and 5.3 percent in 1999. Employment in the manufacture of non-durable goods, which had declined in every year since 1984, grew in 1993 and 1994 (at rates of 1.7 percent and 3.4 percent, respectively). Despite a decline in employment, the manufacturing sector continues to make productivity gains, as evidenced by its steady growth as a component in the Gross State Product (See “Economic Base and Performance” below).

Manufacturing Establishment Employment by Industry in Rhode Island, 1984 - 1999  
(employees in thousands)

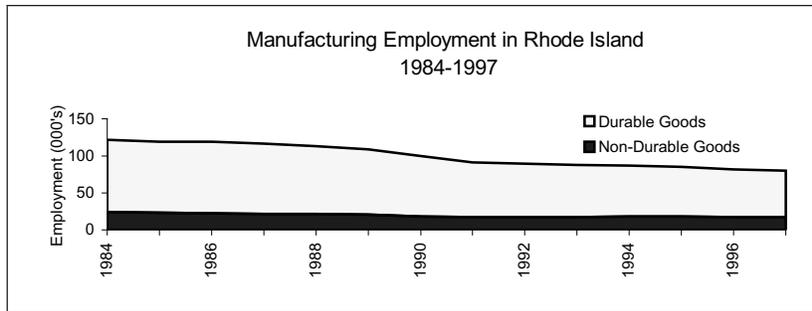
	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
<b>Non-Durable Goods</b>	24.4	23.1	22.7	21.8	21.3	20.3	18.3	17.5	17.2	17.5	18.1	17.7	17.5	17.1	16.4	15.8
Percentage Change		-5.3%	-1.7%	-4.0%	-2.3%	-4.7%	-9.9%	-4.4%	-1.7%	1.7%	3.4%	-2.2%	-1.1%	-2.3%	-4.1%	-3.7%
Food & Kindred Products	3.3	3.2	3.2	2.9	2.9	2.7	2.6	2.7	2.6	2.6	2.7	2.7	2.9	2.9	2.7	2.7
Textiles	11.2	10.5	10.3	10.2	10.1	9.4	8.1	7.7	7.6	7.7	8.1	8.0	7.7	7.5	7.2	7.1
Apparel	3.5	3.2	3.1	2.9	2.4	1.7	1.5	1.2	1.0	1.0	1.0	1.0	0.9	1.0	1.0	0.9
Rubber & Misc. Plastics Products	6.4	6.2	6.1	5.8	5.9	6.5	6.1	5.9	6.0	6.2	6.3	6.0	6.0	5.7	5.5	5.1
<b>Durable Goods</b>	97.3	96.0	96.2	94.6	91.3	88.1	81.5	74.2	72.2	70.6	68.9	67.3	64.5	62.8	62.6	59.0
Percentage Change		-1.3%	0.2%	-1.7%	-3.5%	-3.5%	-7.5%	-9.0%	-2.7%	-2.2%	-2.4%	-2.3%	-4.2%	-2.6%	-0.3%	-5.8%
(1) Primary Metal Industry	6.2	5.7	5.4	5.1	4.7	4.2	3.9	3.7	3.7	4.0	4.0	3.7	4.8	4.8	4.7	4.2
Fabricated Metal Products	9.5	9.6	9.5	9.0	8.9	9.1	8.3	7.4	7.2	7.0	7.1	7.0	6.9	7.0	7.3	8.2
(1) Machinery (except electrical)	6.1	5.5	5.9	6.0	5.9	5.8	5.7	5.2	5.1	5.3	5.4	5.8	4.3	4.5	4.6	4.8
(2) Electrical Machinery	12.4	11.7	12.2	11.8	7.2	6.8	5.8	4.6	4.3	4.3	4.6	6.2*	6.0	5.4	5.3	5.4
Transportation Equipment	9.8	9.5	9.3	9.1	8.8	8.2	7.4	6.8	6.2	5.6	5.0	4.1	3.2	2.9	3.3	3.4
(2) Instruments	5.2	5.4	4.8	4.7	8.0	7.4	7.0	6.6	6.6	6.1	6.0	5.2*	5.2	5.2	5.4	5.1
Jewelry - Silverware	23.8	24.0	23.7	23.2	22.3	21.9	20.4	18.6	17.8	16.9	16.1	14.8	13.9	13.3	12.5	10.6
Miscellaneous Manufacturing	5.3	5.8	5.9	6.3	6.2	6.3	5.9	5.4	5.3	5.2	4.9	4.4	4.3	3.8	3.5	3.2
All Other Manufacturing	19.0	18.8	19.5	19.4	19.3	18.4	17.1	15.9	16.0	16.2	15.8	16.1	15.9	15.9	16.0	14.1
<b>Total Manufacturing</b>	121.7	119.1	118.9	116.4	112.4	108.3	99.7	91.7	89.5	88.1	86.8	84.9	82.1	79.8	78.9	74.7
Percentage Change		-2.1%	-0.2%	-2.1%	-3.4%	-3.6%	-7.9%	-8.0%	-2.4%	-1.6%	-1.5%	-2.2%	-3.3%	-2.8%	-1.1%	-5.3%

Source: Rhode Island Department of Labor and Training, Labor Market Information.

Note: Numbers may not add due to rounding.

(1) Monthly data are not strictly comparable to years prior to 1996 due to industry reclassification.

(2) Monthly data are not strictly comparable to years prior to 1995 due to industry reclassification.



**Largest Employers in Rhode Island.** The following table lists, in descending order by employment, the largest employers in Rhode Island as of May, 2000. Together, the top 50 employers employ almost 124,740, or 27.5 percent of the total wage and salary employment in Rhode Island.

### Rhode Island's Largest Private Employers

Employed	Employer	Primary Business Activity
16,158	State of Rhode Island	Government
11,000	U.S. Government (excluding military)	Government
9,779	Lifespan	Hospital
5,400	Diocese of Providence	Catholic Church
5,200	City of Providence	Government
5,001	Care New England	Hospital
3,880	Stop & Shop Supermarket Co.	Grocery Stores
3,600	Royal Bank of Scotland	Bank
3,394	Fleet Financial Corp.	Bank
3,363	CVS Corporation	Pharmacies
3,355	Brown University	University
3,000	The Jan Companies	Eating Places
2,560	City of Warwick	Government
2,290	City of Cranston	Government
2,250	City of Pawtucket	Government
2,200	Metropolitan Life Insurance Co.	Insurance
2,160	Bank Boston Corp.	Bank
1,969	St. Joseph Health Services of Rhode Island	Hospital
1,940	Shaw's Super Market	Grocery Store
1,800	City of East Providence	Government
1,735	Raytheon	Nautical Systems & Equipment Mfg.
1,626	Roger Williams Medical Center	Hospital
1,650	American Power Conversion	Uninterruptible Power Supplies & Access.
1,605	Leviton Manufacturing Co., Inc.	Household Wiring Devices and Switches
1,600	Bell Atlantic	Communications
1,579	Amica Mutual Insurance Co.	Insurance
1,564	McDonald's	Eating Places
1,550	Memorial Hospital of Rhode Island	Hospital
1,500	Johnson & Wales University	University
1,465	The Stanley Works	Stapler and Packing Machine Mfg.
1,455	General Dynamics Corp.	Ship & Boat Building Mfg.
1,441	Blue Cross & Blue Shield	Medical Insurance
1,425	WAL-Mart	Retail
1,403	City of Woonsocket	Government
1,200	Hasbro, Inc.	Toy Manufacturing
1,175	Landmark Health System	Hospital
1,150	Sovereign Bankcorp.	Bank
1,120	GTECH Corporation	Lottery Systems
1,074	Fidelity Investments	Investment Services
1,040	A.C.S. Industries, Inc.	Wire and Cable
1,025	A.H. Belo Company	Publishing
1,020	ON Semiconductor	Semiconductors
970	A.T.Cross Company	Writing Instruments
900	National Grid	Power Generators
900	Providence College	College
900	Rhode Island School of Design	College
856	Gilbane Building Company	Construction
850	United Parcel Service	Package Delivery
840	Westaff	Temporary Employment
803	Laidlaw Education Services	School Bus Transportation

Source: RI Dept. of Labor and Training, Labor Market Information, RI Economic Development Corp., Research Division.

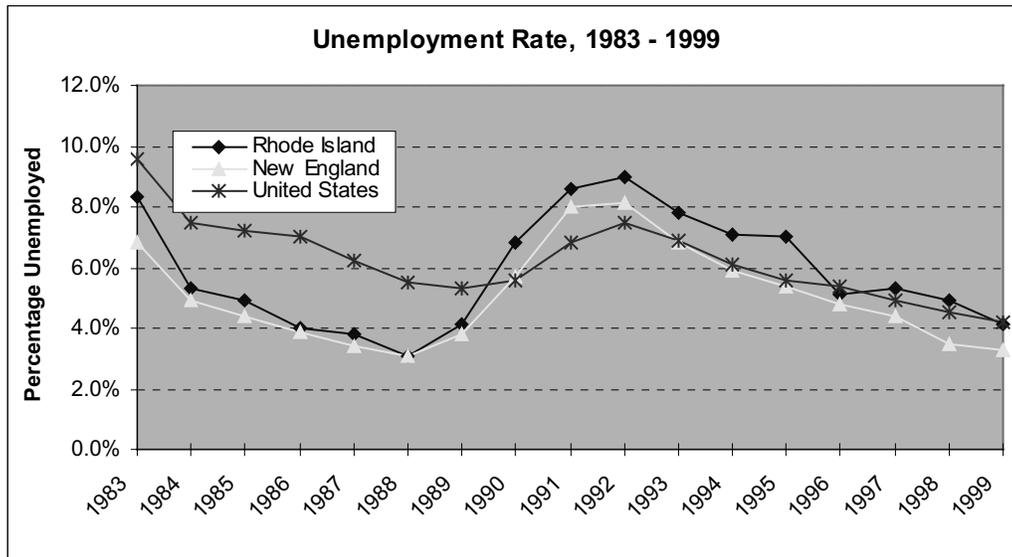
**Unemployment.** Between 1983 and 1989, the Rhode Island unemployment rate was lower than the national average. Between 1990 and 1995, the unemployment rate in Rhode Island was higher than the national average, but dipped dramatically in 1996, to below the national average. Rhode Island's unemployment rate declined in each year from 1992 to 1996. The following table compares the annual civilian labor force, the number unemployed, and unemployment rate averages of Rhode Island, the New England states, and the United States between 1983 and 1999.

Annual Average Civilian Labor Force and Unemployment, 1983-1999  
(in thousands)

Year	Civilian Labor Force			Unemployed			Unemployment Rate			
	RI	NE	US	RI	NE	US	RI	NE	US	RI/US
1983	474	6,365	111,550	39	434	10,717	8.3%	6.8%	9.6%	86.5%
1984	490	6,549	113,544	26	318	8,539	5.3%	4.9%	7.5%	70.7%
1985	500	6,632	115,461	25	292	8,312	4.9%	4.4%	7.2%	68.1%
1986	509	6,721	117,834	21	265	8,237	4.0%	3.9%	7.0%	57.1%
1987	519	6,829	119,865	20	229	7,425	3.8%	3.4%	6.2%	61.3%
1988	525	6,914	121,669	16	216	6,701	3.1%	3.1%	5.5%	56.4%
1989	525	6,998	123,869	21	269	6,528	4.1%	3.8%	5.3%	77.4%
1990	519	7,147	125,840	35	408	7,047	6.8%	5.7%	5.6%	121.4%
1991	512	7,082	126,346	44	569	8,628	8.6%	8.0%	6.8%	126.5%
1992	521	7,057	128,105	47	568	9,613	9.0%	8.1%	7.5%	120.0%
1993	512	7,024	129,200	40	479	8,940	7.8%	6.8%	6.9%	113.0%
1994	501	6,964	131,056	35	412	7,996	7.1%	5.9%	6.1%	116.4%
1995	487	6,955	132,304	34	373	7,404	7.0%	5.4%	5.6%	125.0%
1996	494	6,996	133,943	25	335	7,236	5.1%	4.8%	5.4%	94.4%
1997	502	7,121	136,297	27	314	6,739	5.3%	4.4%	4.9%	108.2%
1998	498	7,104	137,673	24	249	6,210	4.9%	3.5%	4.5%	108.9%
1999	504	7,147	139,368	21	235	5,880	4.1%	3.3%	4.2%	97.6%

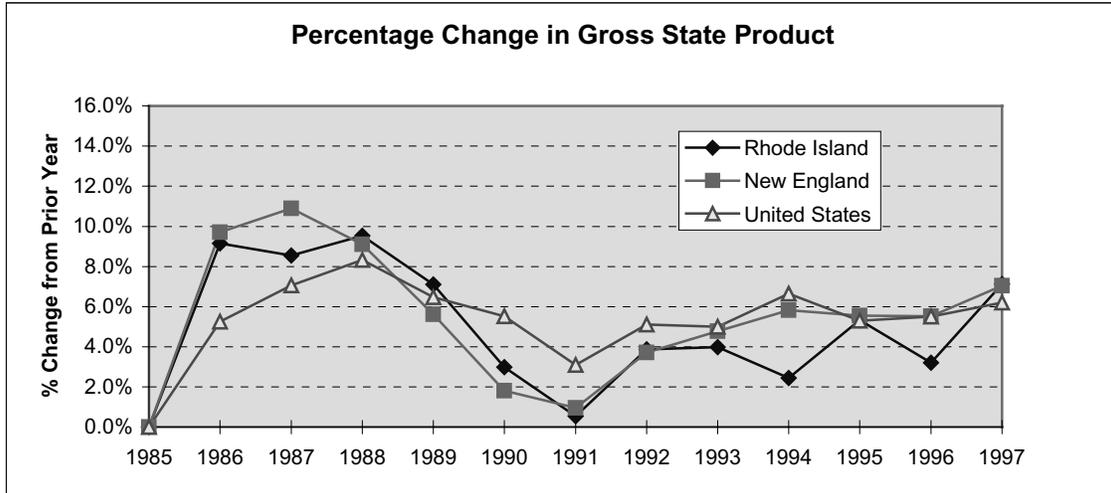
Source: United States Department of Labor, Bureau of Labor Statistics.

**Unemployment Compensation Trust Fund.** The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide benefits for eligible individuals when they are unemployed through no fault of their own. Benefits are paid from the Rhode Island Unemployment Compensation Trust Fund, financed through employer contributions.



## Economic Base and Performance

Between 1985 and 1988, the economies of Rhode Island and New England were among the strongest performers in the nation, with growth rates considerably higher than those for the national economy as a whole. From 1990 to 1994, both Rhode Island and New England experienced growth rates significantly below the national average. An economic recession in 1990 and 1991 caused growth rates in Rhode Island and New England to be lower than those for the national economy. In 1997, the Gross State Product for Rhode Island grew at a rate of 7.1 percent while the Gross State Product for the United States grew at a rate of 6.2 percent.



The table below gives the Gross State Product for Rhode Island, the New England states and the United States.

Gross State Product, 1985 - 1997  
(millions of dollars)

Year	Rhode Island		New England		United States	
	GSP	Change	GSP	Change	GSP	Change
1985	14,990	---	236,303	---	4,126,738	---
1986	16,362	9.2%	259,228	9.7%	4,343,612	5.3%
1987	17,761	8.6%	287,478	10.9%	4,649,993	7.1%
1988	19,454	9.5%	313,638	9.1%	5,037,482	8.3%
1989	20,836	7.1%	331,258	5.6%	5,363,837	6.5%
1990	21,459	3.0%	337,279	1.8%	5,659,801	5.5%
1991	21,577	0.5%	340,497	1.0%	5,835,219	3.1%
1992	22,412	3.9%	353,141	3.7%	6,133,012	5.1%
1993	23,304	4.0%	370,001	4.8%	6,440,030	5.0%
1994	23,875	2.5%	391,565	5.8%	6,868,041	6.6%
1995	25,147	5.3%	413,286	5.5%	7,231,814	5.3%
1996	25,955	3.2%	436,130	5.5%	7,629,503	5.5%
1997	27,806	7.1%	466,857	7.0%	8,103,234	6.2%

Source: US Department of Commerce, Bureau of Economic Analysis.

**Economic Base and Performance -- Sector Detail.** The economy of Rhode Island is well diversified. The data shows the contribution to the Rhode Island real Gross State Product of several industrial and non-industrial sectors.

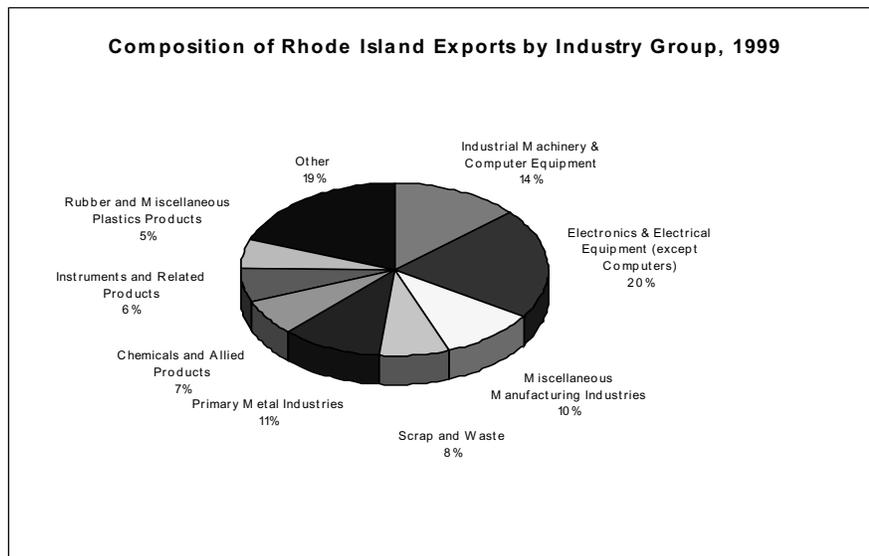
Gross State Product by Industry in Rhode Island, 1986 - 1997  
(millions of dollars)

Industrial Sector	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Finance, Ins. & Real Est.	3,186	3,697	4,145	4,511	4,703	5,011	5,056	5,264	5,472	5,856	5,802	6,941
Services	2,788	3,162	3,623	3,991	4,266	4,386	4,691	4,870	5,169	5,540	5,814	6,092
Manufacturing	3,867	3,786	3,960	4,272	4,285	4,257	4,202	4,300	4,134	4,249	4,282	4,347
Government	2,023	2,139	2,316	2,452	2,604	2,613	2,790	2,886	2,877	3,007	3,106	3,410
Retail Trade	1,642	1,807	1,938	2,041	1,978	1,932	2,030	2,149	2,151	2,198	2,242	2,385
Trans. & Public Utilities	942	1,083	1,120	1,148	1,294	1,318	1,533	1,690	1,735	1,761	1,835	1,911
Wholesale Trade	969	1,047	1,144	1,199	1,132	1,093	1,151	1,194	1,295	1,360	1,426	1,537
Construction	704	815	968	1,008	985	759	744	744	829	859	895	959
Agriculture	231	215	232	208	202	201	204	194	198	199	208	210
Mining	9	10	10	6	9	8	12	13	15	18	19	15
<b>Total GSP</b>	<b>16,362</b>	<b>17,761</b>	<b>19,454</b>	<b>20,836</b>	<b>21,459</b>	<b>21,577</b>	<b>22,412</b>	<b>23,304</b>	<b>23,875</b>	<b>25,046</b>	<b>25,629</b>	<b>27,806</b>

Source: United States Department of Commerce, Bureau of Economic Analysis. Notes: "Agriculture" includes Forestry and Fisheries. Numbers may not add due to rounding.

**Services.** The services sector is the largest sector in the economy of Rhode Island in terms of number of employees. This sector includes the broad categories of health services, business services, educational services, engineering and management services, and social services. In 1999, services sector employment was 159,000 representing approximately one-third of total nonagricultural employment. The services sector contributed 34.2 percent of the State's Gross State Product in 1999.

**Trade and International Trade.** In the mid-1980s the trade sector was an area of strong job growth, boosted by a growing export sector. Trade employment declined during 1990 and 1991 but has grown steadily since, except for 1996. Wholesale and Retail trade, in 1999, was the second largest employment sector in Rhode Island with 104,000 employees, or 22.4 percent of the total workforce, and 5.2 percent growth over the 1998 level. Significant portions of Rhode Island products are exported internationally. The total value of all international shipments from Rhode Island in 1997 represented 4.3 percent of the Gross State Product, or \$1,197,847,000. Rhode Island's most important exports, as shown in the chart below, are industrial machinery including computer equipment (13.7%), electronics and electrical equipment (20.6%), miscellaneous manufacturing products (9.8%) and primary metal industries (10.5%).



Rhode Island Exports by Industry, 1990-1999  
(in thousands)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
<b>Total All Industries</b>	756,213	783,786	1,003,998	1,024,637	1,048,703	1,028,025	1,010,897	1,197,847	1,208,898	1,221,990
Industrial Machinery & Computer Equipment:	136,869	160,982	181,438	198,479	219,314	145,814	180,052	179,383	143,616	167,413
Electronics & Elec.Equip. (except Computers)	53,898	63,716	117,448	109,966	159,822	142,950	154,941	215,826	285,510	251,668
Miscellaneous Manufacturing Industries	110,938	125,008	115,628	123,424	127,647	132,885	103,063	122,338	121,122	120,032
Scrap and Waste	142,752	101,742	108,277	129,408	122,094	155,916	125,880	126,662	97,687	93,576
Primary Metal Industries	40,938	35,782	45,028	68,113	73,202	67,784	62,439	72,306	96,787	128,918
Chemicals and Allied Products	33,279	56,498	77,097	100,534	70,684	67,560	46,206	96,047	80,854	81,091
Instruments and Related Products	66,875	57,987	107,052	77,225	67,222	77,224	78,054	85,754	88,647	75,686
Rubber and Miscellaneous Plastics Products:	32,003	36,537	37,675	46,889	51,988	47,252	47,637	58,995	55,934	66,050
Textile Mill Products	19,175	26,333	41,185	33,109	33,868	41,047	41,829	43,146	43,512	43,100
Fabricated Metal Products	36,554	30,689	66,090	40,892	32,931	35,614	46,328	58,491	47,885	42,750
Transportation Equipment	13,277	17,931	16,583	32,976	23,965	25,441	29,055	30,393	33,882	33,233
Fishing, Hunting and Trapping	10,617	10,304	16,308	15,494	18,400	19,884	18,204	23,956	15,227	17,049
Paper and Allied Products	15,935	7,276	7,120	10,370	9,791	12,954	20,543	26,971	27,954	27,956
Stone, Clay and Glass Products	12,361	16,087	20,346	8,290	7,438	10,189	10,306	12,885	20,659	25,729
Food and Kindred Products	6,007	5,932	6,502	6,742	7,304	8,939	8,258	5,553	4,109	4,735
Printing and Publishing	4,500	7,942	9,824	4,494	6,221	6,191	7,187	6,346	14,836	5,130
Canadian, Non-Can, Goods Retd. to Canada	1,455	2,144	4,356	3,298	3,358	4,842	5,160	6,689	6,891	7,758
Apparel and Other Textile Products	1,755	1,681	2,487	3,369	3,019	4,120	2,265	3,386	3,759	3,924
Furniture and Fixtures	1,879	2,094	1,551	2,810	2,879	3,340	1,880	2,438	2,093	3,090
Used or Second-Hand Merchandise	618	1,901	798	734	1,578	392	6,157	5,827	1,188	556
Lumber and Wood Products	1,439	720	853	1,380	1,519	3,096	1,637	2,068	3,836	3,168
Leather and Leather Products	6,295	7,041	5,644	3,856	1,414	2,074	2,060	3,916	3,415	2,834
Petroleum and Coal Products	602	4,225	1,458	372	873	993	512	417	123	418
Special Classification Provisions, NSPF	1,753	1,654	11,910	946	571	8,794	4,985	2,002	1,811	6,636
Agricultural Production-Livestock	3,710	1,154	353	365	546	1,482	819	803	426	220
Charity, Military NIK, Shipments<10K NIK						0	2,838	3,245	5,547	6,841
Other	729	426	987	1,102	1,055	1,248	2,602	2,004	1,588	2,427

Prepared by: Massachusetts Institute for Social and Economic Research

Source: Adjustments to data from U.S. Census Bureau, Foreign Trade Division by MISER.

Note: MISER algorithm was revised beginning with 1996 data. Data for prior years may not be consistent.

**Business Incorporations and Failures.** According to Dun & Bradstreet, the business failure rate in Rhode Island, which was significantly lower than the national average between 1984 and 1989, increased to a rate slightly higher than that of the United States between 1991 and 1992. In 1994, however, the failure rate for Rhode Island was lower than that for the nation as a whole: 0.7 percent compared to 0.9 percent. The following table shows the total number of existing businesses, business incorporations, and business failures for Rhode Island since 1984 (total existing businesses, new business incorporations, and business failures are derived from different and unrelated data sources and survey techniques and should not be compared as if they constitute a self-contained, closed group of data).

Business Incorporations and Failures  
1984 - 1994

Year	Total Existing RI Businesses*	RI Incorporations	RI Business Failures	Comparative Failure Rates		
				RI	NE	US
1984	22,876	2,827	104	0.5%	0.4%	1.1%
1985	23,639	3,054	60	0.3%	0.4%	1.2%
1986	25,728	3,471	38	0.1%	0.4%	1.2%
1987	26,495	3,731	35	0.1%	0.3%	1.0%
1988	27,780	3,426	42	0.2%	0.3%	1.0%
1989	28,112	3,258	56	0.2%	0.3%	0.7%
1990	27,806	3,000	183	0.7%	0.7%	0.8%
1991	31,053	2,458	459	1.5%	1.1%	1.1%
1992	31,817	2,553	513	1.6%	1.2%	1.1%
1993	32,546	2,696	346	1.1%	1.1%	1.1%
1994(p)	32,271	2,503	212	0.7%	0.8%	0.9%

Sources: Rhode Island Department of Labor & Training, Labor Market Information. The Dun & Bradstreet Corporation, Department of Economic Analysis, New Business Incorporations by States & Geographic Regions The Dun & Bradstreet Corporation, Business Failure Record.

\*Refers to the employers subject to Rhode Island Employment Security Insurance Act.

(p) = preliminary estimates.

**Retail Sales.** According to the Bureau of the Census, and the Rhode Island Economic Development Corporation retail sales for Rhode Island, New England, and the United States have increased each year from 1992 - 1997. The following table shows the annual retail sales activity from 1984 - 1999.

Annual Retail Sales, 1984-1999  
(In millions)

Year	Rhode Island		New England		United States	
	Sales	Change	Sales	Change	Sales	Change
1984	12,561	-	72,194	-	1,283,753	-
1985	14,932	18.9%	77,765	7.7%	1,373,829	7.0%
1986	15,294	2.4%	86,431	11.1%	1,449,210	5.5%
1987	17,422	13.9%	93,557	8.2%	1,538,637	6.2%
1988	18,016	3.4%	105,028	12.3%	1,656,202	7.6%
1989	19,548	8.5%	111,903	6.5%	1,758,971	6.2%
1990	19,704	0.8%	112,087	0.2%	1,844,611	4.9%
1991	19,064	-3.2%	110,851	-1.1%	1,855,937	0.6%
1992	19,428	1.9%	112,804	1.8%	1,951,589	5.2%
1993	19,829	2.1%	116,265	3.1%	2,082,112	6.7%
1994	20,505	3.4%	121,452	4.5%	2,248,198	8.0%
1995	20,881	1.8%	121,692	0.2%	2,359,013	4.9%
1996	22,604	8.3%	130,629	7.3%	2,502,365	6.1%
1997	23,166	2.5%	N/A	-	2,610,562	4.3%
1998	N/A	-	N/A	-	2,729,125	4.5%
1999	N/A	-	N/A	-	2,972,280	8.9%

Sources: Rhode Island Economic Development Corporation. Research Division  
Bureau of the Census. Service Division. Retail Branch.

**Finance, Insurance, and Real Estate.** While the Finance, Insurance and Real Estate ("FIRE") sector experienced 19.8 percent growth in employment between 1984 and 1988, there was an overall decline of 7.7 percent from 1990 to 1996. As of 1999, total employment in the FIRE sector was 29,600 an increase of 3.9 percent from the previous year. FIRE contributed 25.0 percent of the Rhode Island Gross State Product in 1997.

**Construction.** Fueled by the general growth of the rest of the Rhode Island economy, employment in the construction industry experienced dramatic growth in the mid 1980s, increasing by 60.9 percent between 1984 and 1988. This trend reversed direction between 1989 and 1992, when employment in the construction industry declined by 39.2 percent. Since 1993, with the return to general growth in the Rhode Island economy, employment in construction has rebounded with growth rates of 5.0 percent in 1997, 5.4 percent in 1998 and 14.1 percent in 1999. Construction activity, in 1997, contributed 3.4 percent of the Rhode Island Gross State Product.

Rhode Island's growth in construction is being fueled by demands other than housing. The following table shows the number of housing permits authorized on an annual basis in Rhode Island, New England, and the United States. Between 1983 and 1986, both Rhode Island and New England experienced explosive growth in the number of housing permits authorized. This period of strong growth was followed by a decline between 1986 and 1991 during which the number of housing permits authorized in Rhode Island declined by 63.2 percent. In 1999, the number of housing permits authorized increased by 21.3 percent in Rhode Island, compared to a decrease of 1.0 percent for New England and an increase of 2.3 percent for the United States.

Housing Permits Authorized, 1983 – 1999  
(seasonally adjusted)

Year	Rhode Island		New England		United States	
	Total Permits	Percent Change	Total Permits	Percent Change	Total Permits	Percent Change
1983	3,898	-	57,119	-	1,606,000	-
1984	4,337	11.3%	72,293	26.6%	1,691,000	5.3%
1985	5,415	24.9%	96,080	32.9%	1,733,000	2.5%
1986	6,948	28.3%	107,805	12.2%	1,773,000	2.3%
1987	6,612	-4.8%	101,599	-5.8%	1,542,000	-13.0%
1988	5,717	-13.5%	82,768	-18.5%	1,450,000	-6.0%
1989	4,205	-26.4%	54,129	-34.6%	1,347,000	-7.1%
1990	3,177	-24.4%	38,148	-29.5%	1,127,000	-16.3%
1991	2,557	-19.5%	30,396	-20.3%	954,000	-15.4%
1992	2,644	3.4%	37,000	21.7%	1,106,000	15.9%
1993	2,618	-1.0%	39,765	7.5%	1,211,000	9.5%
1994	2,534	-3.2%	40,027	0.7%	1,367,000	12.9%
1995	2,314	-8.7%	37,690	-5.8%	1,337,000	-2.2%
1996	2,366	2.2%	40,021	6.2%	1,420,000	6.2%
1997	2,736	15.6%	42,337	5.8%	1,446,000	1.8%
1998	2,662	-2.7%	48,119	13.7%	1,596,000	10.4%
1999	3,230	21.3%	47,637	-1.0%	1,632,000	2.3%

Source: United States Department of Commerce. Construction Statistics Division.

The current recovery in the regional economy is reflected in the housing sector. Significant declines in existing home sales in Rhode Island in 1990 and 1991 (of -13.4 percent and -5.2 percent, respectively) were followed by rapid sales growth for 1992 through 1993, when home sales in Rhode Island increased at a yearly rate substantially higher than the national average. Following this period of rapid growth, existing home sales increased at a rate of 19.5 percent in 1998 and 8.9 percent in 1999. On a seasonally adjusted annual rate basis, existing home sales for Rhode Island, New England, and the United States appear in the table that follows.

Existing Home Sales, 1983 – 1999  
(seasonally adjusted at annual rates, in thousands)

Year	RI		NE		US	
	Sales	% Change	Sales	% Change	Sales	% Change
1983	8.0	-	141.3	-	2,875.0	-
1984	9.1	13.8%	140.7	-0.4%	3,027.5	5.3%
1985	10.3	13.2%	157.0	11.6%	3,382.5	11.7%
1986	10.6	2.9%	169.2	7.8%	3,772.5	11.5%
1987	10.5	-0.9%	174.5	3.1%	3,767.5	-0.1%
1988	11.0	4.8%	178.5	2.3%	3,882.5	3.1%
1989	11.2	1.8%	163.0	-8.7%	3,672.0	-5.4%
1990	9.7	-13.4%	134.0	-17.8%	3,603.5	-1.9%
1991	9.2	-5.2%	140.5	4.9%	3,533.3	-1.9%
1992	11.9	29.3%	170.6	21.4%	3,889.5	10.1%
1993	13.0	9.2%	193.8	13.6%	4,220.3	8.5%
1994	13.1	0.8%	200.3	3.4%	4,409.8	4.5%
1995	13.5	3.1%	185.7	-7.3%	4,342.3	-1.5%
1996	14.7	8.9%	200.7	8.1%	4,705.3	8.4%
1997	15.9	8.2%	219.4	9.3%	4,908.8	4.3%
1998	19.0	19.5%	248.3	13.2%	5,585.3	13.8%
1999	20.7	8.9%	264.4	6.5%	5,902.5	5.7%

Source: United States Department of Commerce, Federal Reserve Bank of Boston and the National Association of Realtors.

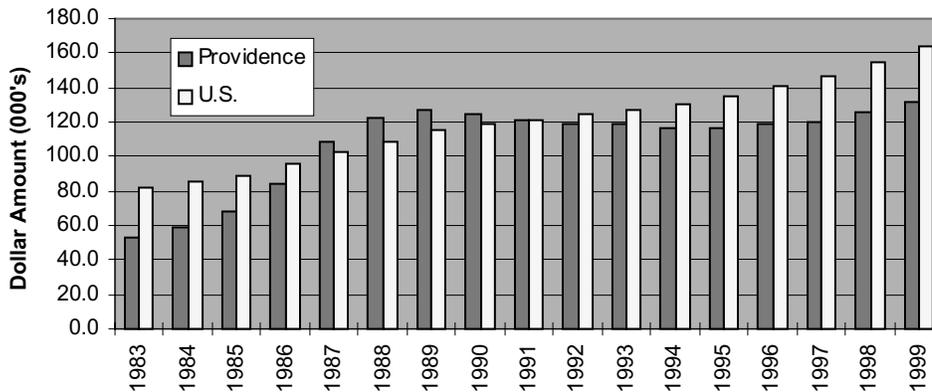
Single family home prices for the Providence Metropolitan area (not seasonally adjusted) appear in the following chart. While Providence housing prices were 12.4 percent higher than the US average in 1988, by 1999 they had fallen below the rest of the country at 80.1 percent of the national average.

Repeat Sales Home Price Index for the Providence Metropolitan Area, 1983 - 1999  
(not seasonally adjusted, in thousands)

Year	Providence	U.S.	Providence Prices as a Percentage of the U.S.
1983	53.5	81.7	65.5%
1984	58.8	85.0	69.2%
1985	68.1	89.4	76.2%
1986	83.7	95.6	87.6%
1987	108.4	102.2	106.1%
1988	122.1	108.6	112.4%
1989	126.4	115.2	109.7%
1990	125.1	119.0	105.1%
1991	120.9	121.4	99.6%
1992	119.3	124.7	95.7%
1993	119.0	127.4	93.4%
1994	116.1	130.9	88.7%
1995	116.9	135.2	86.5%
1996	118.6	140.5	84.4%
1997	120.3	146.1	82.3%
1998	125.6	154.4	81.3%
1999	131.0	163.6	80.1%

Source: United States Department of Commerce,  
Federal Reserve Bank of Boston  
Fannie Mae and Freddie Mac

Average Annual Home Prices, 1983 - 1999



**Defense.** Following a peak in the value of military prime contracts awarded to Rhode Island firms in 1990 of \$554 million, defense related contracts declined 29.6 percent by 1993 to \$390 million. By 1994, the value of defense related prime contracts had rebounded to \$422 million, up 8.2 percent from 1993. However, in 1999 prime contracts had fallen to \$312 million, down 26.1 percent. The relationship of the defense industry to the Rhode Island economy is reflected in the following table, which shows the value of Department of Defense prime contract awards between 1980 and 1999. Since 1980, Rhode Island has increased its share of New England contract awards from 3.0 percent to 3.3 percent of such awards in 1999.

Net Value of Department of Defense Prime Contract Awards\*, 1980-1995  
(in millions)

Fiscal Year	RI	NE	US	RI / NE	RI / US
1980*	262	8,775	68,070	3.0%	0.4%
1981*	236	10,372	87,761	2.3%	0.3%
1982*	285	13,037	103,858	2.2%	0.3%
1983	381	12,967	118,744	2.9%	0.3%
1984	396	14,249	123,995	2.8%	0.3%
1985	431	15,487	140,096	2.8%	0.3%
1986	394	15,748	136,026	2.5%	0.3%
1987	478	15,606	133,262	3.1%	0.4%
1988	429	13,673	125,767	3.1%	0.3%
1989	417	16,268	119,917	2.6%	0.3%
1990	554	14,271	121,254	3.9%	0.5%
1991	413	13,889	124,119	3.0%	0.3%
1992	455	11,033	112,285	4.1%	0.4%
1993	390	10,789	114,145	3.6%	0.3%
1994	422	9,329	110,316	4.5%	0.4%
1995	388	9,374	109,004	4.1%	0.4%
1996	334	9,237	109,408	3.6%	0.3%
1997	275	9,152	106,561	3.0%	0.3%
1998	217	9,284	109,386	2.3%	0.2%
1999	312	9,456	114,875	3.3%	0.3%

Source: United States Department of Defense. \*\*Prime Contract\* is defined as \$10,000 and above for these years: beginning in 1983 it is defined as \$25,000 and above.

**Travel and Tourism.** The Rhode Island Tourism Division reports that the state's travel and tourism industry has increased its sales with each successive year, generating total sales receipts of \$2.26 billion in 1997, \$2.48 billion in 1998 and \$2.70 billion in 1999. The statistics are compiled annually by the University of Rhode Island Department of Resource Economics. The figures for 1999 are preliminary. The estimates include 14.4 million visitors traveling to Rhode Island in 1999 for business, conventions or leisure, and of these visitors, 9.7 million spent the day in the state and 4.7 million stayed overnight.

Additional figures in the report show that the number of tourism-related businesses and jobs have increased as well. In 1999, 5,152 businesses contributed to 35,092 jobs and more than \$550 million in full-time equivalent wages paid. Future growth is expected as Rhode Island continues to develop facilities such as the Heritage Harbor Museum – a Smithsonian affiliate – and new hotels in Providence and surrounding areas.

The Rhode Island Tourism Division is responsible for the promotion and development of the state's travel industry, and implements Rhode Island's national and international tourism marketing, advertising and public relations programs. Tourism is Rhode Island's second largest industry, generating more than \$2.5 billion in annual sales revenues for 1999, representing a 9.0 percent increase over 1998.

## Human Resources

**Human Resources.** The availability of a skilled and well educated population is an important resource for Rhode Island. The level of education reached by the population of Rhode Island compares favorably with the United States as a whole, as the following chart demonstrates. Although spending on education is not necessarily an indication of results, it is important to note that Rhode Island spends more per pupil than the national average on primary and secondary education. In fact, per pupil spending in Rhode Island has been significantly higher than the national average since 1983. The ratio of Rhode Island spending to the national average has varied from 120.6 percent in 1990-91 to a high of 130.5 percent in 1988-89. For the 1997-98 academic year Rhode Island spent 29.5 percent more on public elementary and secondary education than the United States average: \$8,627 per student compared to a national average of \$6,662 per student. The following chart and table show expenditures per pupil for Rhode Island and the United States since the 1983-84 academic year and the national ranking of expenditures.

Expenditure Per Pupil in Public Elementary and Secondary Schools, 1983 – 1998  
(in current dollars)

Academic Year	Rhode Island	United States	Ratio (R.I./U.S.)
1983-84	\$3,938	\$3,173	124.1%
1984-85	4,287	3,470	123.5%
1985-86	4,667	3,756	124.3%
1986-87	4,985	3,970	125.6%
1987-88	5,329	4,240	125.7%
1988-89	6,064	4,645	130.5%
1989-90	6,368	4,980	127.9%
1990-91	6,343	5,258	120.6%
1991-92	6,546	5,421	120.8%
1992-93	6,938	5,584	124.2%
1993-94	7,333	5,767	127.2%
1994-95	7,715	5,989	128.8%
1995-96	7,936	6,147	129.1%
1996-97	8,307	6,392	130.0%
1997-98	8,627	6,662	129.5%

Source: U.S. Department of Education, National Center for Education Statistics, NCES

National Ranking of Expenditure Per Pupil in Public Elementary and Secondary Schools  
Academic Year 1997-98  
(Based on Average Daily Attendance)

Ranking	State	Expenditure	Ranking	State	Expenditure
1	New Jersey	\$10,233	26	Hawaii	\$6,409
2	New York	9,970	27	Kansas	6,406
3	District of Columbia	9,225	28	Iowa	6,295
4	Connecticut	9,221	29	Florida	6,183
5	Alaska	9,074	30	Kentucky	6,125
6	<b>Rhode Island</b>	<b>8,627</b>	31	Colorado	6,099
7	Massachusetts	8,299	32	Missouri	6,096
8	Delaware	7,963	33	Georgia	5,947
9	Maryland	7,812	34	Virginia	5,938
10	Pennsylvania	7,777	35	Texas	5,910
11	Michigan	7,717	36	California	5,795
12	Wisconsin	7,680	37	Nevada	5,758
13	Vermont	7,500	38	North Carolina	5,667
14	Oregon	7,348	39	Louisiana	5,645
15	Maine	7,238	40	South Carolina	5,643
16	Illinois	6,858	41	Oklahoma	5,389
17	Ohio	6,808	42	North Dakota	5,353
18	Minnesota	6,795	43	South Dakota	5,281
19	Indiana	6,786	44	Tennessee	5,274
20	West Virginia	6,779	45	Alabama	5,166
21	Wyoming	6,718	46	Arizona	5,122
22	Nebraska	6,584	47	Idaho	5,012
23	Washington	6,534	48	Arkansas	4,999
24	New Hampshire	6,487	49	New Mexico	4,984
25	Montana	6,448	50	Mississippi	4,575
			51	Utah	4,256

Source: U.S. Department of Education National Center for Education Statistics, NCES

According to the March, 2000 report by the Rhode Island Office of Higher Education, in fall 1999, the total headcount enrollment in Rhode Island institutions of higher education was 75,238 students, a 1.1 percent increase over the total for fall 1998. Enrollment increased in the public sector by 0.7 percent (282 students) and increased in the independent sector by 1.6 percent (561 students).

From July 1, 1998 to June 30, 1999, Rhode Island institutions of higher education conferred 14,709 degrees and certificates, an increase of 1.5 percent over the 14,498 awards of the previous year. This year is the first to see an overall increase since the 1992-93 peak when there were 16,137 awards granted. In 1998-99, the public institutions of higher education conferred 5,309, or 36.1 percent of all awards, while independent institutions awarded 9,400, or 63.9 percent. The number of awards at public institutions decreased by 0.9 percent, while awards at independent institutions increased by 2.8 percent.

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**APPENDIX B - Proposed Form of Legal Opinion**

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[Date of Closing]

State of Rhode Island and  
Providence Plantations  
State House  
Providence, Rhode Island

Re: State of Rhode Island and Providence Plantations General Obligation Bonds, \$55,990,000 Consolidated Capital Development Loan of 2001, Refunding Series A and \$63,005,000 Consolidated Capital Development Loan of 2001, Refunding Series B (the "Bonds")

Ladies and Gentlemen:

We have acted as bond counsel to the State of Rhode Island and Providence Plantations (the "State") in connection with its issuance of the Bonds, representing various loans authorized by various acts of the General Assembly of the State and consolidated for issuance pursuant to Section 35-8-21 of the General Laws of the State. In that capacity, we have examined and are familiar with originals or copies, certified or otherwise identified to our satisfaction, of such records of the State, certificates of officials of the State and other documents and instruments, and have made such other investigation of facts and examination of Rhode Island and federal law, as we have deemed necessary or proper for the purpose of rendering this opinion. Capitalized terms used herein shall, unless otherwise specified, have the meanings set forth in the Certificate of Determination of the Governor and General Treasurer adopted February 15, 2001 (the "Certificate of Determination").

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certificates of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are further of the opinion that, under existing law:

1. The Bonds are valid and binding general obligations of the State and the full faith and credit of the State is pledged for the payment of the principal of and interest on the Bonds as the same shall come due.

2. The interest on the Bonds is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference for the purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Bonds will, however, be included in the calculation of adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. For purposes of this opinion, interest on the Bonds includes original issue discount, if any, properly allocable to the Bonds.

We call your attention to the fact that interest on the Bonds may become taxable retroactively to their date of issuance if the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the investment, expenditure and use of Bond proceeds and certain other amounts and to payments to the United States, are not met. The State has covenanted to take all lawful action necessary under the Code to continue the exclusion of interest on the Bonds from gross income, to the extent provided in the Code, and to refrain from taking any action which would cause interest on the Bonds to become includible in gross income.

We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

3. The Bonds are exempt from Rhode Island taxes, although the Bonds and the interest thereon may be included in the measure of Rhode Island estate and gift taxes and certain business and corporate taxes.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

**APPENDIX C - Table of Refunded Bonds**

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**APPENDIX C - Table of Refunded Bonds**

**Outstanding Bonds refunded by \$55,990,000 Consolidated Capital  
Development Loan of 2001, Refunding Series A (the "Series A Bonds")**

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Consolidated Capital Development Loan of 1992, Series A:					
SERIALS	8/1/2004	5.300%	\$ 6,290,000	8/1/2001	102
	8/1/2011	5.000	<u>9,575,000</u>	8/1/2001	102
			<u>\$15,865,000</u>		
Consolidated Capital Development Loan of 1995, Series A:					
SERIALS	8/1/2009	5.500%	\$ 2,125,000	8/1/2005	101
	8/1/2010	5.600	2,240,000	8/1/2005	101
	8/1/2011	5.600	2,375,000	8/1/2005	101
	8/1/2012	5.600	2,510,000	8/1/2005	101
	8/1/2013	5.625	2,660,000	8/1/2005	101
	8/1/2014	5.700	<u>2,815,000</u>	8/1/2005	101
			<u>\$14,725,000</u>		
Consolidated Capital Development Loan of 1996, Series A:					
SERIALS	8/1/2010	5.600%	\$ 3,600,000	8/1/2006	101
TERM Maturing 2015	8/1/2011	5.750	3,820,000	8/1/2006	101
	8/1/2012	5.750	4,055,000	8/1/2006	101
	8/1/2013	5.750	4,305,000	8/1/2006	101
	8/1/2014	5.750	4,575,000	8/1/2006	101
	8/1/2015	5.750	<u>4,855,000</u>	8/1/2006	101
			<u>\$25,210,000</u>		
<b>Total Refunded by Series A Bonds</b>			<b><u>\$55,800,000</u></b>		

**Outstanding Bonds refunded by \$63,005,000 Consolidated Capital  
Development Loan of 2001, Refunding Series B (the "Series B Bonds")**

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Multi-Modal General Obligation Bonds issued June 11, 1998					
	6/1/2018	Variable	\$32,400,000	5/1/2001	100
Multi-Modal General Obligation Bonds Consolidated Capital Development Loan of 1999, Series B issued September 30, 1999					
	9/1/2019	Variable	<u>\$31,290,000</u>	5/1/2001	100
			<b>Total Refunded by Series B Bonds</b>		
			<b><u>\$63,690,000</u></b>		

**APPENDIX D - Specimen Bond Insurance Policy**

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Financial Guaranty Insurance  
Company  
115 Broadway  
New York, NY 10006  
(212) 312-3000  
(800) 352-0001



A GE Capital Company

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## Municipal Bond New Issue Insurance Policy

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**Issuer:**

**Policy Number:**

**Control Number:** 0010001

**Bonds:**

**Premium:**

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance  
Company  
115 Broadway  
New York, NY 10006  
(212) 312-3000  
(800) 352-0001



*A GE Capital Company*

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## **Municipal Bond New Issue Insurance Policy**

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

A handwritten signature in black ink, appearing to be "A. L. H.", with a long horizontal flourish extending to the right.

**President**

**Effective Date:**

**Authorized Representative**

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

A handwritten signature in black ink, appearing to be "Quincy Brown", with a long horizontal flourish extending to the right.

**Authorized Officer**

Financial Guaranty Insurance  
Company  
115 Broadway  
New York, NY 10006  
(212) 312-3000  
(800) 352-0001

A GE Capital Company



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## Endorsement To Financial Guaranty Insurance Company Insurance Policy

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**Policy Number:**

**Control Number:** 0010001

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It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

A handwritten signature in black ink, appearing to be "A. L. H.", written over a horizontal line.

**President**

**Effective Date:**

**Authorized Representative**

**Acknowledged as of the Effective Date written above:**

A handwritten signature in black ink, appearing to be "Gregory J. ...", written over a horizontal line.

**Authorized Officer  
State Street Bank and Trust Company, N.A., as Fiscal Agent**

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