

**NEW ISSUE**

*In the opinion of Tillinghast Licht Perkins Smith & Cohen, LLP, under existing law, assuming compliance with certain provisions of the Internal Revenue Code of 1986, as amended, (the "Code") the portion of 2001 Series A Lease Payments distributable to Certificate Owners as interest, to the extent such 2001 Series A Lease Payments are appropriated by the Lessee and received by Certificate Owners, 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 individuals and corporations. Such payments, however, will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. Such portion of 2001 Series A Lease Payments distributable as interest is excludable from Rhode Island personal income taxation to the extent such interest is excludable from gross income for federal income tax purposes. Tillinghast Licht Perkins Smith & Cohen, LLP expresses no opinion as to the exclusion from gross income for federal income tax purposes of the portion of the 2001 Series A Lease Payments distributable to Certificate Owners as interest payments in the event of non-appropriation by the Lessee of 2001 Series A Lease Payments. The 2001 Series A Certificates have NOT BEEN designated as qualified tax-exempt obligations within the meaning of Section 265(b)(3) of the Code. (See "TAX STATUS" and "APPENDIX B - Forms of Legal Opinions for the Certificates" herein).*

**\$3,150,000**

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
CERTIFICATES OF PARTICIPATION IN LEASE PURCHASE AGREEMENT  
(STATE VEHICLES PROJECTS), 2001 SERIES A**

**Dated: June 15, 2001**

**Due: June 15, as shown on the inside cover**

The 2001 Series A Certificates of Participation (the "2001 Series A Certificates") are being issued to finance the purchase of miscellaneous State vehicles which have been leased by Fleet National Bank (the "Lessor") to the State of Rhode Island and Providence Plantations (the "Lessee") pursuant to a Lease Purchase Agreement (State Vehicles Projects) (the "2001 Series A Lease") dated as of June 15, 2001. The Lessor has assigned certain of its right, title and interest in the 2001 Series A Lease to Citizens Bank of Rhode Island, as trustee for the benefit of the Certificate Owners pursuant to a Trust Agreement (2001 Series A) (the "2001 Series A Trust Agreement") dated as of June 15, 2001. The 2001 Series A Certificates evidence undivided interests in the 2001 Series A Lease held by the Trustee, including the right to receive 2001 Series A Lease Payments.

(The 2001 Series A Lease is referred to herein as the "Lease.") (The 2001 Series A Certificates is referred to herein as the "Certificate.") Citizens Bank of Rhode Island, as trustee under the 2001 Series A Trust Agreement shall be referred to herein as the "Trustee."

THE LESSEE IS OBLIGATED UNDER THE 2001 SERIES A LEASE TO MAKE PAYMENTS EQUAL TO THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE 2001 SERIES A LEASE CERTIFICATES. THE LESSEE'S OBLIGATION TO MAKE LEASE PAYMENTS AND ANY OTHER OBLIGATIONS OF THE LESSEE UNDER THE 2001 SERIES A LEASE IS SUBJECT TO AND DEPENDENT UPON ANNUAL APPROPRIATIONS MADE BY THE LESSEE FOR SUCH PURPOSE. (See "SECURITY FOR THE CERTIFICATES" herein.)

The principal of the Certificates is payable on June 15 as set forth on the inside cover hereof and interest on the Certificates is payable on December 15 and June 15 of each year commencing December 15, 2001. So long as DTC is the registered owner of the Certificates, principal and interest are payable to DTC by the Trustee, as paying agent.

**THE CERTIFICATES ARE SUBJECT TO REDEMPTION PRIOR TO MATURITY AS MORE FULLY DESCRIBED HEREIN.**  
(See "THE CERTIFICATES - Redemption" herein).

THE OBLIGATION OF THE LESSEE UNDER THE 2001 SERIES A LEASE, AS MORE FULLY DESCRIBED HEREIN, TO MAKE 2001 SERIES A LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OR LIABILITY OF THE LESSEE WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE LESSEE IS PLEDGED TO MAKE SUCH PAYMENTS. PAYMENTS OF THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE 2001 SERIES A CERTIFICATES WILL BE MADE SOLELY FROM AMOUNTS DERIVED UNDER THE TERMS OF THE 2001 SERIES A LEASE, INCLUDING THE 2001 SERIES A LEASE PAYMENTS AND AMOUNTS FROM TIME TO TIME ON DEPOSIT UNDER THE TERMS OF THE 2001 SERIES A TRUST AGREEMENT, AS MORE FULLY DESCRIBED HEREIN. THE FAILURE OF THE LESSEE TO APPROPRIATE FUNDS FOR 2001 SERIES A LEASE PAYMENTS MAY RESULT IN TERMINATION OF THE 2001 SERIES A LEASE. SHOULD THE LEASE TERMINATE, THERE CAN BE NO ASSURANCE THAT THE CERTIFICATES WILL BE PAID. NO OPINION IS EXPRESSED AS TO THE EXCLUSION FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES OF THE PORTION OF 2001 SERIES A LEASE PAYMENTS DISTRIBUTABLE TO 2001 SERIES A CERTIFICATE OWNERS AS INTEREST IN THE EVENT OF NON-APPROPRIATION BY THE LESSEE OF 2001 SERIES A LEASE PAYMENTS. FOLLOWING TERMINATION OF THE 2001 SERIES A LEASE, TRANSFER OF THE RELATED SERIES OF 2001 SERIES A CERTIFICATE MAY BE SUBJECT TO COMPLIANCE WITH THE REGISTRATION PROVISIONS OF STATE AND FEDERAL SECURITIES LAWS. (See "TAX STATUS" herein.)

The Certificates are offered when, as and if delivered to the Underwriter subject to receipt of the approving legal opinion of Tillinghast Licht Perkins Smith & Cohen, LLP. Certain other legal matters will be passed upon for the State by the Attorney General of the State. Certain matters will be passed upon for the State by Partridge Snow & Hahn, LLP, as disclosure counsel. It is expected that delivery of the Certificates will be made to DTC in New York, New York on or about June 19, 2001.

Dated: June 11, 2001

**QUICK & REILLY, INC.**

## MATURITY SCHEDULE

### Maturities, Amounts and Interest Rates

#### **\$3,150,000 Certificates of Participation** (State Vehicles Projects), 2001 Series A

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
June 15, 2002	\$1,050,000	3.10%
June 15, 2003	1,050,000	3.45
June 15, 2004	1,050,000	3.65

(Accrued interest to be added)

The Certificates are issuable only as fully registered certificates without coupon and, when issued, will be registered in the name of Cede & Co., as Certificate Owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Certificates. Purchases of the Certificates may be made only in book-entry form, in the denomination of \$5,000 each or any integral multiple of \$5,000 in excess thereof and no physical delivery of the Certificates will be made to purchasers. So long as Cede & Co. is the Certificate Owner, as nominee of DTC, references herein to the Certificate Owners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Certificates. (See "THE CERTIFICATES - Book-Entry-Only System" herein.)

No broker, dealer, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Lessee or the Underwriter. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

This Official Statement is not to be construed as a contract or agreement between the Lessee, the Underwriter and the Owners of any of the Certificates. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinion and not as representations of fact. 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 Lessee or its agencies and authorities since the date hereof.

The information contained herein has been obtained from the Lessee and other sources believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation of the Underwriter or, as to information from sources other than the Lessee, of the Lessee.

Upon issuance, the Certificates will not be registered under the Securities Act of 1933, as amended, or any state securities law, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency will have passed upon the accuracy or determined the adequacy of this Official Statement or will have approved the Certificates for sale.

The Underwriter may offer and sell the Certificates to certain dealers (including dealers depositing Certificates into investment trusts) and others at prices lower than the public offering prices stated on the cover page hereof.

In connection with this offering, the Underwriter may over allot or effect transactions that stabilize or maintain the market price of the Certificates at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

**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 Inman

**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



TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION .....	1
THE 2001 SERIES A PROJECT .....	1
The 2001 Series A Project .....	1
ESTIMATED SOURCES AND USES OF FUNDS .....	2
The 2001 Series A Certificates .....	2
THE CERTIFICATES .....	2
The 2001 Series A Certificates .....	2
Redemption .....	3
Book-Entry-Only System .....	3
SECURITY FOR THE CERTIFICATES .....	5
The 2001 Series A Certificates .....	5
SUMMARY OF CERTAIN PROVISIONS OF THE LEASE .....	6
Lease Term .....	6
Rental Payments .....	7
Obligations of the Lessee .....	8
The Project .....	8
Covenants and Representations of the Lessee .....	8
Maintenance .....	9
Insurance .....	9
Loss and Damage to the Project .....	9
Option to Purchase .....	10
Default .....	10
Termination of Lease .....	12
SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT .....	12
Assignment of Lease .....	12
Lost, Stolen, Destroyed or Improperly Canceled Certificates .....	13
Transfer and Exchange of Certificates .....	13
Certificate Register .....	13
Trust Fund .....	13
Project Account .....	14
Lease Payment Account .....	14
Rebate Account .....	14
Redemption Account .....	14
Deposit and Investment of Moneys in Funds .....	15
Events of Default and Remedies .....	15
Right of Certificate Owners to Direct Proceedings .....	16
Application of Moneys .....	16
Rights and Remedies of Certificate Owners .....	16
Waivers of Events of Default .....	17
No Liability to Owners for Payment .....	17
Appointment of Trustee .....	17
Amendment .....	18
Defeasance .....	19

LEGAL MATTERS .....	19
TAX STATUS .....	19
UNDERWRITING .....	21
CONTINUING DISCLOSURE .....	21
MISCELLANEOUS .....	23
ADDITIONAL INFORMATION .....	23

APPENDIX A - INFORMATION STATEMENT OF STATE OF RHODE ISLAND AND  
PROVIDENCE PLANTATIONS

Exhibit A - Audited Financial Statements of the State for the Fiscal Year Ending June 30, 2000

Exhibit B - State Economic Information

APPENDIX B - FORM OF LEGAL OPINION FOR THE CERTIFICATES

## **OFFICIAL STATEMENT**

**Relating to**

**\$3,150,000**

**State of Rhode Island and Providence Plantations  
Certificates of Participation in Lease Purchase Agreement  
(State Vehicles Projects), 2001 Series A**

### **INTRODUCTION**

This Official Statement, including the cover page and the appendices hereto (the "Official Statement"), is provided to furnish information with respect to the sale and delivery of 2001 Series A Certificates of Participation (the "2001 Series A Certificates") in the aggregate principal amount of \$3,150,000. The Certificates are being issued to finance the acquisition and installation of the Projects as more fully described in "THE 2001 SERIES A PROJECT" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The 2001 Series A Certificates represent the proportionate interest of the owners thereof in lease and purchase payments (the "2001 Series A Lease Payments") to be made by the State of Rhode Island and Providence Plantations (the "Lessee") with respect to the 2001 Series A Project pursuant to a Lease Purchase Agreement (State Vehicles Projects) 2001 Series A dated as of June 15, 2001 (the "2001 Series A Lease") between Fleet National Bank (the "Lessor") and the Lessee. The Lessor will assign its right to the 2001 Series A Lease Payments to Citizens Bank of Rhode Island, as trustee (the "Trustee") pursuant to a Trust Agreement (2001 Series A) dated as of June 15, 2001 (the "2001 Series A Trust Agreement") between the Lessor and the Trustee. The 2001 Series A Certificates will be issued pursuant to the 2001 Series A Trust Agreement. The proceeds of the sale of the 2001 Series A Certificates (net of accrued interest and costs of issuance of the 2001 Series A Certificates) will be deposited in a 2001 Series A Project Account created under the 2001 Series A Trust Agreement and such proceeds will be disbursed by the Trustee to finance costs of acquisition and installation of the 2001 Series A Project.

The 2001 Series A Lease provides that the Lessee's obligation to make 2001 Series A Lease Payments is absolute and unconditional subject to and dependent upon annual appropriations being made by the Lessee for such purpose. (See "SECURITY FOR THE CERTIFICATES" herein).

Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the 2001 Series A Trust Agreement.

### **THE 2001 SERIES A PROJECT**

#### **The 2001 Series A Project**

The 2001 Series A Project (the "State Vehicles Project") consists of the purchase of miscellaneous state vehicles, together with all additions, replacements, repairs, substitutions, accessions, accessories and improvements therefor and/or thereto.

## ESTIMATED SOURCES AND USES OF FUNDS

### The 2001 Series A Certificates

Sources:	
Principal Amount of Certificates	\$3,150,000
Accrued Interest	<u>1,190</u>
Total	<u>\$3,151,190</u>
Uses:	
State Vehicles Project Costs	\$3,077,455
Accrued Interest	1,190
Underwriter's Discount	37,340
Other Costs of Issuance	<u>35,205</u>
Total	<u>\$3,151,190</u>

## THE CERTIFICATES

### The 2001 Series A Certificates

The 2001 Series A Certificates will be issued pursuant to the 2001 Series A Trust Agreement. Each such 2001 Series A Certificate will represent an undivided, proportionate interest in the principal and interest components of the 2001 Series A Lease Payments to be made by the Lessee under the 2001 Series A Lease.

The 2001 Series A Certificates will be dated June 15, 2001, will mature on June 15 in the years and in the principal amounts and will bear interest at the rates per annum (computed on basis of a 360-day year of twelve 30-day months) as shown on the inside cover page hereof. Interest with respect to the 2001 Series A Certificates shall be payable on December 15 and June 15 of each year or if such day is not a Business Day, the immediately succeeding Business Day (each, an "Interest Payment Date"), commencing December 15, 2001, for the period from the dated date of the 2001 Series A Certificates, or such later date to which interest has been paid, to such Interest Payment Date. Payments of interest with respect to any 2001 Series A Certificate shall be made on the appropriate Interest Payment Date to the person appearing on the 2001 Series A Certificate register as the Owner thereof as of the close of business on the May 15 and November 15, as applicable, preceding such Interest Payment Date, such interest to be paid by check or draft mailed to such Owner at such Owner's address as it appears on the 2001 Series A Certificate register or at such other address as such Owner may have filed with the Trustee for that purpose; provided, however, that the Trustee may establish a special record date in connection with payment of interest in default. Said interest shall represent the sum of the portion of 2001 Series A Lease Payments designated as interest coming due on each Interest Payment Date at the rate or rates set forth on the inside cover page hereof.

The principal of and premium, if any, on the 2001 Series A Certificates shall be payable upon presentation and surrender thereof at the principal corporate trust office of the Trustee in Providence, Rhode Island. Principal and premium, if any, due on the 2001 Series A Certificates at maturity or redemption thereof shall represent the sum of the portion of the 2001 Series A Lease Payments designated as principal and premium, if any, coming due on each principal payment date.

## Redemption

The Certificates are subject to redemption prior to maturity on the following dates upon exercise by the Lessee of the purchase option set forth in the Leases. The Certificates shall be redeemed upon the applicable redemption date at the redemption prices set forth below, together with interest accrued to the date of redemption:

<u>Dates of Redemption</u>	<u>Redemption Prices</u>
June 15, 2002	101%
June 15, 2003	100%

The Certificates are subject to redemption prior to maturity in whole at any time at a redemption price of 100% of the principal amount of Certificates redeemed, together with accrued interest to the redemption date upon exercise by the Lessee of the option set forth in the Leases to prepay rental payments if any item of the Projects is lost, stolen, condemned, destroyed or damaged beyond repair.

If any Certificate is called for redemption, interest thereon shall cease to accrue from and after the date fixed for redemption.

The Trustee shall give to the Certificate Owners notice of the redemption of the Certificates. Notice of such redemption shall be given by mailing copies thereof to the Owners of the Certificates, first class postage prepaid, not more than sixty (60) days nor less than thirty (30) days prior to said date of redemption.

## 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 Certificates. The Certificates 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 each series of the Certificates 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 the Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in the Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. The 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 the Certificates under the DTC system must be made by or through the Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants' records. The Beneficial Owners will not receive written confirmation from DTC of their purchase, but the 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 Certificates are to be accomplished by entries made on the books of the Participants acting on behalf of the Beneficial Owners. The Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by the Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of the Certificates 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 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to the Direct Participants, by the Direct Participants to the Indirect Participants, and by the Direct Participants and the Indirect Participants to the 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 Certificates 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 Certificates. Under its usual procedures, DTC mails a proxy (“Omnibus Proxy”) to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Certificates will be made to DTC. DTC's practice is to credit the 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 the Participants to the 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 the Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of the Direct Participants and the Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the State and the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, the 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, the 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 Certificates; (ii) the delivery to any Participant, Beneficial Owner of the Certificates or other person, other than DTC, of any notice with respect to the Certificates; (iii) the payment to any Participant, Beneficial Owner of the Certificates or other person, other than DTC of any amount with respect to the principal of, premium, if any, or interest on, the Certificates; (iv) any consent given by DTC as registered owner; or (v) the selection by DTC or any Participant of any Beneficial Owners to receive payment if the Certificates are redeemed in part.

## **SECURITY FOR THE CERTIFICATES**

### **The 2001 Series A Certificates**

The 2001 Series A Certificates are payable from (i) 2001 Series A Lease Payments received by the Trustee from the Lessee pursuant to the 2001 Series A Lease, (ii) certain amounts on deposit from time to time in the 2001 Series A Trust Fund, as hereinafter described, including proceeds of the sale of 2001 Series A Certificates and investment earnings on amounts on deposit in the 2001 Series A Trust Fund, and (iii) proceeds from the sale or lease of the 2001 Series A Project upon the occurrence of an Event of Default under the 2001 Series A Lease or upon termination of the 2001 Series A Lease. The 2001 Series A Lease provides for 2001 Series A Lease Payments payable at times and in amounts corresponding to the principal of and interest on the 2001 Series A Certificates. The 2001 Series A Lease Payments will be made directly to the Trustee.

The 2001 Series A Lease provides that the Lessee's obligation to make 2001 Series A Lease Payments is absolute and unconditional, subject to and dependent upon annual appropriations being made by the Lessee for such purpose, and will not be subject to any set-off, counterclaim or recoupment.

**THE OBLIGATION OF THE LESSEE TO MAKE 2001 SERIES A LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OR LIABILITY OF THE LESSEE WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE LESSEE IS PLEDGED TO MAKE SUCH PAYMENTS. PAYMENTS OF THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE 2001 SERIES A CERTIFICATES WILL BE MADE SOLELY FROM AMOUNTS DERIVED UNDER THE TERMS OF THE 2001 SERIES A LEASE, INCLUDING THE 2001 SERIES A LEASE PAYMENTS, AND AMOUNTS FROM TIME TO TIME ON DEPOSIT UNDER THE TERMS OF THE 2001 SERIES A TRUST AGREEMENT. THE**

OBLIGATION OF THE LESSEE TO MAKE 2001 SERIES A LEASE PAYMENTS IS SUBJECT TO APPROPRIATION OF FUNDS FOR SUCH PURPOSE BY THE LESSEE IN EACH FISCAL YEAR.

The Lessee covenants in the 2001 Series A Lease to do all things lawfully within its power to request and obtain appropriations from which 2001 Series A Lease Payments may be made, including exhausting all available administrative reviews in the event of non-appropriation of sufficient funds. NEVERTHELESS, THE LESSEE IS UNDER NO OBLIGATION TO APPROPRIATE SUCH FUNDS.

Upon the occurrence of an Event of Default under the 2001 Series A Lease or the 2001 Series A Trust Agreement, as described herein, the Trustee has the right to lease or sell the 2001 Series A Project and apply the net proceeds thereof to payment of principal of and interest on the 2001 Series A Certificates. UPON ANY LEASE OR SALE OF THE 2001 SERIES A PROJECT THERE MAY BE INSUFFICIENT MONEYS HELD BY THE TRUSTEE UNDER THE 2001 SERIES A TRUST AGREEMENT TO MAKE PAYMENT IN FULL OF PRINCIPAL OF AND INTEREST ON THE 2001 SERIES A CERTIFICATES. IN ADDITION, TILLINGHAST LICHT PERKINS SMITH & COHEN, LLP EXPRESSES NO OPINION AS TO THE EXCLUSION FROM GROSS INCOME OF THE PORTION OF THE 2001 SERIES A LEASE PAYMENTS DISTRIBUTABLE TO THE 2001 SERIES A CERTIFICATE OWNERS AS INTEREST IN THE EVENT OF NON-APPROPRIATION BY THE LESSEE OF 2001 SERIES A LEASE PAYMENTS. (See "TAX STATUS" herein).

**SUMMARY OF CERTAIN PROVISIONS OF THE LEASE**

The following is a summary of certain provisions of the Lease. Reference is hereby made to the actual 2001 Series A Lease for a complete recital of their terms.

**Lease Term**

The lease term (the "Lease Term") shall commence on the date of delivery thereof, and shall terminate upon the earlier of: the Lessee's non-appropriation of sufficient funds to make Lease Payments; the Lessee's exercise of the purchase option provided for in the Lease; the Lessee's termination of the Lease because of the theft, damage to or destruction of the Project; the occurrence of an Event of Default thereunder; or June 30, 2001. However, the Lease may be renewed with the terms and conditions set forth in the Lease for the following renewal periods:

<u>Lease Term</u>	<u>Commenced Term</u>	<u>Termination Date</u>
Renewal Period I	July 1, 2002	June 30, 2003
Renewal Period II	July 1, 2003	June 30, 2004

If any right to renew is exercised, the Lease shall be a new Lease and each such new Lease shall terminate on the termination date of the renewal period unless terminated earlier in accordance with the provisions of the Lease. Lessee shall be deemed to have exercised its right of renewal for each succeeding renewal period, if at or prior to the expiration of the then current Lease Term, there are lawfully appropriated by the Lessee sufficient funds enabling the payment of all Lease Payments due during the next renewal period.

If during the initial Lease Term or any Lease Term thereafter, there are lawfully appropriated funds enabling the payment of all Lease Payments due within a period less than the full term of a renewal period, the Lease shall be deemed renewed for such shorter period and can be successively renewed for periods shorter than the full term of a renewal period. Lessee shall be deemed to have exercised its right to renew for such a period shorter than a renewal period if at or prior to the termination of the then current Lease Term, there are lawfully appropriated funds enabling the payment of all Lease Payments for such shorter period. If the Lease is renewed for any period shorter than a renewal period, such shorter period shall terminate on the first day of the month following the last Lease Payment Date on which there were sufficient funds lawfully appropriated enabling the payment of the Lease Payments then due in full.

If a Lease Term terminates without a renewal of the Lease for a succeeding Lease Term and if within thirty (30) days after such date of termination there are lawfully appropriated funds which would have caused the Lease to be renewed if the appropriation had occurred prior to the termination of the Lease Term, then, at the option of the Lessor, the Lease shall be reinstated and deemed renewed as of the day following the date of termination of the preceding Lease Term. If there is a Lease Payment Date between the date of termination and date of reinstatement of the Lease, the Lease Payment which would have been due on such date if the Lease had not been terminated shall become immediately due and payable on the date of the Lease is reinstated.

### **Rental Payments**

The amounts, including the interest portion and due dates of the Lease Payments payable with respect to the Project are set forth in the Lease and shall be payable by the Lessee to the Trustee in accordance with the Trust Agreement. The Lessee may prepay Lease Payments under the Lease in whole but not in part upon forty-five (45) days' prior written notice to the Lessor and the Trustee. Any prepayment under the Lease shall be made on the applicable prepayment date in an amount equal to the outstanding principal components of future Lease Payments as stated in the Lease plus any applicable premium as stated therein plus an interest component equal to accrued interest to the prepayment date.

The Lease is a net lease, and in addition to the Lease Payments stated as being payable thereunder, the Lessee shall pay promptly when due, all costs, expenses, fees, charges and taxes incurred in connection with the use, ownership and operation of the Project during the term thereof, including, without limitation, those specifically referred to in the Lease. The Lessee shall pay all sales taxes, use taxes, excise taxes and stamp and documentary taxes, and declare, report and pay all assessments and federal, state, county and municipal fees and taxes, including any personal property taxes, whatsoever by whomsoever payable on or relating to the Project and the purchase, sale, rental, use, ownership or operation thereof. The Lessor is under no duty to contest any tax or governmental charges payable by the Lessee under the Lease. If the Lessee should fail to pay any costs, expenses, fees, charges or taxes for which the Lessee is liable under the Lease, the Lessor may, but shall not be required to, pay the same for the account of the Lessee. The Lessee shall reimburse the Lessor, upon demand, as additional Lease Payments, for the amount of any such costs, expenses, fees, charges or taxes paid by the Lessor, together with interest thereon at the rate per annum equal to the prime rate of the Lessor plus 1%, or the highest lawful rate, whichever is less. The Lessor and the Lessee understand and agree that the Project constitutes property "owned by the state" within the meaning of Section 44-34-2(h) of the General Laws of Rhode Island and is, therefore, exempt from personal property taxation by municipal corporations. In the event of any personal property tax assessment by a municipal corporation on any Project, the Lessor and the Lessee agree to cooperate with one another in any contest of such assessment.

## **Obligations of the Lessee**

Except as provided in the Lease, the obligations of the Lessee to make Lease Payments and to pay all other amounts provided for in the Lease and to perform its obligations under the Lease shall be absolute and unconditional and such Lease Payments and other amounts shall be payable without any rights of set-off, recoupment or counterclaim it might have against the Lessor or any other person or vendor and whether or not the Project is used or occupied by the Lessee or available for use or occupancy by the Lessee.

Notwithstanding anything in the Lease to the contrary, the cost and expense of the performance by the Lessee of its obligations under the Lease and the incurrence of any liabilities of the Lessee thereunder, including without limitation, the payment of all Lease Payments and amounts payable under the Lease, shall be subject to and dependent upon appropriations being made from time to time by the governing body of the Lessee for such purpose. The Lessee covenants that it will do all things lawfully within its power to request and obtain appropriations from which Lease Payments and other amounts may be paid, including exhausting administrative reviews, if available, in the event of non-appropriation of sufficient funds.

## **The Project**

The Lessee shall acquire and install the Project in accordance with any plans and specifications therefor and any applicable requirements of governmental authorities. Proceeds of the Lease will be held by the Trustee in a separate account created under the Trust Agreement and shall be disbursed by the Trustee to finance costs of the Project in accordance with the terms of the Lease and the Trust Agreement.

During the term of the Lease and prior to the occurrence of an Event of Default under the Lease or non-appropriation of funds to make rental payments thereunder, legal title to the Project shall reside in the Lessee. Upon the occurrence of such an Event of Default or non-appropriation of funds, legal title to the Project shall pass to the Lessor and the Lessee shall have no further interest therein. In addition, upon the occurrence of such Event of Default or non-appropriation of funds, the Lessee shall execute and deliver to the Lessor such documents as the Lessor may request as evidence of passage of legal title in the Project to the Lessor and the termination of the Lessee's interest therein, and upon request of the Lessor shall deliver possession of the Project to the Lessor.

## **Covenants and Representations of the Lessee**

The Lessee has covenanted, agreed, represented and warranted, among other things, as follows:

- (a) The Lessee has the power and authority to enter into and perform its obligations under the Lease.
- (b) The Lessee has duly authorized the execution and delivery of the Lease and the performance of its obligations thereunder, and the Lease and all other documents executed and delivered by the Lessee with respect thereto constitute legal, valid and binding obligations of the Lessee, and are enforceable against the Lessee in accordance with their terms, except as enforceability may be limited by bankruptcy, reorganization, insolvency, moratorium or other laws of general application relating to or affecting creditors' rights generally or by general principles of equity.

(c) Neither the execution and delivery of the Lease, the consummation of the transactions contemplated thereby, nor the fulfillment of or compliance with the terms and conditions of the Lease is prevented, limited by or conflicts with, or results in a breach of, the terms, conditions or provisions of the Constitution or laws of the State of Rhode Island, any charter or other organizational document of the Lessee, any resolutions of the Lessee or any rule or regulation affecting the Lessee, including requirements of any order, ruling, regulation, evidence of indebtedness, agreement, contract or instrument of whatever nature to which the Lessee is a party or by which it is bound, or constitutes a default under any of the foregoing.

(d) There are no pending or threatened lawsuits or administrative or other proceedings contesting the authority for, authorization or performance of, or expenditure of funds pursuant to the Lease.

(e) The Lessee has an immediate need for and expects to make immediate use of, substantially all of the Project, which need is not temporary or expected to diminish in the foreseeable future.

(f) The Lessee will operate or cause the Project to be operated in accordance with all applicable laws, rules, regulations, ordinances, resolutions, rulings and orders until the expiration or earlier termination of the Lease as provided therein.

(g) All moneys required to make any rental payments due and owing in the current fiscal year have been appropriated by the governing body of the Lessee.

### **Maintenance**

The Lessee, at its cost and expense, shall keep and maintain the Project in good mechanical condition, repair and appearance at all times during the term of the Lease and shall comply, at the Lessee's own cost, with all requirements of the manufacturer of the Project necessary to meet all manufacturer's warranties in force. The Lessor shall not be required to maintain or make any repairs or replacements of any nature or description to or of the Project. The Lessee shall not make any alterations, additions, modifications or improvements to the Project without the Lessor's prior written consent. All additions and improvements made to the Project shall be deemed to constitute a part of the Project.

### **Insurance**

The Lessee shall, at all times during the term of the Lease, maintain comprehensive property and public liability insurance or shall self-insure consistent with the prevailing standards for comparable public bodies of similar size in the region.

### **Loss and Damage to the Project**

The Lessee shall bear the entire risk of loss, theft, condemnation, damage or destruction of the Project from any cause whatsoever, and no loss, theft, condemnation, damage or destruction of the Project shall relieve the Lessee of the obligation to make Lease Payments or any other obligation under the Lease. In the event of damage to any item of the Project, the Lessee shall immediately repair, rebuild or restore the property damaged to substantially the same condition as it existed prior to the event causing the damage. If the Lessor determines that any item of the Project is lost, stolen, condemned, destroyed or damaged beyond repair, the Lessee, at its option, will: (a) replace the same with like property in good repair, or (b) terminate the Lease and pay the Lessor in cash all of the following: (i) all amounts then owed by the Lessee or accrued to the Lessor under the Lease; and (ii) the unpaid balance of the total rent for the term of the Lease, less the

amount of such rent attributable to interest accruing after the payment date. Upon the Lessor's receipt of such payment, the Lessee shall be entitled to whatever interest the Lessor may have in the Project, in its then condition and location, without warranties, express or implied.

### **Option to Purchase**

If, upon the expiration of the term of the Lease or upon the earlier prepayment of rentals pursuant to the Lease, the Lessee is not in default thereunder and has paid all amounts due or accrued thereon and performed all its obligations thereunder, the Lessee shall have the option to purchase the Project upon payment to the Lessor of the sum of one dollar (\$1.00), and upon such payment, absolute right to the possession of and title to the Project shall vest in the Lessee without further request by the Lessee and without further transfer or action on the part of the Lessor. If requested, however, the Lessor will execute and deliver to the Lessee a bill of sale or other evidence of title in suitable form to the Lessee conveying the Lessor's interest in the Project to the Lessee.

### **Default**

Any of the following events or conditions shall constitute an event of default under the Lease (an "Event of Default"):

- (a) nonpayment of any Lease Payment or other amount provided for in the Lease as the same becomes due;
- (b) default by the Lessee in the performance of any other obligation, term or condition of the Lease;
- (c) the issuance of any writ or order of attachment or execution or other legal process against any item of the Project;
- (d) the determination by any governmental authority that the interest component of Lease Payments payable under the Lease is not excludable from gross income for federal income tax purposes;
- (e) the commencement of any bankruptcy, insolvency, arrangement, reorganization, receivership, liquidation or other similar proceedings by or against the Lessee;
- (f) the making by the Lessee of a general assignment or deed of trust for the benefit of creditors;
- (g) if any certificate, statement, representation, warranty or audit under the Lease or theretofore or thereafter furnished by or on behalf of the Lessee for payment or performance of the Lease, pursuant to or in connection with the Lease proves to have been false in any material respect at the time as of which the facts therein set forth were stated or certified, or to have omitted any substantial contingent or unliquidated liability or claim against the Lessee; or
- (h) if the interest of the Lessee in the Project of any items thereof shall be levied upon or attached in any proceedings.

Upon the occurrence and during the continuance of any Event of Default as hereinbefore specified, the Lessor shall have the following rights and remedies in addition to any and all other rights and remedies available to it under applicable law:

(i) the Lessor may sue and take whatever action at law or in equity may appear necessary or desirable to recover all rents and other amounts then due (or thereafter accruing) under the Lease and to declare all such amounts to be due and payable or to enforce performance and observance of any obligation, agreement or covenant of the Lessee thereunder;

(ii) the Lessor may terminate the Lease with respect to any or all items of the Project upon written notice to the Lessee; and/or

(iii) the Lessor may take possession of any or all items of the Project, in the manner permitted by law and for such purpose the Lessee authorizes the Lessor to enter upon any premises where such Project is located and remove such property without being guilty of trespass or liable for any damage to the premises caused by such removal; provided, however, if so requested by the Lessor, the Lessee will assemble any or all items of the Project designated by the Lessor and return the same to the Lessor.

In the event that the Lessor takes possession of any or all items of the Project, the Lessee shall, except as otherwise provided in the Lease, remain liable for any and all amounts which then are or may thereafter become due and payable under the Lease. The Lessor may, in its sole discretion and to the extent permitted by law, with respect to any repossessed items of the Project:

(i) hold such Project for the account of the Lessee who, while it is so held, shall be entitled to regain possession of the same by paying to the Lessor all amounts then due and payable under the Lease (including, without limitation, any and all future Lease Payments which have previously been declared to be immediately due and payable pursuant to the Lease) and by curing all other Events of Default thereunder; or

(ii) re-let any or all items of the Project for such period, at such rental and upon such other terms as the Lessor may determine, in which event the Lessee shall remain liable for any and all amounts which then are or may thereafter become due and payable under the Lease (including, without limitation, any and all future Lease Payments whether or not such payments have previously been declared to be immediately due and payable as aforesaid), but the Lessee shall be credited with the amount of any Lease Payments under the new lease or leases which are allocable to the unexpired portion of the Lease Term under the Lease applicable to the items of the Project so re-let; or

(iii) sell any or all items of the Project at public or private sale, at such price and upon such other terms as the Lessor may determine, in which event the Lessee shall remain liable for any and all amounts which then are or may thereafter become due and payable under the Lease (including, without limitation, any and all future Lease Payments whether or not such payments have previously been declared to be immediately due and payable as aforesaid), but the Lessee shall be credited with the amount of the net proceeds applicable to the items of the Project so sold.

Any re-letting or sale pursuant to the Lease shall terminate the Lessee's right to regain possession of the Project.

No individual right or remedy of the Lessor under the Lease shall be exclusive of any other right or remedy thereunder or under applicable law, and all such rights and remedies shall be cumulative and in addition to every other right and remedy otherwise available to the Lessor. All such rights and remedies of the Lessor shall be exercisable with respect to particular items of the Project without any requirements that they also be exercised with respect to other items of the Project.

The Lessee agrees to reimburse the Lessor and the Trustee on demand for any and all costs and expenses, including reasonable attorneys' fees incurred by the Lessor and the Trustee in enforcing their rights under the Lease and under the Trust Agreement following the occurrence of an Event of Default, including, without limitation, all costs and expenses of repossessing the Project and holding, storing, preserving, insuring, re-letting and selling the same, and all such costs and expenses may be deducted by the Lessor in determining the amount of Lease Payments under the new lease or leases or the proceeds of sale.

Notwithstanding anything contained in the Lease to the contrary, a failure by the Lessee to pay when due any payment required to be made under the Lease or a failure by the Lessee to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Lease, resulting from a failure of the governing body of the Lessee to appropriate moneys for such purposes, shall not constitute an Event of Default under the Lease.

#### **Termination of Lease**

If, as a result of a failure of the governing body of the Lessee to appropriate moneys for such purposes, the Lessee is unable to pay when due the payments to be paid under the Lease or the Lessee is unable to observe and perform any covenant or agreement on its part to be observed or performed under the Lease, the Lessor shall have the right to terminate the Lease without penalty or expense to the Lessee of any kind. Notwithstanding any such termination, the Lessor shall be entitled to any rental or other payments due and owing for which funds shall have been appropriated. In order to exercise such right to terminate the Lease, the Lessor shall, at least thirty (30) days prior to the exercise of such right, notify the Lessee in writing of the exercise of its right to terminate and the date fixed for such termination.

Upon the exercise of its right to terminate the Lease, the Lessor shall exclude the Lessee from possession of the Project and may lease the Project to another party or, to the extent permitted by law, sell the Project and, in general, exercise the rights and remedies to which it would be entitled under the Lease upon the occurrence of an Event of Default, including the rights and remedies of a secured party.

#### **SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT**

The following is a summary of certain provisions of the Trust Agreement. Reference is hereby made to the actual 2001 Series A Trust Agreement and to "THE CERTIFICATES" herein for a complete recital of their terms.

#### **Assignment of Lease**

Concurrently with the execution and delivery of the Trust Agreement, the Lessor will assign to the Trustee certain of its right, title and interest in and to and under the Lease.

### **Lost, Stolen, Destroyed or Improperly Canceled Certificates**

If a Certificate is lost, stolen, destroyed or improperly canceled, the Trustee shall cause the issuance of a new Certificate of like tenor and maturity and numbered as the Trustee shall determine to replace it upon proof of such loss, theft, destruction or cancellation satisfactory to the Trustee, upon receipt by the Trustee of an indemnity satisfactory to the Trustee and upon reimbursement to the Trustee of the cost of preparation of the new Certificate.

### **Transfer and Exchange of Certificates**

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

Each Certificate may be exchanged for Certificates of the same maturity in other authorized denominations, or any combination thereof, only upon surrender of such Certificate at the principal office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered Owner or his, her or its attorney duly authorized in writing.

The Trustee shall deem and treat the person in whose name any Outstanding Certificate shall be registered upon the Certificate register as the absolute Owner of such Certificate for the purpose of receiving payments and for all other purposes, and the Trustee, the Lessee and the Lessor shall not be affected by any notice to the contrary.

Upon every exchange or transfer of Certificates, the person requesting the exchange or transfer of Certificates shall pay the Trustee its customary fee for preparation and issuance of new Certificates and shall reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. Such amounts shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. The Trustee shall not be obliged to make any such exchange or transfer of Certificates (1) during the period from each Record Date to the following Interest Payment Date and (2) for which notice of redemption has been given.

### **Certificate Register**

The Trustee shall keep or cause to be kept at its principal office a Certificate register, which shall contain the date of any transfer or exchange and the names and addresses of all registered Certificate Owners, dates and amounts of each payment of principal of and premium, if any, and interest thereon and all notices given or other documentation required to be maintained under the terms of the Certificates or the Trust Agreement.

### **Trust Fund**

Pursuant to the Trust Agreement, there is established with the Trustee the "Trust Fund." Within the Trust Fund, there are established the "Project Account," the "Lease Payment Account," the "Rebate Account" and the "Redemption Account."

### **Project Account**

The Trustee shall deposit the proceeds of the sale of the Certificates, exclusive of any accrued interest, in the Project Account and shall disburse therefrom funds for payment of Project and issuance costs.

### **Lease Payment Account**

Lease Payments and any accrued interest on the Certificates received from the proceeds of the sale of the Certificates shall be deposited by the Trustee in the Lease Payment Account. The Trustee shall withdraw from the Lease Payment Account, on each principal and interest payment date, an amount equal to the amounts of principal and interest payments due with respect to the Certificates on such principal and interest payment date, and shall cause the same to be applied to the payment of principal and interest payments due with respect to the Certificates on such date.

If the principal of and premium, if any, and interest on the Certificates shall have been paid and all expenses of the Trustee have been paid, any balance remaining in the Lease Payment Account shall be paid to the Lessee.

### **Rebate Account**

There shall be paid into the Rebate Account such amounts at such times as are required to be paid by the Lessee pursuant to the Tax Certificate executed by the Lessee in connection with the Trust Agreement. Computations of the rebate amount shall be furnished to the Trustee by the Lessee in accordance with the Tax Certificate.

The Trustee, upon receipt of written instructions from the Lessee in accordance with the Tax Certificate, shall pay to the United States out of amounts on deposit in the Rebate Account any rebate amount required to maintain the exclusion of the portion of Lease Payments distributable as interest on the Certificates from gross income for federal income tax purposes. Following final payment of 100% of the rebate amount to the United States, any balance remaining in the Rebate Account shall be paid to the Lessee.

### **Redemption Account**

Moneys in the Project Account and Lease Payment Account shall be transferred by the Trustee to the Redemption Account (i) on prepayment by the Lessee of the Lease Payments pursuant to the Lease or (ii) upon termination of the Lease due to the damage or destruction of the Project or (iii) upon acceleration of the payment of principal, premium, if any, and interest due under the Lease upon an Event of Default thereunder or (iv) upon an event of nonappropriation under the Lease.

Moneys in the Redemption Account shall be used solely to redeem Certificates or to pay the principal of and premium, if any, and interest on Certificates declared due and payable under the Trust Agreement. If the principal of and premium, if any, and interest on the Certificates shall have been paid and all other amounts owed the Trustee and the Lessor have been paid, any balance remaining in the Redemption Account shall be paid to the Lessee.

## **Deposit and Investment of Moneys in Funds**

All moneys held by the Trustee in any of the funds or accounts established pursuant to the Trust Agreement shall be invested in Permitted Investments as directed by the Lessee, except that moneys in the Lease Payment Account and the Redemption Account shall be invested only in obligations of the United States of America or obligations the principal of and interest on which are guaranteed by the United States of America. Such investments shall mature in such amounts and at such times as may be needed to make payments from such funds and accounts and any such investments and the income or interest earned and gains realized therefrom shall at all times be deemed to be a part of the fund or account from which the investment was made.

“Permitted Investments” means, to the extent permitted by law, (i) obligations of the United States of America; (ii) obligations the principal of and interest on which are guaranteed by the United States of America; (iii) obligations of agencies and instrumentalities of the United States of America; (iv) obligations the interest on which is excluded from gross income under Section 103(a) of the Code, which obligations are rated in one of the three highest debt rating categories of Moody’s Investors Services, Inc. (“Moody’s”) and Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (“S&P”); (v) certificates of deposit, bankers’ acceptances or repurchase agreements of banks and trust companies organized under the laws of the United States of America or any state thereof, provided that any repurchase agreement shall be secured by obligations described in (i) above; (vi) shares of any money market fund rated in one of the three highest debt rating categories of Moody’s and S&P; and (vii) such other investments rated in one of the three highest debt rating categories of Moody’s and S&P.

## **Events of Default and Remedies**

An Event of Default is deemed to be the occurrence of any one of the following:

- (a) an Event of Default under the Lease; or
- (b) the non-appropriation by the Lessee of sufficient funds to make Lease Payments or other payments under the Lease.

In the case of any such occurrence, the Trustee shall, within five (5) days of receipt of actual notice thereof, give written notice thereof by first-class, postage prepaid mail to the Owners of all Certificates then Outstanding at the address shown on the Certificate register maintained by the Trustee.

Upon the occurrence of an Event of Default the Trustee may, and upon the written request of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Certificates then Outstanding, the Trustee shall, by notice in writing delivered to the Lessee and the Certificate Owners, declare the principal of all Certificates then Outstanding and the interest accrued thereon immediately due and payable, and the Trustee shall declare an amount equal to all amounts then due under the Lease and all remaining Lease Payments due during the Lease Term to be immediately due and payable.

If an Event of Default shall have occurred, and if requested to do so by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Certificates then Outstanding, and indemnified by such Owners, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Trust Agreement as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Certificate Owners.

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

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

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

### **Right of Certificate Owners to Direct Proceedings**

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

### **Application of Moneys**

All moneys received by the Trustee pursuant to any right given or action taken following an Event of Default shall, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the fees, expenses, liabilities and advances incurred or made by the Trustee, be deposited in the Redemption Account and all moneys so deposited in the Redemption Account shall be applied to the payment of principal and interest then due without preference or priority of principal over interest or of interest over principal, or of any Certificate over any other Certificate, ratably, according to the amounts due respectively on each Certificate, at such times and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date upon which such application is to be made and upon such date, interest on the amounts of principal to be paid on such dates, and for which moneys are available, shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any moneys and of the fixing of such date, and shall not be required to make payment to the Owner of any unpaid Certificate until such Certificate shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

### **Rights and Remedies of Certificate Owners**

No Owner of any Certificate shall have any right to institute any suit, action or proceeding for the enforcement of the Lease or the Trust Agreement, or any remedy thereunder, unless (i) an Event of Default has occurred; (ii) the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Certificates then Outstanding shall have made written request to the Trustee and shall have offered the Trustee reasonable opportunity either to proceed to exercise the powers therein granted or to institute such action, suit or proceeding in its own name; (iii) such Owners have offered the Trustee indemnification in a manner satisfactory to it for any liability and expense it might incur in carrying out the aforementioned request; and (iv) the Trustee shall thereafter fail or refuse to exercise the powers granted under the Trust Agreement, or to institute such action, suit or proceeding in its, his, her or their own name or names. Such

request and offer of indemnity are in every case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Trust Agreement, and to the initiation of any action or cause of action for the enforcement of the Lease Agreement and the Trust Agreement. None of the Certificate Owners shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Trust Agreement by its, his, her or their action or to enforce any right thereunder except in the manner therein provided, and proceedings shall be instituted, had and maintained in the manner therein provided and for the ratable benefit of the Owners of all Certificates then Outstanding.

### **Waivers of Events of Default**

The Trustee may in its discretion waive any Event of Default and its consequences and rescind any declaration of maturity or principal and shall do so upon the written request of the Owners of at least a majority in aggregate principal amount of all the Certificates then Outstanding; provided, however, that there shall not be waived (a) any default in the payment of the principal of any Outstanding Certificates at the date of maturity specified therein or (b) any default in the payment when due of the interest on any such Certificates unless prior to such waiver or rescission, all arrears of interest, or all arrears of payments of principal when due, as the case may be, and all expenses of the Trustee, in connection with such default, shall have been paid or provided for.

### **No Liability to Owners for Payment**

The Trustee shall not have any obligation or liability to the Certificate Owners with respect to the payment of the Lease Payments by the Lessee when due, or with respect to the performance by the Lessee of any other covenant made by it in the Lease. The Trustee shall not be responsible for the sufficiency of the Lease or of the declaration of rights to receive moneys pursuant to the Trust Agreement, or the value of or title to the Project. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it under the terms of and in accordance with the Trust Agreement.

### **Appointment of Trustee**

Citizens Bank of Rhode Island has been appointed the Trustee and the Paying Agent for the Certificates under the Trust Agreement.

The Trust Agreement provides for the resignation and removal of the Trustee upon the occurrence of certain events, and the appointment by the Lessee, of a successor Trustee. No such resignation or removal shall become effective until a successor Trustee has been appointed and has accepted such appointment.

Any such successor shall be a bank or trust company doing business, qualified to exercise corporate trust powers in the State of Rhode Island, having a combined capital (exclusive of borrowed capital) and surplus of at least Fifty Million Dollars (\$50,000,000) and shall be subject to supervision or examination by federal or state authority. All successor Trustees must agree to and accept the terms and conditions of the Trust Agreement.

The Trustee shall not be liable except for the performance of such duties as are specifically set forth in the Trust Agreement. The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition or other paper or document which it shall in good faith believe to be genuine and to have been passed or issued pursuant to any of the provisions of the Trust Agreement or the Lease, and the

Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee shall not be bound to recognize any person as an Owner of any Certificate or to take any action at the Owner's request unless such Certificate shall be deposited with the Trustee or satisfactory evidence of the ownership of such Certificate shall be furnished to the Trustee. The Trustee may consult with counsel with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Trust Agreement in good faith in accordance therewith.

The Trustee may buy, sell, own, hold and deal in any of the Certificates, and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to the Trust Agreement. The Trustee, either as principal or agent, may also engage in or have an interest in any financial or other transaction with the Lessee, and may act as depository, trustee, or agent for any committee or body of Certificate Owners or other obligations of the Lessee as freely as if it were not the Trustee under the Trust Agreement.

The Trustee may execute any of the trusts or powers of the Trust Agreement and perform the duties required of it thereunder by or through attorneys, agents, or receivers, and shall not be answerable for the default or misconduct of any such attorney, agent or receiver selected by it with reasonable care.

In the case of an Event of Default, the Trustee shall exercise its discretion or power under the Trust Agreement and the administration of the funds and accounts established thereunder, with the same degree of care and skill a prudent man would exercise or use under the circumstances in the conduct of his own affairs. No provision of the Trust Agreement shall be construed to relieve the Trustee from liability for its gross negligence or willful misconduct, except that this provision shall not be construed to affect the scope of the Trustee's duties and obligations provided for therein or the Trustee's right to rely on the truth of statements and the correctness of opinions as heretofore provided.

### **Amendment**

The Trustee may, without the consent of or notice to any of the Certificate Owners, amend the Trust Agreement or other instruments evidencing the existence of a lien as shall not be inconsistent with the terms and provisions thereof for any one of the following purposes:

(a) To cure any ambiguity, inconsistency or formal defect or omission in the Trust Agreement or to provide for any amendment which, in the judgment of the Trustee, is not to the material prejudice of the Trustee or the Certificate Owners;

(b) To grant to or confer upon the Trustee for the benefit of the Certificate Owners any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Certificate Owners or the Trustee or either of them;

(c) To subject to the lien and pledge of the Trust Agreement additional revenues;

(d) To add to the covenants and agreements of the Trustee contained in the Trust Agreement other covenants and agreements thereafter to be observed for the protection of the Certificate Owners or to surrender or limit any right, power or authority reserved to or conferred upon the Trustee in the Trust Agreement; or

(e) To evidence any succession within the Lessor or the Trustee and the assumption by such successors of the requirements, covenants and agreements of the Lessor or the Trustee in the Lease, the Trust Agreement and the Certificates.

Exclusive of the amendments set forth in (a) through (e) above, the Trust Agreement may be amended only with the written consent of the Owners of not less than a majority in aggregate principal amount of the Certificates then Outstanding, provided, however, that this shall not permit or be construed as permitting an extension of the maturity of the principal of or the interest on any Certificate, or a reduction in the principal amount of any Certificate or the rate of interest or redemption premium thereon, without the consent of each Certificate Owner so affected.

Notwithstanding anything contained in the Trust Agreement to the contrary, any amendment to the Trust Agreement which affects the rights of the Lessee shall not become effective unless and until the Lessee shall have consented in writing to such amendment.

The Trustee without the consent of the Certificate Owners, may consent to any amendment to the Lease which in its judgment is not to the material prejudice of the Trustee or the Certificate Owners. The Trustee shall not consent to any amendment, change or modification of the Lease which would change the amount of the Lease Payments required to be paid under the Lease, or the Lease Payment Dates without the consent of each Certificate Owner so affected.

**Defeasance**

If and when the Certificates become due and payable in accordance with their terms, and the whole amount of the principal, premium, if any, and the interest so due and payable upon all of the Certificates shall be paid, or provision shall have been made for the payment of the same, by the deposit of cash or securities described in clauses (i) or (ii) of the definition of Permitted Investments in an amount sufficient without further reinvestment to provide for payment of said principal, premium, if any, and interest, and all other amounts due under the Trust Agreement and under the Lease shall have been paid or provided for, then and in that case, the right, title and interest of the Trustee under the Trust Agreement shall thereupon cease, and the Trustee shall assign and transfer to the Lessee all property (in excess of the amounts required for the foregoing) then held by the Trustee and shall execute such documents as may be reasonably required by the Lessee in this regard.

**LEGAL MATTERS**

Counsel to the Lessee has reviewed and approved all the documentation related to the Leases and will render opinions to the effect that the Lessee possesses the authority necessary to enter into the Leases and that the Leases constitute legal, valid, binding and enforceable obligations of the Lessee, subject to the limitations set forth therein.

**TAX STATUS**

Tillinghast Licht Perkins Smith & Cohen, LLP, is of the opinion that, under existing law and based upon certain representations of the Lessee and its examination of such matters of existing law as deemed relevant, the portion of 2001 Series A Lease Payments designated as interest and distributable to the Certificate Owners to the extent such payments are appropriated by the Lessee and received by the Certificate Owners (the "Interest") is excludable from gross income of such Owners for federal income tax purposes

under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Such portion of 2001 Series A Lease Payments distributable as Interest is excludable from State of Rhode Island personal income taxation to the extent such interest is excludable from gross income for federal income tax purposes. (See "APPENDIX B - Form of Legal Opinion for the Certificates").

The Code establishes certain requirements regarding the use, expenditure and investment of proceeds of the Certificates and the payment of rebates to the United States, which must be continuously satisfied subsequent to the issuance of the Certificates in order for the portion of 2001 Series A Lease Payments designated as Interest on the Certificates to remain excludable from gross income for federal income tax purposes. Failure to comply with these requirements may cause that portion of 2001 Series A Lease Payments designated as Interest on the Certificates to become includable in the gross income of the Owners thereof for federal income tax purposes retroactive to the date of issuance of the Certificates. The Lessee will covenant to take all lawful action necessary under the Code to ensure that the portion of 2001 Series A Lease Payments designated as Interest on the Certificates will remain excludable from gross income for federal income tax purposes and to refrain from taking any action that would cause such portion to become includable in such gross income. The opinion of Tillinghast Licht Perkins Smith & Cohen, LLP, is subject to the condition that the Lessee comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Certificates in order that the portion of 2001 Series A Lease Payments designated as Interest on the Certificates be or continue to be excluded from gross income for federal income tax purposes. Tillinghast Licht Perkins Smith & Cohen, LLP, expresses no opinion regarding other federal tax consequences arising with respect to the Certificates.

Tillinghast Licht Perkins Smith & Cohen, LLP, is also of the opinion that the portion of the 2001 Series A Lease Payments designated as Interest on the Certificates will not be treated as an item of tax preference in calculating the alternative minimum tax imposed on individuals and corporations under the Code. However, the portion of 2001 Series A Lease Payments designated as Interest on the Certificates will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes).

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 Certificates into account in determining what portion, if any, of the federally-subsidized amount is subject to recapture. Prospective purchasers of the Certificates should consult their tax advisors as to the applicability of any such collateral consequences.

**IN ADDITION, TILLINGHAST LICHT PERKINS SMITH & COHEN, LLP, EXPRESSES NO OPINION AS TO THE EXCLUSION FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES OF THE PORTION OF THE 2001 SERIES A LEASE PAYMENTS DISTRIBUTABLE TO THE CERTIFICATE OWNERS AS INTEREST IN THE EVENT OF NON-APPROPRIATION BY THE LESSEE OF 2001 SERIES A LEASE PAYMENTS.**

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

BOND COUNSEL ALSO HAS DISCLAIMED ANY OPINION AS TO THE TRANSFERABILITY OF CERTIFICATES UNDER FEDERAL AND STATE SECURITIES LAW AFTER TERMINATION OF THE LEASE, AND, AFTER SUCH TERMINATION, THERE IS NO ASSURANCE THAT CERTIFICATE OWNERS WOULD BE ABLE TO TRANSFER THEIR INTERESTS WITHOUT COMPLIANCE WITH REGISTRATION PROVISIONS OF FEDERAL AND STATE SECURITIES LAW.

The foregoing is a general discussion of the anticipated material federal and state income tax consequences relating to the ownership of the Certificates. The discussion does not purport to address all federal and state income tax consequences that may be applicable to particular categories of investors, some of which may be subject to special rules. The authorities on which this discussion is based are subject to change or different interpretation, and any such change or interpretation could apply retroactively. Prospective investors should consult their own tax advisors in determining the federal, state, local and any other tax consequences to them in connection with the purchase, ownership and disposition of Certificates.

#### **UNDERWRITING**

The Underwriter has agreed, subject to certain conditions, to purchase the 2001 Series A Certificates at a price which is \$37,340 less than the initial public offering price shown on the cover page of this Official Statement. The Underwriter's obligation to purchase the 2001 Series A Certificates is subject to certain conditions precedent, and the Underwriter will be obligated to purchase all of the 2001 Series A Certificates if any such 2001 Series A Certificates are purchased.

The Underwriter has had a financial advisory relationship with the Lessee as that term is defined in Rule G-23 of the Municipal Securities Rulemaking Board. The Lessee and the Underwriter have taken all steps necessary to comply with 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 Certificates, to provide continuing disclosure consistent with the terms of the Rule, as provided in the Continuing Disclosure Certificate to be dated as of the date of the Certificates 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 Certificates:

(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, financial information and operating data relating to the State for

the preceding fiscal year of the type presented in the Official Statement prepared in connection with the Certificates regarding (i) revenues and expenditures relating to operating budgets, (ii) capital expenditures, (iii) fund balances, (iv) tax information, (v) outstanding direct and indirect indebtedness, (vi) pension obligations and (vii) such other financial information and operating data as may be required to comply with the Rule and (b) promptly upon their public release, the audited financial statements of the State for the most recently ended fiscal year, to the extent such statements have been commissioned, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by State 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 the Municipal Securities Rulemaking Board and the SID, if any, notice of the occurrence of any of the following events with respect to the Certificates, if material: (a) principal and interest payment delinquencies, (b) non-payment 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 Certificates, (g) modifications to rights of beneficial Owners, (h) certificate calls, (i) defeasances, (j) release, substitution, or sale of property securing repayment of the Certificates, or (k) rating changes to the Certificates by any nationally recognized credit agency which has rated the Certificates 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 judgment of the State, such other events are material with respect to the Certificates, but the State does not undertake to commit to provide any such notice of the occurrence of any material events 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 Certificate Owners, (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 Certificate Owners, (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 clause (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 Certificates, 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 Certificate Owners, 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 Certificates affected thereby at or prior to the time of such amendment. The Continuing Disclosure Certificate will so 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 Certificates, 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 Certificate holders 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 Certificates, any registered owner or beneficial owner of the Certificates, any municipal securities broker or dealer, any potential purchaser of the Certificates, the Securities and Exchange Commission or any other person. The sole remedy in the event of any actual or alleged failure by the State to comply with any 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 Certificates.

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.

#### **MISCELLANEOUS**

The descriptions herein of the Trust Agreement and the Lease are qualified in their entirety by reference to such documents, and the descriptions herein of the Certificates are qualified in their entirety by reference to the form thereof. The descriptions herein of such documents are outlines only and do not purport to be complete. Copies of such documents may be obtained from the office of the General Treasurer of the State or the Trustee.

#### **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 June 8, 2001, and the General Purpose Financial Statements of the State, as of and for the fiscal year ended June 30, 2000, all of which have been prepared and furnished by the State and are attached hereto as 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 Certificates from time to time.

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

STATE OF RHODE ISLAND AND  
PROVIDENCE PLANTATIONS

By: \_\_\_\_\_  
General Treasurer

Dated: June 11, 2001

APPENDIX A  
INFORMATION STATEMENT OF  
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Dated June 8, 2001



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

**DATED: June 8, 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-32
State Indebtedness .....	A-35
Authorization and Debt Limits .....	A-35
Public Finance Management Board .....	A-35
Sinking Fund Commission .....	A-35
Tax Anticipation Notes .....	A-35
Net Tax Supported State Debt .....	A-36
Net Tax Supported Debt Ratios .....	A-37
Debt Service Schedule .....	A-38
Authorized but Unissued Direct Debt .....	A-39
Authorized but Unissued Guaranteed Debt .....	A-40
State Agencies and Authorities .....	A-41
Employee Relations .....	A-49
State Retirement Systems .....	A-50
Employees' Retirement System .....	A-50
Financial Objectives and Funding Policy .....	A-50
Progress Toward Realization of Financing Objectives .....	A-50
GASB 25 and Funding Progress .....	A-51
Schedule of Funding Progress .....	A-52
Determination of the Equivalent Single Amortization Period .....	A-53
Other Benefits .....	A-54
Litigation .....	A-54
Financial Statements .....	A-54
General Purpose Financial Statements of the State of Rhode Island and Providence Plantations as of and for the Year Ended June 30, 2000 .....	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 Consumer Price Index. The Governor's FY 2002 recommended budget proposes to freeze the excise tax phase-out at \$3,500 of assessed value per vehicle.

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

Total State aid to cities and towns has risen from approximately \$389.7 million in FY 1991 to \$835.1 million in the Governor's Recommended FY 2002 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 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 that distribution methodology and established two new investment funds, Targeted School Aid and On-Site School Visits. The FY 2000 budget continued the initiatives already adopted and provided for an additional \$47.5 million in Education Aid to Local Governments. A Student Investment Fund, the Charter School Fund, was created and funded with \$2.9 million. Other changes in Education Aid included the increase in Aid to the Central Falls School District by \$3.0 million to a total of \$27.3 million. In addition, teacher retirement costs after audit adjustments totaled \$41.0 million or \$10.5 million more than FY 1999. This change was driven by revised assumptions on teacher life expectancy, age of retirement and the 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 funds 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, effects 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.

The Governor's recommendation for education aid to local governments totals \$670.7 million in FY 2002. This represents a \$33.6 million increase (5.3 percent) in state support relative to the FY 2001 revised budget. The increase in funding is primarily due to an increase of \$32.6 million in education aid and an increase in Teacher Retirement obligations of approximately \$1.0 million. The distribution of education aid recommended by the Governor departs from the methodology previously used to distribute education aid in Rhode Island. While some Investment Funds are maintained as separate items, many have been consolidated into the General Aid category. The distribution proposed conforms with the recommendation of the Governor's Taskforce on Education Financing. Of the total increase, \$26.3 million is reflected in three areas: Student Need/Equity, \$10.5 million; Per Pupil Distribution, \$5.3 million; and, Tax Equity, \$10.5 million. This clearly reflects the taskforce recommendation, providing twenty percent of the distribution of new aid funding for support of all communities to finance basic education requirements on a per pupil basis, forty percent to address excess education costs associated with special need, and forty percent to high tax effort, low capacity districts in order to provide a more equitable distribution among districts. An additional \$1.0 million is recommended for Charter Schools and, \$250,000 for Mentoring. Funding for Full-Day Kindergarten increased \$0.7 million, however, the full \$3.1 million has been treated as additional education aid and is part of the total aid increase. The increases will provide for each school district to receive a minimum entitlement increase of 2.5 percent. General Education Aid is recommended to increase by \$0.3 million to ensure that all districts attain minimum funding. The increase recommended for Central Falls is \$1.6 million, or five percent.

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. In fiscal year 1997, disbursements to local school districts totaled \$18.1 million. The Governor's FY 2002 Budget recommends \$30.8 million for this category of aid, an increase of 70 percent since FY 1997. A related program will provide approximately \$2.3 million in FY 2002 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 \$33.5 million in FY 2001. The FY 2002 Recommended Budget includes \$43.6 million for this program, and increases the share dedicated to 2.4% 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), 1999 (\$15.9 million), and 2000 (\$16.0 million). The FY 2001 Enacted Budget and FY 2002 Recommended Budget include funding of \$17.6 million for this program.

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, motor vehicle registration, child support enforcement, 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.

*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, health care 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, cash assistance, child care and training and social services. The Department also operates the Rhode Island Veterans' Home, the Veterans' cemetery, and administers vocational rehabilitative services and services for the blind and visually impaired.

*Department of Children, Youth, and Families.* The Department of Children, Youth, and Families is responsible for providing comprehensive, integrated services to children in the State in need of assistance. The Department was created 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, a Risk Assessment Unit and the Furlough Program. Also included in the Department of Corrections budget, but with independent decision-making authority, is the State Parole Board.

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

## *Natural Resources*

*Natural Resources* includes those agencies responsible for protecting the natural and physical resources of the State and regulating the use of those resources. Agencies included in this function are the Department of Environmental Management, 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 2000, 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 called the Rhode Island Capital Fund, 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 were to 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. Since that time, the fund has continued to grow, such that the FY 2000 audited reserve fund balance was \$71.3 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 79.7 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. The rate will be further reduced to 25.0 percent effective January 1, 2002. 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 27.7 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, Standard & Poor's (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>	2.3%	1.5%	0.8%
<b>Total Personal Income</b>			
<i>Annual Percentage Change</i>	5.9%	6.7%	4.4%
<b>Consumer Price Index</b>			
<i>Fiscal Year Annual Percentage Change</i>	2.9%	3.3%	2.4%
<i>Calendar Year Annual Percentage Change</i>	3.4%	2.9%	2.2%

### **REVENUE ESTIMATES**

Revenue estimates are predicated upon the FY 2001 Appropriations Act, and were modified by the Consensus Revenue Estimating Conference in May 2001. 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 May 2001 was \$146.1 million greater than the estimate enacted by the legislature, for a total of \$2.535 billion. FY 2001 revenues are expected to be 11.3 percent greater than those collected in FY 2000. Total taxes in FY 2001 are expected to rise by 10.7 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 \$920.7 million in FY 2001. Annual growth of 12.7 percent is expected. The income tax estimate includes the fourth phase of the tax rate reduction (to 25.5 percent of federal liability) which became effective on January 1, 2001.

It should be noted that revisions to taxes include a one-time gain of \$7.8 million for accrual of all taxes, to conform with GASB 33. Revisions were also made to several of the general business taxes. The business corporation tax was increased by \$4.4 million, and is expected to yield a total of \$74.4 million for the year. Taxes on financial institutions were increased by \$8.0 million, and are expected to yield \$13.9 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 \$8.0 million for a total of \$81.0 million. Franchise and bank deposits taxes, and the health care provider assessment are expected to yield \$8.0 million, \$0.9 million, and \$27.4 million, respectively.

Expected sales tax collections are \$707.0 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 \$44.1 million, and motor fuel taxes are expected to yield \$0.9 million. Alcohol tax collections are expected total \$9.2 million. The cigarette tax estimate increased \$1.1 million from the November estimate to \$59.3 million. Inheritance tax estimates were reduced by \$8.5

million from the November estimate for an expected total of \$22.5 million. Racing and athletics and realty transfer taxes are expected to garner \$5.4 million, and \$2.5 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 \$254.5 million in the current fiscal year. The total reflects an increase of \$2.5 million from the November estimate.

The gas tax transfer to the general fund reflects an increase from the November estimate, with expected collections of \$9.4 million. The increase is based upon an audit adjustment, as well as an increased yield from each penny of the gas tax. Lottery receipts are expected to garner \$178.2 million. The revised estimate reflects an increase from the November estimate of \$1.0 million, based on year to date collection patterns. Unclaimed property receipts are expected to total \$3.9 million.

“Other Miscellaneous” receipts are expected to total \$77.5 million. The components in this category include: airport lease payments (\$3.2 million); reimbursements from the Underground Storage Tank Fund (\$0.6 million); Blue Cross Settlement (\$1.7 million); interyear adjustments (\$1.8 million); tobacco settlement proceeds (\$45.2 million); employee medical recovery (\$6.0 million); elderly transportation Medicaid reimbursements (\$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 2.7 percent less than those collected in FY 2001. The adopted estimate for the budget year totals \$2.467 billion.

Total taxes in FY 2002 are expected to rise by 1.1 percent over the prior fiscal year, largely due to growth in personal income and sales taxes. Personal income taxes are expected to total \$945.0 million in FY 2002. Annual growth of 2.6 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 several business taxes, reflecting FY 2001 collection experience, which included significant one-time gain from the GASB accounting adjustment and late payments for prior year liabilities. The business corporation tax was reduced by \$10.4 million, and is expected to yield a total of \$64.0 million for the year. Financial institutions taxes were reduced by \$8.9 million, with total anticipated collections of \$5.0 million. Taxes on insurance companies were reduced by \$3.2 million, with total expected collections of \$31.3 million.

The health care provider tax, the franchise tax and the bank deposits tax are expected to yield \$26.6 million, \$7.9 million, and \$0.9 million, respectively.

The sales tax estimate for FY 2002 is \$730.0 million, anticipating an annual increase of \$23.0 million, or growth of 3.3 percent. Motor Vehicle taxes are expected to yield \$44.0 million, and motor fuel taxes are expected to yield \$0.9 million. Alcohol tax collections are expected to yield \$9.4 million.

Cigarette tax collections are expected to further decline by \$0.8 million or 1.3 percent, due to a continued decline in consumption. Total collections of \$58.5 million are expected in the budget year.

Inheritance tax, racing and athletics taxes, and realty transfer tax collections are expected to remain at or near FY 2001 levels with collections of \$22.5 million, \$5.4 million, and \$2.4 million, respectively. Departmental receipts are expected to total \$176.3 million in FY 2002. The annual reduction of \$78.2 million is chiefly caused by the expiration of the hospital license fee, which has been reauthorized each year.

The gas tax yield per penny for FY 2002 is estimated to be \$4.7 million. The general fund transfer of three-fourths of one cent equals \$3.5 million. The FY 2002 estimate for lottery transfers equals \$188.3 million, or annual growth of 5.7 percent. Unclaimed property receipts are expected to decrease slightly compared to those collected in FY 2001, for a total of \$3.3 million.

"Other Miscellaneous" receipts are expected to total \$59.3 million. The FY 2002 estimate is \$18.2 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 \$53.8 million (which are \$8.6 million greater than the FY 2001 payment of \$45.2 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 1999 through 2002 and expenditures for the fiscal years 1999 through 2002. General Fund data for FY 1999 and FY 2000 is derived from financial statements prepared by the State Controller, and post audited by the Auditor General. 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 closing surplus for FY 2001 is \$91.9 million, with \$21.7 million of general revenues reappropriated to FY 2001.

General Fund revenues for FY 2000 reflect the audited 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 May 2001, adjusted by changes to adopted estimates proposed by the Governor. 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 and supplemental appropriations from all sources totaling \$116.2 million, which were enacted in May 2001. The Governor has released the third quarter report for FY 2001, which reveals that general revenue expenditures are anticipated to be \$11.3 million more than the supplemental budget enacted by the General Assembly in May 2001. The Governor presented his recommended expenditures for FY 2002 in February 2001.

# General Revenues

	FY 1998 (Audited)	FY 1999 (Audited)	FY 2000 (Audited)	FY 2001 (Revised)	FY 2002 (Revised)
<b>Personal Income Tax</b>	\$722,809,063	\$757,557,456	\$817,079,620	\$920,700,000	\$945,000,000
<b>General Business Taxes</b>					
Business Corporations	71,541,900	66,497,243	67,995,553	74,400,000	64,000,000
Franchise	7,314,729	7,896,372	7,746,246	8,000,000	7,900,000
Public Utilities Gross Earnings	62,330,189	66,349,690	73,011,717	81,000,000	81,000,000
Financial Institutions	(1,157,614)	(1,639,532)	7,683,012	13,900,000	5,000,000
Insurance Companies	41,817,850	31,648,918	31,324,916	34,500,000	31,300,000
Bank Deposits	1,387,514	(612,474)	947,979	900,000	900,000
Health Care Provider Assessment	23,546,817	23,974,976	24,641,523	27,400,000	26,600,000
<b>Sales and Use Taxes</b>					
Sales and Use	530,649,386	564,807,963	631,304,598	707,000,000	730,000,000
Motor Vehicle	40,328,576	41,991,608	43,689,813	44,100,000	44,000,000
Motor Fuel	4,947,942	1,010,393	641,041	900,000	900,000
Cigarettes	64,188,077	61,576,289	59,392,252	59,300,000	58,500,000
Alcohol	8,586,546	9,027,601	9,209,855	9,200,000	9,400,000
Controlled Substances	7	-	165	-	-
<b>Other Taxes</b>					
Inheritance and Gift	31,524,415	36,324,715	35,563,398	22,500,000	22,500,000
Racing and Athletics	5,979,095	5,806,170	5,374,515	5,400,000	5,400,000
Realty Transfer	6,428,808	2,585,090	2,173,033	2,500,000	2,400,000
<b>Total Taxes</b>	<b>1,622,223,300</b>	<b>1,674,802,478</b>	<b>1,817,779,236</b>	<b>2,011,700,000</b>	<b>2,034,800,000</b>
<b>Departmental Receipts</b>					
Licenses and Fees	101,455,524	103,243,938	108,899,760	149,200,000	76,100,000
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	37,166,354	57,500,000	52,600,000
<b>Total Departmental Receipts</b>	<b>190,266,014</b>	<b>199,644,809</b>	<b>207,399,225</b>	<b>254,500,000</b>	<b>176,300,000</b>
<b>Taxes and Departmentals</b>	<b>1,812,489,314</b>	<b>1,874,447,287</b>	<b>2,025,178,461</b>	<b>2,266,200,000</b>	<b>2,211,100,000</b>
<b>Other Sources</b>					
Gas Tax Transfer	30,412,271	20,041,618	14,937,694	9,373,663	3,525,000
Other Miscellaneous	32,721,004	15,891,757	83,412,911	77,467,130	59,293,763
Lottery	115,071,622	133,475,047	150,283,635	178,200,000	188,300,000
Unclaimed Property	3,693,926	4,488,559	3,520,488	3,900,000	3,300,000
<b>Other Sources</b>	<b>181,898,823</b>	<b>173,896,981</b>	<b>252,154,728</b>	<b>268,940,793</b>	<b>254,418,763</b>
<b>Total General Revenues</b>	<b>\$1,994,388,137</b>	<b>\$2,048,344,268</b>	<b>\$2,277,333,189</b>	<b>\$2,535,140,793</b>	<b>\$2,465,518,763</b>

## Expenditures from General Revenues

	FY 1999 Audited	FY 2000 Audited	FY 2001 Revised	FY 2002 Recommended
<b>General Government</b>				
Administration*	\$194,998,423	\$306,734,524	\$347,392,313	\$401,285,063
Business Regulation	6,733,959	7,829,950	8,421,983	9,250,572
Labor and Training	6,587,743	6,693,891	6,904,599	6,911,093
Legislature	20,966,470	22,015,951	31,853,568	24,586,849
Lieutenant Governor	629,328	685,387	701,599	761,543
Secretary of State	5,302,823	4,422,428	5,585,356	4,590,526
General Treasurer	2,626,857	4,767,465	4,976,337	5,072,453
Boards for Design Professionals	340,956	340,377	327,634	300,275
Board of Elections	4,572,787	2,055,786	2,330,624	2,757,346
Rhode Island Ethics Commission	722,055	726,788	890,093	847,427
Governor's Office	3,607,299	3,728,678	4,019,228	4,181,777
Public Utilities Commission	706,370	742,169	735,228	731,240
Rhode Island Commission on Women	115,131	121,997	133,014	139,140
<b>Subtotal - General Government</b>	<b>247,910,201</b>	<b>360,865,391</b>	<b>414,271,576</b>	<b>461,415,304</b>
<b>Human Services</b>				
Children, Youth, and Families	110,719,504	116,591,191	123,937,414	127,853,492
Elderly Affairs	18,296,740	19,555,225	23,656,585	23,030,727
Health	27,687,207	29,131,192	31,654,329	32,840,765
Human Services	435,388,992	462,889,549	551,153,832	572,690,411
Mental Health, Retardation, & Hospitals	193,043,474	196,424,224	203,151,934	209,753,521
Office of the Child Advocate	425,444	425,938	485,441	479,583
Commission on Deaf & Hard of Hearing	149,285	230,478	246,761	257,890
RI Developmental Disabilities Council	-	-	-	-
Governor's Commission on Disabilities	245,474	268,701	288,101	305,032
Commission for Human Rights	579,717	686,150	753,548	782,565
Office of the Mental Health Advocate	216,162	232,528	243,525	254,878
<b>Subtotal - Human Services</b>	<b>786,751,999</b>	<b>826,435,176</b>	<b>935,571,470</b>	<b>968,248,864</b>
<b>Education</b>				
Elementary and Secondary	563,299,688	616,011,053	669,472,886	705,769,018
Higher Education - Board of Governors	153,719,601	152,110,006	162,841,878	175,213,876
RI Council on the Arts	877,730	972,210	2,107,407	1,314,094
RI Atomic Energy Commission	544,774	576,744	629,790	649,456
Higher Education Assistance Authority	7,076,902	7,611,009	7,551,010	7,512,431
Historical Preservation and Heritage Commission	2,161,789	1,755,721	910,637	727,130
Public Telecommunications Authority	1,728,666	1,028,823	1,243,915	1,158,004
<b>Subtotal - Education</b>	<b>729,409,150</b>	<b>780,065,566</b>	<b>844,757,523</b>	<b>892,344,009</b>

# Expenditures from General Revenues

	FY 1999 Audited	FY 2000 Audited	FY 2001 Revised	FY 2002 Recommended
<b>Public Safety</b>				
Attorney General	12,486,493	12,952,277	14,546,707	14,746,456
Corrections	127,271,319	116,328,001	124,619,446	133,087,606
Judicial	51,818,746	51,713,328	55,254,362	54,390,723
Military Staff	2,005,517	2,245,775	2,085,188	2,233,099
E-911 Emergency Telephone System	-	-	3,170,405	3,635,519
Fire Safety Code Board of Appeal & Review	176,862	164,708	166,143	210,116
State Fire Marshal	1,200,871	1,248,143	1,308,427	1,309,125
Commission on Judicial Tenure and Discipline	89,757	109,158	101,202	99,523
Rhode Island Justice Commission	213,795	184,855	179,638	177,710
Municipal Police Training Academy	322,744	546,468	478,555	322,148
State Police	29,341,284	32,458,939	34,381,628	35,510,992
Office Of Public Defender	4,750,679	4,862,356	5,414,059	5,528,393
Sheriffs of Several Counties	8,396,738	8,261,430	8,637,905	8,821,284
<b>Subtotal - Public Safety</b>	<b>238,074,805</b>	<b>231,075,438</b>	<b>250,343,665</b>	<b>260,072,694</b>
<b>Natural Resources</b>				
Environmental Management	29,316,735	30,288,364	32,158,265	32,736,314
Coastal Resources Management Council	1,220,909	937,344	1,158,413	1,139,045
Water Resources Board	3,598,796	915,363	1,004,505	977,631
<b>Subtotal - Natural Resources</b>	<b>34,136,440</b>	<b>32,141,071</b>	<b>34,321,183</b>	<b>34,852,990</b>
<b>Transportation</b>				
Transportation	-	-	-	-
<b>Subtotal - Transportation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>\$2,036,282,595</b>	<b>\$2,230,582,642</b>	<b>\$2,479,265,417</b>	<b>\$2,616,933,861</b>
Projected variance from enacted expenditures**			11,318,128	
<b>Total</b>			<b>\$2,490,583,545</b>	

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

\*\*The third quarter report released on May 15, 2001 projects revenues and expenditures which are higher than the enacted levels. The report shows anticipated general revenue expenditures which are \$11.3 million greater.

## Expenditures from Federal Funds

	FY 1999 Audited	FY 2000 Audited	FY 2001 Revised	FY 2002 Recommended
<b>General Government</b>				
Administration	\$23,111,937	\$27,294,882	\$34,082,462	\$39,872,317
Business Regulation	-	-	-	-
Labor and Training	42,571,904	44,430,719	48,360,549	38,633,085
Legislature	-	-	-	-
Lieutenant Governor	-	-	-	-
Secretary of State	-	-	28,275	18,631
General Treasurer	648,538	1,514,331	1,629,453	1,762,277
Boards for Design Professionals	-	-	-	-
Board of Elections	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-
Governor's Office	69,145	58,472	-	-
Public Utilities Commission	41,855	57,819	61,549	61,538
Rhode Island Commission on Women	791	482	-	-
<b>Subtotal - General Government</b>	<b>66,444,170</b>	<b>73,356,705</b>	<b>84,162,288</b>	<b>80,347,848</b>
<b>Human Services</b>				
Children, Youth, and Families	66,993,017	74,581,226	81,974,832	80,449,532
Elderly Affairs	6,704,121	7,504,008	8,788,322	8,630,233
Health	42,070,611	42,223,447	46,072,209	45,762,619
Human Services	573,777,947	598,987,451	692,477,120	692,960,011
Mental Health, Retardation, & Hospitals	164,851,057	176,829,884	196,682,493	198,257,906
Office of the Child Advocate	307,942	354,686	351,050	386,285
Commission on Deaf & Hard of Hearing	600	-	-	-
RI Developmental Disabilities Council	337,163	436,352	455,589	408,984
Governor's Commission on Disabilities	11,770	6,607	27,626	28,181
Commission for Human Rights	154,086	189,610	313,639	344,720
Office of the Mental Health Advocate	-	-	-	-
<b>Subtotal - Human Services</b>	<b>855,208,314</b>	<b>901,113,271</b>	<b>1,027,142,880</b>	<b>1,027,228,471</b>
<b>Education</b>				
Elementary and Secondary	88,921,416	93,803,298	119,725,024	113,561,096
Higher Education - Board of Governors	702,100	973,744	2,307,565	2,040,118
RI Council on the Arts	505,662	553,464	541,662	513,795
RI Atomic Energy Commission	12,249	1,635	763,000	753,000
Higher Education Assistance Authority	1,773,761	3,970,919	6,683,401	6,848,965
Historical Preservation and Heritage Commission	512,897	570,147	538,905	540,500
Public Telecommunications Authority	5,192	-	350,000	350,000
<b>Subtotal - Education</b>	<b>92,433,277</b>	<b>99,873,207</b>	<b>130,909,557</b>	<b>124,607,474</b>

## Expenditures from Federal Funds

	FY 1999 Audited	FY 2000 Audited	FY 2001 Revised	FY 2002 Recommended
<b>Public Safety</b>				
Attorney General	1,884,409	1,522,014	1,375,345	1,202,906
Corrections	3,627,856	3,632,681	4,883,651	6,457,378
Judicial	3,283,770	4,443,475	2,887,048	3,128,810
Military Staff	5,610,502	5,842,256	7,846,216	8,426,521
E-911 Emergency Telephone System	-	-	-	-
Fire Safety Code Board of Appeal & Review	-	-	-	-
State Fire Marshal	42,821	94,555	180,513	55,140
Commission on Judicial Tenure & Discipline	-	-	-	-
Rhode Island Justice Commission	3,130,550	3,840,098	4,825,691	4,790,102
Municipal Police Training Academy	10,361	60,491	89,919	16,279
State Police	1,171,087	1,355,115	1,622,113	700,059
Office Of Public Defender	400,045	243,457	350,167	253,406
Sheriffs of Several Counties	-	-	-	-
<b>Subtotal - Public Safety</b>	<b>19,161,401</b>	<b>21,034,142</b>	<b>24,060,663</b>	<b>25,030,601</b>
<b>Natural Resources</b>				
Environmental Management	12,369,064	11,073,984	22,503,640	20,080,381
Coastal Resources Management Council	869,828	915,407	1,150,426	1,055,630
Water Resources Board	-	-	-	-
<b>Subtotal - Natural Resources</b>	<b>13,238,892</b>	<b>11,989,391</b>	<b>23,654,066</b>	<b>21,136,011</b>
<b>Transportation</b>				
Transportation	184,723,274	175,454,955	231,761,639	232,282,790
<b>Subtotal - Transportation</b>	<b>184,723,274</b>	<b>175,454,955</b>	<b>231,761,639</b>	<b>232,282,790</b>
<b>Total</b>	<b>\$1,231,209,328</b>	<b>\$1,282,821,671</b>	<b>\$1,521,691,093</b>	<b>\$1,510,633,195</b>

## Expenditures from Restricted Receipts

	FY 1999 Audited	FY 2000 Audited	FY 2001 Revised	FY 2002 Recommended
<b>General Government</b>				
Administration	\$60,493,082	\$60,030,564	\$7,645,861	\$7,939,262
Business Regulation	808,171	240,522	454,324	457,465
Labor and Training	16,125,123	17,395,871	21,430,070	21,829,155
Legislature	758,670	929,609	728,215	757,329
Lieutenant Governor	-	-	-	-
Secretary of State	138,643	140,036	181,502	193,337
General Treasurer	16,438,762	16,779,202	11,033,713	11,126,146
Boards for Design Professionals	-	-	-	-
Board of Elections	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-
Governor's Office	-	-	-	-
Public Utilities Commission	2,873,890	3,113,117	4,784,791	4,728,856
Rhode Island Commission on Women	-	-	-	-
<b>Subtotal - General Government</b>	<b>97,636,341</b>	<b>98,628,921</b>	<b>46,258,476</b>	<b>47,031,550</b>
<b>Human Services</b>				
Children, Youth, and Families	1,768,686	1,329,895	1,265,407	1,395,191
Elderly Affairs	-	-	-	-
Health	3,447,940	5,722,083	6,728,602	6,403,901
Human Services	3,627,855	2,797,981	4,687,354	3,291,633
Mental Health, Retardation, & Hospitals	50,000	50,000	55,000	55,000
Office of the Child Advocate	8,148	3,591	-	-
Commission on Deaf & Hard of Hearing	-	-	-	-
RI Developmental Disabilities Council	-	-	-	-
Governor's Commission on Disabilities	3,202	3,378	1,750	1,400
Commission for Human Rights	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-
<b>Subtotal - Human Services</b>	<b>8,905,831</b>	<b>9,906,928</b>	<b>12,738,113</b>	<b>11,147,125</b>
<b>Education</b>				
Elementary and Secondary	890,111	861,773	635,219	689,194
Higher Education - Board of Governors	-	-	-	-
RI Council on the Arts	27,227	(1,930)	263,370	250,000
RI Atomic Energy Commission	-	-	-	-
Higher Education Assistance Authority	-	-	-	-
Historical Preservation and Heritage Commission	310,926	152,869	324,963	331,690
Public Telecommunications Authority	-	-	-	-
<b>Subtotal - Education</b>	<b>1,228,264</b>	<b>1,012,712</b>	<b>1,223,552</b>	<b>1,270,884</b>

# Expenditures from Restricted Receipts

	FY 1999 Audited	FY 2000 Audited	FY 2001 Revised	FY 2002 Recommended
<b>Public Safety</b>				
Attorney General	556,482	662,737	560,788	587,494
Corrections	672,000	475,074	3,950,209	3,466,850
Judicial	5,710,477	4,863,986	5,657,099	5,859,760
Military Staff	2,664	1,645	103,610	111,432
E-911 Emergency Telephone System	2,851,594	3,265,079	-	-
Fire Safety Code Board of Appeal & Review	-	-	-	-
State Fire Marshal	-	-	-	-
Commission on Judicial Tenure & Discipline	-	-	-	-
Rhode Island Justice Commission	382	12,395	-	-
Municipal Police Training Academy	-	-	-	-
State Police	1,506,185	1,561,551	741,837	217,797
Office Of Public Defender	-	-	-	-
Sheriffs of Several Counties	-	-	-	-
<b>Subtotal - Public Safety</b>	<b>11,299,784</b>	<b>10,842,467</b>	<b>11,013,543</b>	<b>10,243,333</b>
<b>Natural Resources</b>				
Environmental Management	6,695,150	8,241,125	11,505,770	11,744,066
Coastal Resources Management Council	-	-	-	-
Water Resources Board	-	16,402	-	-
<b>Subtotal - Natural Resources</b>	<b>6,695,150</b>	<b>8,257,527</b>	<b>11,505,770</b>	<b>11,744,066</b>
<b>Transportation</b>				
Transportation	4,921,146	15,342,890	25,060,600	61,285,260
<b>Subtotal - Transportation</b>	<b>4,921,146</b>	<b>15,342,890</b>	<b>25,060,600</b>	<b>61,285,260</b>
<b>Total</b>	<b>\$130,686,516</b>	<b>\$143,991,445</b>	<b>\$107,800,054</b>	<b>\$142,722,218</b>

## Expenditures from Other Funds

	FY 1999 Audited	FY 2000 Audited	FY 2001 Revised	FY 2002 Recommended
<b>General Government</b>				
Administration	\$14,477,121	\$74,335,410	\$66,599,971	\$64,277,414
Business Regulation	-	-	-	-
Labor and Training	261,767,936	273,739,344	283,182,405	293,660,533
Legislature	-	-	-	-
Lieutenant Governor	-	-	-	-
Secretary of State	-	-	-	-
General Treasurer	3,015,070	3,243,553	11,832,688	11,886,414
Boards for Design Professionals	-	-	-	-
Board of Elections	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-
Governor's Office	-	-	-	-
Public Utilities Commission	-	-	-	-
Rhode Island Commission on Women	-	-	-	-
<b>Subtotal - General Government</b>	<b>279,260,127</b>	<b>351,318,307</b>	<b>361,615,064</b>	<b>369,824,361</b>
<b>Human Services</b>				
Children, Youth, and Families	203,329	103,054	-	379,660
Elderly Affairs	4,363,092	4,850,406	4,667,000	4,710,000
Health	96,116	17,902	204,623	103,109
Human Services	-	672,396	20,000	40,000
Mental Health, Retardation, & Hospitals	288,356	1,219,695	1,276,946	2,740,000
Office of the Child Advocate	-	-	-	-
Commission on Deaf & Hard of Hearing	-	-	-	-
RI Developmental Disabilities Council	-	-	-	-
Governor's Commission on Disabilities	-	-	-	-
Commission for Human Rights	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-
<b>Subtotal - Human Services</b>	<b>4,950,893</b>	<b>6,863,453</b>	<b>6,168,569</b>	<b>7,972,769</b>
<b>Education</b>				
Elementary and Secondary	331,317	438,786	859,345	950,000
Higher Education - Board of Governors	306,836,646	327,127,517	344,710,032	356,136,446
RI Council on the Arts	-	-	-	-
RI Atomic Energy Commission	102,215	156,882	177,671	201,464
Higher Education Assistance Authority	44,748	83,144	219,207	229,406
Historical Preservation and Heritage Commission	-	-	147,900	-
Public Telecommunications Authority	456,498	503,502	498,264	1,104,554
<b>Subtotal - Education</b>	<b>307,771,424</b>	<b>328,309,831</b>	<b>346,612,419</b>	<b>358,621,870</b>

## Expenditures from Other Funds

	FY 1999 Audited	FY 2000 Audited	FY 2001 Revised	FY 2002 Recommended
<b>Public Safety</b>				
Attorney General	-	-	-	-
Corrections	1,480,783	1,475,955	4,831,484	3,824,000
Judicial	296,576	62,226	2,061,579	2,776,106
Military Staff	474,806	833,672	355,780	1,134,246
E-911 Emergency Telephone System	-	-	-	-
Fire Safety Code Board of Appeal & Review	-	-	-	-
State Fire Marshal	-	-	-	-
Commission on Judicial Tenure & Discipline	-	-	-	-
Rhode Island Justice Commission	-	-	-	-
Municipal Police Training Academy	-	-	-	-
State Police	2,381,877	2,348,885	2,672,241	3,042,134
Office Of Public Defender	-	-	-	-
Sheriffs of Several Counties	-	-	-	-
<b>Subtotal - Public Safety</b>	<b>4,634,042</b>	<b>4,720,738</b>	<b>9,921,084</b>	<b>10,776,486</b>
<b>Natural Resources</b>				
Environmental Management	28,191,639	3,173,096	7,153,017	6,798,786
Coastal Resources Management Council	-	-	-	145,000
Water Resources Board	54,373	563,248	747,872	730,000
<b>Subtotal - Natural Resources</b>	<b>28,246,012</b>	<b>3,736,344</b>	<b>7,900,889</b>	<b>7,673,786</b>
<b>Transportation</b>				
Transportation	106,790,825	73,790,421	82,492,690	120,254,147
<b>Subtotal - Transportation</b>	<b>106,790,825</b>	<b>73,790,421</b>	<b>82,492,690</b>	<b>120,254,147</b>
<b>Total</b>	<b>\$731,653,323</b>	<b>\$768,739,094</b>	<b>\$814,710,715</b>	<b>\$875,123,419</b>

## Expenditures from All Funds

	FY 1999 Audited	FY 2000 Audited	FY 2001 Revised	FY 2002 Recommended
<b>General Government</b>				
Administration*	\$293,080,563	\$468,395,380	\$455,720,607	\$513,374,056
Business Regulation	7,542,130	8,070,472	8,876,307	9,708,037
Labor and Training	327,052,706	342,259,825	359,877,623	361,033,866
Legislature	21,725,140	22,945,560	32,581,783	25,344,178
Lieutenant Governor	629,328	685,387	701,599	761,543
Secretary of State	5,441,466	4,562,464	5,795,133	4,802,494
General Treasurer	22,729,227	26,304,551	29,472,191	29,847,290
Boards for Design Professionals	340,956	340,377	327,634	300,275
Board of Elections	4,572,787	2,055,786	2,330,624	2,757,346
Rhode Island Ethics Commission	722,055	726,788	890,093	847,427
Governor's Office	3,676,444	3,787,150	4,019,228	4,181,777
Public Utilities Commission	3,622,115	3,913,105	5,581,568	5,521,634
Rhode Island Commission on Women	115,922	122,479	133,014	139,140
<b>Subtotal - General Government</b>	<b>691,250,839</b>	<b>884,169,324</b>	<b>906,307,404</b>	<b>958,619,063</b>
<b>Human Services</b>				
Children, Youth, and Families	179,684,536	192,605,366	207,177,653	210,077,875
Elderly Affairs	29,363,953	31,909,639	37,111,907	36,370,960
Health	73,301,874	77,094,624	84,659,763	85,110,394
Human Services	1,012,794,794	1,065,347,377	1,248,338,306	1,268,982,055
Mental Health, Retardation, & Hospitals	358,232,887	374,523,803	401,166,373	410,806,427
Office of the Child Advocate	741,534	784,215	836,491	865,868
Commission on Deaf & Hard of Hearing	149,885	230,478	246,761	257,890
RI Developmental Disabilities Council	337,163	436,352	455,589	408,984
Governor's Commission on Disabilities	260,446	278,686	317,477	334,613
Commission for Human Rights	733,803	875,760	1,067,187	1,127,285
Office of the Mental Health Advocate	216,162	232,528	243,525	254,878
<b>Subtotal - Human Services</b>	<b>1,655,817,037</b>	<b>1,744,318,828</b>	<b>1,981,621,032</b>	<b>2,014,597,229</b>
<b>Education</b>				
Elementary and Secondary	653,442,532	711,114,910	790,692,474	820,969,308
Higher Education - Board of Governors	461,258,347	480,211,267	509,859,475	533,390,440
RI Council on the Arts	1,410,619	1,523,744	2,912,439	2,077,889
RI Atomic Energy Commission	659,238	735,261	1,570,461	1,603,920
Higher Education Assistance Authority	8,895,411	11,665,072	14,453,618	14,590,802
Historical Preservation and Heritage Commission	2,985,612	2,478,737	1,922,405	1,599,320
Public Telecommunications Authority	2,190,356	1,532,325	2,092,179	2,612,558
<b>Subtotal - Education</b>	<b>1,130,842,115</b>	<b>1,209,261,316</b>	<b>1,323,503,051</b>	<b>1,376,844,237</b>

# Expenditures from All Funds

	FY 1999 Audited	FY 2000 Audited	FY 2001 Revised	FY 2002 Recommended
<b>Public Safety</b>				
Attorney General	14,927,384	15,137,028	16,482,840	16,536,856
Corrections	133,051,958	121,911,711	138,284,790	146,835,834
Judicial	61,109,569	61,083,015	65,860,088	66,155,399
Military Staff	8,093,489	8,923,348	10,390,794	11,905,298
E-911 Emergency Telephone System	2,851,594	3,265,079	3,170,405	3,635,519
Fire Safety Code Board of Appeal & Review	176,862	164,708	166,143	210,116
State Fire Marshal	1,243,692	1,342,698	1,488,940	1,364,265
Commission on Judicial Tenure & Discipline	89,757	109,158	101,202	99,523
Rhode Island Justice Commission	3,344,727	4,037,348	5,005,329	4,967,812
Municipal Police Training Academy	333,105	606,959	568,474	338,427
State Police	34,400,433	37,724,490	39,417,819	39,470,982
Office Of Public Defender	5,150,724	5,105,813	5,764,226	5,781,799
Sheriffs of Several Counties	8,396,738	8,261,430	8,637,905	8,821,284
<b>Subtotal - Public Safety</b>	<b>273,170,032</b>	<b>267,672,785</b>	<b>295,338,955</b>	<b>306,123,114</b>
<b>Natural Resources</b>				
Environmental Management	76,572,588	52,776,569	73,320,692	71,359,547
Coastal Resources Management Council	2,090,737	1,852,751	2,308,839	2,339,675
Water Resources Board	3,653,169	1,495,013	1,752,377	1,707,631
<b>Subtotal - Natural Resources</b>	<b>82,316,494</b>	<b>56,124,333</b>	<b>77,381,908</b>	<b>75,406,853</b>
<b>Transportation</b>				
Transportation	296,435,245	264,588,266	339,314,929	413,822,197
<b>Subtotal - Transportation</b>	<b>296,435,245</b>	<b>264,588,266</b>	<b>339,314,929</b>	<b>413,822,197</b>
<b>Total</b>	<b>\$4,129,831,762</b>	<b>\$4,426,134,852</b>	<b>\$4,923,467,279</b>	<b>\$5,145,412,693</b>
Projected variance from enacted expenditures**			11,318,128	
<b>Total</b>			<b>\$4,934,785,407</b>	

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

\*\*The third quarter report released on May 15, 2001 projects revenues and expenditures which are higher than the enacted levels. The report shows anticipated general revenue expenditures which are \$11.3 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 audited results for FY 2000 reveal an increase in available resources of \$21.3 million compared to revised estimates, and expenditures which were \$17.9 million less than enacted. The audited free surplus for FY 2000 is \$91.9 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 \$129.1 million. These projections are based upon the revenues estimated by the May Revenue Estimating Conference, modified by the Governor's proposed changes to the adopted estimates, and expenditures projected in the third quarter report released on May 15, 2001. The estimated surplus in FY 2001 reflects an increase in net available resources of \$205.4 million, and an increase in expenditures of \$76.4 million. Included within the expenditure change are \$21.7 million of reappropriations from FY 2000, and a \$54.7 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 Audited*</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	\$91.9
<b>Reappropriated Surplus</b>	0.0	16.1	16.1	0.0	21.7
<b>Subtotal</b>	<u>78.6</u>	<u>114.4</u>	<u>114.4</u>	<u>74.4</u>	<u>113.7</u>
<b>Revenues and Transfers</b>					
Revenues	1,928.2	1,993.8	2,025.2	2,081.5	2,266.2
Other Sources	243.7	261.7	252.2	307.5	268.9
Governor's Proposed Changes to Adopted Est.	0.0	0.0	0.0	0.0	23.9
<b>Subtotal</b>	<u>2,171.8</u>	<u>2,255.6</u>	<u>2,277.3</u>	<u>2,389.0</u>	<u>2,559.0</u>
<b>Budget Reserve Fund</b>	(45.0)	(47.1)	(47.5)	(49.3)	(53.0)
<b>Total Available</b>	<b>\$2,205.5</b>	<b>\$2,322.9</b>	<b>\$2,344.2</b>	<b>\$2,414.2</b>	<b>\$2,619.7</b>
<b>Expenditures</b>	<b>2,205.3</b>	<b>2,248.5</b>	<b>2,230.6</b>	<b>2,414.1</b>	<b>2,490.6</b>
<b>Free Surplus</b>	<b>\$0.1</b>	<b>\$74.4</b>	<b>91.9</b>	<b>\$0.1</b>	<b>129.1</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>\$113.6</b>	<b>0.1</b>	<b>129.1</b>
<b>Budget Reserve and Cash Stabilization Fund</b>	<b>\$67.5</b>	<b>\$70.6</b>	<b>\$71.3</b>	<b>\$73.9</b>	<b>\$79.5</b>

\* May not add due to rounding

The following table sets forth a comparative statement of General Fund free surplus for fiscal years 1999 through 2002. FY 1999 and FY 2000 data is derived from the audited financial statements prepared by the Office of the State Controller and post audited by the Auditor General. General Revenues for FY 2001 and FY 2002 are predicated upon consensus estimates of the Revenue Estimating Conference of May 2001, and include adjustments to certain revenues recommended by the Governor. Expenditures for FY 2001 reflect those enacted on June 29, 2000 in the FY 2001 Appropriations Act, as amended by \$65.2 million reappropriations, and supplemental appropriations enacted by the General Assembly in May 2001.

The FY 2002 expenditures reflect those proposed in the Governor's Budget submitted in February 2001. The expenditure level which will ultimately be enacted will most likely reflect the updated expenditure requirements, including an estimated \$6.2 million increase in costs estimated by the Caseload Estimating Conference. The budget enacted by the Legislature may increase or decrease overall resources and expenditures, but the State has historically enacted a balanced budget pursuant to the constitutional requirement.

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

	FY1999 Audited	FY2000 Audited	FY2001 Revised	FY2002
<b>Surplus</b>				
Opening Surplus	\$132,040,419	\$98,299,619	\$91,921,861	\$129,074,759
Reappropriated Surplus	13,928,523	16,123,307	21,738,955	-
Subtotal	<b>145,968,942</b>	<b>114,422,926</b>	<b>113,660,816</b>	<b>129,074,759</b>
<b>General Taxes</b>	1,674,802,478	1,817,779,236	1,837,678,175	2,047,441,000
Revenue estimators' revision			174,021,825	(12,641,000)
Subtotal	<b>1,674,802,478</b>	<b>1,817,779,236</b>	<b>2,011,700,000</b>	<b>2,034,800,000</b>
<b>Departmental Revenues</b>	199,644,809	207,399,225	243,830,918	177,700,000
Revenue estimators' revision			10,669,082	(1,400,000)
Governor's Proposed Changes				55,495,831
Subtotal	<b>199,644,809</b>	<b>207,399,225</b>	<b>254,500,000</b>	<b>231,795,831</b>
<b>Other Sources</b>				
Gas Tax Transfers	20,041,618	14,937,694	8,400,000	3,532,500
Rev Estimators' revision-Gas Tax			973,663	(7,500)
Other Miscellaneous	15,891,757	83,412,911	117,452,542	59,193,763
Rev Estimators' revision-Miscellaneous			(39,985,412)	100,000
Governor's Proposed Changes			23,875,457	26,000,000
Lottery	133,475,047	150,283,635	178,165,586	187,200,000
Revenue Estimators' revision-Lottery			34,414	1,100,000
Unclaimed Property	4,488,559	3,520,488	3,500,000	3,500,000
Revenue Estimators' revision-Unclaimed			400,000	(200,000)
Subtotal	<b>173,896,981</b>	<b>252,154,728</b>	<b>292,816,250</b>	<b>280,418,763</b>
<b>Total Revenues</b>	<b>\$2,048,344,268</b>	<b>\$2,277,333,189</b>	<b>\$2,559,016,250</b>	<b>\$2,547,014,594</b>
<b>Budget Stabilization</b>	<b>(43,607,694)</b>	<b>(47,512,656)</b>	<b>(53,018,762)</b>	<b>(53,521,787)</b>
<b>Total Available</b>	<b>\$2,150,705,517</b>	<b>2,344,243,458</b>	<b>\$2,619,658,304</b>	<b>\$2,622,567,566</b>
Actual/Enacted Expenditures	\$2,036,282,591	\$2,230,582,642	\$2,414,089,790	\$2,616,933,861
Reappropriations			21,738,955	
Supplemental Appropriations			43,436,672	
Projected over/under expenditure			11,318,128	
<b>Total Expenditures</b>	<b>\$2,036,282,591</b>	<b>\$2,230,582,642</b>	<b>\$2,490,583,545</b>	<b>\$2,616,933,861</b>
<b>Free Surplus</b>	<b>\$98,299,619</b>	<b>\$91,921,861</b>	<b>\$129,074,759</b>	<b>\$5,633,705</b>
<b>Reappropriations</b>	<b>16,123,307</b>	<b>21,738,955</b>	<b>-</b>	<b>-</b>
<b>Total Ending Balances</b>	<b>\$114,422,926</b>	<b>\$113,660,816</b>	<b>\$129,074,759</b>	<b>\$5,633,705</b>
<b>Budget Reserve and Cash</b>				
Stabilization Account	\$65,411,541	\$71,268,984	\$79,528,143	\$80,282,681

## 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
2001	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 8, 2001, authorized but unissued direct and guaranteed debt totaled \$318,549,450.

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

	<u>Debt Outstanding June 30, 1998</u>	<u>Debt Outstanding June 30, 1999</u>	<u>Debt Outstanding June 30, 2000</u>	<u>Projected Debt Outstanding June 30, 2001**</u>
<b>Direct Debt:</b>				
Various Purpose Bonds Outstanding	\$731,133	753,544	816,268	\$822,485
Variable Rate General Obligations	36,500	36,500	64,790	31,365
<b>Subtotal</b>	<b>\$767,633</b>	<b>\$790,044</b>	<b>\$881,058</b>	<b>\$853,850</b>
<b>Guaranteed Debt:</b>				
Blackstone Valley District Commission Bonds	14,818	-	-	-
Narragansett Bay District Commission Bonds	22,635	21,388	19,869	18,459
<b>Subtotal</b>	<b>22,635</b>	<b>21,388</b>	<b>19,869</b>	<b>\$18,459</b>
<b>Other Debt Subject to Annual Appropriation:</b>				
RI Depositors Economic Protection Corp.	196,420	107,990	41,725	-
RI Refunding Bond Authority Lease Rental Bonds	184,405	171,640	159,210	146,055
RI Refunding Bond Authority - Direct	3,940	2,615	1,955	1,300
RI Refunding Bond Auth. - Gurntd Narr. Bay	75	60	45	30
Convention Center Authority Outstanding	335,970	329,665	322,930	315,805
Certificates of Participation - Master Equipment Lease	-	-	9,843	7,865
Certificates of Participation - Intake Center	26,895	25,160	23,355	21,470
Certificates of Participation - Attorney General	4,215	4,065	3,905	3,740
Certificates of Participation - DLT Howard Complex	24,000	24,000	23,150	22,265
Certificates of Participation - Pastore Steam Plant	-	-	-	28,180
Certificates of Participation - Shepards Building	33,620	32,535	31,400	30,215
Economic Development - Collaborative	-	-	25,000	25,000
Economic Development - URI Power Plant	-	16,395	16,395	15,859
Economic Development - Apha Beta Corporation	29,040	28,675	-	-
Economic Development - McCoy Stadium	11,825	11,105	10,360	9,585
Economic Development Corp - Central Falls Det. Ctr.	28,949	-	-	-
<b>Subtotal</b>	<b>879,354</b>	<b>753,905</b>	<b>669,273</b>	<b>627,369</b>
<b>Performance Based Agreements*</b>				
Economic Development - Fidelity Building	25,000	25,000	24,579	24,116
Economic Development - Fleet Bank Lease	11,000	10,890	10,770	10,640
<b>Subtotal</b>	<b>36,000</b>	<b>35,890</b>	<b>35,349</b>	<b>34,756</b>
Gross Debt	1,705,622	1,601,227	1,605,549	1,534,434
Less: Adjustments for Agency Payments:	(88,300)	(45,368)	(68,751)	(66,700)
<b>Net Tax Supported Debt</b>	<b>\$1,617,322</b>	<b>\$1,555,859</b>	<b>1,536,798</b>	<b>1,467,734</b>
<b>Debt Ratios</b>				
<b>Personal Income</b>	<b>\$27,190,000</b>	<b>\$28,635,500</b>	<b>\$30,205,400</b>	<b>\$31,883,900</b>
<b>Debt as a Percent of Personal Income</b>	<b>5.95%</b>	<b>5.43%</b>	<b>5.09%</b>	<b>4.6%</b>

\*Excludes contract for Providence Place Mall described under "State Revenues - Sales Tax". Includes non-certificated lease obligations in the master equipment lease category in the amount of \$318,000 as of June 30, 2000.

\*\*Excludes anticipated master lease financing of \$3.1 million and general obligation bond issuance of approximately \$135.4 million.

*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, 2001, the State will have approximately \$853.8 million of bonds outstanding, and \$318.5 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 2020.

**Debt Service Schedule for Debt Issued as of June 8, 2001\***

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2001	\$56,998,242	\$47,920,441	\$104,918,683
2002	62,551,518	45,703,011	108,254,528
2003	64,297,471	42,585,056	106,882,527
2004	64,054,925	39,337,839	103,392,764
2005	63,756,126	35,469,188	99,225,314
2006	57,900,990	39,833,287	97,734,277
2007	52,438,296	33,559,677	85,997,973
2008	52,345,561	32,668,954	85,014,515
2009	50,022,434	29,973,716	79,996,150
2010	52,142,458	23,658,513	75,800,971
2011	48,880,000	14,895,362	63,775,362
2012	47,745,000	12,305,394	60,050,394
2013	47,280,000	9,753,748	57,033,748
2014	39,270,000	7,495,961	46,765,961
2015	33,835,000	5,573,315	39,408,315
2016	27,725,000	4,022,443	31,747,443
2017	25,235,000	2,643,543	27,878,543
2018	15,575,000	1,465,178	17,040,178
2019	12,930,000	709,687	13,369,687
2020	4,500,000	118,125	4,618,125
2021	-	-	-
2022	-	-	-
2023	-	-	-
2024	-	-	-
2025	-	-	-
2026	-	-	-
2027	-	-	-
Subtotal-Fixed Rate Debt	<u>\$879,483,021</u>	<u>\$429,692,436</u>	<u>\$1,309,175,456</u>
Subtotal-Variable Rate Debt**	31,365,000		31,365,000
Total:	\$910,848,021	\$429,692,436	\$1,340,540,456

\* Reflects full fiscal year debt service for bonds issued as of June 8, 2001. Excludes projected issuance of \$135.4 million of bonds. Excludes guaranteed and contingent debt; includes the actual amount of principal and interest payable for capital appreciation bonds. Projected debt outstanding as of June 30, 2001 will total \$853.8 million.

\*\* Reflects multi-modal general obligation bonds which bear interest at variable rates. Reflects total principal outstanding as of June 8, 2001 in the amount of \$31,365,000.

In addition, the following table sets forth the amounts, purposes and statutory authorizations of authorized but unissued general obligation direct debt of the State as of June 8, 2001 which has been approved by referenda of the electors.

<u>Purpose</u>	<u>Statutory Authorization</u>	<u>Balance of Authority as of June 8, 2001</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	Ch. 238-P.L. of 1988 as amended by Ch. 303-P.L. of 1989 and Ch. 434-P.L. of 1990	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><u>\$318,549,450</u></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 guaranteed bonds outstanding of \$19,869,000 and no authorized but unissued debt.

### Extinguishments of Debt Authorization

Chapter 438 of the Public Laws of 1988, which took effect on December 31, 1991, provides that any special act of the State which authorizes the issuance of general obligation bonds or notes of the State, which has a balance that remains unissued, and is seven (7) years old or older is invalid as to that portion which remains unissued. Notwithstanding, the General Assembly may, by special act, extend any authorization for a period of one (1) to five (5) years upon a petition of the Department of Administration. Such extension may be granted more than one (1) time. Upon a certification of the General Treasurer to the Governor as to debt authorizations described above the authorization shall not be deemed or counted toward the authorized but unissued debt of the State. Since 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 in January 1997 to finance the renovation of a group of buildings at the State-owned John O. Pastore Center, formerly known as Howard Center in Cranston, 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. The State also privately placed \$318,000 of taxable certificates at that time. As of June 30, 2000, \$9,525,000 of tax-exempt certificates were outstanding, and \$318,000 of taxable debt was outstanding.

In December 2001, Rhode Island entered into a lease agreement with a financial institution that issued \$28.18 million in certificates of participation to rehabilitate and upgrade the Central Power Plant at the Pastore Center Complex.

**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 falls below the capital reserve fund requirement as defined in the documents executed in connection with the transaction, a request will be made to the General Assembly to appropriate the amount of the deficiency. In addition, pursuant to the lease agreement 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 \$357,811 as of June 30, 2000.

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, 2000, the State had \$67,485,000 of outstanding general obligation bonds on behalf of the Commission. Of this amount, the Commission is responsible for paying debt service on up to \$13,485,000 from its user fee revenues. The total outstanding general obligation bonds payable from user fees is \$7,300,022 as reflected in the financial statements as of June 30, 2000.

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, 2000, totaled \$12,112,948 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 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 is also authorized for mortgage insurance. Mortgages insured by the Authority are limited to certain specified percentages of total project cost. The Authority is authorized to collect premiums for its insurance and to exercise rights of foreclosure and sale as to any project in default.

As of June 30, 2000, the Authority had outstanding mortgage agreements and other commitments for \$35,630,465 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, 2000, the Fund had a balance of \$3,272,721. The State has agreed to appropriate or borrow and pay to the Authority any amounts required to service insured loans that are in default should the Fund be insufficient. 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, 2000, \$2,000,000 was outstanding for the Authority's 1988 Series A Bonds.

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 its 1998 Series A Bonds in the amount of \$39,875,000. Debt outstanding as of June 30, 2000 totals \$159,210,000 (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, 2000, DEPCO had Special Obligation Bonds outstanding of \$41,725,000 reduced by the net bond premiums and discounts to a total of \$41,659,314. On August 3, 2000, the remaining bonds were defeased eliminating that balance. 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, 2000, \$322,930,000 of bonds remain outstanding. After adjusting for additional principal outstanding which is attributable to the issuance of refunding bonds, the outstanding principal totals \$300,203,304, 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. In FY 2002, the Corporation intends to issue long-term bonds in the principal amount of \$20,000,000. A portion of the proceeds of the bonds, approximately, \$15,160,000 will be used to construct and equip a solid waste tipping facility. The balance of the proceeds, approximately \$4,840,000, will be used to construct portions of the infrastructure that create long-term capacity for the disposal of solid waste.

The General Assembly approved legislation establishing a mechanism for a State subsidy in implementing a comprehensive waste disposal program during its 1986 session. The General Law defines the State's financial participation as a subsidy to the local "tipping fee" paid by municipalities, and establishes a formula for calculating the subsidy. The State provided the Corporation with a \$6,000,000 subsidy in FY 1994. 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 did not contain a transfer provision. The FY 2001 Budget contains a \$3,115,000 transfer provision and the proposed FY 2002 Budget contains a \$3,000,000 transfer.

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 \$26,333,337 into the trust fund and has disbursed approximately \$5,000,000 for remediation expenses through December 31, 2000. The terms of the agreement further require the Corporation to fund an additional \$666,663 to the trust through September 1, 2001.

The cost of remedial actions may 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.

The Corporation has also established a trust fund, in accordance with EPA requirements for a municipal solid waste landfill, for the closure and postclosure care costs related to Phases II and III. As of March 31, 2001, the Corporation has transferred approximately \$10,400,000 to this trust fund.

*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 for water pollution control facility capital improvements and 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, which are not guaranteed by the State. As of January, 2001, the Agency has issued bonds in the aggregate amount of \$200,260,000 to fund \$215,749,555 in low-interest loans for various local wastewater pollution abatement projects, safe drinking water projects and the Cranston Privatization Issue. The outstanding bonded indebtedness of the Agency, as of January 2001 is \$140,071,737 in the Clean Water State Revolving Fund (CWSRF wastewater projects), \$28,490,000 for the Cranston Privatization Issue and \$9,770,000 as a conduit financing for safe drinking water projects. Also, in years 1997 through 2001, the Agency made a total of \$30,480,000 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, 2000, audited results of operations reveal that State-operating assistance to the Authority totaled \$25,453,539, passenger revenues totaled \$11,438,563, and other revenues totaled \$8,944,338.

*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, 2000, the Corporation had revenue bonds outstanding of \$402,151,713 including conduit debt of \$75,512,857 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 \$5.4 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 \$25.0 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. On November 17, 2000, Dow Chemical Corp. assumed the bonds from Collaborative Smithfield Corp.

In May 1996, 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 provide credits 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 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. At June 30, 2000, the outstanding balance of the revenue bonds was \$24,578,857.

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 for credits have been made to date by the State on the obligation. At June 30, 2000, the outstanding balance was \$10,360,000.

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 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 by Public Investment and HOV Agreement. It is expected that sales tax revenues generated at the Mall will be sufficient to fully support the revenue note obligations. Sales tax generated at the Mall 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 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. 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, which represented an increase of 13.4% over calendar year 1997. Passenger numbers for calendar year 1999 were almost 5.2 million, an 11.4% increase over 1998. Year to date passenger numbers for calendar year 2001 through March 2001, reflect a 6.6% increase in passenger activity over calendar year 2000.

The increased demands on 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 manufacturing, warehousing, or other industrial or commercial purposes or suitable for pollution abatement or control, for the reconstruction, modernization or modification of existing industrial plants for the abatement or control of industrial pollution or suitable for solid waste disposal, or for any combination of such purposes including working capital, but shall not include raw materials, work in process or stock in trade; (b) any railroad rolling stock and vehicles for the transportation of freight; (c) the construction and/or acquisition costs of marine craft and necessary machinery, equipment and gear to be used primarily and continuously in the fishing industry; (d) the construction and/or acquisition costs and necessary machinery and equipment of any marine craft for research or other uses considered to be an integral part of any land-based industrial concern which would qualify for a loan guarantee through the Rhode Island Industrial-Recreational Building Authority; (e) acquisition costs of any existing building, machinery and equipment for any project which would otherwise qualify for a loan guarantee through the Rhode Island Industrial-Recreational Building Authority; and (f) any "recreational project" as described in Chapter 34 of title 42, relating to the loan guarantee program of the Rhode Island Industrial-Recreational Building Authority.

The Corporation is authorized to issue its revenue bonds and notes from time to time for any of its corporate purposes. All bonds and notes issued by the Corporation shall be payable solely out of the revenues and receipts derived from the leasing or sale by the Corporation of its projects, or from any other financing arrangement which may be designated in the proceedings of the Corporation under which the bonds or notes shall be authorized to be issued. As of June 30, 2000, the Corporation had an outstanding principal balance of conduit debt of \$102,771,587. 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 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 \$26,929,875 as of June 30, 2000.

*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, 2000 was \$1,556,571,265 consisting of \$1,362,131,265 of long-term bonds and \$194,440,000 of short-term or convertible-option bonds. Included in the \$1,362,131,265 is \$176,534,793 in bonds, which are secured in part by capital reserve funds, which have aggregated to \$29,695,541 on December 31, 2000. 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, 2000, the Corporation had a combined total reserved and designated fund balance of approximately \$233,319,816.

*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, 2001, the Authority held \$574,565,518 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, 2001, \$28,706,643.38 in Rhode Island Family Education Loans. As of March 31, 2001, the Authority had \$717,550,000 of tax-exempt and taxable bonds outstanding.

*Rhode Island Higher Education Assistance Authority.* The Authority was created in 1977 under Chapter 57, title 16 of the General Laws as a public corporation of the State having a distinct legal existence from the State and not constituting a department of State government. It was created for the purpose of guaranteeing eligible loans to students and parents of students attending eligible institutions and of administering other programs of post-secondary student financial assistance assigned by law to the Authority (e.g. Rhode Island State Scholarship/Grant Program and College Bound Fund, Rhode Island's IRS Section 529 college savings program). Guarantees made by the Authority shall not constitute a pledge of the faith and credit of the State, but shall be payable solely from the revenues and assets of the Authority.

*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 certain water surcharge revenues. 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, 2001 was \$7,815,000. On March 1, 1994, the Board issued revenue bonds for public drinking water protection in the amount of \$11,835,000, of which \$8,765,000 were outstanding as of March 31, 2001.

*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, 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, 2000, the Corporation had \$1,022,216,868 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 May 24, 2001 the State had 13,472 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 5,324 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 (1,094 employees); the Rhode Island Brotherhood of Correctional Officers (1,337 employees); the American Association of University Professors (719 employees); and the National Education Association (1,068 employees). Of a total of thirty-seven union contracts, 23 have settled and 14 are currently 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% during the period June 30, 1998 to June 30, 1999, while for Teachers the rate increased from 76.2% to 77.4% over the same period.

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 most recently improved from 80.6% to 81.6%, and for Teachers from 76.2% to 77.4%. 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%

Determination of the Equivalent Single Amortization Period

**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									
2. Unamortized amount	\$ 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
3. Remaining amortization period	16	20	21	22	22	16	16	28	
4. Amortization factor	1.67	13.50	13.91	14.30	14.30	11.67	11.67	6.30	
5. Amortization payment (2)/(4)	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
6. Payment as level % of payroll (5)/(1)	8.00%	-0.80%	0.78%	-1.89%	0.76%	0.14%	0.35%	0.67%	8.01%
7. Weighted average amortization factor (2)/(5)									11.73
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							
2. Unamortized amount	\$ 770,898,845	\$ (183,583,602)	\$ 137,295,409	\$ 17,278,094	\$ 22,172,360	\$ 187,981,789	\$ 721,453,398
3. Remaining amortization period	16	16	16	16	16	28	
4. Amortization factor	11.67	11.67	11.67	11.67	11.67	16.30	
5. Amortization payment (2)/(4)	66,036,300	(15,726,000)	11,760,900	1,480,100	1,899,300	11,531,300	\$ 76,981,900
6. Payment as level % of payroll (5)/(1)	12.46%	-2.97%	2.22%	0.28%	0.36%	2.18%	14.52%
7. Weighted average amortization factor (2)/(5)							12.37
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, 2000, 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, 2000**

---

**THIS PAGE INTENTIONALLY  
LEFT BLANK**

---

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

---

## INDEX

Page

### General Purpose Financial Statements:

Independent Auditors Report .....	A-2
Combined Balance Sheet – All Fund Types, Account Groups, and Discretely Presented Component Units .....	A-4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Fund Types, Expendable Trust Funds, and Discretely Presented Governmental Component Units .....	A 6
Combined Statement of Revenues, Expenses, and Changes in Fund Equity – All Proprietary Fund Types, Similar Trust Funds, and Discretely Presented Proprietary Component Units.....	A-8
Combined Statement of Cash Flows – All Proprietary Fund Types, Similar Trust Funds, And Discretely Presented Proprietary Component Entities .....	A-10
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund and Budgeted Special Revenue Funds.....	A-12
Combined Statement of Plan Net Assets – Pension Trust Funds.....	A-14
Combined Statement of Changes in Plan Net Assets – Pension Trust Funds .....	A-15
Required Supplementary Information – Schedules of Funding Progress.....	A-16

### Notes to General Purpose Financial Statements:

Note 1.	Summary of Significant Accounting Policies .....	A-17
Note 2.	Budgeting and Budgetary Control .....	A-21
Note 3.	Cash, Cash Equivalents and Investments .....	A-24
Note 4.	Receivables .....	A-25
Note 5.	Intra-Entity Receivables and Payables .....	A-25
Note 6.	Fixed Assets.....	A-27
Note 7.	Long-Term Obligations.....	A-27
Note 8.	Reservations and Designations of Fund Equity .....	A-31
Note 9.	Operating Transfers.....	A-32
Note 10.	Operating Lease Commitments .....	A-33
Note 11.	Commitments .....	A-33
Note 12.	Contingencies.....	A-34
Note 13.	Employer Pension Plans .....	A-35
Note 14.	Postemployment Benefits.....	A-36
Note 15.	Deferred Compensation .....	A-36
Note 16.	Fund Deficits .....	A-36
Note 17.	Restatement of Fund Equity .....	A-37
Note 18.	Segment Information .....	A-37
Note 19.	Risk Management .....	A-38
Note 20.	Extraordinary Items .....	A-38
Note 21.	Related Party Transactions .....	A-38
Note 22.	Subsequent Events.....	A-39



ERNEST A. ALMONTE, CPA, CFE  
AUDITOR GENERAL  
EALMONTE@OAG.STATE.RI.US

STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS  
GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

**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, 2000 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 and 1% of the assets and revenues of the special revenue funds. 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.

Exhibit A-2

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, 2000, 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(V), the State changed its definition of the reporting entity.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2001 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the State, taken as a whole. The Schedules of Funding Progress as listed in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Ernest A. Almonte, CPA, CFE  
Auditor General

January 22, 2001

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**COMBINED BALANCE SHEET**

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

June 30, 2000

(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	\$ 195,590	\$ 44,631	\$ 686	\$ 172,347	\$ 19,405	\$ 3,552
Funds on deposit with fiscal agent				10,353		
Investments		30,740		15,507	2,873	
Receivables (net)	91,329	14,515			4,850	3,555
Due from other funds	17,656	5,553	2,090	17,325		5,779
Due from component units	16,202	6,486		50		
Due from primary government						
Due from other governments and agencies (net)	116,140	29,481		1,620		
Inventories					804	2,292
Loans to other funds	6,387					
Fixed assets (net)					619	4,633
Other assets	7,524	4		3,370	536	
Amount available in debt service reserves						
Amount to be provided for retirement of general long-term obligations						
Rentals due						
<b>Total assets</b>	<b>\$ 450,828</b>	<b>\$ 131,410</b>	<b>\$ 2,776</b>	<b>\$ 220,572</b>	<b>\$ 29,087</b>	<b>\$ 19,811</b>
<b>Liabilities and Fund Equity</b>						
<b>Liabilities:</b>						
Cash overdraft	\$ 135	\$ 2,764	\$	\$ 11,558	\$	\$
Vouchers and accounts payable	155,105	26,981		4,381	6,973	5,720
Due to other funds	17,601	7,574	258	19,012	12,968	1,314
Due to component units	14,138	2,121		7,328		
Due to primary government						
Due to other governments and agencies	5,813					
Accrued liabilities	19,651	2,465			307	2,237
Deferred revenue	3,030	1,705		186	255	
Loans from other funds				3,017		3,370
Other current liabilities	21,592			4,118		
Compensated absences						
Notes payable						
Loans payable						
Obligations under capital leases						1,791
Bonds payable						
Other long-term liabilities					8,405	
<b>Total liabilities</b>	<b>237,065</b>	<b>43,610</b>	<b>258</b>	<b>49,600</b>	<b>28,908</b>	<b>14,432</b>
<b>Fund equity:</b>						
Contributed capital						
Retained earnings:						
Reserved						854
Unreserved (deficit)					179	4,525
Fund balances:						
Reserved	121,841	220,950	2,518	34,907		
Unreserved:						
Designated		21,165		135,895		
Undesignated (deficit)	91,922	(154,315)		170		
<b>Total fund equity</b>	<b>213,763</b>	<b>87,800</b>	<b>2,518</b>	<b>170,972</b>	<b>179</b>	<b>5,379</b>
<b>Total liabilities and fund equity</b>	<b>\$ 450,828</b>	<b>\$ 131,410</b>	<b>\$ 2,776</b>	<b>\$ 220,572</b>	<b>\$ 29,087</b>	<b>\$ 19,811</b>

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

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

Fiduciary Fund Types	Account Group	TOTAL PRIMARY GOVERNMENT	Component Units		TOTAL REPORTING ENTITY
			Governmental	Proprietary	
Trust and Agency	General Long-term Debt	(Memorandum only)			(Memorandum only)
\$ 14,756	\$	\$ 450,967	\$ 35,341	\$ 414,352	\$ 900,660
277,697		288,050			288,050
7,100,959		7,150,079	1,796	808,015	7,959,890
20,741		134,990	36,490	2,113,837	2,285,317
10,424		58,827			58,827
		22,738			22,738
			4,322	15,323	19,645
961		148,202		17,678	165,880
		3,096	2,792	2,082	7,970
		6,387			6,387
		5,252	5,384	960,153	970,789
		11,434	23,883	162,842	198,159
	20,743	20,743	848		21,591
	1,567,522	1,567,522	119,098		1,686,620
				8,500	8,500
<b>\$ 7,425,538</b>	<b>\$ 1,588,265</b>	<b>\$ 9,868,287</b>	<b>\$ 229,954</b>	<b>\$ 4,502,782</b>	<b>\$ 14,601,023</b>
\$ 4,003	\$	\$ 14,457	\$ 5,190	\$ 361	\$ 20,008
100		203,163	26,259	16,303	245,725
		58,827			58,827
		23,587			23,587
			1,497	19,530	21,027
810		6,623		18,800	25,423
		24,660		76,875	101,535
		5,176	12,135	7,185	24,496
		6,387			6,387
67,658		93,368	4,765		98,133
	65,007	65,007	32,011		97,018
			2,320	14,625	16,945
			652	47,753	48,405
	424,943	426,734	23,208	36,199	486,141
	1,078,614	1,078,614	63,073	2,973,581	4,115,268
	19,701	28,106	628	289,310	318,044
<b>72,571</b>	<b>1,588,265</b>	<b>2,034,709</b>	<b>171,738</b>	<b>3,500,522</b>	<b>5,706,969</b>
				399,500	399,500
		854		252,494	253,348
		4,704	1,246	350,266	356,216
7,349,605		7,729,821	80,857		7,810,678
		157,060			157,060
3,362		(58,861)	(23,887)		(82,748)
<b>7,352,967</b>		<b>7,833,578</b>	<b>58,216</b>	<b>1,002,260</b>	<b>8,894,054</b>
<b>\$ 7,425,538</b>	<b>\$ 1,588,265</b>	<b>\$ 9,868,287</b>	<b>\$ 229,954</b>	<b>\$ 4,502,782</b>	<b>\$ 14,601,023</b>

# 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, 2000

(Expressed in thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>Revenues:</b>				
Taxes	\$ 1,817,779	\$ 265,127	\$	\$
Licenses, fines, sales, and services	170,233	4,446		9,074
Departmental restricted revenue	114,140	322		
Federal grants	1,060,819	190,200		6,184
Income from investments	6,171	4,229	52	8,818
Other revenues	30,996	5,635		
<b>Total revenues</b>	<b>3,200,138</b>	<b>469,959</b>	<b>52</b>	<b>24,076</b>
<b>Other financing sources:</b>				
Bonds and notes issued				152,740
Lease certificates of participation issued				9,843
Operating transfers in	255,067	30,639	8,514	41,655
Operating transfers from primary government				
Operating transfers from component units	15,780	15,079		
Other	74,260			1,150
<b>Total revenues and other financing sources</b>	<b>3,545,245</b>	<b>515,677</b>	<b>8,566</b>	<b>229,464</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	188,771	33,354		
Human services	1,735,554	144,923		
Education	59,869			
Public safety	257,625			
Environment	48,656	3,794		
Transportation		45,368		
Capital outlays	26,371	173,408		29,899
Intergovernmental	760,691	1,441		3,538
<b>Debt service:</b>				
Principal	74,519		4,415	
Interest and other charges	58,880		87	12,290
<b>Total expenditures</b>	<b>3,210,936</b>	<b>402,288</b>	<b>4,502</b>	<b>45,727</b>
<b>Other financing uses:</b>				
Operating transfers out	52,247	66,975		63,524
Operating transfers to primary government				
Operating transfers to component units	277,297	45,157	5,546	64,453
Other				
<b>Total expenditures and other financing uses</b>	<b>3,540,480</b>	<b>514,420</b>	<b>10,048</b>	<b>173,704</b>
Revenues and other financing sources over (under) expenditures and other financing uses	4,765	1,257	(1,482)	55,760
Net gain from proprietary operations				
Fund balances, July 1, 1999, as restated	208,998	86,543	4,000	115,212
Fund balances, June 30, 2000	\$ 213,763	\$ 87,800	\$ 2,518	\$ 170,972

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

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

<b>Fiduciary Fund Types Expendable Trust</b>	<b>TOTAL PRIMARY GOVERNMENT (Memorandum only)</b>	<b>Component Units Governmental</b>	<b>TOTAL REPORTING ENTITY (Memorandum only)</b>
\$ 163,262	\$ 2,246,168	\$ 181,819	\$ 2,246,168
	183,753		365,572
	114,462		114,462
1,705	1,258,908	64,354	1,323,262
16,964	36,234		36,234
1,752	38,383	39,084	77,467
<u>183,683</u>	<u>3,877,908</u>	<u>285,257</u>	<u>4,163,165</u>
	152,740	28,683	181,423
	9,843		9,843
	335,875	42	335,917
		185,112	185,112
4,284	30,859		30,859
<u>187,967</u>	<u>4,486,919</u>	<u>499,094</u>	<u>4,986,013</u>
	222,125		222,125
146,005	2,026,482	452,667	2,026,482
	59,869		512,536
	257,625		257,625
	52,450		52,450
	45,368		45,368
	229,678	21,441	251,119
	765,670		765,670
	78,934		78,934
	71,257	3,144	74,401
<u>146,005</u>	<u>3,809,458</u>	<u>477,252</u>	<u>4,286,710</u>
	182,746		182,746
	392,453	2,891	2,891
3,540	3,540		392,453
<u>149,545</u>	<u>4,388,197</u>	<u>480,143</u>	<u>4,868,340</u>
			3,540
38,422	98,722	18,951	117,673
		1,030	1,030
244,185	658,938	38,235	697,173
<u>\$ 282,607</u>	<u>\$ 757,660</u>	<u>\$ 58,216</u>	<u>\$ 815,876</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, 2000

(Expressed in thousands)

	Proprietary Fund Types	
	Enterprise (State Lottery)	Internal Service
<b>Operating revenues:</b>		
Charges for services	\$ 864,092	\$ 80,654
Interest income		
Other operating income		
Total operating revenues	864,092	80,654
<b>Operating expenses:</b>		
Personal services	3,016	12,800
Supplies, materials, and services	124,717	67,752
Interest expense		
Grant, scholarships, and contract programs		
Prize awards	587,901	
Depreciation, depletion, and amortization	219	652
Other operating expenses		
Total operating expenses	715,853	81,204
Operating income (loss)	148,239	(550)
<b>Nonoperating revenues (expenses):</b>		
Income from investments	767	1
Grants		
Gain on sale of property		
Interest expense		(101)
Other nonoperating revenues	1,302	
Total nonoperating revenue (expenses)	2,069	(100)
Income (loss) before transfers	150,308	(650)
Operating transfers in		328
Operating transfers out	(150,380)	
Operating transfers from primary government		
Operating transfers to primary government		
Income (loss) before extraordinary items	(72)	(322)
Extraordinary items		
Net income (loss)	(72)	(322)
<b>Other changes in fund equity:</b>		
Increase in contributed capital		
Other		
Net increase (decrease) in fund equity	(72)	(322)
Fund equity, July 1, 1999, as restated	251	5,701
Fund equity, June 30, 2000	\$ 179	\$ 5,379

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

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

<b>Fiduciary Fund Types Nonexpendable Trust</b>	<b>TOTAL PRIMARY GOVERNMENT (Memorandum only)</b>	<b>Component Units Proprietary</b>	<b>TOTAL REPORTING ENTITY (Memorandum only)</b>
\$ 60	\$ 944,806	\$ 190,818	\$ 1,135,624
168	168	183,110	183,278
<u>228</u>	<u>944,974</u>	<u>34,675</u>	<u>34,675</u>
		408,603	1,353,577
	15,816	99,239	115,055
	192,469	98,338	290,807
		127,323	127,323
		11,400	11,400
	587,901		587,901
	871	46,717	47,588
84	84	17,972	18,056
<u>84</u>	<u>797,141</u>	<u>400,989</u>	<u>1,198,130</u>
<u>144</u>	<u>147,833</u>	<u>7,614</u>	<u>155,447</u>
	768	12,246	13,014
		26,043	26,043
		69	69
	(101)	(40,459)	(40,560)
	1,302	12,730	14,032
	1,969	10,629	12,598
144	149,802	18,243	168,045
	328		328
	(150,380)		(150,380)
		123,932	123,932
		(12,889)	(12,889)
144	(250)	129,286	129,036
		(519)	(519)
144	(250)	128,767	128,517
		63,041	63,041
		4,969	4,969
144	(250)	196,777	196,527
3,218	9,170	805,483	814,653
<u>\$ 3,362</u>	<u>\$ 8,920</u>	<u>\$ 1,002,260</u>	<u>\$ 1,011,180</u>

**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, 2000

(Expressed in thousands)

	Proprietary Fund Types		Fiduciary Fund Types	TOTAL PRIMARY GOVERNMENT	Component Units	TOTAL REPORTING ENTITY
	Enterprise (State Lottery)	Internal Service	Nonexpendable Trust	(Memorandum only)	Proprietary	(Memorandum only)
<b>Cash flows from operating activities:</b>						
Cash received from customers	\$ 876,539	\$ 79,875	\$	\$ 956,414	\$ 536,458	\$ 1,492,872
Cash received from grants					1,246	1,246
Collections from loans and receivership assets					45,989	45,989
Cash payments to suppliers for goods and services	(3,700)	(69,030)		(72,730)	(115,114)	(187,844)
Cash payments to employees for services	(3,000)	(12,540)		(15,540)	(89,950)	(105,490)
Loans issued					(148,986)	(148,986)
Cash payments for claims, grants, and scholarships					(161,109)	(161,109)
Other operating revenue	677	4,266	60	5,003	15,704	20,707
Other operating expenses	(716,068)		(84)	(716,152)	(370)	(716,522)
Net cash provided by (used for) operating activities	154,448	2,571	(24)	156,995	83,868	240,863
<b>Cash flows from noncapital financing activities:</b>						
Proceeds from issuance of long-term debt					323,582	323,582
Payment of bonds and notes					(309,822)	(309,822)
Payment of interest					(132,697)	(132,697)
Proceeds from grants					25,856	25,856
Loans from other funds		1,850		1,850		1,850
Repayment of loans to other funds		(2,739)		(2,739)		(2,739)
Collection of loans and mortgages					410	410
Contract revenue					3,868	3,868
Operating transfers out	(149,873)			(149,873)		(149,873)
Operating transfers from primary government					122,575	122,575
Operating transfers to primary government					(502)	(502)
Grants issued					(3,406)	(3,406)
Negative cash balance implicitly financed		(33)		(33)	233	200
Net cash provided by (used for) noncapital financing activities	(149,873)	(922)		(150,795)	30,097	(120,698)
<b>Cash flows from capital and related financing activities:</b>						
Principal paid on revenue bonds					(12,760)	(12,760)
Proceeds from issuance of long-term debt					55,169	55,169
Payment of interest		(101)		(101)	(37,333)	(37,434)
Payment of notes and loans					(19,438)	(19,438)
Payment of capital lease obligations		(674)		(674)	(5,714)	(6,388)
Payment of financing costs					(768)	(768)
Payment for the purchase of program rights					(499)	(499)
Acquisition of capital assets	(238)	(317)		(555)	(85,973)	(86,528)
Contributed capital		328		328	58,347	58,675
Proceeds from capital grants used for operating activities					5,325	5,325
Proceeds from sale of assets					3,712	3,712
Net cash provided by (used for) capital and related financing activities	(238)	(764)		(1,002)	(39,932)	(40,934)
<b>Cash flows from investing activities:</b>						
Purchase of investments			(1,560)	(1,560)	(726,134)	(727,694)
Proceeds from sale and maturity of investments	1,462		1,513	2,975	677,035	680,010
Interest on investments	767	1	99	867	60,655	61,522
Net cash provided by (used for) investing activities	2,229	1	52	2,282	11,556	13,838
Net increase (decrease) in cash and cash equivalents	6,566	886	28	7,480	85,589	93,069
Cash and cash equivalents, July 1, 1999	12,839	2,666	626	16,131	323,973	340,104
Cash and cash equivalents, June 30, 2000	\$ 19,405	\$ 3,552	\$ 654	\$ 23,611	\$ 409,562	\$ 433,173

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

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

	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>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>						
Operating income (loss)	\$ 148,239	\$ (550)	\$ 144	\$ 147,833	\$ 7,614	\$ 155,447
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b>						
Depreciation, depletion, and amortization	219	651		870	46,717	47,587
Interest on investments and other income	(1,160)		(168)	(1,328)	(57,930)	(59,258)
Interest expense and other charges					128,942	128,942
Provision for cost of scholarships					2,400	2,400
Landfill postclosure costs					6,475	6,475
(Increase) decrease in assets:						
Receivables	5,846	1,130		6,976	(56,870)	(49,894)
Inventories	(233)	182		(51)	(362)	(413)
Prepaid items					722	722
Other assets	2,595			2,595	3,534	6,129
Increase (decrease) in liabilities:						
Accounts payable and accrued expenses	1,597	1,158		2,755	(7,711)	(4,956)
Deferred revenue	(641)			(641)	24	(617)
Escrow deposits					10,313	10,313
Other liabilities	(2,014)			(2,014)		(2,014)
Subtotal	6,209	3,121	(168)	9,162	76,254	85,416
Net cash provided by (used for) operating activities	\$ 154,448	\$ 2,571	\$ (24)	\$ 156,995	\$ 83,868	\$ 240,863
<b>Noncash investing, capital, and financing activities:</b>						
Assets acquired through loan program	\$	\$	\$	\$	\$ 6,048	\$ 6,048
Interest capitalized					26	26
Accretion of interest on investment for jackpot awards	229			229		229
Total noncash transactions	\$ 229	\$	\$	\$ 229	\$ 6,074	\$ 6,303
<b>Cash and cash equivalents in the Fiduciary Fund Types on the Combined Balance Sheet include:</b>						
Expendable Trust Funds					\$ 1,893	
Pension Trust Funds					648	
Agency Fund					11,561	
Nonexpendable Trust Funds					654	
Total					\$ 14,756	
<b>Cash and cash equivalents for Proprietary Component Units on the Combined Balance Sheet include:</b>						
Cash and cash equivalents from Statement of Cash Flow					\$ 409,562	
R.I. Housing Mortgage Finance Corporation - Affordability Housing Trust					692	
R.I. Higher Education Assistance Authority - Savings Trust					25	
R.I. Higher Education Assistance Authority - Federal Student Loan Reserve Fund					4,073	
Total					\$ 414,352	

**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, 2000

(Expressed in thousands)

	General Fund		
	Budget	Actual	Variance
<b>Revenues:</b>			
Taxes	\$ 1,788,410	\$ 1,817,779	\$ 29,369
Licenses, fines, sales, and services	169,432	170,233	801
Departmental restricted revenue	104,085	114,140	10,055
Federal grants	1,134,415	1,060,819	(73,596)
Other revenues	36,000	37,167	1,167
Total revenues	3,232,342	3,200,138	(32,204)
<b>Other financing sources:</b>			
Operating transfers in	262,524	255,067	(7,457)
Operating transfers from component units	19,498	15,780	(3,718)
Other	80,673	74,260	(6,413)
Total revenues and other financing sources	3,595,037	3,545,245	(49,792)
<b>Expenditures:</b>			
Current:			
General government	227,303	188,771	38,532
Human services	1,778,127	1,735,554	42,573
Education	84,584	59,869	24,715
Public safety	271,458	257,625	13,833
Environment	63,615	48,656	14,959
Transportation			
Capital outlays	24,092	26,371	(2,279)
Intergovernmental	753,248	760,691	(7,443)
Debt service:			
Principal	75,386	74,519	867
Interest and other charges	60,678	58,880	1,798
Total expenditures	3,338,491	3,210,936	127,555
<b>Other financing uses:</b>			
Operating transfers out	49,201	52,247	(3,046)
Operating transfers to component units	271,137	277,297	(6,160)
Total expenditures and other financing uses	3,658,829	3,540,480	118,349
Revenues and other financing sources over (under) expenditures and other financing uses	(63,792)	4,765	68,557
Fund balances, July 1, 1999, as restated	208,998	208,998	
Fund balances, June 30, 2000	\$ 145,206	\$ 213,763	\$ 68,557

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>
\$ 261,125	\$ 265,127	\$ 4,002	\$ 2,049,535	\$ 2,082,906	\$ 33,371
			169,432	170,233	801
37,798	322	(37,476)	141,883	114,462	(27,421)
250,161	190,200	(59,961)	1,384,576	1,251,019	(133,557)
2,270	9,404	7,134	38,270	46,571	8,301
<u>551,354</u>	<u>465,053</u>	<u>(86,301)</u>	<u>3,783,696</u>	<u>3,665,191</u>	<u>(118,505)</u>
	43,968	43,968	262,524	299,035	36,511
			19,498	15,780	(3,718)
			<u>80,673</u>	<u>74,260</u>	<u>(6,413)</u>
<u>551,354</u>	<u>509,021</u>	<u>(42,333)</u>	<u>4,146,391</u>	<u>4,054,266</u>	<u>(92,125)</u>
34,453	29,944	4,509	261,756	218,715	43,041
140,911	144,923	(4,012)	1,919,038	1,880,477	38,561
			84,584	59,869	24,715
			271,458	257,625	13,833
			63,615	48,656	14,959
94,796	45,360	49,436	94,796	45,360	49,436
155,047	173,403	(18,356)	179,139	199,774	(20,635)
	376	(376)	753,248	761,067	(7,819)
			75,386	74,519	867
			<u>60,678</u>	<u>58,880</u>	<u>1,798</u>
<u>425,207</u>	<u>394,006</u>	<u>31,201</u>	<u>3,763,698</u>	<u>3,604,942</u>	<u>158,756</u>
62,640	66,734	(4,094)	111,841	118,981	(7,140)
71,738	44,786	26,952	342,875	322,083	20,792
<u>559,585</u>	<u>505,526</u>	<u>54,059</u>	<u>4,218,414</u>	<u>4,046,006</u>	<u>172,408</u>
(8,231)	3,495	11,726	(72,023)	8,260	80,283
6,473	82,206	75,728	215,476	291,204	75,728
<u>(1,753)</u>	<u>85,701</u>	<u>87,454</u>	<u>\$ 143,453</u>	<u>\$ 299,464</u>	<u>\$ 156,011</u>

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**COMBINED STATEMENT OF PLAN NET ASSETS**

**PENSION TRUST FUNDS**

June 30, 2000

*(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	\$ 318	\$ 77	\$ 153	\$ 100	\$ 648
Receivables:					
Member contributions	7,616	1,309			8,925
Employer contributions	8,371	578			8,949
Due from other funds	10,099	220	3	2	10,324
Total receivables	26,086	2,107	3	2	28,198
Investments, at fair value:					
Equity in short-term investment fund	4,442	416			4,858
Equity in pooled trust	6,098,621	892,447	11,377	7,406	7,009,851
Plan specific investments	27,445				27,445
Total investments	6,130,508	892,863	11,377	7,406	7,042,154
Total assets	6,156,912	895,047	11,533	7,508	7,071,000
<b>Liabilities</b>					
Vouchers and accounts payable	3,462	530	6	4	4,002
Total liabilities	3,462	530	6	4	4,002
<b>Net assets held in trust for pension benefits</b>	<b>\$ 6,153,450</b>	<b>\$ 894,517</b>	<b>\$ 11,527</b>	<b>\$ 7,504</b>	<b>\$ 7,066,998</b>

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

# 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, 2000

(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>Additions:</b>					
<b>Contributions:</b>					
Member contributions	\$ 111,462	\$ 14,188	\$ 496	\$ 289	\$ 126,435
Employer contributions	104,499	5,824	1,509	1,007	112,839
State contributions for teachers	40,719				40,719
Interest on service credits purchased	939	127			1,066
Service credit transfer payments	177	71			248
<b>Total contributions</b>	<b>257,796</b>	<b>20,210</b>	<b>2,005</b>	<b>1,296</b>	<b>281,307</b>
<b>Investment income:</b>					
Net appreciation in fair value of investments	342,181	50,210	608	396	393,395
Interest	129,835	18,739	215	140	148,929
Dividends	40,718	5,961	69	45	46,793
Other investment income	21,687	3,089	36	24	24,836
	<b>534,421</b>	<b>77,999</b>	<b>928</b>	<b>605</b>	<b>613,953</b>
Less investment expense	19,017	2,782	32	21	21,852
Net investment income	<b>515,404</b>	<b>75,217</b>	<b>896</b>	<b>584</b>	<b>592,101</b>
<b>Total additions</b>	<b>773,200</b>	<b>95,427</b>	<b>2,901</b>	<b>1,880</b>	<b>873,408</b>
<b>Deductions:</b>					
Retirement benefits	333,613	31,415			365,028
Refund of contributions	6,326	1,205			7,531
Administrative expense	2,288	334	3	1	2,626
Service credit transfer payments	71	177			248
<b>Total deductions</b>	<b>342,298</b>	<b>33,131</b>	<b>3</b>	<b>1</b>	<b>375,433</b>
<b>Net increase</b>	<b>430,902</b>	<b>62,296</b>	<b>2,898</b>	<b>1,879</b>	<b>497,975</b>
<b>Net assets held in trust for pension benefits</b>					
July 1, 1999	5,722,548	832,221	8,629	5,625	6,569,023
June 30, 2000	<b>\$ 6,153,450</b>	<b>\$ 894,517</b>	<b>\$ 11,527</b>	<b>\$ 7,504</b>	<b>\$ 7,066,998</b>

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

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS****REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULES OF FUNDING PROGRESS***(Expressed in thousands)***Employees' Retirement System**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Unfunded Frozen Actuarial Liability (UFAL) (b)</b>	<b>Frozen Initial Liability (c) = (a + b)</b>	<b>Funded Ratio (a / c)</b>	<b>Covered Payroll (d)</b>	<b>Excess as a Percentage of Covered Payroll (b / d)</b>
6/30/1997	4,437,070	1,455,147	5,892,217	75.3%	1,047,786	138.9%
6/30/1998	5,121,478	1,454,527	6,576,005	77.9%	1,113,567	130.6%
6/30/1999	5,460,907	1,449,632	6,910,539	79.0%	1,168,300	124.1%

**State Police Retirement Benefits Trust**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Unfunded Frozen Actuarial Liability (UFAL) (b)</b>	<b>Frozen Initial Liability (c) = (a + b)</b>	<b>Funded Ratio (a / c)</b>	<b>Covered Payroll (d)</b>	<b>Excess as a Percentage of Covered Payroll (b / d)</b>
6/30/1997	4,862	574	5,436	89.4%	5,371	10.7%
6/30/1998	6,757	581	7,338	92.1%	7,212	8.1%
6/30/1999	8,481	587	9,068	93.5%	7,502	7.8%

**Judicial Retirement Benefits Trust**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Unfunded Frozen Actuarial Liability (UFAL) (b)</b>	<b>Frozen Initial Liability (c) = (a + b)</b>	<b>Funded Ratio (a / c)</b>	<b>Covered Payroll (d)</b>	<b>Excess as a Percentage of Covered Payroll (b / d)</b>
6/30/1997	2,607	901	3,508	74.3%	2,815	32.0%
6/30/1998	4,120	929	5,049	81.6%	3,040	30.6%
6/30/1999	5,522	957	6,479	85.2%	3,169	30.2%

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

### **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 1998, 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.

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**Rhode Island Economic Policy Council (RIEPC)** - This council is a non-profit organization created by executive order in March 1995 and incorporated in January 1996. The purpose of the council is to work closely with state officials to identify issues facing the state's economy, to develop and recommend creative strategies and policies to address them, to advise the state legislature in policy matters relating to economic development, and to administer a program designed to foster private technology commercialization and plant and process modernization through research centers, higher education partnerships and cluster collaboratives. It is blended into the Special Revenue Funds. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Economic Policy Council, 15 Westminster Street Suite 615, Providence, RI 02903-2417.

#### **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:

#### **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, Carloti 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.

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

### 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 02835.

**Rhode Island Economic Development Corporation (RIEDC)** - This Corporation was created in 1985 as a result of a merger by the General Assembly of the Rhode Island Port Authority (RIPAEDC) and former Department of Economic Development. The purpose of RIEDC is to promote and encourage the preservation, expansion, and sound development of new and existing industry, business, commerce, agriculture, tourism, and recreational facilities in the state, which will promote economic development. It has the power to issue tax-exempt industrial development bonds to accomplish its corporate purpose. Prior to 1995, the RIPAEDC 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 (RICCA)** - 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 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 writing to the Narragansett Bay 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

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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 Shun 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, 832 Dyer Avenue, Cranston, RI 02920.

**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 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.

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**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 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.

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**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 and other sources.

**Capital Projects** - 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 where (1) 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) 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.

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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.

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.

### **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.

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

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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. 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.

Certain fixed assets used in the operation of internal service funds are 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.

## **STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

Economic Development Corporation and the Narragansett Bay Commission, interest is not capitalized.

### **M. 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.

### **N. 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.

### **O. Other Liabilities**

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

### **P. Bonds Payable**

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.

### **Q. 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)).

### **R. 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.

### **S. 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

## **STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

recorded in the General Long-Term Debt Account Group and for proprietary fund types, they are recorded as fund liabilities.

### **T. 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.

### **U. 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.

### **V. Change in the Reporting Entity**

In fiscal year 2000 the state began reporting the assets and liabilities related to court deposits in an agency fund. These are, principally, deposits held by the various state courts pending resolution of litigation between two or more parties.

The Rhode Island Economic Policy Council has been included as a blended component unit within the special revenue funds.

### **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.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**General Fund**

(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, 2000 expenditures exceeded appropriations in the following departments and agencies (expressed in thousands):

**General Fund**

Department - Division Grant or Program	CFDA Number	Account Number	Amount
Administration			
Accounts and Control			
Municipal Affairs			
Taxation			
Office of Library and Information Services			
Motor Vehicle Excise Tax Program			
Distressed Communities Relief Program			
Debt Service Payments			
Federal grants:			
Economic Development - Support for Planning Organizations	11,302		31
Community Development Block Grants/State's Program	14,228		8
Regional Biomass Energy Programs	81,079		11
Conservation Research and Development	81,086		3
Low-income Home Energy Assistance	93,568		415
Restricted programs:			
DEPCO Endow Account		2450-80200	2,094
Eaton Oil Overcharge Interest Earnings		2460-81410	78
RIRBA - Workers Compensation Court		2484-82750	2

**General Fund**

**Department - Division Grant or Program**

Department - Division Grant or Program	CFDA Number	Account Number	Amount
Administration (Continued)			
Operating transfers in:			
Motor Vehicle - Highway Safety Grant		2456-90200	24
Lighting Conservation		2462-90100	195
FHWA - T2 - Systems Planning		2472-90200	28
RICPF - Cranston Street Armory		2480-91100	19
Sinking Fund Bond Earnings		2483-90200	648
Debt - URI Sponsored Research Indirect Cost		2486-91501	60
Debt - RIC Housing		2486-95400	18
Debt - CCRU Bookstore		2486-97402	2
Business Regulation			
General revenue appropriations:			
Central Management			6
Securities Regulation			7
Restricted programs:			
Real Estate Appraiser - Registration Fees		1825-80900	7
Labor and Training			
General revenue appropriations:			
Central Management			29
Income Support			21
Restricted programs:			
Office of Director - Workers Compensation		1652-80100	17
Second Injury Indemnity Fund Operation		1652-80500	33
Self-insurance Operations		1652-81000	7
Legislature			
Restricted programs:			
Audit of Federal Assistance Programs		2626-80100	233
Secretary of State			
General revenue appropriations:			
Corporations			21
State Archives			7
Boards for Design Professionals			
General revenue appropriation			25
Public Utilities Commission			
General revenue appropriation			1
Children, Youth and Families			
General revenue appropriations:			
Children's Behavioral Health			1,276
Juvenile Corrections			109
Federal grants:			
Tech-Prep Education			6
Children's Justice Grants to States	84,243		9
Child Welfare Services - State Grants	93,643		7
Adoption Assistance	93,645		275
Medical Assistance Program	93,659		1,018
Other Expenditures of Federal Awards	93,778		1,733
Restricted programs:			
Social Security Income			36
Elderly Affairs			
Federal grants:			
Nutrition Program for the Elderly (Commodities)		3340-80200	61
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care	10,570		125
Ombudsman Services for Older Americans	93,042		15
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93,044		133
Special Programs for the Aging - Title III, Part C - Nutrition Services	93,045		106
Low-income Home Energy Assistance	93,568		14
Health Care Financing Research, Demonstrations and Evaluations	93,779		4

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

General Fund

Department - Division Grant or Program	CFDA Number	Account Number	Amount
Health			
Department - Division Grant or Program			
Health			
General revenue appropriations:			204
Central Management			65
Family Health			111
Health Services Regulation			136
Health Laboratories			
Federal grants:			2,319
Special Supplemental Nutrition Program for Women, Infants, and Children	10,557		
Fair Housing Assistance Program - State and Local	14,401		23
State Public Water System Supervision	68,432		12
Maternal and Child Health Federal Consolidated Programs	93,110		39
Project Grants and Cooperative Agreements for Tuberculosis Control Program	93,116		58
Acquired Immunodeficiency Syndrome (AIDS) Activity Injury Prevention and Control Research and State and Community Based Programs	93,116		32
Health Program for Toxic Substances and Disease Registry	93,136		1
Disability Prevention	93,161		24
Child Support Enforcement	93,184		27
Medical Assistance Program	93,563		5
HIV Care Formula Grants	93,778		836
Restricted programs:			2
Indirect Cost Recovery - Central Management	1102-80601		376
Making The Grade - RWJ Foundation	1131-80100		116
Infant - Child Immunization	1134-80100		156
All Kids Count	1134-80200		11
Human Services			
General revenue appropriations:			258
Individual and Family Support			500
Child Care			40
Food Stamp Replacement for Legal Immigrants			
Federal grants:			142
Veterans Domiciliary Care	64,008		
Independent Living - State Grants	84,169		5
Rehabilitation Services-Independent Living Services for Older Individuals who are Blind	84,177		26
Supportive Employment Services for Individuals With Severe Disabilities	84,187		74
State's Children Insurance Program	93,767		805
Restricted programs:			168
Indirect Cost Recovery - Central Management	1210-80101		
Operating transfers in:			
RICPF - Forand Building Steam Chiller	1236-90300		1
Mental Health, Retardation and Hospitals			
General revenue appropriations:			46
Central Management			122
Hospitals and Community System Support			1,619
Hospital and Community Rehabilitative Services			
Federal grants:			7
Labor Management Cooperation	34,002		
Office of the Child Advocate			
General revenue appropriation:			12
Federal grants:			2
Crime Victim Assistance	16,575		
Medical Assistance Program	83,778		13
Governor's Commission on Disabilities			
General revenue appropriation			13

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

General Fund

Department - Division Grant or Program	CFDA Number	Account Number	Amount
Commission for Human Rights			
Department - Division Grant or Program			
Commission for Human Rights			
Federal grants:			6
Fair Housing Assistance Program - State and Local Elementary and Secondary Education	14,401		
General revenue appropriations:			758
Teachers' Retirement			31
Rhode Island School for the Deaf			
Federal grants:			1
Civil Rights Training and Advisory Services	84,004		
Byrd Honors Scholarships	84,165		13
Policy Research and Evaluation Grants	93,239		9
Child Care and Development Block Grant	93,575		19
Cooperative Agreements to Support Comprehensive Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93,938		13
Rhode Island State Council on the Arts			
Federal grants:			1
Promotion of the Arts - Leadership Initiatives	45,028		
Historical Preservation and Heritage Commission			
Federal grants:			42
Historic Preservation Fund Grants-In-Aid	15,904		
Restricted Programs:			
Survey and Planning - Restricted Fund		2082-90100	2
Historic Preservation Examination Fund		2082-90300	29
Attorney General			
Federal grants:			3
Byrne Formula Grant Program	16,579		
Local Law Enforcement Block Grants Program	16,592		3
Other Expenditures of Federal Awards			2
Corrections			
Federal grants:			2
State Justice Statistics Program for Statistical Analysis Centers	16,550		
Residential Substance Abuse Treatment for State Prisoners	16,593		4
Governor's Justice Commission			
Federal grants:			77
Violence Against Women Formula Grants	16,588		
Judiciary			
General revenue appropriations:			307
Supreme Court			38
Family Court			12
District Court			56
Traffic Tribunal			172
Federal grants:			1,153
Byrne Formula Grant Program	16,579		
Violence Against Women Formula Grants	16,588		10
State and Community Highway Safety	20,600		1
Restricted programs:			47
Indirect Cost Recovery - Family Court		2729-90100	
Military Staff			
General revenue appropriations:			13
Emergency Management			
Federal grants:			20
Community Assistance Program - State Support	83,105		
Service Element (CAP-SSSE)	83,551		8
Project Impact - Building Disaster Resistance Communities			
Operating transfers in:			
Ralls to Trails - Military Staff		2085-90100	38
Waffles to Work - Operation Forward March		2086-90200	167

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**General Fund**

Department - Division Grant or Program	CFDA Number	Account Number	Amount
State Police			12
Federal revenue appropriations			
Federal grants:			
Public Safety Partnership and Community Policing Grants	16,710		6
Restricted programs:			
Forfeited Property - Gambling		2070-80400	14
Operating transfers in:			
Traffic Enforcement		2070-80500	120
Environmental Management			
General revenue appropriations:			
Natural Resources			485
Federal Grants:			
Federal - State Marketing Improvement Program	10,156		12
Boiling Safety Financial Assistance	20,005		30
Hazardous Waste Management State Program Support	66,801		61
State and Tribal Underground Storage Tanks Program	66,804		119
Solid Waste Management Assistance	66,808		34
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93,283		11
Restricted programs:			
Boat Registration		1721-80100	23
Fishing License Receipts		1732-80100	6
Boiling Safety		1735-80100	121
Environmental Response Fund		1754-80200	144
Water and Air Protection Program		1754-80300	300
State Water Resource Board		1754-80600	3
General revenue appropriations			
Restricted programs:			
Loans for Water Facilities		2835-80300	16
<b>Special Revenue Funds</b>			
Employment Insurance			
Federal Grants:			
Labor Force Statistics	17,002		7
Trade Adjustment Assistance - Workers	17,245		2,797
Employment and Training Assistance - Dislocated Workers	17,246		206
Workforce Investment Act	17,255		139
Restricted programs:			
Intermodal Surface Transportation		Various	322
Arts/Arts Projects			

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

**Cash Deposits**

**Primary Government**

At June 30, 2000, the carrying amount of the state's cash deposits was \$42,852,639 and the bank balance was \$42,075,950. Of the bank balance, \$1,419,881 was covered by federal depository insurance. The remaining amount, \$40,656,069, was uninsured and uncollateralized. The carrying amount and bank balance include \$9,248,280 of certificates of deposit.

**Component Units**

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

At June 30, 2000, the carrying amount of the component units' cash deposits was \$126,436,244 and the bank balance was \$134,006,143. Of the bank balance, \$3,338,015 was covered by federal depository insurance and \$32,267,452 was collateralized with investments held by a bank in a component unit's name. The remaining amount, \$98,400,676 was uninsured and uncollateralized. The carrying amount and the bank balance include \$5,301,000 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, 2000.

**Investments**

The State Investment Commission (Commission) is responsible for the investment of all state funds. Pursuant to Chapter 35-10 of the General Laws, the Commission may, in general, "invest in securities as would be acquired by prudent persons of discretion and intelligence in these matters who are seeking a reasonable income and the preservation of their capital."

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, 2000.

- 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.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

Primary Government	Category			Fair Value
	1	2	3	
U.S. Government and Agency Securities	\$ 1,520,293	\$ 737	\$	\$ 1,521,030
Commercial Paper	38,740			38,740
Repurchase Agreements	41,500			41,500
Corporate Bonds	687,821	165		687,986
Equity Securities	3,195,537	1,348		3,196,885
Foreign Securities	1,190,093			1,190,093
	<u>\$ 6,682,984</u>	<u>\$ 2,250</u>	<u>\$</u>	<u>\$ 6,685,234</u>
Money Market Mutual Funds				425,182
Real Estate and Venture Capital Limited Partnership				372,460
Investments of Statutory Deposits Held in Trust				67,658
Other				6,679
Total				<u>7,558,193</u>
Less amount classified as cash equivalents				<u>408,114</u>
Total Investments				<u>\$ 7,150,079</u>

Component Units	Category			Fair Value
	1	2	3	
U.S. Government and Agency Securities	\$ 136,042	\$ 209,050	\$ 69,300	\$ 414,392
Money Market			20,986	20,986
Commercial Paper	9,510		25,813	35,123
Repurchase Agreements	53,252	339	90,162	143,753
Corporate Bonds	300			300
Equity Securities	56	2,047		2,105
	<u>\$ 190,162</u>	<u>\$ 211,436</u>	<u>\$ 206,071</u>	<u>\$ 618,669</u>
Money Market Mutual Funds				42,971
Investment Agreements				450,876
Investments of the R.I. Children's Crusade for Higher Education				10,570
Other				11,982
Total				<u>1,133,068</u>
Less amount classified as cash equivalents				<u>323,257</u>
Total Investments				<u>\$ 809,811</u>

**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 mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments. 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, 2000.

**Cash and Cash Equivalents**

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**Primary Government**

Cash and cash equivalents of \$450,967,000 consists of the \$42,853,000 cash carrying amount and \$408,114,000 of investments determined to be cash equivalents.

**Component Units**

Cash and cash equivalents of \$449,693,000 consists of the \$126,436,000 cash carrying amount and \$323,257,000 of investments determined to be cash equivalents.

**Note 4. Receivables**

Receivables at June 30, 2000 (expressed in thousands) consist of the following:

	Taxes	Accounts	Accrued	Notes	Contributions	Allowance	Total
		Interest	and	Loans		for	
			Uncollectible			and	
			Amounts			Unavailable	
						Amounts	
Primary Government:							
General fund	\$ 135,232	\$ 9,736	\$	\$	\$	\$ (53,639)	\$ 91,329
Special revenue funds	14,887	3,870				(4,242)	14,515
Enterprise fund		5,139				(289)	4,850
Internal service fund		3,555					3,555
Trust and agency funds	5,035	8,182			17,874	(10,350)	20,741
Total Primary Government	155,154	30,482			17,874	(68,520)	134,990
Component Units:							
Governmental		25,842	6	16,321		(5,679)	36,490
Proprietary		69,354	33,168	2,044,715		(33,400)	2,113,837
Total Receivables	<u>\$ 155,154</u>	<u>\$ 125,876</u>	<u>\$ 33,174</u>	<u>\$ 2,061,036</u>	<u>\$ 17,874</u>	<u>\$ (107,999)</u>	<u>\$ 2,285,317</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 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, \$29,480,000, is net of \$5,150,000, which is considered unavailable to meet current year expenditures.

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

Intra-entity receivables and payables (operations - due from/due to and working capital loans - loan to/loan from), as of June 30, 2000, are summarized below (expressed in thousands):

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

Fund Type/Fund	Due from Other Funds	Due to Other Funds	Due from Component Units	Due to Component Units
<b>General</b>	\$ 17,656	\$ 17,801	\$ 16,202	\$ 14,138
Special Revenue				
Employment Insurance - Federal Programs	1,134	799		
Employment Insurance - Job Development	164	164		
Employment Insurance - Interest	157	94		
Employment Insurance - Tukey	2,344	271		
R.I. Temporary Disability Insurance	2,393	2,344		
Intermediate Surface Transportation	1,857	3,625	6,486	2,121
R.I. Underground Storage Tank				
Providence River Rehabilitation	9	278		
Subtotal	5,553	7,574	6,486	2,121
Debt Service	2,090	256		
Capital Projects				
Bond Capital	17,325	19,012	50	7,328
Subtotal	17,325	19,012	50	7,328
Enterprise				
State Lottery		12,966		
Subtotal		12,966		
Internal Service				
Central Utilities	1,099			
Central Services	938	22		
Workers' Compensation	878	3		
Special Facilities	764	16		
Automotive Maintenance	617	5		
Central Warehouse	298	3		
Correctional Industries	1,185	1,254		
Federal Surplus		2		
Records Center Fund		9		
Subtotal	5,779	1,314		
Trust and Agency				
Pension Trust	10,324	100		
Expendable Trust - ES	10,424	100		
Subtotal	58,827	58,827	22,738	23,587
Total	\$ 58,827	\$ 58,827	\$ 22,738	\$ 23,587

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

Component Units	Due from Other Funds	Due to Other Funds	Due from Primary Government	Due to Primary Government
<b>Governmental:</b>	\$	\$	\$ 600	\$ 2,782
University of Rhode Island			493	954
Rhode Island College			404	586
Community College of Rhode Island			1,497	4,322
Subtotal			19,530	15,323
<b>Proprietary:</b>				
R.I. Economic Development Corporation			3,179	3,386
R.I. Depositors Economic Protection Corporation			12,200	9,483
R.I. Higher Education Assistance Authority			2	333
R.I. Public Telecommunications Authority			6	
Narragansett Bay Commission			19	
R.I. Convention Center Authority			2,478	2,121
R.I. Public Transit Authority			1,646	
Subtotal			21,027	19,645
Total	\$	\$	\$ 21,027	\$ 19,645
Reconciliation				
Fund Type/Fund				
Amount recorded	\$ 22,738	\$ 21,027	\$ 23,587	\$ 19,645
Capital Projects:				
Bond Capital				
Governmental Component Units	50			
Rhode Island College				
Proprietary Component Units	1,861			
RIEDC	22,738	22,738	19,645	19,645
Total	\$ 22,738	\$ 22,738	\$ 19,645	\$ 19,645

The Intermodal Surface Transportation Fund reported \$1,661,000 due from R.I. Economic Development Corporation (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. The Bond Capital Fund reported \$3,942,000 as due to component units that was not reported as due from primary government in the component units. The Bond Capital Fund reported \$50,000 due from Rhode Island College (RIC). RIC 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>	\$ 6,387	\$
Capital Projects:		
Bond Capital		1,459
RI Clean Water Act Environmental Trust Fund		1,500
Certificates of Participation		58
Subtotal		3,017
Internal Service:		
Workers' Compensation		650
Central Services		500
Central Warehouse		570
Central Utilities		400
Correctional Industries		750
Special Facilities		500
Subtotal		3,370
Total	\$ 6,387	\$ 6,387

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**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		Machinery and Equipment		Construction In Progress		Accumulated Depreciation		Net Fixed Assets	
		15-100	15-100	5-10	5-10	5-10	5-10	5-10				
Primary Government:												
Enterprise fund	\$	1,719	\$	835	\$	3,452	\$	(1,935)	\$	619		
Internal service funds		4,212		3,402		92,477		(2,981)		4,633		
Total Primary Government		5,931		4,237		3,452		(4,916)		5,252		
Component Units:												
Governmental		526		266		3,452		(691)		5,384		
Proprietary		142,771		901,918		124,614		(301,627)		960,153		
Total		\$ 143,297		\$ 909,680		\$ 128,137		\$ (307,234)		\$ 970,789		

The R.I. Economic Development Corporation capitalized interest expense of approximately \$1,514,200, net of interest income of \$1,065,000. The Narragansett Bay Commission capitalized approximately \$25,800 of interest expense as a component of the cost of construction. For the Proprietary Component Units, actual nonoperating interest expense was \$43,064,000 and actual nonoperating interest revenue was \$13,311,000 which represents increases of \$2,605,000 and \$1,065,000 respectively, over the amounts 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, 2000, 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
2001	\$ 70,823	\$ 55,075	\$ 1,442	\$ 3,309	\$ 159,866	\$ 164,930
2002	76,362	60,249	1,570	3,309	159,416	156,312
2003	78,362	48,435	1,594	3,261	94,693	149,467
2004	78,815	42,415	1,661	3,209	93,706	144,308
2005	79,016	37,805	1,712	3,155	87,230	138,156
Later Years	656,720	266,329	55,993	38,485	2,410,925	1,872,548
	\$ 1,042,269	\$ 438,298	\$ 63,072	\$ 54,728	\$ 3,005,136	\$ 2,655,721

**Primary Government**

Current interest bonds of the state are serial bonds with interest payable semi-annually and 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 indeterminable.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

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 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 CCRJ. 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, 2000. They are payable from amounts, if any, appropriated annually to

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

and deposited in DEPCO's Special Revenue Fund created by statute and amounts realized from the liquidation of assets and other activity (See Notes 21 and 22). 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 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.

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**

A summary of general obligation bonds authorized by the voters and unissued (expressed in thousands) at June 30, 2000 is shown below.

	Authorized and Unissued July 1	Authorized	Issued	Extinguished	Authorized and Unissued June 30
<b>General Obligation Bonds Supported by Taxes:</b>					
Capital Development Plan - 1986	\$ 960	\$	\$ 800	\$	\$ 160
Capital Development Plan - 1988	1,337		365		970
Capital Development Plan - 1989	7,245		2,115	1,624	3,506
Capital Development Plan - 1990	21,610		3,220		18,390
Capital Development Plan - 1994	19,165		11,050		8,115
Capital Development Plan - 1996	85,583		56,965		28,618
Capital Development Plan - 1998	101,690		44,035		57,655
R.I. Economic Development Fund	450				450
Underground Storage Tank Replacement			600		2
Revolving Loan Fund	602				
Narragansett Bay Water Quality Management			19,595	1	12,935
District Commission Fund	32,531		200		3,840
Clean Water Act Environmental Trust Fund	4,040		3,705		4,438
Open Space and Recreational Area Fund	8,143		820		3,415
Drinking Water Protection Fund	4,235		440		
Rhode Island Aquaculture Fund	440				
Clean Water Finance Agency			8,830		13,960
Water Pollution Revolving Loan Fund	22,790				
General Obligation Bonds Supported by Taxes	310,821		152,740	1,627	158,454
R. I. Industrial-Recreational Building Authority					80,000
<b>Total</b>	<b>\$ 390,821</b>	<b>\$</b>	<b>\$ 152,740</b>	<b>\$ 1,627</b>	<b>\$ 238,454</b>

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, \$35,630,465 at June 30, 2000 (See Note 21). The insured mortgages are guaranteed by the state.

See Note 12 for information concerning contingent liabilities relating to "Moral Obligation" bonds.

**B. Notes Payable**

Notes payable (expressed in thousands) at June 30, 2000 are as follows:

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

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.	\$ 2,320
Component Units - Proprietary	
R.I. Housing and Mortgage Finance Corporation bank notes, 4.375% to 6.71% interest, payable through 2008.	\$ 6,476
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 6.75% interest, payable through 2005	561
R.I. Resource Recovery Corporation landfill lease notes, 4% interest.	5,000
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.	435
R.I. Convention Center Authority notes payable under management agreements.	153
	<u>\$ 14,825</u>

**C. Loans Payable**

Loans payable of the Proprietary Component Units represent liabilities of the Narragansett Bay Commission (NBC) to the City of Providence (\$357,811), to the R.I. Clean Water Finance Agency (RICWFA) (\$47,349,721) and to the R.I. Refunding Bond Authority (\$45,000). 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, 2000 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 other fixed assets.

The state's obligation under capital leases at June 30, 2000 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, 2000.

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, 2000. Interest for variable rate COP is not reported since the amount is indeterminable.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

Fiscal Year Ending June 30	RICCA	COP	Total
2001	\$ 23,955	\$ 11,443	\$ 35,398
2002	23,952	11,522	35,474
2003	23,952	11,153	35,105
2004	23,952	11,104	35,056
2005	23,956	11,056	35,012
Later Years	498,201	83,933	582,134
Total future minimum lease payments	<u>577,968</u>	<u>140,211</u>	<u>718,179</u>
Amount representing interest	(255,039)	(38,199)	(293,238)
Present value of future minimum lease payments	<u>\$ 322,929</u>	<u>\$ 102,013</u>	<u>\$ 424,943</u>

**Component Units**

The University of Rhode Island (URI), Rhode Island College (RIC), Community College of Rhode Island (CCRI), 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.

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

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, 2000.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

Fiscal Year Ending June 30	Governmental			Proprietary		
	URI	RIC	CCRI	RIEDC	RIPTCA	RIPTCA
2001	\$ 1,937	\$ 664	\$ 288	\$ 3,782	\$ 1,078	\$ 1,078
2002	1,609	443	157	3,781	821	821
2003	1,539	439	156	3,811	827	827
2004	1,385	443	156	3,622	820	820
2005	1,367	449	156	3,390	807	807
Later Years	19,020	1,903	2,970	22,253	4,908	4,908
Total future minimum lease payments	26,857	4,341	3,883	40,629	9,281	9,281
Amount representing interest	(9,208)	(976)	(1,749)	(11,607)	(2,284)	(2,284)
Present value of future minimum lease payments	\$ 17,649	\$ 3,365	\$ 2,134	\$ 29,022	\$ 6,997	\$ 6,997

**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 is included in the general long-term debt account group. 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).

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

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

During the fiscal year ended June 30, 2000, the following changes (expressed in thousands) occurred in general long-term debt:

	Balance July 1	Additions	Reductions	Balance June 30
<b>Primary Government</b>				
General obligation bonds payable:				
Current interest bonds	\$ 755,315	\$ 152,740	\$ (58,286)	\$ 849,769
Capital appreciation bonds	34,728		(3,439)	31,289
Accrued interest on capital appreciation bonds	34,603	5,434	(3,691)	36,346
Revenue bonds - RIRBA	174,315		(13,105)	161,210
Bonds payable	999,961	158,174	(78,521)	1,079,614
Less obligations to the RICCA	329,665		(6,735)	322,930
Certificates of Participation (COP)	96,885	9,843	(4,665)	102,013
Obligations under capital leases	426,530	9,843	(11,430)	424,943
Compensated absences	62,478	2,529		65,007
Other long-term liabilities	17,228	4,391	(1,919)	19,701
	\$ 1,505,197	\$ 174,937	\$ (91,869)	\$ 1,588,265

**Governmental Component Units**

	Balance July 1	Additions	Reductions	Balance June 30
Compensated absences	\$ 34,033	\$ 3,287	\$ (5,309)	\$ 32,011
Obligations under capital leases	7,392	17,043	(1,227)	23,208
Notes payable	2,366		(46)	2,320
Loans payable	495	200	(43)	652
Bonds payable	40,322	23,600	(1,049)	63,073
Other liabilities	1,153		(525)	628
	\$ 85,761	\$ 44,330	\$ (8,199)	\$ 121,892

**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

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

June 30, 2000, the following bonds and COP outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	
(Include \$4,301,000 of NBC)	\$ 103,740
Revenue Bonds	
R.I. Refunding Bond Authority	41,747
Component Units:	
R.I. Clean Water Finance Agency	14,935
R.I. Convention Center Authority	202,710
R.I. Depositors Economic Protection Corporation	616,230
R.I. Economic Development Corporation	31,865
R.I. Turnpike And Bridge Authority	41,340

On June 15, 2000, the State deposited \$4,498,927 in an irrevocable trust with an escrow agent. The deposit was used to purchase U.S. Treasury Obligations, at a yield rate of 6.182%, to provide for debt service on \$4,415,000 of 1992 refunding bonds. This resulted in a debt service savings of \$1,846,563. The defeased bonds were removed from the State's General Long-Term Debt Account Group.

During the year ended June 30, 2000, the Rhode Island Depositors Economic Protection Corporation (DEPCO) restructured the existing escrow for the 1992 Series B special obligation bonds, resulting in the recognition of an accounting gain of \$2,060,242. DEPCO also purchased U.S. Government securities, which were deposited into an irrevocable trust with an escrow agent to provide for all future debt service on \$3,980,000, \$24,860,000, \$20,975,000, and \$7,050,000 of the 1991 Series A, 1992 Series B, and 1993 Series A special obligation bonds, respectively. These bonds are legally defeased and the liability has been removed from the statement of assets, liabilities, and fund balance (deficit). The defeasance was funded through the liquidation of assets, net settlements, excess State sales tax and a loan sale; it resulted in the recognition of an accounting loss of \$1,290,205. DEPCO reduced its aggregated principal and interest payments by approximately \$76,666,000 over the next 10 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, 2000 was \$166,500,000, \$1,022,216,868 and \$250,000,000, 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, 2000, the balance of the reserve was \$853,439.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

The reservations of retained earnings of the R.I. Housing and Mortgage Finance Corporation (RIHMFC) are restricted by specific bond resolutions, designations by the Board of Commissioners (Board), or by a trust agreement initiated by RIHMFC. These reserves are made up of four major elements: (1) RIHMFC's Housing Endowment Fund (Fund), (2) commitments for housing initiatives, (3) designated funds, and (4) 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 \$55,665,008 at June 30, 2000. 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 \$159,013,967 at June 30, 2000. 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 \$9,645,786 at June 30, 2000. 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 \$15,177,538 at June 30, 2000.

Reserved retained earnings of the R.I. Turnpike and Bridge Authority (RITBA) consists of \$4,809,710 for debt service.

The General Laws authorize the Narragansett Bay 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, 2000, NBC reported \$103,856 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, 2000 was \$8,077,564.

**Reserved Fund Balance**

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

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

	Governmental Fund Types		Fiduciary Fund Types		Total	
	General	Special	Debt Service	Capital Projects	Trust and Agency	Governmental Component Units
Budget reserve						
Appropriations carried forward						
General revenue	21,739				21,739	
Departmental restricted revenue	22,385				22,385	
Operating transfers in	6,448				6,448	
Encumbrances	154,413			15,942	172,375	20,585
Long-term receivables	1,847				1,847	
Employment insurance programs	62,890		2,518	18,245	345,487	2,075
Debt				100		
Self-insurance						
Pension benefits						
Academic college overhead						
Inventory						
Asset protection and capital projects						
Auxiliary enterprises						
Grants, gifts, and aid						
Lease fund						
Trust income						
Staff benefit costs allocation						
Landscaping fund						
	\$ 121,841	\$ 220,850	\$ 2,518	\$ 34,907	\$ 7,348,605	\$ 7,728,821
						\$ 80,857

**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.

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, 2000:

	Reserved Fund Balance July 1	Additions	Reductions	Reserved Fund Balance June 30
State Budget Reserve Account	\$ 65,412	\$ 47,513	\$ (41,655)	\$ 71,269
Public Facilities Asset Protection Account	163		(163)	
Appropriations carried forward	16,123	21,739	(16,123)	21,739
Departmental restricted revenue	22,191	22,385	(22,191)	22,385
Operating transfers in	6,809	6,448	(6,809)	6,448
Total	\$ 110,898	\$ 98,085	\$ (86,942)	\$ 121,841

**Designations of Fund Balance**

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

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 (\$20,919,987) and restricted revenue (\$245,103) brought forward to fiscal year 2001.

Designated fund balance in the Capital Projects Funds (\$135,894,616) represents funds committed to capital projects.

**Note 9. Operating Transfers**

Operating transfers for the fiscal year ended June 30, 2000 are presented below (expressed in thousands):

Fund Type/Fund	Operating Transfers		To Component Units
	In	Out	
Primary Government	\$ 255,067	\$ 52,247	\$ 15,780
General			
Special Revenue:		1,677	
Employment Insurance Federal Programs		212	
Employment Insurance Job Development		645	
R.I. Temporary Disability			
R.I. Underground Storage Tank Fund	28,889	64,200	15,079
Intermodal Surface Transportation		241	
Providence River Relocation			
R.I. Economic Policy Council	1,750		
Subtotal	30,639	66,975	15,079
Capital Projects:			
Bond Capital:		63,524	
R.I. Clean Water Act/ Environmental Trust Fund	41,855		
Subtotal	41,855	63,524	
Debt Service	8,514	150,380	5,546
Enterprise - State Lottery			
Internal Service - Central Warehouse	328		
Total	\$ 336,203	\$ 333,126	\$ 30,859
			\$ 392,453

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

Component Units	Operating Transfers		From Primary Government
	In	Out	
Governmental	\$ 42	\$	\$ 78,063
University of Rhode Island			39,291
Rhode Island College			36,116
Community College of Rhode Island			31,652
Central Falls School District			185,112
Subtotal	42		289
Proprietary			
R.I. Economic Development Corporation			8,257
R.I. Convention Center Authority			20,421
R.I. Depositors Economic Protection Corporation		12,200	59,084
R.I. Higher Education Assistance Authority			7,611
R.I. Public Transit Authority		502	25,494
R.I. Public Telecommunications Authority			1,443
R.I. Children's Crusade for Higher Education			1,862
Narragansett Bay Commission			187
Subtotal	42		123,932
Total Component Units	\$ 42	\$	\$ 309,044

**Reconciliation**

Amounts recorded	From Component Units	To Primary Government	To Component Units	From Primary Government
Component Units	\$ 30,859	\$ 13,780	\$ 362,453	\$ 308,044
Governmental				
University of Rhode Island				4,563
Rhode Island College				6,547
Community College of Rhode Island				7,122
Proprietary				
R.I. Economic Development Corporation		15,079	414	22,609
R.I. Public Telecommunications Authority				14,497
Narragansett Bay Commission				6,367
R.I. Clean Water Finance Agency				1,628
R.I. Housing Mortgage Finance Corporation				20,490
R.I. Public Transit Authority				
	\$ 30,859	\$ 30,859	\$ 362,867	\$ 362,867

The difference of \$3,077,000 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 \$42,000 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 2001 and does not consider them current year transactions because the agreement is for reimbursement of expenditures. The R.I. Public Telecommunications Authority reported \$414,000 of operating transfers from the primary government to support debt service related to capital lease obligations. However, the primary government paid the debt directly. The Intermodal Surface Transportation Fund reported \$15,079,000 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 \$11,575,000 for the fiscal year ended June 30, 2000.

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

The following is a summary of material future minimum rental payments (expressed in thousands) required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2000:

Fiscal Year Ending June 30	
2001	\$ 11,555
2002	10,087
2003	9,781
2004	9,187
2005	8,668
Later Years	19,740
Total	\$ 89,018

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, 2000 are summarized as follows:

General fund (\$4,300 to be funded by federal funds, \$3,600 to be funded substantially by future appropriations and \$4,900 from other sources)	\$ 12,800
Special revenue funds	156,413
Capital projects funds	16,562
	<u>\$ 185,775</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 is expected to be implemented in fiscal year 2002. The state has expended approximately \$2,300,000 thus far and expects to spend \$2,000,000 in fiscal year 2001.

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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.

### **Component Units**

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 \$9,785,600 which is expected to be funded from current available resources and future operations.

The Narragansett Bay 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 \$6,862,000 at June 30, 2000.

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 \$10,621,000 in costs relating to Phase II and \$5,303,000 relating to Phase III have been incurred as of June 30, 2000, and are included in land and improvements in the financial statements. Phase IV consists of four eleven acre cells of which two cells began accepting refuse in September 2000. To date, \$18,128,434 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 \$30,484,000. The liability at June 30, 2000 is approximately \$29,630,000, with \$854,000 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 94% of landfill capacity for Phase II and III, which has approximately six 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 \$12,541,625 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

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

June 30, 2000, the market value of the trust was \$23,843,726. The projected additional deposits into the trust fund on an annual basis are as follows: FYE 2001 - \$1,000,000 and FYE 2002 - \$249,957. 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 \$10,645,000 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.

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 \$19,403,000 under various loan programs at June 30, 2000.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2000 remaining commitments on these contracts approximated \$1,422,000.

The R.I. Public Transit Authority is committed under construction contracts in the amount of \$13,209,068 at June 30, 2000.

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.

### **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.

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

### 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, 2000 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had \$194,527,734 and \$60,348,857 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. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the state anticipates paying approximately \$454,000 of the debt on the related economic development revenue bonds in fiscal year 2001.

### Component Units

#### R.I. Student Loan Authority

The R.I. Student Loan Authority (RISLA) 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) July 28, 2004, for the January 1995 and April 1996 issue, and March 15, 2003 for the March 2000 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.

The RISLA also has an available \$2,000,000 line of credit. Interest is based upon one month London Inter-Bank Offer Rate (LIBOR) plus thirty basis points adjusted weekly. The line of credit is secured by eligible loans of RISLA. Minimum drawdowns on the line of credit are \$100,000 and all proceeds are to be used to purchase or originate eligible student loans. As of June 30, 2000, there was no outstanding balance.

#### 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

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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, 2000.

### 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 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.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**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's share 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 2000, the state contributed 0.66% 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, 2000 were \$4,200,886, net of retirees' contributions for the 3,126 retirees receiving benefits.

In addition to the pension benefits described above, expenditures of \$1,045,773 were recognized for postretirement benefits provided under early retirement incentive programs (an average of \$994 for each of the 1,052 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 and the Federal Surplus Property Internal Service Fund reported deficits of \$57,471 and \$450, respectively, at June 30, 2000. These deficits will be funded by future revenues.

The R.I. Convention Center Authority reported a deficit of \$53,912,990 at fiscal year ended June 30, 2000. This deficit will be funded by future revenues.

The R.I. Public Transit Authority reported a deficit of \$6,390,711 at fiscal year ended June 30, 2000. This deficit will be funded by future revenues.

The R.I. Water Resources Board Corporate reported a deficit of \$705,143 at fiscal year ended June 30, 2000. This deficit will be funded by future revenues.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**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.

	Employment Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rate	8.37%	26.62%	26.46%
Plan members - state employees	5,195,442.1%	8,179	8,776
Annual pension cost	\$48,073	\$1,509	\$1,008
Contributions made - state employees	\$44,354	\$1,509	\$1,008
Contributions made - teachers	\$40,719		
Actuarial valuation date	June 30, 1997	June 30, 1997	June 30, 1997
Actuarial cost method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed
Amortization method	19 years	25 years	30 years
Equivalent Single Remaining Amortization Period	19 years	25 years	30 years
Actuarial Assumptions			
Asset valuation method	Market Value of Assets	Market Value of Assets	Market Value of Assets
Investment return	8.25%	8.25%	8.25%
Projected Salary Increases	4.75%	5.00%	5.50%
Inflation	3.50%	3.50%	3.50%
Cost of living adjustments	3% compounded annually	\$1,500 per annum	7% of original
Level of benefits established by General Law(s)	36-8 to 10	42-26 to 21	6-3, 16, 8, 9, 10, 1, 8, 2, 7 and 28-30 to 18, 1

**Three Year Trend Information**

Year Ended	Annual Pension Cost (APC) (in thousands)	Percentage Contributed	Net Pension Obligation
2000	\$48,113	100%	\$0
2000	78,778	100%	0
2000	86,073	100%	0
2000	803	100%	0
2000	1,509	100%	0
2000	744	100%	0
2000	737	100%	0
2000	1,008	100%	0

**Other**

Certain employees of the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts with the Teachers' Insurance and Annuity Association. Total expenditures by the institutions for such annuity contracts amounted to \$10,334,212 during the year ended June 30, 2000.

The R.I. Public Transit Authority has two pension plans that cover employees meeting certain eligibility requirements. Employer contribution paid in fiscal year 2000 was \$2,362,203. At July 1, 1999, the most recent valuation date, the total pension benefit obligation was \$33,414,133 and net assets available for benefits were \$17,243,302.

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.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**Note 17. Restatement of Fund Equity**

Certain restatements of fund equity balances, as of June 30, 1999, are summarized in the following table (expressed in thousands):

Primary Government	June 30, 1999 Fund Equity As Previously Reported	Adjustment	July 1, 1999 Fund Equity Restated
<b>Special Revenue Funds</b>			
Intermodal Surface Transportation Fund	\$ 25,184	\$ (1,009)	\$ 24,155
Rhode Island Economic Policy Council	60,098	2,290	2,290
Other Special Revenue Funds	85,262	1,281	86,543
<b>Internal Service Funds</b>			
Central Services	1,354	7	1,361
Central Warehouse	1,210	1	1,211
Correctional Industries	1,350	(1)	1,349
Federal Surplus Property		1	1
Other Internal Service Funds	1,779		1,779
	<u>\$ 5,693</u>	<u>\$ 8</u>	<u>\$ 5,701</u>
<b>Governmental Component Units</b>			
University of Rhode Island	24,825	688	25,524
Other Governmental Component Units	12,711		12,711
	<u>\$ 37,536</u>	<u>\$ 688</u>	<u>\$ 38,225</u>
<b>Proprietary Component Units</b>			
R.I. Turnpike and Bridge Authority	30,740	3	30,743
R.I. Economic Development Corporation	243,225	(20,226)	222,999
R.I. Public Telecommunications Authority	1,569	(898)	670
Other Proprietary Component Units	551,071		551,071
	<u>\$ 826,605</u>	<u>\$ (21,122)</u>	<u>\$ 805,483</u>

The beginning fund balance of the Intermodal Surface Transportation Fund was restated to correct errors resulting in an overstatement of previously reported assets.

The Rhode Island Economic Policy Council is reported as a blended component unit of the special revenue funds beginning with fiscal year 2000.

The beginning retained earnings of the Central Services Internal Service Fund was restated to correct errors resulting in an overstatement of previously reported fixed assets and accumulated depreciation.

The beginning retained earnings of the Central Warehouse Internal Service Fund was restated to correct errors resulting in an understatement of previously reported fixed assets, accumulated depreciation, and capital lease obligations.

The beginning retained earnings of the Correctional Industries Internal Service Fund was restated to exclude Federal Surplus Property which is now reported as a separate Internal Service Fund.

The beginning fund equity of the University of Rhode Island was restated to correct errors resulting in an understatement of previously reported assets.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

The beginning retained earnings of the R.I. Turnpike and Bridge Authority was restated to correct errors resulting in an understatement of previously reported assets.

The beginning retained earnings of the R.I. Economic Development Corporation was restated to correct errors resulting in the overstatement of previously reported assets.

The beginning retained earnings of the R.I. Public Telecommunications Authority was restated to correct errors resulting in an understatement of previously reported liabilities.

**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	\$ 2,782	\$ 954	\$ 586	\$
Other current assets	51,059	14,244	7,475	3,942
General fixed assets	5,364			
Amounts available in debt service fund	86,534	284	564	1,404
Due to primary government	600		10,489	404
Other current liabilities	32,701	8,197	4,141	2,309
Bonds payable	8,487	10,432	4,233	
Other long-term liabilities	49,214	10,432	4,233	1,404
Capital expenditures	204,524	45,338	33,787	1,208
Current expenditures	271,884	82,621	66,273	32,089
Capital expenditures	15,873	2,281	2,038	1,289
Debt service expenditures	2,319	425	400	
Transfers from primary government	78,063	39,281	36,116	31,651
Excess of revenue and expenditures	19,049	378	21	(498)
Net gain from proprietary operations	1,030			

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

	RHMFIC	RISLA	RTIBA	RIEDC	RICCA	NBC
Proprietary						
Due from primary government	1,951,478	874,967	35,019	181,621	28,173	33,065
Other current assets	15,427	548	46,127	350,411	218,983	218,739
Fixed assets (net)					2,478	19
Due to primary government	40,813	15,098	2,502	5,980	7,239	5,203
Other current liabilities	1,525,716	823,306	42,266	247,978	300,203	19,809
Bonds payable	183,989	45,674	11,221	45,074	153	48,085
Other long-term liabilities	128,172	37,878	3,895	38,502	3,826	29,096
Operating revenue	115,918	412	49	1,528	4,032	4,032
Operating expense	2,922	7,285	6,577	(5,974)	(1,311)	1,985
Depreciation, depletion and amortization				6,257	20,420	
Transfers from primary government	6,042	7,285	6,197	4,482	1,131	(180)
Net income (loss)				33,136		216
Current capital contribution						14,487

	RIHEBC	RIIRC	DEPCO	RIHEAA	RIPTA	RIIFC
Proprietary						
Due from primary government	6,863	28,876	68,786	34,201	2,121	1,166
Other current assets	8	50,155	12,200	1,584	13,445	51,825
Fixed assets (net)				2	13,979	
Due to primary government	7	3,846	41,095	18,045	14	11
Other current liabilities						
Bonds payable		45,275	1,031	1,285	14	621
Other long-term liabilities	1,068	50,873	6,159	11,439	210	210
Operating revenue	527	31,357	4,243	12,241	45,814	37
Operating expense	3	5,721	35	190	5,804	
Depreciation, depletion and amortization		13,596	25,036	(6,272)	(39,980)	173
Operating income (loss)	538	12,200	56,094	7,611	25,454	
Transfers from primary government			(12,200)		(502)	
Net income (loss)	920	13,596	70,189	1,770	(6,171)	(7)
Current capital contribution					15,409	

	RIWFA	RIIRBA	RWRBC	RIPTCA	RICCHE
Proprietary					
Due from primary government	267,804	3,834	6,591	2,732	11,372
Other current assets	34	649		4,884	109
Fixed assets (net)					
Due to primary government	3,041	15	1,263	419	355
Other long-term liabilities	155,795	1,197	17,048	6,987	54,204
Bonds payable		315	1,907	2,048	1,860
Operating revenue	11,891	157	31	3,058	5,688
Operating expense	88	14	113	(2,020)	(3,841)
Depreciation, depletion and amortization	2,603	144	1,763	1,444	1,852
Operating income (loss)	27,012	286	(2,141)	(152)	(1,876)
Transfers from primary government					
Net income (loss)					
Current capital contribution					

**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.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

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.

**Note 20. Extraordinary Items**

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 \$1,289,456 were reported as an extraordinary loss in fiscal year 2000.

The R.I. Depositors Economic Protection Corporation reported an extraordinary item of \$770,037. This was the net result of reporting an accounting gain of \$2,060,242 on the restructure of the existing escrow for special obligation bonds and an accounting loss of \$1,290,205 on a debt defeasance that was funded through the liquidation of assets, net legal settlements, excess state sales tax, and a loan sale.

**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, 2000, the portion of the state's sales tax appropriated for DEPCO amounted to \$46,894,097. Payment to DEPCO requires an annual appropriation by the General Assembly. The General Assembly is not legally bound or obligated to make such appropriations. Due to the final defeasance of all remaining outstanding bonds on August 3, 2000, the payment agreement between DEPCO and the State was terminated effective August 28, 2000.

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 \$5,000,000 of notes on July 29, 1999. The principal and interest on these notes are secured by rentals as set forth in the lease and agreement. The notes were due on July 30, 2000. On July 29, 2000, the \$5,000,000 and \$200,000 of accrued interest were 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, 2000 amounted to \$77,322,000. Distributions of \$8,722,836 during the fiscal year ended June 30, 2000 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, 2000 amounted to approximately \$9,800,000. There were no distributions to RIC during the fiscal year ended June 30, 2000.

As of June 30, 2000, the Employees' Retirement System held investments in bonds issued by the R.I. Housing and Mortgage Finance Corporation having a fair value of \$3,844,884. This

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

corporation is included as a component unit 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 2000, the state issued \$31,365,000 of variable rate general obligation multi-modal bonds.

In December 2000, the state issued \$28,180,000 of certificates of participation. The interest rates ranged from 4.30% to 5.125% with maturities from 2001 to 2014 and term certificates due in 2020 at an interest rate of 5.375%.

**Component Units**

In August 2000, DEPCO defeased \$32,540,000 of its special obligation bonds. This represented all remaining bonds of DEPCO.

In September 2000 and December 2000, the R.I. Housing and Mortgage Finance Corporation (RIHMF) issued bonds in the amount of \$65,000,000 and \$42,875,000 respectively. Additionally in October 2000, RIHMF called \$37,355,000 of bonds outstanding at June 30, 2000.

---

THIS PAGE INTENTIONALLY

LEFT BLANK

---

---

**THIS PAGE INTENTIONALLY  
LEFT BLANK**

---

Exhibit B

State Economic Information



## Economic Information

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

### Overview

**Population Characteristics.** Rhode Island experienced 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 1992, it decreased by 1.1 percent between 1993 and 1997. Bureau of the Census estimates for 1999 show the Rhode Island population to be 990,819. In contrast, the total United States population increased by approximately 9.7 percent between 1980 and 1990, 3.3 percent between 1990 and 1993, and 3.9 percent between 1993 and 1997.

**Personal Income, Consumer Prices, and Poverty.** Per capita personal income levels in Rhode Island have been consistent with those in the United States since 1975. In addition, Rhode Island has maintained a poverty rate below the national average. In 1999, 9.9 percent of the Rhode Island population was below the poverty line, while 11.8 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 1.8 percent in 1998, 1.4 percent in 1999 and 2.4 percent in 2000. The employment sector that did not grow in 2000 was Manufacturing, which has 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 2000.

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

**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 21.3 percent of its residents over the age of 25 having received at least a Bachelor's degree according to the 1998 Current Population Report of March 1998 from the Bureau of the 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

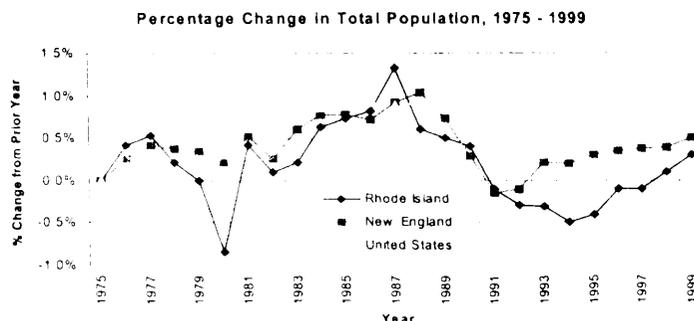
Among the 50 states, Rhode Island is one of the most densely populated with a comparatively large percentage of its residents living in metropolitan areas. The population density of the State in 1990 was 960.3 persons per square mile, as compared to 70.3 for the United States as a whole. The City of 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 from 1978 to 1985 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 1997 population growth in Rhode Island was negative, decreasing by 1.8 percent, compared to a 7.3 percent increase for the United States.

**Population, 1975 – 1999 (in thousands)**

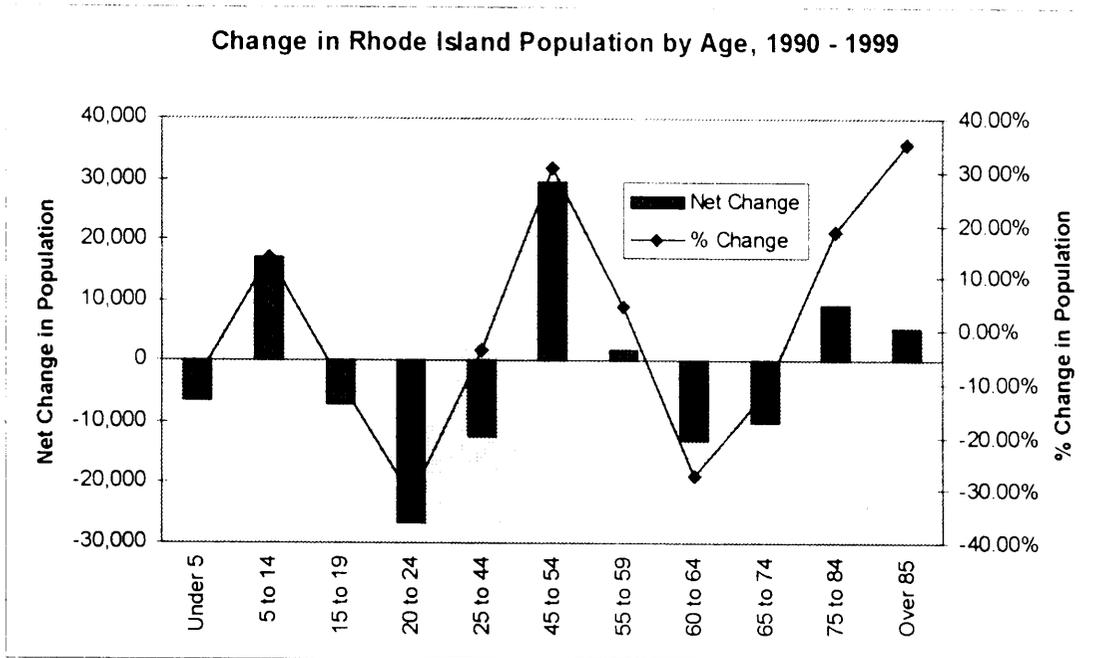
Year	Rhode Island		New England		United States	
	Total	% Change	Total	% Change	Total	% Change
1975	946	-	12,176	-	215,457	-
1976	950	0.4%	12,207	0.3%	217,554	1.0%
1977	955	0.5%	12,257	0.4%	219,761	1.0%
1978	957	0.2%	12,303	0.4%	222,098	1.1%
1979	957	0.0%	12,345	0.3%	224,569	1.1%
1980	949	-0.8%	12,372	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%	249,464	1.1%
1991	1,004	-0.1%	13,201	-0.1%	252,153	1.1%
1992	1,001	-0.3%	13,188	-0.1%	255,030	1.1%
1993	998	-0.3%	13,216	0.2%	257,783	1.1%
1994	993	-0.5%	13,243	0.2%	260,327	1.0%
1995	989	-0.4%	13,283	0.3%	262,803	1.0%
1996	988	-0.1%	13,329	0.3%	265,221	0.9%
1997	987	-0.1%	13,378	0.4%	267,784	1.0%
1998	988	0.1%	13,429	0.4%	270,248	0.9%
1999	991	0.3%	13,496	0.5%	272,691	0.9%

Bureau of Economic Analysis  
U.S. Department of Commerce

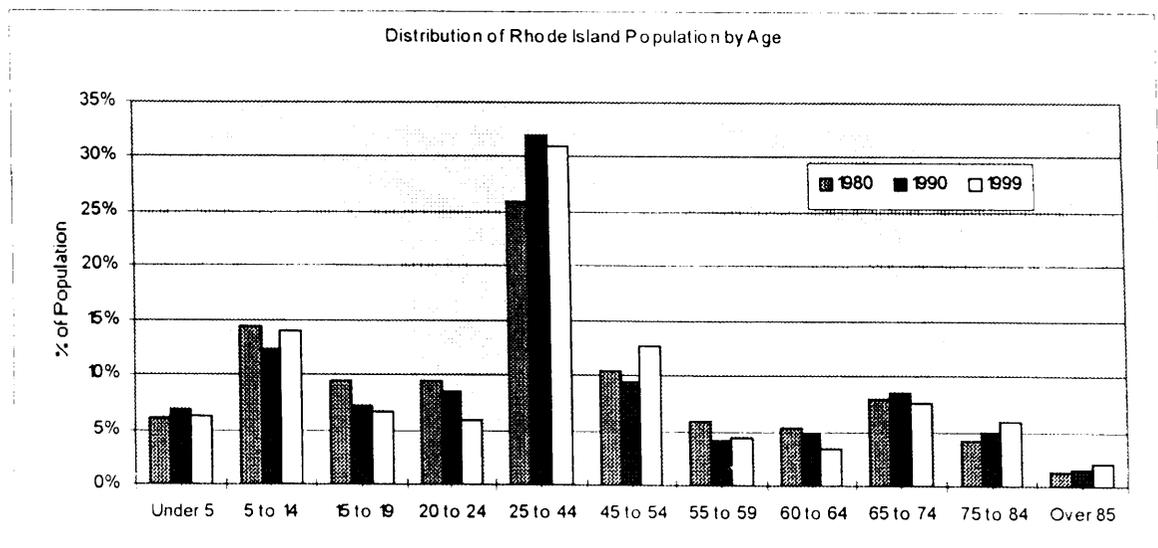
The preceding table and following chart compare the population level and percentage change in population level of Rhode Island with those of the New England States and the United States.



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



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 - 44" age group in 1999. At the same time, the percentage of people in the "15 - 24" age group declined. The median age for Rhode Islanders in 1990 was 33.8 years and rose to 36.6 years in 1999.



## 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 3.3 percent, the largest increase since 1988 and 1.3 of a percentage point higher than the national growth rate of 2.0 percent. Per capita income in Rhode Island remained higher than that in the United States in 1999: \$29,377 versus \$28,542. The following table compares per capita personal income in Rhode Island, New England, and the United States for the period 1975 - 1999.

**Per Capita Personal Income, 1975 - 1999**

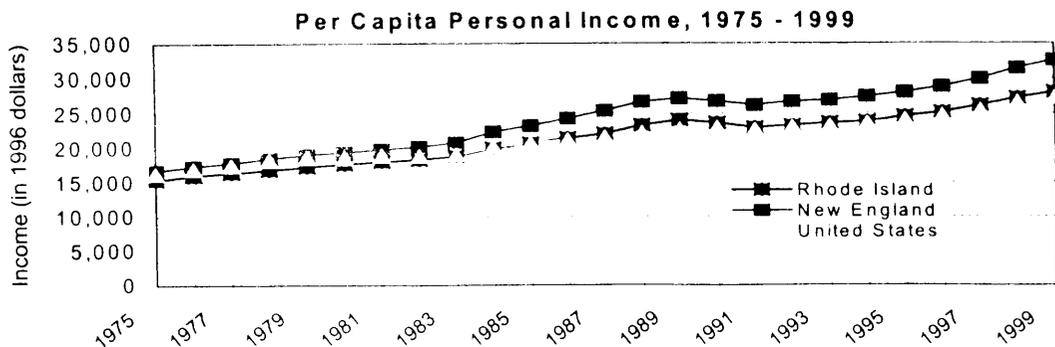
Year	Nominal Income (in current dollars)			Real Income (in 1996 dollars)			Percentage Change in Real Income			
	R.I.	N.E.	U.S.	1996			R.I.	N.E.	U.S.	
				Deflator	R.I.	N.E.	U.S.			
1975	5,844	6,363	6,155	38.01%	15,375	16,740	16,193	-	-	-
1976	6,411	6,959	6,756	40.08%	15,996	17,363	16,856	4.0%	3.7%	4.1%
1977	7,004	7,612	7,421	42.73%	16,391	17,814	17,367	2.5%	2.6%	3.0%
1978	7,693	8,465	8,291	45.78%	16,804	18,491	18,111	2.5%	3.8%	4.3%
1979	8,595	9,483	9,230	49.83%	17,249	19,031	18,523	2.6%	2.9%	2.3%
1980	9,742	10,701	10,183	55.21%	17,645	19,382	18,444	2.3%	1.8%	-0.4%
1981	10,815	11,883	11,280	60.08%	18,001	19,779	18,775	2.0%	2.0%	1.8%
1982	11,605	12,800	11,901	63.48%	18,281	20,164	18,748	1.6%	1.9%	-0.1%
1983	12,439	13,755	12,554	66.19%	18,793	20,781	18,967	2.8%	3.1%	1.2%
1984	13,717	15,341	13,824	68.63%	19,987	22,353	20,143	6.4%	7.6%	6.2%
1985	14,685	16,471	14,705	70.99%	20,686	23,202	20,714	3.5%	3.8%	2.8%
1986	15,587	17,638	15,397	72.72%	21,434	24,255	21,173	3.6%	4.5%	2.2%
1987	16,651	19,156	16,284	75.49%	22,057	25,376	21,571	2.9%	4.6%	1.9%
1988	18,271	20,915	17,403	78.43%	23,296	26,667	22,189	5.6%	5.1%	2.9%
1989	19,657	22,200	18,566	81.86%	24,013	27,119	22,680	3.1%	1.7%	2.2%
1990	20,194	22,900	19,584	85.63%	23,583	26,743	22,870	-1.8%	-1.4%	0.8%
1991	20,363	23,257	20,089	88.91%	22,903	26,158	22,595	-2.9%	-2.2%	-1.2%
1992	21,257	24,452	21,082	91.62%	23,201	26,688	23,010	1.3%	2.0%	1.8%
1993	22,137	25,208	21,718	93.81%	23,598	26,871	23,151	1.7%	0.7%	0.6%
1994	22,762	26,229	22,581	95.70%	23,785	27,408	23,596	0.8%	2.0%	1.9%
1995	24,046	27,426	23,562	97.90%	24,562	28,014	24,067	3.3%	2.2%	2.0%
1996	25,123	28,820	24,651	100.00%	25,123	28,820	24,651	2.3%	2.9%	2.4%
1997	26,631	30,510	25,874	101.94%	26,124	29,929	25,382	4.0%	3.8%	3.0%
1998	28,012	32,365	27,322	103.03%	27,188	31,413	26,518	4.1%	5.0%	4.5%
1999	29,377	34,173	28,542	104.85%	28,018	32,592	27,222	3.1%	3.8%	2.7%

Bureau of Economic Analysis

U.S. Department of Commerce

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 1975.



**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 1985 annual pay in Rhode Island was only 87.9 percent of the national average. However, in 1999 that gap closed to 93.6 percent: \$31,177 versus \$33,313.

Average Annual Pay, 1985 - 1999  
(in current dollars)

Year	Annual Pay		Ratio R.I./U.S.	Percentage Change	
	R.I.	U.S.		R.I.	U.S.
1985	16,864	19,189	87.9%	-	-
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	30,156	31,945	94.4%	5.2%	5.2%
1999(p)	31,177	33,313	93.6%	3.4%	4.3%

Bureau of Labor Statistics  
U.S. Department of Labor  
(p) = preliminary estimates.

**Consumer Prices.** The following table presents consumer price trends for Northeast and the United States for the period between 1980 and 2000. 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. With the exception of 1997, the rate of change from 1993 - 1999 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), 1980 - 2000  
(1982 - 1984 = 100)

Year	CPI-U		Ratio Northeast/U.S.	Pct. Change	
	Northeast	U.S.		Northeast	U.S.
1980	82.2	82.4	99.8%	-	-
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%
2000	179.4	172.2	104.2%	3.4%	3.4%

Bureau of Labor Statistics  
U.S. Department of Labor

**Poverty.** The Rhode Island poverty rate is significantly below the national average. Between 1980 and 1999, 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 11.8 percent and 15.2 percent. In 1999, the poverty rate in Rhode Island was 9.9 percent while the poverty rate in the United States was 11.8 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 1999.

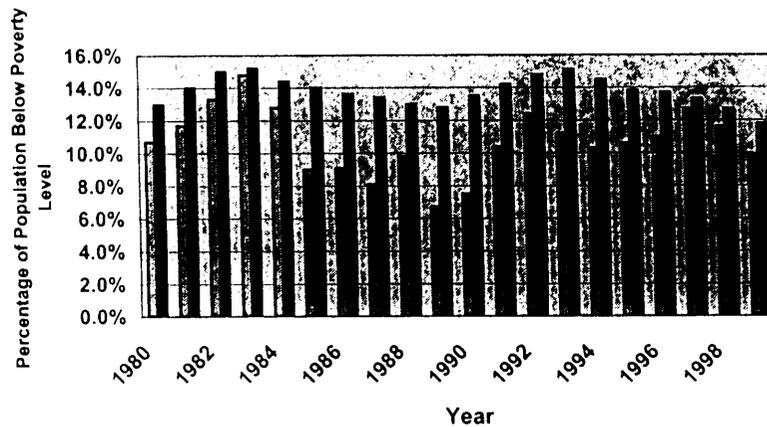
**Poverty Rate, 1980 - 1999**

Year	R.I.	U.S.	Ratio	Percentage Change	
			R.I./U.S.	R.I.	U.S.
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%
1999	9.9	11.8	83.9%	-14.7%	-7.1%

U.S. Census Bureau

**Poverty Rate, 1980 - 1999**

□ Rhode Island ■ United States



## 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 2000 came in the Construction sector, which grew at a rate of 5.1 percent. Total non-agricultural employment increased by 7.5 percent between 1995 and 2000. The following table summarizes the changes in employment by sector from 1990 to 2000. Total non-agricultural employment increased by 5.4 percent during this period. Further detail is presented in the table on the following page.

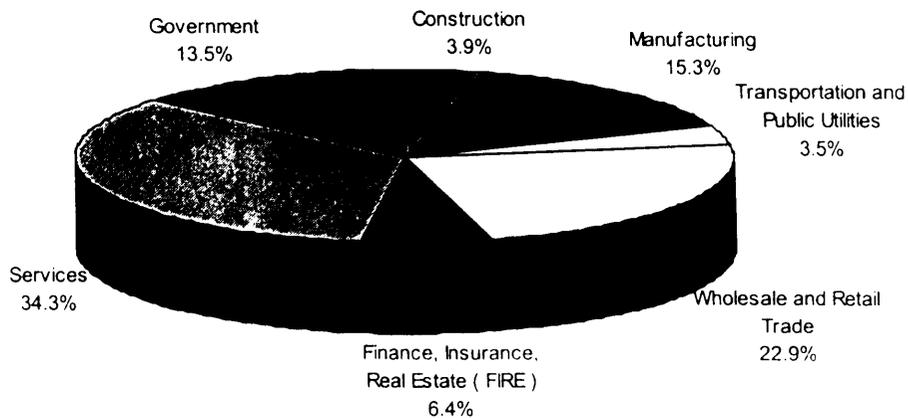
**Rhode Island Non-Agricultural Employment by Industry, 1990 & 2000**

Employment Sector	1990	% of Total	2000	% of Total	% Change 1990-2000
<b>Construction</b>	18,700	4.1%	18,700	3.9%	0.0%
<b>Manufacturing</b>	99,700	22.1%	72,900	15.3%	-26.9%
<b>Transportation and Public Utilities</b>	15,700	3.5%	16,800	3.5%	7.0%
<b>Wholesale and Retail Trade</b>	98,200	21.8%	109,000	22.9%	11.0%
<b>Finance, Insurance, Real Estate ( FIRE )</b>	27,400	6.1%	30,600	6.4%	11.7%
<b>Services</b>	129,200	28.6%	163,400	34.3%	26.5%
<b>Government</b>	62,500	13.9%	64,300	13.5%	2.9%
<b>Total Employment</b>	451,200	100.0%	475,700	100.0%	5.4%

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

**Employment by Industry.** The Rhode Island services sector, with 34.3 percent of the non-agricultural work force in 2000, is the largest employment sector in the Rhode Island economy, followed by wholesale and retail trade (22.9 percent), manufacturing (15.3 percent), and government employment (13.5 percent).

**Rhode Island Non-Agricultural Employment by Industry, 2000**



Rhode Island Non-Agricultural Wage and Salaried Employment by Industry, 1985 - 2000

Year	Construction		Manufacturing		Transportation & Public Utilities		Wholesale & Retail Trade		Finance, Insurance, & Real Estate		Services		Government		Non-Agricultural Employment	
	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change
1985	15,200	-	119,100	-	13,900	-	94,600	-	23,600	-	105,100	-	57,700	-	429,200	-
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%
2000	18,700	5.1%	72,900	-2.4%	16,800	5.0%	109,000	4.8%	30,600	3.4%	163,400	2.8%	64,300	1.7%	475,700	2.4%

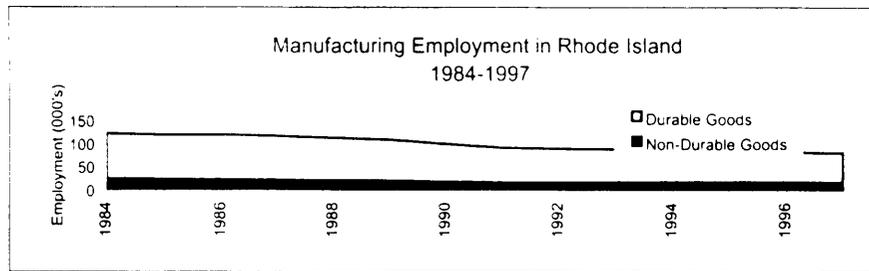
R.I. Department of Labor and Training

**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 1985 and 2000, falling a total of 38.8 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 1.1 percent in 1998, 5.3 percent in 1999 and 2.4 percent in 2000. Employment in the manufacture of non-durable goods, which had declined in every year since 1985, 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, 1985 - 2000  
(employees in thousands)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>Non-Durable Goods</b>	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	15.0
Percentage Change	-	-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%	-5.1%
Food & Kindred Products	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	2.8
Textiles	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	6.4
Apparel	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	0.9
Rubber & Misc. Plastics Products	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	4.9
<b>Durable Goods</b>	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	58.0
Percentage Change	-	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%	-1.7%
Primary Metal Industry	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	4.0
Fabricated Metal Products	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	8.6
Machinery (except electrical)	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	4.4
Electrical Machinery	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	5.6
Transportation Equipment	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	3.3
Instruments	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	5.7
Jewelry - Silverware	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	9.6
Miscellaneous Manufacturing	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	3.0
All Other Manufacturing	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	13.8
<b>Total Manufacturing Employment</b>	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	72.9
Percentage Change	-	-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%	-2.4%

R.I. Department of Labor and Training  
Note: Numbers may not add due to rounding.



**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 124,740, or 27.5 percent of the total wage and salary employment in Rhode Island.

### Rhode Island's Largest 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
2,220	Metropolitan Life Insurance Co.	Insurance
2,160	BankBoston Corporation	Bank
1,969	St. Joseph Health Services of Rhode Island	Hospital
1,940	Shaw's Super Market	Grocery Stores
1,800	City of East Providence	Government
1,735	Raytheon Company	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	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 Generation
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	Ladlaw Education Services	School Bus Transportation

Source: RI Economic Development Corporation, Research Division.

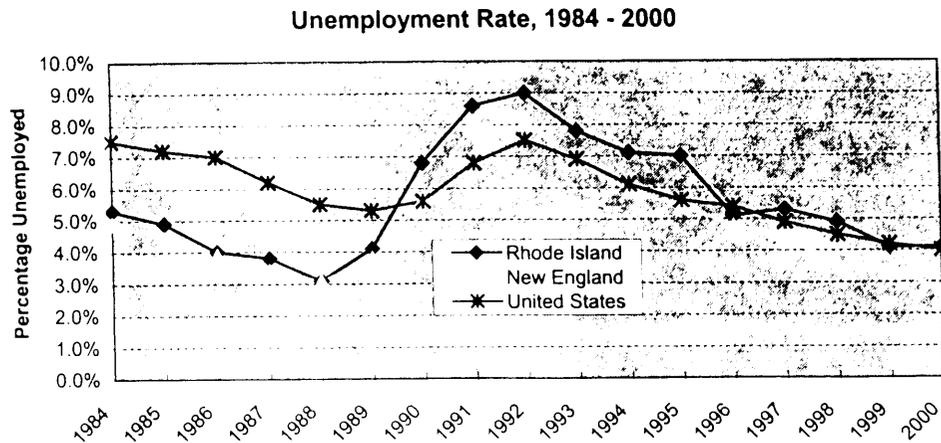
**Unemployment.** Between 1984 and 1989, the Rhode Island unemployment rate was lower than the national average. Between 1990 and 1995, the unemployment rate in Rhode Island was higher than the national average, but dipped dramatically in 1996, to below the national average. Rhode Island's unemployment 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 1984 and 2000.

**Annual Average Civilian Labor Force and Unemployment, 1984 - 2000**  
(in thousands)

Year	Civilian Labor Force			Unemployed			Unemployment Rate			R.I. Rate as a % of U.S.
	R.I.	N.E.	U.S.	R.I.	N.E.	U.S.	R.I.	N.E.	U.S.	
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	7,113	137,673	24	250	6,210	4.9%	3.5%	4.5%	108.9%
1999	504	7,171	139,368	21	236	5,880	4.1%	3.3%	4.2%	97.6%
2000	505	7,194	140,863	21	199	5,655	4.1%	2.8%	4.0%	102.5%

Bureau of Labor Statistics  
U.S. Department of Labor

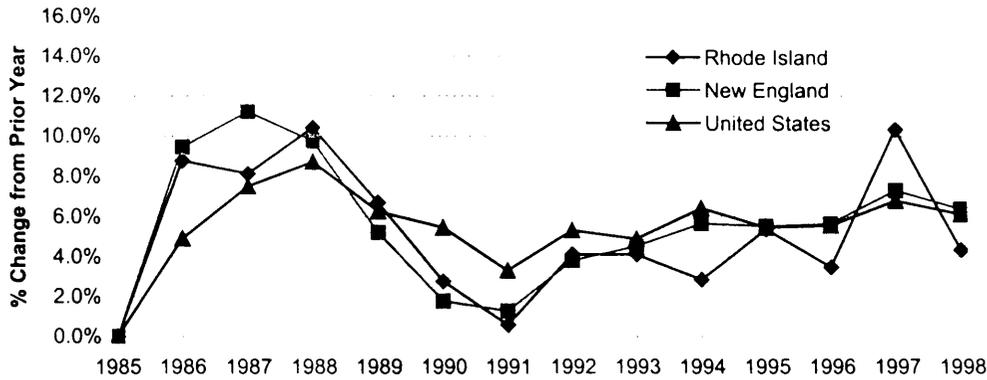
**Unemployment Compensation Trust Fund.** The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide benefits for eligible individuals when they are unemployed through no fault of their own. Benefits 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 1998, the Gross State Product for Rhode Island grew at a rate of 4.3 percent while the Gross State Product for the United States grew at a rate of 6.1 percent.

**Percentage Change in Gross State Product  
1985 - 1998**



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

**Gross State Product, 1985 - 1998**  
(millions of current dollars)

Year	Rhode Island		New England		United States	
	GSP	Change	GSP	Change	GSP	Change
1985	15,182	-	237,386	-	4,151,449	-
1986	16,517	8.8%	259,838	9.5%	4,355,877	4.9%
1987	17,861	8.1%	288,961	11.2%	4,683,245	7.5%
1988	19,722	10.4%	317,120	9.7%	5,092,174	8.7%
1989	21,045	6.7%	333,670	5.2%	5,411,353	6.3%
1990	21,627	2.8%	339,573	1.8%	5,706,658	5.5%
1991	21,753	0.6%	343,923	1.3%	5,895,430	3.3%
1992	22,650	4.1%	357,024	3.8%	6,209,096	5.3%
1993	23,581	4.1%	373,192	4.5%	6,513,026	4.9%
1994	24,254	2.9%	394,281	5.7%	6,930,791	6.4%
1995	25,556	5.4%	416,073	5.5%	7,309,516	5.5%
1996	26,444	3.5%	439,550	5.6%	7,715,901	5.6%
1997	29,175	10.3%	471,712	7.3%	8,240,312	6.8%
1998	30,443	4.3%	501,809	6.4%	8,745,219	6.1%

Bureau of Economic Analysis  
U.S. Department of Commerce

**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.

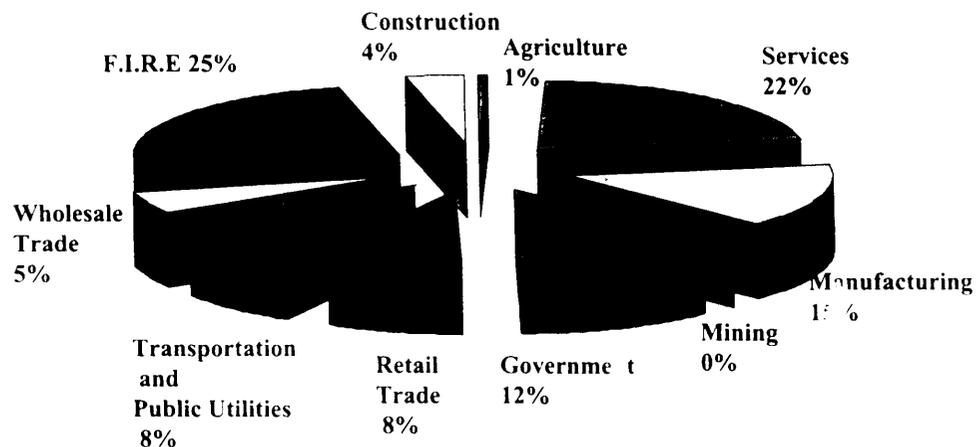
Gross State Product by Industry in Rhode Island, 1986 - 1998  
(millions of dollars)

Industrial Sector	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Finance, Insurance & Real Estate	3,187	3,711	4,188	4,534	4,635	4,943	4,975	5,143	5,339	5,768	5,908	7,532	7,615
Services	2,808	3,189	3,670	4,040	4,326	4,457	4,793	5,035	5,300	5,609	5,915	6,244	6,698
Manufacturing	3,858	3,785	3,970	4,273	4,292	4,272	4,194	4,329	4,205	4,230	4,270	4,340	4,492
Government	2,083	2,197	2,393	2,545	2,700	2,741	2,939	3,029	3,020	3,249	3,393	3,592	3,706
Retail Trade	1,646	1,793	1,930	2,027	1,988	1,917	2,027	2,100	2,169	2,211	2,268	2,435	2,579
Transportation and Public Utilities	970	1,125	1,170	1,189	1,337	1,361	1,607	1,770	1,840	1,974	2,109	2,264	2,382
Wholesale Trade	990	1,066	1,168	1,217	1,154	1,103	1,166	1,207	1,325	1,438	1,445	1,538	1,611
Construction	706	824	984	1,023	998	772	760	761	859	879	940	1,025	1,139
Agriculture	259	159	239	191	186	178	176	192	179	175	180	185	199
Mining	9	11	10	6	10	8	15	15	19	21	17	22	23
<b>Total GSP</b>	<b>16,517</b>	<b>17,861</b>	<b>19,722</b>	<b>21,045</b>	<b>21,627</b>	<b>21,753</b>	<b>22,650</b>	<b>23,581</b>	<b>24,254</b>	<b>25,566</b>	<b>26,444</b>	<b>29,175</b>	<b>30,443</b>

Bureau of Economic Analysis  
U.S. Department of Commerce  
Note: "Agriculture" includes Forestry and Fisheries.  
Note: 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 2000, services sector employment was 163,400 representing approximately one-third of total nonagricultural employment. The services sector contributed 34.3 percent of the State's Gross State Product in 2000.

**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 2000, was the second largest employment sector in Rhode Island with 109,000 employees, or 22.9 percent of the total workforce, and 4.8 percent growth over the 1999 level. A significant portion of Rhode Island products are exported internationally. The total value of all international shipments from Rhode Island in 1998 was \$1,208,898,000, which represented 4.0 percent of the Gross State Product, of \$30,443,000,000. Rhode Island's most important exports, as shown in the chart below, are industrial machinery including computer equipment (13.5%), electronics and electrical equipment (19.5%), miscellaneous manufacturing products (11.7%) and scrap and waste (10.0%).



Rhode Island Exports by Industry, 1991 - 2000

(in thousands)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>Total All Industries</b>	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	1,281,025
Industrial Machinery & Computer Equipment	160,982	181,438	198,479	219,314	145,814	180,052	179,383	143,616	167,413	173,040
Electronics & Electrical Equipment (except Computers)	63,716	117,448	109,966	159,822	142,950	154,941	215,826	285,510	251,668	250,359
Miscellaneous Manufacturing Industries	125,008	115,628	123,424	127,647	132,885	103,063	122,338	121,122	120,032	149,747
Scrap and Waste	101,742	108,277	129,408	122,094	155,916	125,880	126,662	97,687	93,576	128,683
Primary Metal Industries	35,782	45,028	68,113	73,202	67,784	62,439	72,306	96,787	128,918	111,716
Chemicals and Allied Products	56,498	77,097	100,534	70,684	67,580	46,206	96,047	80,854	81,091	79,412
Instruments and Related Products	57,987	107,052	77,225	67,222	77,224	78,054	85,754	88,647	75,686	108,393
Rubber and Miscellaneous Plastics Products	36,537	37,675	46,889	51,988	47,252	47,637	58,965	55,934	66,050	65,180
Textile Mill Products	26,333	41,185	33,109	33,868	41,047	41,829	43,146	43,512	43,100	38,937
Fabricated Metal Products	30,689	66,090	40,892	32,931	35,614	46,328	58,491	47,885	42,750	41,304
Transportation Equipment	17,931	16,583	32,976	23,965	25,441	29,055	30,393	33,882	33,233	31,074
Fishing, Hunting and Trapping	10,304	16,308	15,494	18,400	19,884	18,204	23,956	15,227	17,049	13,482
Paper and Allied Products	7,276	7,120	10,370	9,791	12,954	20,543	26,971	27,954	27,956	21,977
Stone, Clay and Glass Products	16,087	20,346	8,230	7,438	10,189	10,306	12,885	20,669	25,729	23,973
Food and Kindred Products	5,932	6,502	6,742	7,304	8,939	8,258	5,553	4,109	4,735	4,132
Printing and Publishing	7,942	9,824	4,494	6,221	6,191	7,187	6,346	14,836	5,130	6,099
Canadian, Non-Canadian Goods Returned to Canada	2,144	4,366	3,298	3,368	4,842	5,160	6,669	6,891	7,758	4,880
Apparel and Other Textile Products	1,681	2,487	3,369	3,019	4,120	2,265	3,366	3,759	3,924	3,816
Furniture and Fixtures	2,094	1,551	2,810	2,879	3,340	1,880	2,438	2,093	3,090	4,127
Used or Second-Hand Merchandise	1,901	798	734	1,578	392	6,157	5,827	1,188	556	554
Lumber and Wood Products	720	853	1,380	1,519	3,036	1,637	2,068	3,836	3,168	1,957
Leather and Leather Products	7,041	5,644	3,866	1,414	2,074	2,060	3,916	3,415	2,834	2,469
Petroleum and Coal Products	4,225	1,468	372	873	993	512	417	123	418	314
Special Classification Provisions, NSFF	1,654	11,910	946	571	8,794	4,985	2,002	1,811	6,636	3,260
Agricultural Production-Livestock	1,154	353	355	546	1,482	819	803	426	220	228
Charity, Military/NK Shipments					0	2,838	3,245	5,547	6,841	9,313
Other	426	987	1,102	1,055	1,248	2,602	2,004	1,598	2,427	2,589

Massachusetts Institute for Social and Economic Research

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

**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 15.3 percent growth in employment between 1985 and 1988, there was an overall decline of 7.7 percent from 1990 to 1996. As of 2000, total employment in the FIRE sector was 30,600, an increase of 3.4 percent from the previous year. FIRE contributed 25.0 percent of the Rhode Island Gross State Product in 1998.

**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 40.8 percent between 1985 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 5.4 percent in 1998, 14.1 percent in 1999 and 5.1 percent in 2000. Construction activity, in 1998, contributed 3.7 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 2000, the number of housing permits authorized decreased by 17.3 percent in Rhode Island, compared to a decrease of 7.6 percent for New England and a decrease of 5.9 percent for the United States.

**Housing Permits Authorized, 1983 - 2000**  
(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	2,358	1.9%	40,041	6.2%	1,420,000	6.2%
1997	2,731	15.8%	42,373	5.8%	1,442,000	1.5%
1998	2,655	-2.8%	48,030	13.4%	1,619,000	12.3%
1999	3,234	21.8%	47,491	-1.1%	1,664,000	2.8%
2000	2,674	-17.3%	43,896	-7.6%	1,566,000	-5.9%

U.S. Department of Commerce  
Construction Statistics Division  
Federal Reserve Bank of Boston

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, 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 8.9 percent in 1999 but declined 5.8 percent in 2000. 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 - 2000**  
(seasonally adjusted at annual rates, in thousands)

Year	Rhode Island		New England		United States	
	Sales	Percent Change	Sales	Percent Change	Sales	Percent 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%	253.3	2.0%	5,922.8	6.0%
2000	19.5	-5.8%	250.0	-1.3%	5,881.8	-0.7%

National Association of Realtors  
Federal Reserve Bank of Boston

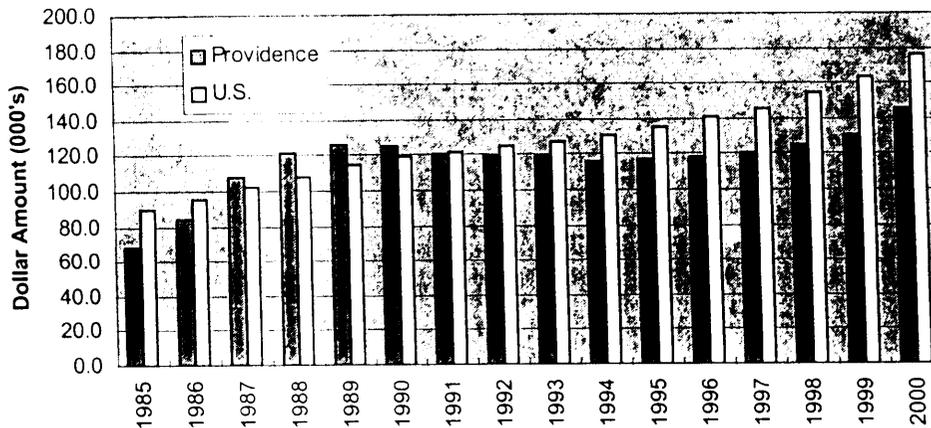
Single family home prices for the Providence Metropolitan area (not seasonally adjusted) appear in the following chart. While Providence housing prices were 12.3 percent higher than the US average in 1988, by 2000 they had fallen below the rest of the country at 82.3 percent of the national average.

**Repeat Sales Home Price Index for the Providence Metropolitan Area, 1985 - 2000**  
(not seasonally adjusted, in thousands)

Year	Providence	U.S.	Providence Prices as a Percentage of the U.S.
1985	68.0	89.4	76.1%
1986	83.6	95.6	87.4%
1987	108.3	102.2	106.0%
1988	121.8	108.5	112.3%
1989	126.3	115.3	109.5%
1990	125.0	119.1	105.0%
1991	120.8	121.5	99.4%
1992	119.1	124.7	95.5%
1993	118.8	127.5	93.2%
1994	116.1	130.9	88.7%
1995	116.9	135.1	86.5%
1996	118.4	140.4	84.3%
1997	120.2	146.0	82.3%
1998	125.2	154.3	81.1%
1999	130.8	163.3	80.1%
2000	144.9	176.0	82.3%

Fannie Mae and Freddie Mac  
Federal Reserve Bank of Boston

**Average Annual Home Prices, 1985 - 2000**



**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\*, 1980-1999  
(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.** According to the May, 2001 Rhode Island Travel and Tourism Research Report from the University of R.I. and the R.I. Economic Development Corporation, travel and tourism revenue broke the three billion-dollar mark, at \$3.26 billion (preliminary) in 2000. This reflected one of the largest percentage increases (16.4%) since the series measurement began in 1978.

In 2000 an estimated 15.7 million travelers visited Rhode Island for business, conventions or leisure. Of these, 10.5 million spent the day in the state and 5.2 million stayed overnight. An additional 34.5 million travelers "passed through" the state en route to other destinations.

The highest daily expenditures in 2000 were by overnight business visitors (\$280.50 per day), overnight convention visitors (\$272.84 per day), and leisure visitors who stayed in hotels and motels (\$174.13).

Visitor indicators for 2000 were up, with two exceptions. I-95 Welcome Center Visitors declined 11.0% and gasoline consumption declined 1.2%. Lodgings Tax revenues increased by an incredible 35.0%. This was partly due to an increase of the tax rate from 5% to 6% in July, but that accounts for only 13.9% of the increase. The lodgings sales implied by the tax collections increased 21.1%. Visits to the Preservation Society of Newport County were up 3.0%, commercial air passengers arriving and departing through T.F. Green Airport were up 5.9% and Newport Bridge Traffic was up 11.0%.

Sales receipts in the travel and tourism industry grew by 9.8% in 1999 and by 16.4% in 2000. The transportation sector had the largest percentage gain in 2000 with a 17.4% increase in sales receipts. Retail trade sector receipts grew by 16.9% and the service sector receipts rose by 14.8%. The equivalent number of firms in the tourism industry grew by 5.0% in 2000, while wages increased by 15.7% and the number of employees increased by 8.9%.

Slower growth is forecast for 2001. Consumer confidence has fallen and the New England unemployment rate has been rising. 7% growth is predicted for 2001 when sales receipts should reach approximately \$3.5 billion.

Based on a comparison with 2-digit employment SIC code industries, the travel and tourism industry became the second largest state employer in 1993 – second only to the health services industry. For the first time in the state’s history, full-time equivalent jobs generated by travelers and tourists exceeded jobs in the miscellaneous manufacturing industry (Jewelry, Toys, Sporting Goods, Pens, Pencils and Office Supplies). In 2000 employment by the travel and tourism industry is triple that of the miscellaneous manufacturing sector. A comparison of average annual growth rates since 1982 shows that the travel and tourism industry leads the other 2-digit SIC employment code sectors with growth in the number of tourism-related firms averaging 5.0% per year, growth in employment averaging 6.3% per year and growth in wages averaging 11.6% per year.

## 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 1989. The ratio of Rhode Island spending to the national average has varied from 120.6 percent in 1990-91 to a high of 129.9 percent in 1996-97. For the 1998-99 academic year Rhode Island spent 29.0 percent more on public elementary and secondary education than the United States average: \$9,049 per student compared to a national average of \$7,013 per student. The following chart and table show expenditures per pupil for Rhode Island and the United States since the 1989-90 academic year and the national ranking of expenditures.

**Expenditure Per Pupil in Public Elementary and Secondary Schools, 1989 - 1999**  
(in thousands of current dollars)

Academic Year	Rhode Island	United States	Ratio (R.I./U.S.)
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	6,393	129.9%
1997-98	8,627	6,675	129.2%
1998-99	9,049	7,013	129.0%

U.S. Department of Education  
National Center for Education Statistics

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.



APPENDIX B  
FORM OF LEGAL OPINION FOR THE CERTIFICATES

ODMA MHODMA imanag32:326622:3



TILLINGHAST LICHT PERKINS SMITH & COHEN, LLP

---

*Attorneys At Law*

TEN WEYBOSSET STREET  
PROVIDENCE, RI 02903-2818  
401.456.1200 FAX 401.456.1210  
www.tlslaw.com

[Closing Date]

State of Rhode Island and Providence Plantations  
State House  
Providence, Rhode Island

Re: \$3,150,000 State of Rhode Island and Providence Plantations  
Certificates of Participation in Lease Purchase Agreement  
(State Vehicles Projects) 2001 Series A

Ladies and Gentlemen:

We have acted as bond counsel to the State of Rhode Island and Providence Plantations (the "State") in connection with the execution and delivery of a Lease Purchase Agreement (State Vehicles Projects) 2001 Series A (the "Lease" or "Lease Agreement") entered into for the purpose of financing the acquisition of the Project as described in the Lease. The State's obligation to make payments under the Lease is subject to appropriations being made thereof. Citizens Bank of Rhode Island, as Trustee (the "Trustee") and Fleet National Bank, as Lessor under the Lease (the "Lessor") have executed and delivered a Trust Agreement dated as of June 15, 2001 (the "Trust Agreement") pursuant to which the Trustee has issued \$3,150,000 State of Rhode Island and Providence Plantations Certificates of Participation in Lease Purchase Agreement (State Vehicles Projects) 2001 Series A (the "Certificate"). In our capacity as bond counsel, we have examined and are familiar with originals or copies, certified or otherwise identified to our satisfaction, of the Lease, the Trust Agreement, the Certificate, 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 Lease.

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. We have also assumed that any documents examined by us as copies conform with the originals thereof.

State of Rhode Island and Providence Plantations  
[Closing Date]  
Page 2

Based upon the foregoing and subject to the limitations set forth herein, we are of the opinion that, under existing law:

1. The Lessee has full legal right, power and authority (i) to enter into the Lease Agreement, and (ii) to carry out and consummate the transactions contemplated by the Lease Agreement.
2. The Lease Agreement has been duly authorized, executed and delivered by the Lessee and constitutes a legal, valid and binding obligation of the Lessee, enforceable in accordance with its terms.
3. The Trust Agreement has been duly authorized, executed and delivered by the Lessor and the obligations of the Trustee thereunder have been accepted by the Trustee and constitute, legal, valid, binding and enforceable obligations of the Trustee in accordance with the terms of the Trust Agreement.
4. The Certificates have been duly executed and delivered by the Trustee pursuant to the Trust Agreement and are legal, valid, binding and enforceable in accordance with their terms.
5. To the best of our knowledge, there is no action, suit, proceeding or investigation at law or in equity before or by any court or public board or body pending or threatened against the Lessee wherein an unfavorable decision, ruling or finding would in any material respect adversely affect the financial condition of the Lessee or the transactions contemplated by the Lease Agreement, or which in any way would adversely affect the Lessee's ability to make lease payments under the Lease Agreement or any agreement or instrument to which the Lessee is a party which is used or contemplated for use in connection with the consummation of the transaction contemplated by the Lease Agreement, or the ability of the Lessee to execute and deliver the Lease Agreement.
6. The execution and delivery of the Lease Agreement and the performance and compliance with the provisions thereof, will not conflict with or constitute on the part of the Lessee a breach of, or a default under, any existing law, court order, administrative regulation, decree or order, the Constitution of the State of Rhode Island or any agreement, indenture, mortgage, lease or other instrument of which we have knowledge, and to which the Lessee is subject or by which it is bound.

State of Rhode Island and Providence Plantations

[Closing Date]

Page 3

7. No other authorization, approval, consent or other order of any governmental authority or agency is required for the authorization, execution and delivery of the Lease Agreement, and any and all statutes, ordinances, resolutions, regulations or other laws applicable to the execution and delivery of the Lease Agreement, including, without limitation, all bidding procedures, if any, and all open meeting requirements, have been complied with.

8. The interest component of the Lessee's lease payments under the Lease Agreement is excludable from the gross income of the owner thereof for Federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, although such component will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. In addition, the interest component of lease payments under the Lease Agreement is excludable from gross income for purposes of State of Rhode Island personal income taxation, to the extent such interest is excludable from gross income for federal income tax purposes.

In rendering this opinion, we have relied upon covenants and certifications and representations of fact of the Lessee, including specifically those contained in the Tax Compliance Certificate of the Lessee dated the date hereof (the "Tax Compliance Certificate"), which we have not independently verified. Our opinion as to the exemption of the portion of lease payments designated as interest from Federal income taxation is based on a review of and assumes the accuracy of certain representations and compliance with certain covenants of the Lessee as set forth in the Tax Compliance Certificate which are intended to evidence and assure that the lease payments are local bonds described in Section 103(a) of the Code. On the date of this opinion and subsequent to the original delivery of the Lease Agreement, those representations must be accurate and the Lessee must comply with those covenants for the portion of the lease payments designated as interest to be excluded from gross income for Federal income tax purposes.

We call your attention to the fact that the interest component may become taxable retroactively to the date of issuance of the Certificates if the requirements of Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the investment, expenditure and use of 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 ensure that the interest component will remain exempt from

State of Rhode Island and Providence Plantations  
[Closing Date]  
Page 4

federal income taxes, to the extent provided in the Code, and to refrain from taking any action which would cause the interest component to become subject to federal income taxes.

9. The Certificates are not required to be registered under the Securities Act of 1933, the Trust Agreement is not required to be qualified under the Trust Indenture Act of 1939, and neither the Trustee nor the Lessor is required to register as an investment company under the Investment Company Act of 1940; provided, however, that no opinion is expressed in this Paragraph 9 with respect to registration or qualification requirements in the event of termination of the Lease.

10. The information in the Official Statement under the headings "INTRODUCTION," "SECURITY FOR THE CERTIFICATES," "THE CERTIFICATES" (except for under the subheading Book-Entry-Only System), "SUMMARY OF CERTAIN PROVISIONS OF THE LEASE", "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT" and "TAX STATUS" and in "APPENDIX B" - Proposed Form of Legal Opinion" do not contain any untrue statement of a material fact and do not omit to state any material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

It is to be understood that the enforceability of the Lease 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,



