

FITCH DOWNGRADES RHODE ISLAND'S GOS TO 'AA-'; OUTLOOK STABLE

Fitch Ratings-New York-14 October 2008: Fitch Ratings downgrades the rating of about \$1 billion Rhode Island and Providence Plantations (the state) general obligation (GO) bonds to 'AA-' from 'AA' and removes the rating from Rating Watch Negative. Fitch also downgrades to 'A+' from 'AA-' and removes from Rating Watch Negative the ratings on the state appropriation-backed bonds listed at the end of this release. The downgrade reflects continued economic and revenue weakness that has further strained state finances. The Rating Outlook is Stable.

Rhode Island's recent economic performance has been amongst the weakest of the states. The state has one of the most stressed real estate markets in the country, fueled by subprime delinquencies, and has lost jobs every month since August 2007. August 2008 employment was 2.6% below August 2007, compared to the nation's loss of 0.2%, with declines in almost every sector. Unemployment in August 2008 stood at 8.5%, 139% of the U.S. rate. The pace of personal income growth also has been below that of the nation; 2007 personal income per capita equals 103% of the U.S.

Revenue underperformance in fiscal 2008 required corrective action over the course of the year, including one-time fund transfers, even though the enacted budget for the year employed a substantial amount of tobacco securitization bond proceeds for operations. Fiscal 2008 ended with general revenues of \$3.4 billion, tax revenues essentially flat to fiscal 2007, and an estimated \$34 million deficit, largely due to overspending, although the reserve was funded at the 3% cap of \$103 million at the close of fiscal 2008. The budget for fiscal 2009 addressed a large projected deficit and includes substantial personnel and Medicaid program savings, the latter of which are unlikely to be fully realized. Moreover, the state recently announced that revenues through the first quarter of fiscal 2009 are below estimates by at least \$25 million. An official forecast revision is expected in November.

Rhode Island's financial stress reflects underlying weakness in key revenue sources and numerous tax credit and tax cut programs undertaken in recent years. The state plans to issue about \$350 million in appropriation-backed bonds to fund its estimated remaining obligations under the popular historic structures tax credit program. This was part of the solution to close the fiscal 2009 budget gap, as the program is estimated to reduce tax revenue by about \$57 million in fiscal 2009 and continue to reduce revenue for up to the next ten years. The program has reduced revenue by more than \$40 million in each of the last three years.

Through September, tax revenue collections have underperformed the May 2008 estimates. The state's two largest revenue sources, personal income taxes and sales taxes, continue to be weak. Sales tax revenue, which dropped 3.2% in fiscal 2008, is down 2% through the first quarter of fiscal 2009.

The fiscal 2009 budget reduces expenditures compared to the prior year, including through personnel savings and entitlement reform. The state believes the \$50 million fiscal 2009 personnel savings target is attainable. However, the estimated \$67 million in Medicaid savings is based on reform contingent upon a federal waiver that does not appear to be forthcoming in the near term, making it difficult for the state to achieve the same amount of savings through alternate measures.

Rhode Island operates with a 98% constitutional appropriation limit and 3% reserve fund cap. These protections will be strengthened in the coming years as the state moves to a 97% appropriation limit and 5% reserve fund cap by July 1, 2012, pursuant to a constitutional amendment approved by voters in November 2006. The reserve has generally been fully funded, although audit findings subsequent to the end of fiscal 2007 resulted in an unexpected draw of \$19 million and the fiscal 2008 year-end deficit is expected to result in a draw.

Rhode Island's debt ratios are above average but still in the moderate range. Net tax-supported debt of about \$2.1 billion equals 5% of personal income. Pension funding levels are low.

In conjunction with the rating action on Rhode Island's GO debt, Fitch also downgrades to 'A+' from 'AA-' and removes from Rating Watch Negative the ratings on the following state appropriation-backed bonds:

Rhode Island & Providence Plantations, State of RI:

--State lease participation certificates

Rhode Island Convention Center Authority:

--Convention center and civic center revenue bonds

The Rating Outlook is Stable.

Contact: Laura Porter +1-212-908-0575 or Richard Raphael +1-212-908-0506, New York.

Fitch issued an exposure draft on July 31, 2008 proposing a recalibration of tax-supported and water/sewer revenue bond ratings which, if adopted, may result in an upward revision of this rating (see Fitch research 'Exposure Draft: Reassessment of the Municipal Ratings Framework'.) At this time, Fitch is deferring its final determination on municipal recalibration. Fitch will continue to monitor market and credit conditions, and plans to revisit the recalibration in the first quarter of 2009.

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.