

RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION

MEETING OF DIRECTORS

PUBLIC SESSION

MARCH 27, 2006

The Board of Directors of the Rhode Island Economic Development Corporation (the "Corporation") met on Monday, March 27, 2006, in Public Session, at 4:00 p.m., at the offices of the Rhode Island Economic Development Corporation, located at One West Exchange Street, Providence, Rhode Island, pursuant to notice of the meeting to all Directors, and public notice of the meeting, a copy of which is attached hereto, as required by the By-Laws of the Corporation and applicable Rhode Island law.

The following Directors were present and participated throughout the meeting as indicated: Governor Donald L. Carcieri, Mr. Frank Montanaro, Mr. Keith Stokes, Mr. George Shuster, Ms. Barbara Jackson, Ms. Alma Green, Ms. Cheryl Merchant and Mr. Alexander Biliouris.

Directors absent: None.

Also present were: Executive Director Michael McMahon, members of the Corporation's staff and Attorney Robert I. Stolzman.

Governor Carcieri presided over the meeting and Attorney Robert I. Stolzman acted as Secretary.

1. CALL TO ORDER

Governor Carcieri called the meeting to order at 4:00 p.m.

2. APPROVAL OF THE MINUTES OF THE MEETING HELD ON FEBRUARY 27, 2006

Upon motion duly made by Mr. Shuster and seconded by Mr. Montanaro, the following vote was adopted:

VOTED: To approve the public and executive session minutes of the meeting held on February 27, 2006, as presented to the Board this date.

Voting in favor of the foregoing were: Mr. Montanaro, Mr. Stokes, Mr. Shuster, Ms. Jackson, Ms. Green and Ms. Merchant.

Voting against the foregoing were: None.

3. FOR APPROVAL OF SELECTION OF INVESTMENT MANAGER FOR PENSION PLAN

Mr. Richard Reed referred the Board members to his memorandum (See **Exhibit A**) regarding the RFP procedure and ultimate selection of Washington Trust Investors to manage the Corporation's pension plan. Mr. Reed introduced Mr. Peter J. Miniati, Vice President of Washington Trust Investors, to the Board and invited the Board to ask any questions regarding this matter.

There being no questions, upon motion duly made by Mr. Montanaro and seconded by Mr. Shuster, the following vote was adopted:

VOTED: See text of Vote at **Exhibit B**.

Voting in favor of the foregoing were: Mr. Montanaro, Mr. Stokes, Mr. Shuster, Ms. Jackson, Ms. Green and Ms. Merchant.

Voting against the foregoing were: None.

Following the vote, Mr. Miniati, on behalf of himself and Washington Trust Investors, thanked the Board for their support.

4. FOR EXECUTIVE DIRECTOR'S REPORT

Director McMahon announced that Rhode Island is one of four (4) final sites being considered by Bristol-Myers Squibb ("BMS") for a development facility. He explained that the EDC was approached by BMS in September for site availability and that Rhode Island was one of fifteen (15) sites being considered at that time. With a good site available at Quonset and with the Town of North Kingstown lending its support, Rhode Island is now in the final running for this project. Mr. McMahon noted that Amgen provided a significant plus to this matter. The CEO's of both Amgen and BMS had meetings with each other, and a good meeting was held with the CEO of BMS and Governor Carcieri, Speaker Murphy, Senator Montalbano and others.

Mr. McMahon noted that this is a highly competitive situation, with Massachusetts, New York and North Carolina also being in the running, and the EDC will do its best to be successful in getting BMS to locate in Rhode Island. He stated that the EDC has not seen a project of this scope in 4 to 5 years, and that various tools are being considered, such as cash grants and free land, to attract BMS to Rhode Island.

The Executive Director's report then continued with the following reports:

a. Business Innovation Factory Update

Mr. Saul Kaplan used a power point presentation to update the Board on the Business Innovation Factory (See **Exhibit C**). Due to its small size, Mr. Kaplan stated that Rhode Island is a great place to experiment with innovative business ideas. The

Business Innovation Factory (“BIF”) is committed to helping business organizations become more innovative. BIF was organized as a non-profit corporation in 2005 as the implementation arm of the EDC’s Innovation @ Scale economic development strategy. Mr. Kaplan explained that BIF’s mission is to enable collaborative innovation by creating public-private partnerships in areas such as healthcare, security, education and quality of life. He stated that Rhode Island’s small size and densely connected networks can be leveraged to create a real world laboratory for testing new ideas and exploring projects that encourage private/public partnerships.

Mr. Kaplan identified the members of the Board of Directors of BIF, which is chaired by Mr. Donald Stanford, and noted that there currently are 30 organizations, public and private, some of which are non-Rhode Island companies, participating as members of the organization. He identified the members of BIF’s Advisory Council, which is made up of some of the best thinkers from all over the country.

BIF has planned a series of programs for 2006, including a program which was held on March 3, 2006 at the Met School, at which Clay Christensen, of Harvard University, led a discussion entitled “Disruptive Innovation: Turning Turbulence into Transformation”. Mr. Kaplan explained that the next program will be held on April 12, 2006 at Hasbro’s headquarters, with Steve Denning presenting “Storytelling & Innovation”, followed by a program to be held on May 10, 2006 at the Rhode Island School of Design (“RISD”) entitled “ReDesigning the Customer Experience”, to be led by Harry West. Mr. Kaplan stated that all programs are available to the community.

Following the success of the Innovation Summit held in 2005, BIF will conduct its second Innovation Summit October 4 - 5, 2006 at Trinity Repertory Theater. The summit will include 25 storytellers, including Trinity Director Curt Columbus, all of whom will speak for no compensation, as their participation will provide a learning experience as well as a teaching experience.

Mr. Kaplan explained that one of the projects to come out of BIF is RI-WINS, a project dedicated to creating a statewide, border to border wireless broadband network. He stated that Rhode Island can be the first state to have this capability and will be the platform for other states to adopt similar networks. He stated that pilot equipment is set to be launched in Providence and Newport in April, with several applications to be tested beginning in May. Mr. Kaplan noted that there has been a lot of interest in this project from communities, companies and individuals.

In response to a question by Governor Carcieri, Mr. Kaplan explained that the funding for RI-Wins is about \$1,000,000, which has come from public and private investment. He stated that there is a \$500,000 public sector contribution in this year’s budget and that a federal grant is in the works.

Responding to a question of Mr. Shuster, Mr. Kaplan that BIF has a very active relationship with the Center for Design & Business and that RISD’s involvement has added to its strength.

Other projects in the planning, according to Mr. Kaplan, include 1) a study of the state's healthcare system, which will involve RISD creating a design studio to study patient/primary care physician interaction and how such interaction can be improved; 2) creating a more student-centered education process; and 2) creating a port security process.

At the conclusion of Mr. Kaplan's presentation, Mr. McMahon stated that quality of life, quality of workforce and the Jobs Growth Act are important factors in luring businesses to locate in Rhode Island. Since the Northeast will never be a low cost area, Rhode Island must look to "value add" factors.

b. Tax Issues 2006

Stating that Rhode Island, having the third highest income tax rate, needs to bring its tax system in line with the competition, Mr. McMahon introduced Ms. Jean Robertson, Senior Director of Policy & Research for the EDC, to discuss Rhode Island tax issues (See **Exhibit D**).

Ms. Robertson explained that the Rhode Island taxpayer's burden has climbed from below the national average to one of the highest in the nation, and that the rate continues to climb as neighboring states' rates decline. She stated that the Center on Budget and Policy Priorities has rated Rhode Island as having a high risk of a structural deficit, and that the State's revenue and spending patterns are not sustainable. There is a great need to increase the tax base and reduce spending.

The State has lost many high income earners, primarily due to relocations attributable to reducing taxes, stated Ms. Robertson. An unintended consequence to this is that contributions to Rhode Island charitable organizations has declined. At the same time, Ms. Robertson continued, the State has gained low income households. These changes have resulted in a shift of the tax burden from high income residents to middle and lower income residents.

Ms. Robertson stated that the legislature is considering an "Alternative Maximum Tax" which would affect all income groups. This Alternative Maximum Tax would be a flat rate based on total Adjusted Gross Income, and would be an optional election by taxpayers to the present tax rates. With a flat rate of 6%, it is predicted that this method would reduce tax revenues by \$30 million, and would require 981 new high income taxpayers in order to break even.

Mr. Robertson reported that, since 1995, Rhode Island has only added one business that grew its workforce to 250.

Ms. Jackson commented that Massachusetts saw a reversal of its tax revenue for the better within three years of implementing a new tax system, with estate tax reductions being key.

c. Public School Education

Mr. McMahon's presentation focused on the idea that "Public School Education is the Key to Our Future" (See **Exhibit E**). He stated that improvement of public school education is a national issue and that quality of public school education is a key factor to economic development. Global competition is forcing many manufacturing jobs to be moved out of the country.

The key to the future, stated Mr. McMahon, is engineering, math and science, as that is where the jobs of the future will be focused. He noted that in 1985 25% more engineering degrees were generated. It is important, he stated, that these subjects be taught more productively in public schools.

Mr. McMahon stated that some of the barriers to changing the public educational system include parents, teachers, administrators and taxpayers. He noted that there has been little change in public schools' core curriculum in over 100 years. Mr. McMahon reported that recent studies indicate that 20% of public students do well, 20% are left behind and the remaining 60% muddle through. It is with the last 60% that the public education process must change.

Rhode Island ranks on the high side when it comes to spending for public education, although its performance levels are on the low side. The consequences of a high drop out rate, reported Mr. McMahon, are that dropouts earn an average \$13,960 less annually than high school graduates, and that the poverty rate for dropouts is 2/3 higher than that of high school graduates. The costs of dropping out include a higher prison population and more single parents with children on public assistance, both of which mean more costs to the taxpayers.

Mr. McMahon stated that solving the problem will require making the issue a national priority and setting realistic timelines to effect changes. He noted that innovation will be a key factor to creating positive changes to the education system, and innovative ideas must be used to accomplish the following:

- Put the Student at the center
- Experiment
- Adapt Technology
- Empower the Principal
- Respect the Teacher
- Create facilities that foster learning
- Provide Different Choices

Rhode Island's success in improving its public school system, according to Mr. McMahon, could result in higher economic growth, lower levels of children in poverty, increased quality of life for its residents and a lower tax burden to its taxpayers.

Mr. Stokes noted that, as a father of four teenagers, he believes there is a great need to engage parents in the public education process, especially with respect to

teaching self respect, morals and how to treat others. He stated that parents need to be empowered to empower their children. Children possessing these qualities are easier to teach and easier to engage.

There being no further business in Public Session, the meeting was adjourned at 5:15 p.m., upon motion made by Mr. Montanaro and seconded by Ms. Jackson.

Robert I. Stolzman, Secretary

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