

# RHODE ISLAND DEBT MANAGEMENT

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# SCOPE OF PRESENTATION

- **Introduction**
- **RI's debt profile**
- **Reform**
- **Debt Affordability Analysis**
- **Q&A**

# **PART I- RHODE ISLAND'S DEBT PROFILE**

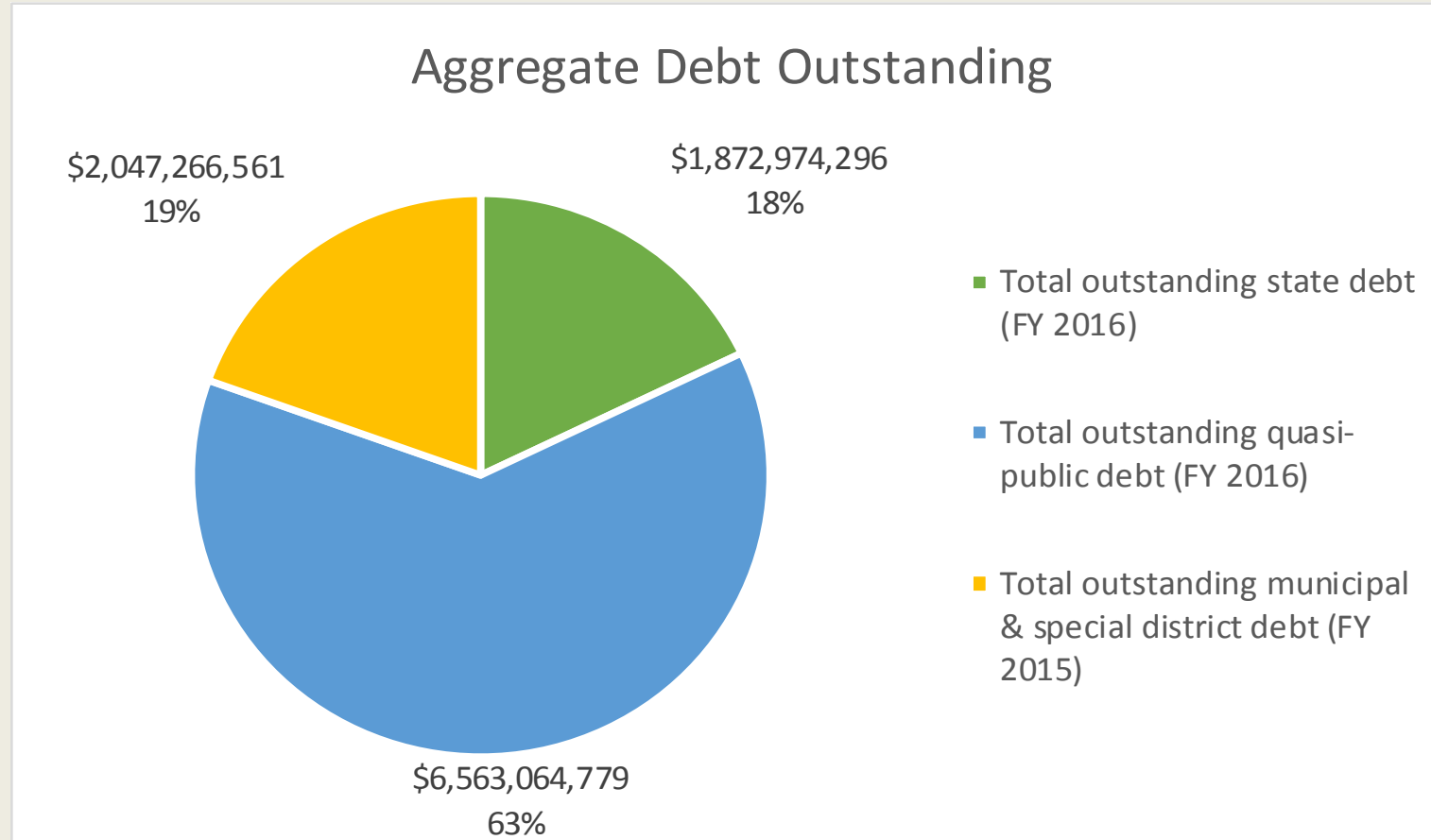
# STATE DEBT

- As of June 30, 2016, the State had a total of \$1.87 billion of tax-supported debt outstanding. This is the sum of both the state's general obligation debt (\$1.05 billion), and of lease/appropriations debt (approximately \$821 million).
- In addition, as of June 30, 2016, the State had approximately \$2.83 billion of unfunded actuarial accrued liability (UAAL) for its pensions.

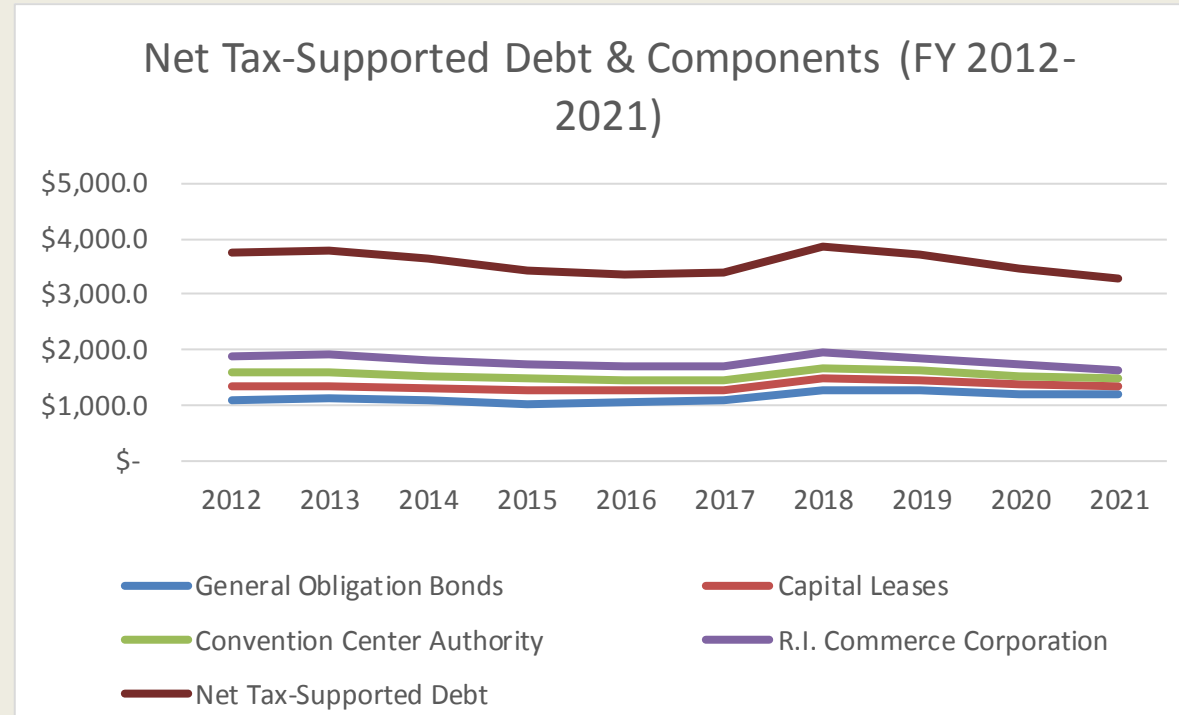
# OTHER PUBLIC DEBT

- As of June 30, 2016, Quasi-Public Agencies in the State had a total of over \$6.5 billion of debt outstanding, including debt held by non-profit and private conduit borrowers.
- As of June 30, 2015, municipalities and special districts in the State had a total of \$2.0 billion of debt outstanding, consisting of \$1.3 billion in municipal general obligation debt; \$390.5 million in lease/appropriation debt; and \$334.2 million in revenue debt.
  - Municipalities had \$3.69 billion of pension liabilities outstanding in FY 2015.
- Just under half of the \$10.5 billion in total debt outstanding (44%) is public revenue debt. General obligation debt (23%), private/non-profit revenue debt (22%) and lease/appropriation debt (11%) represent the remaining categories of debt outstanding.

# AGGREGATE PUBLIC DEBT OUTSTANDING



# STATE DEBT



As illustrated by the chart above, the state's net tax supported debt has declined over the past 5 fiscal years. Between FY 2012 and FY 2016, the compound annual growth rate was -2.7%.

## PART II- REFORM



# NUMEROUS ENTITIES, PREVIOUSLY WEAK OVERSIGHT

## More than 100 entities in Rhode Island have authority to issue public debt.

- State of Rhode Island
- 39 Cities and Towns
- 12 Quasi-Public Agencies
- Nearly 100 Special Districts—most with borrowing authority
  - Fire Districts
  - Housing Authorities
  - Utility Districts
  - Water Authorities
  - Conservation Districts
  - Convention & Visitors Bureaus
  - Dam Management Districts

Quasi-Public Agency	Type of Issuance
Narragansett Bay Commission	Revenue bonds
Rhode Island Commerce Corporation	Revenue bonds, moral obligation, GARVEE bonds
Rhode Island Convention Center Authority	Revenue bonds
Rhode Island Health and Education Building Corporation	Revenue bonds
Rhode Island Housing and Mortgage Finance Corporation	Revenue bonds, moral obligation
Rhode Island Industrial Facilities Corporation	Revenue bonds
Rhode Island Infrastructure Bank	Revenue bonds
Rhode Island Public Transit Authority	Revenue bonds
Rhode Island Resource Recovery Corporation	Revenue bonds
Rhode Island Student Loan Authority	Revenue bonds
Rhode Island Turnpike and Bridge Authority	Revenue bonds
Tobacco Settlement Financing Corporation	Tobacco-settlement asset-backed bonds (revenue bonds)
Note: The Rhode Island Industrial-Recreational Building Authority insures bonds, and the Rhode Island Water Resources Board Corporate previously issued revenue bonds, before its dissolution in 2015.	

# WEAK GOVERNANCE: STATE DEBT

**Responsibility for issuing state debt was split between multiple offices with no one leading the process.**

**No single State office was responsible for:**

- Managing the issuance process
- Monitoring state debt for performance after it is issued
- Analyzing legislative, administration and other proposals involving state debt
- Analyzing when and how much to refinance
- Considering how much debt to issue before hitting PFMB targets

# PREVIOUS LACK OF PROFESSIONAL DEBT MANAGEMENT STAFF

<b>Debt Management Employees (2016)</b>			
California	54	Maryland	3
Michigan	26	Mississippi	3
North Carolina	16	Nevada	2.35
Connecticut	11	Alabama	2
Virginia	10	Utah	2
Louisiana	9	Alaska	1
Ohio	9	Delaware	1
Kansas	8	Indiana	1
Massachusetts	8	New Hampshire	1
Washington	8	West Virginia	1
Oregon	7	Wyoming	1
New Jersey	6	Iowa	0.5
Washington DC	6	Maine	0.5
Kentucky	5	<b>Rhode Island</b>	<b>0.5</b>
South Carolina	5	Idaho	0.25

# TREASURY'S ENACTED REFORM

- At the recommendation of the Office of the General Treasurer, the Fiscal Year 2017 State budget included a series of reforms to the State's management of public debt:
  - Public Finance Management Board (PFMB) empowered to advise/assist any issuer
  - New reporting requirements to report amount of debt authorized, sold & unsold
  - New Debt Affordability Study to be conducted every 2 years
  - New Office of Debt Management
    - Francis J. Quinn hired in summer 2016 as the state's first Director of Debt Management

# PROGRESS TO DATE

- Treasury hired its first debt manager in June 2016
  - The Director is responsible for initiating and maintaining effective relationships with issuers across the state, bond counsel, bond holders, financial advisors, bond rating agencies and other stakeholders.
  - The Director is also responsible for aggregating and publishing comprehensive data on the issuance of state, quasi-public and municipal debt, and staffing PFMB meetings.
- Instituted a state financial advisory exclusivity policy
- Began selling G.O. debt competitively, achieving better spreads to MMD than recent GO deals
- In April 2017 the PFMB published the first debt affordability study in almost 2 decades.
  - One of the most comprehensive DAS in the US, as it reviews debt of all public issuers and incorporates pension liabilities.

# PROGRESS TO DATE

- In the process of unveiling a new public-facing debt portal.
  - Will provide historic data collected from pre- and post-sale forms, in addition to all data from debt affordability analysis
- In the process of collecting first-ever annual reports on debt authorized but unissued.
  - As of October 19, 2017 only 36 responses received. More work to do before analyzing results.
- PFMB is in process of:
  - Assisting public issuers with public finance training opportunities (first session scheduled for December 6, 2017)
  - Revising state bond offering disclosure documents to be more current and streamlined, with the goal of making information available to potential investors more relevant and timely

# PART III- DEBT AFFORDABILITY STUDY

# DEBT AFFORDABILITY STUDY SUMMARY

- The PFMB's most significant undertaking over the past year was the publication of the first Debt Affordability Study conducted in Rhode Island in nearly two decades.
- This study is the first of its kind in the nation to set recommended debt limits that incorporate both debt and pension liabilities together, and the first to include the indebtedness of nearly all public debt issuers in a state, including special districts and quasi-public agencies.
- The PFMB considered several factors in developing the study's affordability targets: for each issuer, the PFMB considered relevant peer comparisons, ratings agency guidance, and legal requirements contained in bond indentures.
- These affordability limits are purely advisory, and represent what the PFMB feels are prudent levels of indebtedness given the available information.



# DEBT AFFORDABILITY STUDY FINDINGS

- The PFMB found the debt burden of the State of Rhode Island to be manageable but above many national peers, and recommended a slight reduction to the state's prior debt affordability targets.
- Most municipal borrowers are found to be borrowing within acceptable limits, but the study notes that some municipal borrowers carry liabilities in excess of their affordability targets.
- There are also some quasi-public agencies in Rhode Island that are at, or above, their recommended targets.
- The PFMB recognizes that it may be appropriate to temporarily exceed affordability targets if increased capital spending is needed to manage emergency situations or revenues are temporarily impaired by economic downturns.
  - However, issuers of public debt should endeavor to return to their target ratios in normal economic circumstances.

# STUDY ORGANIZATION & SCOPE

## ■ Organization

- Part One: State tax-supported debt and long-term liabilities
- Part Two: State-level agency, public and quasi-public corporation debt and long-term liabilities
- Part Three: Municipalities, regional authorities, fire districts and other special districts debt and long-term liabilities

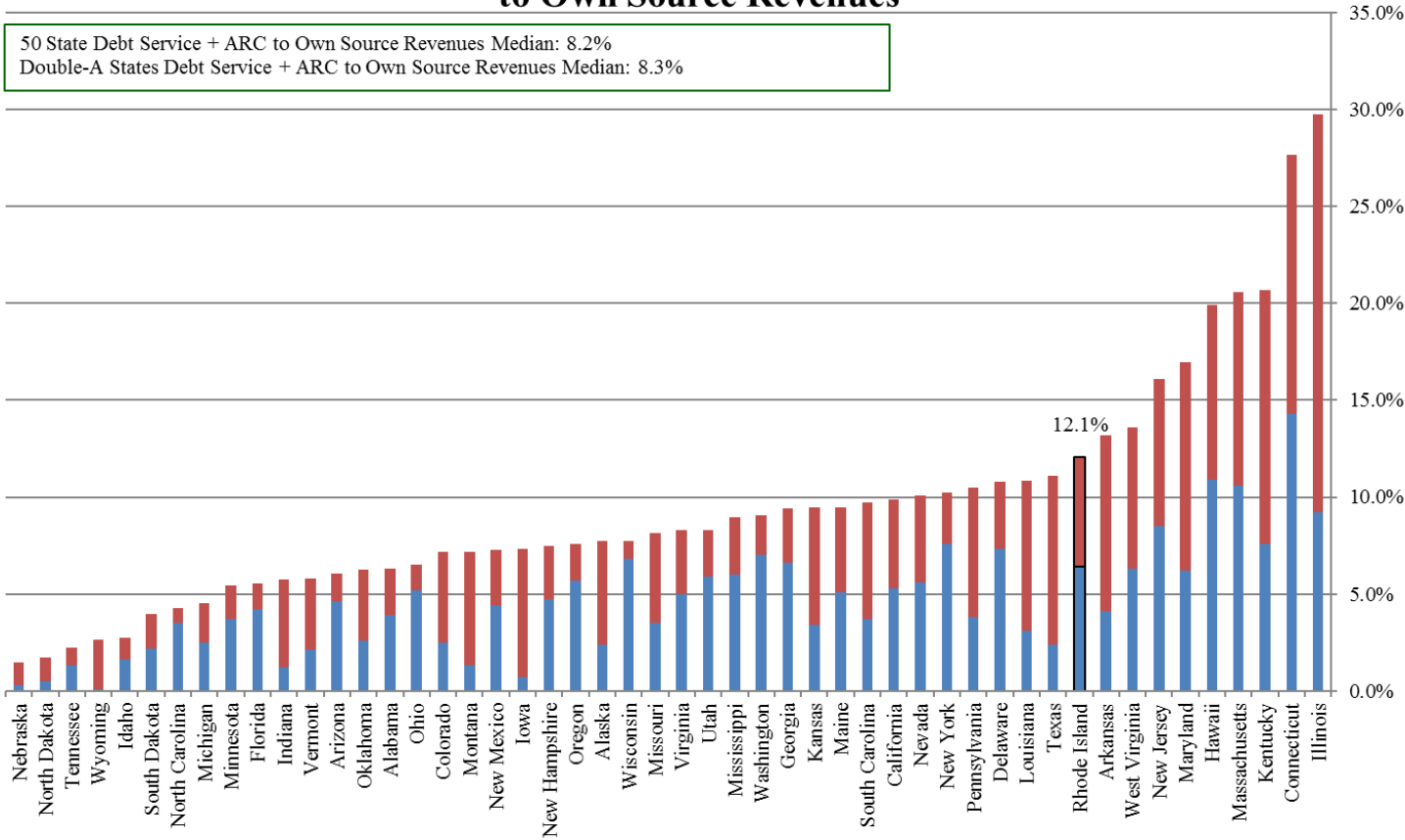
## ■ Scope of Liabilities

- Includes various types of debt, including gross direct debt and overlapping debt
- Includes unfunded pension liabilities for the State and municipalities

# STATE COMPARISON

## Debt Service + Pension Actuarial Required Contribution (ARC) to Own Source Revenues

50 State Debt Service + ARC to Own Source Revenues Median: 8.2%  
 Double-A States Debt Service + ARC to Own Source Revenues Median: 8.3%



*Comparative state pension liabilities are based on a model provided by the Boston College Center for Retirement Research, in which the pension liabilities for all states were adjusted to approximate the adoption of Rhode Island's discount rate and amortization period.*

Source: Debt Service and Own Source Revenues: Moody's State Debt Medians 2016.  
 ARC: Boston College Center for Retirement Research pension model.

■ Debt Service to Own Source Revenues  
 ■ ARC to Own Source Revenues

# STATE AFFORDABILITY RATIOS

<b>Ratio</b>	<b>Current Level (FY2017)</b>	<b>Recommended Target</b>
<b>Debt Service on Tax-Supported Debt to General Revenues</b>	<b>6.1%</b>	<b>Not to exceed 7.5% within the next five years and 7.0% thereafter</b>
<b>Net Tax-Supported Debt as Percentage of Personal Income</b>	<b>3.4%</b>	<b>Not to exceed 4.0%</b>
<b>Net Tax-Supported Debt Service + Pension ARC as a Percentage of General Revenues</b>	<b>13.07%</b>	<b>Not to exceed 16%</b>
<b>Net Tax-Supported Debt + Pension Liability (UAAL) as a Percentage of Personal Income</b>	<b>8.5%</b>	<b>Not to exceed 8% beginning in 2021</b>

# QUASI-PUBLIC AGENCY AFFORDABILITY RATIOS

Borrowers	Affordability Metric	Current Level
Narragansett Bay Commission	1.3x debt service coverage for both Commission debt and RIIB loans	Debt Service Coverage 1.4x
Rhode Island Turnpike and Bridge Authority	1.7x debt service coverage	Debt Service Coverage 1.68x
Rhode Island Resource Recovery Corporation	PFMB recommends the Corporation refrain from any issuance of long-term debt until the future of the facility is more certain.	Debt Service Coverage 4.00x
Rhode Island Department of Transportation Grant Anticipation Revenue Bonds (GARVEEs)	4.5x debt service coverage	Debt Service Coverage 4.5x
Rhode Island Airport Corporation	1.5x debt service coverage when including the Coverage Account Ending Balance, and \$100 debt per enplaned passenger	Debt Service Coverage 1.76x \$137 per enplaned passenger
Rhode Island Health and Educational Building Corporation – University of Rhode Island	Total Debt to Cash Flow of less than 11.0x as a factor required for Additional Bonds.	7.0x Debt to Cash Flow
Rhode Island Housing and Mortgage Finance Corporation	Target minimum Program Asset to Debt Ratio (PADR) of 1.10x based on Moody's rating criteria for Aaa rating.	PADR of 1.19x (Single Family) PADR of 1.12x (Multi-Family)
Rhode Island Infrastructure Bank (Clean Water and Drinking Water Programs)	Maintain a minimum of 1.2x debt service coverage and Maintain asset to liabilities ratios at a minimum of 1.3x.	Debt service coverages: 1.3x for Clean Water and 1.5x for Drinking Water Asset to liabilities ratios: 1.5x for Clean Water and 1.6x for Drinking Water.
Rhode Island Student Loan Authority	Target minimum Parity Ratio of 110%	Parity Ratio of 120.97%

# MUNICIPALITY FINDINGS

Ratio	Recommended Target
Net Direct Debt to Full Value	Less than 3%
Overall Net Debt to Full Value	Less than 4%
Overall Debt + Net Pension Liability to Full Value	Less than 6.3%
Overall Debt + Net Pension Liability to Personal Income	Less than 20%

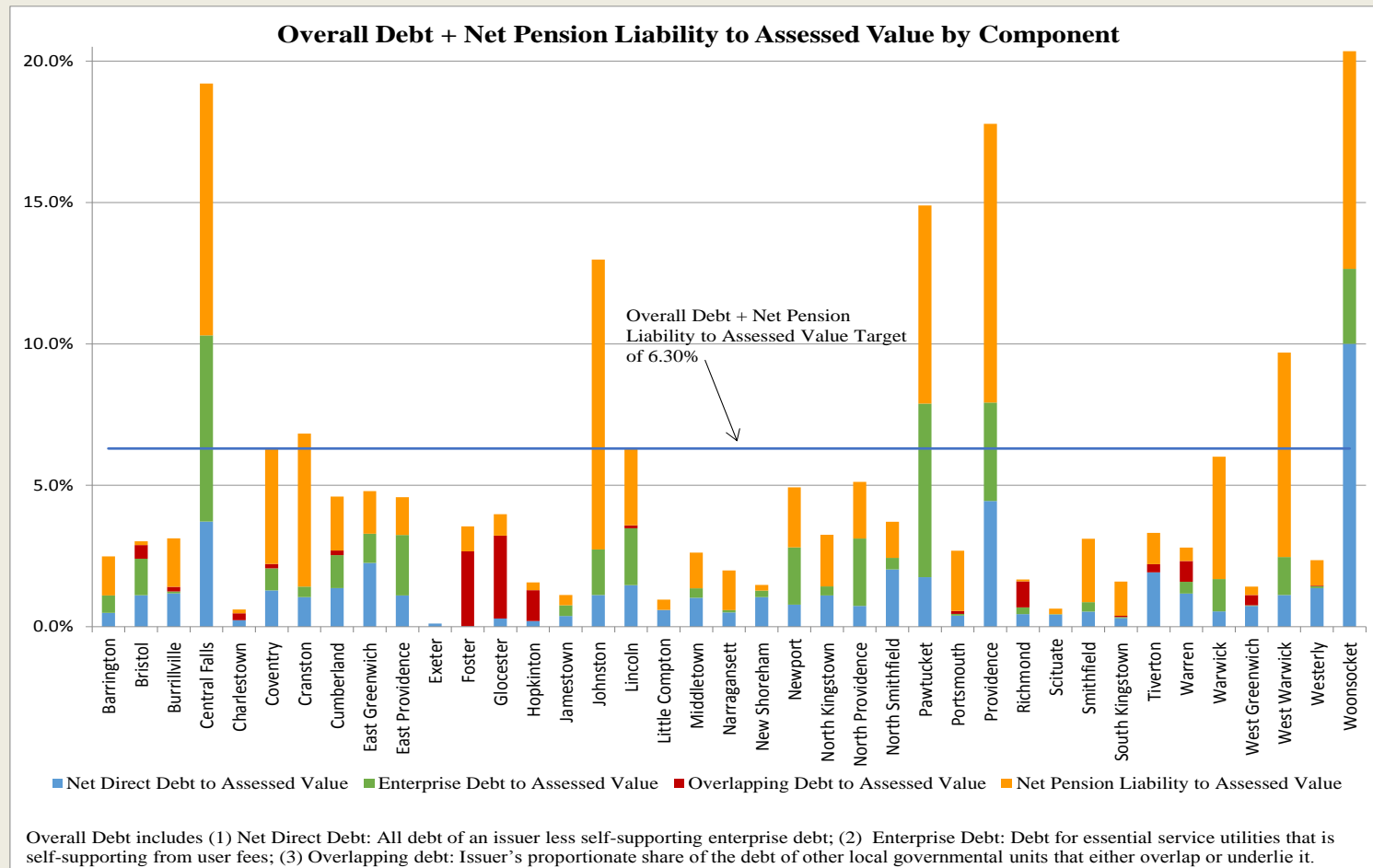
**Net Direct Debt-** Gross direct debt, or the sum of total bonded debt and any short-term debt of an issuer, minus all self-supported debt. Excludes enterprise bonds where enterprise fund revenues cover debt service by at least 1.0x for the last three fiscal years.

**Overall Net Debt-** Net direct debt plus the issuer’s applicable share of the net direct debt of all overlapping jurisdictions. Excludes enterprise bonds where enterprise revenues cover debt service by at least 1.0x for at least the last three fiscal years.

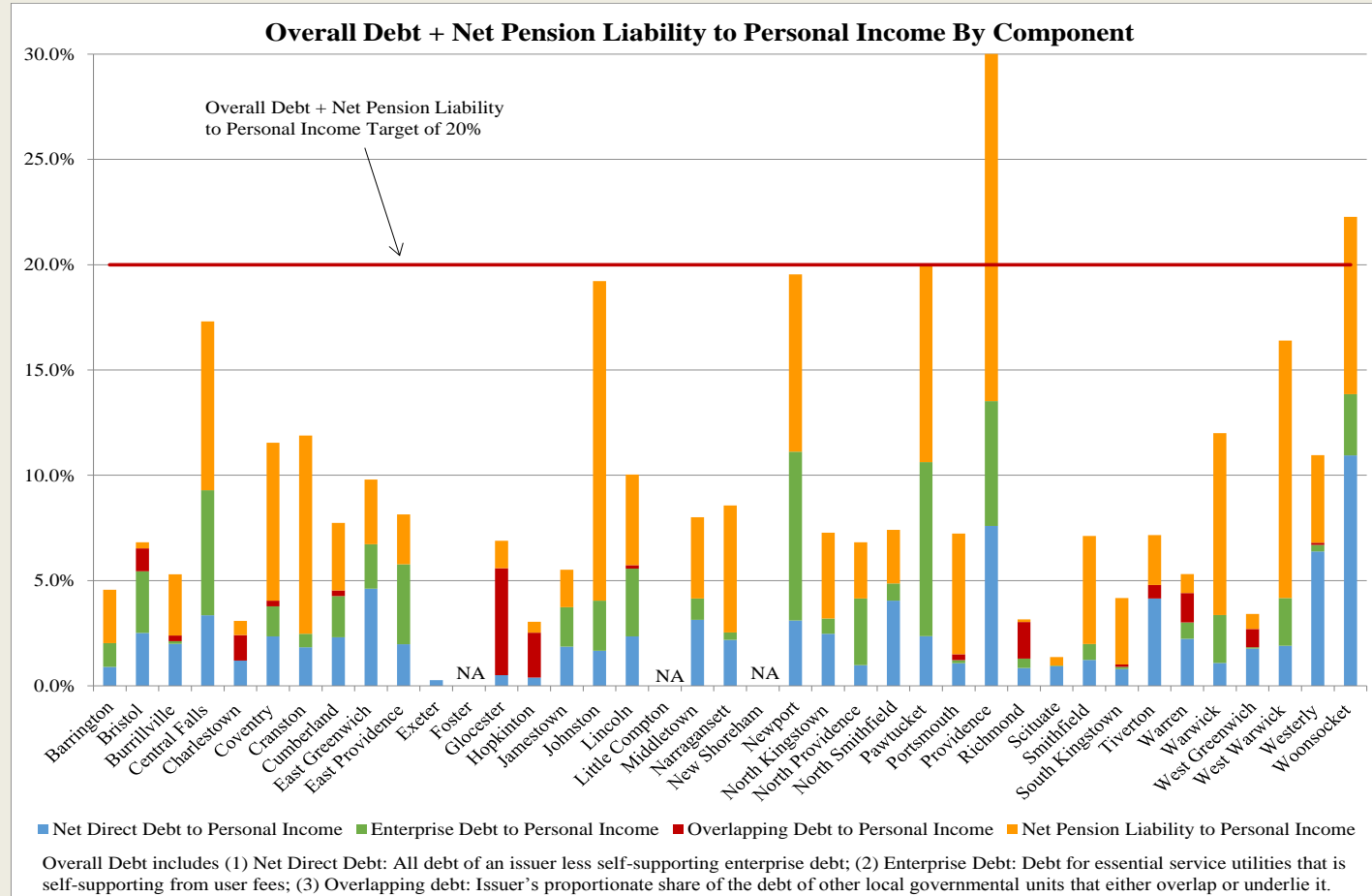
**Overall Debt-** Gross direct debt, or the sum of total bonded debt and any short-term debt of an issuer, plus the issuer’s applicable share of the total debt of all overlapping jurisdictions.

*In selecting these recommended targets, the PFMB relied heavily on rating agency guidance, generally recommending a level equivalent to an ‘A’ rating for each ratio.*

# MUNICIPALITY FINDINGS



# MUNICIPALITY FINDINGS





# POSSIBLE FUTURE ANALYSIS

- Consider whether to integrate other post-employment benefits (OPEB), which primarily include retiree health care benefits, into published affordability targets.
- Several challenges to integrating OPEB into affordability targets include:
  - the lack of uniformity in reporting
  - the difficulty of accurately forecasting OPEB cost inflation
  - and legal uncertainty around the ease with which states and other public entities can change OPEB policies

## PART IV- Q&A