

FIXING RHODE ISLAND SCHOOL BUILDINGS

Office of General Treasurer Seth Magaziner

GFOA QUARTERLY MEETING- MAY 17, 2018

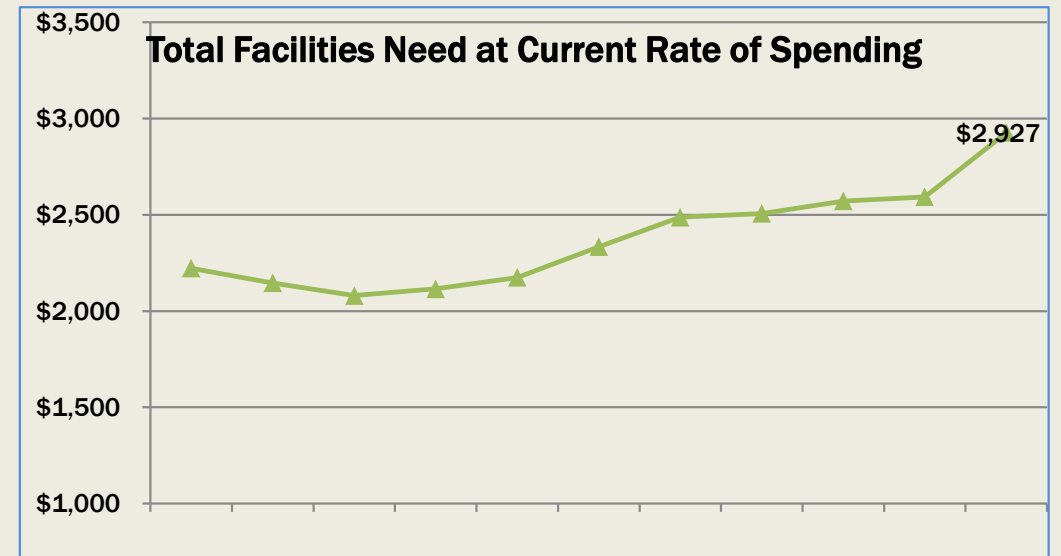


CURRENT PROCESS

- **State Budget Allocation: \$80 million annually**
- **Housing Aid:**
 - After approval, municipalities float bonds for the full cost of major projects
 - After project completion, state reimburses a portion of debt service
 - Reimbursement level based on economic condition of population served by District (minimum state share for a district is 35%, maximum is 96%)
 - State spent \$69 mil on housing aid in FY 2017, all for projects that had already been completed
- **Capital Fund**
 - Intended for fast-track, emergency repairs
 - Annual state spend is whatever is left after housing aid reimbursements, up to \$80 mil
 - FY 2017 state capital fund spend was \$12 mil
 - Same share ratios as Housing Aid apply

DRAWBACKS TO CURRENT PROCESS

- Current level of investment insufficient to keep up with deterioration of buildings
 - At current level of spending, cost to repair all deficiencies grows from \$2.2 billion to \$2.9 billion over 10 years
- A majority of state budget allocation used to cover municipal debt service on projects that are already finished
 - State is often subsidizing the borrowing costs of lower-rated communities
- Weak standards to ensure that buildings are kept in good condition:
 - No minimum statewide standards for existing buildings
 - Limited statewide protocols for maintenance and upkeep of buildings



STATE SHARE BONUSES

Principles

- Incentives on top of base share ratios must be generous, to encourage districts to take on more projects
- Incentives must expire, to encourage fast action and to protect the state from runaway costs
- All districts should be able to benefit from any new incentives

Structure

- Maintain the existing base state share ratios (35% - 96% depending on District demographics; 30% for charters). Incentives are additive.
- Maintain the existing statutory incentives, including 4 points for ADA accessibility, asbestos remediation and energy efficiency
- District eligible to receive up to 20 bonus points, given that the district's share is not decreased by more than half of its regular level

PROPOSAL FOR STATE SHARE BONUSES

All municipalities should be able to benefit from incentives.

- **Bonuses of up to 20%, in addition to base State share:**
 - +5% for Priority 1 ‘Warm, Safe and Dry’ Projects
 - +5% for Priority 2 ‘Warm, Safe and Dry’ Projects
 - +5% for “Newer and Fewer” Projects
 - +5% for 21st Century Learning (STEAM, Early Childhood, Career & Tech)
- **Funding a portion of the state’s share for all housing aid projects on a “pay as you go” basis rather than a reimbursement basis.**

Bonuses will expire in 5 – 6 years to incentivize municipalities to prioritize investment in school buildings

BONUS DESCRIPTION

- **5 points for Priority 1 and Priority 2 projects**
 - Address repairs to make school Warm, Safe and Dry and remove hazardous materials
 - Projects must commence no later than December 2022
- **5 points for 21st Century Learning**
 - STEAM, early childhood and career tech facilities
 - Projects must commence no later than December 2022
- **5 points for Newer and Fewer**
 - Replacement of a facility that has a Facilities Condition Index of 65% or higher
 - Any new construction or renovation that leads to the functional utilization of any facility increasing from less than 60% to more than 80%
 - Any new construction or renovation that leads to the functional utilization of any facility decreasing from more than 120% to between 85% and 105%

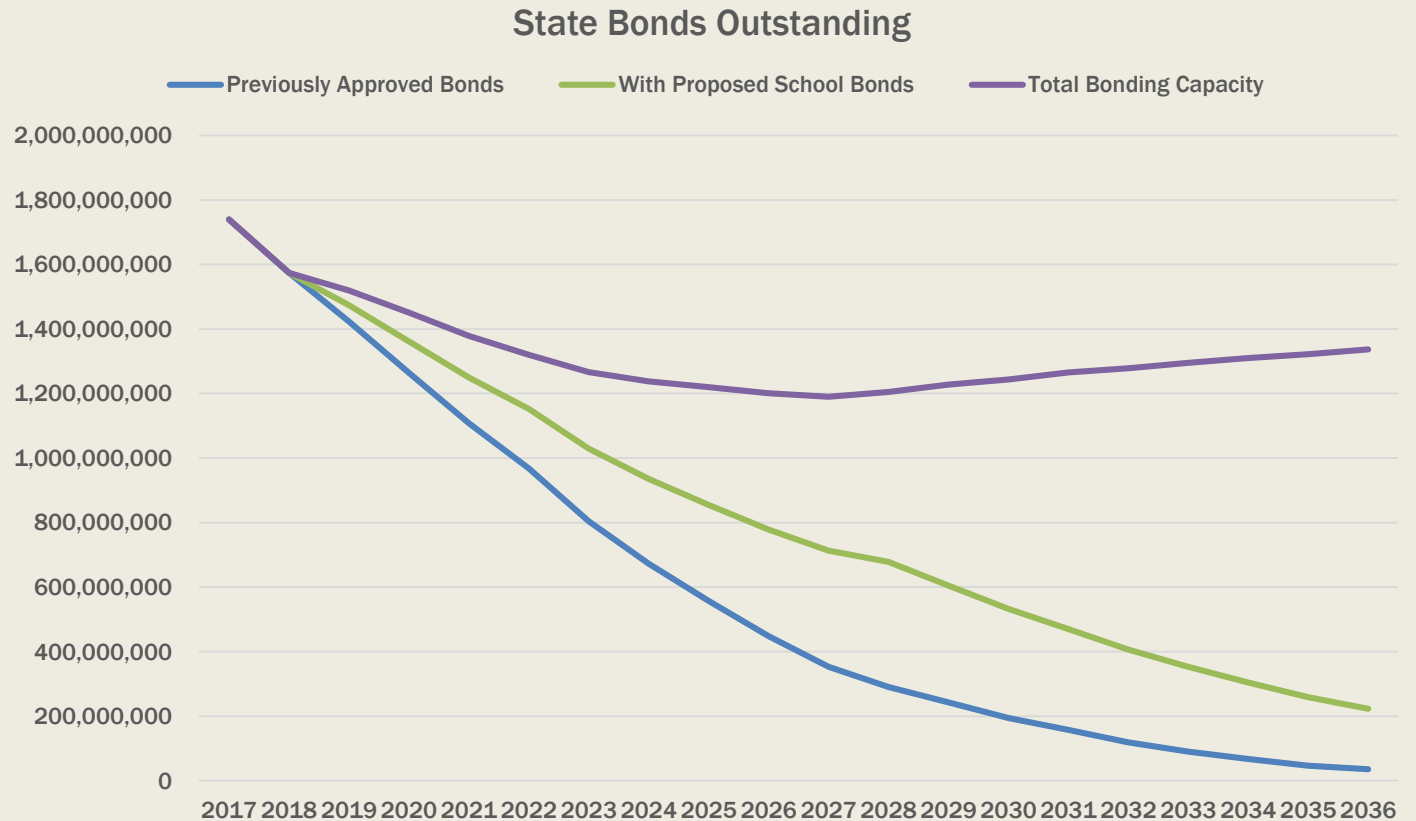


Tiverton High School, Tiverton

In order to encourage action by the school districts, for all of the new expiring bonuses, the budget article recommends that the bonus be applied to the full cost of the project so long as a minimum of 25% or \$250,000 of the total project cost consists of the factor eligible for the bonus.

THE PLAN IS AFFORDABLE

- State has capacity to issue approximately **\$1.2 billion** of new General Obligation bonds over the next 10 years
 - State pays off roughly **\$150 million** of old debt annually
- **\$500 million** of state bonding for schools over 10 years would:
 - Fund State Share Bonus Incentives
 - Facilitate a partial shift to PAYGO funding, reducing the municipal debt burden
 - Leave **\$700 million** of bonding capacity for other state priorities



HYPOTHETICAL SCHOOL-LEVEL COST SAVINGS FROM NEW PROPOSALS

	Old System	New System
Total Cost including interest	\$126 million	\$119 million
Total Cost to State	\$103 million	\$97 million
Total Cost to Municipality	\$23 million	\$22 million
Total Debt Floated by Municipality	\$126 million	\$71 million

Assumptions:

- Total cost savings from use of OPM, Kit of Parts and state-selected commissioning: 5%
- Amount of State Share Paygo funded: 50%
- Spread between state GO rating and municipal rating: 30 bps



WHERE ARE WE IN THE PROCESS?

- Governor Raimondo has included the Task Force's plan, including the \$250 million bond in the FY 2019 Budget.
- The Legislature is currently reviewing / negotiating the FY 2019 Budget.
- The Legislature is expected to vote on the FY 2019 Budget in June.

If the Bond is approved by the Legislature as part of the FY 2019 Budget, it will go on the November 2018 for voter approval.