

Notes from PFMB Hearing 50 Service Ave., Large Conference Room September 12, 2016:

Bob Donovan, RIHEBC Executive Director.

Mr. Donovan recited the history of the PFMB – originally created to allocate private activity bond volume cap only, not involved with 501 (c) 3 nonprofit entities, like educational and health care entities; its purview was expanded to include collecting fees for non-profits' bond issuance and reporting on that debt issuance. He requests that non-profits be relieved of the need to report on their debt, because there is no public tax money involved; RIHEBC is a conduit issuer and the debt service is paid by the borrower entities.

Also is concerned that, under the Rules & Regs., as drafted, the PFMB would collect fees twice on the issuance of debt by the Public Schools Revenue Bond Financing Program – once by the borrower school district/municipality when RIHEBC acquires the debt for the pool financing and again when RIHEBC issues the bonds publically. In the case of assessing the fee on municipalities, he made the point that the fee is an inefficient way to fund debt management (“like the state is paying itself on a credit card”). For example, in the case of Providence, the state uses general revenue to reimburse 80% of Providence's school construction debt service costs as part of the housing aid formula. Municipalities, and in the case of Providence's 80% ratio, and to a large extent, the state, are also paying interest on the cost of financing. Mr. Donovan made the point that it is convoluted to assess a fee on a transaction in which the state already pays a proportion of interest costs on behalf of the issuing municipality and that the state is actually “losing money” by doing it this way.

He asked that there be a clear definition of “financing lease” in the regs. He raised the point that RIHEBC is the largest contributor of fees to PFMB and that collecting a fee on refunding bonds is paying the fee twice and that the various non-profits shouldn't be burdened with that cost – he pointed out that there is the original expense of paying the fee at time of issuance and the added cost of financing the fee over the life of the bond issue. And, by the way, the underwriters don't pay it fee; rather it's a cost born by the borrower/issuer.

Vern Wyman, Assistant V.P. Business Services, URI

The University is the beneficiary of two kinds of debt – GO bonds issued by the State and revenue bonds secured largely by student fees and tuition. Charging a fee for refunding bonds would impact/increase student tuition and fees. He also asked for clarification on the need for the proposed reporting requirements as they might impact URI's budgeting and RIHEBC bond financing process. He questioned the general nature of the annual reporting requirement, as URI already reports to and receives approval from the General Assembly and the Council of Higher Ed on bond issuance. Also wanted to know if proposed changes, specifically debt capacity analysis, would change the process by which they seek state approval to secure bond financing for capital projects. He noted that URI is about to go to market with a \$100 million issuance, and if the fee on refundings is introduced soon, they could be the first to pay it under the new regulatory regime.

Peder Schaefer, Associate Director, RI League of Cities & Towns.

Referred to letter from Mayor Grebien (dated August 29, 2016) and its various comments. He reiterated the point that there should be a clear definition of the term “lease”, e.g., there should be no need to

include copy machines as a lease in the regs; stated that “fines are unnecessary”; that fees on refundings take “2 bites at the apple”; expressed concern that the fee collected would go to the general fund and not PFMB; and mentioned that there have been no issues with muni debt issue to date. He takes the position that the fee for refunding bonds should be eliminated. Finally he mentioned that the League had received a letter from the Newport finance director who maintains that the city is one of the largest issuers of debt in the state (for water pollution control) and petitioned against charging them for borrower bonds placed with RIIB – the double charging claim. The finance director also mentioned the fact that timing is crucial when going to market, and seemed concerned about being constrained by these new requirements. Peder did not have the letter with him; Amy is to follow up with a request for a copy.

Lastly, and this seems to be a new argument from the League, Peder referenced S3050, the 2006 property tax cap legislation. This statute (45-13-9.1) requires that any expanded state mandate on municipalities that relates to the new expenditure of funds take effect July of the following year of adoption. In other words, it seems he thinks our law takes effect too soon after adoption.

\*Also of note, Jeff Diehl from RIIB, Dan Beardsley from the League of Cities, Ryan Carrillo from URI, and Sherri Arnold from NBC attended and were in the audience. Karl Landgraf was the sole board member in attendance. Amy Crane, Frank Quinn, Kelly Rogers and Paul Goslin represented Treasury staff. The hearing lasted about 20 minutes and adjourned at 1:50.