Rhode Island
Health and Educational
Building Corporation

September 12, 2016

The Honorable Seth Magaziner
General Treasurer and Chair of the Public Finance Management Board
Office of the Rhode Island General Treasurer
50 Service Avenue, 2nd Floor
Warwick, RI 02886

Re: Proposed Changes to PFMB Regulations

Dear Treasurer Magaziner,

Thank you for the opportunity to provide comments on the proposed revisions to the Rules and Regulations of the Public Finance Management Board (PFMB) and also for the opportunity to compliment the PFMB on its efforts to bring greater transparency and understanding about state and local debt to the taxpayer.

As you may be aware, the Rhode Island Health and Educational Building Corporation (RIHEBC) is the issuer of conduit debt for nonprofit health and educational institutions as well as cities and towns for their public school projects. Over its 50 year history it has provided over $7 billion in financing to these institutions and communities and currently oversees over $3.6 billion in financing and is ranked the largest issuer in the state.

In reviewing the proposed changes to the Rules and Regulations as well as Article 2 of the State Budget on which the changes were based, it is clear that the intent is to have a better database of taxpayer supported debt in order to make informed decisions. It is also clear that another intent was to have a resource for issuers who infrequently access the public finance market to receive advice.

Therefore, based on its review, RIHEBC would like to offer the following comments on the reporting and fee changes contained in the proposed Rules and Regulations.

Reporting: Regulations 9 and 13

In terms of the reports compiled by the PFMB Regulation 9 and Regulation 13, since debt issued by RIHEBC on behalf of the nonprofits has no financial obligation for the state or impact on taxpayer debt burden, it should be excluded. This will prevent the possible distortion or misinterpretation of the State's debt burden and will be consistent with what other states like Massachusetts and Connecticut include in their reports.

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Also, the conduit debt issued by RIHEBC on behalf of the cities and towns should either be excluded for RIHEBC or for the cities and towns since it could result in double counting the debt. This is because the bonds issued by RIHEBC are supported by bonds issued from the cities and towns and purchased by RIHEBC. By eliminating one of the bonds from the reporting requirement, the problem will be resolved.

RIHEBC would also like to request the PFMB to include a clarification on its intent concerning leases, since without it leases could include either operating or capital leases.

Fees: Regulation 10

Regarding the proposed changes to the fees and the analysis associated with them, RIHEBC believes that the changes should be reconsidered.

In a review of the PFMB's Summary of Debt Issuance Report for the past several years, RIHEBC is the major contributor of fees to the PFMB due to its debt issued on behalf of the nonprofit institutions. As we previously stated, the debt does not have any fiscal impact or liability for the state, nor does it require any allocation of debt under Section 42-10.1-3 or receive any services related to the debt as mentioned in section 42-10.1-5 of the General Laws.

The PFMB fees for all intents and purposes are paid by the issuer from bond proceeds and the true cost is not only the fee amount but also the interest expense for the term of the financing. Some of RIHEBC's financings are for small nonprofit institutions which already pay expenses out of pocket. It therefore places a greater burden on these borrowers to have to pay another fee related to refunding a prior bond issue when the purpose is to save money. Any additional fee for a small nonprofit is not negligible as stated in the PFMB analysis.

In terms of the inclusion of debt from cities and towns, RIHEBC has several comments on their inclusion. As the issuers of debt on behalf of cities and towns for school projects, RIHEBC purchases bonds from the community. As proposed, RIHEBC would need to pay a fee on this purchased bond and again when the RIHEBC bonds are issued thereby having fees paid twice for the same financing.

It is recommended similar to the Reporting recommendations that either the city or town bond be exempted or RIHEBC's bond be exempted from paying a fee.

Similar to its concern about subjecting refunding bonds of nonprofits to a PFMB fee, the inclusion of refunding bonds of cities and towns not only decreases the savings to them, but to the state as well

RIHEBC also believes that the conclusion in the analysis that these fees don't place a burden on general revenue, especially as it relates to RIHEBC bonds for communities, is incorrect. Cities and towns receive aid from the State ranging from 30% to 80% to defray the cost of financing school projects. Since the PFMB fee comes from bond proceeds the State, for example, would pay 80% of the fee on a Providence bond issue, plus 80% of the interest associated with that amount. In this case the General Fund would be negatively impacted because the payment it receives is less than it will pay over time on the aid of the community.

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In order to eliminate the negative impact on the State's general revenue, not only should cities and town bonds which receive such aid be exempted but also bonds of conduit issuers, like RIHEBC, should be exempt.

Thank you for your consideration of these comments on the proposed changes and should you and your staff require additional information, please let me know.

Sincerely,

Robert Donovan
Executive Director