

**Fiscal Year 2015 Report on Debt Management  
and Notice of Debt Issuances to the  
Public Finance Management Board**

**September 2016**

**State of Rhode Island  
And Providence Plantations**

**OFFICE OF THE GENERAL TREASURER**

***SETH MAGAZINER***  
***GENERAL TREASURER***

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  - C. Credit Rating Reports
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State of Rhode Island and Providence Plantations  
Office of the General Treasurer

Seth Magaziner  
General Treasurer

September 30, 2016

Members of the Rhode Island Public Finance Management Board

Mr. Michael DiBiase, Director of Administration, State of Rhode Island  
Mr. Robert A. Mancini, Public Member  
Mr. Edward F. Yazbak, Public Member  
Mr. Shawn J. Brown, Public Member  
Mr. Thomas M. Bruce, III, Public Member  
Ms. Patricia Anderson, Public Member  
Mr. B. Joe Reddish III, Public Member

Dear Members of the Board:

This letter accompanies the Fiscal Year 2015 Debt Management Report for the State of Rhode Island and Providence Plantations (the “State” or “Rhode Island”). This report is submitted in accordance with the Rhode Island General Laws, Title 42, Chapter 10.1, which established the Public Finance Management Board (the “PFMB” or the “Board”) and set forth its duties, which include reporting on the debt position of the State.

This year’s report demonstrates the importance of the State’s debt management efforts to maintain and improve the State’s credit ratings and access to the capital markets. When credit rating agencies and investors have a positive view of the State, debt service is less costly for the State. Higher-rated and lower-cost debt helps make it possible for the State to access the bond markets to finance critical infrastructure projects and improvements such as schools and roads. Investor confidence was evident in the two successful bond sales in Fiscal Year 2014: the \$78,700,000 Consolidated Capital Development Loan of 2014, Refunding Series A in May 2014; and the \$40,650,000 Consolidated Capital Development Loan of 2013, Series A (Tax Exempt) and \$12,500,000 Capital Development Loan of 2013, Series B (Federally Taxable) in October 2013. The 2014 Refunding Series saved the State over \$6.7 million in debt service costs.

Net tax supported debt totaled \$1.72 billion at the close of FY 2015 and current Budget Office forecasts project the State’s debt level will decrease to \$1.68 billion by FY 2020.

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A major responsibility of the Treasurer's Office and the PFMB is to monitor State debt ratios and to preserve Rhode Island's credit ratings and enhance the State's presence in the financial markets. Maintenance of prudent debt ratios and securing positive ratings from the credit rating agencies will enable Rhode Island to obtain financing at the lowest possible interest rates. To maintain its credit ratings at an appropriate level, the State must continue to make fiscal responsibility a top priority.

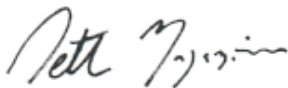
Through strong State leadership willing to address tough issues, the State has strengthened its credit profile. Notable examples include tackling pension reform as well as paying the debt service associated with the 38 Studios moral obligation bonds, establishing the Office of Management and Budget (OMB), reducing the State's reliance on one-time budget measures and improving the structural balance of the State Budget. All of these affirmative steps have positioned Rhode Island for stronger financial performance.

Rhode Island's fiscal situation had been characterized as "strained" by the three major credit rating agencies for several years. The credit rating agencies have heightened their scrutiny of budget decisions since the global economic recession triggered in 2008, with persistent structural budget gaps, tight liquidity and a weak economy being cited by the rating agencies as issues for the State. Progress is being made in addressing these issues.

Investor Relations has also become increasingly important for the State, as investors conduct their own credit analyses and seek the opportunity to ask questions of State policy makers. The Office of the General Treasurer has hosted credit rating agency visits, investor and broker/advisor meetings, launched and then upgraded the State's investor relations portal and has continued to improve reporting of and transparency into the State's finances. The State has also continued to make a concerted effort to improve its primary and continuing disclosure obligations.

According to State Budget Office projections and economic assumptions, the ratio of debt service to revenues will remain within the PFMB's guideline of 7.5% through Fiscal Year 2020. While the State's economic climate in recent years has been below the national average, revenues now appear to be improving. At this time, we do not recommend revision of the guideline, but suggest continued monitoring of the guideline as discussed in the report.

Sincerely,

A handwritten signature in black ink, appearing to read "Seth Magaziner". The signature is fluid and cursive, with a long horizontal flourish at the end.

Seth Magaziner  
General Treasurer

# SECTION 1

## 2015 Findings

The Report for Fiscal Year 2015 includes the following:

- Analysis of current State debt position and trends.
- Status report on the implementation of debt management methods and policies.
- Evaluation of projected new debt issuance in compliance with the Public Finance Management Board's ("PFMB") adopted Credit Guidelines.
- Information about outstanding debt issued by State-related agencies and summary information on local government debt position and trends.

The principal findings of this report are summarized below.

### ***Rhode Island's Debt Burden Remains Moderately High***

Rhode Island's debt levels are still relatively high, as evidenced by the following statistics provided by a Moody's Investor Service State Debt Medians Report, June 2016 and the FY17 Capital Budget:

- Rhode Island ranks 15<sup>th</sup> highest among all states in Net Tax-Supported Debt as a percent of personal income, at 3.7% (based on Moody's calculations and 2014 personal income).
- Rhode Island ranks 13<sup>th</sup> highest among all states in Net Tax-Supported Debt per capita at \$1,813 (based on Moody's calculations).
- Net Tax-Supported Debt decreased annually by 1.7% from FY11–FY15. Personal income growth for the same period was 3.8%.
- In FY15 the general obligation debt decreased by 7.3% over FY14. From FY11–FY15 general obligation debt decreased at a rate of 0.6%.

Over the last four years, Net Tax-Supported Debt decreased by \$118.3 million, from \$1.84 billion at FY11 to \$1.72 billion at FY15. Current Tax-Supported Debt of \$1.72 billion represents a decrease of 5.4% from \$1.82 billion at FY14.

According to the FY17 Capital Budget, the State's outstanding Net Tax-Supported Debt (includes adjustment for agency payments) is projected to decrease to \$1.68 billion for FY20. This projection assumes the issuance of no new Tax Supported Debt during this period other than as projected in the Capital Budget.

The Capital Budget for FY17 also indicates that State general obligation debt will increase at a compound annual growth rate of 3.9% from \$1,677.8 million at FY16 to \$1,679.0 million at FY20. The debt of the Commerce Corporation (formerly known as the Economic Development Corporation "EDC") will decrease at a compound annual growth rate of 3.9%. During the same period, it is estimated that capital leases will decrease at a compound annual growth rate of 14.8% and Convention Center Authority debt will decrease by 6.2%.

Rhode Island's efforts to improve its debt position continue to be recognized by the municipal credit rating agencies. Pension reform measures that were adopted during the 2005 and 2009 legislative sessions contributed to Standard and Poor's upgrade of the State's bond rating from AA- to AA. Protecting the gains made in debt reduction is critical and important to preserving financial flexibility.

In 2010, two of the municipal rating agencies recalibrated municipal ratings. Fitch completed its process in April 2010 and Moody's recalibrated the states in May 2010. Standard & Poor's had been using one rating scale for approximately four years. These actions were in response to market demand for enhanced comparability between municipal ratings and non-municipal ratings. As a result of recalibration, the General Obligation ratings of the states are higher on the "global" or "corporate" scale than their place on the municipal ratings scale. However, these actions were not viewed as improvements in credit quality or rating upgrades, but as an alignment of municipal ratings with corporate or global equivalents.

In its 2014 Outlook for U.S. States, Moody's Investors Service expressed a stable outlook for state credit ratings and noted that the main drivers of their stable outlook in the near term are;

- Key macro indicators continue to reflect economic recovery, albeit at subdued rates;
- Revenue growth continued in fiscal 2014 with many states recording better-than-expected revenues despite a slow start; and
- Reserves are increasing.

Moody's cites areas of caution as well, including:

- Revenue and spending risks remain in fiscal 2015 budgets;
- Federal budget and debt limit debate adds uncertainty to state budgets;
- Pensions continue to put outsized pressure on some states' budgets; and
- Employment remains weak and economic recovery has been uneven regionally.

The General Assembly passed the Rhode Island Retirement Security Act (RIRSA) on November 17, 2011 and the Governor signed it on November 18, 2011. The changes to the various State administered retirement plans not only reduced the unfunded liability of each as well as the actuarially required contribution, but served to improve the State's overall debt and liability profile.

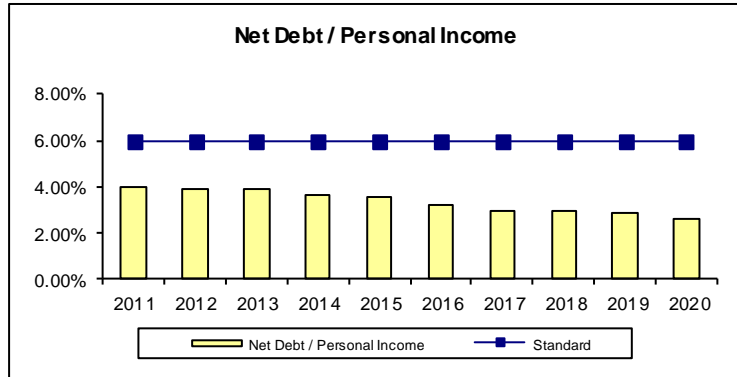
While the State's rating agencies noted RIRSA as a credit positive, they continued to monitor closely the legal actions filed in state court challenging the pension reforms. Achieving the Pension Settlement effective in 2015 removed a major uncertainty from the State's Credit Profile and has been noted as a credit positive by the rating agencies.

***PFMB's Credit Guidelines and Debt Ratio Targets*** In recognition of Rhode Island's high debt burden, the PFMB adopted Credit Guidelines recommended in the 1997 report for use in evaluating certain elements of the State's debt. The initial Credit Guidelines were adopted after extensive research on State debt trends and a comparative analysis of peer states with demographic, geographic, and financial characteristics similar to Rhode Island. The Credit Guidelines were intended to be restrictive enough to be relevant in managing debt levels, but flexible enough to allow for the funding of critical infrastructure needs. However, in light of the State's already high debt burden at the time of adoption, the Credit Guidelines did not necessarily represent an ideal level of State debt.

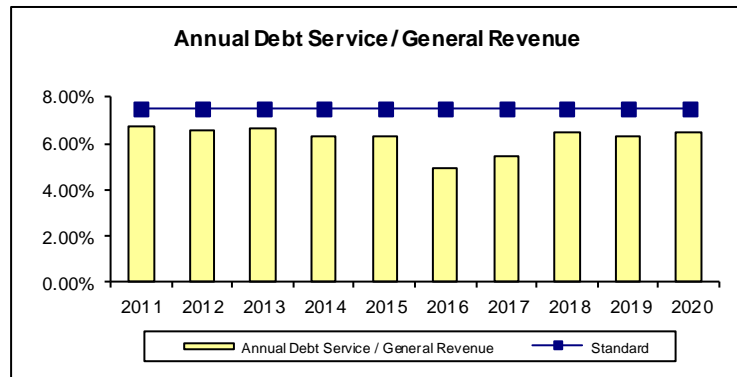
The PFMB approved the following revisions to the Tax-Supported Debt to Personal Income target debt ratios recommended in the 1999 Report on Debt Management. Approved guidelines are as follows:

- ***Credit Guideline 1:*** Tax-Supported Debt to not exceed the target range of 5.0% to 6.0% of personal income, and annual debt service for Tax-Supported Debt to not exceed 7.5% of General Revenues. It is anticipated that fluctuation of this ratio over the long-term will be affected by both variations in personal income levels and debt issuance. The target ranges will continue to be reviewed on an annual basis with consideration given to trends in the State's debt level and upcoming infrastructure projects.
- ***Credit Guideline 2:*** The Board should monitor the total amount of Tax-Supported Debt, State Supported Revenue Debt, and Agency Revenue Debt in relation to the State's personal income.
- ***Credit Guideline 3:*** The Credit Guidelines may be exceeded temporarily under certain extraordinary conditions. If a Credit Guideline is exceeded due to economic or financial circumstances, the Board should request that the Governor and the Legislature recommend a plan to return debt levels to the Guidelines within five years.

The debt projections in this report remain within the Credit Guidelines relating to Net Debt to Personal Income, as the ratio will decline from 3.2% at FY16 to 2.6% at FY20. From FY11 to FY15, Personal Income grew at a rate of 3.8%, while Net Tax-Supported Debt decreased by 1.7%. The combination of higher Personal Income growth and lower debt growth resulted in the Net Debt to Personal Income ratio of 4.1% at FY11 decreasing to 3.3% for FY15.



Annual Debt Service as a percentage of revenues decreased from 6.7% in FY11 to 6.3% in FY15. Projections from FY16 to FY20 indicate that the PFMB guideline of 7.5% for debt service to revenue ratio will not be exceeded during this period.



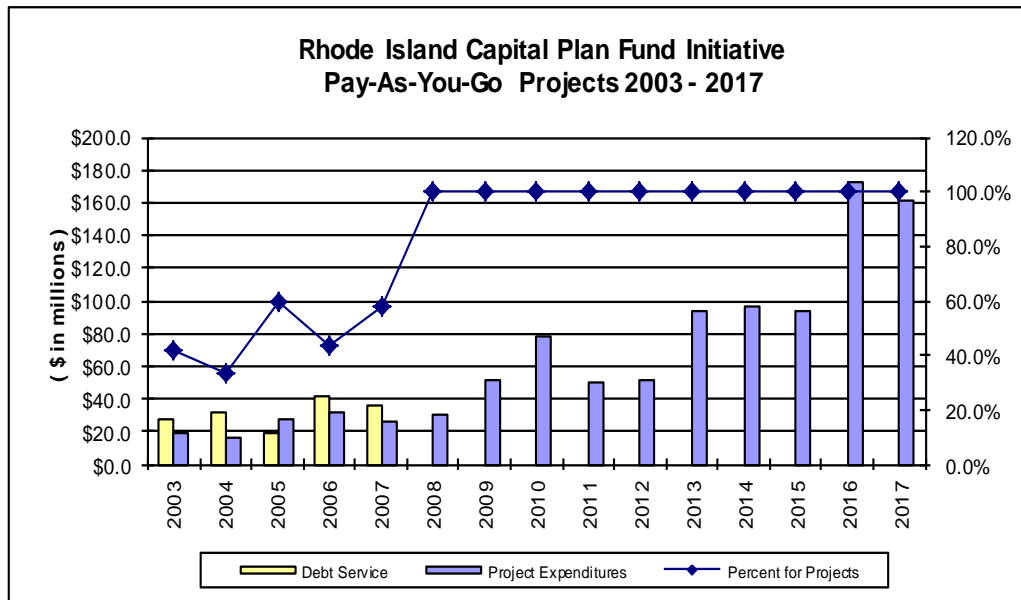


**Positive Steps in Debt Administration**

Over the years, Rhode Island has made improvements to its debt planning and administration, beginning with the implementation of a formal capital budgeting process and the adoption of the Public Corporation Debt Management Act in 1994 (§RIGL 35-18). The State’s debt load can have a negative impact on the flexibility of the operating budget and limit the State’s ability to meet unanticipated capital financing and economic development needs. Listed below are several initiatives related to debt administration undertaken by the State in recent years.

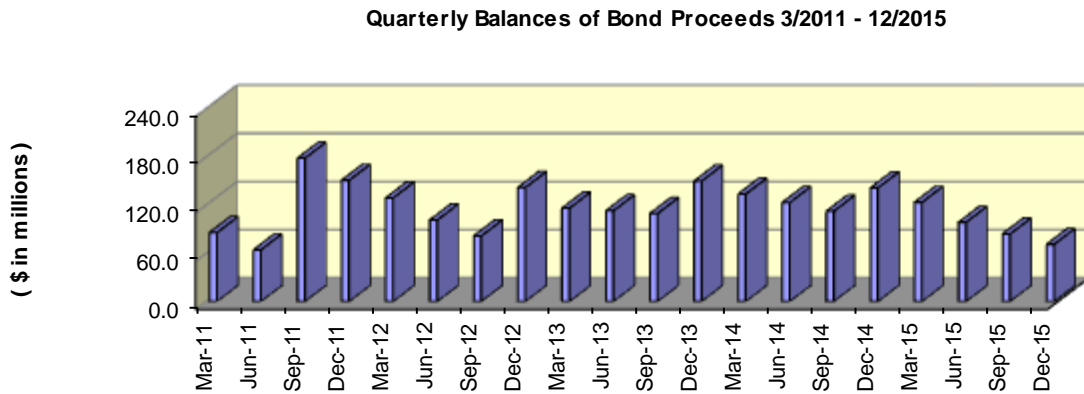
**1. Pay-As-You-Go Capital Financing.** During a period of sustained economic expansion from 1998 to 2001, along with improved cash management, the State was able to forego cash-flow borrowing, a positive trend in the State’s debt management. Greater financial flexibility during periods of economic expansion enabled the State to increase the proportion of pay-as-you-go capital spending, which includes using both gas tax funds and funds dedicated to the Rhode Island Capital Fund (“RICAP”). Historically, the State has funded its required match for federal highway funds with General Obligation bonds. This reliance on debt has increased the State’s debt burden and made fewer dollars available to RIDOT. In 2011, the General Assembly increased fees to reduce RIDOT’s reliance on debt. The new revenues combined with RICAP funding will enable the State to fund its required match without debt in the future.

Included in the governor’s recommended FY17 Budget was a \$161.2 million appropriation (\$172.8 million in FY16 which includes funding appropriations from FY15) for pay-as-you-go capital financing through the Rhode Island Capital Plan Fund. According to the FY17 Capital Budget, 100.0% of the Fund’s resources will be used for capital asset protection projects in FY17.



- Bond Proceeds Management.** The State continues to monitor the issue of unexpended balances of general obligation bond proceeds. Past reports have noted this as an issue of concern. Unexpended proceeds were \$71.3 million as of December 31, 2015 down from \$141.6 million as of December 31, 2014.

As shown in the chart below, there is a cyclical peak at the end of the second or third quarter, which is indicative of the traditional timing of bond issuance.



- Municipal Debt Report.** The PFMB is also required to report on R.I. local government debt, which is a summary of debt issued by cities and towns and other authorities to comply with Section 42-10.1-4. This report will be issued on or before September 30, 2016.
  
- Cash Management.** The State has issued tax anticipation notes (“TANs”) in all but 7 of the past 24 years. No TANs were issued in FY14 and no authority to issue TANs was sought in FY15. This improvement reflects the build-up of the budget stabilization fund and other reserves as well as improved cash management. Treasury’s proactive cash management practices have resulted in a better alignment of cash inflows with spending.

## SECTION 2

### Rhode Island State Debt

Table 2-1 below is a summary detail statement of outstanding State debt, followed by a brief glossary of terms describing each category of debt.

<b>Table 2-1</b>								
<b>Rhode Island Debt Statement</b>								
( as of June 30, 2015, dollars in millions, principal amount )								
						<u>6/30/2013</u>	<u>6/30/2014</u>	<u>6/30/2015</u>
<b>Tax-Supported Debt</b>								
	General Obligation Bonds					1,119.4	1,103.9	1,022.9
	Capital Leases					233.0	207.6	235.1
	Convention Center Authority					237.0	226.9	216.2
	R.I. Commerce Corporation					321.9	289.3	253.8
	Gross Tax-Supported Debt					1,911.3	1,827.7	1,728.0
	Agency Payments					(21.4)	(12.1)	(10.9)
	<b>Net Tax-Supported Debt</b>					<b>1,889.9</b>	<b>1,815.6</b>	<b>1,717.1</b>
<b>State Supported Revenue Debt</b>								
	R.I. Commerce Corporation - Providence Place Mall					22.6	20.3	17.9
	R.I. Housing					164.2	131.9	87.5
	Industrial Recreational Building Authority - Insured							
	Industrial Facilities Corporation					16.1	14.9	11.3
	<b>State Supported Revenue Debt</b>					<b>202.9</b>	<b>167.1</b>	<b>116.7</b>
<b>Agency Revenue Debt</b>								
	Airport Corporation					323.1	315.6	300.9
	R.I. Commerce Corporation					71.2	76.7	75.8
	R.I. Commerce Corporation - GARVEE Bonds, Federally Funded					311.6	279.0	244.9
	R.I. Housing					5.0	5.0	5.0
	Narragansett Bay Commission					562.9	619.6	589.0
	Resource Recovery Corporation					40.0	36.5	32.9
	State University and Colleges					311.5	247.7	238.6
	Turnpike and Bridge Authority					64.3	87.1	119.2
	Water Resources Board					2.3	0.6	0.0
	<b>Agency Revenue Debt</b>					<b>1,691.9</b>	<b>1,667.8</b>	<b>1,606.3</b>
<b>Conduit Debt</b>								
	R.I. Infrastructure Bank					746.9	774.1	746.5
	Health and Educational Building Corporation					2,784.5	2,913.8	2,851.3
	R.I. Housing					1,397.0	1,311.7	1,261.0
	Industrial Facilities Corporation					63.6	57.6	50.7
	Student Loan Authority					762.8	698.6	611.7
	<b>Conduit Debt</b>					<b>5,754.8</b>	<b>5,755.8</b>	<b>5,521.2</b>
Sources: FY 17 Capital Budget and Treasury Survey of R.I. Quasi-Public Corporations subject to their revisions.								

## ***Explanation of Categories of Debt***

Below is a definition of the four general categories of debt, which are used throughout this report and reflected in Table 2-1 on the previous page. These categories are listed in declining relationship to the State's general credit. To the extent possible, the categories are consistent with the methods credit analysts use in reviewing a state's debt levels. Credit analysts are the professionals who assign credit ratings and recommend and evaluate debt as investments for investors in tax exempt bonds.

### ***Tax-Supported Debt***

Tax-Supported Debt is payable from or secured by general taxes and revenues of the State or by specific State collected taxes that are pledged to pay a particular debt. Because of the claim this debt has on the State's credit, this is the most relevant debt figure to State taxpayers.

### ***State Supported Revenue Debt***

State Supported Revenue Debt is payable from specified revenues pledged for debt service which are not general taxes and revenues of the State. However, the State provides additional credit support to repay this debt if the pledged revenues are insufficient to meet scheduled debt service requirements. Because of the contingent nature of the State Credit Support, this figure is somewhat less important than Tax Supported Debt. This type of debt includes "moral obligation" debt.

### ***Agency Revenue Debt***

Agency Revenue Debt is similar to State Supported Revenue Debt; except that no State credit support is legally pledged for repayment and the assets financed are State owned enterprises that are intended to be supported by internally generated fees and revenues. While this type of debt is not supported by State taxes, the agencies and public corporations responsible for this debt may also have financed some assets with State general obligation debt, thereby indirectly linking such debt to the State.

### ***Conduit Debt***

Conduit Debt is issued by a state agency or public corporation on behalf of borrowers which include businesses, health care institutions, private higher education institutions, local governments, and qualified individuals (loans for higher education and housing purposes). No State credit support is provided.

# SECTION 3

## Classification of State Debt

### *The Debt Issuers*

The electorate of the State and the General Assembly authorize certain State officers, State agencies, and municipalities to issue debt for various purposes. This report uses the terms “issuers” and “debt issuing agencies” to describe any State office, department, corporation, or agency which issues bonds, notes, or other securities. These issuers finance construction and other capital improvements to State buildings; State highways; local water, sewer, and other capital improvement projects; loans to businesses; health care organizations; loans to low and moderate income persons for single family housing and higher education; loans to developers for multifamily housing; and private and public university buildings.

As previously noted, economic expansion resulting in more robust revenue growth could reduce pressure on the State’s debt ratios and enhance structural fiscal balance, two important credit factors. The Office of the General Treasurer worked with the General Assembly in 2013 to design a revolving fund for local roads to assist Rhode Island’s cities and towns with much needed infrastructure improvements and to foster economic activity. This program will be administered by the RI Clean Water Finance Agency and supported by RIDOT. In 2015, the Office of the General Treasurer worked on a major legislative initiative to expand the role of the RI Clean Water Finance Agency, rebranding it as the RI Infrastructure Bank. The new RIIB is charged with implementing additional programs, including PACE, Commercial PACE and an Efficient Buildings Fund to assist municipalities and other government entities with funding energy related projects.

There are currently 15 different State debt issuers that have been authorized to sell various types of obligations. Table 3-1 presents a list of each issuer and the type of debt each has issued.

**Table 3-1  
State Debt Issuing Agencies**

<u>Issuer</u>	<u>Tax-Supported Debt</u>	<u>Revenue Debt (State Credit Support)</u>	<u>Agency Revenue Debt</u>	<u>Conduit Debt</u>
Airport Corporation* (1)			X	
R.I. Infrastructure Bank				X
Convention Center Authority	X			
R.I. Commerce Corporation	X	X	X	
Health and Education Building Corp.				X
Housing, Mortgage, and Finance Corp.		X	X	X
Industrial Facilities Corp.		X		X
Narragansett Bay Commission			X	
Resource Recovery Corporation			X	
State of Rhode Island-Capital Leases	X			
State of Rhode Island-GO Bonds	X			
State Universities and Colleges			X	
Student Loan Authority				X
Turnpike and Bridge Authority			X	
Water Resources Board			X	

\* The State has outstanding general obligation bonds issued on behalf of this agency.

(1) Borrows through the R.I. Commerce Corporation.

***Tax-Supported Debt: FY11 to FY15***

Tax-Supported Debt includes general obligation bonds and bonds payable from leases which are subject to appropriation from the State's general fund. Credit ratings for this debt are largely dependent on the general fiscal condition of the State, amount of Tax-Supported Debt currently outstanding, the characteristics of the specific tax that is pledged for repayment, and the economic conditions of the State.

Table 3-2 presents the amounts and types of Tax-Supported Debt for the five years ending June 30, 2015 with resulting debt ratios. For FY15, the State's Debt to Personal Income ratio of 3.3% and Debt Service to Revenue ratio of 6.3% were in compliance with the Credit Guideline maximums of 6.0% and 7.5%, respectively. A detailed statement of Outstanding Tax-Supported Debt (actual) as of June 30, 2015 is presented in Appendix A.

**Table 3-2**  
**Tax-Supported Debt: Fiscal Years 2011 - 2015**  
(dollars in millions, principal amount)

<b>Fiscal Years</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>CAGR FY 11 - 15</b>
General Obligation Bonds	\$ 1,049.4	\$ 1,110.6	\$ 1,119.4	\$ 1,103.9	\$ 1,022.9	-0.6%
Capital Leases	224.0	233.8	233.0	207.6	235.1	1.2%
Convention Center Authority	259.6	250.5	237.0	226.9	216.2	-4.5%
R.I. Commerce Corporation	323.0	300.5	321.9	289.3	253.8	-5.8%
R.I.H.M.F.C. Neighborhood Opp. Hsing Prog.	3.5	-	-	-	-	-
Gross Tax-Supported Debt	\$ 1,859.5	\$ 1,895.4	\$ 1,911.3	\$ 1,827.7	\$ 1,728.0	-1.8%
Agency Payments	(24.1)	(22.8)	(21.4)	(12.1)	(10.9)	-18.0%
<b>Net Tax-Supported Debt</b>	<b>\$ 1,835.4</b>	<b>\$ 1,872.6</b>	<b>\$ 1,889.9</b>	<b>\$ 1,815.6</b>	<b>\$ 1,717.1</b>	<b>-1.7%</b>
Annual Net Tax-Supported Debt Service (1)	\$ 212.8	\$ 217.7	\$ 230.3	\$ 225.1	\$ 230.8	2.1%
Debt Ratios: (2)						
Annual Debt Service / Revenues (7.5%)	6.7%	6.5%	6.6%	6.3%	6.3%	-1.6%
Net Debt / Personal Income (5% - 6%)	4.1%	4.0%	3.9%	3.6%	3.3%	-5.2%
Net Debt / Capita	\$ 1,743.2	\$ 1,781.2	\$ 1,799.4	\$ 1,720.7	\$ 1,627.3	-1.7%
Assumptions:						
Revenues (1), (3)	\$ 3,159.3	\$ 3,338.7	\$ 3,484.7	\$ 3,560.8	\$ 3,649.5	3.7%
Personal Income	\$ 45,291.8	\$ 46,744.8	\$ 48,853.8	\$ 50,662.5	\$ 52,487.5	3.8%
Population (4)	1,052,886	1,051,302	1,050,292	1,055,173	1,055,173	0.1%

CAGR = Compound Annual Growth Rate  
Source: FY 17 Capital Budget

- (1) FY 12 - FY 16 Capital Budgets.
- (2) Based on Net Tax-Supported Debt which includes agency payments.
- (3) Revenues include actual general revenues plus dedicated gas tax transfers.
- (4) Population estimates for 2015 are from the U.S. Census Bureau, September 30, 2015.

As the result of decreases in General Obligation debt, Convention Center Authority debt and R.I. Commerce Corporation debt, total Net Tax-Supported Debt decreased by a CAGR of 1.7% from FY11 to FY15. These decreases were partially offset by a 1.2% CAGR increase in Capital Leases debt. State personal income grew at an annual compound rate of 3.8% while revenues increased by 3.7% over the same period.

The Governor, with approval by the General Assembly, also authorizes certain departments to finance the acquisition of equipment and the acquisition and improvement of buildings by using capital leases. Capital leases have been used to finance various projects such as the Attorney General's office, the ACI Intake Center, the office complex at Howard Center for the Department of Labor and Training and power generation facilities at the State Colleges and Universities. These capital leases are considered Tax-Supported Debt by bond credit analysts.

The Commerce Corporation, formerly the Economic Development Corporation (the "EDC") issues debt that will be paid from State taxes and revenues which represents 14.8% of Net Tax-Supported Debt. This debt contains unusual credit features, which obligate the State to pay debt service under certain expected circumstances. Two such previously contracted issues (Fidelity and Fleet leases) carry a moral obligation and springing appropriation pledge triggered by the firms' hiring levels, which requires the State to appropriate funds in the event that certain job hiring targets are met. In the event performance targets are not met, the State is not obligated to pay under the agreements. The purpose of this type of performance-based credit structure is to foster economic development, and to justify such appropriations by the generation of incremental income tax receipts. For this reason, issuance must be carefully monitored and measured for budget purposes.

### ***Projected Tax-Supported Debt: FY16 to FY20***

Using figures provided by the State Budget Office, an estimate of the Tax-Supported Debt for the FY16 – FY20 period has been developed along with a forecast of certain debt ratios.

Gross Tax-Supported Debt (excludes adjustments for agency payments) is projected to decrease from \$1,687.3 million in FY16 to \$1,682.5 million in FY20.

<b>Table 3-3</b>						
<b>Tax-Supported Debt: Fiscal Years 2016 - 2020</b>						
(dollars in millions, principal amount)						
<b>Fiscal Years</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>CAGR FY 16 - 20</b>
General Obligation Bonds	\$ 1,047.4	\$ 1,079.9	\$ 1,184.8	\$ 1,195.2	\$ 1,220.8	3.9%
Capital Leases	209.3	182.3	159.6	135.6	110.4	-14.8%
Convention Center Authority	205.0	193.5	182.6	171.1	159.0	-6.2%
R.I. Commerce Corporation	225.6	238.2	265.9	229.7	192.3	-3.9%
Gross Tax-Supported Debt	\$ 1,687.3	\$ 1,693.9	\$ 1,792.9	\$ 1,731.6	\$ 1,682.5	-0.1%
Agency Payments	(9.5)	(8.0)	(6.6)	(5.1)	(3.5)	-22.1%
<b>Net Tax-Supported Debt</b>	<b>\$ 1,677.8</b>	<b>\$ 1,685.9</b>	<b>\$ 1,786.3</b>	<b>\$ 1,726.5</b>	<b>\$ 1,679.0</b>	<b>0.0%</b>
Annual Net Tax-Supported Debt Service (1)	\$ 185.7	\$ 210.1	\$ 252.4	\$ 252.1	\$ 261.8	9.0%
Debt Ratios: (2)						
Annual Debt Service / Revenues (7.5%)	5.0%	5.5%	6.4%	6.3%	6.4%	6.8%
Net Debt / Personal Income (5% - 6%)	3.1%	2.9%	3.0%	2.8%	2.6%	-4.1%
Net Debt / Capita	\$ 1,590.1	\$ 1,597.7	\$ 1,692.9	\$ 1,636.2	\$ 1,591.2	0.0%
Assumptions:						
Revenues	\$ 3,742.5	\$ 3,854.5	\$ 3,917.6	\$ 3,974.5	\$ 4,059.6	2.1%
Personal Income	\$54,391.0	\$57,221.3	\$59,961.0	\$62,263.4	\$64,243.7	4.2%
Population (3)	1,055,173	1,055,173	1,055,173	1,055,173	1,055,173	0.0%
CAGR = Compound Annual Growth Rate						
Source: FY 17 Capital Budget						
(1) Projected Net Tax-Supported Debt Service. FY 17 Capital Budget, page B-13.						
(2) Based on Net Tax-Supported Debt which includes agency payments.						
(3) Population estimates for 2015 are from the U.S. Census Bureau, September 30, 2015.						



### ***State Supported Revenue Debt***

State Supported Revenue Debt is payable from specified revenues pledged for debt service which are not general taxes and revenues of the State. The State provides additional credit support to repay this debt only if the pledged revenues are insufficient to meet scheduled debt service payments.

The State provides credit support in a variety of forms. For purposes of this report, State Credit Support is broadly defined to include a contingent commitment to make annual appropriations under a lease, a contingent commitment to seek appropriations to replenish a special debt reserve, direct guarantees of debt payments, commitments to pay all or a portion of debt service under certain conditions, and commitments to provide other payments which indirectly secure or directly pay debt service.

A contingent commitment to seek appropriations to replenish a special debt reserve is known as a “Moral Obligation” and has special meaning to credit analysts. State laws that authorize Moral Obligation debt require notification by the Governor to the General Assembly when a deficiency in a special debt service reserve has occurred. The Governor then is required to request an appropriation to replenish the reserve to its required level. Credit analysts view Moral Obligation bonds as a contingent State obligation even though the legislative body is not contractually required to make the requested appropriation.

State Supported Revenue Debt represents a substantial contingent obligation of the State of \$116.7 million at June 30, 2015, down from \$167.1 million at June 30, 2014. While this type of debt is intended to be paid from dedicated revenues generated from financed projects, the State has provided credit support to additionally secure this debt. Because of the implied financial commitment of State support in the event of any unanticipated revenue shortfall, the level of this debt is an important consideration for the credit ratings of the State’s Tax-Supported Debt. Table 3-4 presents the amounts and types of State Supported Revenue Debt for the five years ending June 30, 2015.

<b>Table 3-4</b>						
<b>State Supported Revenue Debt: Fiscal Years 2011 - 2015</b>						
( dollars in millions, principal amount )						
<b>Fiscal Years</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>CAGR FY 11 - 15</b>
R.I. Commerce Corporation - Providence Place Mall	26.7	24.7	22.6	20.3	17.9	-9.5%
R.I. Housing	235.2	227.1	164.2	131.9	87.5	-21.9%
Industrial Recreational Building Authority - Insured Industrial Facilities Corporation	20.8	19.5	16.1	14.9	11.3	-14.1%
<b>Total</b>	<b>\$ 282.7</b>	<b>\$ 271.3</b>	<b>\$ 202.9</b>	<b>\$ 167.1</b>	<b>\$ 116.7</b>	<b>-19.8%</b>
CAGR = Compound Annual Growth Rate						
Source: Treasury Survey of R.I. Quasi-Public Corporations.						

The largest component of State Supported Revenue Debt is the Moral Obligation debt of Rhode Island Housing, which has decreased by 147.7 million (CAGR of 21.9%) since 2011. State Supported Revenue Debt decreased by an annual compound rate of 19.8% for the period from FY11 to FY15.

*The Rhode Island Industrial Facilities Corporation (“RIIFC”) issues bonds which are secured by loans and mortgages of private borrowers, but the bonds may be additionally secured by a voter authorized commitment provided by the Industrial-Recreational Building Authority (“IRBA”) which is funded by State appropriations. The portion of RIIFC’s debt guaranteed by IRBA is shown in this category.*

The Commerce Corporation (EDC) is authorized by the General Assembly to secure certain of its revenue bonds with the State’s Moral Obligation with the approval of the Governor, similar to the Fidelity and Fleet Performance Obligations described in Tax Supported Debt. As of FY00, all debt issues previously secured by the traditional moral obligation pledge authorized in the EDC’s predecessor agency’s enabling legislation had been paid off. However, additional issues were authorized by the General Assembly and secured by the State’s Moral Obligation, including \$75 million Job Guaranty Program Revenue Bonds issued in FY11 and an additional \$5.5 million issued in FY12 as part of a \$150 million program. The program was rescinded in the 2012 Legislative Session.

### ***Agency Revenue Debt***

Agency Revenue Debt is similar to the previous classification, except that the State has not provided any form of credit support and no general taxes or revenues are pledged for payment of these bonds. This type of debt is isolated from the State's general credit, but because the borrowers are agencies or corporations created by the General Assembly, this debt is not as removed as Conduit Debt.

Investors would expect that the State would take no actions which would cause these bond issuers financial harm, and the State has no legal responsibility to prevent financial defaults. However, as a practical matter, the State facilities which are financed in this manner, such as the University of Rhode Island, the Claiborne Pell and Mt. Hope Bridges, and the T.F. Green Airport expansion, are important public facilities, the use of which the State would not likely surrender in the event that the pledged revenues were insufficient to pay debt service. For this reason, this type of debt is important to the State's credit standing.

The State has issued general obligation bonds to finance facilities of several of the agencies shown in Table 3-5. Only the Revenue Debt of these agencies is presented in Table 3-5, and any other debt is presented in the sections relating to Tax-Supported Debt. Table 3-5 presents the amounts and types of Agency Revenue Debt for five fiscal years ending June 30, 2015.

<b>Table 3-5</b>						
<b>Agency Revenue Debt: Fiscal Years 2011 - 2015</b>						
(dollars in millions, principal amount)						
						<b>CAGR</b>
<b>Fiscal Years</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>FY 11 - 15</b>
Airport Corporation	\$ 309.7	\$ 300.8	\$ 323.1	\$ 315.6	\$ 300.9	-0.7%
R.I. Commerce Corporation	97.5	100.2	71.2	76.7	75.8	-6.1%
R.I. Commerce Corporation - GARVEE Bonds (1)	372.3	342.7	311.6	279.0	244.9	-9.9%
R.I. Housing	5.0	5.0	5.0	5.0	5.0	0.0%
Narragansett Bay Commission	422.4	488.5	562.9	619.6	589.0	8.7%
Resource Recovery Corporation	13.1	12.2	40.0	36.5	32.9	25.9%
State University and Colleges	276.2	268.7	311.5	247.7	238.6	-3.6%
Turnpike and Bridge Authority	69.2	66.8	64.3	87.1	119.2	14.6%
Water Resources Board	4.1	2.3	2.3	0.6	-	-
<b>Total</b>	<b>\$ 1,569.5</b>	<b>\$ 1,587.2</b>	<b>\$ 1,691.9</b>	<b>\$ 1,667.8</b>	<b>\$ 1,606.3</b>	<b>0.6%</b>
CAGR = Compound Annual Growth Rate						
Source: Treasury Survey of R.I. Quasi-Public Corporations.						
(1) Federally Funded						

The Resource Recovery Corporation experienced the largest increase of 25.9% followed by the Turnpike and Bridge Authority at 14.6%. Next was the Narragansett Bay Commission which increased by 8.7%. Overall, Agency Revenue debt grew at a compound annual rate of 0.6% from FY11 - FY15. Because payment of this category of debt is supported by fees, charges, or other revenues, an increase in this type of debt may be considered as one indicator of economic growth. However, either a stable or growing economy is needed to support such debt.

**Conduit Debt**

Conduit Debt is issued by a State agency on behalf of borrowers, which include businesses, health care institutions, private higher education institutions, local governments, and qualified individuals (loans for housing and higher education purposes). These borrowers are able to borrow at the favorable tax exempt interest rates under the federal tax laws by having a State agency issue bonds on their behalf.

Conduit Bonds are payable from repayment of loans by the borrowers and are independent of the State’s credit. Investors would not expect any assistance by the State in the event the borrower experienced financial difficulties or if the debt were to default. None of the debt presented in Table 3-6 is secured by any form of State Credit Support.

Conduit Debt, which represents the largest category of debt, decreased at a compounded annual rate of 1.1% from FY11-FY15. The agencies which experienced the most significant growth in debt were the R.I. Infrastructure Bank and the Health and Educational Building Corporation with compounded annual growth rates of 2.7% and 2.6% respectively.

<b>Table 3-6</b>						
<b>Conduit Debt: Fiscal Years 2011 - 2015</b>						
( dollars in millions, principal amount )						
<b>Fiscal Years</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>CAGR FY 11 - 15</b>
R.I. Infrastructure Bank	\$ 671.2	\$ 706.9	\$ 746.9	\$ 774.1	\$ 746.5	2.7%
Health and Educational Building Corporation	2,574.5	2,736.5	2,784.5	2,913.8	2,851.3	2.6%
R.I. Housing	1,416.5	1,370.7	1,397.0	1,311.7	1,261.0	-2.9%
Industrial Facilities Corporation	80.8	65.5	63.6	57.6	50.7	-11.0%
Student Loan Authority	1,026.6	863.0	762.8	698.6	611.7	-12.1%
<b>Total</b>	<b>\$ 5,769.6</b>	<b>\$ 5,742.6</b>	<b>\$ 5,754.8</b>	<b>\$ 5,755.8</b>	<b>\$ 5,521.2</b>	<b>-1.1%</b>
CAGR = Compound Annual Growth Rate						
Source: Treasury Survey of R.I. Quasi-Public Corporations.						

**Local Government Debt**

Local governments issue various types of debt which may be secured by a general obligation of the local government or may be payable from a specific revenue source.

Table 3-7 presents the amounts of Local Government Debt for the five years ending June 30, 2014. This table does not include the debt of certain regional and municipal authorities including the Bristol County Water Authority, the Foster/ Gloucester Regional School District, Kent County Water Authority, and the Providence Public Building Authority.

Local government debt includes General Obligation bonds and notes, Revenue bonds, and capital leases of Rhode Island’s 39 local governments. During the five years shown in Table 3-7 this debt decreased at a compound annual growth rate of 1.7%.

<b>Table 3-7</b>							
<b>Local Government Debt: Fiscal Years 2010 - 2014</b>							
( in millions )							
<b>Fiscal Years</b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b>CAGR</b>	
						<b><u>FY 10 - 14</u></b>	
Local Government Debt	\$ 1,767.6	\$ 1,821.3	\$ 1,761.3	\$ 1,721.0	\$ 1,650.6	<b>-1.7%</b>	
CAGR = Compound Annual Growth Rate							
Source: Office of the General Treasurer and the Audited Financial Statements of the 39 Cities and Towns.							

# SECTION 4

## Debt Policies and Practices

### *Importance of Debt Management*

The State of Rhode Island and its local governments use debt to finance capital improvements and to make loans at tax exempt interest rates to various government, nonprofit, and private borrowers for capital investments for economic development and other public purposes. The ability to fund capital investments through borrowing is important because the State and its local governments do not have sufficient cash reserves or dedicated revenue resources necessary to fund these expenditures. Of course, not all capital investments are funded or should be funded with debt. Current revenues and cash reserves also are and should remain as funding sources for capital improvements for the State and its local governments.

Maintaining an ability to borrow, often called “debt capacity,” is a critical resource for most state and local governments. Without debt capacity the State may not be able to pay for restoration of aging infrastructure and make new capital investments. Public capital investments attract private capital to be invested, which creates employment and a high quality of life for the residents of the State. Capital investment in transportation infrastructure, including highways, airports and ports, is a basic building block for the State’s economy. Other essential capital investments must be continually made for purposes such as water, wastewater, recreation, local schools and higher education. The State’s capital budget lays out future State capital needs. Because of the State’s current debt profile, prudent debt management is critical to satisfying these capital investment needs.

### *Debt Targets*

Setting debt targets is a policy exercise involving balancing the cost of debt against the need for debt financed capital improvements. Many states set limits on debt that is paid from state general taxes and revenues. Maintaining a high credit rating or improving an average rating is a key objective in limiting debt in most states. The PFMB has set debt targets based on personal income levels and debt service as a percentage of General Revenues. However, municipal/public credit ratings are based on not only debt levels, but also financial, economic and management characteristics of the jurisdiction. There are no fixed formulas for the optimal combination of these factors and each rating agency weights the various factors differently. In reality, some factors, such as the economy or demographics, are beyond the issuer’s control. However, because debt issuance can be controlled, most borrowers focus on debt levels as a critical rating factor. The principal benefit of higher credit ratings is that investors are willing to accept lower interest rates on highly rated debt relative to lower rated debt; thereby reducing the State’s borrowing costs.

### *Debt Capacity*

For purposes of this analysis, debt capacity is a term used to define how much debt can be issued by the State or an agency of the State, either on an absolute basis or without adverse consequences to its credit rating or the marketability of its debt. Debt capacity is customarily evaluated in view of the income, wealth, or asset base by which the debt is secured or from which it is paid. With the variety of debt types, payment sources and legal means used to secure debt, there is no single measure of debt capacity to which all debt issued by all state agencies would be subject.

Rhode Island made presentations to the State’s credit rating agencies on several occasions in 2013 and 2014. The agencies were provided with an update of the State’s budget, economic development initiatives and current debt profile. The ratings were based on the State’s economic performance, effective management of the State’s financial operations, and success in reducing the State’s debt burden, economic development efforts and recent Pension Reform.

Rhode Island's general obligation bonds are currently rated "Aa2/AA/AA" by Moody's Investors Service, Standard & Poor's and Fitch, respectively. It is important to note that the State maintained its ratings level during the period 2001-2004, when many states were downgraded or placed on credit watch. However, in November 2007 when the State met with all three rating agencies, their focus was on the State's budget situation. While all three rating agencies rate Rhode Island in the "Double A" category, recent rating reports have included warning signs. It is clear that the rating agencies will continue to scrutinize the budget process carefully, including: projected budget out-year deficits and actions taken to address the projected deficits. Other budgetary decisions such as funding Moral Obligation debt service, pension liabilities, and OPEB liabilities are also key rating drivers for the State.

The State's financial and budgeting practices and track record in reducing the debt burden and taking appropriate action in response to budget pressures have been recognized as credit strengths in the past. Challenges to the State's ratings are presented by historical structural budget deficits due to slow revenue growth and spending requirements, slow economic growth, significant infrastructure needs, and narrow liquidity. The State's response to these challenges has been and will continue to be closely monitored by the rating agencies. Table 4-1 presents the credit ratings for all states with general obligation debt outstanding.

Debt projections for FY16 through FY20, as presented in Table 3-3, indicate that Net Debt to Personal Income will decrease from 3.1% to 2.6% during this period. These projections also show Debt Per Capita holding steady at 0.0% from \$1,590.1 to \$1,591.2 over the same period.

Because the rating agencies also evaluate economic and demographic factors in their rating analyses, the State's economic and demographic growth relative to other states will be a key factor in future comparisons. Finally, while the State's Debt to Personal Income of 3.7% in FY15 compares favorably to Moody's 2015 peer group average of 5.1%, this ratio is high relative to Moody's 2015 median (includes all states) of 2.5%. Likewise, the State's FY15 Debt per Capita of \$1,813 compares unfavorably to the current Moody's median at \$1,025, but favorably to the 2015 Peer Group Average of \$2,812. Debt levels tend to be relatively higher in Rhode Island's Peer Group states in light of their aging infrastructure and practice of financing many projects at the state level rather than at the municipal or county level. These comparisons indicate that even after projected debt ratio improvements, Rhode Island's debt profile will continue to remain high relative to other states. These projections support Rhode Island's continued discipline in debt management.

**Table 4-1  
Long Term Credit Ratings  
General Obligation Bonds**

	<u>Moody's</u>	<u>S &amp; P</u>	<u>Fitch</u>
Alabama	Aa1	AA	AA+
Alaska	Aaa	AAA	AAA
Arizona	Aa3	AA	NR
Arkansas	Aa1	AA	NR
California	Aa3	A+	A+
Colorado	Aa1	AA	NR
Connecticut	Aa3	AA	AA
Delaware	Aaa	AAA	AAA
Florida	Aa1	AAA	AAA
Georgia	Aaa	AAA	AAA
Hawaii	Aa2	AA	AA
Idaho	Aa1	AA+	AA+
Illinois	A3	A-	A-
Indiana	Aaa	AAA	AAA
Iowa	Aaa	AAA	AAA
Kansas	Aa2	AA	NR
Kentucky	Aa2	AA-	AA-
Louisiana	Aa2	AA	AA
Maine	Aa2	AA	AA
Maryland	Aaa	AAA	AAA
Massachusetts	Aa1	AA+	AA+
Michigan	Aa2	AA-	AA
Minnesota	Aa1	AA+	AA+
Mississippi	Aa2	AA	AA+
Missouri	Aaa	AAA	AAA
Montana	Aa1	AA	AA+
Nebraska	NR	AAA	NR
Nevada	Aa2	AA	AA+
New Hampshire	Aa1	AA	AA+
New Jersey	A2	A	A
New Mexico	Aaa	AA+	NR
New York	Aa1	AA+	AA+
North Carolina	Aaa	AAA	AAA
North Dakota	Aa1	AAA	NR
Ohio	Aa1	AA+	AA+
Oklahoma	Aa2	AA+	AA+
Oregon	Aa1	AA+	AA+
Pennsylvania	Aa3	AA-	AA-
<b>Rhode Island</b>	<b>Aa2</b>	<b>AA</b>	<b>AA</b>
South Carolina	Aaa	AA+	AAA
South Dakota	NR	AAA	AA+
Tennessee	Aaa	AA+	AAA
Texas	Aaa	AAA	AAA
Utah	Aaa	AAA	AAA
Vermont	Aaa	AA+	AAA
Virginia	Aaa	AAA	AAA
Washington	Aa1	AA+	AA+
West Virginia	Aa1	AA	AA+
Wisconsin	Aa2	AA	AA
Wyoming	NR	AAA	NR
<b>Rhode Island rating compared to other states:</b>			
Above Rhode Island	30	28	30
Same as Rhode Island	10	15	6
Below Rhode Island	6	6	5
NR	3	0	8
Source: Public Resources Advisory Group - State Ratings as of 6/30/15.			



### ***Tax-Supported Debt***

Tables 4-2, 4-3, and 4-4 present the history for the key debt ratios for Rhode Island and the median level for all states as determined periodically by Moody’s Investors Service. The peer states of Delaware, Connecticut, Massachusetts, Maine, New Hampshire, and Vermont were selected due to geographical proximity (the New England states), population (Delaware, Vermont, New Hampshire, Maine), age of infrastructure (all), and concentration of services at the state level (Delaware).

		RI									
		National	Moody's	Peer							
Year	RI	Rank	Median	State Ave	DE	CT	MA	ME	NH	VT	
<b>2005</b>	4.3%	16th	2.4%	4.7%	5.5%	8.5%	8.5%	2.2%	1.3%	2.3%	
<b>2006</b>	4.1%	13th	2.5%	4.8%	5.3%	8.0%	9.8%	2.0%	1.4%	2.2%	
<b>2007</b>	4.6%	13th	2.4%	4.7%	5.5%	7.8%	9.4%	1.9%	1.3%	2.1%	
<b>2008</b>	4.7%	12th	2.6%	4.6%	5.2%	7.3%	9.8%	1.9%	1.3%	2.0%	
<b>2009</b>	4.5%	11th	2.5%	4.6%	5.4%	8.2%	8.9%	2.2%	1.3%	1.8%	
<b>2010</b>	5.2%	13th	2.5%	5.0%	6.2%	8.7%	9.2%	2.2%	1.6%	1.8%	
<b>2011</b>	4.7%	14th	2.8%	5.2%	6.8%	9.1%	9.4%	2.3%	1.8%	2.0%	
<b>2012</b>	4.7%	13th	2.8%	5.1%	6.2%	9.1%	9.3%	2.1%	1.9%	1.9%	
<b>2013</b>	4.5%	13th	2.6%	5.0%	5.7%	9.2%	9.0%	2.4%	1.8%	2.0%	
<b>2014</b>	4.2%	12th	2.5%	4.9%	5.5%	9.0%	8.7%	2.3%	1.7%	2.1%	
<b>2015</b>	3.7%	15th	2.5%	5.1%	5.2%	9.8%	9.5%	2.2%	1.5%	2.1%	
Source:	Moody's Investors Service										
	May 6, 2016 - State Debt Medians Report										

*Note: Due to variations in calculation methods used by Moody’s, Rhode Island’s debt ratios in this table are different than the same ratios which are presented in Table 3-2.*

The Tax-Supported Debt to personal income ratio measures the State’s debt paid from general taxes and revenues in comparison to personal income, which is considered to be a good measure of the State’s aggregate wealth. Rhode Island’s Net Tax-Supported Debt to Personal Income ratio had decreased over the period from 2010 - 2015 and its ranking dropped from the 13<sup>th</sup> highest in the country to the 15<sup>th</sup> highest. The 2005 ratio of 4.3% improved due to the debt defeasance program funded from the State’s Tobacco Securitization and was below the peer group average of 4.7%, but it remained well above Moody’s Median of 2.4%. However, in 2015 the ratio decreased to 3.7% giving Rhode Island a ranking of 15<sup>th</sup> highest. This ratio indicates that Rhode Island’s Tax-Supported Debt is a greater burden on the State’s economy than is typical of most states. Personal income represents the wealth of the State which is taxed to support Tax-Supported Debt or could be taxed to support State Credit Supported Revenue Debt.

**Table 4-3  
Comparison to Peer States  
Net Tax-Supported Debt per Capita**

<u>Year</u>	<u>RI</u>	<u>RI National Rank</u>	<u>Moody's Median</u>	<u>Peer State Ave</u>	<u>DE</u>	<u>CT</u>	<u>MA</u>	<u>ME</u>	<u>NH</u>	<u>VT</u>
2005	\$ 1,402	11th	\$ 754	\$ 1,904	\$ 1,845	\$ 3,624	\$ 4,128	\$ 606	\$ 514	\$ 707
2006	\$ 1,687	9th	\$ 787	\$ 1,944	\$ 1,998	\$ 3,713	\$ 4,153	\$ 603	\$ 492	\$ 706
2007	\$ 1,766	9th	\$ 889	\$ 2,009	\$ 2,002	\$ 3,698	\$ 4,529	\$ 618	\$ 499	\$ 707
2008	\$ 1,812	9th	\$ 865	\$ 2,150	\$ 2,128	\$ 4,490	\$ 4,323	\$ 743	\$ 525	\$ 692
2009	\$ 2,127	9th	\$ 936	\$ 2,348	\$ 2,489	\$ 4,859	\$ 4,606	\$ 760	\$ 665	\$ 709
2010	\$ 2,191	10th	\$ 1,066	\$ 2,508	\$ 2,676	\$ 5,236	\$ 4,711	\$ 865	\$ 812	\$ 747
2011	\$ 1,997	12th	\$ 1,117	\$ 2,500	\$ 2,674	\$ 5,096	\$ 4,814	\$ 845	\$ 776	\$ 792
2012	\$ 2,085	10th	\$ 1,074	\$ 2,529	\$ 2,536	\$ 5,185	\$ 4,968	\$ 814	\$ 862	\$ 811
2013	\$ 2,064	10th	\$ 1,054	\$ 2,606	\$ 2,485	\$ 5,457	\$ 4,999	\$ 951	\$ 864	\$ 878
2014	\$ 1,985	10th	\$ 1,012	\$ 2,593	\$ 2,438	\$ 5,491	\$ 4,887	\$ 942	\$ 848	\$ 954
2015	\$ 1,813	13th	\$ 1,025	\$ 2,812	\$ 2,385	\$ 6,155	\$ 5,592	\$ 928	\$ 808	\$ 1,002

Source: Moody's Investors Service  
May 6, 2016 - State Debt Medians Report

*Note: Due to variations in calculation methods used by Moody's, Rhode Island's debt ratios in this table are different than the same ratios which are presented in Table 3-2.*

The ratio of Tax-Supported Debt to population fails to consider the economic wealth that supports the debt or the portion of the State's budget used to pay debt service. This ratio shows that three of the six peer states (Delaware, Connecticut and Massachusetts), have levels of debt per capita above the national median. This may be due to the combined factors of age of infrastructure, low population, and the dependency on the state to shoulder greater financing responsibilities. Since 2005, Rhode Island's Net Tax-Supported Debt per Capita has consistently been below that of the peer state average.

**Table 4-4  
Net Tax-Supported Debt Service as a Percent of General Revenues**

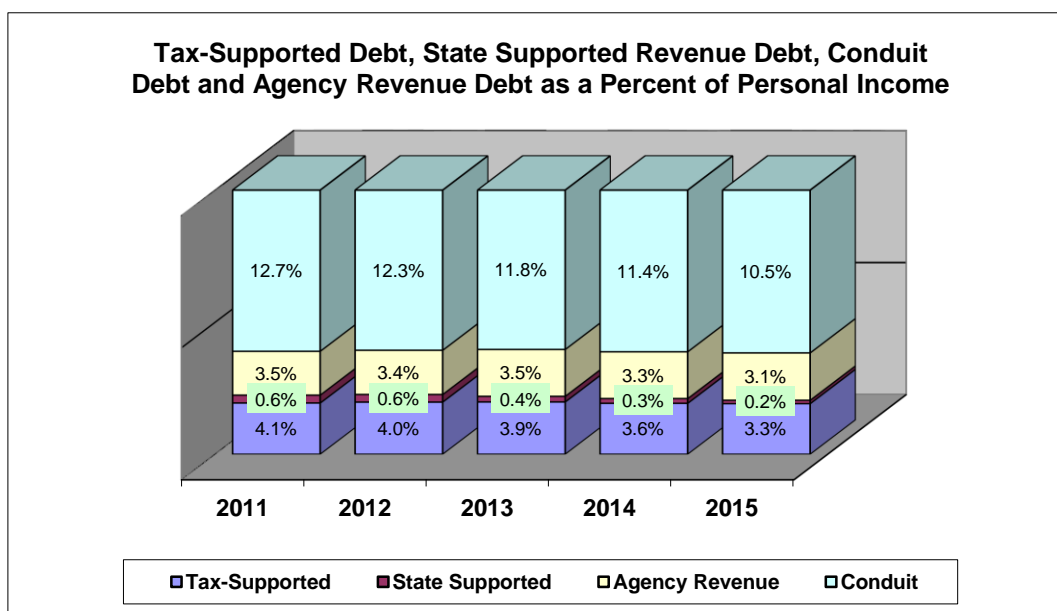
<u>Year</u>	<u>RI</u>
2011	6.7%
2012	6.5%
2013	6.6%
2014	6.3%
2015	6.3%

Source: FY 12 - FY 16 Capital Budgets.

Tax-Supported Debt Service to General Revenues is used for internal trend analysis, but no longer for peer group comparison analysis since the rating agencies no longer publish this data.

As Tables 4-2 and 4-3 show, Rhode Island has moderately high levels of Tax-Supported Debt according to these ratio measures. It should be noted, however, that tax supported debt as a per cent of personal income has declined somewhat from 2010 as shown in the chart below. High debt levels can lead to lower credit ratings, which result in higher borrowing costs, and a diminished financial capacity to respond to needed infrastructure improvements to support economic development.

The chart below shows the total amount of Rhode Island’s Tax-Supported Debt, State Supported Revenue Debt, Agency Revenue Debt and Conduit Debt and its relationship to State personal income has decreased from 20.9% of Personal Income in FY11 to 17.1% in FY15. This decrease came as Personal Income grew at the compound annual growth rate of 3.8%.



# Section 5

## Recommended Priorities and Issues for 2014 and 2015

Based on the findings of this and the preceding Debt Management Reports, the following debt management priorities are recommended for 2014 and 2015.

### ***1. Institutionalize and continue to improve Disclosure Practices***

Improved disclosure has long been one of the top priorities of the Office of the General Treasurer. During FY 2011, the State retained Special Disclosure Counsel and reconstituted its Disclosure Working Group. Regular training for staff was in place by the end of FY 2011. Training was expanded to include state agencies during FY 2012 and offered to municipalities in FY 2013. The Municipal Markets place increasing importance on Issuer Disclosure Information, not only when bonds are issued, but on a continuing basis. The State will consider the white papers developed by the National Federation of Municipal Analyst and the National Association of Bond Lawyers in improving Disclosure Practices. In addition to offering training, the State will continue to offer to extend Disclosure expertise to municipalities and other issuers in Rhode Island. In connection with the Disclosure initiative, the sections on retirement and pensions in the State's Information Statement have been revised. It is recommended that a similar update and revision of other sections be initiated to update the State's Disclosure.

### ***2. Enhanced Investor Relations Program***

The PFMB recommends that the State continue to improve its Investor Relations program to enhance the participation of Rhode Island "retail" investors in the purchase of State issued debt and to respond to the information needs of institutional investors. This effort will also serve to provide appropriate information to the marketplace on an ongoing basis. This initiative requires the assistance of the State's Bond Counsel, Disclosure Counsel, Special Disclosure Counsel and Financial Advisor. Market developments, including the exit of many bond insurers from the industry, over the past few years have made analysis of the issuer's underlying credit more important to investment decisions. Therefore, improved Disclosure and Investor Relations can have an even more important impact on an issuer's interaction with market participants. The Treasurer's office upgraded its website and added an investor relations portal, which have continued to be expanded and improved this year. In addition, investor road shows, both in person and web-based have been undertaken, as well as direct outreach to major institutional investors.

### ***3. Continued Emphasis on Rating Agency Communication and Debt Management***

The State's debt management policies included greater scrutiny of debt issues, the development of debt level benchmarks and refinement of the capital budgeting process. Rhode Island has lived up to its commitment to reduce its debt burden and is now realizing the benefits of this consistent discipline. Recent changes in rating agency criteria have incorporated Pension and OPEB liabilities in the analysis of overall debt burden. Rhode Island's efforts related to retiree health care and pension reform have been a positive development. The credit guidelines and more conservative debt ratio targets approved by the PFMB in June 2000 provided the structure necessary to evaluate debt trends for the past 13 years. It is also appropriate, however, to review those guidelines in the context of new rating agency criteria and economic conditions and going forward, to look broadly at the debt approval process of the State and quasi-public agencies for opportunities to improve the review process and to strengthen controls.

Maintenance of the State's AA category ratings has become more important as credit spreads widened in recent years and limited credit enhancement alternatives are available. According to the most recent rating reports, challenges to the State's ratings include: underperforming revenues and continued spending pressure, narrow liquidity, continuing structural budget gaps requiring non-recurring resources, and weak economic indices. The settlement of the legal challenges to the State's pension reform and the annual appropriation to support the State's moral obligation debt have been high profile issues with broad implications to the State's credit ratings. These issues have been successfully addressed as a result of strong State leadership. The State hosted the Rating Agencies for presentations and site visits in 2015. Ongoing, regular communication with the rating analysts is critical and the State will continue to meet with the rating agencies on a regular basis and not solely in connection with the issuance of debt.

#### ***4. Sponsor Educational Programs for Municipalities***

The PFMB can provide a much-needed service in offering continuing education on topical issues to municipal officers. Initiatives in this area have continued in the past several years. The Office of the General Treasurer hosted meetings and seminars for municipalities on disclosure practices, pension reform, and investments. In the past, staff from the Office of General Treasurer worked with municipal finance officers and the Rhode Island Public Expenditure Council ("RIPEC") to develop a "Municipal Fiscal Health Check" to provide uniform data on the fiscal practices, policies, and status of all municipalities. The Office of the General Treasurer also supports the efforts of the Rhode Island Government Finance Officers Association ("RIGFOA") and has been involved in reviewing legislation to improve local borrowing practices, making presentations at RIGFOA meetings and the development of programs for RIGFOA members. Topics included the State Retirement System, Cash Management, Other Post-Employment Benefits (OPEB), Performance Measures and Benchmarks, Disclosure Practices, and Pension Reform.

#### ***5. Explore Alternative Funding Mechanisms for Major Transportation and Infrastructure Projects***

The State's Capital Budget and Transportation Improvement Plan ("TIP") have included significant increases in capital spending for major infrastructure projects such as the relocation of Route I-195. Revenues from the gasoline tax provide support for Transportation projects and the State General Fund. That revenue source has not kept pace with DOT's budget and with debt service on General Obligation Bonds sold to provide the State match for Federal Highway funds. One response to this was that the General Assembly indexed the gas tax to inflation in 2014. Dedication of additional revenues to Transportation will reduce the State's reliance on debt to provide State match and foster the stated PFMB and State goals of reducing or moderating Rhode Island's reliance on tax-supported debt for such projects. The PFMB should also monitor the work of Treasury staff and the State Administration to explore and possibly expand innovative funding mechanisms for major infrastructure projects, such as the Revolving Fund for Roads and Bridges. The State's efforts to wean the DOT from borrowing for State match for Federal Highway funds through the allocation of certain fees and RICAP funds to that purpose is a credit positive as is the State's new revolving fund for local roads. In the 2014 legislative session, 3.5 cents of the gas tax were allocated to the Rhode Island Turnpike and Bridge Authority and the previously authorized toll on the Sakonnet River Bridge was repealed.

Several states explored public private partnerships or privatization of certain government assets to finance and/or manage certain projects such as roads and bridges. While private management can be a benefit with appropriate oversight, leveraging government assets often results in the loss of control over the project as well as user fees and costs to constituents. Recent trends in the credit markets increased the cost differential between

conventional financing and private financing. All such factors must be considered prior to moving forward with such an initiative.

In 2015, the General Assembly created the School Building Authority Revolving Fund and the Efficient Buildings fund which will primarily assist municipalities with certain capital projects.

### ***6. Responding to Changes in the Municipal Bond Market and Regulatory Environment***

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 includes many provisions that will have an impact on the municipal market including banking provisions and regulation and registration of municipal finance advisors. The Municipal Securities Rulemaking Board has new powers relating to issuers and advisors and the State will continue to monitor these developments closely. The SEC has promulgated many new rules that have an impact on how various market participants interact with issuers such as the State. Navigating these elements will continue to be a significant priority for the State to insure continued access to capital at affordable levels.

### ***7. Monitor subsidies relating to American Recovery and Reinvestment Act of 2009 programs***

The American Recovery and Reinvestment Act (ARRA) of 2009 included several municipal bond provisions that benefited the State and its agencies and municipalities. The Office of the General Treasurer was involved in evaluating the applicability of Build America Bonds, Recovery Zone Bonds and Qualified School Construction Bonds. In 2010, the State acted quickly to take advantage of the provisions for Recovery Zone Bonds or “Super BABs” which provided a 45% subsidy off a taxable interest rate. It will be important to monitor the procedures for applying the federal subsidy for each interest payment, especially during periods when federal sequestration is triggered, which has happened on several occasions.

### ***8. Monitor Moral Obligation Debt More Closely***

In 2011, the EDC Job Guaranty Revenue Bonds funded a loan to a private start-up video gaming company, 38 Studios. Less than two years after the loan was made, that company filed for bankruptcy. It is the recommendation of the PFMB that the Commerce Corporation or any other issuer of Moral Obligation Bonds require quarterly financial reports from the borrowers and report annually to the General Assembly on the status of the borrower payments. The General Assembly has since rescinded the Job Guaranty Program; however, the monitoring described above should apply to any issue secured by a State Moral Obligation. Many investors and rating agencies view moral obligation debt as an equivalent to state issued debt. While the FY 2015 budget, enacted by the General Assembly appropriated the necessary funding to fulfill the next loan payment, the rating agencies have signaled that failure to appropriate the minimum required payments could have a substantial negative impact to the State’s issuances. Some analysts have suggested the potential negative impact could extend to the municipalities and the quasi agencies of Rhode Island.