State Fiscal Note for Bill Number: 2017-S-0989

Date of State Budget Office Approval:

Date Requested: **Wednesday, September 13, 2017**

Date Due: **Saturday, September 23, 2017**

Impact on Expenditures		*Impact on Revenues*	
FY 2017	$0	FY 2017	$0
FY 2018	$0	FY 2018	see attached
FY 2019	see attached	FY 2019	see attached

Explanation by State Budget Office:

This act is a joint resolution that would authorize the State to enter into a financing lease and payment agreements in connection with the construction of a new ballpark in the City of Pawtucket. This act is intended to serve as the concurrent resolution of approval as required by the Rhode Island Public Corporation Debt Management Act (RIGL 35-18). One of the requirements under this statute is for the resolution to include information on the "maximum possible obligation of the state". The act as written does not comply with this requirement because it does not identify the total amounts to be borrowed by excluding capitalized interest, debt service reserves and costs of issuance and does not provide a projection of the long-term borrowing costs or annual debt service requirements.

This fiscal note attempts to account for all costs that would be associated with the three series of bonds authorized under the act.

Comments on Sources of Funds:

The State's obligations under the act would be paid from state general revenues. The City of Pawtucket's obligations would be paid from City general revenues. The obligations associated with Series A bonds would be from annual lease payments made by the PawSox to the State; however, if such lease payments were not made in full or in part, the State would likely be required to make up any shortfall from state general revenues.

The expenditure amounts listed above are bracketed because debt service starting in FY 2019 would be funded from capitalized interest. This would also be the case in FY 2020. The first debt service obligations to the State, the City and the PawSox would begin in FY 2021.

The expenditure amounts shown on this page and on the attachment are the total debt service cost by series. The act requires all funds for debt service to flow through the State. Therefore, the PawSox and the City of Pawtucket would transfer their share of debt service expenses to the State, which would likely record these revenues as a restricted receipt. These funds, combined with the State's general revenue share, would then be paid to the PRA (or Trustee for the bonds).

Summary of Facts and Assumptions:

The act authorizes the issuance of three series of bonds by the Pawtucket Redevelopment Agency ("PRA"), but also requires the State to enter into leases or payment agreements that support each of these series. The three series of bonds would be issued as follows: Series A for benefit of the PawSox in an amount necessary to generate $33,000,000 for the project fund; Series B for the benefit of

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the State in an amount necessary to generate $23,000,000 for the project fund; and Series C for the benefit of the City of Pawtucket in an amount necessary to generate $15,000,000 for the project fund. The actual issuance amounts for each series will be higher than the project amounts based on the need for capitalized interest, debt service reserve funds and/or costs associated with the issuance of the bonds. Further information on the projected issuance amounts is provided below and on the attached spreadsheet.

The first lease or payment agreement would be between the PRA as lessor of the ballpark, the State as lessee and the PawSox as sublessee. Under this lease, the PawSox would be responsible for making annual lease payments to the State equal to the annual debt service requirements on the Series A bonds. The act states that such lease payments would be made from "team rentals and annual naming rights payments" but is not clear if these are the only sources of funds for the lease payments or what is required if such funds are insufficient to cover the annual debt service.

The second lease or payment agreement would be between the State and the PRA and would commit the State for all debt service costs associated with the Series B bonds. The act indicates that the State's obligations are expected to be paid from state revenues generated by ballpark users, visitors, the team and ancillary development, as well as a premium ticket surcharge. However, there is no language that specifically ties these revenues to support of the debt, nor limits the State's obligations to the amount collected from such revenues. It appears the intent of the act is for the State to make annual appropriations of state general revenues to satisfy debt service requirements.

The third lease or payment agreement would be between the State, the PRA and the City of Pawtucket and would commit the City for all debt service costs associated with Series C bonds. The act indicates that the City's obligations are to be paid from incremental real estate property tax, hotel tax, tangible asset tax, food and beverage tax revenues and assessments generated in and around the Downtown Redevelopment Project, donations, and from other City revenues, including certain State Aid. As with the State, there is no language that specifically ties these revenues to support of the debt, nor limits the City's obligations to the amount collected from such revenues. It appears the intent of the act is for the City to make annual payments from any of its revenues to satisfy debt service requirements.

The State is a party to each lease and/or payment agreement and the act also requires the PRA to request that the Governor annually include in the State budget amounts equal to the projected annual debt service for each of the Series of bonds. This would appear to put the State as the backstop for all debt service payments, if either the PawSox or the City were unable to make its payments in a given year.

Summary of Fiscal Impact:

See attached spreadsheet.

The interest rates used to estimate debt service costs are the rates established in the act (an assumed interest rate of 4% and a not to exceed taxable rate of 5%). For purposes of this note, a tax-exempt rate of 4.0% was assumed for Series B and C and a taxable rate of 5.0% was assumed for Series A. These are the maximum rates contemplated by the act. Interest rates at the time of issuance could be lower and thus debt service would change accordingly.

Based on an analysis performed by the Department of Revenue's Office of Revenue Analysis, new state revenues would be generated in calendar years 2018 and 2019 from the construction of the new ballpark. These would include personal income tax, business corporation tax, sales and use tax (assuming no exemption is provided) and other taxes and fees related to construction projects. The numbers provided in the table above are the calendar year revenues, which are estimated at $1,642,458 in 2018 and $1,608,293. Since it is unclear when these revenues would occur during the calendar year, no attempt was made to convert these revenues to a fiscal year basis.

Revenues in years beyond calendar or fiscal year 2019 are more difficult to estimate because of current revenues generated from the existing McCoy Stadium. Incremental revenues from attendance at a new ballpark have been estimated in the $800,000 - $3.0 million range, depending on how much existing revenue is assumed. The lower end of the range assumes there is no new personal income tax from direct employment at the ballpark (i.e. team staff and players) and only incremental sales tax; whereas, the higher end assumes full impact of income and sales tax under the assumption that without a new ballpark these revenues would mostly be lost if the PawSox left the State.

Ancillary development is not expected until after the ballpark is completed in the 2021 timeframe. New revenue from development is projected in the $6.1 million range, and in the $1.9 to $2.3 million range once construction is complete.

The revenue estimates only include state general revenue impact and do not include the expected transfers of funds from the PawSox or the City for their share of debt service and do not include any revenue impacts in the City of Pawtucket.

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(see attached comments)

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	Pawtucket Stadium Bonds			
	Fiscal Note for S-0989			
	Series A	Series B	Series C	Total
Interest Rate (per act)	5.0%	4.0%	4.0%	
<u>Sources</u>				
Par Amount	39,775,000	22,505,000	14,765,000	77,045,000
Premium	-	2,995,472	1,961,362	4,956,833
Total Resources	39,775,000	25,500,472	16,726,362	82,001,833
<u>Uses</u>				
Project Fund	33,000,000	23,000,000	15,000,000	71,000,000
Capitalized Interest	3,654,757	2,134,112	1,400,140	7,189,009
Debt Service Reserve Fund	2,667,039	-	-	2,667,039
Cost of Issuance	453,205	366,360	326,222	1,145,786
	39,775,000	25,500,472	16,726,362	82,001,833
Annual Debt Service				
FY 2019 (capitalized interest)	1,770,000	1,030,000	679,000	3,479,000
FY 2020 (capitalized interest)	1,930,000	1,130,000	738,000	3,798,000
FY 2021 - FY 2048	2,670,000	1,510,000	990,000	5,170,000
Total	**78,300,000**	**44,460,000**	**29,160,000**	**151,920,000**
State General Revenue Projections				
Calendar Year 2018	1,642,458	new revenue associated with ballpark construction		
Calendar Year 2019	1,608,293	new revenue associated with ballpark construction		
Calendar Year 2020 and after	800,000 - 3,000,000	estimated revenues from ballpark related activity		

SENATE FISCAL OFFICE COMMENTS

2017-S-0989: Joint Resolution and an Act Authorizing the State to Enter into a Financing Lease and Payment Agreements in Connection with the Construction of a Ballpark in the City of Pawtucket

The fiscal note prepared by the State Budget Office assumes fiscal impacts based upon various revenue assumptions modeled by the State's Office of Revenue Analysis. Alternative models have been testified to before the Committee, and are built upon alternative assumptions.

As such, the fiscal note should be viewed as illustrative of potential impacts using certain assumptions, with a recognition that varying interest rates, development timelines, potential tenant mixes, etc., can and would impact actual results.

Additionally, the revenue projections in the Budget Office note are portrayed on a calendar year basis. Following assumes that most spending would begin in July 2018 (FY2019) and shifts impacts by 6 months for illustration.

	Impact on Expenditures	Impact on Revenues*
FY2018	0	0
FY2019	[3,479,000]	1,642,458
FY2020	[3,798,000]	1,608,293

** Assumes Calendar Year estimates in Budget Office note begin in July 2019*