Proposed Financing of New Downtown Pawtucket Ballpark

October 11, 2017

Discussion Topics for Paw Sox Stadium Financing

- Debt Affordability for State and Pawtucket
- Debt Service Projections
- Suggested Changes to Proposed Legislation

Debt Affordability for State and Pawtucket

- In April 2017, the Office of the General Treasurer and the Public Finance Management Board (PFMB) published a debt affordability study that recommended debt affordability targets for the State, its quasi-public agencies, and the 39 municipalities of Rhode Island
- The purpose of establishing debt affordability targets is to understand how much debt each issuer of public debt can prudently issue at any given time
- The General Treasurer has asked PRAG to estimate the impact of the proposed Paw Sox stadium financing on the State's debt capacity and on the City of Pawtucket's debt ratios
  - Series B: $23 million to be financed by the State
  - Series C: $15 million to be financed by the City of Pawtucket

State Tax-Supported Debt and Pensions Affordability

- PFMB Recommended Targets

Ratio	Current Level (FY2017)	Recommended Target
Debt Service on Tax-Supported Debt to General Revenues	6.1%	Not to exceed 7.5% within the next five years and 7.0% thereafter
Net Tax-Supported Debt as Percentage of Personal Income	3.4%	Not to exceed 4.0%
Rapidity of Repayment over 10 Years	76.1%	Amount of debt to be retired over the next ten years targeted at no less than 50%
Net Tax-Supported Debt Service + Pension ARC as a Percentage of General Revenues	13.07%	Not to exceed 16%
Net Tax-Supported Debt + Pension Liability (UAAL) as a Percentage of Personal Income	8.5%	Not to exceed 8% beginning in 2021
Pension ARC and OPEB ARC Funding Level	100%	100%

State Tax-Supported Debt and Pensions Affordability

- Based on the Debt Affordability Study recommended targets, the State has approximately $1.15 billion of capacity for new bonds over the next 10 years
  - The $23 million Series B bonds proposed to be financed by the State represents 2% of the State's capacity in this 10 year period

Additional Debt Capacity Through 2028 @ 5.00% Interest
Debt and Pension Ratios

Fiscal Year	Additional Debt Over Next 10 Years	Additional Debt Service	Total Debt Service to Revenues Target: 7.0%	Total Debt to Personal Income Target: 4%	10-Year Payout	Tax-Supported DS+Pension ARC to Revenues Target: 16%	Tax-Supported Debt + UAAL to Personal Income Target: 8% by 2021
2018	0	0	6.91%	3.25%	77%	13.90%	8.33%
2019	95,310,000	0	6.56%	3.04%	76%	13.97%	8.06%
2020	95,310,000	7,647,921	6.97%	3.01%	73%	14.61%	7.94%
2021	95,310,000	15,295,842	7.09%	2.97%	70%	14.94%	7.75%
2022	95,310,000	22,943,763	6.86%	2.91%	67%	15.00%	7.42%
2023	128,665,000	30,591,684	7.46%	2.72%	68%	15.91%	7.02%
2024	128,665,000	40,916,096	6.93%	2.55%	67%	15.55%	6.62%
2025	128,665,000	51,240,509	6.35%	2.41%	66%	15.21%	6.26%
2026	128,665,000	61,564,921	6.28%	2.30%	67%	15.34%	5.91%
2027	128,665,000	71,889,334	6.02%	2.19%	67%	15.28%	5.54%
2028	128,665,000	82,213,746	5.30%	2.10%		14.78%	5.09%

Municipalities Debt and Pension Affordability Measures

- The Debt Affordability Study recommended debt and pension affordability measures for municipalities

Ratio	Ratio Components	Recommended Target
Net Direct Debt to Full Value	***Net Direct Debt*** is only the tax-supported debt of a municipality, and does not include the debt of overlapping districts or enterprise debt that is funded by non-tax revenue such as utility charges. ***Full value*** represents the total taxable assessed value of the municipality, including real property and tangible personal property less exemptions	Less than 3%
Overall Net Debt to Full Value	***Overall Net Debt*** is tax-supported debt of a municipality AND tax supported debt of overlapping districts, but does not include enterprise debt that is funded by non-tax revenue such as utility charges. ***Full value*** represents the total assessed value of the municipality, including real property and tangible personal property less exemptions	Less than 4%
Overall Debt + Net Pension Liability to Full Value	***Overall Debt*** includes all debt of a municipality and its overlapping districts, including tax-supported debt and debt supported by other revenues such as utility charges. ***Full value*** represents the total assessed value of the municipality, including real property and tangible personal property less exemptions	Less than 6.3%
Overall Debt + Net Pension Liability to Personal Income	***Overall Debt*** includes all debt of a municipality and its overlapping districts, including tax-supported debt and debt supported by other revenues such as utility charges. ***Personal Income*** represent the average income of a resident of the municipality as calculated applying the ratio of money income to per capita money income for the county to the city/town's money income and multiplying by population.	Less than 20%

Pawtucket Debt and Pensions Affordability

- Based on the Debt Affordability Study recommended targets, Pawtucket has debt capacity under its traditional debt ratios
  - As of the end of FY2017, Pawtucket has approximately $74 million of tax-supported debt, $91 million of water revenue debt and $113 million of Narragansett Bay Commission allocated debt outstanding
  - Net Direct Debt to Assessed Value in FY2018: 2.03% vs. 3.0% recommended target

Fiscal Year Ending	Net Direct Debt to Assessed Value Target <3%	Overall Net Debt to Assessed Value Target <4%	Overall Debt + Net Pension Liability to Assessed Value Target<6.3%	Overall Debt + Net Pension Liability to Personal Income Target<20%
6/30/2018	2.03%	2.03%	15.4%	19.9%
6/30/2019	1.89%	1.89%	15.0%	18.8%
6/30/2020	1.73%	1.73%	14.6%	17.6%
6/30/2021	1.60%	1.60%	14.0%	16.3%
6/30/2022	1.46%	1.46%	13.3%	15.0%
6/30/2023	1.33%	1.33%	12.7%	13.9%
6/30/2024	1.21%	1.21%	12.0%	12.9%
6/30/2025	1.08%	1.08%	11.2%	11.8%
6/30/2026	0.95%	0.95%	10.5%	10.7%
6/30/2027	0.82%	0.82%	9.5%	9.5%
6/30/2028	0.71%	0.71%	8.5%	8.3%

Pawtucket Debt and Pensions Affordability

- With the $15 million financing for the Paw Sox stadium, Pawtucket's ratios for traditional debt are below the PFMB recommended targets
  - Net Direct Debt to Assessed Value in FY2018: 2.44% *(assuming debt is issued in FY2018 with no State backstop)* vs. 3.0% recommended target

Fiscal Year Ending	Net Direct Debt to Assessed Value Target <3%	Overall Net Debt to Assessed Value Target <4%	Overall Debt + Net Pension Liability to Assessed Value Target<6.3%	Overall Debt + Net Pension Liability to Personal Income Target<20%
6/30/2018	2.44%	2.44%	15.78%	20.41%
6/30/2019	2.29%	2.29%	15.45%	19.29%
6/30/2020	2.13%	2.13%	15.02%	18.10%
6/30/2021	2.00%	2.00%	14.37%	16.75%
6/30/2022	1.85%	1.85%	13.73%	15.47%
6/30/2023	1.71%	1.71%	13.04%	14.35%
6/30/2024	1.57%	1.57%	12.34%	13.27%
6/30/2025	1.44%	1.44%	11.60%	12.20%
6/30/2026	1.30%	1.30%	10.82%	11.11%
6/30/2027	1.15%	1.15%	9.83%	9.87%
6/30/2028	1.04%	1.04%	8.81%	8.64%

Debt Service Projections

- Proposed legislation specifies amount of net proceeds for each series of bonds
  - ➢ With capitalized interest, debt service reserve fund and costs of issuance, estimated total bond proceeds needed for each series:
    - Series A: $40,000,000
    - Series B: $26,000,000 (no debt service reserve fund)
    - Series C: $17,000,000 without debt service reserve fund
      $18,000,000 with debt service reserve fund

- Based on market conditions as of September 25, 2017, estimated 30-year rate for each series of bonds:

	No State Backstop	With State Backstop
Series A Taxable	5.00%	4.30%
Series B Tax-Exempt	3.33%	3.33%
Series C Tax-Exempt	3.73%	3.33%

Debt Service Projections

- Assuming interest rate assumption in legislation is true interest cost (TIC), of 4% for tax-exempt and 5% for taxable bonds
  - Based on rates as of September 25, very little room for higher interest rates:

	No State Backstop	With State Backstop
Series A Taxable	TIC: 4.85% Annual DS: $2.6 million	TIC: 4.11% Annual DS: $2.3 million
Series B Tax-Exempt	TIC: 3.80% Annual DS: $1.5 million	TIC: 3.80% Annual DS: $1.5 million
Series C Tax-Exempt	TIC: 4.05% Annual DS: $1.0 million	TIC: 3.80% Annual DS: $0.96 million

  - If credit spreads widen, the debt service savings with a State backstop will be greater
    - A credit spread of approximately 125 bps would translate into $165,000 in annual debt service savings

Debt Service Projections

		Rates as of September 25, 2017 (No State Backstop)				Rates as of September 25, 2017 (With State Backstop)			
		Series A Taxable Developer Debt	Series B State Debt	Series C City of Pawtucket Debt	Total	Series A Taxable Developer Debt	Series B State Debt	Series C City of Pawtucket Debt	Total
Assumed Ratings		Baa3/BBB-/BBB-	Aa3/AA-/AA-	Baa2/BBB+/A-		Aa3/AA-/AA-	Aa3/AA-/AA-	Aa3/AA-/AA-	
Sources									
Par Amount		39,545,000	21,875,000	14,865,000	76,285,000	38,645,000	21,875,000	14,350,000	74,870,000
Original Issue Premium		-	3,559,486	1,873,219	5,432,705	-	3,559,486	2,335,377	5,894,863
Total Sources		39,545,000	25,434,486	16,738,219	81,717,705	38,645,000	25,434,486	16,685,377	80,764,863
Uses									
Project Fund		33,000,000	23,000,000	15,000,000	71,000,000	33,000,000	23,000,000	15,000,000	71,000,000
Capitalized Interest Fund		3,487,588	2,074,370	1,409,623	6,971,581	2,850,550	2,074,370	1,360,787	6,285,706
Debt Service Reserve Fund		2,609,327	-	-	2,609,327	2,350,532	-	-	2,350,532
COI and Underwriters' Discount		448,086	360,116	328,596	1,136,797	443,918	360,116	324,590	1,128,624
Total Uses		39,545,000	25,434,486	16,738,219	81,717,705	38,645,000	25,434,486	16,685,377	80,764,863
TIC		4.85%	3.80%	4.05%		4.11%	3.80%	3.80%	
Annual Net Debt Service		(Net of DSRF Earnings and Capitalized Interest)							
3	2021	2,532,718	1,468,750	998,250	4,999,718	2,279,383	1,468,750	962,500	4,710,633
4	2022	2,580,934	1,470,000	995,500	5,046,434	2,322,262	1,470,000	965,250	4,757,512
5	2023	2,581,602	1,470,250	997,250	5,049,102	2,326,880	1,470,250	962,250	4,759,380
6	2024	2,579,463	1,469,500	998,250	5,047,213	2,323,693	1,469,500	963,750	4,756,943
7	2025	2,579,979	1,467,750	998,500	5,046,229	2,323,625	1,467,750	964,500	4,755,875
8	2026	2,583,224	1,470,000	998,000	5,051,224	2,327,027	1,470,000	964,500	4,761,527
9	2027	2,582,657	1,466,000	996,750	5,045,407	2,322,651	1,466,000	963,750	4,752,401
10	2028	2,579,493	1,466,000	999,750	5,045,243	2,326,032	1,466,000	962,250	4,754,282
11	2029	2,578,933	1,469,750	996,750	5,045,433	2,322,270	1,469,750	965,000	4,757,020
12	2030	2,580,085	1,467,000	998,000	5,045,085	2,325,940	1,467,000	961,750	4,754,690
13	2031	2,583,233	1,468,000	998,250	5,049,483	2,326,918	1,468,000	962,750	4,757,668
14	2032	2,578,172	1,467,500	997,500	5,043,172	2,325,221	1,467,500	962,750	4,755,471
15	2033	2,580,389	1,465,500	995,750	5,041,639	2,325,878	1,465,500	961,750	4,753,128
16	2034	2,579,487	1,467,000	998,000	5,044,487	2,323,615	1,467,000	964,750	4,755,365
17	2035	2,578,767	1,466,750	999,000	5,044,517	2,326,955	1,466,750	961,500	4,755,205
18	2036	2,580,167	1,469,750	998,750	5,048,667	2,323,040	1,469,750	962,250	4,755,040
19	2037	2,578,447	1,465,750	997,250	5,041,447	2,322,075	1,465,750	961,750	4,749,575
20	2038	2,578,607	1,470,000	999,500	5,048,107	2,323,855	1,470,000	965,000	4,758,855
21	2039	2,580,407	1,467,000	1,000,250	5,047,657	2,323,175	1,467,000	961,750	4,751,925
22	2040	2,580,407	1,467,000	999,500	5,046,907	2,321,955	1,467,000	962,250	4,751,205
23	2041	2,581,407	1,469,750	997,250	5,048,407	2,322,940	1,469,750	961,250	4,753,940
24	2042	2,583,157	1,470,000	998,500	5,051,657	2,325,915	1,470,000	963,750	4,759,665
25	2043	2,580,407	1,467,750	998,000	5,046,157	2,325,665	1,467,750	964,500	4,757,915
26	2044	2,578,157	1,468,000	995,750	5,041,907	2,322,190	1,468,000	963,500	4,753,690
27	2045	2,581,157	1,470,500	996,750	5,048,407	2,325,490	1,470,500	965,750	4,761,740
28	2046	2,578,907	1,470,000	995,750	5,044,657	2,325,135	1,470,000	961,000	4,756,135
29	2047	2,581,407	1,466,500	997,750	5,045,657	2,326,125	1,466,500	964,500	4,757,125
30	2048	(26,170)	1,470,000	997,500	2,441,330	(27,287)	1,470,000	960,750	2,403,463
		69,595,597	41,111,750	27,938,000	138,645,347	62,688,619	41,111,750	26,967,000	130,767,369

Suggested Changes to Proposed Legislation

- Clarify and provide flexibility in interest rate assumptions / parameters
- Clarify if Series A and Series C will have some form of State backstop
- Provide flexibility regarding the tax status of the bonds
- Consider ability to use an alternative issuer of State backed bonds
- Include language addressing responsibility for ongoing maintenance of the facility

Suggested Changes to Proposed Legislation

- Provide clarity and flexibility in interest rate not-to-exceed assumption/ parameter
  - Flexibility is needed as rates are subject to market conditions and the tax status has not been determined, thus a low specified rate in the legislation may preclude the financing from occurring
  - If specific interest rates are in the legislation, clarity is needed as the proposed legislation specifies assumed rate of 4% and a not to exceed taxable rate of 5% for all three series of bonds
    - Clarify whether 4% is a not to exceed rate for tax-exempt bonds
    - Specify if "rate" means a coupon rate, yield or true interest cost
    - Differentiate interest rates for the three series, as credits may be very different and impacted by provision of a State backstop
- Consider language that includes a clear specified rate that provides flexibility and a delegation to [General Treasurer and/or Mayor of Pawtucket] to approve final terms and structure.

Suggested Changes to Proposed Legislation

- Clarify if Series A and Series C will have some form of State backstop
  - ➢ Series A
    - – Proposed legislation has the Governor including annual rental payments in the State budget and includes language appropriating funds for the rentals securing Series A bonds
    - – Depending on the language in the final legislation and the ultimate financing structure of the Series A, rating agencies could potentially view the debt as tax-supported debt of the State
  - ➢ Series C
    - – Proposed legislation has language appropriating funds for the Payment Agreement securing the Series C bonds
    - – Pawtucket is pledging State Aid in an amount sufficient to fully cover debt service on the Series C bonds
    - – Depending on the language in the final legislation and the ultimate financing structure of the Series C, rating agencies could potentially view the debt as tax-supported debt of the State

State Backstop for Series A and Series C

- Proposed legislation is not clear about the extent of the State credit enhancement, if any
- State support / backstop can be in different forms:
  - State-Aid intercept with mechanism for State to transfer funds directly to trustee upon notification of insufficient funds to meet debt service prior to payment date (Series C only) *[contingent debt]*
  - Appropriate funds equal to debt service payment *[appropriation debt]*
  - Pledge to replenish a debt service reserve fund if below requirement *[moral obligation debt]*

State Backstop for Series A and Series C

- Trade-offs of State backstop
  - ➢ No State backstop
    - – Likely lower credit rating
    - – Higher interest cost
  - ➢ With State backstop
    - – Potential for higher credit rating (1 - 2 notches below State's G.O. rating)
    - – Lower interest cost
    - – Higher debt ratios for the State, depending on nature of backstop
      - Appropriation debt: tax-supported debt, higher debt ratios
      - Moral obligation debt: treated as tax-supported debt if State's obligation is called upon
      - Contingent debt: treated as tax-supported debt only if State-aid is consistently used to make debt service payments
    - – Reduced debt capacity for the State for other projects, if State ultimately pays the debt service

Suggested Changes to Proposed Legislation

- Provide that each series of bonds can include sub-series in case both a taxable and a tax-exempt component are needed
- Consider alternative issuer of bonds
  - Pawtucket Redevelopment Agency, the issuer for all three series of bonds, is not a well-known issuer of bonds in the municipal market
  - A more well-known State-level issuer may improve market reception for the bonds, particularly for the State secured bonds
- Include language addressing responsibility for ongoing maintenance of the facility