

SCHOOL CONSTRUCTION FINANCE

Office of General Treasurer Seth Magaziner

10/24/2017



SCOPE OF ANALYSIS

- **State of Rhode Island Schoolhouses Report**
 - TODAY: \$2.22 billion of total need; \$627 million to make schools warm safe and dry
 - 5 Year Need: \$3.02 billion of total need; \$793 million to make schools warm, safe and dry
 - Estimated 10 Year Need: 4.1 billion; \$988 million to make schools warm, safe and dry
- **Today's analysis:**
 - How much of this need will be addressed under the current rate of spending?
 - What would be the consequences of a higher level of spending with today's system?
 - How can new system improvements yield better outcomes?
 - Shifting to pay-go funding
 - General Obligation bonding
 - Share ratio incentives
- **Spoiler alert:**
 - Current spending not adequate to keep up with deferred maintenance
 - Simply spending more under current system could be prohibitively expensive
 - Need to spend more, and spend smarter to adequately address the problem

BACKGROUND

- **State Budget Allocation: \$80 million annually**
- **Housing Aid:**
 - After approval, municipalities float bonds for the full cost of major projects
 - After project completion, state reimburses a portion of debt service
 - Reimbursement level based on economic condition of population served by District (minimum state share for a district is 35%, maximum is 96%)
 - Average reimbursement rate is 47%
 - State spent \$69 mil on housing aid in FY 2017, all for projects that had already been completed
- **Capital Fund**
 - Intended for fast-track, emergency repairs
 - Annual state spend is whatever is left after housing aid reimbursements, up to \$80 mil
 - FY 2017 state capital fund spend was \$12 mil
 - Same share ratios as Housing Aid apply

SCENARIO 1: STATUS QUO

- **Total 5-Yr Project Spend: \$682 million**
 - \$55 million from capital fund
 - \$627 million from housing aid
- **Total 5-Yr budget impact (mostly for projects completed prior to Year 1):**
 - \$400 million state
 - \$519 million municipal

\$682 insufficient to meet Priority 1 and Priority 2 5 -Year Lifecycle Costs (\$793 million)

Status Quo Assumptions:

- State continues to budget \$80 mil per year indefinitely
- \$200 million of new housing aid approvals in FY 2018; \$75 million in annual approvals FY 19-22; \$100 mil annual approvals thereafter
- Average municipal share ratio of 50%

SCENARIO 1: STATUS QUO

- Total 10-Yr Project Spend: \$1.2 billion
 - \$88 million from capital fund
 - \$1.1 billion from housing aid
- Total 10-Yr budget impact (mostly for projects completed prior to Year 1):
 - \$800 million state
 - \$1.09 billion municipal

With \$1.2 billion of project spending over 10 years, **total need after year 10 increases to \$2.7 billion**



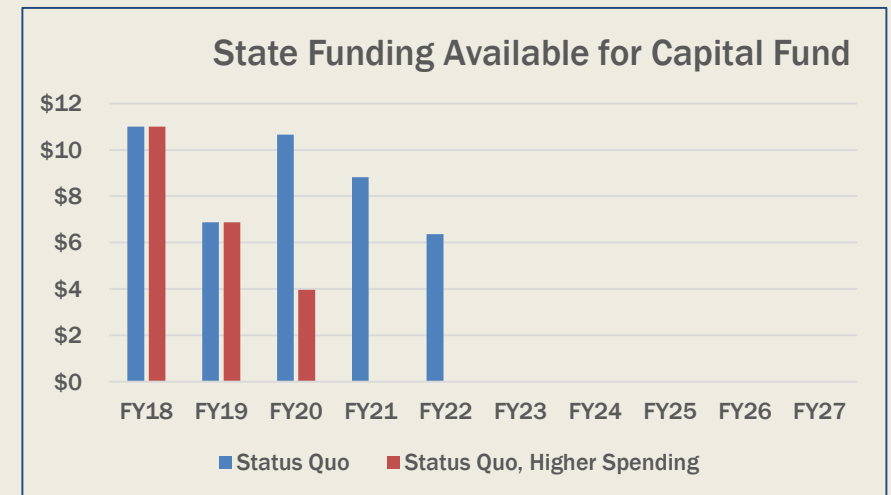
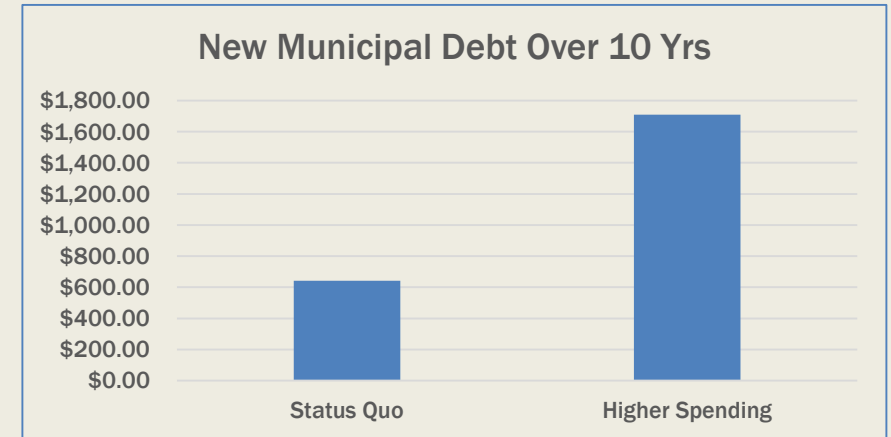
SCENARIO 2: EXISTING SYSTEM WITH HIGHER SPENDING

- Goal of \$1 billion in project spending over 5 years and \$2.5 billion over 10 years
- No constraint on state or municipal budget impact
- The following level of Housing Aid approvals would be necessary to achieve these project spending goals:
 - \$200 million in FY 18
 - \$400 million annually from FY19 – FY 21
 - \$200 million annually thereafter

[Note: there has never been a year with more than \$265M in requests for approval]

SCENARIO 2: CONSEQUENCES

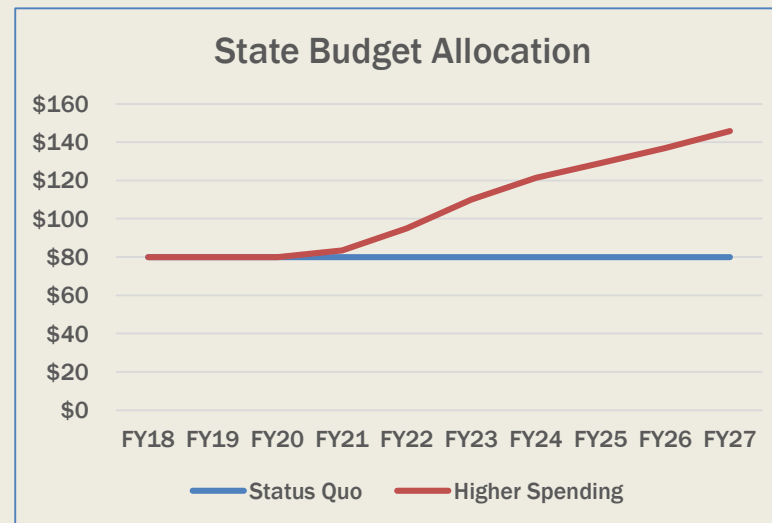
- Municipalities would need to issue a total of \$1.7 billion in new debt over the next 10 years, compared to \$641 million under the status quo scenario:
- Capital Fund runs out faster, furthering reliance on debt financing



SCENARIO 2: CONSEQUENCES

■ Budget Impact

- State would spend \$288 million more over 10 years than under the status quo level of approval
- Municipalities would spend \$248 million more
- **Even if state is willing to spend additional resources, no guarantee municipalities will request so many project approvals**



NEW CONCEPTS

- **Shift state share of Housing Aid to Pay-As-You-Go instead of reimbursement**
 - Reduces municipal debt burden
 - Reduces long-term cost for state
- **Use State General Obligation Bonding for Capital Fund and Housing Aid PAYGO**
 - Has been done before
 - School facilities bond referenda appeared on the ballot 8 times between 1972 and 1984
 - Massachusetts relies on bonding for school construction financing
- **Incentivize municipalities to spend sooner, and in the right places**
 - Use aggressive, expiring bonuses to the state matching formula to encourage municipalities to submit more applications for approval, and focus on high-need projects

STATE DEBT CAPACITY

- 2017 state Debt Affordability Study recommended debt affordability targets for the state, quasi-public agencies, and municipalities
- While the study recommended a slight reduction in state debt levels, that still **leaves capacity to issue approximately \$1.2 billion of new General Obligation bonds over the next 10 years**
- State pays off roughly \$150 million of old debt annually, and state debt levels relative to income have gradually fallen over time

STATE DEBT CAPACITY

Fiscal Year	Additional Debt Capacity Through 2036 @ 5.00% Interest						
	Additional Debt Over Next 10 Years	Additional Debt Service	Total Debt Service to Revenues Target (7.5% within next 5 years; 7.0% thereafter)	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)
2017	0		6.10%	3.40%	76%	13.07%	8.52%
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%	19.94%	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%
2029	128,665,000	92,538,159	5.11%	2.04%		14.81%	4.66%
2030	128,665,000	102,862,571	5.27%	1.99%		15.04%	4.31%
2031	128,665,000	113,186,984	5.16%	1.93%		15.02%	3.87%
2032	128,665,000	123,511,396	5.39%	1.88%		15.49%	3.42%
2033	128,665,000	133,835,809	5.33%	1.82%		15.49%	2.99%
2034	128,665,000	144,160,221	5.41%	1.76%		15.68%	2.60%
2035	128,665,000	154,484,634	5.53%	1.70%		16.00%	2.19%
2036	128,665,000	164,809,046	5.50%	1.63%		8.74%	1.82%

SCENARIO 3: ASSUMPTIONS

■ New Assumptions:

- Goal of \$1 billion in project spending over 5 years and \$2.5 billion over 10 years
- State Issues \$50 million of GO bonds per year for 10 years
 - First use of proceeds: \$10 million toward capital fund
 - Additional proceeds: state Housing Aid share
- State Share Incentives (current municipal share averages 47%)
 - Average municipal share years 1-3: 35%
 - Average municipal share year 4: 40%
 - Average municipal share year 5-10: 50%

SCENARIO 3: RESULTS

Scenario 3 Reduces Total School Facilities Need Significantly Over Time



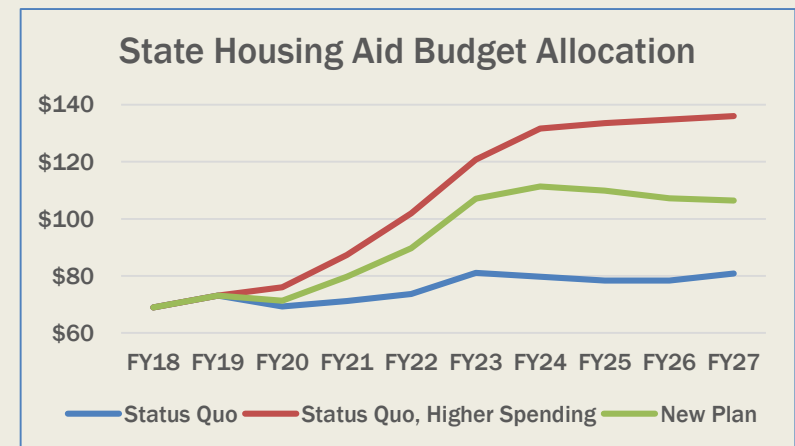
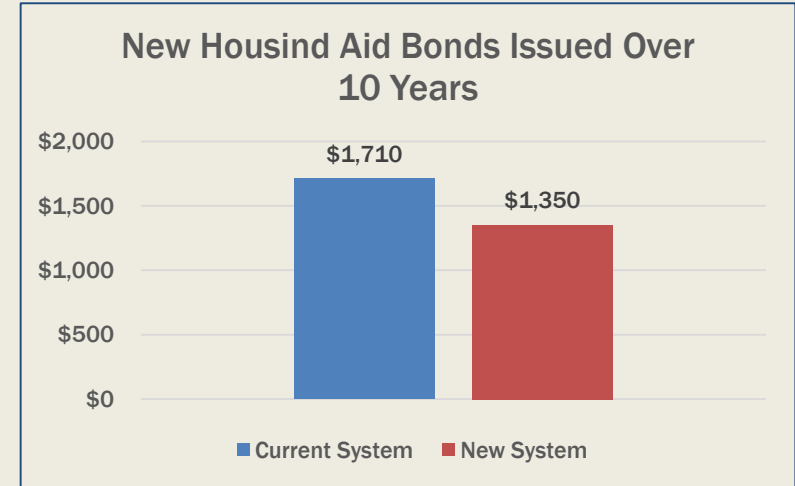
SCENARIO 3 RESULTS

■ Debt Kept off of Municipal Balance Sheets:

- \$160 mil over 5 years
- \$360 mil over 10 years

■ State Housing Aid Spending Significantly Reduced

- State Housing Aid spending reduced by \$71 mil over 10 years with PayGo compared to current system



SUMMARY

	Status Quo	Current System with 1 / 2.5 Target	GO Bonding, Paygo and Incentives with 1 / 2.5 Target
5 Year Construction Spend	\$682 M	\$996 M	\$989 M
10 Year Construction Spend	\$1.15 B	\$2.5 B	\$2.59 B
New Municipal Bonding	\$641 M	\$1.71 B	\$1.35 B
10 Year State Housing Aid Spend	\$755 M	\$1.06 B	\$993 M
10 Year Municipal Housing Aid Spend	\$1.02 B	\$1.27 B	\$1.22 B
10 Year Capital Fund Spend (state & municipal)	\$55 M	\$27 M	\$119 M
Remaining Need After Year 10	2.72 B	1.07 B	959 M

SUMMARY & NEXT STEPS

- Summary
 - Current level of spending not enough to keep pace with need
 - Spending more under the existing system is inefficient and unaffordable
 - Shifting to paygo, state GO bonding and share ratio incentives can help yield a better outcome
 - Smart financing helps, but there is no escaping the need for the state and municipalities to invest more in school buildings

- Next Steps:
 - Refined modeling
 - Ideas to lower the municipal cost of borrowing
 - Ideas to lower project costs and incentivize smarter spending