

Capitalized Pool Financings: Accelerating Investment and Lowering Cost of Finance

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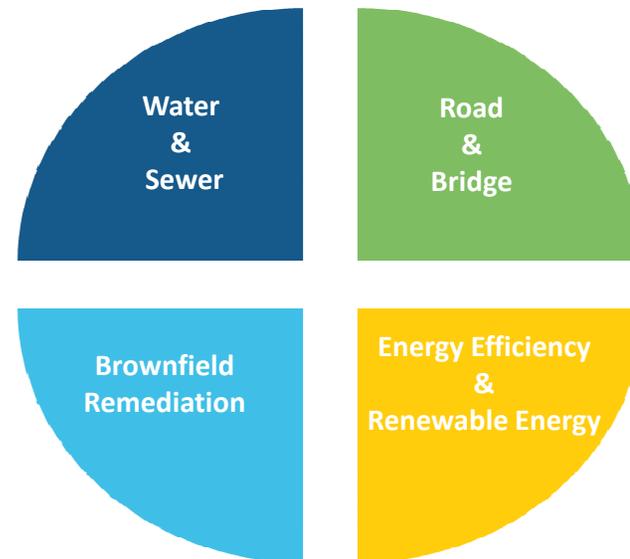


Accelerating Investment in Schools

- Jacobs study recommends an investment of \$3bn for the State's schools
 - \$700m necessary to address health and safety issues – warm, safe and dry
 - Study recommends prioritization process to address greatest need
 - Further recommendation to consider public/private partnerships
 - Different cities and towns have different issues and priorities
- Maximizing investment in short term can alleviate significant problems and lower cost
- Limited capital available (e.g., State, local capital funds, other sources)
- Capitalized pool financings can be a tool to accelerate investment and lower financing costs

Rhode Island Infrastructure Bank

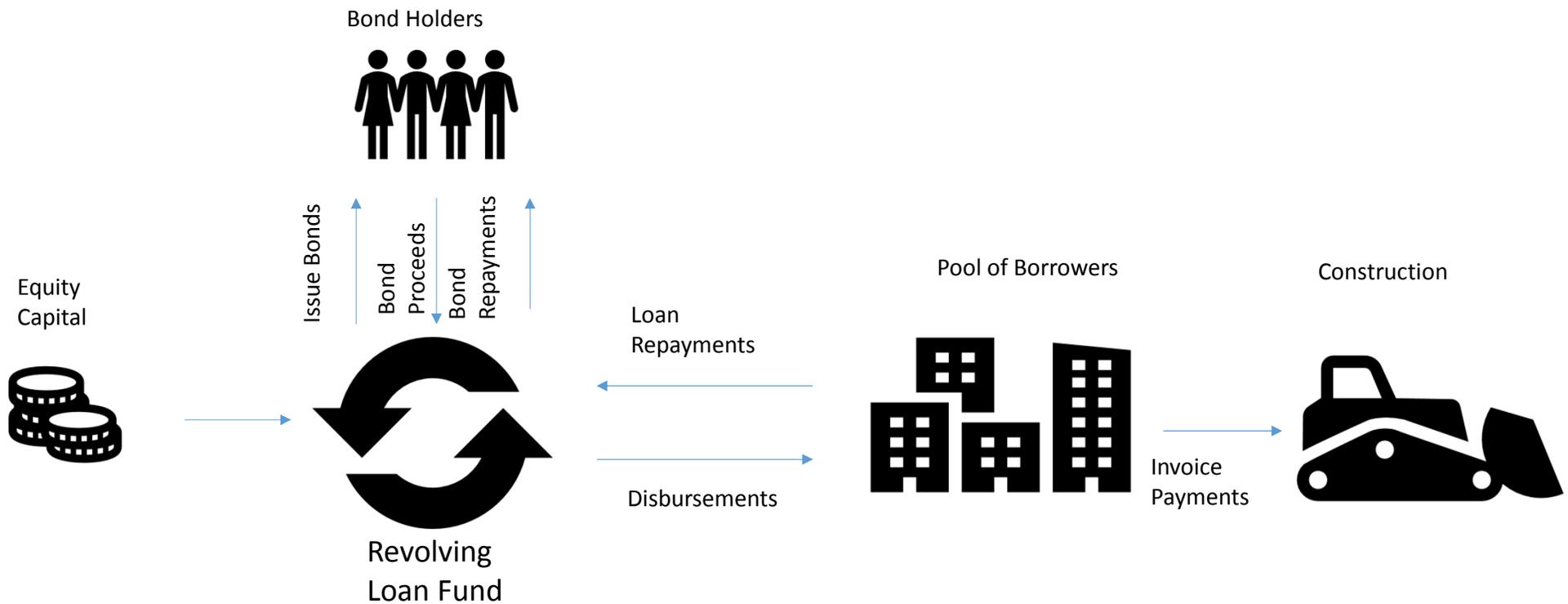
- Rhode Island Infrastructure Bank (RIIB) is a quasi-state agency that manages investments in local infrastructure
- We mobilize private sector funds combined with institutional capital to provide lower than market finance



RIB Business Model

- RIB's business model is to combine a number of smaller infrastructure loans into a "pool" and finance the larger pool
- This pool is financed with a combination of limited capital and proceeds from a public market bond sale
 - Capitalized pool financing or leveraged pool financing
 - This "leveraged" financing model enables RIB to finance more projects today than would be possible with the limited capital alone
- Pooling smaller sized loans within a capitalized model has the following benefits:
 - Lower cost of issuance to borrowers by spreading fixed costs over larger transaction
 - Lower interest cost to borrowers – combination of capital and credit diversification of pool provides higher credit rating of bond transaction than that of individual borrowers which lowers cost
 - Risk transfer – risk of non-performance of loans in pool borne by bond investors; RIB's exposure limited to capital
 - Capital is recycled and supports new loans as older loans are paid back
- RIB's investments are prioritized based on a project priority list developed transparently by State department partners

Revolving Loan Fund Model



Capitalized Pool Financing Example

- RIIB 2016 Clean Water State Revolving Fund pooled transaction
- \$40.8mm of projects financed in 3 cities
 - Newport (“AA” rated) = \$33.4mm
 - North Kingstown (“AA” rated) = \$3.6mm
 - Warwick (“A” rated) = \$3.7mm
- Projects financed by:
 - “AAA” rated bonds issued by RIIB to private sector investors = \$30.8
 - RIIB “capital” contribution = \$10mm
 - One loan reduced by \$890,000 due to principal forgiveness aspects of program which incentivized certain project investments
- Interest rate paid was 33% lower than market
 - Blended average market cost of funds for 3 borrowers = 3.36%
 - Blended average loan rate = 2.12%
 - Results in interest savings in excess of \$500,000 in first year

Warwick Wastewater Example - \$3.7 Million

- Warwick's cost of issuance was 50% lower in a \$41 million pooled transaction compared to a \$3.7 million single issue transaction
 - \$45,000 in the pooled transaction compared to \$90,000 through a single issue transaction
- Cost of Issuance includes the following costs:
 - Underwriters' fees and underwriters' counsel
 - Rating agency fees
 - Printing costs of Preliminary Official Statement and Official Statement
 - Paying agent
 - Bond Counsel
 - Financial Advisor
 - Trustee fees and trustee counsel fees
 - Other miscellaneous expenses
- Warwick saved \$500,000 on interest costs through this pooled transaction versus a market transaction
 - Pooled interest rate of 2.285% compared to Warwick's market rate of 3.526%

Pooled Loan Models

- Conduit
- Leveraging Model
 - Reserve Fund Model
 - Cash Flow Model

Conduit Issue

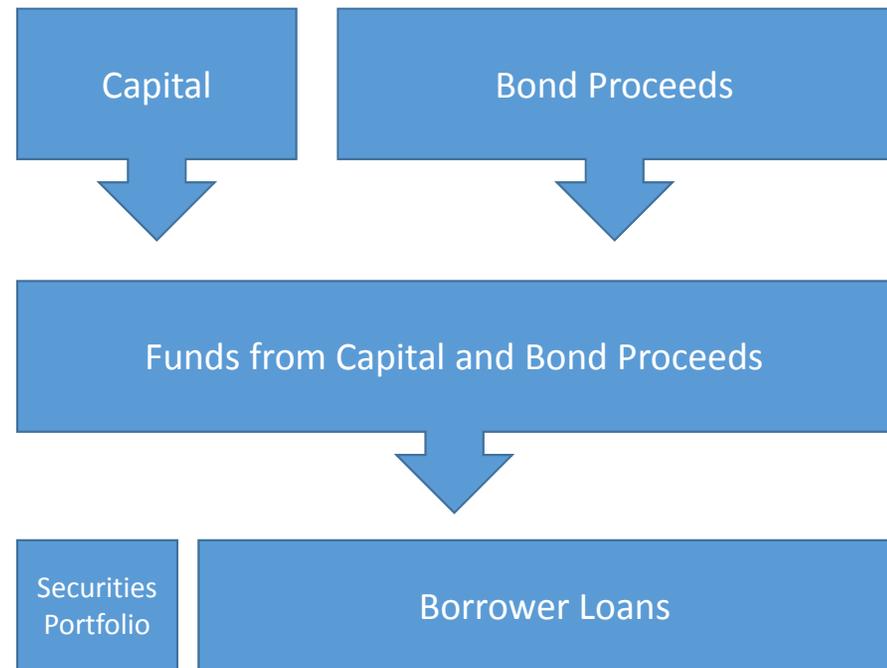
- Loans with similar characteristics (e.g., credit rating) pooled
- 100% of loans in pool financed with bonds issued by conduit issuer
- Interest rate on loans equals interest rate on bonds
 - Costs reduced by spreading fixed costs over larger transaction
- In the event of default on one or more loans, bond investor loses money, not conduit issuer

Leveraging Models

- Revolving loan fund structure
- Capital is contributed to the transaction
- Effective tool when demand exceeds available funds
- Benefits of leveraging model
 - Lower cost of issuance to borrowers by spreading fixed costs over larger transaction
 - Lower interest cost to borrowers – combination of capital and credit diversification of pool provides higher credit rating of bond transaction than that of individual borrowers which lowers cost
 - Risk transfer – risk of non-performance of loans in pool borne by both bond investors and issuer's
 - Issuer's exposure limited to contributed capital
 - Capital is recycled and supports new loans as older loans are paid back

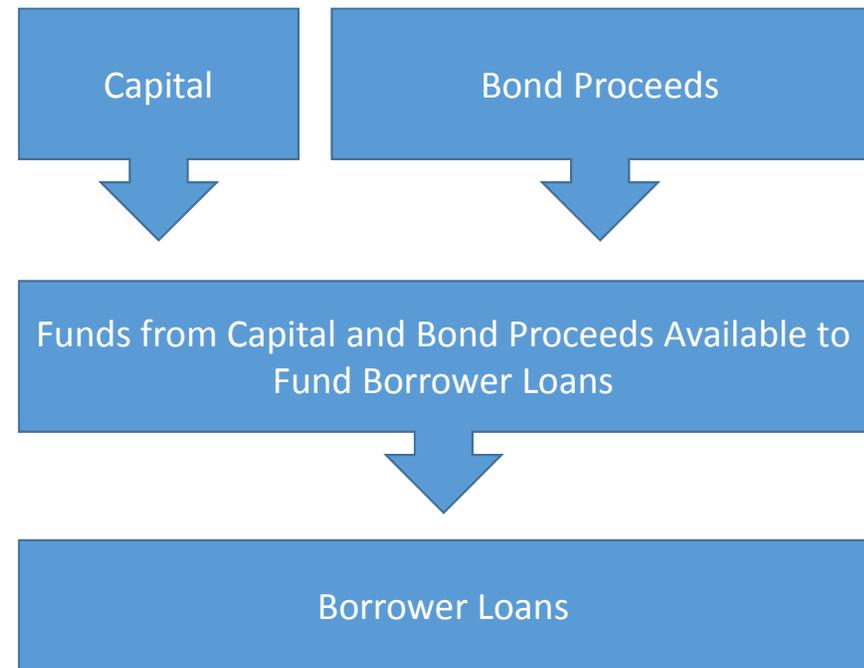
Reserve Fund Model

- Capital invested in a long term, highly-rated investment
- Bond proceeds and remaining capital invested into loans
- Interest on reserve fund used to support debt service payments to bond holders



Cash Flow Model

- Both capital and bond proceeds invested directly in loans
- Larger loan portfolio greater than bond proceeds
- Interest rate to borrowers less than rate on bonds



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