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What is RIHEBC?

RI Health and Educational
Building Corporation

The Corporation

- RIHEBC was established by the General Assembly in 1966.
- RIHEBC's original purpose was to assist private, non-profit, health and educational institutions in financing capital projects.
- RIHEBC's issuance provides tax-exempt financing for these private, non-profit institutions, which otherwise would issue more expensive taxable debt.
- In this role, RIHEBC has issued over \$7.2 billion in bonds, of which \$2.3 billion is currently outstanding.

The Corporation

- RIHECB's role was expanded by the General Assembly in 2003.
- RIHEBC's new purpose was to issue bonds for municipalities with school projects that are eligible for State Housing Aid.
- The debt rating is the higher of RIHEBC's A1 rating or the community's rating. So issuance through RIHEBC benefits some communities that are rated below A1. See Appendix I.
- Six communities benefit from this credit enhancement.

The Corporation

- RIHEBC acts as a conduit:
 - Issuing bonds.
 - Passing bond proceeds to the ultimate obligor (e.g., a municipality).
 - Passing debt service payments to the investors (e.g., you).
 - Passing the risk of default by the ultimate obligor to the investor.
 - Creating no debt on either its own balance sheet or the State's.
- RIHEBC pools debt issuance of multiple communities, when feasible, to create economies of scale.
- RIHEBC's issuance process has become streamlined and its documentation standardized.

RIHEBC's School Bond Issuance

- RIHEBC has issued over \$1.4 billion in school bonds, of which \$754 million is currently outstanding.
- Bonds have been issued for 32 communities and regional school districts.
- In FY 2017, RIHEBC issued \$285 million in school bonds for 12 communities and 3 regional school districts.
- Of the 2017 amount, \$120 million was for new projects and \$165 million refunded prior bonds, saving \$21 million in future debt service.

School Financing Program: Housing Aid

- The State appropriates annual “Housing Aid” to reimburse communities for school construction that is pre-approved by RIDE and financed through RIHEBC.
- RIHEBC administers the State’s Housing Aid Program
 - Housing Aid is paid initially to RIHEBC.
 - RIHEBC reimburses the community *after* a debt service payment.
 - Payment is partial, reflecting the Share Ratio for the community.
- If a community’s payment is late, RIHEBC is legally authorized to “intercept” both the Housing Aid and Basic Education Aid, paying the investor’s Trustee rather than the community.
- Due primarily to this “intercept”, RIHEBC bonds currently have an A1 programmatic rating from Moody’s.

School Financing Program: Capital Fund

- The State also annually appropriates a School Building Authority Capital Fund for RIDE-approved projects that is administered by RIHEBC.
- Created in FY 2016, this program provides both loans and grants for school construction projects.
 - Loans cover 100% of the project cost, with the community repaying only its share plus applicable interest.
 - Grants cover the State's share of project cost, with the community funding the balance.
- RIHEBC has been working with the RI Foundation to reduce the amount of State funds needed for loans by access to other capital.

Recapping the Benefits of RIHEBC

- For private, non-profit schools and hospitals, RIHEBC provides low-cost tax-exempt financing.
- For public schools, RIHEBC provides access to Housing Aid and perhaps an enhanced credit rating, which means lower costs.
- In addition, RIHEBC provides some cost control by pooling issuance and limiting cost of issuance such as legal fees.
- Finally, RIHEBC provides some “quality control” over the issuance process. There is standardized documentation and an RFP process to select underwriters.

Reducing Financing Costs

Possible Approaches

Reducing Financing Costs

Some Basics

Some Basics

- The State reimburses a weighted average 56% (range 40%-94%) of the debt service obligations of communities issuing debt for school construction. See Appendix II: Reimbursements.
- *So any steps that reduce interest expense to the communities also reduce the amount of reimbursement by the State!*
- Estimating potential savings. See Appendix III: Current Yields.
 - 1 bp is worth \$100 per million (\$100,000 per billion) of debt annually.
 - So for \$2 billion of debt with a 20-year final maturity and a 13-year average life, 1 bp is worth approximately \$2.6 million
 - So if we reduce program costs on a \$2 billion program by 20 bps, we would save approximately \$52 MM over the program life.

Reducing Financing Costs

I. Strengthen the Intercept

Strengthen the Intercept

- The RIHEBC School Construction Intercept Program has weaknesses, inherent in the relevant legislation.
 - It's a “Current Year” intercept: Interceptable aid is limited to state appropriations for the current fiscal year.
 - Interceptable aid is limited to aid to the defaulting government unit.
 - There is no funded debt service reserve.
- As a result, Moody's rates the Intercept Program only A1 – that's 1 notch below RI's Appropriations Rating [and 2 notches below RI's General Obligation (GO) rating].
- Stronger Intercept Programs (e.g., CO, KY) have the same ratings as the states' Appropriations Rating.

Strengthen the Intercept

- The RIHEBC Intercept Program could be strengthened:
 - RIHEBC could modify terms to increase the frequency of borrower debt service payments (e.g., from semi-annually to quarterly).
 - The State could fund a debt service reserve fund.
 - The State could fund the intercept using a Standing Appropriation.
 - The State could establish a separate “Directly Funded” intercept program for lower-rated borrowers, with payments made from the State to RIHEBC from all available sources of aid due to the borrower. This was done in 2004 for the City of Cranston.
- Such enhancements should earn RIHEBC’s Program a 1-notch upgrade to Aa3, the State’s Appropriation Rating.
- A 1-notch upgrade would benefit the 6 communities and school districts rated below Aa3.

Reducing Financing Costs

II. State Credit Guarantee

State Credit Guarantee

- The State, with voter approval, would pledge its own “full faith and credit” to support debt issued for school construction.
- Then in the event of borrower default, the State would use general fund reserves or issue bonds to make payments.
- A State Guarantee should enable the RIHEBC Program to achieve a 2-notch upgrade to Aa2, the State’s GO rating.
- A 2-notch upgrade would benefit the 14 communities and school districts rated below Aa2.

Reducing Financing Costs

III. Dedicated Revenue Source

Dedicated Revenue Sources

- One key to a strong credit rating is debt service coverage.
- The State could commit revenue to cover debt service for school construction bonds.
 - The dedicated revenue source could be a tax, fee, or other form of state revenue that is pledged to this purpose.
 - These funds would not be spent unless a borrower defaults.
- A Dedicated Revenue Source, properly sized, could enable the RIHEBC Program to achieve a 3-notch upgrade to Aa1.
- A 3-notch upgrade to Aa1 would benefit 32 communities and school districts rated below Aa1.

Reducing Financing Costs

IV. A Dedicated Fund

A Dedicated Fund

- A dedicated fund could combine multiple enhancements:
 - State provides Equity (e.g., \$33); RIHEBC issues Debt (e.g., \$67).
 - RIHEBC lends Communities the combined amount (e.g., \$100).
 - Debt coverage is $\sim \$100 / \$67 = \sim 1.50$.
 - Intercept is strengthened, as outlined.
 - State issues full faith and credit guarantee of debt.
 - Dedicated revenue could also enhance debt coverage.
- Sufficient debt coverage will obtain a higher rating and possibly an Aa1.

A Dedicated Fund

- If a municipal borrower fails to make payments, debt service on bonds would be covered by the following, in order of priority:
 - Intercepted aid to the municipality.
 - A Debt Service Reserve, if any.
 - Interest from loans funded by Equity.
 - Funds from any Dedicated Revenue stream(s).
 - State funds, as provided by the Guarantee.
- Note that unless there are massive defaults (e.g. >33%), neither Dedicated Revenue Streams nor State funds should ever be required.

A Dedicated Fund

- Design questions:
 - Would the State make annual contributions? Annual contributions, perhaps only in early years, would boost Equity and enable growth.
 - Would funds from any Dedicated Revenue stream be retained or disgorged annually? Retention would boost Equity and enable growth.
 - Would State aid continue as before? Ideally, State aid would be funded separately and would not diminish Equity.
- A fund that retains and grows Equity can become a self-sustaining “Revolving Fund.” Eventually, payments from old loans would supply funds for new loans.

Appendices

- I. Credit Ratings of RI Municipalities
- II. Reimbursements to RI Municipalities
Weighted Average
- III. Credit Costs by Credit Rating

RHODE ISLAND MUNICIPAL CREDIT RATINGS

Municipality	Moody's	Fitch	Standard & Poor's
Barrington	Aa1	-----	AAA
Bristol	Aa2	-----	AA+
Burrillville	Aa2	AAA	-----
Central Falls	Ba1 (Pos)	-----	BBB (Pos)
Charlestown	Aa2	-----	-----
Coventry	A1	-----	-----
Cranston	A1	AA-	AA-
Cumberland	Aa3	-----	AA
East Greenwich	Aa1	-----	AA+
East Providence	A2 (Stable)	-----	AA
Exeter	-----	-----	-----
Foster	-----	-----	-----
Glocester	-----	-----	AA +
Hopkinton	Aa3	-----	-----
Jamestown	Aa1	-----	-----
Johnston	A3	-----	AA-
Lincoln	Aa2	AAA	-----
Little Compton	Aa2	-----	AAA
Middletown	Aa1	-----	-----
Narragansett	Aa2	-----	AA
New Shoreham	-----	-----	AA
Newport	Aa2	-----	AA+
North Kingstown	Aa2	-----	AA+
North Providence	A3	-----	A
North Smithfield	Aa2	-----	-----
Pawtucket	A3	A+	-----
Portsmouth	Aa2	-----	AAA
Providence	Baa1 (Neg)	A-	BBB (Stable)
Richmond	Aa3	-----	-----
Scituate	Aa2	-----	AA
Smithfield	Aa2	-----	AA
South Kingstown	Aa1	-----	-----
Tiverton	-----	-----	AA
Warren	Aa3	-----	-----
Warwick	A1 (Neg)	-----	AA-
West Greenwich	-----	-----	AA+
West Warwick	Baa2	A-	-----
Westerly	Aa2	-----	AA
Woonsocket	Ba3 (Stable)	BBB+ (Pos)	-----
State of Rhode Island	Aa2	AA	AA

Credit outlooks/watches are provided in parentheses. All rating information is provided as of June 14, 2017, and is subject to change. For further information about ratings shown above, please contact the respective rating agency. Source: Moody's Investors Service, Standard & Poor's, and Fitch Ratings.

LEA Name	Reimbursement
Barrington	0.4
Bristol Warren	0.4
Burrillville	0.56
Central Falls	0.94
Chariho	0.4
Coventry	0.47
Cranston	0.48
Cumberland	0.41
East Greenwich	0.4
East Providence	0.54
Exeter-West Greenwich	0.4
Foster	0.41
Foster-Glocester	0.41
Glocester	0.47
Jamestown	0.4
Johnston	0.44
Lincoln	0.4
Little Compton	0.4
Middletown	0.4
Narragansett	0.4
New Shoreham	0.4
Newport	0.4
North Kingstown	0.4
North Providence	0.49
North Smithfield	0.4
Pawtucket	0.83
Portsmouth	0.4
Providence	0.8
Scituate	0.4
Smithfield	0.4
South Kingstown	0.4
Tiverton	0.4
Warwick	0.4
West Warwick	0.66
Westerly	0.4
Woonsocket	0.88

Borrower	Potential RIHEBC		Weighted Average	
	Loans	Weight	Reimbursement	Reimbursement Ratio
Barrington	\$ 47,855,594	2.280%	40%	0.91%
Bristol Warren	49,471,548	2.357%	40%	0.94%
Burrillville	29,133,218	1.388%	56%	0.78%
Central Falls	38,833,971	1.850%	94%	1.74%
Chariho	28,474,573	1.357%	40%	0.54%
Coventry	20,798,509	0.991%	47%	0.47%
Cranston	165,588,929	7.888%	48%	3.79%
Cumberland	57,995,578	2.763%	41%	1.13%
East Greenwich	29,090,319	1.386%	40%	0.55%
East Providence	137,594,632	6.555%	54%	3.54%
Exeter-West Greenwich	18,004,959	0.858%	40%	0.34%
Foster	3,374,467	0.161%	41%	0.07%
Foster-Glocester	12,241,188	0.583%	41%	0.24%
Glocester	7,691,198	0.366%	47%	0.17%
Jamestown	12,091,991	0.576%	40%	0.23%
Johnston	32,893,019	1.567%	44%	0.69%
Lincoln	48,555,464	2.313%	40%	0.93%
Little Compton	1,929,919	0.092%	40%	0.04%
Middletown	35,270,976	1.680%	40%	0.67%
Narragansett	15,130,272	0.721%	40%	0.29%
New Shoreham	3,807,232	0.181%	40%	0.07%
Newport	42,454,251	2.022%	40%	0.81%
North Kingstown	55,077,080	2.624%	40%	1.05%
North Providence	59,693,130	2.844%	49%	1.39%
North Smithfield	39,204,809	1.868%	40%	0.75%
Pawtucket	176,613,653	8.414%	83%	6.98%
Portsmouth	51,869,114	2.471%	40%	0.99%
Providence	372,411,929	17.741%	80%	14.19%
Scituate	16,053,593	0.765%	40%	0.31%
Smithfield	41,884,683	1.995%	40%	0.80%
South Kingstown	62,223,053	2.964%	40%	1.19%
Tiverton	46,032,107	2.193%	40%	0.88%
Warwick	190,018,965	9.052%	40%	3.62%
West Warwick	37,210,163	1.773%	66%	1.17%
Westerly	25,689,896	1.224%	40%	0.49%
Woonsocket	86,856,437	4.138%	88%	3.64%
	\$2,099,120,423	100%	48%	56.38%

General Obligation Tax-Exempt Credit Spreads as of October 2, 2017

