

Restructuring the State's Debt to Invest in Economic Development

Rhode Island's economic engine is stalled, and we need bold action to spark an economic recovery and put people back to work. But securing resources to invest in growth is challenging, especially because:

- this budget started out with the need to close a \$190 million shortfall;
- the Governor did not want to slash spending in education because that would threaten our future;
- the Governor ruled out broad-based tax increases because they would threaten our competitiveness; and
- the budget already generates significant savings from Medicaid (\$90M) and from personnel (\$22M).

Restructuring our existing debt is a responsible way to generate resources this year and next year to invest in economic development and to spark a recovery that will put people to work and grow revenue in the future. None of the funds will be used to plug a budget hole – all of the money will be invested in economic development.

Now is the Time to Restructure Rhode Island's Existing Debt

- Interest rates are at or near historic lows. Rhode Island can take advantage of these low rates and refinance debt previously issued at higher rates.
- The State also has the opportunity to restructure principal payments to enhance the upfront savings, generating approximately \$64 million in FY 2016, and approximately \$20 million in FY 2017.
- While Rhode Island's debt service payments will be up in some years and down in others, the state comes out modestly ahead on the overall transaction in today's dollars - even before investments in economic development are made.

States Take Action Like This With Some Regularity

- Massachusetts completed a \$300 million debt restructuring in 2010, using many of the funds to plug a budget deficit.
- Several other states and major issuers have implemented debt restructurings, including California; Hawaii; New Jersey; New York State; Oregon; Wisconsin; and Kansas.
- Rhode Island restructured DOT debt in 2011 to smooth out our Gas Tax debt service payments.

The Funds from the Restructuring Will be Invested to Stimulate Growth

- None of the funds will be used to plug a budget deficit – all funds will be invested in economic development.
- \$20 million of the funds generated from the restructuring will be used to seed a School Building Authority to put Rhode Islanders to work renovating and modernizing schools.
- The remaining funds will be used to spur job creation and economic development, including an initiative to catalyze innovative opportunities on the I-195 land, a small business assistance program, affordable housing construction funds, and an Infrastructure Bank to put people to work completing energy retrofit projects.

Details of the Transaction

- The Bonds selected to be refunded are outstanding at an average rate of 4.9%. The rate on the refunding bonds would be below 2.44% if sold today.
- Rhode Island will restructure approximately \$160 million worth of existing debt; the proposed restructuring maximizes debt service savings in FY 2016 and FY 2017 – yielding approximately \$84 million total over these two years.
- This plan only slightly increases the average life of state debt, and does not increase the life of any individual maturity.
- In today's dollars, it is estimated that this restructuring will ultimately save the state about \$200,000.
- It is important that this restructuring is part of a broader plan to address budget shortfalls including program reforms and spending cuts amid revenue stability or growth. Here, the plan comes alongside an effort to Reinvent Medicaid and improve Medicaid's sustainability for Rhode Island taxpayers.
- One of the guiding principles in developing this plan is to maintain and improve the State's credit rating and market position while investing in programs to get Rhode Islanders working. The keys to maintaining top ratings include timely action to address evolving budget shortfalls; clear and frequent communication with rating analysts; candor and transparency in disclosure; and realistic financial plan assumptions.