National Conference of State Legislatures
The Forum for America's Ideas

# Tools to Help States Manage Their Debt

*June 28, 2017*

The webinar has not yet begun.

Audio will be available through the call-in information contained in your registration confirmation e-mail.

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## Tools to Help States Manage Their Debt

- Audio Information:
  - Audio is now available through your computer's speakers

- Or, you may login via telephone using the call-in information contained in your registration confirmation e-mail.

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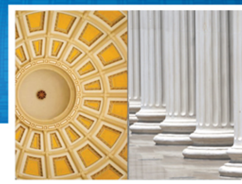

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The National Conference of State Legislatures is a bipartisan organization founded to:

- Improve the quality and effectiveness of state legislatures
- Promote policy innovation and communication among state legislatures
- Ensure state legislatures a strong, cohesive voice in the federal system

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## NCSL Policy Making

### Nine Standing Committees

- Budgets and Revenue
- Communications, Financial Services and Interstate Commerce
- Education
- Health and Human Services
- Labor and Economic Development
- Law, Criminal Justice and Public Safety
- Legislative Effectiveness
- Natural Resources and Infrastructure
- Redistricting and Elections

THE PEW CHARITABLE TRUSTS

# Tools to Help States Manage Their Debt

Adam Levin
alevin@pewtrusts.org
The Pew Charitable Trusts
6/28/17

## New Report Released This Month


pewtrusts.org/fiscal-health

# What is an affordability study?

## Elements of a Debt Affordability Study

States can evaluate debt levels by routinely analyzing key data

**Presents metrics**
Uses metrics, such as debt service as a share of revenues, to contextualize debt relative to the state's ability to pay

**Projects obligations**
Forecasts debt obligations and/or capacity to repay beyond the current fiscal year

**Analyzes affordable debt**
Includes written analysis to explain the data—putting them into context, and detailing their implications

**Produced regularly**
Published on a recurring schedule

pewtrusts.org/fiscal-health

# Effective studies:

- **Include projections**
- **Benchmark against peer states**
- **Use Metrics**
- **Connect to the policymaking process**
- **Are broad in scope**

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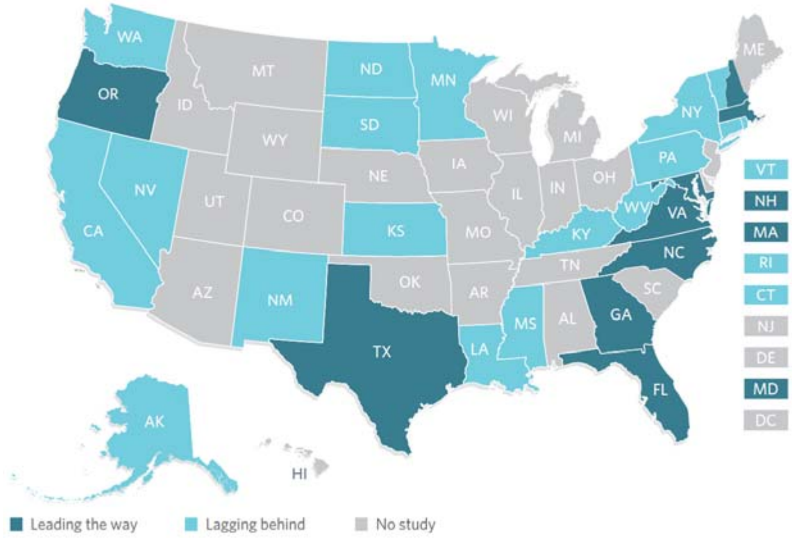
# Results of our Assessment

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# Recommendations

## Recommendations

The Pew Charitable Trusts

Metrics

Benchmarking

Projections

Scope

Connection to policy

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For additional questions or information, please contact:

Adam Levin
alevin@pewtrusts.org
202-552-2019

# 2017 DEBT AFFORDABILITY STUDY

Office of General Treasurer Seth Magaziner

June 28, 2017

OFFICE OF THE GENERAL TREASURER

## RI AFFORDABILITY STUDY OVERVIEW

- At the recommendation of the Office of the General Treasurer, the Fiscal Year 2017 State budget included a series of reforms to the State's management of public debt.
- The State is now required to conduct debt affordability study every two years.
- The study is required to include suggested debt limits for all public issuers, including the State, public and quasi-public corporations, municipal, regional authorities, fire districts and other special districts.

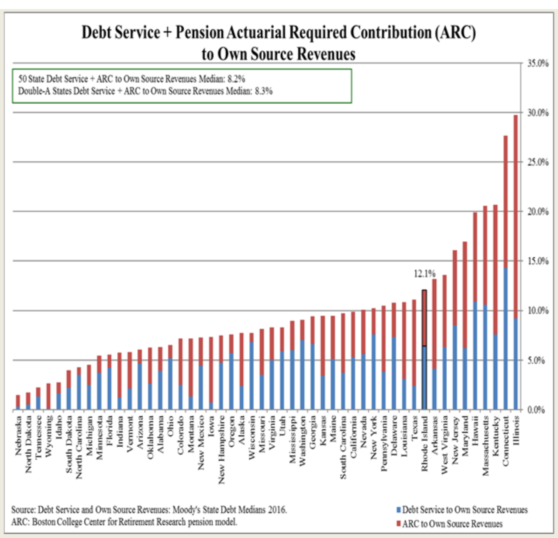
## DEBT AFFORDABILITY STUDY OVERVIEW

- **Organization**
  - Part One: State tax-supported debt and long-term liabilities
  - Part Two: State-level agency, public and quasi-public corporation debt and long-term liabilities
  - Part Three: Municipalities, regional authorities, fire districts and other special districts debt and long-term liabilities
- **Scope of Liabilities**
  - Includes various types of debt, including gross direct debt and overlapping debt
  - Includes unfunded pension liabilities for the State and municipalities

# CRITERIA CONSIDERED

- For each debt issuer, the study considers several factors in developing debt affordability recommendations:
  - Relevant peer comparisons
  - Rating agency guidance
  - Legal requirements in bond indentures
  - Current coverage levels
  - When available, normalized pension data
  - Issuer feedback

# STATE COMPARISON




*Comparative state pension liabilities are based on a model provided by the Boston College Center for Retirement Research, in which the pension liabilities for all states were adjusted to approximate the adoption of Rhode Island's discount rate and amortization period.*

# STATE AFFORDABILITY RATIOS

| 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% |
| 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 |

# QUASI-PUBLIC AGENCY AFFORDABILITY RATIOS

| Borrowers | Affordability Metric | Current Level |
|---|---|---|
| Narragansett Bay Commission | 1.3x debt service coverage for both Commission debt and RIIB loans | Debt Service Coverage 1.4x |
| Rhode Island Turnpike and Bridge Authority | 1.7x debt service coverage | Debt Service Coverage 1.68x |
| Rhode Island Resource Recovery Corporation | PFMB recommends the Corporation refrain from any issuance of long-term debt until the future of the facility is more certain. | Debt Service Coverage 4.00x |
| Rhode Island Department of Transportation Grant Anticipation Revenue Bonds (GARVEEs) | 4.5x debt service coverage | Debt Service Coverage 4.5x |
| Rhode Island Airport Corporation | 1.5x debt service coverage when including the Coverage Account Ending Balance, and<br>$100 debt per enplaned passenger | Debt Service Coverage 1.76x<br>$137 per enplaned passenger |
| Rhode Island Health and Educational Building Corporation – University of Rhode Island | Total Debt to Cash Flow of less than 11.0x as a factor required for Additional Bonds. | 7.0x Debt to Cash Flow |
| Rhode Island Housing and Mortgage Finance Corporation | Target minimum Program Asset to Debt Ratio (PADR) of 1.10x based on Moody's rating criteria for Aaa rating. | PADR of 1.19x (Single Family)<br>PADR of 1.12x (Multi-Family) |
| Rhode Island Infrastructure Bank (Clean Water and Drinking Water Programs) | Maintain a minimum of 1.2x debt service coverage and<br>Maintain asset to liabilities ratios at a minimum of 1.3x. | Debt service coverages: 1.3x for Clean Water and 1.5x for Drinking Water<br>Asset to liabilities ratios: 1.5x for Clean Water and 1.6x for Drinking Water. |

# QUASI-PUBLIC AGENCY CASE STUDY

- **Rhode Island Turnpike & Bridge Authority**
  - Quasi-public agency that maintains and operates major bridges and some highways.
  - Issues toll revenue bonds that require net revenues plus dedicated payments pledged to be at least 1.20x.
  - RITBA's 1.20x covenant requirement is on the low side; however actual coverage has been healthier.
- **Factors Considered:**
  - Current position:
    - Annual coverage has ranged from 1.6x – 2.1x from FY 2011-2015, with coverage at a low of 1.6x in FY 2015
  - Peer Analysis: See Chart
  - Ratings Criteria:
    - Based on Fitch criteria, average debt service coverage of 1.7x and above is consistent with an "A" rating category.
    - Based on S&P methodology, guidance is in the middle of the range for debt service coverage for existing toll facilities (typical coverage is in the 1.5x-2.0x range; S&P does not provide indicative rating levels for different coverage levels).
- **PFMB Affordability Recommendation:** PFMB recommends target debt service coverage of at least 1.7x for toll revenue bonds

| Issuer | Ratings (M/S/F) | ABT/ Rate Covenant | Debt Service Coverage of Maximum Annual Debt Service | 10-Year Average Debt Service Coverage (Senior Debt)* |
|---|---|---|---|---|
| RITBA | –/A-/A | 1.20x | 1.68x | 1.78x |
| Richmond Metropolitan Authority (VA) | A2/–/A | 1.25x (1.0x on all obligations) | 1.77x | 2.00x |
| Buffalo & Fort Erie Public Bridge Authority (NY) | –/A+/A | 1.25x (1.0x on all obligations) | 4.16x | 2.05x |
| Lee County (FL) Toll Bridges | A3/A/– | 1.20x (1.0x on all obligations) | 2.25x | N.A. |
| Greater New Orleans Expressway Commission | –A/– | 1.20x (1.0x on all obligations) | 2.18x | N.A. |
| Niagara Falls Bridge Commission (NY) | –A+/– | 1.30x | 1.74x | N.A. |

# MUNICIPALITY FINDINGS

| Ratio | Recommended Target |
|---|---|
| Net Direct Debt to Full Value | Less than 3% |
| Overall Net Debt to Full Value | Less than 4% |
| Overall Debt + Net Pension Liability to Full Value | Less than 6.3% |
| Overall Debt + Net Pension Liability to Personal Income | Less than 20% |

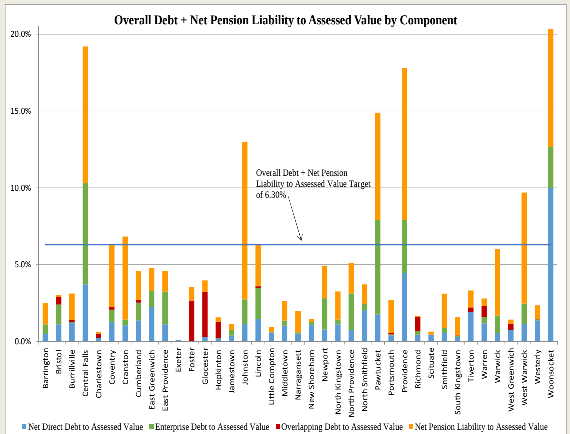
***Net Direct Debt***- Gross direct debt, or the sum of total bonded debt and any short-term debt of an issuer, minus all self-supported debt. Excludes enterprise bonds where enterprise fund revenues cover debt service by at least 1.0x for the last three fiscal years.

***Overall Net Debt***- Net direct debt plus the issuer's applicable share of the net direct debt of all overlapping jurisdictions. Excludes enterprise bonds where enterprise revenues cover debt service by at least 1.0x for at least the last three fiscal years.

***Overall Debt***- Gross direct debt, or the sum of total bonded debt and any short-term debt of an issuer, plus the issuer's applicable share of the total debt of all overlapping jurisdictions.

*In selecting these recommended targets, the PFMB relied heavily on rating agency guidance, generally recommending a level equivalent to an 'A' rating for each ratio.*

# MUNICIPALITY FINDINGS




Overall Debt includes (1) Net Direct Debt: All debt of an issuer less self-supporting enterprise debt; (2) Enterprise Debt: Debt for essential service utilities that is self-supporting from user fees; (3) Overlapping debt: Issuer's proportionate share of the debt of other local governmental units that either overlap or underlie it.

# SUMMARY

- There are more than 100 entities in Rhode Island with the authority to issue public debt. Up until this report, no one was paying much attention to how outstanding debt has stacked up over time; or how jurisdictions of overlapping debt relate to each other.
- First debt affordability study conducted in RI since 1999—it was time for a fresh look
- The State's first attempt to include all public issuers in an analysis of debt affordability
- The State's first attempt to integrate pension liabilities into affordability ratios
- Looking ahead: may include OPEB liabilities in 2019 debt affordability study

THE PEW CHARITABLE TRUSTS

Rhode Island State Senator Daniel Da Ponte

6/28/17

# Oklahoma’s Road to Debt Affordability Study

**Presented by**

**Anthony Sammons**

# HB 2195 (2013)

- **Debt service payments cannot exceed 5% of the 5-year average of the General Revenue Fund**
  - Takes a 2/3 vote by both Houses to exceed the limit
- **If General Revenue declines and debt service is calculated above the 5%, the state shall not incur more debt**
- **Master Lease Program at the State Universities is not included in the 5% debt calculation**

# Capitol Bonds

- **2010 – Scaffolding is erected to protect the public from falling limestone**
- **2013 – Legislature enacts HB 2032, which reduced the income tax rate and earmarked income tax revenue for repairs to the Capitol.**
  - Oklahoma Supreme Court rules the measure violates the single subject provision of the constitution.
- **2014 – Legislature enacts HJR 1033 which authorizes the issuance of $120 million in bonds to renovate, repair and remodel the Capitol.**
- **2016 – HB 3168 authorizes the issuance of $125 million in bonds to continue the repair and remodeling of the Capitol**

## Cultural and Arts Bonds

- **Oklahoma Museum of Popular Culture (OKPOP)**
  - $25 million bond (2015)
  - Bond payments will be paid with retiring bond payments and fees from attached parking garage
  - Bond proposal failed in 2012
- **American Indian Cultural Center and Museum**
  - $25 million bond (2015)
  - $10 million in private donations had to be raised before issuance of the $25 million in bonds.
  - Once the bonds are paid off, land and title are transferred to Oklahoma City
  - Multiple failed bond proposals

## Rebuilding Oklahoma Access and Driver Safety (ROADS)

- **ROADS fund was created in 2004 to provide funding for the maintenance and repair of state highways and bridges.**
- **The fund receives an increase of $59.7 million every year until it reaches $575 million (FY’2019)**
- **2016 – HB 3231 authorizes the issuance of $200 million in bonds to offset the reduction in $200 million in cash from the ROADS fund.**

## 2017 Session

- **Public Health Lab**
  - 10+ years requesting bond approval
  - $42 million initial request
  - $58.5 million request in 2017
- **Office of Juvenile Affairs**
  - Consolidating three secure facilities into one location
  - Two options for funding
    - Lease agreement with Commissioner of the Land Office
    - Traditional 25-year bond
  - Savings from consolidating services will pay debt service and/or lease payment.

## Debt Affordability Study HB 1533

- **Study will be used to determine Oklahoma's debt position relative to its benchmark debt ratio of debt service as a percentage of revenues.**
- **Requirements of the study:**
  - Net tax-supported and net revenue-supported debt.
  - State agency and state-beneficiary public trust debt.
  - Five year projections on debt service, future debt issuance and debt to capacity.
  - Metric calculations for
    - Debt service as a percentage of revenues
    - Total debt as a percentage of state personal income
    - Total debt per capita
  - Unfunded pension liabilities
  - Five year debt capacity estimate
  - Ten state metric comparison
- **Report issued by January 15 of each year**

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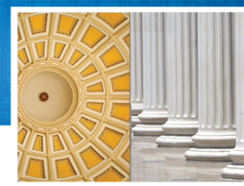

## Questions?

- To ask a question, type your question into the box on the right-hand side of your screen.
  - You will not be identified and only the presenters will see your question.

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