

Town of East Greenwich



Overview of Municipal Bonds

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General Obligation Bond Ratings

Section 1

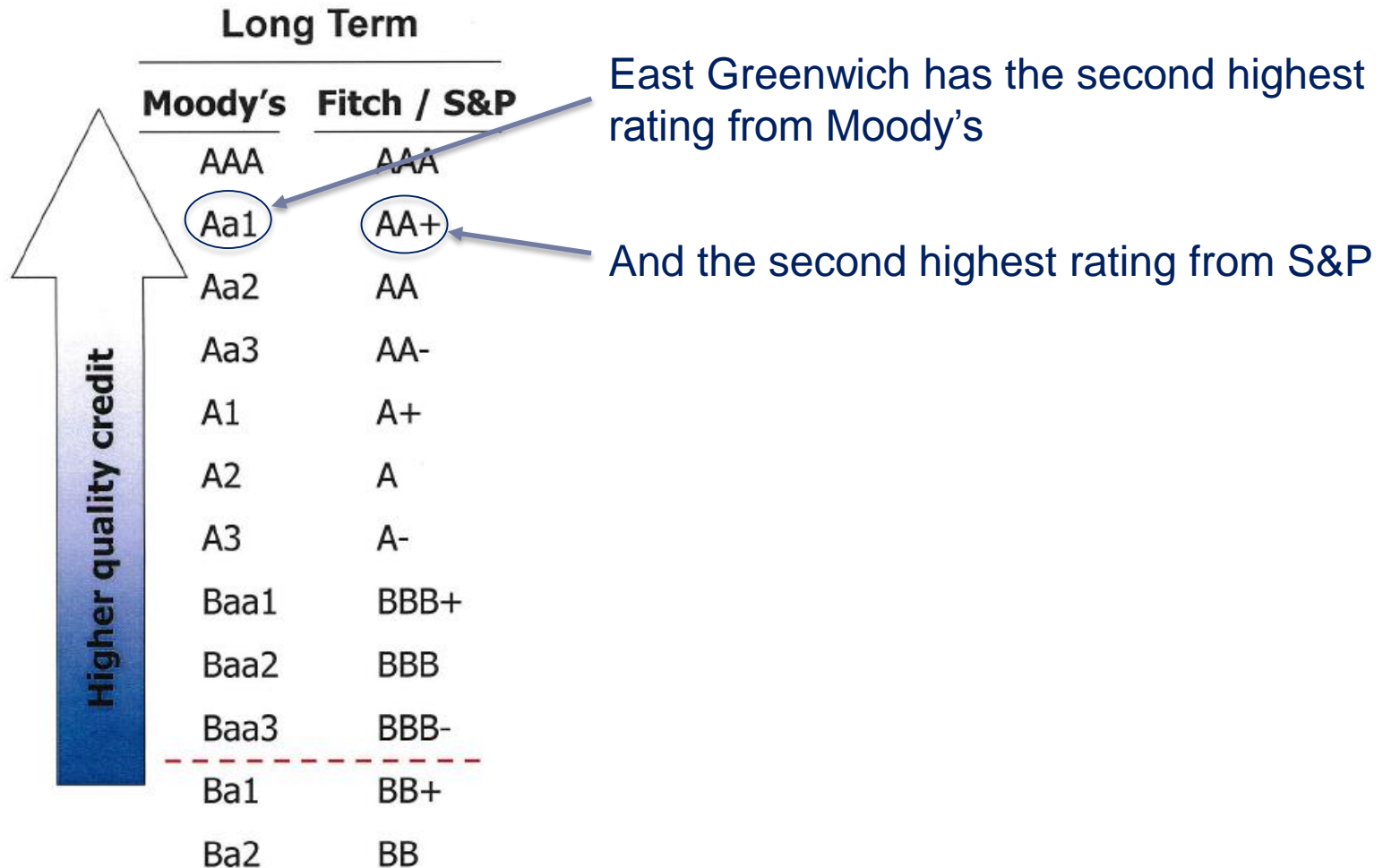
General Obligation Bond Ratings

- There are three primary rating agencies
 - Moody’s Investors Service
 - S&P Global Ratings
 - Fitch Ratings
- Town is rated by Moody’s and S&P
- Evaluate “Willingness” and “Ability” to pay
- Primary categories of evaluation:

General Obligation Bonds (GO)
Governance/Management
Financial Position
Debt, Pension and OPEB Position
Economy

- **Town of East Greenwich is rated Aa1 by Moody’s and AA+ by S&P, which are the second highest ratings in each respective ratings scale**

Rating Scales



Existing Debt Service

Section 2

Existing Governmental Debt Service

EXISTING DEBT SERVICE
Governmental General Obligation Debt⁽¹⁾
For Fiscal Years 2019 through 2025

Period Ending	Principal	Interest ⁽²⁾	Total Debt Service	QSCB Subsidy ⁽³⁾	Net Debt Service
6/30/2019	\$3,936,833.33	\$2,286,929.25	\$6,223,762.58	-\$591,306.00	\$5,632,456.58
6/30/2020	2,947,833.33	2,192,382.32	5,140,215.65	-591,306.00	4,548,909.65
6/30/2021	2,988,833.33	2,127,389.65	5,116,222.98	-591,306.00	4,524,916.98
6/30/2022	3,026,833.33	2,065,504.60	5,092,337.93	-591,306.00	4,501,031.93
6/30/2023	3,093,833.33	1,968,706.86	5,062,540.19	-591,306.00	4,471,234.19
6/30/2024	3,167,833.33	1,866,189.31	5,034,022.64	-591,306.00	4,442,716.64
6/30/2025	<u>2,799,833.33</u>	<u>1,772,794.95</u>	<u>4,572,628.28</u>	<u>-591,306.00</u>	<u>3,981,322.28</u>
	\$21,961,833.31	\$14,279,896.94	\$36,241,730.25	-\$4,139,142.00	\$32,102,588.25

(1) Includes a small portion of sewer debt in the Series 2016 Refunding Bonds that was originally issued in the Series 2008 GO Bonds.

(2) Interest includes Rhode Island Infrastructure Bank servicing fees on Road & Bridge bonds.

(3) Original federal subsidy shown. Due to sequestration, the Town has not received the full annual amount in past years. Most communities do not budget to receive the full QSCB subsidy.

Existing Sewer Debt Service to Rhode Island Infrastructure Bank

EXISTING DEBT SERVICE

Water Pollution Control General Obligation Debt
 Issued to Rhode Island Infrastructure Bank
 For Fiscal Years 2019 through 2025

Period Ending	Principal	Interest	RIIB Servicing Fee	Total Debt Service
6/30/2019	\$2,005,023.24	\$252,273.24	\$74,359.09	\$2,331,655.57
6/30/2020	2,036,735.29	212,345.17	61,104.07	2,310,184.53
6/30/2021	1,623,327.39	229,559.26	66,029.12	1,918,915.77
6/30/2022	1,657,697.22	209,363.08	57,826.56	1,924,886.86
6/30/2023	1,693,486.46	188,101.08	49,448.60	1,931,036.14
6/30/2024	992,603.13	169,452.73	42,733.37	1,204,789.23
6/30/2025	<u>1,012,999.34</u>	<u>153,508.84</u>	<u>37,719.36</u>	<u>1,204,227.54</u>
	\$11,021,872.07	\$1,414,603.40	\$389,220.17	\$12,825,695.64

Ways in Which to Measure Debt

Section 3

Outstanding Debt Measures

- There are two primary measures used by the rating agencies to compare the amount of outstanding debt between similarly rated peers
 - Debt Per Capita
 - Debt as a Percent of Full Value
- Below are the minimum, maximum and median levels for “Aa1” rated entities in both Rhode Island and New England from Moody’s statistical database – *Moody’s Municipal Financial Ratio Analysis*

	<i>Minimum</i>		<i>Maximum</i>		<i>Median</i>	
	RI Statistics	New England Statistics	RI Statistics	New England Statistics	RI Statistics	New England Statistics
Direct Net Debt Per Capita:	\$ 383.00	\$ 378.00	\$ 5,126.00	\$ 19,935.00	\$ 2,115.00	\$ 2,060.00
Direct Net Debt as % of FV:	0.300%	0.300%	2.100%	3.800%	0.500%	1.100%

- East Greenwich is currently twice the median on both measures, but not the highest in Rhode Island in the “Aa1” rating category for Debt Per Capita

	East Greenwich Gross Debt
Direct Net Debt Per Capita:	\$ 4,030.00
Direct Net Debt as % of FV:	2.100%

SOURCE: Moody’s Municipal Financial Ratio Analysis, data as of June 30, 2016.

Outstanding Debt Measures

- 78% of the Town’s outstanding governmental debt is for school purposes and receives approximately 35% of principal and interest reimbursed from the Rhode Island Department of Education (“RIDE”)
- While *Moody’s Municipal Financial Ratio Analysis* is based on gross debt statistics, the Town’s rating takes into account the ratios net of the RIDE reimbursement
- Below are the Gross debt ratios from Moody’s as well as Net debt ratios calculated using the RIDE reimbursement

	East Greenwich Gross Debt		East Greenwich Net Debt
Direct Net Debt Per Capita:	\$ 4,030.00	Direct Net Debt Per Capita:	\$ 2,858.00
Direct Net Debt as % of FV:	2.100%	Direct Net Debt as % of FV:	1.510%

	<i>Minimum</i>		<i>Maximum</i>		<i>Median</i>	
	RI Statistics	New England Statistics	RI Statistics	New England Statistics	RI Statistics	New England Statistics
Direct Net Debt Per Capita:	\$ 383.00	\$ 378.00	\$ 5,126.00	\$ 19,935.00	\$ 2,115.00	\$ 2,060.00
Direct Net Debt as % of FV:	0.300%	0.300%	2.100%	3.800%	0.500%	1.100%

SOURCE: Moody’s Municipal Financial Ratio Analysis, data as of June 30, 2016.

Outstanding Debt Measures

- A third measure often used in considering the capacity to issue additional debt is debt service as a percent of the operating budget
- Below are the *Moody's Municipal Financial Ratio Analysis* statistics for debt service as a percent of operating budgets

	<i>Minimum</i>		<i>Maximum</i>		<i>Median</i>	
	RI Statistics	New England Statistics	RI Statistics	New England Statistics	RI Statistics	New England Statistics
Debt Service as % of Budget:	2.70%	0.10%	10.10%	15.70%	4.80%	5.50%

- Below is the East Greenwich debt service as a percent of the operating budget from Moody's

	East Greenwich Gross Debt
Debt Service as % of Budget:	10.10%

- When calculated net of the RIDE reimbursement, East Greenwich is

	East Greenwich Net Debt
Debt Service as % of Budget:	7.69%

Outstanding Debt Measures

- Looking forward through fiscal year 2025, the Town’s existing debt service is decreasing
- Debt service as a percent of the budget is also decreasing
 - The calculations for Debt Service as a Percent of Budget are conservative, using the FY 2018 Town budget with no increase to the budget in future years

AGGREGATE EXISTING DEBT SERVICE				Gross DS as a % of Budget
FYE	Principal	Interest	Debt Service	
6/30/2019	\$3,936,833.33	\$2,286,929.25	\$6,223,762.58	10.045%
6/30/2020	2,947,833.33	2,192,382.32	5,140,215.65	8.296%
6/30/2021	2,988,833.33	2,127,389.65	5,116,222.98	8.258%
6/30/2022	3,026,833.33	2,065,504.60	5,092,337.93	8.219%
6/30/2023	3,093,833.33	1,968,706.86	5,062,540.19	8.171%
6/30/2024	3,167,833.34	1,866,189.31	5,034,022.65	8.125%
6/30/2025	2,799,833.34	1,772,794.95	4,572,628.29	7.380%

Overview of Municipal Bonds

Section 4

Tax-Exempt Municipal Bonds

- If municipal bonds are issued for a governmental or public purpose, their interest is generally exempt from federal taxation
- Approximately 70,000 state and local governmental entities are authorized to issue tax-exempt debt
- In addition, some state and local governments extend state and local income tax exemptions for in-state bonds

Taxable Municipal Bonds

- Taxable Bonds
 - Carry higher interest rates since investors do not benefit from tax exemption
 - Flexibility for private use or payment
 - No arbitrage rebate compliance – legal to invest proceeds at a profit (except ARRA bonds)
 - Can advance refund more than once
 - Are generally non-callable or subject to “make whole” provisions
 - American Recovery and Reinvestment Act (“ARRA”) created taxable bonds issued only in 2009 & 2010 with interest subsidies that can be used for tax-exempt eligible purposes, including Qualified School Construction Bonds, which the Town issued
 - ARRA bonds are subject to advance refunding and arbitrage rebate requirements

Security Provisions for Debt Issues

- General Obligation Bonds
 - Voter approval, full faith and credit

- Annual Appropriation Bonds
 - Appropriation-backed Bonds
 - Lease Financing Agreements

- Revenue Bonds
 - Bonds backed by a specific revenue stream (such as Sewer fees and rates)
 - Only the specified revenue stream is used to pay debt service

General Obligation Bonds “GO’s”

- Requires voter approval for authorization
- Issued for any public purpose
- Secured by the Town’s full faith, credit and taxing power
- Due to greater security and higher credit ratings, attracts lower interest rates than appropriation-backed bonds and revenue bonds

Lease Financing Agreements

- Requires no voter authorization
- Can finance equipment or real property
- Requires Town Council approval and annual appropriation of debt service

Bond Anticipation Notes

- Authorized in bond legislation
- Issued in anticipation of bonds
 - Generally used when an authorized project requires cash in advance of a bond issue
- Maturity must be timed with the bond issue, which will permanently finance the project
- Backed by the general obligation of the Town

Revenue Bonds

- Require no voter authorization
 - Issued for revenue producing operating systems/projects
 - In Rhode Island, typically used for sewer systems and drinking water systems
- Secured solely by the revenues of the project or revenues pledged
- Sell at higher interest rates than GO Bonds
- Usually requires a debt service reserve fund
- Must adhere to covenants set forth in the Bond Indenture
 - Rate covenants (can require raising of user fees)
 - Limit on additional bonds
 - Operating reserve funds
 - Must maintain percentage of additional operating revenues over debt service costs – coverage requirements

Difference Between Revenue and GO Debt

- Revenue Bonds are supported only by a revenue stream from an enterprise fund or a revenue producing project
- Revenue bonds are not backed by the full faith and credit of the issuer and do not require electoral approval
- Bondholders are dependent upon revenues from the specific enterprise or project to be repaid the principal and interest
- Revenue Bonds typically sell at interest rates higher than comparably rated General Obligation Bonds

Types of Debt Sales

- Competitive Sale:
 - “Sealed” bids received at specified time usually online
 - Any underwriter may submit a bid, individually or as part of a syndicate

- Negotiated Sale:
 - Interest rates and underwriting spread are determined through negotiation with the selected underwriter(s)

- Private Placement:
 - Limited distribution to one or more investors (including banks)
 - Does not require an Official Statement
 - Often does not require a rating

Post Issuance Compliance

- Arbitrage Rebate Compliance (small issuer exemption < \$5,000,000)
 - The issuer has to rebate, or send back to the federal government, every dollar earned over the interest rate on the bonds

- Continuing Disclosure
 - This is an annual requirement to provide to the market and investors updated information usually included in the Official Statement and annual audits

- The implications of arbitrage rebate, investment opportunities, marketing and technical considerations should be reviewed at the planning and structuring phase of every transaction
 - This ensures that every aspect of a transaction has been considered

- Ongoing needs apart from bond sales
 - Identify market opportunities and potential refunding savings or debt service restructuring opportunities (typically responsibility of Financial Advisor)
 - Monitor legislative, regulatory changes (responsibility of Bond Counsel, Disclosure Counsel, and Financial Advisor)

Disclaimer

Disclosure: Hilltop Securities Inc. is providing the information contained in this document for discussion purposes as financial advisor to the Town of East Greenwich, Rhode Island. Future interest rates are dependent upon many factors such as, but not limited to, interest rate trends, tax rates, supply, changes in laws, rules and regulations, as well as changes in credit quality and rating agency considerations. The effect of such changes in such assumptions may be material and could affect the projected results. These results should be viewed with these potential changes in mind as well as the understanding that there may be interruptions in the market or no market may exist at all.