



State of Vermont

School Construction Aid Task Force



School Bonding Program and Bond Debt Service Discussion

October 23, 2023

[Mike's e-mail for reference – delete after internal review]

I hope all is well with you - I wanted to check in to see if PRAG might be able to assist with a presentation (virtual) at our upcoming school construction task force.

We are still waiting to hear from AOE to confirm the agenda for Monday's meeting - but I wanted to see if PRAG might be in a position to present the following:

1. An overview of the Rhode Island bond issuance with a specific eye toward how the transaction was structured to avoid being considered net tax-supported debt.

1. A simple forecasting scenario where Vermont (more specifically an authority similar to Rhode Island - assume the Vermont Bond Bank in Vermont's case) issues \$250 million in bonds to support a portion of the approximate \$1 billion in immediate life and safety issues from the school audit.
 - a. We could assume a \$125 million bond is issued in year one and a second \$125 million bond is issued in year four - both for 20 years - and calculate the annual interest & principle payments that would result for the term of the bonds.

Please let me know if you have any questions - happy to visit to discuss as well. Many thanks.



Overview and Presenters

- Rhode Island School Bond Program
- Vermont Bond Bank and State Intercept Mechanism
- Bond Debt Service Scenarios
- Questions and Discussion

Public Resources Advisory Group (PRAG)

Tom Huestis, Senior Managing Director

Steve Wisloski, Managing Director



Rhode Island's School Bond Program

- Facilitated through the Rhode Island Health and Education Building Corporation (RIHEBC, pronounced “RYE-beck”).
- Called the “Public Schools Revenue Bond Financing Program”
- RIHEBC issues the bonds which are backed by loans from local Rhode Island school districts, cities or towns
- The bonds/loans are repaid through a combination of the local entity's dollars and State subsidy funds (State Housing Aid and various bonuses)
- State subsidy is paid as a reimbursement of entity's debt service, commencing after the project is completed.
- The State provides this subsidy in the form a proportional amount of debt service, which can range up to 96% of the bonds' debt service.



Rhode Island's School Bond Program

- The structure of the program is beneficial in two important ways –
 - it provides for a strong credit rating, and
 - the bonds issued through the program are not considered State net tax supported debt.
- The main reason the bonds are not considered net tax supported debt of the State, is bonds are backed by the local entity's loans which carry a general obligation – a “full faith and credit” pledge includes a first lien on *ad valorem* taxes and general fund revenues of the municipality.
- The program is structured to provide a strong credit rating for all municipalities through an additional security structure – a State Aid Intercept requirement:
 - RIHEBC's ability to intercept the borrower's State Basic Education and School Housing Aid and certain other appropriations of State aid and meal, beverage and hotel tax
- The program has a standing rating of Aa3 from Moody's Investors Service.



Rhode Island's School Bond Program (Continued)

- Program allows considerable flexibility as to amount borrowed and term of loan
- Recent transactions shown below:

Date	Local Issuer	Amount	Maturity	Term	Credit Ratings	
					Moody's	S&P
9/13/2023	City of Warwick	20,000,000	5/15/2043	20 Years		AA
8/22/2023	Exeter West Greenwich	5,540,000	5/15/2044	21 Years	Aa3	
7/26/2023	Town Cumberland	74,125,000	5/15/2053	30 Years		AA+
9/29/2022	Town of Johnston	85,000,000	5/15/2052	30 Years		AA
6/28/2022	Town of Portsmouth	19,510,000	5/15/2045	23 Years		AAA
6/15/2022	Town of Burrillville	5,950,000	5/15/2038	16 Years		AA
3/25/2022	City of Newport	98,500,000	5/15/2047	25 Years		AA+
3/09/2022	City of Warwick	23,830,000	5/15/2041	19 Years		AA
1/07/2022	City of Pawtucket	30,235,000	5/15/2042	20 Years	Aa3	
9/30/2021	Town of Smithfield	35,985,000	5/15/2042	21 Years		AA
Averages: 39,867,500				23 Years		



Vermont Bond Bank (VBB) and State Intercept Mechanism

- The Vermont Bond Bank (VBB) is the closest Vermont analogue to RIHEBC
- Vermont's "state intercept" mechanism (Title 24, Chapter 119, Subchapter 1; 24 V.S.A. § 4555 (c)) is comparable to that used in the credit structure for Rhode Island's school bond program:

*(c) Upon receipt by the State Treasurer of written notice from the Bank, or the corporate trustee exercising rights on behalf of the holders of bonds issued by the Bank, that a governmental unit is in default on the payment of principal or interest on a municipal bond or revenue bond acquired or held by the Bank, **the State Treasurer shall immediately withhold all further payment to the governmental unit of any or all funds appropriated and payable by the State to the governmental unit, until the default is cured. During the default period, the State Treasurer shall make direct payment of all, or as much as is necessary, of the withheld amounts to the Bank, or at the Bank's direction, to the trustee or paying agent for the bonds, so as to cure, or cure insofar as possible, the default as to the bond or the interest on the bond.***

- VBB's state intercept has a programmatic rating of Aa2 from Moody's (i.e., high quality and subject to very low credit risk)



Bond Debt Service Scenarios

- All else equal, two key parameters affecting the annual cost of a bond issue are:
 - Term of the issue, in years
 - Amortization, or structure of principal repayment
- Regarding term, bond issues typically are structured to mature (end) on or before the end of the useful life of the asset; for school construction this is usually 20-30 years
- Regarding amortization, principal typically is repaid either in:
 - Level annual amounts (the State of Vermont is required to do this by statute)
 - Increasing installments (like a home mortgage) so that combined principal and interest payments are level annual (or for a mortgage, monthly) amounts
- Principal typically is repaid once every twelve months, and interest every six months
- Principal and interest payments are also referred to as “debt service”



Bond Debt Service Scenarios (Continued)

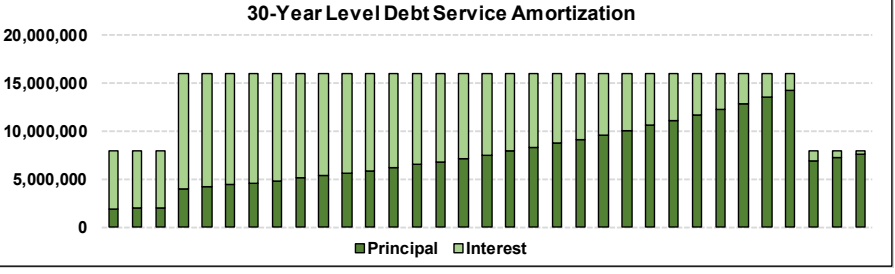
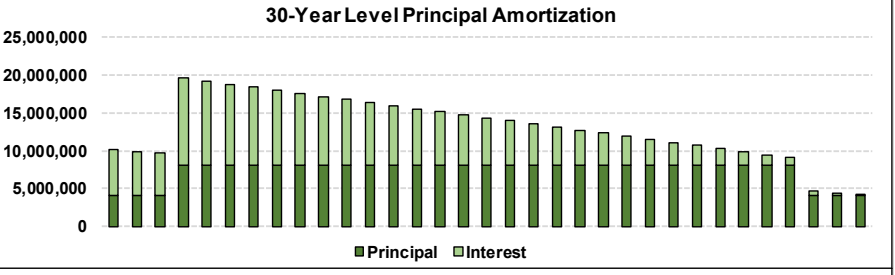
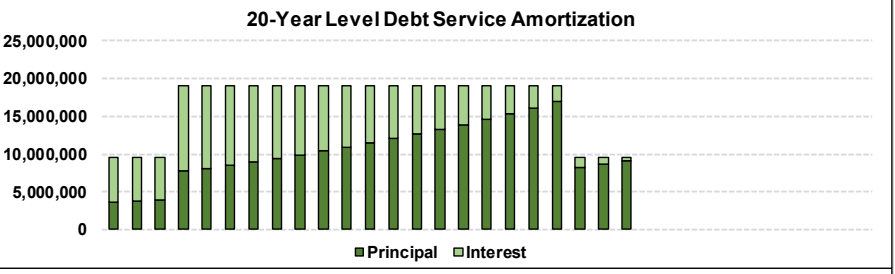
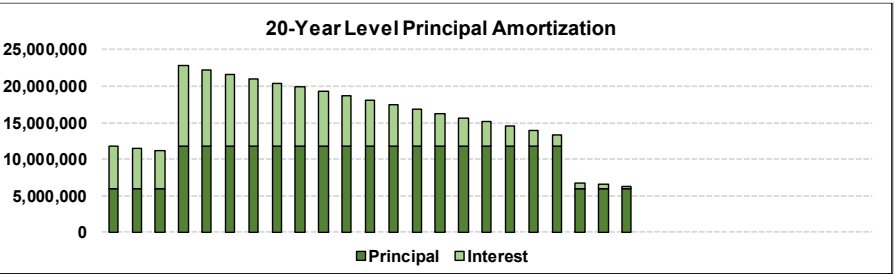
- Example: Estimated annual debt service (principal and interest) cost of borrowing \$250 million using two bond issues as follows:
 - \$125 million in the first year
 - \$125 million in the fourth year
- Four scenarios as follows:
 - Level annual principal, 20-year term
 - Level annual debt service, 20-year term
 - Level annual principal, 30-year term
 - Level annual debt service, 30-year term
- Consistent assumptions regarding the level of interest rates, credit ratings, issuance costs, etc.



Bond Debt Service Scenarios (Continued)

Scenario	Summary of Scenarios			
	20yr Lvl Prin	20yr Lvl D/S	30yr Lvl Prin	30yr Lvl D/S
Project Funds	\$250,000,000	\$250,000,000	\$250,000,000	\$250,000,000
Total Debt Service	\$361,348,000	\$381,287,000	\$430,628,000	\$480,014,500
Avg Annual Debt Service	\$18,067,400	\$19,064,350	\$14,354,267	\$16,000,483
True Interest Cost (Rate)	4.29%	4.40%	4.69%	4.85%

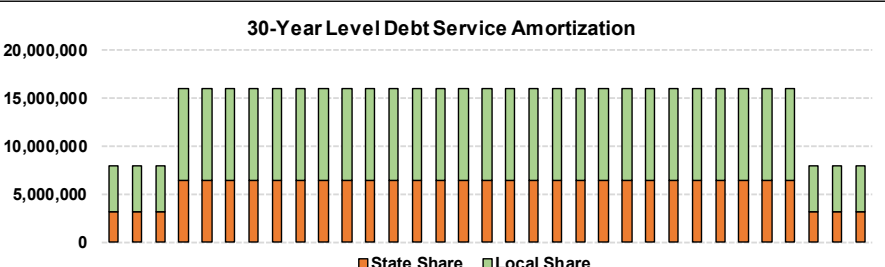
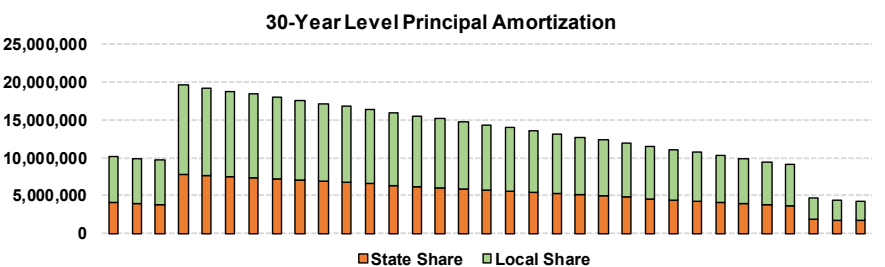
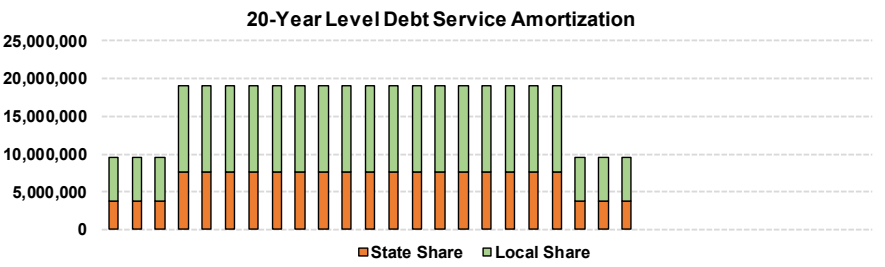
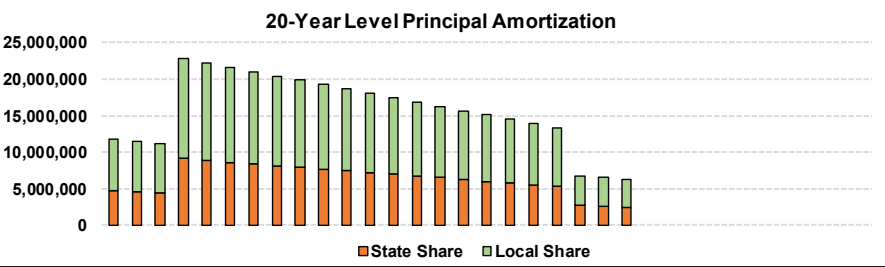
Year	Annual Debt Service Schedules			
	20yr Lvl Prin	20yr Lvl D/S	30yr Lvl Prin	30yr Lvl D/S
2024	\$11,849,000	\$9,529,500	\$10,110,750	\$7,999,250
2025	11,552,750	9,530,000	9,908,500	8,001,750
2026	11,256,500	9,531,500	9,706,250	7,999,500
2027	22,809,250	19,063,000	19,614,750	16,001,750
2028	22,216,750	19,060,500	19,210,250	16,002,000
2029	21,624,250	19,063,750	18,805,750	16,002,250
2030	21,031,750	19,066,500	18,401,250	16,002,000
2031	20,439,250	19,062,750	17,996,750	16,000,750
2032	19,846,750	19,066,750	17,592,250	16,003,000
2033	19,254,250	19,067,000	17,187,750	15,998,000
2034	18,661,750	19,062,500	16,783,250	16,000,500
2035	18,069,250	19,067,250	16,378,750	15,999,500
2036	17,476,750	19,064,500	15,974,250	15,999,500
2037	16,884,250	19,063,250	15,569,750	15,999,750
2038	16,291,750	19,067,000	15,165,250	15,999,500
2039	15,699,250	19,064,000	14,760,750	16,003,000
2040	15,101,750	19,063,000	14,356,250	15,999,250
2041	14,509,500	19,067,250	13,951,750	16,002,750
2042	13,917,250	19,064,750	13,547,250	16,002,250
2043	13,320,000	19,064,000	13,142,750	16,002,000
2044	6,808,000	9,533,000	12,738,250	16,001,000
2045	6,512,000	9,531,250	12,333,750	15,998,250
2046	6,216,000	9,534,000	11,929,250	16,002,750
2047			11,519,750	15,998,000
2048			11,115,500	15,998,250
2049			10,711,250	16,002,000
2050			10,302,000	15,997,750
2051			9,898,000	15,999,500
2052			9,494,000	16,000,500
2053			9,090,000	15,999,250
2054			4,646,000	7,999,250
2055			4,444,000	7,998,750
2056			4,242,000	8,001,000
Total	\$361,348,000	\$381,287,000	\$430,628,000	\$480,014,500



Example Aggregate Cost to State Assuming 40% Subsidy*

Summary of Scenarios Assuming 40% State Subsidy				
Scenario	20yr Lvl Prin	20yr Lvl D/S	30yr Lvl Prin	30yr Lvl D/S
Project Funds	\$250,000,000	\$250,000,000	\$250,000,000	\$250,000,000
Total Subsidy Amount	\$144,539,200	\$152,514,800	\$172,251,200	\$192,005,800
Avg Annual Subsidy	\$7,226,960	\$7,625,740	\$5,741,707	\$6,400,193
Subsidy Level	40%	40%	40%	40%

Annual Debt Service Schedules				
Year	20yr Lvl Prin	20yr Lvl D/S	30yr Lvl Prin	30yr Lvl D/S
2024	\$4,739,600	\$3,811,800	\$4,044,300	\$3,199,700
2025	4,621,100	3,812,000	3,963,400	3,200,700
2026	4,502,600	3,812,600	3,882,500	3,199,800
2027	9,123,700	7,625,200	7,845,900	6,400,700
2028	8,886,700	7,624,200	7,684,100	6,400,800
2029	8,649,700	7,625,500	7,522,300	6,400,900
2030	8,412,700	7,626,600	7,360,500	6,400,800
2031	8,175,700	7,625,100	7,198,700	6,400,300
2032	7,938,700	7,626,700	7,036,900	6,401,200
2033	7,701,700	7,626,800	6,875,100	6,399,200
2034	7,464,700	7,625,000	6,713,300	6,400,200
2035	7,227,700	7,626,900	6,551,500	6,399,800
2036	6,990,700	7,625,800	6,389,700	6,399,800
2037	6,753,700	7,625,300	6,227,900	6,399,900
2038	6,516,700	7,626,800	6,066,100	6,399,800
2039	6,279,700	7,625,600	5,904,300	6,401,200
2040	6,040,700	7,625,200	5,742,500	6,399,700
2041	5,803,800	7,626,900	5,580,700	6,401,100
2042	5,566,900	7,625,900	5,418,900	6,400,900
2043	5,328,000	7,625,600	5,257,100	6,400,800
2044	2,723,200	3,813,200	5,095,300	6,400,400
2045	2,604,800	3,812,500	4,933,500	6,399,300
2046	2,486,400	3,813,600	4,771,700	6,401,100
2047			4,607,900	6,399,200
2048			4,446,200	6,399,300
2049			4,284,500	6,400,800
2050			4,120,800	6,399,100
2051			3,959,200	6,399,800
2052			3,797,600	6,400,200
2053			3,636,000	6,399,700
2054			1,858,400	3,199,700
2055			1,777,600	3,199,500
2056			1,696,800	3,200,400
Total	\$144,539,200	\$152,514,800	\$172,251,200	\$192,005,800



* Unlike Rhode Island, assumes immediate payment of the subsidy from the State.



Questions and Discussion

