



Public Finance Management Board
Regular Meeting Minutes
Thursday, September 22, 2016
9:00 a.m.
Room 205, State House

A meeting of the members of the Public Finance Management Board (“PFMB”) was held on Thursday, September 22, 2016 at 9:00 a.m. in Room 205, State House, Providence, Rhode Island, pursuant to duly posted public notice of the meeting and notice duly provided to all members.

I. Call to Order

The meeting was called to order at 9:12 a.m.

II. Roll Call of Members

The following members were present:

The Honorable Seth Magaziner, General Treasurer and Chair
Mr. Karl D. Landgraf, Public Member
Ms. Maribeth Williamson, Public Member
Mr. Douglas Jacobs, Public Member
Mr. Joseph Reddish, Public Member

Mr. Shawn Brown, Public Member from League of Cities & Towns arrived at 9:20 a.m.

Also in attendance: Ms. Janet Lee and Mr. Thomas Huestis, Public Resources Advisory Group (PRAG); Mr. Frank Quinn, Director of Debt Management; Mr. Eugene Bernardo, Esq., Legal Counsel from Partridge Snow & Hahn LLP; Mr. Patrick Marr, Chief of Staff for the General Treasurer’s Office, and other members of the Treasurer’s Staff.

III. Approval of Minutes

Treasurer Magaziner moved to the first agenda item:
Consideration to approve the Public Finance Management Board Minutes.

On a motion by Ms. Williamson and seconded by Mr. Reddish, it was unanimously
VOTED: To approve the draft of the Minutes of the August 4th, 2016 PFMB Regular Meeting.

IV. PFMB Rules and Regulations

On a motion by Mr. Jacobs and seconded by Ms. Williamson, it was unanimously
VOTED: To move the review of the PFMB Rules and Regulations to the end of the agenda

Treasurer Magaziner recalled the process of developing the PFMB Rules and Regulations: the board drafted a proposed set of rules and those were then posted for the public to allow feedback. Some issuing agencies and the League of Cities and Towns had comments on the proposed rules. These comments were heard at a public meeting held on September 12th, and the Board has been provided with the written comments from the interested parties as well as the transcription from that meeting.

The comments contained three major themes: first, to restore the refunding credit as applied to refunding bond issues; second, to exempt municipal and regional entities from the assessment of the PFMB fee; and third, if the second comment were declined, to avoid a double assessment on certain obligations issued to serve as underlying security for a related debt issuance.

Mr. Landgraf asked what the percentage of total issuance was comprised of refunding bonds. Mr. Marr offered that over the last eight fiscal years (2008-2015), refunding issuance at the state and quasi level represented 30% of issuance, and at the local level it represented 16% of issuance. It was also clarified by Mr. Bernardo that underwriters, not the municipalities, will be assessed the fees.

Related to the 30-day notification period prior to a bond sale, Mr. Landgraf noted there will be times when, due to emergencies, it will be difficult to provide such notification that far in advance. The board agreed a 30-day period is important, however it is understood that there may be times when the 30-day notice period and the penalty may be waived.

Related to the \$250 per day penalty for late reporting, Mr. Landgraf stated it is excessive and ultimately only hurts the taxpayer. The board determined that no penalties will be assessed until staff has developed and presented alternate proposals to the board that encompasses a fairer, more nuanced approach to applying fines.

Treasurer Magaziner mentioned the additional concern surrounding the definition of leases. Mr. Bernardo explained that “leases” are cited in the statute only as they apply to the types of entities to which the statute pertains. Treasurer Magaziner suggested the board direct staff on how to it should be determined. Ms. Williamson agreed that flat fees or flat application across various size municipalities will not work.

Mr. Brown asked about a question presented by the cities and towns. Mr. Bernardo stated this is not within the rule as the fees are not assessed on municipalities.

The Board discussed common structures where municipal obligations are issued to serve as underlying security for a related debt issuance. Rhode Island Infrastructure Bank (RIIB) and Rhode Island Health and Educational Building Corporation (RIHEBC) transactions were discussed. In these situations, municipalities often issue a bond to RIIB or RIHEBC which secures, in part, the RIIB or RIHEBC issue. Under the proposed regulations, each of the obligations would be assessed a fee.

The board asked questions.

Mr. Brown made a motion to restore the refunding credit to the proposed changes to the PFMB fee requirement. The motion failed due to a lack of a second.

On a motion by Mr. Jacobs and seconded by Ms. Williamson, it was

VOTED: To approve the adoption of a final rule, as amended in Section 10 to exempt from the assessed fee those governmental debt obligations which serve as underlying security for a related

debt issuance; and authorize the Treasury staff to file the final rule, as amended, with the Secretary of State's Office in accordance with the Administrative Procedures Act.

V. Review and Discussion of the 2016 State Debt Report

Treasurer Magaziner stated that the State Debt Report was being distributed for informational purposes and that any suggested changes would be reflected in next year's report as this report is final. Board members were encouraged to provide feedback at the conclusion of their review.

Mr. Quinn summarized the 2016 State Debt Report for fiscal year end 2015, highlighting key points in the report and concluding that Rhode Island has made, and is continuing to make, strides in improving its fiscal condition.

Mr. Landgraf suggested that going forward the report should contain a reference to the 2011 state legislation that places bondholders of Rhode Island municipal issues ahead of other creditors in the case of bankruptcy. In terms of credit quality and enhancement, Mr. Landgraf expressed that the legislation is significant and should be a key factor in the state's rating.

Mr. Reddish said while the report had great information, the next report should attempt to relate the findings more to the taxpayer: what do the findings mean for them? Coupled with the new PFMB website, the yearly report should make the information more palatable for the public going forward.

VI. Debt Affordability Study Update

Treasurer Magaziner prefaced the conversation by reminding the Board of the parameters of the study, that it be as comprehensive as possible, and include state, municipal, quasi-public corporations, public corporations, fire districts, special districts and, regional issuers, and have ratios that are inclusive of other liabilities such as pensions and OPEB liabilities – none of which have been done by another state. There is no other state that incorporates state pension guidelines or that has conducted a study that covers all issuers in the state. Treasurer Magaziner stated it is not intended that the Board make any decisions regarding targets or ratios until all three phases of the study are completed. The main point of the day's discussion will be to determine which ratios and metrics will be most meaningful when looking to settle on ratios later in the process.

Ms. Lee and Mr. Huestis provided the Debt Affordability Study Update on Phase I, which covers only state debt. Ms. Lee began by outlining the state's current and projected outstanding tax supported debt and long-term liabilities.

Attention was drawn to the fact the state has made its full pension ARC for the last 19 years and has consistently funded 100% of the OPEB ARC, which is uncommon for most states. Mr. Jacobs asked how, if the full pension ARC had been made for nearly 20 years, did the state incur such a large pension liability. Treasurer Magaziner explained the ARCs are governed by their own set of assumptions and, for a period of time, the state had been using unrealistic assumptions in addition to the fact the state had an aggressive asset allocation, making the portfolio vulnerable to downturns that occurred in 2001-2002, 2008-2009. The pension plan demographics are also dissimilar to many other places in that half of the participants are retired and collecting benefits, creating higher costs.

Ms. Lee then explained how the state compared to its peer states. Mr. Jacobs asked how peer states were determined and Mr. Huestis responded that traditionally New England states have used each other as peers given their similar size, situations and ratings. It was noted that future reports should include a national median or national average in addition to being more discerning in peer selection and broaden the peer set beyond the New England states.

Ms. Lee showed how each of the three rating agencies assess debt ratios. She noted that both OPEB and pension ARCs are not incorporated in debt ratios anywhere, nor are they incorporated in ratings although the rating agencies are now looking more closely at these ratios.

Treasurer Magaziner acknowledged the challenge PRAG had in developing this study as this information is not centralized; PRAG must individually delve into each state's financial information to compile this report.

The board discussed keeping the recommended debt affordability measures as outlined by PRAG and will continue to monitor each area.

The board asked questions.

VII. Debt Management Technology and Communications Update

Mr. Marr presented the Board information on the new website. He noted it will be the administrative and communications home for all PFMB materials, including meeting minutes, presentations and yearly reports. The deployment of the website is consistent with Treasurer Magaziner's transparency initiative. Before the website goes live, the Board can access and explore the site via password and supply any feedback to the staff so necessary changes can be made prior to it becoming a public page.

Mr. Landgraf expressed he envisioned more for the website, imagining a relationship database that is user friendly and provides information regarding all bonded debt. Mr. Marr explained that is the intention for the future and they are working with a potential vendor to take steps toward that end. However, both Mr. Marr and Treasurer Magaziner noted that given there had previously never been a site devoted to the PFMB and its materials, the evolution of its contents will be an ongoing process.

VIII. Chairman's Comments

Treasurer Magaziner said he was very happy with the initial draft and initial versions of both the PFMB Rules and Regulations and the Debt Affordability Study. He believed this meeting was a productive one and looks forward to building this momentum in the October meeting.

Treasurer Magaziner opened the floor to other business. There being none, Treasurer Magaziner entertained a motion to adjourn the meeting.

On a motion by Ms. Williamson and seconded by Mr. Jacobs it was unanimously **VOTED: To adjourn the meeting.**

There being no further business, the meeting adjourned at 11:15 a.m.

Respectfully submitted,

**Seth Magaziner,
General Treasurer**

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