REPORT OF THE PROVIDENCE CITY COUNCIL BOND STUDY COMMISSION

JULY 7, 2015

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* Readers can view the appendices online (along with a full electronic copy of this Report) on the City Council's website under the "Publications" tab, http://council.providenceri.com/reports-publications.

At the beginning of the 20th century, Providence was a mighty and wealthy City, a national leader in industry and technology. The City attained these heights with the support of a sturdy foundation of public works (including one of the nation's best water systems). In the century that followed, a number of economic challenges (and a hurricane) sapped the City's fiscal strength. At first, the City government postponed facing these issues; however, two major bills came due in the past term. In 2011, the City took drastic measures to avoid insolvency. In 2012, the City acknowledged a daunting pension deficit and took measures to address it. A third, overdue bill remains in the form of the City's infrastructure deficit. Across the City, crumbling schools, streets, sidewalks and sewers drag down the quality of life for City residents, the quality of education for the City's children and the City's overall fiscal health and economic development. To rebuild Providence, we must plan with purpose and discipline, basing each and every decision to invest limited capital resources on a clear and comprehensive understanding of all the City's needs. We must understand how "yes" to even the most valuable capital project also means saying "later" or "no" to others.

This Report provides the tools for careful capital borrowing decisions. In the sections that follow, it will describe the basics of bond financing, review the City's current portfolio of outstanding bonds, list pending capital needs, and make recommendations about how to make future bond issuance decisions more systematic and transparent.

I. Background

Section 812 of the Providence Home Rule Charter calls for the Mayor to submit, and for the City Council to approve, a 5-year capital budget in conjunction with the review and passage of each year's operating budget. Exhibit 1. In recent years, however, the City has not presented or approved a capital budget. *See* Exhibit 2 (2015-16 capital budget). Instead, capital projects and bond have been proposed individually, without providing an opportunity to consider how the project affects other competing priorities.

Based on this history, the City Council passed Resolution No. 157 on March 5, 2015, approving the formation of a study commission to develop "in a single place, a comprehensive inventory of current and previous bond issues, proposed future issues, and the interaction of bond issues with the City's overall credit rating." Exhibit 3. The City Council President appointed the following Commission members:

Councilman Samuel D. Zurier, Chair
Councilman David Salvatore, Vice-Chair
Councilwoman Jo-Ann Ryan
Councilman Kevin Jackson
Brett Smiley, Chief Operating Officer
Alan Sepe, Director of Operations
Robert Azar, Deputy Director of Planning and Development

The Commission held five meetings to assemble information about the City's bond finance program, covering the following topics:

March 25:	Inventory of existing bond issues
April 15:	Bond Financing Alternatives and Credit Rating
May 13:	Streetcar Project
May 20:	Public Works: Schools, Streets, Sidewalks and Sewers (Part I)
June 17:	Public Works (Part II), Parks

Based on this information, this Report will cover the following topics:

1. Bond Finance Basics
2. The City's Current Bonding Commitments
3. Pending Projects
4. Recommendations and Conclusions

II. Bond Finance Basics

As of June 30, 2015, the City had approximately $455.7 million in outstanding debt obligations. Exhibit 4. *See also* Appendix A, p. 15.[1] Of that amount, $99.1 million was general obligation debt, while the balance was issued through alternative financing vehicles described below. The total debt obligation at that time equaled $556.62 per Providence resident, and 4.24% of the City's "full value" tax base. In the recently concluded fiscal year (ending June 30, 2015), the City paid a total of $67.1 million in debt service, amounting to approximately 10% of the City's operating budget.

A. Types of Bond Financing

The City has three different types of authority to borrow money, and three different types of debt it can issue.

1. General Obligation Bonds

In order to issue general obligation bonds, backed by the full faith and credit of the City, it is necessary first for the City Council to enact (and the Mayor to sign) a bond ordinance, and then for the citizens to approve the ordinance at a general election. The City Charter requires that the bond ordinance and referendum contain certain kinds of supporting information, including the cost of the project, an estimate of the project's "period of usefulness," an estimate of the cost of capital, and a declaration that the proposed borrowing is in compliance with State and Federal

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[1] Readers can view the appendices online (along with a full electronic copy of this Report) on the City Council's website under the "Publications" tab, http://council.providenceri.com/reports-publications.

law. For example, the City's voters approved a general obligation bond for road repair as part of the November, 2012 general election. The next general election will take place in November, 2016. As of June 30, 2015, the approximate level of general obligation debt is $99.1 million.

2. Revenue Bonds

State law has created two alternative ways for cities to manage their capital budget through what are called "revenue bonds."

a. Providence Building Authority (PPBA)

The first alternative is the Providence Public Building Authority (PPBA), established under R.I.G.L. §§45-50-1 *et seq.* The PPBA holds title to all of the City's buildings (including its school buildings), and the City pays the financing costs for the bonds issued by the PPBA. (The City also pays the cost of maintaining its buildings.) These bonds are called "revenue bonds" because the cost of the issuing authority (PPBA) are supporting by matching revenues (lease payments from the City). In contrast to general obligation bonds, however, PPBA revenue bonds do not require voter approval. Instead, the bond issues are first approved by the PPBA, and then by the City Council.

For school construction projects, PPBA works in conjunction with the Rhode Island Health and Educational Building Corporation, or RIHEBC. Under State law, most school construction projects are eligible for partial State reimbursement based on the issuing community's relative ability to pay. The City of Providence typically qualifies for State reimbursement at a level of 80% or higher.[2] In order to qualify for the State subsidy, the school district must submit the project for approval by the Rhode Island Department of Education (RIDE), which assesses the need for the project, its cost-effectiveness, and its effectiveness in achieving certain educational goals. For many years, the General Assembly allocated sufficient funds to reimburse all RIDE-approved projects; however, in 2007, the General Assembly imposed a moratorium on new projects, excepting those requiring funding for basic "warm, safe and dry" repairs. In its 2015 session, the Governor's budget provides for $20 million to fund new projects; however, this amount is only a small fraction of the need in Providence alone, and Providence accounts for only around 20% of the State's total public school population. RIHEBC assists the PPBA in packaging and issuing bonds, and providing reimbursement of financing costs. With that said, however, PPBA remains responsible for issuing the full amount of the bonds, which affects the way in which rating agencies assess the cost of borrowing and the City's financial ability to borrow other money.

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[2] For projects approved in FY 2013-14, the State school housing aid funding ratio for Providence was 81.1%. *See* Rhode Island Education Aid (House Fiscal Staff, September, 2014), p. 143.

b. Providence Redevelopment Agency (PRA)

The Providence Redevelopment Agency (PRA) was established in 1947 under a State program to clear "blighted and substandard areas" for urban renewal. Within designated "redevelopment areas," the PRA has the authority to acquire land (including by eminent domain), develop the land, to sell and lease the land it acquires, and to finance projects through borrowing. The PRA's activities are supported by City revenues. The PRA gains authority to issue bonds through authorizing legislation enacted by the City Council and signed by the Mayor. The PRA is housed within the City's Planning Department.

3. Tax Increment Financing

The State has authorized cities and towns to issue bonds based on tax increment financing (or "TIF"). R.I.G.L. §§45-33.2-1 *et seq.* The general premise of tax increment financing is that certain investments will facilitate development, and the development will grow the tax base. If the expected growth of the tax base is sufficient, then it becomes possible to fund the project exclusively out of the increment of increased tax revenues. To accomplish this, the City Council establishes a "Tax Increment Area" of properties that are expected to provide increased tax revenues as a result of the project. The City measures the "baseline" revenues generated by the Tax Increment Area. Then, with the help of a consultant, the City prepares a model that projects anticipated revenue growth from the proposed project from two sources, namely "natural growth" (that would occur without the TIF project) and additional growth in values from the TIF project itself. The City Council can then approve the issuance of TIF bonds which, under State law, will be funded exclusively from the "natural growth" and "project growth" revenues, but not the "baseline" revenues. The State's TIF law provides that the project will not obligate the City's full faith and credit or otherwise limit its bonding capacity.

The expanded capabilities the TIF program presents are subject to practical limitations. First, although a TIF project is designed to "pay for itself" with growths in revenue resulting from the project within the Tax Increment Area, a portion of that obligated, incremental growth is the "natural growth" that would occur without any project all. In other words, the City will lose the use of the "natural growth" of the Tax Increment Area in funding its operations if it approves the TIF bond. Second, the project's commitment of revenues has to be sufficiently convincing to attract investors who are willing to put their money at risk. Third, if the TIF payments fall short, the City may decide to make the investors whole, even though the City is not legally obligated to do so. If the project is sufficiently identifiable with the City, then the City's bond rating may be damaged by a failure to pay notwithstanding the legal separation set forth in the State TIF law. As a result, it may be prudent to reserve extra bonding capacity for a TIF project even if it is not legally required. Finally, the State's property tax cap law limits the increase of a city or town's tax levy by 4% annually, and the increased revenues within the Tax Increment Area count against this cap.

B. The City's Credit Rating and Debt Capacity

The City's cost of borrowing is largely determined by its credit rating, which is assessed by three major rating agencies (Moody's, Standard & Poor's and Fitch). All agencies assign a top rating of AAA. For Moody's, the lowest "investment grade" rating is Baa3, below which (Ba1 and below) credit ratings are "speculative grade." For S&P and Fitch, the lowest "investment grade" rating is BBB-, below which (BB+ and below) is "speculative grade." The agencies rate each of the City's different bond issuing vehicles, as well as each individual TIF. According to First Southwest (Appendix A, p. 3), the current ratings for the City are as follows:

Issuing Authority	Rating Agency		
	Moody's	S&P	Fitch
City General Obligation	Baa1	BBB	BBB
PPBA/RIHEBC (School buildings)	A1	A1	A1
PPBA	Baa2	BBB-	NR
PRA	Baa2	BBB-	NR
Manchester Street TIF	NR	BB	BBB+

In short, the City's credit rating is generally one or two steps above the minimum "investment grade" rating, except the school bond issues earn a higher rating due to the State's participation. The City's credit rating has maintained this level since the Spring of 2012, when the rating agencies downgraded the ratings due to the risk of insolvency. Providence's Baa1 rating from Moody's for general obligation debt is comparable with peer communities in Rhode Island and the region.

In developing an overall rating, agencies measure the City's financial position against such benchmarks as debt per capita, debt service costs as a percentage of the operating budget, current and accumulated operating budget surplus and pension and pension benefit obligations.

C. Cost Factors

When issuing new debt, the City can choose the term for paying it back. A longer payback term will reduce the annual payments, but will increase the financing cost over the term of the bond. Also, the interest rate assigned to the bonds can vary with their term (as well as the City's credit rating). First Southwest illustrated how these different factors apply with the following alternative costs for a $1 million bond issued at 5% interest:

$1 million bond, issued at 5% interest			
Term (years)	Annual Debt Service	Total Interest Paid	Total Finance Cost
10	$129,500	$295,000	$1.295 million
20	$80,275	$605,500	$1.605 million

Appendix A, p. 17.

The gaps in total interest paid increases as the interest rate increases. The interest rate also varies with market conditions. The current interest rate "spread" between 10-year and 20-year borrowing is less than 1%.

Another useful rule of thumb is to ensure the term of the bond does not exceed the "useful life" of the project that is being financed. Many of the benefits of the 1996 and 2000 "neighborhood improvement" bonds dissipated years ago, but Providence will continue paying off these bonds until 2018. Similarly, Providence still has several years left before it will pay off either the 2010 PRA bond or the 2011 "green energy" bond, the main proceeds of which were immediately liquidated to close a deficit.

III. Current Inventory Of Bond Finance Projects

The City of Providence currently has an inventory of 24 outstanding bonds dating back to 1998. *See* Exhibits 5, 6 (summary tables). *See also* Appendix B (full report by Internal Auditor). In some cases, the City repackaged and reissued old bonds in order to save financing costs due to a decline in interest rates. These refinancings have made it difficult to provide a complete description of the inventory based on purpose, cost, date and other categories, but the following partial description will help provide a general understanding.

A. General Obligation Bonds

The City has six outstanding general obligation bonds, four of which funded the 1996-2000 "neighborhood improvement" program.[3] Under that program, the City issued two bonds of $50 million each to support a variety of neighborhood projects. The proceeds were divided into 16 separate accounts, with each of the 15 City Council members controlling a $2.2 million account for each bond issue, and the Mayor controlling the balance after paying finance and other transaction charges. Certain expenditures that provided transitory benefits in relation to the 20-

[3] Because some (but not all) of the projects in 1996 and 2000 were eligible for tax-exempt bond financing at a lower interest rate, the City issued two bonds each time (on taxable and one tax-exempt) for a total of four bonds.

year term of the bonds. For more information, *see* Appendix C.

The City has issued two other general obligation bonds. In 2010, the City borrowed $14.5 million to purchase and lease back decorative city lights. In 2012, the voters authorized the $40 million road repair bond program.

All told, the six general obligation bonds had an original issue value of $127.6 million, of which $99.1 million remains to be paid at a financing cost (last fiscal year) of $14.5 million.

B. <u>Providence Public Building Authority (PPBA)</u>

The PPBA has issued a total of 14 bonds that are currently being paid. The total original issue value of the bonds was approximately $415 million. The current unpaid balance is approximately $302 million, and last fiscal year's financing cost was approximately $31.8 million. A more detailed description of the bonds follows.

1. <u>School Construction</u>

The Providence Public Building Authority has issued nine bonds during 1998-2013 relating primary to school construction.[4] These bonds are typically for 20 years, and the State reimburses more than 80% of the cost. During 2006-07, the City had four major bond issues (totaling $226.5 million) for major work at a number of schools, including Providence Career Technical Academy and Nathan Bishop Middle School. Around this time, the General Assembly enacted a new construction moratorium. Since that time, the City has limited its school bond issues to three for "warm, safe and dry" renovations for a total of $44.3 million in 2009-10 and a refinancing in 2013 to save costs. The total original value of this set of bonds was $304.4 million, of which $217.1 million remains due at a finance cost (last fiscal year) of $23.5 million.

2. <u>Public Buildings and Facilities</u>

During 1998-2010, the PPBA had four bond issues (totaling $64.2 million) for public buildings and facilities (Civic Center, hurricane barrier, skating rinks and fire stations, with a small amount for schools mixed in). There remains an unpaid balance of $22.2 million on these bonds, at an annual financing cost of $4.8 million.

3. <u>The Green Energy Bond</u>

In 2011, the City faced an imminent risk of insolvency. In March, 2011 an independent fiscal review panel reported that the City had run deficits during the previous four years paid for by liquidating tens of millions of dollars of reserve funds. In the meantime, the City's current budget was projected to run a deficit of $70 million, with an additional $110 million structural deficit projected for the following year. In this emergency situation, the City decided to issue a

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[4] Three other bonds funded a number of public building projects including schools.

15-year, $35 million "Green Energy" bond. The City used $5 million of the proceeds to upgrade the energy efficiency of public buildings, and the balance (after financing and transaction costs) to pay down the 2010-11 budget deficit. This was not a conventional or regular use of bond financing.

C. Providence Redevelopment Agency (PRA)

The Providence Redevelopment Agency currently has an inventory of three outstanding bonds. The original issue value of the bonds was in excess of $93 million. The current remaining balance due is $59 million, and last year's financing costs were $15.1 million.

The first bond is a refunding of a previous issue that funded the construction of the Public Safety Complex. The third bond funded a tax increment financing project at the Manchester Street power station.

The second bond, a $14 million issue in the summer of 2010, was for a less conventional project. At that time, the City was facing liquidity issues due to a reduction in State aid, and available reserves had been exhausted. As a result, the bond issue involved the PRA's purchase of City property for $14 million, which the PRA leased back to the City to pay the bond financing costs. As stated in the testimony before the City Council Finance Committee, this transaction effectively capitalized a City asset to cover one year's operating expenses.

IV. Pending Projects

The City's department heads and others presented a list of pending and proposed capital projects for the City. The list of projects included schools, sidewalks, streets, sewers, public buildings, a streetcar and downtown parks.

A. Schools

The Providence Public Schools are currently housed in 39 buildings, of which 33 are in use, and six are being leased or are not in use. In the past decade, the School Department commissioned two major reports on school facilities, one by DeJong in 2006, and one by Fanning Howey in 2009 (Appendix D). Under the State's Housing Aid program, the State funds more than 80% of approved school construction projects in Providence. During 2006-08, the State program funded major renovations at Nathan Bishop Middle School and Central High School, and new construction at Providence Career and Technical Academy (PCTA). These projects cost a combined $164 million, of which $131 million was funded by the State. Also during these years, the School Department carried out "warm, safe and dry" repairs to several other schools costing an additional $13.5 million in total. In 2007, the General Assembly approved a moratorium on funding major school renovation projects.

Since that time, the State has limited further aid to "warm, safe and dry" projects to address urgent deficiencies in particular buildings. Also, in 2009-10, the federal government authorized additional facilities projects as part of the Obama administration's fiscal stimulus program, which supported, among other things, new science laboratories in several high schools. Recently, the School Department applied for authority to carry out $40 million in such repairs, and the Rhode Island Department of Education (RIDE) is close to approving the first $10 million requested. The State will fund 80% of these projects, which are primarily directed toward basic structural and mechanical needs, such as roofs and boilers.

This year, RIDE approved approximately $120 million in school projects statewide, and RIDE anticipates the General Assembly will provide $100 million to fund these projects. This funding includes $20 million in new money as part of a decision to lift the moratorium on new construction. Going forward, the General Assembly is expected to approve legislation to establish a "school capital reserve fund" and an annual approval program similar to the one currently operating in Massachusetts.

The Fanning-Howey Report provided a proposed budget to bring all Providence Public Schools up to high facilities quality standard at the level achieved at Nathan Bishop and PCTA. Mr. Sepe updated the Fanning-Howey Report to account for projects completed since 2009, as well as changes in construction costs. The cost per school varied significantly, from $115,093 at the Bailey Elementary School up to more than $84 million at Mount Pleasant High School. Based on that analysis, he projected the total budget to bring all of the remaining 36 schools up to the quality level of Bishop and PCTA to exceed $600 million. (This estimate excludes six school buildings that are currently either leased to other entities or are closed.) Mr. Sepe also estimated that a smaller commitment of around $5 million to $10 million per school (or $300 million total) would be adequate to provide a quality learning environment, similar to what Achievement First achieved in its recent renovation of the Oliver Hazard Perry Middle school.

B. <u>Sidewalks</u>

In October of last year, the Department of Public Works prepared a report concerning the condition of the City's sidewalks. Appendix E. The City's current funding for sidewalk repair and replacement is only a fraction of what is needed, and even when combined with available federal funds from the Community Development Block Grant program, the Department estimates the current backlog would not be addressed in fewer than 20 years, only to be replaced by more sidewalk repair requests during that time. The Department of Public Works currently estimates the backlog of pending requests for sidewalk repairs to exceed 3,400 sidewalks, for which the estimated cost of repair would be $20 million. The Department recommends conducting a comprehensive survey of all sidewalks to identify additional ones in need of repair, which survey may add as much as $70 million to the list. The Department estimates the cost of at $150,000.

C. <u>Streets</u>

In April, 2012, the City's consultant (Vanasse Hangen Brustlin, Inc. or "VHB") presented a pavement management analysis of the City's streets. Appendix F. VHB described a 20-year "deterioration curve" over which a road's condition goes from "excellent" to "very poor", identifying the 15-year age ("fair" condition) as the most cost-effective age to repair roads. As of

2012, VHB found 240 miles of roads in need of repair at a total cost of $140 million. VHB estimated the City's overall "pavement condition index" to be 67 out of 100. VHB proposed a 10-year commitment of $10 million per year to increase the average PCI to 74, or a commitment of $13 million per year for 5 years to increase the average PCI to 75. Once this is done, VHB estimates an $8 million annual investment to maintain road quality.

In November, 2012, the voters approved a $40 million road repair bond. VHB developed a priority list based on traffic volume, PCI and expected durability of the repairs. The priority list identified approximately 60 miles of roads to repair to with the bond proceeds, leaving approximately 180 miles of unrepaired roads at an estimated cost to repair of $120 million.

D. Sewers

The City maintains a network of sewer lines that provide the bulk of the City's system. The Narragansett Bay Commission ("NBC") maintains a small number of the major lines. From time to time, the City has discussed transferring its sewer lines to the NBC, which could then charge ratepayers for maintenance. (In contrast, the City must look to taxpayers to maintain the sewer lines, even though many consumers of the system are exempt from paying property taxes.) Although the City and the NBC have discussed this idea for many years, they have not yet found an arrangement satisfactory to both sides.

The City's sewer system has not been maintained properly for many years, and the deferred maintenance triggers occasional backflows and leaks. Also, a sewer line failure can undermine the support beneath a street, leading to sinkholes. The Department estimates that it would cost approximately $50 million to bring the current system up to an acceptable standard, but also recommends undertaking a comprehensive study to refine the current estimate. The Department has included in next year's budget an appropriation to purchase a sewer line camera; however, the Department has not allocated additional staff time to operate the camera in order to prepare a survey. One idea discussed at the meeting is to combine the street repairs with a survey and repair of the sewer lines that are in place below the designated streets.

E. Public Buildings

The Department of Public Property is currently conducting a survey of public buildings to support a facility repair plan and budget, which ought to be ready in six months.

F. The Streetcar Project

Beginning in 2007, the City's Planning Department developed a conceptual plan for a streetcar line in the City. Appendices G-1 – G-4.[5] The current version envisions phased

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5 Appendix G-1 describes the full plan (as of March, 2014). In 2015, the Planning Department revised the project to create a new Phase 1-A, which is incorporated in Appendices G-2 (Plan Summary) and G-3 and G-4 (Phase 1-A explanations).

construction, starting with Phase 1-A, a 1.6 mile route that would connect the Amtrak station to Rhode Island Hospital by way of Kennedy Plaza, Empire Street, and other stops along the downtown core. Phase 1A is expected to operate three cars at 10-minute or 12-minute intervals, and serve approximately 2,600 to 2,900 riders per day. The Planning Department estimates capital and construction costs at around $100 million, and annual operating costs of $3.2 million.

The Planning Department expects to fund the capital and construction costs from three sources. The Department has received a $13 million federal grant, which once formally received will be available for 2 years to commit to the project. The Department expects to receive $30 million in State funding from RIPTA or elsewhere. The remaining $57 million will be funded through a Tax Increment Area. (For a general description of TIF financing, *see* p. 5 above.)

For the streetcar project, the Planning Department has designated a Tax Increment Area that roughly corresponds to 1/4 mile margin on either side of the full route, reaching into the College Hill, Financial District, Downcity, Jewelry District and Hospital District neighborhoods. The Planning Department engaged a consultant to develop a model that calculated "baseline" revenue for the Tax Increment Area and projected additional revenues from a streetcar line. As part of the model, the consultant assumed that developers of commercial property would receive tax stabilization agreements that would postpone the City's realization of the full tax revenues from new development. The model calls for the issuance of a 20-year bond. At that end of the bond term, the City would gain full access to the incremental revenues generated by the Tax Increment Area to fund the City's operating budget.

The Planning Department expects user fares to cover the majority of the annual operating expense, with additional funding provided by an assessment on tax exempt institutions, funded by savings in employee transportation costs. The project will also receive additional parking revenues and a 3-year grant.

The Planning Department reports that its successful federal grant application has triggered interest from developers, including out-of-state firms looking at the I-195 District. The Planning Department reports that several developers have indicated that the streetcar project could "tip the scale" regarding their development plans.

In order to issue the bond, the City Council must first approve the formation of a "TIF District." The City would need to engage an engineer for further planning, a commitment of around $1 million, paid for with grant funds. The Planning Department would then have 12-18 months to secure the additional funding, at which point the bond issuance question will come before the City Council for final approval.

G. Downtown Parks

Cliff Wood, the Director of the Downtown Providence Parks Conservancy, described his organization's work in enhancing the City's public spaces through improvements to Kennedy Plaza, Biltmore Park and Burnside Park, as well as advocacy for State funding to support the establishment of an intermodal transfer center at the Amtrak station. Over the past two decades, downtown public space improvements (most notably Waterplace Basin and the Capital Center) have stimulated more than $1.2 billion in private investment. Mr. Wood also pointed to New York's Bryant Park and Central Park Conservancies, which began with major City funding, but are now funded primarily by nearby businesses (whose increased profitability and real estate values justify the investment) and the philanthropic community.

Director Wood provided a menu of capital improvements that would enhance the downtown park area. *See* Appendix H. The first group of projects would address the infrastructure along the length of Waterplace Park (walkways, railings, etc.), and some minor work at Burnside Park, Biltmore Park and the skating rink. This package would cost $3.9 million. The second project would be to dredge the river. The cost of this project would be either $3.1 million or $5.7 million depending on the length of river dredged. Combined, the projects would cost $9.7 million. The Parks Conservancy may have access to other funding sources for a portion of these costs.

H. Summary

Compiling the results of these reports, an adequate budget to bring all of the City's infrastructure to an acceptable (but not necessarily "excellent") condition today would be as follows:

1.	Schools	$340 million (City Share: $68 million)
2.	Sidewalks	$20-$90 million
3.	Streets	$120 million
4.	Sewers	$50 million
5.	Streetcar	$57 million
6.	Downtown Parks:	$10 million
Grand Total		$597-$667 million (City Share: $325-$395 million)

Because the City will address these capital needs over a period of years, there are at least two reasons why these figures are likely to increase over time. First, the cost of materials and construction will increase. Second, the condition of the City's buildings, streets, sidewalks and sewers is subject to further wear and tear over time, which will increase the cost to maintain and repair those facilities as time progresses before they are addressed.

V. Conclusions and Recommendations

The City of Providence is in need of a major rebuilding effort. After decades of deferred maintenance, Providence has a substantial backlog of repairs and maintenance for its network of buildings, roads, sidewalks and sewers. Other projects can enhance both the City's living environment and economic development. More prosperous cities can maintain their infrastructure with operating funds, but Providence lacks this capacity at the present time. As a result, it is important to make the best possible use of the City's ability to borrow capital, especially given the current favorable interest rate climate.

While there is some value to reducing the City's overall borrowing level, the current list of capital needs is too extensive and acute to defer. For these reasons, the Commission recommends that the City continue to address its backlog of capital projects while maintaining the current credit rating and debt capacity. When prior debt comes off the books over the next 12-18 months, the City will have the opportunity to make purposeful choices about how to improve the quality of its public facilities.

To begin assessing those choices, the Commission asked the City's bond adviser, to project the City's future debt capacity, as of January 1, 2017, based on these assumptions:

1. The City wishes to issue bonds on or around January 1, 2017 that are consistent with the City's current credit rating.
2. The City will continue paying off existing bond obligations on schedule.
3. Over the next 18 months, the City will issue additional bonds at the following times and in the following amounts:
    a. Scenario 1: A single $10 million bond for school facility renovations (with 80% State reimbursement) issued on or around July 1, 2015.
    b. Scenario 2: The $10 million bond described in Scenario 1 plus a second $10 million school facilities renovation bond (with 80% State reimbursement) issued on or around July 1, 2016.
    c. Scenario 3: The two $10 million bonds described in Scenario 2, plus a $55 million bond also issued on or around July 1, 2016.

The Commission chose the January 1, 2017 date with an eye towards the November, 2016 general election. That election represents the next opportunity voters will have to approve the issuance of general obligation bonds.

The Commission developed Scenarios One and Two based on information that the City is working on these bonds with the Rhode Island Department of Education. Scenario Three is based on the assumption that the City goes forward with the streetcar project, which is currently estimated to cost $57 million. While the streetcar bond is designed for tax increment financing (which by State law does not encumber the City's full faith and credit and or affect its bonding capacity), the City's financial advisors stated that bond holders and/or credit rating agencies might still look to the City to stand behind the bonds. As a result, it may be prudent to reserve bonding capacity for the streetcar project until it is sufficiently clear that the TIF district will provide enough incremental revenue to fund the project.

The City's financial advisor answered these questions in a June 25, 2015 letter. Appendix I. The advisor projected the City's bonding capacity on January 1, 2017 to be as follows under the three scenarios posed by the Commission:

Scenario One:	$87.0 Million
Scenario Two:	$77.4 Million
Scenario Three:	$24.1 Million

In addition to pointing out future opportunities, the advisor's analysis reveals the impact of the State's school construction reimbursement program on the City's bonding capacity. More specifically, even though a $10 million school construction bond will be reimbursed by the State at more than 80%, the entire $10 million counts against the City's bonding capacity. This fact has important ramifications for the City's ability to rebuild its schools. Instead of being able to base borrowing decisions on the net cost to the City of school construction after State aid, the current State program effectively limits cities and towns to borrow as if no State aid were forthcoming, even though the State is committed to providing the aid.

Based on its investigation, the Commission makes the following recommendations:

1. As soon as feasible, the Administration should submit a consolidated list of planned capital projects for the current fiscal year.

2. During the rest of the current fiscal year, the Administration should make adequate preparations to allow it to submit a fully compliant 5-year capital budget for the City Council's review and approval as part of the 2016-17 budget cycle.

3. The Director of Operations should develop a 3-5 year plan for further school repairs and renovations to begin upon the conclusion of the current package before the Rhode Island Department of Education.

4. The Department of Public Works should complete a comprehensive assessment of the City's sidewalks by the end of calendar year 2015, and report to the City Council concerning its estimated cost of repair of the entire system.

5. In early 2016, the City Council and administration should assess which capital funding needs can be addressed with the bonding capacity expected to be available by January 1, 2017. Based on that assessment, the City should consider developing a general obligation bond proposal for the voters to consider as part of the 2016 general election ballot.

6. The City should work with its peer communities and with the State to explore ways to repackage the State's school construction aid program so that the State's share of school financing costs does not count against the City's bonding capacity for the purpose of determining the City's credit rating.

While these recommendations will help the City make a good start in addressing its infrastructure deficit, it is clear that there will still be a long way to go after January 1, 2017. A cursory review of the Table of Existing Bond Debt (Exhibit 4) suggests that the City will pay off between $50 million and $100 million of bonds every two years going forward, providing capacity for new general obligation debt and/or PPBA borrowing in the future. The Commission encourages the City to extend its planning beyond 2017, using the principles developed in this Report.

To conclude, a century ago, Providence built a rich legacy of prosperity and quality of life on a strong foundation of infrastructure and public works. In recent years, that foundation has been fiscally challenged. To rebuild it, Providence must plan its capital borrowing program carefully, making best use of its scarce resources in a way that addresses all of the City's needs over the long term.