

Rating Action: Moody's revises outlook to negative on Providence, RI's Baa1 GO and Baa2 lease debt to negative; affirms ratings

Global Credit Research - 13 Nov 2015

Assigns Baa2 underlying and A1 enhanced to \$10M lease revenue bonds issued through RIHEBC

New York, November 13, 2015 --

Moody's Rating

Issue: Providence Public Schools Revenue Bond Financing Program Revenue Bonds, Series 2015 B (Providence Public Buildings Authority Issue); Underlying Rating: Baa2; Enhanced Rating: A1; Sale Amount: \$10,000,000; Expected Sale Date: 12/3/2015; Rating Description: Lease Rental: Appropriation

OPINION

Moody's Investors Services has assigned an enhanced A1 and Baa2 underlying rating to \$10 million Rhode Island Health and Educational Building Corporation (RIHEBC), Providence Public Schools Revenue Bond Financing Program Revenue Bonds, Series 2015 B (Providence Public Buildings Authority Issue). Concurrently, Moody's has affirmed the Baa1 rating on the city's outstanding general obligation (GO) debt; the Baa2 rating on the lease appropriation revenue bonds issued by the Providence Redevelopment Agency; and the Baa2 lease appropriation revenue bonds issued by the Providence Public Buildings Authority (PPBA). At this time, Moody's has revised the outlook on the underlying ratings on the outstanding GO and lease debt to negative.

Moody's has also affirmed the A1 enhanced rating Series 2013A and 2015A bonds based on the Rhode Island Health and Educational Building Corporation (RIHEBC) monthly pay Intercept Program.

SUMMARY RATING RATIONALE

The Baa1 general obligation rating reflects the city's sizeable and diverse tax base anchored by a significant institutional presence and an improving unemployment rate and high poverty levels. The rating also factors the city's weak financial position, the result of several consecutive annual deficits through fiscal 2012 although the city experienced surpluses in fiscal 2013 and 2014. Unaudited results show a return to deficit operations in fiscal 2015. The rating also incorporates a high debt burden that is partially supported by state school building aid, and a very high fixed cost burden with large unfunded pension and OPEB liabilities.

The Baa2 PPBA and PRA lease revenue bond ratings reflect the city's general credit quality as well as the risk of non-appropriation, as outlined in the Master Trust Indentures and lease agreements between the city and the authorities. The rating also factors the essential nature of the leased assets.

The A1 enhanced rating is based on the Rhode Island Health and Educational Building Corporation (RIHEBC) monthly pay Intercept Program. As the RIHEBC monthly pay Intercept Program is a state-backed enhancement program, its rating is based on the state's Aa2 general obligation rating and stable outlook. For additional information regarding the State of Rhode Island's Aa2 rating, please see Moody's New Issue Report dated July 8, 2015. The state provides approximately 81% state building aid on outstanding school issuances.

OUTLOOK

The revision of the outlook to negative from stable reflects the continued challenges the city faces achieving structural balance and improving its very weak reserve position. Rising pension and healthcare costs will continue to pressure the city's finances.

WHAT COULD MAKE THE RATING GO UP

- Reduction in accumulated operating fund deficit
- Ability to maintain structurally balanced operations

- Significant tax base expansion and improvement in socioeconomic metrics
- Lowering of debt burden and reduction in unfunded pension and OPEB liabilities

WHAT COULD MAKE THE RATING GO DOWN

- Further weakening of reserve levels
- Inability to structurally balance operations
- Increase in debt burden
- Lack of progress in funding long-term liabilities

OBLIGOR PROFILE

Providence is the third largest city in New England and the capital of Rhode Island. The city is home to several higher education and healthcare institutions and serves as a regional employment center. The city has an estimated population of 178,432.

LEGAL SECURITY

The Series 2015 B Bonds are special obligations of the Rhode Island Health and Educational Building Corporation (RIHEBC), secured solely by a pledge of payments made by the Providence Public Building Authority (PPBA or authority) under the financing agreement between the two parties. Loan payments to RIHEBC are scheduled to be sufficient to pay the principal, sinking fund installments and redemption price of and interest on the Series 2015 A Bonds. The PPBA's loan payments will be made from lease payments the PPBA receives from the City of Providence. Security for the lease obligation between the PPBA and the City of Providence is provided by a pledge of lease rental payments made by the city to the authority. Under the lease agreement, the lease rental payments by the city are subject to and dependent upon annual appropriation. The authority has no taxing power of its own. The authority is required to maintain a debt service reserve equivalent to maximum annual lease payments, which can be tapped if the city fails to make a payment sufficient to cover its lease payment.

The PPBA and PRA bonds are secured by the agencies' respective pledges to annually appropriate lease payments equal to debt service on the bonds and by liens on pledged collateral, which is comprised of various city buildings, primarily schools and public safety facilities. Under the lease agreements, these lease rental payments by the city are subject to annual appropriation. The PPBA and PRA have no taxing powers of their own. These bonds are issued under Master Trust Indentures pursuant to separate lease agreements with the city. All outstanding PPBA and PRA debt is fully collateralized by city assets. In the event of default, the Trustee is granted power to sell such real property as may be allowed for cure.

Debt service on the GO bonds is secured by the city's general obligation unlimited tax pledge, subject to the state levy cap.

USE OF PROCEEDS

The proceeds of the bonds will be used for various capital projects relating to school facilities in the city.

RATING METHODOLOGY

The principal methodology used in the general obligation rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the underlying lease-backed rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. The principal methodology used in the enhanced rating was State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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Robert Azrin
Vice President - Senior Analyst
Public Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Geordie Thompson
VP - Sr Credit Officer/Manager
Public Finance Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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