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State of Rhode Island
Budget Office
Department of Administration

State Fiscal Note for Bill Number: 2020-H-7374

Date of State Budget Office Approval:

Date Requested: **Wednesday, February 5, 2020**

Date Due: **Saturday, February 15, 2020**

Impact on Expenditures		*Impact on Revenues*	
FY 2020	$0	FY 2020	$0
FY 2021	$0	FY 2021	$0
FY 2022	Indeterminate	FY 2022	$0

Explanation by State Budget Office: This bill would prohibit the General Assembly and any governmental or quasi-governmental entity from issuing moral obligation bonds that are not secured by the full faith and credit of the State. Such full faith and credit debt requires approval by the electorate of the State.

Comments on Sources of Funds: Debt Service on moral obligation debt would come from the revenue stream of the project for which the debt was issued. If the project were not able to generate sufficient revenues to cover debt service and the debt service reserve fund was drawn upon, State general revenue would be requested to restore the reserve fund.

Summary of Facts and Assumptions: A moral obligation is a form of credit enhancement on certain types of debt, where the obligated governmental entity typically pledges to consider appropriating funds to replenish a debt service reserve fund that has been drawn upon. There is, however, no direct pledge to make payments for debt service and the entity is not required to make any appropriations. This is different from other types of debt that may be authorized by the General Assembly that are subject to annual appropriation, such as Certificates of Participation. In these instances, there is a legal obligation for the State to make lease payments, although the debt service is still subject to annual appropriation.

The General Assembly has not authorized any debt that carries a moral obligation of the State in recent years. The last such debt authorized was the Job Guaranty program under the RI Commerce Corporation. Under this authorization, the Corporation issued debt for one major project ($75.0 million) and a few smaller projects (under $5.0 million). The $75 million issuance was for the 38 Studios gaming company, which subsequently filed for bankruptcy. The State was therefore morally obligated to fund future debt service payments. The payment of debt service was not required by the State, but due to the impact not paying would have had on the State's future credit and credit ratings, a decision was made by the Governor and the General Assembly to appropriate funds to make debt service payments as needed. Total debt service due on this debt issuance was $112,587,100, but due to capitalized interest, a debt service reserve fund, legal settlements with entities involved in the transaction and interest earnings, the final funding required from the State will be $36,155,932.

Summary of Fiscal Impact: There would be no fiscal impact in FY 2020 or FY 2021 because no debt with a moral obligation could be authorized, issued and reach a state that required a draw on reserve funds within this period. The FY 2022 impact is listed as indeterminate

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because if such a debt were authorized and issued and a draw on the debt service reserve fund occurred, there could be an impact in FY 2022, but the cost cannot be determined without knowing the size of the debt authorization and amount of debt issued.

Budget Office Signature: Thomas A. Mullaney

Fiscal Advisor Signature:

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