

13 OCT 2023

## Fitch Rates Rhode Island's \$147MM GOs 'AA'; Revises Outlook to Positive

Fitch Ratings - New York - 13 Oct 2023: Fitch Ratings has assigned a 'AA' rating to the following State of Rhode Island general obligation (GO) bonds:

--\$122.405 million consolidated capital development loan of 2023, series A (tax-exempt);

--\$24.3 million consolidated capital development loan of 2023, series B (federally taxable).

Par amounts are subject to change, dependent on market conditions.

The bonds will be sold on or around Oct. 24, 2023 via competitive sale. New money proceeds will be used for various capital projects including educational facilities, affordable housing, and environmental projects.

In addition, Fitch has affirmed the following State of Rhode Island ratings:

--Issuer Default Rating (IDR) at 'AA';

--State of Rhode Island (RI) GO bonds at 'AA';

--RI certificates of participation (COPs) at 'AA-';

--RI Convention Center Authority revenue bonds at 'AA-';

--RI Commerce Corporation (historic structures tax credit financing program) revenue bonds at 'AA-'.

The Rating Outlook is revised to Positive from Stable.

The Outlook revision to Positive from Stable reflects Rhode Island's generally declining long-term liability burden as a share of personal income, supported by improvements in debt management and growing financial relief from pension changes enacted more than a decade ago. Rhode Island's 'AA' IDR and GO rating are based on cautious and prudent fiscal management and a moderate long-term liability position, partly offset by below-average long-term economic growth for a U.S. state. The rating also incorporates conservative budget management practices that have been institutionalized across administrations and which feature substantial control over spending. The 'AA-' rating on appropriation-backed debt, which is one notch below the state's 'AA' IDR, is based on the additional optionality for debt service paid from annual legislative appropriations.

### SECURITY

The state's GO bonds are supported by its full faith and credit pledge.

State appropriation-backed debt, including the Commerce Corporation's historic structures tax credit revenue bonds, is supported by payments from the state that are subject to annual legislative appropriation.

## **KEY RATING DRIVERS**

### **Revenue Framework - 'a'**

Fitch anticipates that Rhode Island's revenues will grow on a nominal basis over the long term, given Fitch's expectations for slow economic growth in the state. The state has complete legal control over its revenue system through mechanisms such as base-broadening and the ability to levy new taxes and fees and to adjust rates.

### **Expenditure Framework - 'aa'**

The state maintains ample expenditure flexibility with low carrying costs and the broad expense-cutting ability common to most U.S. states. Medicaid remains a key expense driver and a focus of expenditure-control efforts. Moderate revenue growth prospects temper Fitch's assessment of the natural pace of spending relative to expected revenue growth, with growth in spending likely to exceed new revenue formation in the absence of policy action.

### **Long-Term Liability Burden - 'aa'**

Rhode Island's long-term liabilities are moderate but well above the median for U.S. states. Pension obligations exceed outstanding debt, driven in part by past funding practices and the state carrying a sizable share of teacher liabilities. Pensions stabilized following statutory benefit and assumption changes a decade ago that were validated in court, and recent trends suggest a potentially material improvement in the long-term liability trajectory.

### **Operating Performance - 'aaa'**

Rhode Island has high gap-closing capacity, wide-ranging budgetary management powers and a strong commitment to maintaining a prudent fiscal reserve through economic cycles. Policy measures implemented over the past decade have positioned the state effectively to deal with moderate economic downturns while maintaining a high level of financial flexibility.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

--A sharp deterioration in economic performance that challenges the state's revenue growth outlook and ability to maintain structural balance, such that the state's currently high level of financial flexibility is reduced.

--Policy changes that substantially shift the long-term downward trajectory in the state's long-term liability burden, such as legislative actions that materially reverse prior pension benefit changes or a change in the state's debt management approach.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

--Sustained reduction in combined debt and net pension liabilities to levels consistently below 10% of state personal income;

--Stronger revenue growth prospects, including through material and sustained improvement in the state's long-term economic trajectory.

### **PROFILE**

Rhode Island's economy, weighted toward education and health services, has grown slower than national trends over time. The state's demographic profile is weaker than most other states with a higher median age and slower population growth compared to U.S. averages. Fitch anticipates the state's economy will expand at a modest pace over the longer term.

### **ADDITIONAL RATINGS AFFIRMED**

#### **COPs Rating Overview**

The 'AA-' rating on the COPs is based on the credit quality of the state as they are backed by lease rental payments made by the state acting by and through its department of administration, the state's central administrative and fiscal agency. Such payments, dependent on annual legislative appropriations, are assigned to the trustee by a grantor trust for the benefit of the certificate-holders. Lease payments, solely representing debt service, are made separately for each project under subleases. The subleases are annually renewable, although renewal is automatic upon appropriation.

#### **Rhode Island Convention Center Authority Bonds Rating Overview**

The 'AA-' rating on the bonds is based on the credit quality of the state, as they are backed by lease rental payments made by the state pursuant to a lease and agreement. Such payments, dependent upon annual legislative appropriations, include operating expenses of the authority (excluding depreciation) as well as debt service.

#### **Historic Structures Tax Credit Financing Program Revenue Bonds Overview**

Security for the commerce corporation's 2019 series A revenue bonds derives from annually appropriated payments from the state pursuant to a payment agreement entered into by the governor, treasurer, commerce corporation, director of the state department of administration, state controller and state budget officer. The payment agreement specifies that in each fiscal year, Rhode Island Commerce Corporation will make a request to the state budget officer for appropriations of the amount necessary for bond payments. The governor covenants that such amount will be included in the executive budget proposal, or in a supplemental budget proposal if the legislature passes a budget

without the funds appropriated.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

### ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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## Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Rhode Island, State of (RI) [General Government]	LT IDR	AA 	Affirmed	AA 

- Rhode Island, State of (RI) /General LT Obligation - Unlimited Tax/ 1 LT
 

		AA 	Affirmed	AA 
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- Rhode Island, State of (RI) /State Appropriation/ 1 LT
 

LT		AA- 	Affirmed	AA- 
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### RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

## Applicable Criteria

[U.S. Public Finance Tax-Supported Rating Criteria \(pub.04 May 2021\) \(including rating assumption sensitivity\)](#)

## Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

## Additional Disclosures

[Solicitation Status](#)

## Endorsement Status

Rhode Island Commerce Corporation (RI)    EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at <https://www.fitchratings.com/site/re/10238496>

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