

# RatingsDirect®

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## Summary:

# Rhode Island; Appropriations; General Obligation; Moral Obligation

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## Summary:

# Rhode Island; Appropriations; General Obligation; Moral Obligation

### Credit Profile

US\$111.7 mil GO bnds consolidated capital dev loan (Tax - Exempt) ser 2023A due 12/01/2043		
<i>Long Term Rating</i>	AA/Stable	New
US\$28.41 mil GO bnds consolidated cap development loan (Federally Taxable) ser 2023B due 12/01/2033		
<i>Long Term Rating</i>	AA/Stable	New
Rhode Island GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed

### Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to the State of Rhode Island's estimated \$111.7 million consolidated capital development loan of 2023, series A (tax-exempt), and estimated \$28.41 million consolidated capital development loan of 2023, series B (taxable).
- At the same time, S&P Global Ratings affirmed its 'AA' rating on Rhode Island's \$1.47 billion in general obligation (GO) debt outstanding.
- In addition, S&P Global Ratings affirmed its 'AA-' long-term rating on the state's appropriation-backed debt, and its 'A' long-term rating on the Rhode Island Commerce Corp.'s moral obligation-backed bonds, based on the application of its "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria, published Nov. 20, 2019.
- The outlook is stable.

### Security

The GO bonds are backed by the state's full faith and credit, which are irrevocably pledged to make principal and interest payments on the bonds. The affirmation of the appropriation-backed obligations and moral obligation-backed bonds reflect appropriation risk from application of our RLOC criteria.

Rhode Island will use proceeds from the 2023 series A and B capital development loan to fund capital projects for education, environmental needs, economic development, and to pay costs of issuance.

### Credit overview

The rating reflects our expectation that Rhode Island will continue to demonstrate strong financial management and budget oversight and will implement structural budget adjustments to manage projected out-year budget gaps, when necessary, while preserving balances in its budget reserve and cash stabilization account to meet its 5% statutory requirement, which we view as good and underpinning its financial stability. We believe these financial and management factors support Rhode Island's overall credit stability, even as the state's economic and demographic growth prospects are likely to remain shallow over the outlook horizon.

Rhode Island's fiscal 2024 enacted budget estimates general revenues totaling \$5.28 billion, an increase of 1.2% compared with fiscal 2023 preliminary unaudited results, primarily driven by growth in personal income taxes (4.0%) and sales-and-use tax (2.7%). Over the first two months of the fiscal year, the state's general revenue continue to trend favorably, performing approximately 4.7% above the enacted fiscal 2024 budget, providing the state with an additional revenue cushion to weather a period of potentially more tepid growth ahead.

S&P Global Economics believes that the U.S. economy will slip below current trends for a drawn-out period, with expectations that the real economy will be considerably weaker next year and inflation will be closer to target in the second half, which will persuade more aggressive interest rates cuts than anticipated, likely landing at 4.4% and 2.6% by year-end 2024 and 2025, respectively. While the U.S. economy is expected to expand by 2.3% this year, growth is expected to slow to 1.3% in 2024 and 1.4% in 2025. S&P Global Economics also expects the unemployment rate to rise to 4.8% in 2025, higher than the longer-run steady state of 4.0%-4.5%. (See "Economic Outlook U.S. Q4 2023: Slowdown Delayed, Not Averted," published Sept. 25, 2023, on RatingsDirect.) In comparison, S&P Global Market Intelligence projects gross state product (GSP) growth of 0.3% for Rhode Island in 2023, followed by 1.1% in 2024 and 1.3% in 2025, slightly slower than the real GDP for the nation.

Fiscal year-end 2023 unaudited preliminary results show general revenues of \$5.21 billion, or 6.3%, and \$310 million above the \$4.9 billion in the original enacted 2023 budget, largely due to better-than-expected revenue performance and tight expenditure management. Rhode Island estimates an operating surplus of \$410 million in fiscal 2023, and a reserve balance in its budget reserve and cash stabilization account of \$271.1 million (or 5.2% of estimated general revenues), a level we consider good and which is slightly above the state's reserve target of 5%. This reflects a modest decline in the budget reserve and cash stabilization account from \$278.9 million or 5.4% of general revenues in fiscal 2022 as a result of statutory transfers at the end of the fiscal year rather than negative operating performance. In addition, Rhode Island established a new supplemental budget reserve and cash stabilization account funded with \$55 million of general revenue, or about 1% of state general revenues. Based on fiscal 2023 preliminary unaudited results, Rhode Island expects to fund \$11.9 million in supplemental reserves, with \$5.96 million deposited to the new supplemental budget reserve and \$5.96 million deposited to the pension fund. Moreover, the budget requires that 50% of excess revenue is transferred into the supplemental budget reserve if actual collections exceed final estimates, with the remaining 50% transferred into the pension fund. There is no requirement to replenish the supplemental reserve if drawn upon, and currently there is no prioritization of which budget reserve may be drawn on first to address potential revenue shortfalls. Nevertheless, we view the new supplemental budget reserve and cash stabilization account as bolstering Rhode Island's total budget reserves to about 6% in fiscal 2024.

Following Rhode Island's instituted pension reforms to reduce the state's unfunded postretirement liabilities and sustain pension funding progress, we view pension funding levels as relatively low, but improving. In fiscal 2022, Rhode Island's three-year average pension funded ratio rose to 60.6%, up from weak levels (below 60%) historically. We believe the Employee Retirement System of Rhode Island, the state's largest plan, will sustain a funded ratio above 60% based on estimated fiscal year-end 2023 returns of 8.9% (above its assumed return of 7.0%), and a material improvement from 54.2% in fiscal 2020.

The rating reflects our view of the following factors affecting Rhode Island's general creditworthiness:

A strong budget framework and good financial management, including a statutory balanced budget requirement, continuing appropriation provisions that allow the state to fund operations and appropriate for debt service in the event of late budget adoption, and use of long-term financial planning that assists in identifying current and out-year structural deficits to inform the annual budget process;

Historically steady budgetary performance, with the state outperforming enacted annual budgets (except for fiscal 2020 due to the pandemic), supported by stable revenue growth and the state instituting expenditure adjustments to balance current-year budgets and reduce large out-year budget gaps; and

Stable reserve and liquidity position, supported by a 5% statutory budget reserve requirement and a new supplemental budget reserve and cash stabilization account established by the fiscal 2024 enacted budget, and funded with \$55 million of general revenue, or about 1% of state general revenues.

Factors that somewhat mitigate the preceding credit strengths include our opinion of the state's:

Adequate economic profile, with GSP and labor market growth conditions that have consistently lagged the U.S. growth rate and exhibited slow post-recession recovery, as well as stagnating population growth trends that persistently trail those of the nation, although wealth and income indicators remain more closely aligned with the U.S. average; and

Moderate debt burden and improved but relatively low pension funding ratios, with pension funding discipline that we view as only adequate historically, coupled with market returns that have fallen short of our minimum funding progress metric and could continue to lead to unanticipated cost increases under more subdued market return conditions.

### **Environmental, social, and governance**

Environmental, social, and governance factors have an overall neutral influence on our credit rating analysis for Rhode Island. Although the state has a vast 400-mile coastline adjacent to Narragansett Bay and the northern Atlantic Ocean exposes the state to acute (such as hurricanes) and chronic physical risks (sea-level rise) that could affect its economic profile, key mitigants include proactive and strategic resiliency action planning in state agencies, capital investments to harden critical infrastructure, and initiatives to reduce greenhouse gas emissions. Furthermore, we view social capital risks as having a neutral influence on our credit rating analysis, although we note that demographic pressures stemming from slowing population growth, net out-migration, and an aging workforce might alter service demands and limit future economic growth prospects.

## **Outlook**

The stable outlook reflects our view of Rhode Island's active budget management, underscored by its multiyear financial and caseload forecasting and robust policy framework to anticipate current and out-year structural gaps, which remains integral to navigating the current economic cycle and potential weaker economic growth prospects.

### **Downside scenario**

We could take a negative rating action if Rhode Island's economy significantly underperforms forecast expectations, resulting in a sustained weakening of its core economic metrics compared with the U.S. average, and if, at the same

time, the state's budgetary performance worsens to the point that active budget management proves insufficient to close projected out-year structural deficits, resulting in deterioration of reserve and liquidity.

### Upside scenario

We could consider a positive rating action if Rhode Island's economic and demographic growth prospects improve significantly compared with the U.S. average, in a way that we believe is sustainable and resilient in light of potential cyclical economic pressures. This would likely occur in conjunction with Rhode Island demonstrating disciplined management of pension and other postemployment benefit liabilities that results in sustained improvement to funding levels and preserving structural budget stability--including maintenance of stable reserve balances and liquidity--while managing out-year structural gaps.

### Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of October 12, 2023)		
Rhode Island APPROP		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Rhode Island APPROP		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Rhode Island APPROP		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Rhode Island APPROP		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Rhode Island APPROP		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Rhode Island APPROP		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Rhode Island APPROP		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Rhode Island APPROP		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Rhode Island APPROP		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Rhode Island APPROP		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Rhode Island APPROP		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

Ratings Detail (As Of October 12, 2023) (cont.)		
Rhode Island GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Rhode Island GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<b>Rhode Island Commerce Corp, Rhode Island</b>		
Rhode Island		
Rhode Island Commerce Corp (Rhode Island) APPROP		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Rhode Island Commerce Corp (Rhode Island) MORALOB		
<i>Long Term Rating</i>	A/Stable	Affirmed
Rhode Island Commerce Corp (Rhode Island) MORALOB		
<i>Long Term Rating</i>	A/Stable	Affirmed
<b>Rhode Island Convention Center Authority, Rhode Island</b>		
Rhode Island		
Rhode Island Convention Ctr Auth (Rhode Island) APPROP		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Rhode Island Convention Ctr Auth (Rhode Island) APPROP		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Rhode Island Convention Ctr Auth (Rhode Island) APPROP (AGM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Rhode Island Convention Ctr Auth (Rhode Island) APPROP (ASSURED GTY)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
<b>Rhode Island Health &amp; Educational Building Corp., Rhode Island</b>		
Rhode Island		
Rhode Island Health & Education Building Corp. (Rhode Island) state approp-backed rev bnds (Central Falls Pub Sch Proj)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings).

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