GFOA View (in 2015)

MAYOR JORGE O. ELORZA
CITY OF PROVIDENCE

GFOA View (In 2015)	Current POBs
Invested POB proceeds might earn less than borrowing costs.	• Probability of market earning less than ~4% is low (but they do exist) • Stress test will better quantify risk.
"Issuing taxable debt to fund the pension liability increases the jurisdiction's bonded debt burden and potentially uses up debt capacity…"	• The pension liability is already a "hard" debt. • With GA approval, POB will not count towards 3% cap.
Pension bonds are complex instruments that carry considerable risk… and may include swaps or derivatives.	• Criticism is outdated. • No derivatives, swaps, or variable rates.

GFOA View (in 2015), continued

MAYOR JORGE O. ELORZA
CITY OF PROVIDENCE

GFOA View (In 2015)	Current POBs
Pension bonds are "typically issued without call options" making it more difficult to refund bonds if interest rates fall or a different debt service structure is desired in the future.	• POB would include 10-year par call provision.
"Pension bonds are frequently structured in a manner that defers the principal payments…"	• **POB would not have any interest-only payment years.** • Reduced payments would be **<u>minimized</u>**.
"Rating agencies may not view the proposed issuance of Pension bonds as credit positive…"	• Most recent POB transaction are credit-neutral. • More likely to be credit-positive than credit-negative.