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Providence Officials Plug for Pension Obligation Bond Despite Warning From Gov Finance Officers.

Providence Mayor Jorge Elorza and elected officials are kicking off the “Vote Yes on 1” pension obligation bond campaign Tuesday morning.

Elorza will join City Council President John Igliozzi (Ward 7), Councilwoman and Pension Working Group member Helen Anthony (Ward 2), Providence Representative Scott Slater, Providence Representative David Morales, Pawtucket Representative Carlos Tobon, Providence Senator Sam Bell and community members to kick off the Save Providence: Vote Yes on 1 pension obligation bond (POB) campaign.

“Despite the significant improvements to the city’s overall finances, the unfunded pension liability still looms as a ticking time bomb,” said Elorza in February when legislation was introduced at the Rhode Island State House. “Armed with the recommendations of the Pension Working Group, we are committed to finding a long-term fix to the city’s unsustainable yearly pension payments. I thank the members of the Pension Working Group for their recommendations, which have made the Pension Obligation Bond proposal stronger, and I thank the co-sponsors of the bill for advocating for our city’s future.”

“There’s no question the city needs to take immediate action to help stabilize our precarious pension system. The proposed pension obligation bond of up to $515 million, with financial guardrails in place, is a step in the right direction,” said Council President Igliozzi. “To my fellow lawmakers at the statehouse, we now respectfully ask for your help in approving this legislation that will provide Providence and its taxpayers with the financial tools needed for long-term security.”

Experts Warn This Is Irresponsible

As GoLocal reported previously — local and national municipal financial officers are warning about the dangers of this form of financing.

“Pension Obligation Bonds carry significant risks, that is why the Government Finance Officers Association recommends state and local governments exercise caution before authorizing them,” said Gary Sasse, the former head of the Rhode Island Public Expenditure Council and founding director of the Hassenfeld Institute at Bryant University.

“It is my understanding that Providence pension obligation bonds [POBs] are being proposed because the City has no politically viable option. This does not make them any less than a riverboat gamble,” added Sasse.

Even more critical is the guidance of the Government Finance Officers Association (GFOA), which has issued an alert recommending that state and local governments do not issue POBs for the following reasons:

– The invested POB proceeds might fail to earn more than the interest rate owed over the term of the bonds, leading to increased overall liabilities for the government.

– POBs are complex instruments that carry considerable risk. POB structures may incorporate the use of guaranteed investment contracts, swaps, or derivatives, which must be intensively scrutinized as these embedded products can introduce counterparty risk, credit risk and interest rate risk.

– Issuing taxable debt to fund the pension liability increases the jurisdiction's bonded debt burden and potentially uses up debt capacity that could be used for other purposes.

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