



Stephen Hopkins Center for Civil Rights

FOR IMMEDIATE RELEASE:

**Moody's not in the mood for serious analysis of
38 Studios 'moral obligation' bonds.**

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In a letter sent today to Moody's Investor Services, the Stephen Hopkins Center for Civil Rights questioned the transparency and diligence in Moody's approach to analyzing the 38 Studios related bonds. The Center highlighted Moody's failure to analyze so-called 'default' scenarios leaving policymakers in the dark; and Moody's misleading statements on the purpose of grey market bonding consisting of 'moral obligations' by quasi-public bodies not approved through Rhode Island's typical constitutional process for binding public debt.

"We think Moody's has not fairly apprised the public finance community of the ramifications of state decisions on whether to subsidize the 38 Studios bond issue. They further undermine public discourse on the issue by mischaracterizing the use of these grey market finance instruments in Rhode Island, thus overstating the impact of potential loss of this mechanism for accessing capital markets without voter approval", said Hopkins Chief Counsel, Matthew Fabisch.

"While this might have been an abstract question when we called public attention to this matter last summer, this subsidy is now being contested in the legislature", said Brian Bishop for the Hopkins legal research team. "As notable and disturbing as was both EDC staff and General Treasurer Gina Raimondo's absence from testimony in recent legislative hearings on these matters, the lack of input from analysts such as Moody's is even more glaring. The public policy debate is over the effect the legislature's failure to subsidize private bondholders may have on the state's credit rating. Moody's with two other firms represents a small oligarchy recognized by the SEC to issue such ratings, and was quick to offer such guidance on casual and legally ineffectual promises to Wall Street from the Governor, the General Treasurer, and certain legislative leaders. But when the issue is debated in the forum that has actual decision making authority, they are nowhere to be found," added Bishop.

Fabisch pointed out that legal standards posed by the judge in the lawsuit over pension reform make it quite important that a fully informed budget debate take place in the legislature. "Justice Taft-Carter has suggested that state workers may have reliance interests in pension promises that could constrain the state legislature and even invalidate the recent pension reforms unless the states demonstrates that it lacks the means to fulfill those promises."

"While we do not believe the Rhode Island Constitution allows the legislature to make pension guaranties without specific voter approval, we strongly believe that investors and insurers to whom the state is not legally obligated should have no superior claim to taxpayer money. To take the payment of these subsidies for granted without serious and fully informed debate is unfair to taxpayers and unfair to state workers. We would go so far as to argue that this sham process casts the workings of public finance as little more than corporate welfare and potentially undermines the state's legal arguments in the pension case," concluded Fabisch.