Making RhodeWorks Work for Rhode Islanders

Pay-as-You-Go Approach Prioritizes Spending

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SUMMARY

As an alternative option to fund repairs of the Ocean State's crumbling bridge and road infrastructure, a "pay as you go" approach that prioritizes current general revenue in the budget would provide budget certainty and save over half a billion dollars in wasteful, non-productive financing and overhead costs for Rhode Islanders, compared with Governor Gina Raimondo's RhodeWorks plan, which increases Rhode Island's debt burden and tolls the trucking industry to pay for it.

Specific savings that can be achieved by adopting a Pay As You Go approach include:

- $563 million in interest costs
- $49 million in financing debt and service reserve costs
- $43+ million in tolling infrastructure (gantries and administration)

Cuts to corporate welfare and other non-essential spending programs can pay for the project instead. Prioritizing infrastructure spending in the state's existing budget, there would be no need to identify significant new sources of revenue that would drain money from the private sector, make Rhode Island even less competitive with our neighbors, and place unnecessary downward pressure on an already stagnant state economy.

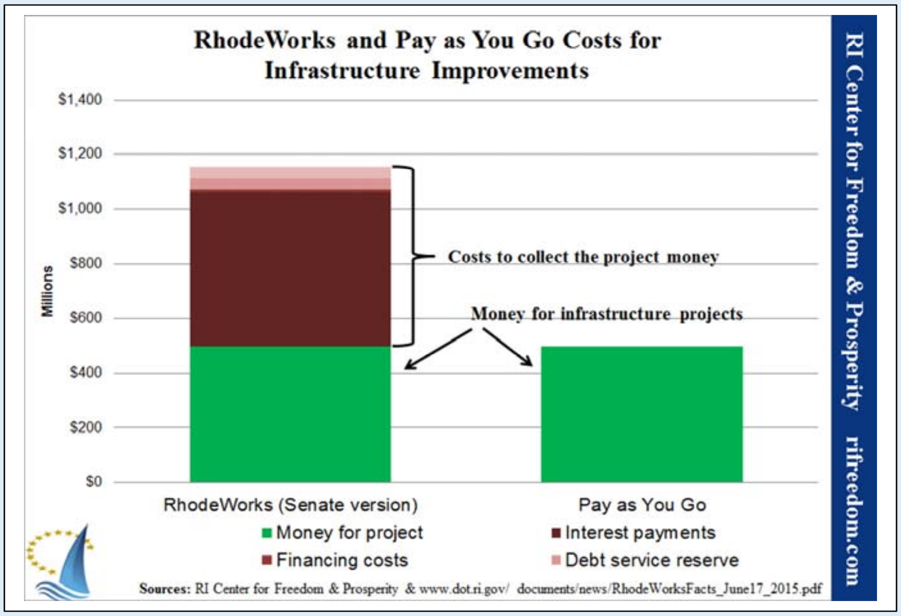
Taxpayers also should not automatically accept the historically high cost of road and bridge repair and construction in our state.

Instead of enriching insider interests such as Wall Street financial institutions, labor unions, and large union-shop contractors, taxpayers should demand fiscal discipline and restraint by limiting the scope of the RhodeWorks project to what Rhode Islanders actually need and can afford.

From a process perspective, Rhode Islanders are fed up with non-transparent backroom deals among insiders that shut out the voice of the public. Few details of the plan's financials have been released. It is also questionable from a constitutional and ethical point of view whether or not a bond of this magnitude can be, or should be, authorized without a vote of the people.

Two Approaches to Funding

RhodeWorks costs more than twice as much for the same amount of infrastructure work.



AN ALTERNATIVE WAY OF LOOKING AT FUNDING

Gov. Gina Raimondo has proposed a major project to improve Rhode Island roads and bridges, which few Rhode Islanders question should be a major priority for our state. The Rhode Island Center for Freedom and Prosperity agrees a change in priorities to emphasize core government functions, like infrastructure, is much needed. Although efficiencies could surely be found within the Department of Transportation (DOT) and the state Turnpike and Bridge Authority, more money will have to be found for those departments to catch Rhode Island up to where it needs to be.

The critical question for Rhode Island is: What is the most cost-efficient method to pay for the $500 million or so in additional infrastructure spending needs? The governor's "RhodeWorks" solution relies on a so-called "trucker toll" to generate new revenue to finance a bond to pay for the construction work.

The Center believes that, to make this project a priority, the state should find a way to pay for it with general revenue as much as possible —a pay-as-you-go (PAYGo) solution. Less-essential spending programs should be deprioritized via cuts or outright elimination.

In general, direct user fees like tolls — as the governor has proposed —are preferable from an economic and fairness point of view, versus funding road improvements through broad-based increases in, say, the sales tax. User fees tie the cost of services to those who most benefit from them. If users, like trucking companies, pay for the fees by increasing their prices for products that are ultimately marked up in other states, tolls could create a net gain in money coming to the state. However:

- Trucking companies are competing in a national and global market. If driving trucks through Rhode Island puts them at a competitive disadvantage, shippers might find alternate routes, reducing revenue to the state. Because that revenue was the pretense for taking on a large amount of debt without voter approval — which is what "revenue bonds" allow — shortfalls could turn into shortcuts to unapproved debt payments.
- Because the rationale for a user fee is that the person paying it uses the service, such fees have the potential to expand until everybody who uses the service pays the fee. In the case of truck tolls, it could soon include passenger cars.
- In a state that is already struggling under a high tax burden, the fairness of user fees can become a rationalization: Having exhausted the local tax base, government is simply adding new ways to take money from people. Therefore, user fees should generally be matched by reductions in broad-based taxes.

All three of these points lead the Center to the conclusion that the goal for Raimondo's "RhodeWorks" program should be to fund it entirely with existing state funds. As a separate matter, if policymakers believe that user fees are a better way to fund infrastructure, they should reprioritize their spending and reduce other taxes.

Such a decision would have to take full account of the transition. In this case, building an entire new infrastructure of physical gantries to collect tolls (not to mention related administration) is projected to cost $43 million. That is nearly a full year's worth of infrastructure improvements if the state were to, instead, commit to finding $50 million per year to add to its funding. If the goal is to upgrade bridge and road infrastructure in general, paying for a new toll-collection infrastructure is unwise and wasteful spending that adds nothing to the quality of the state's services.

Policymakers also must consider that the ability of people to move around our state is one of its greatest assets. Even if initial toll amounts are minimal, they can make a difference to driver's habits, and if people feel as if they're being hit with a toll at every turn, they'll stop moving around as much. It would be impossible to quantify this asset to budgetary standards, but budget officials should make some estimate.

With respect to the RhodeWorks plan for new debt, the high interest costs on a bond of this size would enrich Wall Street financial institutions without providing any benefit to the Rhode Islanders who will be asked to pay the high interest costs. The $563.1 million in projected interest payments more than doubles the cost of the project with no added benefit to Rhode Islanders whatsoever.

Additionally, the $10.4 million in financing costs and $38.5 million in debt service reserves are unnecessary costs representing nearly another full year of infrastructure funding. As the Center reported in 2014, the government of Rhode Island already imposes one of the highest debt-interest burdens in the country on its people,[1] and the state should not burden the private sector with an even larger debt obligation.

Finally, Rhode Islanders also should not accept the projected price tag for this project. With one of the highest per-mile costs for road maintenance in the nation,[2] state leaders and lawmakers should reform some of the exorbitant project labor agreement (PLA) provisions that dramatically increase the cost of such public works projects. They are little more than blatant special interest union handouts.

The overall relationship between the DOT and the construction union must be examined. Former state Attorney General, Arlene Violet, in a June 1 opinion piece in *The Valley Breeze*,[3] questioned why the DOT continues to pay top dollar for substandard work, citing non-compliance with road standards, failing to man weigh-stations, and funding cost-overrun after cost-overrun.

In the coming months, the Center will provide additional research and ideas about areas of potential savings within the state budget. This policy brief provides a general case that a more cost-efficient approach exists to upgrading the dismal condition of our state's roads and bridges.

A SUPERIOR APPROACH

A more fiscally sound and less risky approach to funding upgrades to the state's bridges and roads would be to pay for the project through disciplined budget cuts, augmented with sensible user fees if they are necessary in order to get the proposal over the finish line. This alternative approach would result in zero interest costs and minimal, if any, "new" infrastructure costs. *More important, this approach provides almost 100% budget certainty*.

The governor's plan risks far too much on non-specific and unproven toll revenue projections, includes hundreds of millions in interest costs, and creates the need to fund a new statewide gantry and administration structure. Given that Rhode Island has no valid experiential data to be able to accurately predict future tolling revenue, a number of obvious questions require answers:

- What if toll revenue does not meet projections? Would taxpayers be on the hook?
- Does this tolling revenue uncertainty provide enough constitutional cover to classify the proposed debt as a "revenue bond" that can be adopted without voter approval? Or is this just more debt that taxpayers have a "moral obligation" to pay one way or another?

The last thing the Ocean State needs right now is another public embarrassment or more costly litigation concerning the constitutionality of massive non-voter-approved borrowing.

All combined, the uncertainties around revenue, expense, and constitutionality make this option far too speculative for Rhode Island taxpayers and infrastructure users.

Fund RhodeWorks with Budget Cuts

In order to self-fund the proposed $500 million in additional road and bridge spending over the next 10 years, about $50 million per year would need to be either saved in some other part of the budget, raised in new revenue, or some combination of the two.

Reduce Corporate Welfare

One obvious budget area that should be considered for cuts is handouts to major corporations and other crony insiders. Not only would such cuts be prudent budget measures, but outside of insider circles, they would be highly popular.

Recently, the state of Michigan had a similar debate. In one public survey, two-thirds (66%) of respondents preferred spending "economic development" dollars on roads, while only one in five (20%) supported continued subsidies to businesses.[4] Alone, the following three specific examples of potential corporate welfare savings would raise $61.5 million:

- $12.5 million in fiscal year 2016 payments for 38 Studios bonds. Rather than taking on hundreds of millions of dollars in new debt on which voters will have no say, the state should use money that would otherwise go toward paying for old debt on which voters had no say.
- $44.2 million FY16 in economic development spending. As a finance professional, the governor recommended an elaborate refinancing plan to free up more than $80 million in up-front money during the next two years. The great majority of that money is slated for projects that the Center would characterize as corporate welfare. In the first year, the total is $44.2 million in credits, subsidized funds, and slush money.
- $4.8 million in motion picture tax credits. Rhode Island must honor credits already promised, but eliminating handouts to film companies would save money in future budgets, creating slack for reinvestment in roads and bridges.

Spotlight on $pending

Last year, for Governor Lincoln Chafee's final budget, the Center released its "Spotlight on $pending" report,[5] which suggested almost $225 million in spending reductions that the state government could return to taxpayers through tax cuts or redirect to higher priorities. In that budget year, the budget ultimately approved by the General Assembly utilized 25% of the report's suggestions, but there is plenty of room remaining.

Reduction or elimination in the following specific areas, totaling $36.7 million in FY16, could be redirected toward the higher-priority RhodeWorks:

- HealthSource RI ($2.4 million)
- House and Senate legislative grants ($2.3 million)
- Community service legislative grants ($9.6 million)
- Governor's Workforce Board ($10.3 million)
- State Council on the Arts ($1.5 million)
- Film & Television Office ($325,291)
- Historical Preservation and Heritage Commission ($1.4 million)
- Library aid for wealthy communities ($2.9 million)
- Office of Management and Budget ($1.7 million)
- Convention Center Authority ($4.3 million)

In many areas, the change would simply be a matter of reprioritizing the state's approach to economic development. The state government already takes too much money out of the local economy; taking more for the sake of infrastructure in order to achieve the same end assumes that government agents will be better at investing Rhode Islanders' dollars than the individuals and private organizations who earned it. The evidence is quite the opposite.

"Spotlight on $pending" also includes regular areas of savings in operations, personnel, and overreach. The Center will be updating the numbers in the future, but our expectation is that *$75 million* in annual savings would be easy to achieve.

In total, the budget cuts outlined very simply above would produce up to *$168.4 million in savings.* Some of the specific items are one-time expenditures, but the most are ongoing expenses, so even choosing about half of them would produce more than the $50 million needed per year to improve Rhode Island's bridges and roads.

The Math of Two Approaches to Infrastructure Improvement

	RhodeWorks (Senate version)	Pay as You Go
Money for project (10 years)	$500 million	$500 million
Payments (10 years)	$1,155 million	$500 million
Interest payments	$563 million	$0
Financing costs & reserves	$49 million	$0
Toll gantries & facilities	$43 million	$0
Costs passed on to consumers	Yes	No

Sources: RI Center for Freedom & Prosperity & www.dot.ri.gov/documents/news/RhodeWorksFacts_June17_2015.pdf

More-Sensible Revenue Options

Politics and the status quo being what they are in Rhode Island, budget cuts are difficult to come by without increases in revenue elsewhere (if only to create the impression that the solution is "reasonable" or "balanced"). If policymakers cannot see their way clear to improving the lives of all Rhode Islanders through improved infrastructure without attempting to raise taxes or fees here and there, the Center suggests that user-type fees that don't require the purchase of expensive infrastructure should be considered, such as:

- Increase gas tax 3 cents for $12 million per year. There are downfalls to this approach. Rhode Island's state gasoline tax is already 8 cents higher than Connecticut's and 9 cents higher than Massachusetts's, meaning there is little (if any) room to increase this tax and remain competitive with our neighbors, especially in a small state in which residents can easily drive a few miles to cross a border, securing lower-cost fuel.[6] Such an increase would undoubtedly harm border businesses in the Ocean State.
- Acknowledging their responsibility to contribute to the maintenance of the state's bridge and road infrastructure, the RI Trucking Association has publicly signaled that its members are open to some new revenue options generated by the trucking industry that would negate the need for tolling. Such options could include increased on trucker registration fees and/or an increased diesel gas tax.

A Note on GARVEE Bonds

The Senate's version of RhodeWorks also includes a "refinancing and restructuring" of the state's Grant Anticipation Revenue Vehicle (GARVEE) bonds. These bonds, which initially added $801.0 million to the state's total debt, are another variation of revenue bonds that do not require voter approval.

The anticipated revenue, in this case, comes from the federal government, although the bonds and the federal grants are separate. The federal grants are approved independently of the debt, meaning that (on the plus side) the revenue is not dependent upon the bonds and (on the negative side) that the state is responsible for paying the debt whether it receives federal funding or not.

Under the current plan, the state will finish repaying the bonds in 2021, after which its bill for debt service will fall by approximately $50 million per year. Under the Senate's plan, the state would reduce its annual payments by about $20 million but continue paying through 2025. At the end of the process, the refinancing will wind up costing Rhode Island $15 million more than simply paying the debt off on schedule.

This money is not included in the plan comparisons above because there does not appear to be any reason it cannot be done either way, if the state so chooses. That said, the Center advises *against* this funding strategy.

The RhodeWorks project is designed to bring the state's roads and bridges to a nearly sufficient condition within 10 years. It makes no sense to spend another $15 million on financing *within that 10-year period* just to move some of the money up front, especially when there is so much opportunity for savings within the budget as it currently exists.

Indeed, in the final four years of the RhodeWorks project (assuming it runs through 2025), paying off the GARVEE bonds on time will free up $200 million in the later years.

Spending Federal Funds Wisely

The RhodeWorks proposal also includes $400 million from the federal government's New Start program.[7] Little information has been published on the proposed uses of this money. Official documents note that it would be for "public transit," with some connection, perhaps, to a dedicated bus lane as part of "the 6/10 interchange reconstruction."

Government entities can request New Start funds for anything from bus lanes to bike lanes to rail lines. Any such projects should be fully detailed and publicly vetted before the state commits to them in order to create jobs for labor-union-dominated construction companies. Rail lines, for example, can be controversial, and a dedicated bus lane might not only devour financial resources that federal taxpayers can ill afford, but it may also squander physical highway acreage that could be used to alleviate traffic, developed in other ways, or left as attractive open space.

CONCLUSION

As an important priority for the Ocean State, the significant project of upgrading bridges and roads should merit consideration of multiple funding options. The governor's RhodeWorks plan for bonding and tolling represents one approach — a special-interest-friendly approach. Conversely, our Center's Pay as You Go plan represents a 180-degree opposite approach and is taxpayer friendly.

The goal should be to identify the most cost-efficient approach for Rhode Island taxpayers and businesses that will fund upgrades to and utilize these bridges and roads. The special interest goals of the insider class should not be of major concern. Any plan to increase the state's debt should:

- Not be the primary funding vehicle
- Be used only to bridge short-term gaps in funding, where practical advancement of the project requires large up-front payments
- Be approved by the voters of Rhode Island via special referenda

The practice of looking to the private sector and the general public as the sole source of funding for special projects is a practice that has contributed to the Ocean State's last-place business climate … and must end. Achieving that practice by committing the state to long-term debt is contributing to impossible budgets. Entering into that debt without voter approval is unconscionable.

Exercising some measure of budget discipline, prioritizing spending for some programs over others, is a practice Rhode Island lawmakers must begin to adopt.

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[1] "Fat Tuesday = Fat Rhode Island." RI Center for Freedom & Prosperity. March 3, 2014. Available at: rifreedom.org/2014/03/fat-tuesday-fat-rhode-island (Accessed 7/8/15)

[2] David Hartgen, M. Gregory Fields, and Baruch Feigenbaum, "21st Annual Report on the Performance of State Highway Systems (1984-2012)." Reason Foundation. September 2014. Available at: reason.org/files/21st_annual_highway_report.pdf (Accessed 7/8/15)

[3] Arlene Violet, "DOT problems bigger than bridges." *The Valley Breeze*. July 1, 2015. Available at: www.valleybreeze.com/2015-06-30/north-providence/arlene-violet-dot-problems-bigger-bridges (Accessed 7/8/15)

[4] "Two-thirds of Respondents Want Tax Dollars To Go To Roads Rather Than Corporate Welfare." Mackinac Center for Public Policy. June 16, 2015. Available at: www.mackinac.org/21417 (Accessed 7/8/15)

[5] Drew Johnson and Justin Katz. "Spotlight on $pending." RI Center for Freedom & Prosperity. April 2014. Available at: rifreedom.org/2014/03/spotlight-on-spending (Accessed 7/8/15)

[6] "Gasoline Tax" interactive map. American Petroleum Institute. Available at: www.api.org/oil-and-natural-gas-overview/industry-economics/fuel-taxes/gasoline-tax (Accessed 7/13/15)

[7] "Capital Investment Program: New Starts, Small Starts and Core Capacity Improvements." U.S. Department of Transportation Federal Transit Administration. Available at: www.fta.dot.gov/12304.html (Accessed 7/10/15)