



RIPEC

# Rhode Island's Debt Position and 2021 Bond Referenda, an Analysis

## Executive Summary February 2021

In December 2020, the Rhode Island General Assembly approved seven ballot initiatives in the total amount of \$400 million to be considered by voters at a special election on March 2, 2021, the largest total bond referenda ever presented. This report analyzes Rhode Island's debt position and the state's ability to afford the borrowing proposed, as well as each of the seven ballot questions.

With action on the FY 2021 budget deferred by the General Assembly due to the economic fallout of the pandemic and the prospect of additional federal aid, the governor in late July sought to nearly double total borrowing in the general obligation debt first proposed by her in January, from \$268.8 million to \$496.8 million. Even taking account of a sharp decline in anticipated state revenues due to the pandemic, the general treasurer determined that the increased level of borrowing proposed was reasonable and affordable under the state's debt affordability guidelines. He additionally determined that significant capacity for further bonding would remain for future budget cycles. Since the treasurer's determination of affordability, estimated state general revenues significantly improved, and the General Assembly reduced the governor's proposed total general obligation borrowing from \$496.8 million to \$400 million. Importantly, Rhode Island has significantly reduced its debt burden over the past 20 years, and now ranks near the middle among states on key debt measures and in bond ratings.

Under these circumstances, RIPEC supports the \$400 million of borrowing to be submitted to the voters at the March 2 special election. Affordability is only part of the equation, however. Each proposed bond referendum should also be analyzed in terms of return on investment, consistency with long-term state debt obligations, alignment with state policy goals, and the opportunity costs if investments are not approved.

**Question 1** proposes \$107.3 million in general obligation bonds to improve higher education facilities at each of Rhode Island's three public higher education institutions. General obligation bonds for higher education facilities have become a perennial component of bond referenda in Rhode Island, with proposed higher education projects included as a ballot referendum, and approved by voters, in every election since 2010. Rhode Island historically has underinvested in its public higher education institutions in comparison to other states. Moreover, in recent years, state general revenues to support public higher education operations have grown at a slower pace than total expenditures. Given this context, the use of general obligation bonds to pay for capital improvements at state institutions has become an essential component of the state's financial support of public higher education.

**Question 2**, if approved, would authorize \$74 million in general obligation bonds for investments in the environment and public recreation facilities. Most of the investments proposed in Question 2 build on long-standing capital investment programs. Investments to finance improvements at state beaches, parks, and campgrounds comprise nearly half of the total bond amount and are supported by the state's underinvestment in these recreational assets compared to other states. Also noteworthy is the inclusion of funding for a municipal resiliency program, perhaps the state's first major financial commitment to respond to the risks of climate change.

**Question 3** would provide \$65 million for housing and community opportunity and represents the fourth housing bond put before voters since 2006. All or most of this funding is expected to be administered through the Building Homes Rhode Island (BHRI) Program, which has a successful track record and has used bond funding to leverage larger sources of federal and private funding. In the absence of general revenue appropriations for housing, housing bonds have been the primary source of state funding to increase and preserve affordable housing. While meeting a critical need, this bond funding is not part of a larger state housing strategy, and its impact on the state's housing challenges is limited, both in its focus only on the low-income segment of the market and in the relatively small number of new units constructed. The bond question also includes funding for community revitalization projects, but this program is less targeted than BHRI and does not have the same long history of success.

**Question 4**, if approved, would authorize \$71.7 million in general obligation bonds to match \$286.8 million in federal funding. This bond initiative for transportation represents a departure from the state's more fiscally responsible approach over the past ten years of relying on current funding instead of general obligation bonds for transportation. However, the use of general obligation debt is justified at this time, due to the loss of gas tax revenues and the reduction of Rhode Island Capital Plan dollars for transportation, as well as the availability of new federal funding.

**Question 5** proposes \$15 million in general obligation bonds to create an Early Childhood Facilities Fund to improve the quality of early childhood education facilities across the state. This new Facilities Fund would serve the important purpose of improving the quality of early childhood education and would respond to a demonstrated unmet need for capital improvements in pre-K and childcare facilities. The program would be entirely new for the Department of Human Services, which would need to establish a regulatory and administrative structure to oversee the grant process. It is also unclear that this bond initiative is part of a larger strategy, and funding in addition to these capital dollars would be required to improve and expand high quality childcare for low-income families.

**Question 6** proposes to authorize \$7 million for cultural arts and state preservation grants. This bond initiative is essentially a much smaller sequel to the \$35 million bond referendum approved by the voters in 2014. Aside from bond funding, the state provides relatively little funding to arts

and historic preservation. Question 6 builds on existing grant programs with successful track records.

**Question 7**, if approved, would provide \$60 million in bond funding for economic development activity through the Quonset Development Corporation (QDC), consisting of \$40 million for industrial site development and \$20 million to fund the growth and modernization of the Port of Davisville. The proposed investment in site readiness follows a much smaller pilot program administered last year by the Commerce Corporation but lacks specifics and gives broad authority to QDC to determine how grant dollars will be allocated. Since grants supported by this funding likely will result in significant benefits to communities and private developers, RIPEC recommends a prescriptive and transparent process that circumscribes QDC's discretion. The Port of Davisville investment fits the more traditional use of general obligation debt for long-term public infrastructure, is consistent with a larger QDC master plan, and builds upon a larger bond initiative approved in 2016, as well as other state capital funding.