



**RHODE
ISLAND**

Senate Committee on Finance

May 14, 2024

Governor's Budget Amendments #12, #14 & #15

Agenda

- GBA Overview – 12, 14 & 15
- Washington Bridge (GBA 12 & 14)
 - Anticipated Project Cost and Schedule
 - Federal and State Share
 - Federal – Mega, INFRA, GARVEE
 - State – SFRF, Revenue Bond and Other
 - Discussion Points
- Certificates of Participation – State Office Building (GBA 15)

Governor's Budget Amendment 12

This amendment makes several changes to the Governor's Recommended FY 2025 Budget.

- **Department of Transportation Funding.** This amendment includes \$20.0 million in State Fiscal Recovery Funds to be used for priority transportation projects, including but not limited to the non-federal share of the Washington Bridge project.
- **Homelessness Assistance Program.** \$16.6 million in State Fiscal Recovery Funds for the existing Homelessness Assistance Program in the Department of Housing, which will support a program to expand housing navigation, behavioral health, and stabilization services to address pandemic-related homelessness. Additionally, this amendment provides the Secretary of Housing with the authority to reallocate up to \$2.0 million in State Fiscal Recovery Funds appropriated to the Department of Housing in FY 2025 to the Homelessness Assistance or the Homelessness Infrastructure projects, which are currently funded with State Fiscal Recovery Funds as well. *(Heard by Senate Finance, 4/30/24)*
- **Unemployment Trust Fund Contribution.** \$24.0 million in State Fiscal Recovery Funds allocated to the Unemployment Trust Fund administered by the Department of Labor and Training. *(Heard by Senate Finance, 4/30/24)*
- **Foster Care Youth Scholarship.** \$1.0 million in State Fiscal Recovery Funds, which will be distributed by the Office of the Postsecondary Commissioner to the Rhode Island College Foundation, to support a last dollar scholarship program for Department of Children, Youth, and Families foster care youth exiting the system to attend Rhode Island College and would fully fund tuition, room and board, and/or support services. *(Heard by Senate Finance, 4/30/24)*

Governor's Budget Amendment 14

This amendment requests a new article, entitled “Relating to Transportation Infrastructure” to authorize the issuance of debt financing for the Washington Bridge.

- This article authorizes the issuance of Grant Anticipation Revenue Vehicle Program bonds (“GARVEE” Bonds) and State Match Motor Fuel Tax bonds (“State Match Bonds”) for the purposes of emergency expenses, demolition, and construction of the Washington Bridge.
- It contemplates total estimated project costs of \$455.2 million, which were established from guidance from the State’s owner’s project managers and represent an upper-limit cost projection and contingency. The project would be funded through the following sources:
 - Repurpose Existing Appropriations – **\$37.0 million**
 - Federal Grant Anticipation Vehicle (GARVEE) Bonds – **\$334.6 million ***
 - Motor Fuel Tax Revenue Bonds -- **\$40.0 million**
 - American Rescue Plan Act (ARPA) State Fiscal Recovery Fund (SFRF) – **\$20.0 million**
 - Other Funds – **\$23.6 million**

** Any funds received from Federal grant applications will reduce the amount required in GARVEE bonding*

Mega/INFRA Grant

Federal Highway Administration (FHWA) noticed a funding opportunity for the Mega and INFRA grant awards, which support large highway and bridge projects.

- RIDOT prepared a grant application for Washington Bridge replacement (total replacement cost of \$368.3 million) under two discretionary programs – Mega (up to \$221 million) and INFRA (up to \$177 million).
- The application was submitted on May 6th, with award announcements expected in October/November 2024.
- If maximum discretionary awards are received, the remaining Federal share of the project would be \$114 - \$158M.
- NOTE: Grants would not cover the emergency and demolition projects and would also require a 20% state match.

| | Mega | INFRA |
|---|--|--|
| Purpose | “Large, complex projects that are difficult to fund by other means.” | “Multimodal freight and highway projects of national or regional significance” |
| Total Available | \$1.7 billion | \$2.7 billion |
| Minimum Award | None | \$5M (projects <\$100M) \$25M (projects >\$100M) |
| Maximum Award | 60% of total project | 60% of Federal share of project (likely 80%) |
| RI Maximum | \$221.0M | \$176.8M |
| Remaining Project Cost (Federal) | ~\$113.6M | ~\$157.8M |

Anticipated Project Costs

Based on new projections from the owner's project managers, RIDOT estimates the total replacement cost of the Washington Bridge at \$418.2M (after carryforward), of which the State would contribute \$83.6M (about 20%).

| | FY 2024 | FY 2025 | FY 2026 | FY 2027 | Total |
|--------------------------|----------------|-----------------|-----------------|----------------|-----------------|
| Emergency Project | \$46.40 | | | | \$46.40 |
| Demolition Project | \$1.50 | \$39.02 | | | \$40.52 |
| Replacement Project | \$1.50 | \$200.00 | \$138.50 | \$28.30 | \$368.30 |
| Repurpose Prior Project* | \$0.00 | -\$37.00 | | | -\$37.00 |
| | \$49.40 | \$202.02 | \$138.50 | \$28.30 | \$418.22 |
| Federal Share | \$37.60 | \$161.62 | \$110.80 | \$22.64 | \$334.58 |
| State Share | \$11.80 | \$40.40 | \$27.70 | \$5.66 | \$83.64 |
| | \$49.40 | \$202.02 | \$138.50 | \$28.30 | \$418.22 |

NOTE: RIDOT estimates that all components of the project will qualify for 80% Federal reimbursement, with the exception of \$2.4M in ferry service costs (100% State-funded), included in the Emergency Project budget. The estimate also does not include costs associated with legal services or prior contracts. Final costs will not be known until bids are awarded this summer.

Prior Estimate Comparison

The following changes in scope determined the final cost estimates.

- The initial estimate of \$250.0 - \$300.0 million was based on preliminary engineering estimates and only included direct demolition and direct reconstruction. The project costs outlined above reflects an expanded scope including: 1) costs not directly associated with reconstruction and demolition and 2) emergency project costs.
- Additionally, the proposed new Washington Bridge will be built to a higher standard than an in-kind replacement and will include several beneficial enhancements:
 - Widens existing bridge by 12 feet to improve traffic flow and reduce congestion.
 - A new ramp to Gano Street designed to reduce conflicts and accidents.
 - The replacement of all existing piers and footings, estimate assumes fully replacing the superstructure with methods and materials to extend service life.
 - Additional access features for increased maintenance and inspection.

Grant Anticipation Revenue Vehicle (GARVEE) Bonds

GARVEE debt service is used by state governments to finance critical infrastructure projects, such as highways and bridges. States issue debt and use future federal transportation grants (e.g., RIDOT's annual allocation from the Federal Highway Trust Fund) to pay debt service. GARVEE financing must be approved by both the General Assembly and the Federal Highway Administration (FHWA). FHWA GARVEE authorization requires multiple projects to be identified, though legislative approval may be more narrowly tailored.

2003 & 2016 GARVEE – *Approximately \$42.5M in annual debt service through FY 2031*

- The 2003 Assembly authorized GARVEE for RIDOT to finance five capital projects: Washington Bridge, Sakonnet River Bridge, Route 195 Relocation, Freight Rail Improvements and Phase II of the Rt. 403 project.
- RhodeWorks legislation in 2016 allowed RIDOT to borrow \$300.0M through the GARVEE Program and refinance existing GARVEE debt. The borrowing in this case was to provide RIDOT with immediate cash flow to begin the reconstruction of bridges under RhodeWorks.

2020 GARVEE – *Approximately \$19.9M in annual debt service through FY 2035*

- The 2019 Assembly authorized \$200.0M to fund construction costs for the interstate 95 Northbound Providence Viaduct project.

Motor Fuel Revenue Bonds

State match for GARVEE projects (normally 20%) is often provided by Motor Fuel Tax Revenue Bonds, which are backed by 2.0 cents of the 38.0-cent gasoline tax.

- Motor Fuel Tax debt will be retired in FY 2027, allowing additional borrowing. Similar to the GARVEE proposal, debt payments would be lower through FY 2027 until existing debt is retired.
- Based on the previous 12-month of actual gas tax revenue collections and a minimum annual debt service coverage requirement of 1.25x, the state has a **current capacity to issue up to \$39.8 million in motor fuel tax revenue bonds.**
- Additionally, an estimated \$3.5 million in bond premium is expected to be generated based on current prevailing market rates and yields for an **expected total of \$43.3 million in motor fuel revenue bond proceeds available to meet required state match needs.**

Certificates of Participation – State Office Building

Governor's Budget Amendment 15

This amendment requests an amendment to Article 4, authorizing the issuance of Certificates of Participation (\$33.66M) for the acquisition and transition of a building for State use.

- The state is considering acquisition of a building at 115 Tripps Lane in East Providence for State use.
- The property is intended to house several state agencies currently occupying leased offices or buildings with significant projected deferred maintenance costs, thereby achieving budgetary savings.
- The acquisition advances the State's efforts to reduce the use of leased properties to house State agencies and functions.

The Case for State-Owned Office Space

Conditions in the commercial real estate market are appealing as the State confronts expensive leases and significant deferred maintenance in some existing facilities.

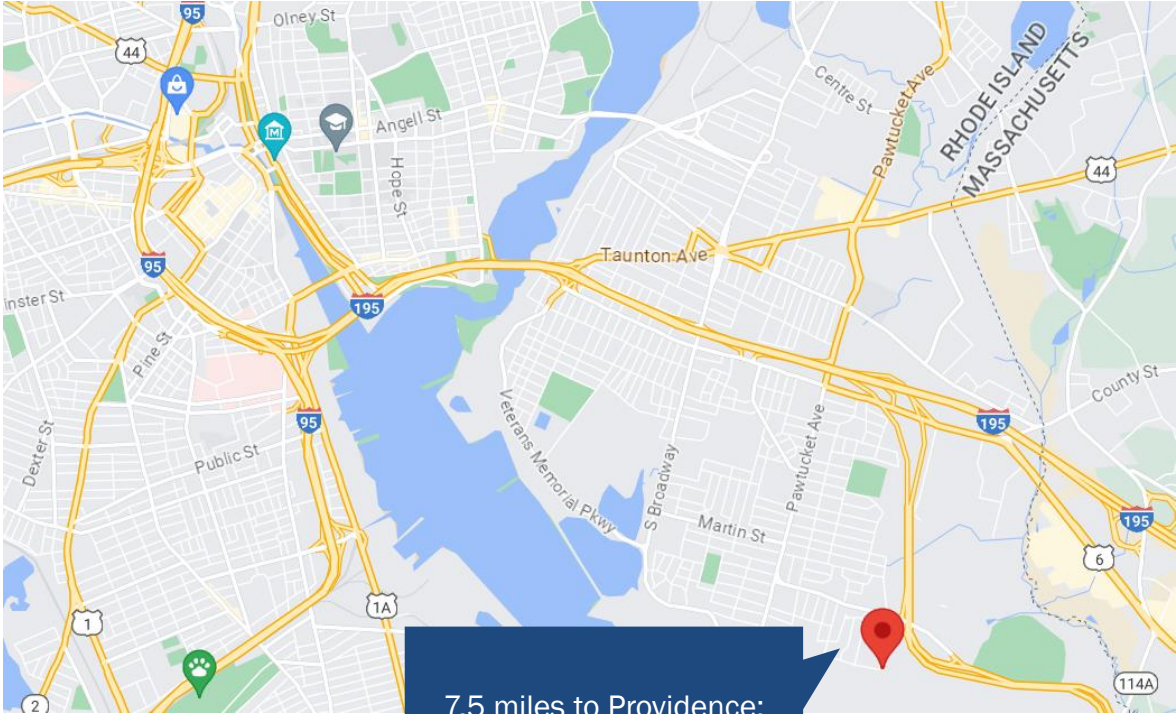
- **Costly properties:** three agencies (Treasury, State Police, and ETSS) currently occupy 50 Service Avenue. That building requires ~\$10mm in HVAC and roof repairs (as well as costly temporary relocation) in the near-term.
- **Costly leases:** DEM has two years left on a lease costing ~\$2.5mm/ yr and is evaluating alternative office locations for FY 2027.
- **Anticipated demand:** Reconfigurations of the Pastore Complex, plus shifting needs in agencies like DHS will require swing space and new permanent locations for one or more divisions.
- **Controlling a strategic asset:** Shifting the balance of State occupancy from costly leases to state-owned space may result in long-term savings with added benefits.
 - Finding an accessible location with updated infrastructure and modern amenities could support the State’s financial priorities, as well as alleviate some costs associated with ongoing maintenance in aging buildings.
 - Additional “swing” space would reduce the pressure on reconfiguration efforts.
 - Recruitment and retention could also benefit from updated office space.

Prospective Property for Acquisition

115 Tripps Lane is a 210k SF property located in East Providence. Unique features of this building include a state-of-the-art data center, separate entrances for public-facing operations, and ample parking.

115 Tripps Lane, East Providence

| | |
|---------------------------|---|
| History | <ul style="list-style-type: none">• Citizens owned/ occupied• Built in 1979, renovated in 2010 |
| Square Footage | <ul style="list-style-type: none">• 210k (~800 employees) on one level |
| Building amenities | <ul style="list-style-type: none">• 60k SF state-of-the-art data center• Parking for ~850 cars• Other modern buildouts |
| Other benefits | <ul style="list-style-type: none">• Well-maintained property and systems• Data center w/ excess capacity• Potential for sustainable infrastructure• Open and configurable floorplan• Separate entrances and a customer service window |





Potential Agency Occupants

Depending on the outcome of the negotiations and specific agency needs, the following agencies may consider occupancy at 115 Tripps Lane. There may be room for others while preserving valuable swing space.

| Prospect | Financial Impact |
|--|---|
| DEM (back-office + public) | Averts continuation of \$2.5mm annual lease costs. |
| ETSS (all staff + data center) | May avert 50 Service deferred maintenance, plus costly temporary relocation related to 50 Service work. |
| State Police Cyber Unit (all staff + data center) | Averts 50 Service deferred maintenance or costly potential lease. |
| DHS (back office) | Consolidates team, averts significant long-term investment in LP. |
| NOTE: This is not an exhaustive or committed list. These agencies have expressed some interest at this time. | |

Funding the Total Project Cost

The total project cost to acquire the building includes the purchase price plus costs associated with transitioning the property to State agency (and public) use.

- The proposed amendment to Article 4 of the FY 2025 Appropriations Act authorizes the issuance of Certificates of Participation totaling \$33.66mm to fund the total project cost.
- Estimates for the maximum cost of aggregate debt service of \$44.5mm are based on a conservative 5.5% interest rate.

Transaction Costs Offset by Value

The initial investment is projected to be offset by savings and potential revenue over a period of about 10 years; savings from reducing the number of state leases and avoiding additional deferred maintenance will continue to accrue.

| Source of Potential Savings | Estimated Value (10 years, \$mm) |
|--|----------------------------------|
| Eliminate current DEM lease | \$25.0 |
| 50 Service HVAC/ roof repairs | \$10.0 |
| Cost of add'l moves & rent (50 Service displacement) | \$4.0 |
| Possible multi-year lease of data center | <u>TBD</u> |
| TOTAL SAVINGS | \$39.0 |

This conservative estimate does not take into account other potential sources of savings or revenue, like:

- Avoiding investments in Pastore buildings with significant deferred maintenance.
- Other opportunities for excess data center use.
- Intrinsic value associated with State control of an updated building with contemporary amenities.

Timeline for Proposed Acquisition

Ongoing negotiations with the seller will determine the final transaction timeline and cost.

| Date | Action | Notes |
|------------------------|--|--|
| April 2024 | Requested State Properties Committee approval to enter into negotiations for the prospective purchase. | Granted approval. |
| | Submitted a preliminary term sheet to the seller. | Still under consideration. |
| May 2024-December 2024 | Negotiations to achieve a purchase & sale agreement; diligence. | If successful, could close on the transaction by the end of CY 2024. |
| 2025 | Building configuration. | Hire architecture/ engineering vendor to optimize space use. |
| 2026 | First agencies could move to Tripps Lane. | |
| TBD | Data center occupancy. | Pending potential lease. |

The data center transition will take time. In that period, options for 50 Service will be contemplated. Selling the building or repurposing it if economical uses present that would obviate the need for the HVAC project would be considered.

Appendix

Project Costs – Emergency Response

Emergency Project

(in millions)

| | |
|--|----------------|
| Design Build Team Construction | \$21.00 |
| Bridge Inspections | \$11.00 |
| Towing Services | \$2.00 |
| Municipal Reimbursements/State Police | \$5.00 |
| RIDOT Staff & Miscellaneous | \$5.00 |
| Ferry Service | \$2.40 |
| Estimated Total Emergency Project Costs | \$46.40 |

- All emergency project costs are eligible for 80% Federal match except Ferry Service, which will be 100% State-funded.

Project Costs – Demolition

Demolition Project

(in millions)

| | |
|---|----------------|
| Design expenses | \$1.77 |
| Construction expenses | \$31.00 |
| Other expenses | \$3.10 |
| Contingency budget | \$4.65 |
| Estimated Total Demolition Project Costs | \$40.52 |

- Incentive and contingency is included but may not be fully expended.

Project Costs – Replacement

Replacement Project

(in millions)

| | |
|-----------------------|----------|
| Design Expenses | \$3.58 |
| Construction Expenses | \$315.55 |
| Other Expenses | \$11.37 |
| Contingency budget | \$37.80 |

Estimated Total Replacement Project Costs \$368.30

- Incentive and contingency is included but may not be fully expended.