Squid's Ink: Sleight of handouts: a primer

The waters around Providence are particularly murky this month as the city government pushes to pass a $500 million "Pension Obligation Bond" in order to "Save Providence" while simultaneously handing out tax deals to the Superman Building, Fane Tower, and a bunch of downtown residential buildings.

While crawling along the sludge at the top of the Bay, we overheard this conversation between Citizen Crab and one of our Over-Educated Squid Friends…

Like a Penguin in Bondage

OES: Bonds, in case you don't know, are a form of deferred taxation. Instead of raising taxes to fund a particular project, we pretend it's free, and then pay extra in interest to maintain the fiction. Politicians love bonds, because they don't have to tell voters, "I'm going to raise your taxes." And voters? Well, we just don't pay attention to the real costs.

CC: Hmm. That doesn't sound like a bad deal. How many of these bonds does the city have?

OES: The 2021 budget "Debt Service" reports almost 50!

CC: Is that a lot?

OES: Well, we paid just over $20 million in interest in 2021 and just under $40 million in principal. It seems like a lot to me, but I'm just a squid.

CC: Understanding numbers isn't hard, but eyes glaze over when you start to explain…

OES: A $500 million dollar bond will cost $500 million plus more than $500 million in interest (over 30 years). Oh, and the House Finance Committee just ignored one of the Treasurer's recommendations that the bond should be limited to $150 million issues at a time…

CC: Wait? A BILLION DOLLARS? Where does the other $500 million go?

OES: To Wall Street Investors.

CC: But I heard that the Pension Obligation Bond was going to be self-funding!

OES: This is what is called "Magical Thinking." The theory is that the city borrows the money at 5% interest, but invests the money and gets a 7% return. That 2% should cover the cost of the loan.

CC: So, that's good, right?

OES: It relies on two things: 1) Wall Street paying 7% or more and 2) None of the money actually gets used to pay pensions.

CC: Huh?

OES: That's right. The Bond is meant to cover the pensions, but we really can't use it if we want to pay

it off without taxation. The only way to get the investment return is to keep the money "in the bank." And if we spend it on pensions, then we won't get the interest.

CC: But we'll still owe the money? What happens if we go bankrupt?

OES: That's the kicker. Pension Obligation Bonds are bankruptcy-exempt. In other words, Providence can go bankrupt and would still owe the money. Isn't late-stage capitalism great? And it is. As long as you're a Wall Street investor.

CC: Why don't we just raise taxes?

OES: Remember, no politician will get elected saying, "I'm going to raise your taxes." Also, here are laws that prohibit Providence from raising property taxes more than 4%.

Real Estate Rules

CC: Then why are we giving deals to major real estate players?

OES: Exactly! Major landowners, many of whom give maximum campaign contributions, argue that construction= jobs and real estate growth = tax base growth, but then they claw back as many tax breaks as possible. And then they complain that the public schools suck.

- UpriseRI revealed that one of our favorite downtown moguls, Buff Chase will be saving $30 million in taxes over the next 30 years through a Tax Stabilization Agreement. That's $1 million dollars a year into his pocket.
- According to the Providence Journal, The Superman Building will get $26 million from the state and another $15 million from the city to help it make a profit... er, be less empty.
- Fane Tower, though still stalled, is in line for $25 million in state tax credits and a $54 million city tax treaty

The insanity of this behavior is mind-numbing. On the one hand, Providence says that it doesn't have enough money to cover the Cianci-era pension giveaways. On the other, it's going to allow profit-making developers to dodge their obligations to the city.

CC: Wait, how should I vote on #1?

OES: Good thing I'm a squid. I'm going to eat a crustacean and then crawl under a rock.

CC: Hey! Get away from me!