



It is easy to see why bonds are attractive; the influx of revenue allows favored projects to be financed while minimizing, or in some cases, completely avoiding, tax increases.

Michael Rathbone is a policy researcher at the Show-Me Institute, which promotes market solutions for Missouri public policy.

TESTIMONY

February 20, 2013

MISSOURI'S BONDING FUTURE

By Michael Rathbone

*Testimony Before The Missouri Senate
Transportation and Infrastructure Committee*

To the Honorable Members of This Committee:

Ladies and gentlemen, thank you for the opportunity to testify today. My name is Michael Rathbone and I am a policy researcher for the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state policy. The ideas presented here are my own. This testimony is intended to provide reasons why the state should proceed cautiously with any bond issuance along with an analysis of different financing mechanisms for paying off those bonds.

The Risks With Any Bond Issuance

It is easy to see why bonds are attractive; the influx of revenue allows favored projects to be financed while minimizing, or in some cases, completely avoiding, tax increases. However, bonds are not free money. There are several factors worth considering before issuing new bonds:¹

- The state has completed payments for the Third State Building Bonds, but the state is still paying off other bonds, including the Fourth State Building Bonds, Water Pollution Control Bonds, and the Stormwater Control Bonds.² Before issuing more bonds, I hope that the state has determined it possesses the resources to fund its existing debt.
- The state has large unfunded liabilities in its public employee pensions that it is obligated to meet in the future. For example, as of June 30, 2012, the Missouri State Employees Retirement System (MOSERS) faces an unfunded liability of \$2,896,484,374.³ The Missouri Highway and Transportation Employees' and Highway Patrol Retirement System (MPERS) faces an unfunded liability of \$1,775,245,058.⁴ Officials will have to determine whether the state has the resources to meet these liabilities, which are required to be funded.

ADVANCING LIBERTY WITH RESPONSIBILITY
BY PROMOTING MARKET SOLUTIONS
FOR MISSOURI PUBLIC POLICY

Lowering the initial principal will enable the state to save money from reduced interest payments and borrowing costs.

- Finally, debt financing is more costly than current tax financing because of added borrowing costs and interest expenses. If the state has the resources to finance these projects now, it would save the state money.

Other Items To Consider

Senate Joint Resolution 3 (SJR3) calls for the state to issue \$950 million in bonds “for the construction, renovation, and rebuilding of buildings of institutions of higher education” and for other building projects not related to higher education, including at least \$40 million dedicated to the maintenance of parks and parks facilities.⁵

If there are areas of spending that can be avoided or minimized, then the required amount of bond issuances can be reduced. Lowering the initial principal will enable the state to save money from reduced interest payments and borrowing costs.

First, public higher education institutions can already issue debt to finance capital improvements.⁶ If these institutions are in a position where they can issue bonds, they should be asked to do so.⁷ Doing so will shift the burden of repaying that debt to the institutions and away from the taxpayer.

Additionally, where possible, pursuing public-private partnerships would reduce (if not eliminate) the state’s financial commitment to the maintenance of parks and parks facilities.⁸

Some have suggested that issuing these bonds would serve as a form of economic stimulus.⁹ While the state does have an interest in maintaining public goods such as roads and bridges, this bond issuance should not be treated as a jobs program or an economic stimulus. Some temporary jobs might result from the enactment of these projects; however, that does not mean that these projects should be viewed as jobs programs.

According to Hoover Institution Fellow John F. Cogan and economist John Taylor, in their analysis of the 2009 American Recovery

and Reinvestment Act, “The implication of our empirical research ... is not that the stimulus of 2009 was too small, but rather that such countercyclical programs are inherently limited. The lesson is to beware of politicians proposing public works and other government purchases as a means to stimulate the economy. They did not work then and they are not working now.”¹⁰ If government borrowing and spending did not work to stimulate the economy then, why would government borrowing and spending work now?¹¹ The state has legitimate reasons to issue bonds; using the bonds as jobs projects is not one of them.

Financing Capital Improvement Projects

Policymakers maintain that SJR3 can be enacted without any tax increases.¹² If so, that is a point in its favor. However, Senate Joint Resolution 16 (SJR16), which deals with highway and road construction, institutes a 1-cent sales tax that would expire after 10 years.¹³ The state estimates it could collect up to \$700 million a year in additional revenue with this proposed tax hike.¹⁴

While a sales tax is not the most destructive tax a state can impose, there are better financing mechanisms available if the state were to pursue improving roads and bridges.¹⁵ The first option worthy of consideration is public-private partnerships.

In 2008, the Show-Me Institute released a policy study examining options that public-private partnerships facilitate in addressing Missouri’s transportation needs.¹⁶ Before instituting a sales tax increase, it would be worth considering whether these partnerships can deliver needed services without forcing the state into debt. Tolling has worked for the Lake Ozark Community Bridge, and it can work as the primary foundation of larger projects.

Increasing the gasoline tax is another option. When possible, the people who consume public goods should be the ones to primarily pay for them.¹⁷ The more one drives, the

more gas is consumed, and thus that person pays more taxes. On the other hand, a general sales tax increase treats people who rarely drive, and thus rarely use roads, the same as people who drive frequently and for extended periods.

Also, the gasoline tax in Missouri is relatively low compared to other states. According to the American Petroleum Institute, as of January 1, 2013, Missouri had the sixth-lowest gasoline tax in the nation.¹⁸ An increase in the gas tax to fund roads is preferable to a sales tax, even if the increase needs to be fairly large to fund the necessary projects.

There are fair questions about the effectiveness of gas taxes to capture revenue as cars become more gas-efficient. Thus, the state could consider increasing the annual automobile registration fees to fund these projects as well.

Conclusion

Bonds can serve a legitimate public purpose by financing needed improvements to public goods. However, before increasing its liabilities, the state should weigh the costs and benefits to undertaking such an action. I have illustrated several areas where the state could (1) reduce the amount of the state's obligations for financing desired projects, and, (2) better finance any of the projects it undertakes. Hopefully, the state will consider these options and only issue bonds and debt that are truly necessary for the state.

***Join the fight for liberty in our state.
Become a Show-Me Institute supporter:
www.showmeinstitute.org/donate***

While the state does have an interest in maintaining public goods such as roads and bridges, this bond issuance should not be treated as a jobs program or an economic stimulus.

NOTES

¹ Chris Edwards of the Cato Institute illustrated these points in a commentary he wrote for the *Dallas Morning News* regarding state bonds. I lay several of these points out here and adapt them to Missouri's circumstances. View the original commentary online here: <http://www.cato.org/publications/commentary/bonds-hit-our-budgets-just-hard-higher-taxes>.

² Missouri Office of Administration, "Missouri FY 2013 Executive Budget." January 17, 2012. View online here: <http://oa.mo.gov/bp/budg2013/PublicDebt.pdf>.

³ Missouri State Employees' Retirement System, "Missouri State Employees' Retirement System Comprehensive Annual Financial Report: Fiscal Year Ended June 30, 2012." October 29, 2012. View online here: <https://www.mosers.org/en/About-MOSERS/Annual-Report.aspx>.

⁴ Missouri Department of Transportation and Highway Patrol Employee's Retirement System. "Missouri Department of Transportation and Highway Patrol Employee's Retirement System Comprehensive Annual Financial Report: For the Fiscal Year Ended June 30, 2012." November 16, 2012. View online here: <http://www.mpers.org/files/DDF/2012%20CAFR.pdf>.

⁵ Senate Joint Resolution 3, Kurt Schaefer. "Amends the Constitution to provide the authority for a Fifth State Building Bond issue." View online here: <http://www.senate.mo.gov/13info/pdf-bill/intro/SJR3.pdf>.

⁶ Here are some examples: Central Missouri State University: <http://www.emma.msrb.org/MS80903-MS59582-MD513940.pdf>; University of Missouri: <http://www.emma.msrb.org/MS214299-MS189607-MD368088.pdf>;

Lincoln University: <http://www.emma.msrb.org/MS261139-MS236447-MD461294.pdf>.

⁷ Senate Joint Resolution 3, Kurt Schaefer, 2012. "Amends the Constitution to provide the authority for a Fifth State Building Bond issue." View online here: <http://www.senate.mo.gov/13info/pdf-bill/intro/SJR3.pdf>.

⁸ Gilroy, Leonard. "Taking State Parks off the State's Books." Reason Foundation. April 14, 2010. View online here: <http://reason.org/news/show/taking-virginia-state-parks-off-boo>.

⁹ "Missouri bond issue would create jobs, invest in the future." *St. Louis Post-Dispatch*. November 26, 2012. View online here: http://www.stltoday.com/news/opinion/columns/the-platform/editorial-missouri-bond-issue-would-create-jobs-invest-in-the/article_6724355a-6ac0-5e9a-ba02-68ea732e8d14.html.

¹⁰ Cogan, John F., and John B. Taylor. "The Obama Stimulus Impact? Zero." *The Wall Street Journal*. December 9, 2010. View online here: <http://online.wsj.com/article/SB10001424052748704679204575646603792267296.html> and "What the Government Purchases Multiplier Actually Multiplied in the 2009 Stimulus Package." Stanford University, October 2010.

¹¹ To be fair, not all of the American Recovery and Reinvestment Act was infrastructure spending, but infrastructure spending was a part of it and thus is relevant to this discussion.

¹² Young, Virginia. "Missouri House leader launches push for state building bonds." *St. Louis Post Dispatch*. January 24, 2013. View online here: http://www.stltoday.com/news/local/govt-and-politics/political-fix/missouri-house-leader-launches-push-for-state-building-bonds/article_2d09b6c0-fe11-5e67-8413-b5302d53e9b5.html.

[bonds/article_2d09b6c0-fe11-5e67-8413-b5302d53e9b5.html](http://www.stltoday.com/news/local/govt-and-politics/political-fix/missouri-house-leader-launches-push-for-state-building-bonds/article_2d09b6c0-fe11-5e67-8413-b5302d53e9b5.html).

¹³ Senate Joint Resolution 16, Mike Kehoe, 2013. "Imposes a temporary one cent sales and use tax for transportation purposes." View online here: http://www.senate.mo.gov/13info/BTS_Web/Bill.aspx?SessionType=R&BillID=17866209.

¹⁴ Young, Virginia. "Missouri House leader launches push for state building bonds" *St. Louis Post Dispatch*. January 24, 2013. View online here: http://www.stltoday.com/news/local/govt-and-politics/political-fix/missouri-house-leader-launches-push-for-state-building-bonds/article_2d09b6c0-fe11-5e67-8413-b5302d53e9b5.html.

¹⁵ Arnold, Jens. "Do Tax Structures Affect Aggregate Economic Growth? Empirical Evidence From a Panel of OECD Countries." Organisation for Economic Co-operation and Development, Economics Department Working Papers No. 643. Oct. 9, 2008.

¹⁶ Stokes, David C., Leonard Gilroy, and Samuel Staley. "Missouri's Changing Transportation Paradigm" Show-Me Institute Policy Study. February 2008.

¹⁷ Stokes, David C. "Missouri's Transportation Funding Future" Show-Me Institute Testimony. July 23, 2012.

¹⁸ "State Gasoline Tax Report." American Petroleum Institute, January 2013. View online here: <http://www.api.org/oil-and-natural-gas-overview/industry-economics/~media/Files/Statistics/gasoline-diesel-summary.ashx>.



4512 West Pine Blvd. | Saint Louis, MO 63108 | 314-454-0647 | www.showmeinstitute.org

View State Government Spending: showmeliving.org | **Read Our Blog:** showmedaily.org | **Use Our Interactive Database:** showmeideas.org | **Find Us on Facebook:** facebook.com/showmeinstitute | **Follow Us on Twitter:** twitter.com/showme