

Urban Growth Management Study

**Local Government Infrastructure
Funding In
Oregon**

Prepared by

Center for Urban Studies
Portland State University

and

Regional Financial Advisors, Inc.

December 1990

Oregon Department of Land Conservation and Development

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**LOCAL GOVERNMENT INFRASTRUCTURE
FUNDING IN OREGON**

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Oregon Department of Land Conservation and Development

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FOREWORD

The Center for Urban Studies at Portland State University and Regional Financial Advisors, Inc., prepared this report under contract to the Oregon Department of Land Conservation and Development. The report is one of two produced by the study team: one on local government infrastructure revenue sources and finance and one on the impact of the six percent limitation on municipal tax base growth imposed by Oregon's constitution.

The contract with the Center and Regional Financial Advisors is one of four study contracts comprising the Department's Urban Growth Management Study. Other studies examine annexation and urban growth management, Oregon's farm and forest land tax deferral policies inside urban growth boundaries, and growth management in four fast-growing urban areas of the State. Copies of study reports are available by contacting the Department.

The views contained within this report are those of the study team and not necessarily the views of the Department. Readers reviewing this report are encouraged to send comments to the Department at the address contained on the cover. The Department plans to issue a report summarizing results from all four urban growth management study contracts and stating the Department's recommendations.

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SUMMARY OF FINDINGS AND RECOMMENDATIONS

This report focuses on the revenue sources and financing mechanisms available to local governments in Oregon to fund infrastructure. There are many types of revenue sources available, including general tax revenues, fees of various sorts, and special assessments.

A state can assist local governments in funding infrastructure by providing grants, providing authority to raise certain revenue, lending money, or assisting in accessing the private capital markets. The latter two can be self-financing or can involve various degrees of state subsidy, and there are many possible variations to each type of assistance.

Findings

- There exists a major gap between expenditures anticipated and the funding available to local governments in Oregon to meet infrastructure development needs.
 - Much of this gap is associated with the aging of existing infrastructure or with existing problems, but a substantial part of the gap is associated with the need to provide infrastructure to serve new growth.
 - Needs assessment studies have identified average annual needs of \$764 million for city and county roads, \$136 million for drinking water, and \$79 million for sewer projects.
 - Funding sources, including both local and state sources, have been identified for only about half of the currently projected infrastructure development needs of local government.
 - State aid for roads, sewers, and water projects has been about \$200 million per year, and over three-fourths of this is restricted to road projects.
 - At current levels, state aid finances only about one-fifth of identified needs for roads, sewer, and drinking water projects.
 - Other infrastructure needs include schools, parks, open space, libraries, and police and fire stations; and the state does not provide major capital aid for these items.

- Most revenue-raising mechanisms used for infrastructure in other states are also available in Oregon, but they could be used more extensively.
 - User fees are used extensively to fund operating costs for utilities, but more jurisdictions could use this mechanism for capital expenses by using fees to repay debt.
 - Special assessments are limited to projects of special benefit to affected properties, but many jurisdictions do not take full advantage of this mechanism.
 - The state limits systems development charges to the recovery of actual cost for off-site capacity related to new development, but few jurisdictions approach that limit. However, most costs of on-site infrastructure development in growing communities are covered by systems development charges and development exactions.
 - Systems development charges are restricted by law to a limited set of uses. For example, the set could be expanded to provide funds to build new schools or fire stations.
 - A few jurisdictions have adopted traffic impact fees or street and storm drainage utility fees, and more jurisdictions could use these mechanisms.
- Jurisdictions in Oregon usually have good direct access to the capital markets for general obligation bonds. Access to the market for other than general obligation bonds is more difficult and costly, especially for smaller jurisdictions.
 - "Front end" costs, such as engineering and planning documents, can pose a substantial barrier to greater use of borrowing by local governments.
- Current State assistance programs in Oregon do not meet local needs.
 - These programs are often tied to specific goals of the state, such as economic development, environmental protection, health, or energy conservation.
 - Payback provisions for most loan programs are at least as stringent as those imposed by the market since most state programs have a mandate to be self-supporting.
 - The application and planning process is expensive and existing programs have vastly different requirements for application. These costs weigh especially heavily given the competitive nature of the application process.
 - Monitoring requirements tied to the receipt of state aid are an additional cost.
 - Some jurisdictions have difficulty producing required matching funds.

- Some states provide more assistance to local governments than Oregon.
 - Some other states, such as Washington and Oklahoma, provide more types of loans to local governments for infrastructure development, often at considerably less than market rates.
 - The State of Washington restricts state aid to existing needs rather than growth-induced needs.
 - Several states, including Maryland and Texas, provide more technical and financial expertise to local governments to access capital markets.
- Measure 5 from the 1990 general election will make access to capital markets more costly for local governments in many circumstances, and this is likely to increase the demand for the state to provide borrowing assistance.

Recommendations

- The State of Oregon should expand its role in assisting local governments with infrastructure finance.
 - State assistance should be directed to reducing the interest cost and security requirements for local government borrowing.
 - State programs should be more balanced and flexible to meet local government needs.
 - State assistance must be coupled with state assumption of a portion of the cost and/or the risk to substantially increase attractiveness to local governments. The legislature should authorize some state assumption of cost and risk.
 - In response to Measure 5, the State should provide risk reduction for impacted local capital market borrowing by pooling, guarantees, or other methods.
 - The State should require loan payback provisions less stringent than those imposed by the market.
- The State should consolidate existing state programs if it simplifies the process of applying for and utilizing the programs.
 - A goal of consolidation should be reducing application costs and matching diverse financial assistance programs to local needs.
 - A goal of consolidation should be the pooling of borrowing authorities from existing state programs, e.g. melding general obligation and revenue bonding authorities, to reduce overall interest costs.
- The state should respond to Measure 5 with respect to infrastructure development by acting to reduce uncertainty and to maintain and assist local access to the private bond markets.
- Increased state assistance with borrowing for infrastructure should be coupled with incentives for local governments to make greater use of revenue sources available to them.
- Local governments should use the impetus of Measure 5 to make greater use of alternatives to property taxes, such as systems development charges, special assessments, and street utility charges.

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INTRODUCTION

Infrastructure is defined as the long-term capital stock for the provision of public services. It includes roads, buildings, water reservoirs, and other long-lived assets of government. The demand for increases in infrastructure occur for several basic reasons. First, an increase in demand for service may arise among existing residents of a jurisdiction, such as the demand for road capacity increasing as people buy additional automobiles. Second, infrastructure may be needed to replace existing items which are aging or deteriorating. Third, changes in the regulatory environment may require changes in the amount of infrastructure, such as more stringent clean water requirements creating the need for better sewage treatment. Finally, infrastructure demand can increase in response to growth.

When infrastructure requirements are caused by growth, it is also useful to distinguish between infrastructure directly related to tying the new development into the community system and new capacity required off-site to provide services associated with the increased demand. For example, a new house will require water main hook-ups to be able to access the water system, but it will also make it more likely that the community must build more reservoir capacity to be able to provide water to new residents.

Over time, the concern has grown that government is not funding infrastructure investment in the United States at a sufficient level. Funding of infrastructure has been a joint effort of all levels of government, but reductions in the federal contribution (after adjusting for inflation) have shifted more of the cost onto state and local governments. Many studies have identified massive funding requirements that are not being met. The failure to meet these requirements would be rational if they are based on standards of service which are set unrealistically high or on other conceptual errors; however, failure to provide the funding is likely to result in a deterioration in the level of service which is provided. Thus, the choice is generally between infrastructure expenditure and deteriorating service.

BACKGROUND

Each possible cause of the demand for additional infrastructure can in theory be tied to a funding source, but in practice the causes are not always clearly identifiable and a variety of funding options may be available. These options may be more or less attractive for a variety of reasons relating to the administrative, legal, and political environment.

Economic theory tells us that the use of charges which accurately reflect the marginal cost of providing service will improve the allocation of resources in the economy. If government sets a charge which forces decision-makers to pay the full cost of their actions, then the actions are more likely to be efficient. For example, new development in the suburbs may require new schools and other infrastructure at the same time that nearby communities are closing underutilized schools. A charge for the cost of the new schools would create incentives to locate where school capacity is already in place. The suburban development would only take place if the benefits were greater than the total costs. Failure to impose such charges may lead to excess new development, since the community as a whole absorbs part of the cost of the new infrastructure. On the other hand, a community with excess school capacity should not levy such charges, since they would unnecessarily discourage investment.

Such charges need not be based on a one-time activity. For example, economists argue that congestion charges on existing roads during rush hour would lead to more efficiency; however, a related aspect of such charges would be to provide funding which could largely cover the cost of building roads. If such charges were levied, then other taxes or fees related to road capacity would be unwarranted and inefficient. However, in the absence of such charges, the next best method to finance new road capacity may be to charge new development a fee based on the cost of providing new capacity to handle the increase in demand on the road system or to levy a charge on all activity related to the demand which it places on the road system.

Use of charges and fees may be inconsistent with other public sector objectives or may not be feasible for a variety of reasons. In these cases, the government turns to more general revenue sources.

Revenue can be generated by either taxes, fees, intergovernmental grants, or borrowing. Yet the last item is not an ultimate funding source, since borrowing to fund investment requires that other sources be used to repay the loans. Hence, discussions of borrowing as a method to fund infrastructure must be coupled with discussions of the revenue source to be used to pay off the loans.

In addressing land use planning, the incentive effects of finance mechanism are often overlooked. For example, general fund financing of infrastructure to serve new development encourages new development. This result may be in conflict with other land use goals. Goals of more concentrated development might be better accomplished by use of more direct pricing mechanisms. However, growth often generates other benefits to local government that may lead to subsidization of growth. Whether or not these incentives are efficient, they must be considered in evaluating funding sources.

REPORT ORGANIZATION

This report is concerned with the ways Oregon's local governments finance infrastructure development and the ways the state can assist them with this financing. For the purposes of this report infrastructure is defined as streets and roads, water systems, sewerage systems, storm drainage systems, parks, open space, recreational facilities, police and fire stations, primary and secondary schools, and libraries. The report considers both local effort and state assistance in two major sections. The first section discusses the revenue raising mechanisms available to Oregon's local governments, the financing mechanisms that convert revenue streams into projects, preliminary analyses of the effects of Measure 5, and the potential to raise additional revenue from or reduce the infrastructure costs of new development. The second section describes existing and proposed state programs and explores additional ways the state could assist local governments with infrastructure finance.

STUDY APPROACH

This report relies on several sources of information including:

- Interviews with local finance officials in twelve jurisdictions in growing areas of the state. (See the Appendices for details.)
- Review of existing studies, reports, statutes, local ordinances, and pertinent literature.
- Consultation with experts in the field.
- The teams' experience and knowledge of infrastructure finance.

LOCAL REVENUE RAISING AND FINANCING MECHANISMS

This section of the report is concerned with the ability and experience of local governments in Oregon to raise revenue for infrastructure investment and the potential to raise additional revenue from new development. The possibility of reducing infrastructure costs through growth management policies is also considered.

The types of Oregon jurisdictions involved extensively in local infrastructure development include:

Cities	ORS Chapter 221
Counties	ORS Chapter 201
County Service Districts	ORS Chapter 451
Metropolitan Service Districts	ORS Chapter 268
School Districts	ORS Chapter 326
Sanitary Districts	ORS Chapter 450.005
Sanitary Authorities	ORS Chapter 450.705
Water Supply Authorities	ORS Chapter 450.650
Domestic Water Supply Districts	ORS Chapter 264
Drainage Districts	ORS Chapter 547

REVENUE RAISING MECHANISMS

The revenue sources available for new infrastructure at the local level are quite varied, but the diverse sources can, in principle, be placed in a few general categories. First, general revenues may be used to finance the infrastructure. The most common source at the local level is the property tax, but other sources of general revenue might also be used. The money may be used to build infrastructure directly or to pay back bonds which are used to finance it. This mechanism can be used by a subset of taxpayers through special assessments. Second, a charge may be levied for a service, such as water provision, and part of the revenue from the charge may be used for infrastructure finance, again, either directly or as a revenue source for bond funding. Finally, a charge may be levied based on the anticipated cost of providing new service to development. Typically, such fees are accumulated to provide future capacity expansion rather than being used to fund bond measures.

REVENUE SOURCES

TAXES

Property Taxes

State Constitutional Limitations:

Tax Base - Article XI Section 11

Six Percent Limitation - Article XI Section 11

Uniformity Clause - Art. I Section 32, Art.IX Section 1

Tax Limitation - Ballot Measure 5 passed in November 1990 also becomes part of Article XI Section 11

Jurisdictions Authorized:

Cities, Counties, County Service Districts, School Districts, Metropolitan Service Districts, Special Districts

Description: The property tax is used by Oregon cities, counties, schools and special districts primarily to raise revenue to fund the general operations of local government. Property tax administration, governed by the Oregon Constitution, the state's taxation laws, and regulations of the Department of Revenue, involves the process of assessment, equalization, levy and collection.

Property tax proceeds may be used for any purpose the unit of government can lawfully expend funds. Property taxes can help finance infrastructure development, either as:

- o a direct funding source for operations and capital projects, or
- o a repayment source to pay debt service on municipal bonds, or
- o a source of security on General Obligation Bonds retired by another revenue source such as sewer fees.

Constitutional and statutory limitations on the amount of property taxes that a local government or school district may levy include:

- o **A Six-Percent Annual Growth Limitation.** A "tax base," approved by the voters, represents a jurisdiction's permanent authority to levy annually a dollar amount which cannot exceed the highest amount levied in the most

recent three years, plus six %. Tax base levies may also be increased in proportionate amounts for annexed territory.

- o **Levies Not Subject to the Six-Percent Limitation (Debt Levies).** Local governments are required to levy annually an amount sufficient to pay principal and interest costs for bonded debt. Bond measures to be paid from future tax levies must be voter approved unless otherwise provided by law. Proceeds from a debt levy cannot be diverted to another purpose.
- o **Levies Outside the Six-Percent Limitation.** These levies are one-year only levies for additional operating funding and must be fully reauthorized each fiscal year. (These are not serial levies.)
- o **Serial Levies for Operations.** (ORS 280.040-.140) These levies, which are used to fund the general operations of local government (e.g., law enforcement), can be imposed in addition to a jurisdiction's tax base. If the levy *amount* is the same each year, a levy can have a maximum life of five years. If the *tax rate* is the same each year, the levy has a maximum life of three years. Serial levies for operations can be reauthorized by the voters.

AN INNOVATIVE USE OF AN OPERATING SERIAL LEVY: The City of Gresham placed a serial levy on the ballot in November (it failed). It would have established a serial levy of \$675,000 for five years. This amount would be collected into a fund with a partial annual draw for parks operations and maintenance. The remaining fund proceeds would be invested and after the five years (and the end of the serial levy) the fund would produce an annual return of approximately \$200,000 to be used to operate and maintain the city's parks. At the end of 12 years, the City Attorney found under state law that the fund would need to be eliminated.

As with any local tax source which requires voter approval, the degree to which property taxes are a viable option for funding infrastructure projects is subject to the political and economic climate of the requesting entity.

Obstacles

Property taxes are subject to voter approval. Interviewees report that since property taxes have been heavily utilized by local jurisdictions, there tends to be ever stronger voter resistance.

Much of the property in the state is exempt from taxation, such as federally owned lands.

Measure 5 limits the overall collection of property taxes to certain maximums on EACH PROPERTY. Taxes for school purposes are to be phased down from a maximum of 1.5% or \$15 per \$1000 of market value of each property to \$5 by fiscal year 1995/96. All other purpose taxes cannot exceed 1% or \$10 per \$1000 of market value. Since the combination of non-school tax rates for each property may soon reach the \$10 limit (or in some cases already exceeds the limit), it will be impossible to utilize additional property taxes even if the voters are willing.

Measure 5 does, however, allow for certain exemptions from the limits such as voter approved General Obligation Bonds for capital construction and improvements.

Measure 5 also classifies many other revenue sources as property taxes if the taxation occurs based upon the ownership of property or a lien is placed upon the property or a flat charge is levied because property exists. There are certain exemptions for "incurred charges" and "special assessments" as specified by the Measure.

Oregon's taxing system is a "levy-based" system, meaning that each jurisdiction's tax base (the total dollar amount which can be collected) is voter approved. This dollar amount may not change except for the 6% annual growth permitted in the Constitution or by subsequent voter approved increases. Thus, new development within a jurisdiction does not automatically generate additional property tax revenues.

Remedies

Jurisdictions should attempt to redefine or reauthorize as many revenue sources as possible to reduce the amount of revenue classified as "property taxes." They should also attempt to replace any debt whose debt service may be classified as subject to the \$10 limit. Examples of this would be a refinancing into a voter approved GO if for capital construction or improvement, or into a Revenue Bond if user fees are available.

Jurisdictions should evaluate the revenue potential of other taxes and authorize them if feasible. Cities and most counties have broad taxing powers, but other districts may require legislative authorizations.

Other states, such as California, have "rate-based" systems, which have voter-approved tax rates which then can produce greater amounts of taxes if the assessed valuation increases. This is an automatic growth adjustment. Oregon could change to the rate-based system, subject to the maximum rate imposed by Measure 5.

Business License Fee

Legal Authorization: Authority based on local Home Rule Charter. ORS 696.365 exempts real estate agents.

Jurisdictions Authorized: Cities and Home Rule Counties

Description: A business license fee can be required of businesses which operate within a municipality. The fee, which is paid annually, applies both to businesses which are physically located within the taxing jurisdiction and enterprises which conduct business within the jurisdiction. The City of Portland, for example, levies a business license fee which is currently the greater of \$25.00 or 2.2% of net income earned in Oregon.

Business Income Tax

Legal Authorization: Not preempted by state law. Authority based on local Home Rule Charter.

Jurisdictions Authorized: Cities and Home Rule Counties

Description: Home rule counties and cities, upon voter approval, may impose a business income tax on net income. The mechanics of a business income tax are similar to a business license fee. For example, Multnomah County levies a tax on the net income of a business at a rate of 1.46%.

Hotel/Motel/Accommodations Tax

Legal Authorization: Authority based on local Home Rule Charter.

Jurisdictions Authorized: Cities and Home Rule Counties

Description: Many municipalities in Oregon levy some form of a hotel/motel tax (often called transient occupancy tax). The tax is generally levied on the room portion of hotel bills paid by hotel occupants. Unlike other local taxes, hotel/motel taxes tend to be popular with local citizens since they are generally paid by non-residents. If a municipality has a number of hotel and motel facilities, revenues from this source can be significant.

Local Gasoline Taxes

Legal Authorization: Authority based on local Home Rule Charter.

Jurisdictions Authorized: Cities and Home Rule Counties

Description: A county or city-wide gasoline tax would apply to the sale of petroleum products. Proceeds from a local gasoline tax are restricted to fund highway and road construction, improvements and maintenance as required by Article IX Section 3a. of the Oregon Constitution. Multnomah County currently has a 3-cent per gallon gas tax and Washington County has a 1-cent tax. Both of these counties share gas tax proceeds with cities. The cities of Tillamook, The Dalles, and Woodburn are the only three cities in the state that have a local gasoline tax.

Local Vehicle Registration Fees

Legal Authorization: ORS 803.445

Jurisdictions Authorized: Counties, Mass Transit and Transportation Districts, and Metropolitan Service Districts over 400,000 in population (ORS 801.237).

Description: State law permits counties and certain districts, upon voter approval, to impose a local vehicle registration fee. This fee would be added to the \$30 vehicle registration fee currently collected biannually by the state. Again, Article IX Section 3a. of the Oregon Constitution restricts revenues from this source to highway and road construction, improvements and maintenance. If a county imposes a local vehicle registration fee, at least 40% of the proceeds must be distributed to cities within that county (ORS 801.041).

Other Tax Revenue Sources

These revenue sources may also be available to local jurisdictions - depending on the type of jurisdiction and the legality, limitations and public acceptance of the tax.

- o **Rental Car Tax.** Multnomah County currently levies a 10% rental car tax.
- o **Entertainment Admission or Amusement Taxes** (ORS 320.100). This is currently not collected on the local level. The state collects an amusement device tax, 20% of which is distributed among counties based on population. Some localities also levy an amusement device tax and the Metropolitan Service District levies an entertainment admissions tax.

- o Payroll Taxes. A payroll tax on employers is used in Oregon principally by transit districts such as Tri-Met and Lane County Transit.
- o Real Estate Transfer Taxes. ORS 306.815 imposes a moratorium on local real estate transfer taxes until January 1, 1994. Washington County was the only local jurisdiction to adopt a real estate transfer tax before the moratorium became effective and therefore is not subject to it. Washington County's tax rate is \$1 dollar per \$1000 of the selling price.
- o Other Excise Taxes. Excise taxes are taxes which are levied on specific types of commodities or services. In Oregon, for example excise taxes are levied on alcohol and tobacco products, gasoline and hotels/motels but other excise taxes could be considered. Generally, the only difference between an excise tax and a sales tax is the breadth with which the tax is levied. While sales taxes are levied on a broad range of goods and services at a specific rate, excise taxes are product specific.

The Metropolitan Service District (ORS 268.507) currently collects a 5% local excise tax on the net operating revenues of many of its facilities and services including the Washington Park Zoo, solid waste disposal, publications and certain convention center services. Other MSD services and facilities such as the Civic Stadium and Performing Arts Center are exempt.

- o Personal Income Taxes. While the collection of a personal income tax is not preempted by state statute, no local jurisdiction has a personal income tax. The Metropolitan Service District is authorized in ORS 268.505, subject to voter approval, to levy a personal income tax not to exceed 1% of personal income. The Metropolitan Service District has not attempted to impose this tax.
- o Local Sales Taxes. The imposition of a local sales tax by cities and counties is not preempted by state statute, however no local governments have used this option as the public acceptability of such a tax is low.

Obstacles For non-Property Tax Taxes

Interviewees report taxpayer resistance is not necessarily limited to property taxes. The state has repeatedly tried to pass variations upon a sales tax. Multnomah County attempted a real estate transfer tax recently which was defeated. Most taxes other than property and income taxes cannot be deducted from federal income taxes, therefore increasing the taxpayer's cost.

Measure 5 includes other taxes as property taxes if they relate in any way to property (see above). Therefore, additional taxes must not relate in any

manner to property use or existence. For instance, a fee may not be levied solely due to the ownership of property, such as a flat water rate for each property.

Hotel/motel taxes are common, but hotels and motels resist their use for purposes which do not increase hotel usage. Acceptable uses usually include tourism, recreational, cultural and convention projects.

Each new tax requires some system of collection. Both the cost and the administration can be burdensome to the jurisdictions.

Special local taxes can make the levying jurisdiction less attractive than its neighbors as a place to do business or simply to live.

Remedies

State-wide collection systems or authorization and funding for regional collection systems would reduce the administrative and collection difficulties.

Legislative requirements to levy certain new taxes for specific purposes could equalize the impact of new taxes upon competition between jurisdictions.

SPECIAL ASSESSMENTS

Special Assessments

Legal Authorization: (See Below)

Jurisdictions Authorized: The types of local jurisdictions involved in using special assessments for infrastructure projects include:

Cities	ORS Chapter 223.317
Counties	ORS Chapter 223.317
County Service Districts	ORS Chapter 451.490
Metropolitan Service Districts	ORS Chapter 268.460, 268.475
Sanitary Districts	ORS Chapter 450.075
Water Improvement Districts	ORS Chapter 552.608
Water Control Districts	ORS Chapter 553.510
Drainage Districts	ORS Chapter 547.225
Street and Highway Lighting	ORS Chapter 372.170
Ports	ORS Chapter 777.530

Description: To fund and finance infrastructure projects that directly benefit specific properties, Oregon law allows cities, counties and special districts to utilize special assessments. Since special assessments are levied on property, they are similar to property taxes. However, unlike property taxes, special assessments are specifically designed to recover part or all of the cost of an improvement that specially benefits an individual property.

Special assessments are not generally used for projects such as sewer or water treatment facilities, or community centers since the community as a whole benefits from the project rather than specific property owners.

In ORS 223.387, cities can form a Local Improvement District (LID) within which special assessments can be levied against the LID's properties to fund infrastructure projects such as:

- * streets
- * sidewalks
- * water and sewer improvements
- * neighborhood recreational facilities and equipment

Costs associated with LID improvements are assessed against properties based on formulas that relate the charge against the parcel of property to the services or benefits received. Formulas are usually based upon frontage, square footage, or a combination of the two. Properties that have been assessed have the opportunity to apply for financing under the Bancroft Bond Act (ORS 223.205), thereby financing the improvements over time under the terms and conditions specified by state statute and/or by the assessment contract between the municipality and the property owner.

Infrastructure projects financed through special assessments may be structured as pay-as-you-go, or special assessment proceeds may be used to pay the debt service on bonds (Bancroft Bonds or Special Assessment Bonds). The decision regarding which financing mechanism to use depends on the type and cost of project and how the property owners are remitting their assessments - either in lump sum or installment payments.

Economic Improvement Districts

Legal Authorization: ORS 223.112

Jurisdictions Authorized: Cities

Description: Cities are authorized to establish economic improvement districts under state statute. A city may make assessments "upon the lots which are specifically benefitted by all or part of the improvement" for the cost of economic development projects such as:

- * parking lot improvements,
- * landscaping of public areas, or
- * business promotional activities.

(ORS 223.114) Economic improvement district assessments may be levied for a maximum of five years. Levies may not exceed in any one year 1% of the true cash value of the property within the district. Only property zoned industrial or commercial may be assessed; no residential property may be assessed.

Obstacles

Special assessments are applied according to the benefit derived from a project. Therefore, any project which is of general benefit such as a wastewater treatment plant cannot utilize special assessments.

Not all assessed parties will accept the assessment.

All assessments which are secured by a lien or which are assessed on the basis of property ownership or use will be subject to Measure 5 limitations unless the assessments:

- o are for capital construction,
- o provide special benefits only to specific properties,
- o are limited to the "actual cost,"
- o are assessed in a single assessment upon completion of the project, and
- o repayment is spread over at least a ten-year period,

Not all assessed parties pay their assessment on time or at all. Recessions have a noticeable effect upon the rate of delinquency; strong growth periods cause increases in prepayments. These factors make this a somewhat unreliable revenue source requiring a large reserve or "guaranty" fund (as used in the state of Washington for their Special Assessment Bonds).

Current law does not permit establishment of the necessary "guaranty" fund described in the item above. According to bond counsel, legislative change is required.

Assessments are generally not used to finance growth in new, undeveloped areas after the problems with Springfield and Lincoln City. Most interviewees prefer not to use special assessments for undeveloped areas, but some will do so given certain evidence that the developer is capable of retiring the debt or the value of the property sufficiently exceeds the amount of the assessment.

Measure 5 also appears to prohibit economic improvement districts since their assessments are limited to a maximum of five years.

Remedies

Legislate authority to establish "guaranty funds."

Legislative authorization for assessments which:

- o do not place a lien on property, but could place a lien on other assets, such as operating profits of businesses, etc.;
- o permit the basis of assessment to be other than property related, such as the number of employees, a percentage of profits, the number of persons utilizing the service per unit, authorized number of seats in a restaurant or theater, etc.;
- o incorporate concepts from other state statutes, such as the Mello Roos statutes of California, provided the restrictions of Measure 5 are observed.

Permit use of assessments on projects having a general benefit as Mello Roos statutes in California do.

The law and Measure 5 currently limit assessments to only the cost of the improvement. It should be expanded to include the cost of establishing reserves and/or a percentage over the cost to provide greater protection from delinquencies and negative arbitrage (investment loss relative to interest cost).

The state of Washington permits the formation of Business Improvement Districts (BIDs) to assess businesses for improvements which the businesses request. These are similar to the Economic Development Districts. The statutes should be compared to determine if the assessment procedures, formulas or basis are more flexible in BIDs.

Economic Development Districts should be permitted to apply their special assessments to a special assessment financing, if so desired. Current law appears to prohibit this.

TAX INCREMENT (URBAN RENEWAL DISTRICTS)

Legal Authorization: ORS Chapter 457; Constitution Article IX, Section 1c

Jurisdictions Authorized: Cities and Counties

Description: Unlike special assessments which are set up to make infrastructure improvements which benefit specific properties, an urban renewal district is established to remedy "blighted" conditions that may exist within a specified area of a community. ORS 457.010 defines those conditions that constitute "blighted" and sets up an administrative structure known as an Urban Renewal Agency to correct those conditions. Urban renewal can be used for infrastructure needs such as streets and rights-of-way, utilities, property acquisition and development and housing.

At the time an urban renewal district is created, property tax values within the district are "frozen." As these properties are developed and their assessed value increases, the Urban Renewal Agency keeps the property tax difference, or increment, between the new tax proceeds resulting from the development and the frozen base. The property tax increment revenues can then be used to pay the cost of infrastructure improvements within the district.

Often tax increment funds are to pay bonded indebtedness (see Tax Increment Bonds) incurred at the outset by the urban renewal agency to finance infrastructure development. Revenues collected within a tax increment district can be spent only on improvements within the district's boundaries.

Urban renewal areas are limited to a maximum amount of the assessed valuation within the municipality. ORS 457.420 limits the area according to population and assessed valuation. For municipalities over 50,000 in population the amount to total urban renewal district assessed valuation cannot exceed 15% of a city's or county's total assessed value. For municipalities under 50,000 the maximum limit is 25%.

In addition to tax increment revenues, an urban renewal agency may utilize state and federal grants and loans, as well as other revenue sources to fund their projects.

Interviewees report that tax increment financing is useful mostly in urban areas (thus the name). Those interviewees who have used tax increment financing were pleased with it.

Obstacles

Extremely vulnerable to variations in the tax rate, whether natural or imposed by changes in law, such as with Measure 5

NOTE: The impact of Measure 5 is uncertain. It is currently being debated whether the exemption for bonds authorized under the State Constitution (Article IX, Section 1c) would include Tax Increment Bonds. It is also being debated whether the \$10 or \$15 tax rate would apply for the calculation of the increment.

Urban renewal is unpopular with overlapping districts who feel that they are denied taxes that would otherwise be made available to them. Their opposition makes it difficult to establish an urban renewal district.

Since these are funded by property tax increments, all of the problems listed above with property taxes apply to these districts, except the voter approval requirement. While not required, voter approval is still solicited by some jurisdictions, since urban renewal districts are normally referred by petition if not offered to a vote initially. Some jurisdictions form urban renewal areas without voter approval.

Remedies

Authorize freezing and increment techniques for other revenue sources. For example, the Curry County Convention Center project is currently planning to use the increment in hotel/motel taxes created by the Center to finance its debt. The City of Baltimore uses the increment approach on its sales tax (mostly hotel/motel tax) revenues to fund its Convention Center. Increases in payrolls due to business development have been explored elsewhere for a possible increment approach.

Assure that the increment is utilized only where growth would not occur without public investment.

Provide some percentage of the increment to the overlapping districts in a pro rata or negotiated distribution.

USER FEES, SYSTEM DEVELOPMENT CHARGES/IMPACT FEES, DEVELOPER EXACTIONS

User Fees

Legal Authorization: Established by local ordinance. Sewer and Water minimum charges are addressed in ORS 224.510, 225.020, 264.310

Jurisdictions Authorized: Virtually all municipal corporations, i.e., cities, counties, special districts, ports, etc..

Description: User fees are another common method of paying for infrastructure improvements such as water, sewer and storm drainage. System user fees are used to pay the on-going operating and maintenance cost of a public facility; they also may be used to pay bonded indebtedness for construction and improvements.

The cash flow from user fees generally does not permit direct financing of infrastructure projects, except where a portion of the user fee is accumulated over time for future projects. In most cases, accumulation of user fees requires rate increases that are both well beyond immediate cash needs and politically unpopular. Therefore, a user fee system for large infrastructure projects may support the debt service of a financing resource such as a bond issue (General Obligation or Revenue Bond).

Obstacles

Interviewees report that rate payers resist as rates climb.

Rates which significantly exceed neighboring rates will decrease competitiveness or make an area less attractive to development.

Major increases in rates can affect the utilization of the service (e.g. elasticity of demand) and thus not produce as much revenue as expected.

External events such as drought (for water projects), conservation (water, electricity), and hazardous waste problems (sewer, water) can severely affect fee collections. Changes in habits or laws can affect rates, such as for solid waste.

Interviewees report difficulties in obtaining funding for planning, preparing and financing revenue based projects before any fees can be generated by the project.

Remedies

The state could provide assistance for the front-end cost on revenue based projects.

Many major capital projects cost more than reasonable rates can produce, especially in small areas. State assistance is needed. (See the section of this report on state assistance in local government infrastructure finance in Oregon.)

Assist in authorizing or defining fee related revenue sources which will not fall with the property "taxes" category of Measure 5.

Measure 5 restricts "incurred charges" to actual cost of services. User fees which are related to property use or ownership would therefore be included in the \$10 limitation unless the owner controls or avoids (or requests) the service. Jurisdictions should redefine their user fees to exclude reliance on property ownership.

The legislature or courts could assist in establishing the basis to prove request of service so the jurisdictions could rely upon this basis.

The legislature or courts could also assist by defining "actual cost of service."

Wholesale Service Contracts

Description: Utilities such as water and sewer that may have excess capacity provide service to other public entities located outside their service area boundaries through wholesale service contracts. These agreements set forth the terms and conditions under which operating and capital costs are allocated to the wholesale customers. Wholesale service contracts are a cost recovery mechanism and can be combined with other funding and financing resources to meet the cash flow requirements for infrastructure construction and operations.

System Development Charges and Impact Fees

Legal Authorization: ORS 223.297

Jurisdictions Authorized: Cities, counties, certain special districts as authorized by state statute.

Description: System development charges (SDC) are established by local ordinance under the state-wide standards prescribed in ORS 223.297 - 223.314. In general SDCs, which are used extensively throughout Oregon, are charges assessed against new properties to provide for both current and future infrastructure capacity needs.

As a result of legislation passed in 1989, SDCs in effect on or after July 1, 1991, can be used only to fund capital improvements in connection with water supply treatment and distribution, waste water collection, transmission and disposal, drainage and flood control, transportation, and parks and recreation (ORS 223.299). System development charges cannot be used for the costs of operations or routine maintenance.

Local ordinances to establish SDCs can adopt two methodologies:

- o Reimbursement Fees - for projects already constructed
- o Improvement Fees - revenues collected to pay for a future project

The 1989 law also requires local governments to adopt administrative review procedures and requires local governments to grant credits against SDCs if certain kinds of off-site improvements are required as a condition of approval for a development.

Impact Fees: Impact fees are a type of system development charge designed to pay the costs for some or all of the added infrastructure needs resulting from new development. Such fees are generally collected at the time a building permit is issued.

ORS 223.297, the SDC statute, governs the types of impact fees local jurisdictions can impose. One example of an impact fee is Washington County's traffic impact fee (Ordinances 310, 319, and 328). This fee is collected from developers to build new roads or improve existing roads. The County's impact fee is determined by a formula based on the number of average weekday trips generated by a new development. Other states have impact fees for such purposes as school construction and expansion.

Obstacles

Developers resist paying these charges, which add to their upfront costs.

These revenues can vary widely from year to year.

These sources do not produce sufficient revenue for major projects like treatment plants.

There is some market resistance to financings which include large portions of system development charges.

These revenues are vulnerable to legislative changes. Interviewees were concerned that the legislation passed in 1989 restricted the amount and use of system development charges to capacity needs induced solely by new development. This inhibits their ability to charge for costs resulting from changes in regulations. Most report their system development charges conform to the current law.

Several interviewees reported that growth produced costs above that recoverable from such mechanisms as system development charges and rates.

Revenues are not available until growth is already occurring. They cannot fund major infrastructure in advance of growth.

System development charges cannot be used for schools.

Remedies

Broaden the statutes restricted in 1989 to more extensive uses for system development charges. Permit use for improvements related to regulatory changes as well as growth. California statutes have language for broader SDC use which was implemented to deal with the effects of Proposition 13. This may create problems since new development should pay the same way as did earlier development for regulatory needs.

These charges can be used to promote growth management by "locationally-sensitive" rates.

Measure 5 would include these revenues if they are based upon property use or ownership. The Attorney General and other lawyers are certain that ordinances can be changed to remove reliance upon property and relate to use or request for service.

Interviewees expressed concern that these charges can affect competitiveness if neighboring communities do not levy similar charges in similar amounts. Legislation could require funding of some portion of growth through standardized levels of system development charges or impact fees, thereby equalizing their use.

Developer Exactions

Legal Authorization: Established by local ordinance

Jurisdictions Authorized: Cities and Counties

Description: Established by local ordinance, developer exactions, which are similar to system development charges, are cash or in-kind payments made by real estate developers to a local government to help defray some or all of the added public infrastructure costs resulting from a particular development. Developer exactions differ from SDCs, however, as they are negotiated on a project-by-project basis and vary as to the amounts collected, the timing of payment collections, and the uses of funds.

Exactions are most common among smaller communities which lack adequate SDCs or other revenue sources. Exactions are also used in combination with SDCs in areas that face rapid growth and the consequent strain on public facilities. Exactions can come in the form of a dedication of land for park facilities and open space, road construction, or construction of sewer and water facilities needed to serve new residential development.

Obstacles

Only a few interviewed jurisdictions used off-site exactions. Several interviewees were unfamiliar with the term or concept.

Remedies

Provide statutory or other clarification of "exactions" and their permitted uses.

OTHER LOCAL REVENUE SOURCES

Transfers from the State of Oregon

- o **Gasoline Taxes.** ORS Chapter 319. The state of Oregon currently collects an 18-cent per gallon tax on gasoline (20 cents beginning January 1, 1991), 24.4% of which is currently shared with counties and 15.6% of which is distributed to cities. Additionally, vehicle registration fees collected by the state under ORS 803.420 are also shared with cities and counties under the same distribution formula.

Article IX, Section 3a., of the Oregon Constitution requires these gas tax revenues be spent for highway and road construction, improvements and maintenance.

- o **Cigarette Taxes.** ORS Chapter 323. The state currently collects a 28-cent per pack tax on cigarettes and tobacco products, and distributes about 15% of the proceeds to cities and counties (ORS 323.455).
- o **Liquor Taxes.** ORS Chapter 473. The state also collects taxes on alcohol. The amount of tax imposed varies with the type of beverage. Approximately 45% of state liquor taxes are distributed to cities and counties (ORS 471.810).

Franchise Fees and Privilege Taxes

- o **Franchise Fees and Privilege Taxes.** Under ORS 221.420, 221.450, and 221.515, cities have the authority to impose franchise fees and privilege taxes on a percentage of operating revenues on electric and natural gas utilities, telephone companies, and cable television franchises.

These general fund revenues are collected by cities in compensation for the use of city streets and rights of way. Additionally, under ORS 459.700 cities and counties are authorized to collect franchise fees from refuse collection and disposal companies.

Timber Revenues

- o US Forest Service Timber Revenues. Thirty-one counties in Oregon and the schools within those counties receive revenues from the US Forest Service timber sales. The revenue amount is approximately 25% of gross sales. Counties receive a 75% share which must be used for road purposes and schools receive 25%.
- o O & C Lands (former Oregon California Railroad land). This timber-related revenue source is distributed to 17 counties in the state and serves as the principal source of general operating funds for several counties in southern Oregon. Counties receive roughly 50% of the revenues generated from timber sales on O & C lands.

Payments In Lieu of Ad Valorem Taxes

The following individuals and entities are required by state statute to make payments to local jurisdictions in lieu of paying ad valorem (property) taxes.

- o Private Timber Owners - Timber Severance Taxes. ORS 321.257, 321.405, 321,590. Private owners of timber do not pay property taxes and instead pay a severance tax based on the stumpage value of the timber at the time it is harvested. Western Oregon timber is currently taxed at a rate of 6.5% and Eastern Oregon timber at 5.0%.
- o Publicly Owned Electric Utility and Cooperatives Tax. ORS 308.805.
- o Operators of Leased Port Property. ORS 307,120(2).
- o Operators of Rural Telephone Exchanges. ORS 308.705.

GRANTS

Description: For Oregon's municipalities, the least expensive sources of funds are direct grants from both the federal and state governments. On the federal level Community Development Block Grants, the Farmers Home Administration's grant program, the US Department of Transportation, and the grant programs

administered by the Economic Development Administration have historically provided assistance for local infrastructure development. Caution is generally exercised, however, when looking at federal grants for infrastructure projects as the amounts and sources of available funds continue to dwindle under on-going federal cut-backs.

The state of Oregon Economic Development Department offers grants and loans utilizing state lottery funds in their Special Public Works Fund (ORS 284.310 - 284.530). The Oregon Departments of Energy, Environmental Quality, and Water Resources also offer assistance programs to local governments.

Obstacles

Lack of resources by granting entities, especially the federal government and the state.

Interviewees report that preparation of the application can be costly and the ongoing monitoring a significant annual expense not covered by the grant.

Grants can create incentives to become "needy."

Remedies

Identify and collect additional state-wide revenue sources and then grant them to small entities.

The state should provide more financial and technical assistance with the up-front and on-going costs of projects.

There are a wide variety of revenue sources that local governments in Oregon can use to fund infrastructure. The most widely used resources are property taxes and specially authorized levies, fees and charges on users and new development, other state and local taxes, and grants and loans from the state and federal governments. Table 1 provided at the end the next section summarizes the funding sources and applications described above.

In the following section, the report turns its attention to local government infrastructure financing. In particular, debt financing techniques as well as other financing mechanisms will be covered in detail.

FINANCING MECHANISMS

Most local infrastructure project funding is provided by two primary financing techniques:

- Direct pay-as-you-go funding. This involves using current fiscal year resources such as property taxes, special assessments, user fees, developer exactions, other local revenues, and state and federal grants or accumulated reserves. One longer term approach is a "serial levy" which is a voter-approved multi-year annual levy of property taxes for a specific purpose.
- Debt financing. This requires local governments to tap credit markets and raise funds through the issuance of debt obligations. These obligations are then repaid over time from local government taxes and revenues.

In some cases a local infrastructure project may be funded by combining pay-as-you-go resources with the issuance of debt.

A third financing mechanisms of infrastructure development is:

- Privatization. A local government may enter into an agreement with a private sector entity to develop a facility and then lease it back. Along with leasing, privatization may also include a service contract with a private entity for operations and /or service delivery.

FINANCING MECHANISMS

This section focuses on the use of financing tools, primarily debt financing (municipal bonds) available to Oregon's local jurisdictions for infrastructure development. The section will first briefly cover pay-as-you-go financing and then extensively examine debt financing. The section will conclude with a brief description of privatization techniques.

PAY-AS-YOU-GO FINANCING

Description: This involves using current fiscal year resources such as property taxes, special assessments, user fees, developer exactions, other local revenues, and state and federal grants to fund infrastructure projects. One longer term approach is a "serial levy" which is a voter-approved multi-year annual levy of property taxes for a specific purpose.

With pay-as-you-go resources, the amount of funding is determined by the amount of revenues collected during a given year.

Obstacles

It is difficult to find ongoing revenue sources that are not already being used for operations. Several interviewed jurisdictions reported that they could not finance ongoing maintenance costs.

Most major infrastructure projects require large sums at the time of construction, far exceeding the funds available in any given year.

Remedies

If additional funds are available, they can be used for ongoing maintenance or phasable projects, thereby reducing the capital needs requiring debt issuance (eliminating issuance costs and interest costs).

SERIAL LEVIES FOR CAPITAL CONSTRUCTION

Legal Authorization: ORS 280.040 - 280.140

Jurisdictions Authorized: Cities, Counties, County Service Districts, School Districts, Metropolitan Service Districts, Special Districts empowered to levy property taxes.

Description: A municipality may temporarily levy taxes annually, after voter approval, for the purpose of financing the cost of any service, project, property or equipment which the municipality has the statutory power to construct or acquire. If the levy *amount* is substantially the same every year, the taxes may be levied up to five years for funding operations and 10 years for any other purpose such as capital construction. If the *tax rate* is the same, the levy may not exceed three years (ORS 280.060).

For infrastructure development, there is no interest cost to this form of financing. However, the cost of projects will increase according to the prevailing inflation rate. Funds may be accumulated until sufficient amounts are available for construction and may be invested with no federal limitations (they are subject to the investment restrictions of state law). Serial levies are not generally used for large infrastructure projects, such as a water treatment plant, although such a levy could be a feasible method of financing smaller projects or portions of general maintenance or replacement (such as for roads). The cash flow requirements for large capital projects tend to make serial levies an unattractive way to finance major facilities.

Obstacles

Now limited by Measure 5. Serial levies are subject to the maximum tax collection limits for schools and local government.

Voter approval is required.

Usually the annual sum is insufficient for a major capital project. This is more appropriate for ongoing annual maintenance or phaseable projects.

Remedies

Permit issuance for longer time periods. This is not a universal concern. One interviewee preferred serial levies over bonds because the term is necessarily shorter.

Authorize issuing debt to be retired by a serial levy, without the debt requiring a further vote. (May be possible under current law, but clear authority would be better.)

Maintenance is an important aspect of future capital cost reduction. Current law permits serial levies up to five years only for operational purposes. Clarify the use for maintenance and extend the term.

DEBT FINANCING

Infrastructure *debt financing* is distinguished from *pay-as-you-go funding* in that, with the former, money is borrowed by issuing debt obligations and then repaid over time.

Tax-exempt or Taxable ?

The municipal bonds described in this section can either be tax-exempt or taxable. The interest on tax-exempt Oregon municipal bonds is exempt from federal and Oregon state income taxation; therefore interest rates paid by the municipal issuer are lower than what is paid on taxable bonds. This can result in substantial cost savings for local jurisdictions undertaking infrastructure development.

In general, federal law specifies that projects which serve a "public purpose" qualify for the lower-cost tax-exempt financing. Since most local infrastructure projects, such as streets, sewer, water, and schools serve a "public purpose," they qualify for the more appealing tax-exempt option.

The taxable bond option exists for an issuer if, for some reason, the infrastructure project under consideration cannot be financed with tax-exempt debt. This is most common where the project is deemed to be "private purpose" under federal arbitrage law and is not an "exempt purpose."

The market for taxable municipal debt has generally been more responsive to large issues and recognized municipal issuers. Moreover, the interest rate on taxable municipal bonds generally ranges from 200 to 300 basis points (2% to 3%) above tax-exempt rates.

GENERAL OBLIGATION BONDS

Legal Authorization: ORS Chapter 287. Also see the statutory sections for the various types of local governments; also see their charters and ordinances.

Jurisdictions Authorized: Includes Cities, Counties, County Service Districts, Metropolitan Service Districts, School Districts and Special Districts

Description: Commonly used for infrastructure development in Oregon, General Obligation Bonds (GOs) are a long-term borrowing backed by the "full faith and credit" pledge of the municipality's available general fund revenues and unlimited taxing power. Because these GOs have the unlimited taxing pledge of the municipal issuer they are also referred to as Unlimited Tax General Obligation Bonds.

There are two primary types of General Obligation Bonds:

- o GO Bonds **paid solely from property taxes.** Levies for bonded debt are not subject to the six-percent tax base limitation under Article XI, Section 11, of the Oregon Constitution.
- o GO Bonds **paid from another revenue source,** such as sewer fees (often called "double barreled" or "self-supporting" GO Bonds), but provide the general obligation taxing power of the issuer as security if the revenues are not sufficient to retire the bonds.

General Obligation Bonds have been used to fund a variety of infrastructure needs, and have been relied on almost exclusively by small and medium sized issuers lacking a strong revenue base to back Revenue Bonds. The full faith and credit pledge helps to achieve the lowest possible borrowing costs for municipalities.

Prior to the passage of Measure 5, some types of Unlimited Tax GOs, such as Bancroft Bonds, were not subject to voter approval. Now under Measure 5 all GOs must be voter approved.

State law limits the total amount of unlimited general obligation debt local governments can issue. Bonded debt is limited to the percentage total debt has of the jurisdiction's total true cash value. For example:

	GO Debt Limit (Percentage of True Cash Value)	ORS Reference
Cities	3.00%*	287.004
Counties	2.00%	287.054
County Service Districts	13.00%	451.545
Metropolitan Service Districts	10.00%	268.520
School Districts (each grade K-8)	0.05%	328.245
(each grade 9-12)	0.075%	328.245
Sanitary Districts	13.00%	450.120
Sanitary Authorities	As Approved by Voters	450.867
Water Districts (under 300 pop.)	2.50%	264.250
Water Districts (over 300 pop.)	10.00%	264.250
Peoples Utility Districts	2.50%	261.260
Port Districts	2.50%	777.410
Port of Portland	1.75%	778.030

* Bonds for a variety of capital improvements are exempted from this limit. They include water, sanitary and storm sewers, sewage disposal plants and off-street parking facilities.

Advantages of Unlimited Tax General Obligation Bonds include:

- o The overall costs to issue are the least of any type of bond.
- o The interest cost is the least of any type of bond.
- o Property taxes can be levied outside a municipality's operating levy to pay debt service.
- o Under Measure 5 they are exempted from the limits if they finance projects which are "capital construction or improvements." However, this is a more narrow authority for GO debt issuance than under previous law.

Disadvantages of Unlimited Tax General Obligation Bonds include:

- o Voter approval is required.
- o General obligation debt which applies to the jurisdiction's debt limit is increased.

Limited Tax General Obligation Bonds

Description: Limited Tax General Obligation Bonds (LTGOs) are the same as Unlimited Tax General Obligation Bonds except the issuer does not have the legal ability to levy unlimited taxes as a pledge of security. Rather the bonds are secured by available general fund revenues and whatever existing taxing power a jurisdiction has (such as any unlevied tax base amounts).

With the passage of Measure 5 Limited Tax GOs require voter approval. Previously, voter approval was not required.

LTGOs are perceived to have a higher risk and therefore will carry a higher interest rate than full GOs. The magnitude of this difference in interest rates depends on the financial condition of the issuer.

Most Certificates of Participation issued in Oregon are a form of LTGO.

Bancroft Bonds

Description: Bancroft Bonds (ORS 223.205) are a type of self-supporting General Obligation Bond used to finance local improvements such as streets, sewer, water and storm drainage as specified in ORS 223.387. The bonds are payable primarily from special assessments upon property owners who benefit from the project. Assessed property owners may apply to repay their assessments in installments over a period of not more than 30 years.

Bancroft Bonds have separate debt limitations from Unlimited Tax GOs.

Prior to Measure 5, Bancroft Bonds were not subject to voter approval. The assessments instead had to be approved by a percentage of the assessed owners and were subject to a remonstrance period. Measure 5 states all GO issues are subject to voter approval.

Bancroft Bonds are not considered to be appropriate instruments to finance general service projects, such as sewer treatment plants, because the "benefit" allocation to "benefitted parties" cannot be identified separately from the overall benefit to the community.

As a result of legislation passed in 1989, issuers of Bancroft Bonds can also sell the assessment contracts of the property owners and use the sale proceeds to pay off the bonds (ORS 223.262). This financing technique transfers the risks associated with delinquency and foreclosure to the contract purchaser.

Obstacles

Measure 5 exempts from its limitations only GO Bonds used for capital improvements and construction.

Measure 5 eliminates Bancroft Bonds and Limited Tax GOs without voter approval as well as GO Bonds authorized by local charter but not specifically approved by the voters.

Even GOs fully supported by revenues which are not "taxes" cannot be issued for other than capital construction and improvements.

Voters tend to assume GO Bonds are always paid from taxes and therefore may vote down bonds which are actually fully self-supporting from revenues.

Very small or poor jurisdictions may have insufficient debt capacity (derived from statutory debt limitations) for certain types of projects. Utility GOs (such as for water and sewer purposes) are exempted from limitations, as are Bancroft Bonds (which have their own limitation), but police/fire stations, parks, open spaces, recreational facilities, libraries, etc., are subject to the limitation.

Remedies

In light of Measure 5, obtain a legislative or court definition of what is contained in "capital construction and improvements", especially:

- o land,
- o equipment necessary to the functioning of the facility,
- o equipment normally a part of a similar facility,
- o easements.

Increase debt limitations or exemptions from limitations for essential health and safety infrastructure projects. Provide some means by which to waive the limitation if there is sufficient cause (perhaps by State Treasurer or the Municipal Debt Advisory Commission).

Expressly authorize issuance of limited General Obligation Bonds by all jurisdictions.

Provide a certain level of issuance of LTGOs without voter approval (state of Washington permits up to 3/4 of 1% of true cash value LTGOs outstanding at any time without a vote).

REVENUE BONDS

Legal Authorization:

ORS 288.805 Uniform Revenue Bond Act

Specific statutes, such as for PUDs

"Special Fund Doctrine"

Jurisdictions Authorized: Includes Cities, Counties, County Service Districts, Metropolitan Service Districts, and Special Districts as authorized by statute.

Description: Revenue Bonds are long-term obligations that are payable solely from a designated source of revenue generated by the project which was financed. No taxing power or general fund pledge is provided as security. Unlike General Obligation Bonds, Revenue Bonds are not subject to a jurisdiction's statutory debt limitation nor is voter approval required unless, for those issued under the Revenue Bond Act, sufficient signatures are collected during the 90-day notice period to require an election.

Voter approval of Revenue Bonds is not required by Measure 5.

The interest rate paid on Revenue Bonds reflects the quality of the revenue stream supporting repayment of the bonds. Revenue Bonds have been used to fund projects such as water, sewer and storm drainage facilities and improvements, and revenue-producing facilities such as electric facilities.

To enhance the marketability of Revenue Bonds, issuers typically establish debt reserves and agree to maintain rates and charges at levels that are more than sufficient to meet all operating and debt service requirements. Because of the limited security offered to bond holders, Revenue Bonds usually carry a higher rate of interest than that which is paid on General Obligation Bonds.

Advantages of Revenue Bonds:

- o Voter approval is generally not required.
- o Property taxes may not be used to pay debt service nor is there any risk to the general fund of a municipality.

Disadvantages of Revenue Bonds:

- o Interest rates can be substantially higher than General Obligation Bonds.
- o There is a greater risk of default, which would seriously impair a local government's ability to issue any type of bonds in the future.
- o Due to the higher risk, there are many more bond "covenants" and other restrictions upon the use of revenues which secure the bonds and upon operation of the facility.
- o The dollar amount of the bonds that can be issued under a set amount of revenues will be substantially less than GO Bonds due to the need to provide "coverage." This means that the revenue stream pledged to pay debt service (principal and interest) will exceed the debt service by some specified amount. For example, a 1.5 times coverage ratio means the projected revenue collected annually will be 150% greater than what is needed to pay debt service on the bonds.
- o The overall costs to issue are usually substantially higher than for General Obligation Bonds.

Obstacles

Usually the most risky of debt financings and therefore require additional security and costs:

- o Reserve funds,
- o Higher interest and issuance costs,
- o Rate coverage,
- o Covenants, including insurance and limitations on use and sale,
- o Sometimes, security interest or lien on land and facility,

Revenue Bond Act applies to revenue producing facilities only. Projects which are not revenue producing (and are not to be financed by General Obligation Bonds for whatever reason) do not have clear financing authorizations. Generally these projects are financed by either "Special Fund Revenue Bonds" or Certificates of Participation (see below).

Small municipalities report lack of market receptivity for their Revenue Bond issues without extensive security. Only a few have even attempted to sell them.

Remedies

State provides enhancements. (See the section of this report state assistance in local government infrastructure finance in Oregon.)

Clarify authority for Special Fund Revenue Bonds for all jurisdictions.

Assist in authorizing or defining revenue sources which will not fall with the property "taxes" category of Measure 5.

Measure 5 restricts "incurred charges" to actual cost of services. User fees which are related to property use or ownership would therefore be included in the \$10 limitation unless the owner controls or avoids (or requests) the service. Jurisdictions should redefine their user fees to exclude reliance on property ownership.

The legislature or courts could assist in establishing the basis to prove request of service so the jurisdictions could rely upon this basis.

The legislature or courts could also assist by defining "actual cost of service."

Enterprise Revenue Bonds

Description: This is the standard Revenue Bond, which is secured and paid by an identified revenue stream and is issued under the provisions of the Revenue Bond Act or under specific statutory authorization.

Special Fund Revenue Bonds

Description: These Revenue Bonds can be issued under the "Special Fund Doctrine" and are not subject to the Revenue Bond Act. A special fund is established into which revenues from any source can be placed for payments of the bonds. Security and payments on the bonds are limited to the contents of the fund, rather than the pledge of a specific revenue source.

Special Assessment Bonds

Legal Authorization: ORS 223.785

Description: Special Assessment Bonds are secured by assessments made against properties that benefit from local infrastructure improvements. ORS 223.387 specifies the types of improvements eligible for Special Assessment Bonds. Special Assessment Bonds are similar to Bancroft Bonds but lack the general obligation security (the ability to levy a property tax as security on the debt). Because Special Assessment Bonds are not secured by a general obligation pledge, they are less marketable than Bancroft Bonds and carry a higher interest rate.

In addition, because of the lack of property tax support, Special Assessment bond interest rates may vary by bond issue, based on the property values that serve to secure the bonds. Large reserve funds are often required to secure the bonds.

Lease Rental Revenue Bonds

Description: This financing technique involves a jurisdiction leasing a facility from a governmental "authority" that has issued debt for the facility's construction. The annual lease payments from the jurisdiction match the debt service due on the bonds. The lease operates as long as the bonds are outstanding. The jurisdiction may have the option to purchase the facility at any time by paying an amount sufficient to pay the principal and interest on the bonds. The Portland Public Service Building was financed using a lease rental Revenue Bond known as a "63-20" bond.

The jurisdiction may opt to back its lease payments with its general fund. Since the leasing authority of most municipalities is subject to annual appropriation, these bonds would then risk "non-appropriation" by the governing body.

Industrial Development Revenue Bonds

These bonds are issued on behalf of private entities in order to achieve some public purpose, such as pollution control, economic development, etc. Extensive abuse forced Congress to severely restrict the use of this type of bonding.

CERTIFICATES OF PARTICIPATION (LEASE PURCHASE BONDS)

Legal Authorization: See below.

Jurisdictions Authorized: Includes:

Cities	ORS Chapter 271.390
Counties	ORS Chapter 271.390
Metropolitan Service Districts	ORS Chapter 268.317
School Districts	ORS Chapter 332.155
Special Districts	ORS Chapter 279.101
Mass Transit Districts	ORS Chapter 267.325

Description: Certificates of Participation (COPs) are a financing technique for facilities, property and equipment which utilizes the leasing power of local governments. Unlike General Obligation Bonds, there is no new tax levy authorized; therefore, there is no voter approval requirement. COPs are also not subject to statutory debt limits.

In general, Certificates of Participation represent "participation" in a tax-exempt lease, which is an agreement between a municipal government and a governmental agency, authority or commercial bank trust department. If a governmental authority is used, the authority performs the initial financing, and the municipality retires and secures the debt through lease payments. If a commercial bank trust department is used, the municipality performs the initial financing and then assigns the ownership of the facility to the trustee to whom the municipality makes the lease payments. Revenues to pay the COPs can come from a number of sources depending on the type of project financed. For example, COPs issued to finance a community facility or convention center may be paid back from the revenues generated by the facility that are not needed for operations, and special taxes such as hotel/motel taxes or business license fees.

If the general fund of a local government is used to further secure COPs, then a "non-appropriation" provision is used relating solely to the general fund support. A non-appropriation clause provides that a local government can only appropriate money from the general fund to repay COPs on an annual basis and has the legal authority to

withhold payment if the governing body so chooses. This security provides the issuer the authority to use the General Fund if it is unable to pay from the pledged revenues, but only if the governing body sitting at the time chooses to do so.

By using a "special fund" pledge, a local government can commit the pledged revenues in the same manner as Special Fund Revenue Bonds. It is a commitment of revenues for the term of the financing and would not require a "non-appropriation clause." This type of financing is structurally a lease and therefore is not subject to the General Obligation or Revenue Bond Act provisions.

In both cases the local government owns the project financed by the COPs when they are retired, thus the name Lease Purchase Bonds.

Bond counsel has typically rejected COPs as a financing instrument for major distribution infrastructure projects such as for water and sewer systems. Municipal buildings such as city halls, public service buildings, fire or police stations are better suited to COPs because they conform to the leasing concept.

Advantages of Certificates of Participation:

- o No voter approval is required.
- o General fund revenues that are not otherwise obligated can be used to pay debt service if needed, especially if the projections of special taxes or revenues are overly optimistic. This is at the option of the governing body in charge when the need arises, and therefore is not a legally binding commitment.

Disadvantages of Certificates of Participation:

- o A non-appropriation clause is required for the general fund support, which carries an interest rate penalty.
- o The overall costs to issue are more than General Obligation Bonds.
- o The interest cost is more than General Obligation Bonds.
- o The types of infrastructure projects which can be financed with COPs is limited because of the leasing concept.

Obstacles

These generally require non-appropriation clauses which incur market penalties for the risk of a jurisdiction "walking" on the lease.

A security interest is usually provided where possible. The ability to transfer or assign ownership of public property may be unclear or cumbersome.

Since COPs are structured in a similar manner to LTGOs, in that they are often secured by the unrestricted funds of the issuer, they will be subject to the same limitations on available revenues under Measure 5.

Remedies

Legislate authority to enter into long-term leases without voter approval and to eliminate the non-appropriation requirement. Washington permits issuance of up to 3/4 of 1% of true cash value without voter approval. These obtain the LTGO security of the issuer.

Clarify ability to transfer ownership as needed for lease purchase purposes.

Permit the use of a non-substitution clause where it would further enhance the issue.

TAX INCREMENT BONDS

Legal Authorization: ORS Chapter 457

Jurisdictions Authorized: Cities and Counties

Description: This type of debt security is secured by the growth in property tax revenues that result from urban renewal districts. The bonds can be used to finance infrastructure improvements within an urban renewal district established by a city's or county's urban renewal agency.

The necessary growth in assessed value is not guaranteed. Consequently, Tax Increment Bonds are often riskier than Revenue Bonds secured by a more dependable revenue stream, and thus require higher interest rates in order to attract investors.

For "Obstacles and Remedies" see discussion on Tax Increment (Urban Renewal Districts) discussed earlier in this report.

TAXABLE BONDS, OF ANY TYPE

Taxable bonds can be issued for any purpose and be of any type listed earlier. The taxable bond option exists for an issuer if, for some reason, the infrastructure project under consideration cannot be financed with tax-exempt debt. This is most common where the project is deemed to be "private purpose" under federal arbitrage law and is not an "exempt purpose."

Obstacles

With the loss of the tax exemption on interest, the interest cost is substantially higher.

There is a relatively small market for taxable municipal bonds, especially of a small size.

Remedies

Permit exemption of taxable bond interest from Oregon income taxation, provided the bonds are for certain infrastructure purposes.

Well secured taxable municipal bonds are an excellent investment opportunity for jurisdictions. Permit investment in Oregon issued bonds (given certain restrictions on rating, size, type, security, etc.) by Oregon municipalities. The state may have to provide some secondary market assurances to provide the liquidity necessary to trade the bonds prior to maturity, or most bonds will be too long-term for investment.

SHORT-TERM DEBT FINANCING OPTIONS

Legal Authorization: ORS 287.435, 287.522

Jurisdictions Authorized: Cities, Counties, Other Districts authorized to issue bonds for public improvements.

Description: Various types of tax-exempt notes, such as bond anticipation notes (BANs), revenue anticipation notes (RANs), tax anticipation notes (TANs) are issued in anticipation of, and secured by some other financing source. A local government may receive a commitment of state grant funds at a future time, and may consequently issue grant anticipation notes (GANs). In periods of market instability, issuing some form of anticipation notes allows an issuer to delay a long-term debt issue until the market climate is more favorable, thereby potentially saving on interest costs.

Obstacles

Short-term borrowing is generally available, but bank rates may be higher than tax-exempt rates if the borrower exceeds \$10 million in borrowings during the calendar year.

Remedies

Permit jurisdictions to borrow on the short term, for longer than one year, from other funds of the jurisdiction. For instance, a jurisdiction may have a large utility fund which could provide two year interim financing for a non-utility project at rates comparable to federal taxable rates, thereby saving issuance costs and flexible repayment terms.

PRIVATIZATION

This term is popular within the financial industry but has produced less favorable treatment in Congress, which has, for example, severely limited tax-exempt Industrial Development Revenue Bonds and Sale-leasebacks through the recent succession of tax reform acts.

Privatization of debt is a means to enable private taxable persons or corporations to realize tax benefits (investment tax credit, depreciation, business interest tax deductions, etc.) not available to public entities when financing public facilities. Presumably, the tax benefits would be sizable enough to lower the cost to the public body, exceeding the cost benefits of publicly issued tax-exempt financing. However, privatization is more commonly utilized not for cost savings, but for the purpose of:

- o avoiding the issuance of debt to finance facilities, even if the cost is greater;
or
- o sharing risk, especially on technologically or financially riskier enterprises such as a resource recovery or solid waste facility.

Types of privatization techniques include:

True Leases or Vendor Leases

Description: The private enterprise owns the facility and/or equipment and leases it to a public agency. The lease payment is usually set equal to the cost of paying for the facility or equipment plus a pre-determined rate of interest. The amount of the interest rate charged by the private body will be reflective of the riskiness of the project. A tax benefit to the private lessor with a lease arrangement is depreciation.

However, these leases are not installment sales contracts (as are Certificates of Participation and Lease Purchase Bonds) and therefore do not have a tax-exempt interest component. If the municipality wishes to purchase the leased asset at the end of the lease, it must pay full market value.

Other types of leasing arrangements are also available to local governments including leveraged leases, limited partnership leases and sale-leasebacks.

Service or Operating Contract

Description: In a true lease the public agency purchases the right to use a facility over a specified period of time. A service contract with the private entity simply pays the owner to manage and operate the facility. Private owners benefit from a service contract because they may be able to receive sizable tax benefits using Investment Tax Credits and accelerated depreciation.

Where the private entity constructs, owns and operates a facility leased by a public agency, the contract is usually referenced "full service."

Obstacles

Higher costs of capital for private entities entail higher costs for jurisdictions.

Remedies

Provide methods by which to lower front-end and/or capital costs for private financier. Some programs include tax abatement, land swaps or lease of public land, special utility or assessment rates, etc. Land swaps or leases may require liberalization of some laws relating to the lease or sale of public property.

Oregon's local governments can use many techniques to finance infrastructure development. Smaller projects may be financed using current revenues or funds accumulated in capital improvement funds. Larger projects usually require some form of debt financing such as General Obligation or Revenue Bonds. Several points were brought out where Measure 5 will have an impact on infrastructure financing in the state. However, the degree of Measure 5's impacts will at least partially depend upon future legislative and judicial interpretations of the measure.

Table 1 which follows summarizes the content of this section as well as the content of the previous section on revenue sources. Results of the 12 jurisdictions interviewed are provided in the Appendices.

SUMMARY TABLE: FUNDING AND FINANCING OPTIONS FOR MUNICIPAL INFRASTRUCTURE PROJECTS IN OREGON

PART 1 FUNDING SOURCES

FUNDING/FINANCING SOURCES	SOURCE OF REPAYMENT	ADVANTAGES	DISADVANTAGES
Property Taxes	By all non-exempt property owners.	Established taxation system.	Tax payment may not relate to benefits received. <i>Obstacles: Property taxes are subject to voter approval and can be politically unpopular, partly due to overuse.</i> <i>Remedies: Add legislative authority for other forms of taxes.</i>
Other Taxes (Hotel/Motel, Income, Sales, Etc.)	By all taxpayers. Who pays what tax depends on nature of tax – i.e., property, business income, hotel/motel, and gasoline taxes.	Reduces dependence upon property taxes.	Many taxes are dedicated purpose or raise relatively small amounts. <i>Obstacles: Voter resistance, where voter approval required. New collection systems and costs where new.</i> <i>Remedies: Provide statewide collection system and county-wide or regional use.</i>
Special Assessments (i.e., Local Improvement Districts)	By assessed property owners at time of construction, or over time (10–20 years) to pay bond debt service.	Matches payments with benefits of project. Projects can be financed with Bancroft Bonds which can lower financing and interest costs.	Approval of a percentage of assessed owners required before can levy assessment. <i>Obstacles: Not permitted for “community – wide” projects such as a water treatment facility. Assessed property owners may resist.</i> <i>Remedies: Legislate approval for use on community – wide projects.</i> <i>Incorporate statutory language from other states where more permissive such as Mello Roos in California.</i>
Tax Increment (Urban Renewal Districts)	Urban Renewal Agency retains property tax revenues collected above the “frozen” assessed value base. Revenues can be collected over time to pay bond debt service.	Can be used to remedy “blighted” conditions which exist within a specified area of a community.	Revenues collect must be spent within district. Impacts other districts. <i>Obstacles: Can only be used in areas which qualify as “blighted.”</i> <i>Concerns that is not used solely to generate otherwise inaccessible growth.</i> <i>Remedies: Further clarify blighted areas. Amend statutes to address growth management concerns.</i> <i>Limit term over which can exist.</i>

SUMMARY TABLE: FUNDING AND FINANCING OPTIONS FOR MUNICIPAL INFRASTRUCTURE PROJECTS IN OREGON

FUNDING/FINANCING SOURCES	SOURCE OF REPAYMENT	ADVANTAGES	DISADVANTAGES
User Fees	By rate payers.	Improvements and facilities are paid by those who specially benefit.	Revenue stream may be insufficient to fund large projects. Rate increases to support project development may be politically unpopular. <i>Obstacles: generally few other than rate payer resistance. If fees too high, can adversely impact demand for service.</i>
System Development Charges, Exactions, Impact Fees	By developers and/or customers	Requires developers and new customers to pay for impacts and infrastructure expansion resulting from new development.	Ineffective funding/financing source for areas with little or no new development. The imposition of such fees and charges can be politically unpopular. Developers resist. Revenues can fluctuate greatly from year to year. <i>Obstacles: Developer resistance and ability to pay. Recessions affect. Adverse effect on competition if neighbor does not have.</i> <i>Remedies: Adopt county-wide fees to reduce competitive disadvantages to those who use fees.</i>
Grants	No repayment needed	Free source of funds. Depending on the nature of the grant, funds may be available to address unmet community infrastructure needs.	Grants are becoming increasingly scarce and may not suit needs. <i>Obstacles: Applications may be costly with no guarantee of receiving funds. Ongoing monitoring to meet grant conditions may be expensive.</i> <i>Remedies: provide assistance with application expenses.</i>

SUMMARY TABLE: FUNDING AND FINANCING OPTIONS FOR MUNICIPAL INFRASTRUCTURE PROJECTS IN OREGON

PART 2 FINANCING OPTIONS

FUNDING/FINANCING SOURCES	SOURCE OF REPAYMENT	ADVANTAGES	DISADVANTAGES
Pay-as-you-go		Funds available immediately. Preserves borrowing capacity and saves interest costs.	Annual funds may be insufficient for infrastructure development. <i>Obstacles: Competing operational demands for ongoing revenue sources.</i>
Serial Levies for Capital Construction (Property Tax Levy)	All property tax payers.	Same as above. Serial targeted for a specified infrastructure project(s) and can be imposed outside a municipality's six-percent tax base limitation.	<i>Obstacles: Annual levy may be insufficient for large capital projects. Voter approval required. Remedies: Legislate authority for debt paid from serial levy only. Provide longer term for levy.</i>
Tax Exempt General Obligation Bonds: Tax or Self-Supporting; Unlimited and Limited Tax (including Bancroft Bonds)	Repayment ranges from 10-30 years; by property tax payers if tax supported and by revenues generated by project financed if self-supported. The issuer's General Obligation taxing power serves as security on self-supporting GO bonds.	Commonly accepted form of financing. Unlimited GO's have the lowest issuing and interest cost of any type of bond. Property taxes can be levied outside of local tax base limits. Closely ties payments with benefits received, particularly Bancroft Bonds.	Voter approval is required for unlimited GO's. Debt may apply to a jurisdiction's debt limit. Interest costs are higher for limited GO's. Bancroft Bonds are not permitted for community-wide projects. <i>Obstacles: Voter perception of GOs as always paid from taxes, even if self-supporting. Debt limits generally not a problem since many types exempt. Remedies: Legislate clear authority for limited tax GOs (like Washington which permits "Councilmanic" LTGO's to be issued up to 3/4 of 1% of TCV without a vote.)</i>
Revenue Bonds (Tax Exempt) includes: Enterprise, Special Fund, Special Assessment, and Lease Rental Revenue Bonds	Paid over time from revenues generated by project financed. "Special Fund" Revenue Bonds can include non-project related revenues.	Ties payment to benefits received. Voter approval is generally not required, unless by petition. Property taxes may not be used to pay debt service nor is there risk to a jurisdiction's general fund.	Interest rates and the costs of issuance can be substantially higher than General Obligation Bonds. Risk of default is greater. More bond "covenants" are required including coverage ratios which decrease the amount of bonds that can be issued. <i>Obstacles: Higher costs and covenants. Remedies: Further clarify legislative authority for "Special Fund" Revenue Bonds and for new revenue sources.</i>

SUMMARY TABLE: FUNDING AND FINANCING OPTIONS FOR MUNICIPAL INFRASTRUCTURE PROJECTS IN OREGON

FUNDING/FINANCING SOURCES	SOURCE OF REPAYMENT	ADVANTAGES	DISADVANTAGES
Certificates of Participation (Tax Exempt)	Depends on type of project financed. Can be various tax sources (i.e., property, hotel/motel taxes) and/or revenues generated by project or "special fund" revenues. COPs can be issued as Limited Tax GOs.	Takes advantage of leasing power of local governments. No voter approval is generally required. General funds revenues can be used to pay debt service, if needed.	Interest rates are generally higher than GO bonds. Types of projects which can be financed are limited because of leasing concept. A non-appropriation clause is required for general fund support, which carries an interest rate penalty. <i>Obstacles: Non-appropriation is costly to COP issuance.</i> <i>Remedies: Legislate authority to issue without non-appropriation clause. Washington permits issuance of 3/4 of 1% (additional to LTGO) TCV with LTGO security for term of COPs.</i>
Tax Increment Bonds (Tax Exempt)	Over time by taxpayers with Urban Renewal District	Ties payment to benefit received with Urban Renewal District. Urban Renewal Agency collects property tax revenues in excess of "frozen" assessed value base.	Revenue stream dependent upon growth in assessed value within the district. Tax increment bonds can be riskier than other forms of bonds, therefore can have higher interest rates.
Taxable Bonds – Can be used for all types of bonds described above	Same as other bonds, depending on type and structure of bond.	Can be viable tool for infrastructure projects which otherwise do not qualify for tax exempt financing status under Federal law. Other advantages depend upon type of bonds.	Interest rates higher due to absence of tax-exempt status. Other disadvantages same as described above. <i>Obstacles: Higher cost.</i> <i>Remedies: Permit exemption from Oregon income taxes if for Oregon infrastructure.</i>
Privatization (i.e., Industrial Development Revenue Bonds, Leases, Service or Operating Contracts)	By private investors, taxpayers, and/or project owners.	Local government can avoid issuing debt to finance facilities, even if cost is greater. The risk of the project is shared with private investors.	The types of public/private infrastructure projects which are economically feasible is limited, partly due to changes in Federal law. <i>Obstacles: Federal law. Also state laws affecting treatment of public property.</i> <i>Remedies: Find ways to lower the private front-end costs (e.g. tax abatement programs, land leases, or swaps, etc.). Legislate greater authority to trade, lease, or sell public property.</i>

EFFECTS OF MEASURE 5

Measure 5 (see Appendix 5 for wording of Measure 5) approved by the voters on November 6, 1990, will have many impacts on local government finances, but this section is only concerned with how it affects the ability to fund infrastructure. It must be emphasized that there is very little certainty about the impacts of this measure because of differences in opinion about the interpretation of certain key phrases as well as uncertainty about how either the state or the local governments will respond. In particular, many sources of funds might at first be included within the scope of the ballot measure, but it may be possible to take them outside of the Measure 5 limits by changing the wording of the authorizing ordinance or by changing the use of the revenue.

Measure 5 explicitly exempts certain capital goods items from the limits on property taxes. It exempts charges for the cost of providing goods or services requested by an owner; assessments for capital construction which provides a special benefit and can be paid off over at least ten years; taxes to repay bonded debt authorized by the state constitution, taxes to repay existing bonded debt for capital construction, and taxes to repay new bonded debt for capital construction approved by the voters.

The focus on capital construction creates one of the first problems with respect to infrastructure finance. It is not clear that land would be eligible as part of the project cost exempted from the limits of Measure 5, and it is unlikely that equipment funding would also be exempted.

The ability to fund new infrastructure may be substantially affected by the measure since most governments either now or eventually will experience revenue limitations. In particular, the ability to use general obligation bonds will be impaired. Measure 5 allows for the use of property taxes to pay for bonded indebtedness associated with capital improvements, but each such issue must be approved by the voters. Hence, Bancroft bonds may also be severely restricted. Bonded debts are also likely to face lower ratings if they rely on any property taxes within the Measure 5 limits. This can result in higher interest costs to the user.

Perhaps a more telling concern is the possibility that local governments will find themselves both with less revenue and with reductions in state intergovernmental grants. The state provides a number of grants to local governments based on sharing of state revenues, and revenue which might otherwise be shared would possibly be diverted to other state programs in response to Measure 5. This would reduce further the amount available to local government.

Initially, some of the system development charges levied by local jurisdictions might be part of the taxes limited by the measure, since they are taxes which are associated with property ownership. This interpretation could conceivably be overcome in several ways. First, the amount levied could end up being declared not a tax subject to the limitation, although this appears unlikely. Second, the ordinance wording might be changed to make it a charge for providing service to property. Third, the system development charges might be treated as pledged revenue for the issuance of bonds. Hence, the money could be borrowed for the direct provision of the required infrastructure, and the charge revenue would then become a dedicated fee to pay off the outstanding bonds. Since, such revenue is levied for the payment of acceptable bonds, the measure seems to exempt them from the limit. However, systems development charges may not be viewed as a very reliable source of revenue for bond finance.

While the effects of Measure 5 will be much more severe for non-infrastructure finance, it has several likely effects on infrastructure. First, it would likely increase the use of general obligation and revenue bonds relative to other sources of funds. This occurs because some funding sources would fall under the Measure 5 limits while general obligation bonds for capital construction approved by voters would not. The authority to issue revenue bonds appears to be unaffected by the measure. Revenue to pay debt service and secure the bonds may, however, be restricted depending upon the nature of the revenue. Second, Measure 5 will substantially reduce the ability of local government to provide bond guarantees, especially for Bancroft bonds. Third, the limits on revenue will further curtail the already limited amount of general fund revenue going to infrastructure finance. Hence, while infrastructure finance is not likely to be the focus of discussion for this measure, the impact will still be substantial. Finally, because of the passage of Measure, 5 the demand for a state role in providing borrowing assistance to local governments is likely to be substantially increased.

OTHER REVENUE RAISING OPTIONS

Oregon's local governments use most of the infrastructure revenue raising mechanisms identified by other sources (Leithe and Joseph, 1990; Apogee Research, 1987; Porter et al., 1987; interviews with national professional organizations). These techniques include special districts, local improvement districts, tax increment financing (urban renewal) districts, exactions and impact fees, forming utilities for storm water management and streets, and private-public arrangements.

The reaction of California's local governments to Proposition 13 may illuminate the options available in Oregon under Measure 5, and are therefore summarized here. California cities, counties, special districts and school districts turned to the following funding sources and finance mechanisms for infrastructure after the passage of Proposition 13:

- greater use of user charges and systems development charges
- increased use of non-property taxes, such as local sales taxes
- more state aid for infrastructure, generally from the sale of state general obligation bonds
- greater use of public-private arrangements like certificates of participation and lease-revenue bonds
- more use of special assessment districts
- creation of Mello-Roos Community Facility Districts
- development of the Escondido plan of selling future access rights to public services

Many of these funding mechanisms are already used in Oregon, although often not to the extent used in California. The local options already in use were covered in the previous section. State aid is discussed in another report. The next section focuses on mechanisms not currently used in Oregon such as certain local taxes and some variations on special assessment districts. The following section examines the possible greater use of special assessment districts and storm water and street utilities.

MECHANISMS NOT USED IN OREGON

The extensive use of non-property tax sources of revenue for infrastructure development in Oregon leaves few other options to consider. Some funding sources in use elsewhere are local taxes dedicated to infrastructure development, the sale of access rights to sewage treatment plants, toll roads, and two variations of special assessment districts--transportation development districts and Mello-Roos Community Facility Districts. Other options, such as road congestion charges, are theoretically possible, but are not yet used in this country. Some of these methods may not be politically feasible in Oregon. Others may be restricted by Measure 5.

Tax Options

Municipalities across the country have lessened their dependence on property taxes by making greater use of fees and by using other types of taxes. This section focuses on tax options. The three main types of non-property taxes that local governments can adopt are sales, income, and excise taxes.

Nationally, local option sales taxes are second only to property taxes in the amount of revenue raised for local governments. Over 5,000 cities and 1,200 counties levy a local sales tax with rates usually between one and three percent. According to the 1986 Census of Governments, cities with a sales tax had average property tax rates of only 57 percent of those without a sales tax. Sales tax revenue may be dedicated to special purposes, such as building infrastructure, or go into the general fund. Levying taxes at the county or regional level and distributing a share to cities on a per-capita basis provides for efficient administration and reduces competition for retail activity. Most local sales taxes are collected along with a state sales tax.

Local income taxes are not as common as local sales taxes. They are used most often in larger Eastern cities where they provide a way for cities to tax workers who reside in the suburbs. Cities using an income tax generally rely on it more than on the property tax. However, when single jurisdictions adopt income taxes they may become less attractive to businesses and residents than nearby jurisdictions without income taxes.

Local excise taxes, or selected sales taxes, are more prevalent than local income taxes. Typical types are utility taxes, hotel-motel taxes, gas taxes, and "sin" taxes. Cities derive the most revenue from utility taxes while counties rely mainly on "sin" taxes. Oregon's cities and counties already use a number of these excise taxes, but rates here are often not as high as elsewhere. Consider the biggest revenue producer, the utility tax.

Oregon cities collect utility franchise fees or utility privilege taxes based on the principal of charging utilities a fee for use of the public right-of-way. Nationally, cities that use this tax raise about one-third as much revenue from utility taxes as from property taxes. Rates go as high as ten percent or more of utility gross receipts. But high rates are not always popular. Citizens in Pomona, California, recently put an initiative on the ballot to limit utility taxes which were at nine percent on residential use and eleven percent on commercial use. Although the initiative failed the city is considering reducing its rates and dedicating the tax to specific governmental functions.

Local governments can impose excise taxes on a variety of other transactions. For example, some cities and counties in Washington state collect a real estate transfer tax with proceeds dedicated to capital projects. But these taxes are usually costly to administer and produce only minor amounts of revenue.

Selling Access Rights

Escondido, California; Houston, Texas; and Upper Merion Township (King of Prussia area), Pennsylvania, have used the sale of access rights to finance sewage treatment plant construction. The charges are like impact fees paid in advance. Land owners and developers may buy guarantees that sewerage treatment will be available for their projects. Those who do not buy access rights may be denied service or will have to pay higher prices for access to the system. This prepayment of costs generates the funds to build the needed treatment facilities. The jurisdictions have different rules about whether the access rights can be sold on the open market or must be sold back to the jurisdiction if no longer wanted (Apogee Research, 1987).

Escondido used this method because the community was severely divided over growth, voters had rejected other alternatives, the state mandated upgrading of the existing plant, and the city was being sued for not providing services. It was a successful one-time-only finance method when no other options were available. Houston and Upper Merion County adopted sale of access rights because they were unable to accommodate additional growth without a new finance mechanism that did not burden current residents. Houston officials report that this is a successful way of raising revenue in a rapidly growing area. Recent state legislation requires that the sale of access rights be considered as impact fees and that no additional fees can be imposed on new development for sewer systems.

Toll roads

Toll roads, once a common form of financing in eastern states, are returning. A toll road is being built in Virginia from Dulles Airport to Leesburg, two are being discussed in Colorado, and the U.S. Department of Transportation is encouraging greater use of this mechanism. Toll roads are another way to charge users directly, but are not always acceptable to a society accustomed to "free ways" (U.S. Congress Office of Technology Assessment, 1980).

Transportation Development Districts

One concept growing in use is a package of state, local, and private funding for roads. These packages combine the traditional mix of state and local financing of roads with special assessment districts which raise money from those who most directly benefit from the improvements. New Jersey, Pennsylvania, Virginia, and Colorado have laws encouraging the formation of these districts in growth areas (Porter et al., 1987).

The districts are formed to provide public-private partnerships to pay for major road and interchange improvements necessitated by growth. For example, in New Jersey transportation development districts may be formed in rapidly growing areas with projected traffic growth of 50 percent or more in five years. Substantial commercial/retail development is required as they pay the bulk of the fees. New Jersey's fees are like impact fees. They are based on the amount of traffic a new development is expected to generate and they can only pay for additional capacity. Fees are collected when building permits are issued and must be spent on highway projects within ten years or they must be refunded (New Jersey Transportation Development District Act of 1989). The New Jersey program is too new for local governments to evaluate its usefulness. Developers supported the bill establishing Transportation Development Districts because it clarified the permissible fee structure.

The states have various formulas for apportioning aid to these project, but may give priority to projects with more local effort. The districts must work closely with the state department of transportation and the cities and counties where they are located.

Mello-Roos Community Facility Districts

California local governments have had another option, the Mello-Roos Community Facility District, since the passage of enabling legislation in 1982. These districts can be used for many purposes and take many forms.

Mello-Roos districts are formed by cities, counties, special districts, or school districts to provide certain services or levy special taxes to finance public facilities. They may be as small as a subdivision or as large as an entire city. They are frequently formed at the request of developers to finance infrastructure in new developments. Mello-Roos districts can provide police, fire, recreation, library, and storm water services. They can be used to finance parks, schools, libraries, any other governmental facility, and also the installation of gas, telephone, and electric utility lines. Use of Mello-Roos bonds has risen from one issue of \$8.5 million in 1983 to 58 issues totaling \$751 million in 1989. Although most often used for non-school purposes, school construction use has been increasing, and in 1989 about one-third of the bond issues were for school buildings.

Unlike regular assessment districts, Mello-Roos districts do not have to be contiguous and the assessments do not have to be based on benefits received. They do require a two-thirds vote of the affected residents if the area has twelve or more registered voters. If the district has fewer than twelve registered voters the land owners are the voters.

There is considerable flexibility in establishing the Mello-Roos tax rate and formula. Different rates may apply to residential and commercial properties, new and old residents, developed and undeveloped land. For example, the city of Belmont created the first city-wide Mello-Roos district in 1987 to finance a storm drainage system after a public outcry about a previously proposed system. Both *ad valorem* taxes and special assessment districts were rejected as means of financing the system because they did not meet politically acceptable criteria. With the Mello-Roos district, two levels of tax were adopted--a base rate paid by all landowners in the city and a supplemental rate paid by landowners directly benefiting from the system. Different types of land uses were assessed at different rates based on flood-related claims against the city.

Advantages of Mello-Roos districts include their flexible boundaries and assessment procedures and the tax-deductibility of assessments. However, the flexible assessment procedures may make it difficult to adopt the Mello-Roos concept in Oregon. A disadvantage is higher financing rates than regular assessments because land in the district is the only security.

Congestion Charges.

According to economic theory road users would make more efficient use of roads if they paid the full cost of road use. Under current pricing policies, a driver who uses roads at peak periods pays only the personal cost of going slower and not the social cost of slowing down everyone else. If drivers were charged for the congestion they cause, some would shift their trips to less costly driving times. Toll roads could readily collect congestion charges by having higher tolls during

peak periods. Collecting congestion charges without toll roads is technologically possible but fraught with administrative and political problems.

INCREASING USE OF EXISTING MECHANISMS

Some financing options in use in Oregon are used more extensively elsewhere and increased use is an option in Oregon. This section considers greater use of special assessments or local improvement districts and utilities for storm water management and streets. Both of these methods are allowed under Measure 5 under certain conditions.

Using Special Assessments for For New Development

While many jurisdictions in Oregon use special assessments by forming Local Improvement Districts (LID's), their use is often restricted to upgrading developed areas where they finance projects such as sewer installations or road improvements. Of the jurisdictions interviewed only Tualatin and Beaverton use LID's to help developers finance infrastructure in new developments. Other cities were leery of this use because some cities such as Springfield and Lincoln City have large debt payments because of defaulting LID's.

Tacoma, Washington, uses LID's to help developers finance the required infrastructure for their developments. Developers use LID's if they can obtain cheaper financing than they can obtain directly. But there is a major difference in LID bonding between Oregon and Washington. In Washington, the bonds are not backed by the full faith and credit of the jurisdiction. Instead the city maintains a guarantee fund equal to 15 percent of all outstanding debt. In Tacoma, general fund appropriations were used to set up this fund, but now investments and the sale of property which reverted to the city maintain the fund. The fund even generates a surplus for the city general fund.

Beaverton and Tualatin use LID's in a similar manner. They feel that land in their communities is worth enough to recover any of the LID's costs in the event of default. They also carefully consider the financial status of the developer. This suggests that the use of LID's for new development's infrastructure is only feasible in areas with high land values.

Using Special Assessments for Arterial Streets

Another potential use of special assessments is to help finance arterial street improvements necessitated by growth. The city of Bellevue, Washington, did this for 25 years but abandoned the procedure in 1990 because it had become too complicated and contentious. Theoretically, commercial land owners benefit from street improvements because the value of their property increases. Commercial property owners, however, complained that they received no direct, immediate benefits from the improvements they paid for and were beginning to refuse to form LID's. This left the city with priority street projects without the 50 percent of funds that traditionally had been generated by LID's. Bellevue now uses a variety of taxes and fees to finance street improvements, including a 1/2 cent local sales tax dedicated to capital improvements, an employee hours tax, impact fees, and the city's portions of the county vehicle registration charge and state gas tax.

This case study illustrates that using special assessments for major streets has problems. Creating transportation development districts, which were discussed earlier, may be one way to deal with some of the issues.

Storm Water and Street Utilities

Another concept that is gaining acceptance in Oregon is the storm water and street utility. Water and sewer departments were the first to be treated as utilities. Utilities are permanent organizations that operate and maintain specific public works and raise revenues from user charges. Utilities insulate public works from the uncertainties of general revenue budgeting, tie costs to benefits received, and sometimes collect fees from tax-exempt properties.

Fort Collins, Colorado, has had a storm water utility since 1981 and a street utility since 1984. Both charge new development a connection fee and all users a monthly use fee along with their water and sewer bills. Storm water charges are based on the amount of runoff expected and the cost of operating the utility in that drainage. Street utility fees are based on the amount of traffic a building generates and its street frontage (Apogee, 1987).

The next section includes a descriptions of the storm water utility charge of the Unified Sewerage Agency in Washington County and the street utility charge in Tualatin.

RAISING REVENUE FROM NEW DEVELOPMENT IN OREGON

Oregon's local governments use a variety of mechanisms to finance infrastructure needed because of growth. This section first describes several recently adopted mechanisms which raise funds for infrastructure from new development. Then the appropriate use of mechanisms is considered.

OREGON EXAMPLES OF NEW DEVELOPMENT CHARGES

Washington County's Traffic Impact Fee

In 1986 Washington County adopted a Traffic Impact Fee (TIF) to partially pay for the extra capacity needed on arterials and major collectors because of growth. The fee replaced previous county systems development charges and was collected only in the unincorporated areas of the county. In September 1990 Washington County voters approved a new ordinance providing for the uniform collection of TIF's throughout the county.

The fees charged depend on the type of new development and the number of trips it generates. Rates per weekday trip for each type of use are specified in the ordinance. These rates may increase up to 6 percent per year. The Institute of Traffic Engineers standards are used to determine the number of trips a use generates. For example the current fee for single family residences is \$1350 (\$135 times 10.0 average trips) and for business and commercial buildings is \$34 times the average number of weekday trips for the type and size of place.

In 1988 road impact fees in the United States ranged from \$130 to \$4,271 per single family house with a mean of \$946 and median of \$804 (Listokin, 1990, p. 112). Washington County's TIF is therefore slightly above average. Nonetheless the County estimates that the fee generates only about one-fourth of the revenue needed to add new transportation capacity because of growth.

TIF proceeds are used to fund off-site improvements on county and city roads and for transit capacity improvements. TIF money can be used only to add capacity, not to bring roads up to standards. Other funding sources must be used to solve existing needs. All revenue collected within any jurisdiction must be spent within that jurisdiction or on projects which directly benefit that jurisdiction. A base report lists the arterials and major collectors which are eligible for TIF funding and prioritizes projects on these streets within each jurisdiction.

The new TIF involves a high degree of city-county cooperation. Countywide application eliminates inequalities in payments based on jurisdiction, provided cities do not charge additional systems development charges for roads. Funds go to the jurisdiction in which they are collected.

Storm Sewer Utility Fees and Systems Development Charges

The Unified Sewerage Agency of Washington County assumed responsibility for surface water management in the Tualatin River Basin in July 1990 becoming the storm water as well as the sewer utility for that area. They are using service charges and connection fees to finance this function. In FY 90-91 they expect to collect \$3,540,000 in surface water service charges and \$950,000 in surface water connection fees.

Fees for individual properties are \$3.00 per Equivalent Service Unit (E.S.U.) per month where one E.S.U. is the average amount of impervious area of a single family home. All other developments, ranging from apartment buildings to Washington Square and the Hillsboro Airport, were assigned a number of E.S.U.'s by measuring their impervious area on aerial photos. New development pays a connection fee of \$375 per E.S.U. because they are adding to the load that must be served by storm sewers. Adjustments to the connection charge may be made for large developments depending on the drainage provided within the development.

Street Utility Fees

Several cities are now charging street utility fees along with water and sewer bills. Ashland has had a fee since 1986, Tualatin adopted one in 1990, and Medford is currently considering one. Tualatin's fee will raise about \$350,000 annually for preventive maintenance of streets and street lighting. Fees are based on the amount of traffic generated by each use using the Institute of Transportation Engineers standards. These standards consider type of use and size of building. Single family homes pay \$1.42 on their monthly utility bill while large traffic generators like fast food restaurants pay \$72.73 per 1000 square foot of space.

APPROPRIATE USE OF FINANCING TECHNIQUES

Using a variety of finance mechanisms does not, however, guarantee that new development is paying the right amount or that the best finance mechanisms are being used in each situation. There are no simple, clear-cut answers to what is best. This section will consider some of the issues, but cannot provide definitive answers.

Amount of Revenue Generated by New Development

Local government officials interviewed felt that growth was paying its own way with respect to infrastructure. Developers are required to provide the on-site infrastructure and pay hook-up charges, except for schools. When there are user charges for water, sewers, storm sewers, and streets, growth adds to the revenue stream. But in reality, new development may not be paying the full costs it generates especially when schools, parks, libraries, and police and fire stations are considered.

The Systems Development Charge Act of 1989 limits charges on new development for infrastructure to the cost of connecting to the system and providing additions to capacity needed because of growth. It is unlikely that any Oregon jurisdiction has systems development charges close to the total value allowed. As already noted, Washington County's Traffic Impact Fees, which are high compared to other fees in Oregon, only cover about one-fourth of the transportation costs generated by new development. Most charges on new development appear to be connection charges which pay the cost of hooking up to the system and fund little, if any, off-site capacity. In addition, new development often generates the need for additional school capacity, but Oregon law does not allow the use of systems development fees for schools.

When new development pays less than full costs, existing residents must pick up some of the costs perhaps through higher user fees or property taxes. This may be a problem, or it may not be, depending upon local situations and objectives. The choice of finance mechanisms involves many questions in addition to the amount of revenue they can produce. Some other major issues that need to be considered are the effects of finance mechanisms on:

- growth management
- the allocation of costs to new and old residents, businesses and residences, high and low income households, etc.
- the efficient provision of services

Growth Management Issues

Using infrastructure finance mechanism for growth management purposes requires that the mechanisms function in a consistent manner and not send conflicting signals to developers. Conflicting signals can occur when one method of financing for economic development purposes subsidizes one class of development while systems development charges and exactions charge others for infrastructure.

On the one hand, some infrastructure finance methods, like tax increment financing, encourage growth by subsidizing some of the costs. This is appropriate if it creates infill opportunities that reduce pressure for fringe area development and attracts private investment where it would not occur without the help of public investment. But using tax increment financing in high demand areas where growth would occur anyway underprices growth and makes it harder to exact fees from development that should be paying its way.

On the other hand, exactions and impact fees which charge the developer and/or eventual users for new infrastructure may discourage growth or cause a shift to higher value development if the fees are high enough. Discouraging growth may be desirable in some situations and not in others. But the typical identical fee for all locations will do nothing to encourage growth in desirable areas and discourage it in others. Locationally-sensitive fees, which are low where growth is desired such as in infill areas and high where growth is less desirable such as in exurbia, are a better growth management tool. If high fees cause a shift to higher value development, this may also be contrary to growth management policies regarding affordable housing.

The Equitable Allocation of Costs

In principle, everyone should pay their fair share of both capital and operating costs of infrastructure. Financing mechanisms should not overcharge new development nor subsidize it. The "rational nexus" of impact fees guards against overcharging or collecting an entry fee for new development. Inappropriate use of tax increment financing produces a situation where property tax revenue from new development in urban renewal areas is diverted to pay for new infrastructure and is not available to pay the costs of normal urban services. Thus the cost may be inequitably borne by other taxpayers in districts impacted by the urban renewal.

There is a considerable controversy about the equity of various financing methods. These issues are beyond the scope of this report. Interested readers are urged to consult Alterman (1988), Nelson (1988), Nicholas (1987), and Snyder and Stegman (1986) for further information.

The Efficient Provision of Services

User charges and new development fees are based on the benefits-received principle. Those who benefit from the infrastructure pay for it. This should produce a more efficient provision of services than raising revenue based on some other principle such as value of property owned.

But user charges require complex calculations. Both the costs and beneficiaries must be determined and the costs accurately allocated to the beneficiaries. Efficiency is lost if charges do not match benefits. It is common practice to use average cost pricing--where everyone pays the same rates--rather than marginal pricing--where rates are based on costs of adding additional consumers to the system. Also governmental agencies seldom charge for depreciation and accumulate funds needed for repair and replacement. Users therefore lack some incentives to be efficient.

Charges based on benefits-received may also place burdens on lower income households. The needs of lower income households may have to be addressed in some other fashion when user charges replace property taxes as funding sources.

SUMMARY

There are a large number of revenue raising and financing mechanisms that local governments in Oregon can and do use to build infrastructure. Some other areas of the country are using a few other funding mechanisms that might be used in Oregon. Some existing mechanisms could also be used more extensively. In particular, there is potential to raise more revenue from new development in Oregon, but the amount that can be charged may be limited by fear of losing the benefits of growth, developer resistance, difficulties in accurately determining and allocating costs, concerns about the impacts on lower income housing, and other factors. The next section takes another approach and examines the possibility of reducing infrastructure costs through growth management plans.

REDUCING INFRASTRUCTURE COSTS BY MANAGING DEVELOPMENT PATTERNS

Growth management policies which encourages certain types of development and discourages or prohibits others may reduce public infrastructure costs. This section reviews theoretical and empirical literature which examine the infrastructure costs of alternative development patterns.

A series of theoretical studies beginning in 1955 all reach the same conclusion: more spread out development costs more. In particular, capital costs for infrastructure increase as density declines, when new development is not contiguous to existing development, and as distance to central facilities increase. Frank (1989) has reviewed and updated these studies, and his analysis is summarized here. The studies he reviewed are listed at the end of the section. In addition, a recent empirical study in Florida confirms some of the conclusions of the theoretical studies (James Duncan and Associates, et al., 1989).

THEORETICAL STUDIES

By updating and standardizing the studies Frank found that streets, utilities, and schools for a suburban single family development with 3 dwelling units per acre built 5 miles from sewage and water treatment plants in a leapfrog pattern would cost \$43,381 per dwelling in 1987 dollars. Building the same development adjacent to existing development and near central facilities would reduce costs by \$11,597 per dwelling unit, a 27 percent reduction. Clustering development at 5 units per acre at the nearby site would further reduce costs by \$4,776 per unit. Townhouses, garden apartments, and high-rise apartments would all be cheaper. A mixed type of development consisting of 20 percent each of conventional single family, clustered single family, townhouses, garden apartments, and high-rise apartments built close-in would cost \$20,302 per unit. Alternatively, building at lower densities would increase costs.

The assumptions built into Frank's calculations include:

1. All development is occurring on raw land. There are no existing land uses that impede development.
2. Development requires all new infrastructure. There are no existing roads or excess capacities in water or sewerage treatment facilities or schools to serve new development.

3. The standards for infrastructure are the same in each type of development. For example, clustered development has the same width streets as conventional development and low density development has the same sidewalks and gutters as higher density development. The ULI study (1958) found that relaxing standards for lower density housing, as is common practice, reduces costs, but does not make lower densities cheaper than higher densities.
4. Single family development attracts more families with school-age children than denser development. Schools are therefore a major source of cost difference between single-family and multi-family housing. For example, if the mixed type of development discussed earlier attracted the same families as single-family houses, costs per dwelling unit would be \$2,453 higher.
5. Leapfrog development pays the full cost of extending roads, sewer lines, etc. None of the costs are attributed to future infill development or the current owners of the intervening land.
6. Only capital costs are considered. Operating costs are assumed to be constant at all densities.

Real world development often does not meet all of these assumptions. Furthermore, these figures are derived by updating past studies, some over 30 years old. The original studies were all simulations of new development. Therefore, actual costs of new development could be quite different depending upon local conditions.

In addition, Frank points out that some infrastructure costs are paid by home buyers while others may be borne by the general public. Public and private cost ratios depend on the density of the development and the financing mechanisms used. On-site costs, which the home buyer is likely to pay, increase as density decreases. Thus much of the higher cost of lower density is paid by the home buyers, not the public.

EMPIRICAL STUDIES

Unfortunately, studies of the cost of infrastructure of real developments are scarce. A recent review of growth management literature by Deakin (1989) lists reducing the cost of infrastructure provision and service as one of the main objectives of growth management. Yet, except for some traffic management programs, she cites no studies that address this issue. Pisarski (1989, p. 129) further states, "These arguments for 'efficiency' are weak, in part because they are unsupported

by empirical data and, more important, because efficiency is not an important goal of most citizens."

In the one empirical study available, James Duncan and Associates, et al. (1989) analyze actual infrastructure development costs of eight areas in Florida and conclude that compact, contiguous development is less expensive. They selected eight areas undergoing new development or redevelopment ranging from the urban renewal area in downtown Orlando to low density exurban residential development. Unlike the simulation studies they do not include on-site costs in their analysis. Thus density and levels of service are not issues. Instead they focus on the external public costs of connecting developments to roads, sewer, water and having necessary sewer and water treatment capacity, schools, parks, and police and fire stations.

They categorized development as having five possible urban forms. Compact development is primarily infill and redevelopment of existing urban areas. Contiguous development is suburban development near established urban areas. Scattered development is low-density, leapfrog development while Satellite also leapfrogs but is more compact. Linear development occurs along transportation corridors.

The results are summarized in Table 2. Costs per dwelling unit are clearly related to both the urban form and the types of land uses in the development. As in the simulation studies, compact and contiguous development have lower infrastructure costs than more spread out development whether in linear, scattered, or satellite form. But costs per dwelling unit are also lower if the development has a mix of uses because costs are shared by non-residential developments which may not generate the same needs for infrastructure. For example, commercial development may require more off-site road capacity but fewer schools than residential development.

Table 2

TOTAL EXTERNAL CAPITAL PUBLIC FACILITY COSTS
(Per Single Family Dwelling Unit)

<u>Rank</u>	<u>Study Area</u>	<u>Urban Form</u>	<u>Land Use</u>	<u>Unit Cost</u>
1	Downtown	Compact	Mixed	\$ 9,252
2	Southpoint	Contiguous	Office/Res.	9,767
3	Countryside	Contiguous	Commercial/Res.	12,693
4	Cantonment	Scattered	Industrial/Res.	15,316
5	Tampa Palms	Satellite	Residential	15,447
6	University	Linear	Residential	16,260
7	Kendall	Linear	Residential	16,514
8	Wellington	Scattered	Residential	23,960
Average				\$14,901

Source: James Duncan and Associates et al., 1989, p. 15.

CONCLUSIONS

A series of simulations and one real world study have concluded that the pattern of development does affect infrastructure costs. These studies indicate that infrastructure costs can be reduced by:

- Building more densely
- Developing near existing services and employment opportunities
- Having mixed land uses

The empirical study from Florida further recommends that both land use regulations and marginal cost pricing of user fees and systems development charges be used to encourage more efficient development. In particular, they recommend "locationally-sensitive" impact fees which are high in areas where growth is not desired such as exurbia and low where growth is wanted such as infill development.

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STATE ASSISTANCE WITH LOCAL INFRASTRUCTURE FINANCE

The state can assist local governments with infrastructure finance by providing funds through loans or grants, providing technical and financial assistance, or by helping local governments access capital markets. While local governments in Oregon have access to a number of local financing options, some other states do provide more opportunity for local governments to borrow from or through the state. These programs often involve some form of state subsidy in either finance, risk bearing, or provision of expert assistance; and there seems to be potential for expansion of the state of Oregon role in these areas.

State assistance to local governments runs into three fundamental conflicts. The first of these is conflicts between growing and declining areas. If the state government is primarily concerned with the need to finance growth, then state assistance should be targeted to growing areas. But growing areas usually have good access to capital markets and other advantages in funding infrastructure. It is the declining areas that often have the greatest problems, and this raises a serious policy issue. State assistance may be directed to the hardship areas for equity reasons. While there is little evidence that infrastructure development can offset trends toward economic decline, there is a strong tendency to target aid to accomplish this.

The second conflict is between assistance and regulation. While trying to help local governments, the state must often see that the local governments meet both state and federal requirements. This means that assistance is frequently tied to demonstration of the ability to meet such conditions. Often recipient governments feel they would be better off without the state's assistance. From their perspective the state is making it extremely difficult to gain access to the needed funds rather than making it easier.

The third conflict is between helping the most needy and helping those who are most willing to help themselves. A focus on the most needy means that the amount of help which the state can provide must be concentrated on relatively few recipients and that these recipients are least likely to be able to provide security for repayment or matching money. Further, focusing on the needy creates the perverse incentive to become "needy." For example, a community might find that by deferring maintenance it could generate sufficient deterioration in a capital item to warrant state aid. Such incentives should not be ignored in designing state programs. In contrast, a concentration on those governments which provide the most security and the most leverage for state funds is often a concentration on those with the best access to private lending.

If state infrastructure aid is used to promote growth management objectives, it must be recognized that most local governments see growth as a benefit. One reason for this view is that growing jurisdictions have easier access to credit markets. A second reason is that

accommodating growth can also make it easier to comply with changing regulations or replacement of aging infrastructure. For example, a new sewer treatment plant may be built because of growth which at the same time brings the community into compliance with new regulations. To the extent that growth is perceived as bringing these benefits, communities may place excess emphasis on encouraging growth. State assistance may need to be designed to offset this undesirable emphasis on growth.

If the state becomes further involved in the financing of local infrastructure development, it will be necessary to more clearly identify its role. Specific issues include: the trade-off between aiding declining versus growing areas; whether the state is willing to subsidize cost, assume risk, or offer expert assistance; and the balance between the regulatory functions of the state and ease of access for local governments. Further, the state will have to identify ways to target assistance to jurisdictions that manage growth well rather than those that simply encourage and subsidize growth.

This report outlines the need for state assistance, describes current state assistance, provides suggestions for improving and expanding state aid, and reviews the types of assistance available in other states.

INFRASTRUCTURE NEEDS AND EXPENDITURES

This first part of the report uses existing studies to identify some of the key needs for local infrastructure capital funding in the coming decades. It also reviews expenditure levels of local governments for infrastructure and of the state for infrastructure aid to local governments. The next part of the report provides more details on state aid programs.

INFRASTRUCTURE NEEDS IN OREGON FOR THE NEXT TWENTY YEARS

Recent state studies have estimated the needs for roads and sewer and water systems. No estimates were available of the capital construction needs for schools, parks and recreational facilities, open space, libraries, or police and fire stations.

Roads, Streets and Bridges

In 1986 the League of Oregon Cities, the Association of Oregon Counties, and the Oregon Department of Transportation jointly commissioned an assessment of the road and bridge needs in Oregon and the revenues available to meet these needs. The result was a detailed report and action plan called Making the Right Turn: Protecting the Public Investment in Oregon's Roads and Bridges. Table 3 shows the magnitude of needs of cities and counties through the year 2004.

The state also has road needs of \$12,772 million which are not included in Table 2. Note that arterials and collectors are included in this analysis, but strictly local roads are not. Local roads are assumed to be the responsibility of the developer, the local property owner, and the local jurisdiction.

Table 3

COUNTY AND CITY ROAD SYSTEM REQUIREMENTS: 1987-2004
(millions of dollars)

	<u>Counties</u>	<u>Cities</u>	<u>Total</u>
Operations & Maintenance	\$2,878	\$1,892	\$4,770
Repair & Preservation	3,874	1,361	5,235
Construction & Expansion	1,092	586	1,678
Backlog*	<u>5,947</u>	<u>2,017</u>	<u>7,964</u>
Total	\$13,791	\$5,856	\$19,647

* Backlog is the existing requirements for repair, preservation, construction, and expansion.

Source: Making the Right Turn, 1986, p. 12

Water and Sewer Systems

The Oregon Department of Environmental Quality and the Health Division of the Department of Human Resources jointly commissioned An Assessment of Funding for Sewerage and Drinking-Water Facilities in the State of Oregon in 1989. This study produced estimates of current needs--work needed to bring systems up to federal and state standards and to serve current populations--and future needs--work needed to serve population growth and currently unserved populations. The estimates are summarized in Table 4.

The Oregon Health Division recently conducted a new study to update estimates of drinking water needs. They estimate there are \$1,239.8 million in current needs and \$116.5 million in growth related needs for the decade from 1991 to 2000. The figure for current needs includes an estimate of the cost of additional treatment due to new regulations that were being promulgated at the time the study was being done.

Table 4

**CURRENT AND FUTURE NEEDS OF OREGON'S WATER AND SEWER SYSTEMS,
1988-2008**

(in millions of dollars)

	<u>Current</u>	<u>Future</u>	<u>Total</u>
Sewer	\$1,003	\$569	\$1,572
Water	<u>760</u>	<u>1,141</u>	<u>1,901</u>
Total	\$1,764	\$1,710	\$3,473

Source: An Assessment of Funding for Sewerage and Drinking-Water Facilities in the State of Oregon, 1989

INFRASTRUCTURE EXPENDITURES OF LOCAL GOVERNMENTS

The backlog of needs for roads and current needs for water and sewer add up to \$10 billion. These existing needs are due to new regulations for water and sewer systems, population growth, and inadequate spending on infrastructure construction and maintenance in earlier periods. The Bureau of Governmental Research and Service's report, Financial Trends of Oregon Cities 1981 to 1986, outlines the spending patterns of cities over 1000 population, excluding Portland, during the early 1980's. During that period cities reduced capital expenditures by 28 percent in current dollars and 40 percent in constant dollars. Per capita expenditures on capital declined by \$56 (from \$140 to \$84) while per capita operating expenses rose by \$55 (from \$340 to \$395) in constant dollars.

These were difficult years for city governments. The state experienced a major recession with population declines in some areas. Federal and state aid were also scaled back. Cities responded by deferring construction of new infrastructure and maintenance of old infrastructure. For example, total road expenditures decline by 13 percent in constant dollars with capital expenditures absorbing all of the reduction. Budgets for sewer operation increased while capital expenditures declined by 16 percent in constant dollars. Parks and recreation budgets declined in both the operating and capital areas by a total of 32 percent.

No similar reports were available for counties, schools, and special districts, but it is not unreasonable to assume they followed the same general pattern of deferring maintenance and

construction of infrastructure. A discussion of spending for some specific types of infrastructure follows.

Roads

A 1989 update of Making the Right Turn indicates that the level of city and county spending on roads and bridges was increasing in 1987 and 1988. Progress was being made but not at the rate recommended by the earlier study. In FY 87-88 Oregon's counties spent \$197 million on roads. The next year counties budgeted a 24 percent increase in road expenditures, to a total of \$255 million. Similarly, Oregon cities spent \$144 million in FY 87-88 on streets and roads and in FY 88-89 increased their budgets by 44 percent to a total of \$164 million. However, county spending was only at 47 percent of the amount identified as needed to keep up with annual requirements while city spending was at and 60 percent in FY 89-90.

County increases in revenue were largely due to a two cent increase in the state gas tax. Cities benefited from the increase in gas tax, but were also planning to raise more revenue locally, mainly from the formation of local improvement districts.

An updated progress report on Making the Right Turn is currently being prepared and will be available before the 1991 legislative session.

Water and Sewer

The Assessment of Funding for Sewerage and Drinking Water Facilities in the State of Oregon found that most of the water and sewer systems providers studied were collecting fees which were adequate to cover operating expenses and allow the accumulation of some reserves for replacement and expansion. These reserve accounts, however, were generally not large enough for major new facilities. In recent years, half of the funds for sewerage treatment facilities have come from state and federal grants while only about ten percent of the water facilities capital funds came from grants. Borrowing was the other primary source of funds for major facilities. Unless new grant programs are developed significantly more borrowing will be needed to meet current and future needs.

STATE ASSISTANCE LEVELS

The level of state assistance for local infrastructure depends on the type of infrastructure. The state and local governments have traditionally been partners in providing roads with each level having some responsibilities and the state sharing a portion of the state gas tax with counties and cities. The state has some loan and grant programs for water and sewer systems. Little or no state aid is available for school, library, or other public building construction or for parks acquisition and development.

State Gas Tax

Table 5 shows the amount of state gas tax payments to cities and counties. Cities and counties received more gas tax dollars over time because the tax rate increased from 8 to 18 cents and because the proportion going to local governments increased.

Table 5

STATE GAS TAX PAYMENTS TO CITIES AND COUNTIES FY82-83 to FY89-90

<u>Year</u>	<u>Cities</u>	<u>Counties</u>
FY 82-83	\$22,113,000	\$36,880,000
FY 83-84	23,130,000	38,869,000
FY 84-85	26,795,000	44,289,000
FY 85-86	29,389,000	48,984,000
FY 86-87	35,431,000	58,133,000
FY 87-88	41,340,000	66,451,000
FY 88-89	50,046,000	80,002,000
FY 89-90	59,821,000	94,367,000

Source: Oregon Department of Transportation

Small Scale Energy Program

The Department of Energy administers a Small Scale Energy Loan Program used by state agencies and local governments. Funded projects may include qualified water and sewer projects. Table 6 shows their loan activity since 1981.

Table 6

SMALL SCALE ENERGY LOAN ACTIVITY, 1981-1990
(in millions of dollars)

<u>Type of Project</u>	<u>Number</u>	<u>Amount</u>
State Agency		
Energy saving projects	15	\$11.9
Local Government		
Energy saving projects	70	13.7
Energy generating projects	<u>8</u>	<u>70.0</u>
Total	93	\$95.6

Source: Department of Energy

Immediate Opportunity Fund

The Oregon Department of Transportation and Department of Economic Development jointly administer an Immediate Opportunity Fund which provides funding for highway improvements for specific economic development projects. Seven projects have been funded.

Water Resource Loan Program

The Department of Water Resources has a Water Resource Loan Program which has been inactive since 1984 due to lack of demand. However, new loan applications are expected in the near future.

Community Development Block Grants and Special Public Works Fund

The Department of Economic Development administers two infrastructure funding programs--the federal Community Development Block Grant Program for counties and cities outside metropolitan areas and the lottery-funded Special Public Works Fund. Between 1983 and June 1990, 100 public works projects in 27 counties received a total of \$30,016,052 in Community Development Block Grants. EDD has also distributed \$31,567,874 in lottery funds through the Special Public Works Fund to 105 projects in 27 counties since 1985.

EPA Construction Grants

The Department of Environmental Quality has administered an Environmental Protection Agency (EPA) Construction Grants program which is currently being changed to a Revolving Loan Fund for wastewater treatment plants. Table 7 summarizes funding levels for this program.

Table 7

EPA CLEAN WATER ACT FUNDS AWARDED BY DEQ BETWEEN 1983 AND 1988 AND PROJECTED FUNDS AVAILABLE IN 1989 AND 1990

<u>Year</u>	<u>Funded Projects</u>
1983	\$ 42,133,771
1984	44,186,244
1985	23,959,191
1986	29,880,151
1987	32,197,381
1988 (5/30/88)	<u>25,946,000</u>
Total	\$198,302,739
1989*	\$ 13,700,000
1990*	<u>13,700,000</u>
Total	\$27,400,000

*DEQ intends to shift these funds to the State Revolving Loan Fund.

Source: The Assessment of Funding for Sewerage and Drinking Water Facilities in the State of Oregon, 1989, p. C-18.

IMPLICATIONS FOR FUTURE STATE ASSISTANCE LEVELS

Table 8 summarizes the previous discussion showing that recent state assistance levels have equalled about one-fifth of the expected annual need for the next 10 to 20 years. This table does not take into account local governments' capital needs for schools, parks, open space, libraries, and police and fire stations as no estimates were available. Even if needs are overstated, as they frequently are in such studies, state aid at recent levels leaves a substantial amount of infrastructure to be financed at the local level. Certainly some jurisdictions cannot afford these expenses. It should also be noted that one of the major programs--DEQ/EPA Wastewater Treatment Grants--is being converted from a grant to a loan program which increases costs for

local governments. Additionally, Federal support for the new loan program is only authorized through 1994.

Table 8

ANNUAL INFRASTRUCTURE NEEDS AND STATE AID LEVELS
(in millions of dollars)

<u>Estimates of Average Annual Infrastructure Needs</u>	
County and City Roads*	\$764
Water**	136
Sewer***	<u>79</u>
Total	\$979
 <u>Average* Annual State Aid for Infrastructure</u>	
Gas Tax (FY 89-90)	\$154
DEQ /EPA Wastewater Treatment Grants	33
Other State Aid	<u>18</u>
Total	\$205

* Gas Tax revenues are reported for most recent year since they have been increasing. State aid in other programs fluctuates from year to year so averages are reported.

Sources: *Making the Right Turn: Progress Report, 1989, p. ii,

**Task Force on Drinking Water Construction Funding and Regionalization Report, 1990, unnumbered

***An Assessment of Funding for Sewerage and Drinking-Water Facilities in the State of Oregon, 1989, p.25.

DESCRIPTION OF EXISTING STATE PROGRAMS ASSISTING MUNICIPALITIES IN FINANCING INFRASTRUCTURE

This section describes existing state programs designed to assist municipalities with financing local infrastructure projects. The next sections of the report provide evaluations of Oregon's state assistance programs and suggest possible design features and enhancements, and describe state assistance programs in other states.

The state assistance programs in this section include:

- o Oregon Economic Development Department
 1. Community Development Block Grant Program
 2. Special Public Works Fund
 3. Safe Drinking Water Fund Program (Proposed - in coordination with the Oregon Health Division, Department of Water Resources and Department of Land Conservation and Development)
- o Office of the State Treasurer
 1. Municipal Debt Advisory Commission
 2. Housing, Educational and Cultural Facilities Authority
- o Oregon Department of Energy
 1. Small-Scale Energy Loan Program
- o Department of Environmental Quality
 1. Pollution Control Bond Fund
 2. State Revolving Loan Fund (Proposed)
- o Department of Water Resources
 1. Water Development Loan Program
- o Department of Transportation
 1. Immediate Opportunity Fund

**OREGON ECONOMIC DEVELOPMENT DEPARTMENT
COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM**

Description and Program Objectives

The Oregon Community Development Block Grant Program (OCDBG) for small cities and counties is funded by annual grants to the state by the US Department of Housing and Urban Development (HUD). The Oregon Economic Development Department (OEDD) administers the program. In addition, direct annual CDBG entitlement grants are provided by HUD to all urban cities over 50,000 in population and counties over 200,000 in population. These entitlements are administered with no participation by OEDD.

In the state's program, both construction grants and technical assistance grants are available to small cities and counties.

The objectives of the OCDBG program are to assist low and moderate income areas in improving housing conditions, increasing employment opportunities, and improving conditions that pose an imminent threat to community health or welfare.

Only grants are offered in the OCDBG program and no matching local funds are required for funding eligibility.

Legal Authorization

Title 1 of the Federal Housing and Community Development Act of 1974 authorizes this program. Oregon Administrative Rules 123-80 provide the administrative guidelines for the state's program.

Eligible Applicants

Cities and counties are eligible for funds from the state's program. Non-profit cooperative organizations may apply for funding through recipient cities and counties.

Eligibility Requirements

OCDBG funds are to be used to increase business and employment opportunities, conserve housing supplies and improve housing conditions, and improve and construct new public facilities.

Applicants may qualify projects in the following ways:

1. The project will principally benefit low and moderate income persons. Federal law requires 60% of a CDBG award be spent to benefit low and moderate income persons.
2. The project is located in a slum or blighted area and will address one or more of the blighting conditions.
3. The project addresses an urgent need and/or emergency situation which poses a serious threat to a community's health and welfare.

The OCDBG program can fund most types of local infrastructure projects with the exception of normal maintenance, repairs and other items which should be funded through normal operations. Specific eligible expenditures include documentation, planning, design, administration, construction, engineering, legal fees, acquisition of existing facilities, purchase of right-of-way property, and purchase of facility property.

Funding and Activity Level

HUD entitlement grants are made directly to large cities and urban counties which set their own limits on the amount that may be expended per project. Funding for the state's small city and county public works grants vary by project type, but cannot exceed \$500,000. Technical assistance grant limits range from \$10,000 to \$20,000.

The following CDBG appropriations were made for Fiscal Year 1990.

State of Oregon (for grants to non-metropolitan cities and counties)	<u>\$8,651,000</u>
Direct Entitlements:	
City of Eugene	\$1,027,000
City of Gresham	358,000
City of Medford	372,000
City of Portland	6,699,000
City of Salem	769,000
City of Springfield	440,000
Clackamas County	1,565,000
Multnomah County	586,000
Washington County	<u>1,598,000</u>
	<u>\$13,414,000</u>
TOTAL	\$22,065,000

Application Process

In the state's program, funding applications are administered by the OEDD. Project monitoring is conducted by OEDD through on-site visits and documentation submitted by the applicant. Federal and state compliance standards must also be met. Direct entitlement cities and counties administer their own programs independent of the state.

**OREGON ECONOMIC DEVELOPMENT DEPARTMENT
SPECIAL PUBLIC WORKS FUND PROGRAM**

Description and Program Objectives

The Special Public Works Fund (SPWF) is one of several programs currently administered by the Oregon Economic Development Department. The program is funded with proceeds from the state lottery.

The SPWF provides grant and loan assistance to municipalities for the construction of infrastructure projects needed to: 1) support economic development projects that will result in the creation or retention of permanent jobs; or 2) build infrastructure capacity in order to improve a community's ability to keep or attract business and industry.

Construction/improvement funds are available through the SPWF, as are technical assistance grants for the preliminary planning, engineering and legal work related to an eligible project. However, technical assistance grants are available only for eligible municipalities under 5,000 in population.

In addition, the OEDD is in the process of developing the Oregon Bond Bank for Public Works to be administered in conjunction with the SPWF. Under the Bond Bank program, OEDD will package the financing needs of several local projects and, through the State Treasurer, sell state Revenue Bonds in order to make loans for these projects.

Legal Authorization

The state lottery was established as an amendment to the Oregon Constitution, approved by voters in 1984. The SPWF was established in 1985 in ORS 284.310 to 284.530.

Eligible Applicants

Cities, counties, port districts, water districts, and metropolitan service districts. Counties may also apply on behalf of sewer districts.

Eligibility Requirements

The SPWF provides long-term financing for a broad range of public infrastructure projects, including sewage treatment works, solid waste disposal sites, water supply works, roads and public transportation, and other transportation-related facilities. Specific expenditures may

include final planning and design, administration, construction, engineering, legal fees, and the acquisition of property and rights-of-way.

Project eligibility for SPWF funding is placed into two categories:

Level 1. Firm Business Commitment. SPWF assistance is needed to help pay for infrastructure required to serve a specific business development or expansion that cannot proceed without the public improvements and where permanent job creation/retention will result. For commercial developments, normally only destination resorts and tourist-related activities will be considered for Level 1 funding.

Level 2. High Probability or Capacity Building. SPWF assistance is needed to assist the municipality in building infrastructure capacity to support industrial and/or commercial development. Level 2 projects are eligible for loans but not grant funding.

Within these two funding levels, specific eligibility criteria are required for SPWF funding. In general, these requirements include the number of jobs created, the number of "family wage" jobs created, the probability that a business will locate in the targeted area, the business's financial feasibility, the level of locally initiated economic development marketing, and the financial and engineering feasibility of the infrastructure project.

Funding and Activity Level

Loans: Loans for projects financed directly from the SPWF (lottery funds) can be made up to \$1,000,000. Bond Bank loans are set at a maximum of \$10,000,000. Interest rates for SPWF loans are set quarterly and cannot be less than 6.5%. The interest rate for Bond Bank loans will vary with the rates offered by the bond market.

For SPWF loans the term is 25 years or the usable life of the asset, whichever is less. For Bond Bank loans the term will be 20 years.

Loans offered through the Bond Bank program will require additional security pledges of general fund and/or utility revenues by the borrower. OEDD will provide financial assistance for establishing debt service reserves and covering issuance costs.

Grants: Grants are only available for Level 1 projects and cannot exceed \$500,000 or 85% of the project costs whichever is greater. Technical assistance grants, for municipalities under 5000 in population are set at a maximum of \$10,000.

Loan/Grant Mix: The SPWF statutes require that grants be made only when loans are not feasible due to the economic need of the applicant or special circumstances of the project. Projects deemed not economically feasible are not funded.

For the 1989-91 biennium \$15,000,000 in lottery funds was appropriated for grant awards and loans. To date OEDD has received SPWF funding requests totalling \$22.6 million. Future appropriations beyond the current biennium are subject to budgetary approval.

The first issue of the Bond Bank is expected for early 1991, providing there are no major market or credit changes, to fund five projects totalling approximately \$4,000,000. OEDD is authorized through the State Treasurer to issue up to \$80 million in state Revenue Bonds during the current biennium.

Funding for technical assistance grants is currently set at \$250,000 per year.

Application Process

Applications are accepted throughout the year and are reviewed on a first-come, first-served basis. Review by OEDD staff focuses on whether the project meets program objectives and is feasible from both an engineering and financial perspective. After loans and/or grants are awarded, project monitoring is effected through correspondence and site visits by OEDD staff.

OREGON ECONOMIC DEVELOPMENT DEPARTMENT
SAFE DRINKING WATER FUNDING PROGRAM (Proposed - in coordination with the
Oregon Health Division, Department of Water Resources and Department of Land
Conservation and Development)

Description and Program Objectives

The Task Force on Drinking Water Construction Funding and Regionalization, created by Gov. Goldschmidt's SWMG in late 1989, is currently developing a financial program to help pay for drinking water system improvements needed to achieve compliance with federal and state standards promulgated under the 1986 Safe Drinking Water Act. The Task Force, comprising water supply industry, state, local and federal government representatives, has proposed the Safe Drinking Water Funding Program (SDWFP) to provide loans and grants to all public entities and cooperatives that make water available to the general public. These activities would complement current efforts to provide safe drinking water.

As part of the program the Task Force also recommends that local entities responsible for drinking water systems mutually explore "coordinated solutions" to the drinking water supply, quality and cost of compliance problems they may be facing. Such efforts could result in consolidations and cooperative agreements which will foster more efficient and cost-effective water treatment and delivery.

The loan program would use bond proceeds, general fund and lottery revenues, or other funds to make loans to eligible applicants for drinking water construction projects. The grant program would use similar resources for construction projects, technical assistance and developing local coordination agreements under state land use planning and statutes.

The SDWFP would be administered by the Oregon Economic Development Department in cooperation with the Oregon Health Division of the Department of Human Resources, and the Departments of Water Resources, and Land Conservation and Development.

Legal Authorization

A bill creating the SDWFP will be submitted for the 1991 Legislature because the proposed program is subject to legislative approval. The Task Force recommends that the bill request the use of the existing general obligation bonding authority available under the State Constitution, Article XI-I(1), for water development projects, as well as the state's revenue bonding authority for the Special Public Works Fund.

Eligible Applicants

Under this program funding would be available to cities, counties, special districts, water supply authorities and all other units of government and non-profit cooperatives which make drinking water available to the general public.

Municipalities and organizations individually serving fewer than 30,000 in population would be eligible for funding from Water Development Loan Fund General Obligation Bond proceeds. (The Water Development Loan Fund is discussed later in this section of the report.) Applicants serving populations of any size would be eligible for funding from Special Public Works Revenue Bond proceeds.

Eligibility Requirements

Eligible projects under the proposed program would include preparation of water master plans, the repair and replacement of existing distribution lines, source development, storage facilities, treatment plants and other capital equipment needed to operate a drinking water system.

Loan awards are proposed to be based on at least the following criteria, whether the project:

- o is driven by health and safety regulations and improves services to existing customers,
- o includes a conservation plan or provides water conservation incentives,
- o is technically and financially feasible, and
- o shows that all reasonable "coordinated solutions" to financing the project were explored.

Grant awards are proposed to be based on at least the following criteria:

- o Economic hardship - the inability of customers to pay the water rates needed to repay loans or other financings.
- o The extent to which the project reduces health and safety risks.
- o Whether the project would proceed without grant support.
- o Needs for technical assistance and/or coordination agreements.

Funding and Activity Level

Total safe drinking water needs through the year 2000 are estimated to cost \$1.4 billion state-wide. This includes the cost of compliance with existing federal and state drinking water regulations, plus the estimated cost of new regulations (\$238 million) that take effect during the period of 1989-1997.

Currently available federal, state and local resources are estimated to provide nearly \$700 million over the next decade. The purpose of the proposed SDWFP is to make up a portion of the estimated annual shortfall of \$40-80 million.

At this point the amounts and loans/grant mix available in the proposed SDWFP are yet to be determined. That will be the task of the 1991 Legislature should it approve the Program.

**OREGON STATE TREASURY
MUNICIPAL DEBT ADVISORY COMMISSION (STATE BOND DIVISION)**

Description

In 1975, the Oregon Legislature created the Municipal Debt Advisory Commission to assist local governments and state agencies in the planning, preparation, and sale of new bond issues. The seven-member Commission consists of the State Treasurer, two public members, and representatives from the League of Oregon Cities, Association of Oregon Counties, Oregon School Boards Association and Special Districts Association.

The Commission is empowered to collect, maintain and distribute financial, economic and social data which relate to the ability of local governments to issue and service municipal bonds. It is also authorized to maintain contact with the financial community, the bond rating agencies, investors and others to improve the market for local issues; and to recommend changes in state law and local practices to improve the sale and servicing of local debt.

As a result of the passage of Ballot Measure 5 in November 1990, the State Treasurer has requested the Municipal Debt Advisory Commission to assist local governments in assessing and clarifying the Measure's impact. Specifically, the Commission has been charged to recommend changes in state and local laws and practices to facilitate continued debt financings within the limitations of the Measure. The Commission will also serve as clearinghouse for current legislative and judicial information on Measure 5.

**OREGON STATE TREASURY
HOUSING, EDUCATIONAL AND CULTURAL FACILITIES AUTHORITY**

Description and Program Objectives

The Housing, Educational and Cultural Facilities Authority was created by the 1989 State Legislature to assist with the assembling and financing of lands for housing, educational and cultural uses and for the construction and financing of facilities for such uses.

Financial assistance by the Authority is provided through the issuance of Limited General Obligation Bonds approved and issued by the State Treasurer. The bonds are to be repaid solely from revenues generated by the projects financed or from other sources available to the applying entity. In no case is the credit of the state at risk, nor is the state responsible for any expenses or costs incurred in connection with the issuance of bonds.

Financing proceeds obtained through the Authority must be used for facility or project development, and not for operational purposes.

The Authority is governed by a five-member board appointed by the State Treasurer for four-year terms. Administrative affairs are handled by an Executive Director.

Legal Authorization

ORS Chapter 289

Eligible Applicants

Includes all Oregon local governments, public bodies and non-profit institutions. Non-profit organizations must satisfy the tax-exempt requirements of Section 501(c)3 of the Internal Revenue Code of 1989.

Eligibility Requirements

ORS Chapter 289 provides for the Authority to approve the financing of projects for public or non-profit institutions for:

- o Housing -- providing decent, affordable housing, single family or multi-unit, to low income persons.
- o Higher Education -- involving education beyond the high school level, and including community colleges.
- o Schools for the Handicapped -- involving primary, secondary and post-secondary accredited schools.
- o Cultural -- engaging in cultural, intellectual, scientific, environmental, education or artistic activities.

Funding and Activity Level

The 1989 Oregon Legislature authorized the issuance of \$80 million in Revenue Bonds for the current biennium ending June 30, 1991. There is no maximum application amount except within the limits of the Authority's existing bonding capacity.

As of June 30, 1990, \$11,450,000 of this bonding authority has been utilized for the financing of one project. Other projects are currently pending.

Application Process

Applications for financing are filed with the Executive Director, who initially reviews the application for eligibility and legal compliance. The Authority's governing board then reviews and evaluates the applications.. Applications recommended for approval are sent to the State Treasurer for final approval and the issuance of Revenue Bonds.

**OREGON DEPARTMENT OF ENERGY
SMALL-SCALE ENERGY LOAN PROGRAM (SELP)**

Description and Program Objectives

The Small-Scale Energy Loan Program finances energy conservation and renewable resource energy projects. The project must meet local community or regional energy needs in Oregon. Renewable resources include water, wind, geothermal heat, solar radiation, biomass, and waste heat. SELP is self-supporting, with program expenses paid by borrowers. Loan funds are raised through the issuance of state of Oregon General Obligation Bonds. Bonds may be issued up to one half of one percent of the state's true cash value.

Legal Authorization

The SELP program is established pursuant to ORS Chapter 470. The issuance of bonds to fund the program is authorized under Article XI-J of the Oregon Constitution.

Eligible Applicants

SELP loans are available to municipalities, special districts and state agencies, individual residents, businesses and non-profit organizations. Borrowers must demonstrate the ability to repay SELP loans and must be able to offer adequate security for loan repayment.

Eligibility Requirements

Eligible projects must:

1. Be located in Oregon.
2. Conserve or produce energy.
3. Be consistent with environmental protection goals.
4. Be technically sound.

Substantially all qualifying costs of a project may be financed with the SELP loan, provided the project produces or conserves energy. The program does not directly loan funds for feasibility studies; however, a small amount of "risk-free" funds are available to municipal borrowers to determine project feasibility.

Funding and Activity Level

SELP is funded through the sale of state of Oregon General Obligation Bonds. The program may have bonds outstanding equal to 0.5 percent of the state's true cash value. In addition, under the current state budget, the program may issue not more than \$70 million during the current biennium.

The program provides loans to eligible borrowers. There are no predetermined minimum and maximum loan amounts, and loans have ranged from \$10,000 to \$6,000,000. The amount of a total project which can be funded from SELP monies depends on the energy produced or conserved by the project and other financial considerations.

During the current biennium, 46 project loans have been made totalling \$10.4 million.

SELP is authorized to provide loans of up to thirty years or the useful life of the project, whichever is less. In practice, the program has limited loan repayment to twenty years. To cover administrative and debt service costs, lending rates are fixed at about one percent above the underlying rate of the General Obligation Bonds sold to finance the project.

Application Process

Program applicants begin by submitting a two-page application form and applicable technical and financial feasibility reports to SELP. Loan requests generally undergo three stages of review: (1) staff investigation and review, (2) advisory committee hearing and recommendation, and (3) the director's final review and decision. Small loan requests are reviewed and determined by staff alone.

**DEPARTMENT OF ENVIRONMENTAL QUALITY
POLLUTION CONTROL BOND FUND**

Description and Program Objectives

The Pollution Control Fund was established by the state in 1970 to help fund municipal sewerage and solid waste facilities and purchase land for the disposal of solid and hazardous waste. The Oregon Department of Environmental Quality (DEQ) administers the program, and funds are provided by the sale of state General Obligation Bonds. Proceeds from the state GO bonds are usually loaned to communities for qualifying projects.

In the past, communities have utilized loans to provide the local match for the federal Environmental Protection Agency Construction Grant program (scheduled to sunset in 1991 and be replaced with a DEQ administered state revolving fund program) and/or to finance projects which are not eligible for funding by federal grants.

In a recent effort, the program participated in a joint project by the cities of Gresham and Portland by selling state GO Bonds and using the proceeds to purchase Special Assessment Bonds issued by the two cities. This provided Portland and Gresham the needed funds for sewer projects at a lower cost and a more flexible financing structure than if the cities had acted on their own. (For more information see the case studies on "State Assisted Local Financings" later in this report.)

Legal Authorization

Article XI-H of the Oregon Constitution establishes the Pollution Control Program and prescribes the program's purpose and general requirements. GO bonds issued for the program cannot exceed one percent of the state's true cash value. ORS 468.195 provides the statutory authority and process for issuing the bonds.

Eligible Applicants

Cities, counties, special districts and any other local government agency with a qualified project are eligible for funding under this program.

Eligibility Requirements

The Pollution Control Bond Fund provides long-term financing for sanitary and storm sewerage treatment works. This includes treatment and disposal facilities, collection

systems and sewerage lines. Funds can also be used to finance projects for solid waste disposal. The program can also provide assistance by acquiring the bonds of any municipal corporation not to exceed 100% of total project costs. This is what was done for the sewer assessment bonds issued by Gresham and Portland.

Eligible project costs may include planning and design, construction, land acquisition and related fiscal and legal costs.

The DEQ is required by the Constitution and statute to maintain a loan portfolio which is at least 70% self-supporting from the revenues of the program participants. As a matter of practice, however, all program loans are designed to be 100% self-supporting.

Loan repayment terms are generally set at 25 years or less. The interest rate assigned to individual loans is a melded rate which reflects the interest cost on all outstanding state General Obligation Bonds sold to fund the program. DEQ also charges an administrative fee and loan application fee.

Funding and Activity Level

The Constitution limits the issuance of General Obligation Bonds for the program to one percent of the state's true cash value. ORS 468.195 further limits the amount of bonds outstanding to no more than \$260 million. To date \$194.3 million has been issued and about \$102 million is currently outstanding.

Bonds in the amount of \$6.77 million were sold to purchase the Gresham/Portland special assessment sewer bonds in September of 1990. Prior to that, no bond issues had been sold in the past eight years, and DEQ had not made a direct loan since 1984. Between 1971 and 1984 the Pollution Control Fund made 282 project loans.

The lack of loan activity during the period since 1984 is due to several factors, including the completion of pollution control projects by smaller jurisdictions and the ability of larger municipalities to receive favorable financing terms directly from the credit markets.

Application Process

Applications for financing are submitted to DEQ and funding consideration is given on a first-come, first-served basis. As mentioned previously, DEQ charges an application fee.

**DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE REVOLVING FUND (Proposed)**

Description and Program Objectives

The Oregon Department of Environmental Quality administers the Federal EPA Construction Grants program, which is currently funded at about \$27 million dollars. However, the Federal Water Quality Act of 1987 fully phases out the EPA grants by September of 1991 in favor of state-administered loan programs. In preparation of the 1991 end of federal grants, the DEQ has proposed establishing a State Revolving Fund (SRF) to assist communities with the financing of water improvement/pollution control facilities.

Assistance through the SRF is proposed to be provided to local governments primarily in the form of low-interest loans.

Although the 1991 termination of the EPA grants means a loss of "free" money to local governments for water quality related infrastructure projects, DEQ's program would offer two distinct advantages over the grant program: 1) more water quality improvement projects would be eligible for loan financing; and 2) up to 100% of the project costs may be eligible for SRF loans, as opposed to the 55% limit on EPA grants.

Initial funding for the proposed SRF program comes in the form of federal capitalization grants with a mandatory 20% state match. Congress has authorized capitalization grants through 1994, at which time the federal funding provision sunsets.

It is unclear at this time whether DEQ would have the resources to continue on its own to subsidize local loans beyond 1994 if the federal commitment is not renewed.

Eligible Applicants

Cities, sanitary authorities, service districts and other governmental agencies are proposed to be eligible borrowers from the SRF for the construction of publicly-owned treatment facilities.

Eligibility Requirements

The proposed SRF would provide assistance for projects such as:

- o Secondary and advanced sewage treatment facilities
- o Sewage and wastewater collection systems
- o Interceptors
- o Sludge management
- o Storm sewers
- o Sediment control projects
- o Estuary management
- o Other non-point source pollution control projects

Funding and Activity Level

The proposed SRF funding at the level which has been authorized by Congress through 1994 (together with the 20% state match) would provide a total \$111.4 million for loans. Additionally, about \$9.6 million was appropriated in fiscal year 1990-91 for the remaining EPA Construction grants.

**WATER RESOURCES DEPARTMENT
WATER DEVELOPMENT LOAN PROGRAM**

Description and Program Objectives

The Water Development Loan Program (WDLP) was created to provide long-term financing for state water development projects, principally in farming communities. The program is funded from bond proceeds, and the State Constitution authorizes the sale of state General Obligation Bonds up to 1.5 percent of the state's true cash value, 50% of which must be available for funding irrigation and drainage projects.

Legal Authorization

ORS 541.700-855 provides the authorization and guidelines for this financing program. The issuance of bonds to fund the loan program is authorized under Article XI-I of the State Constitution.

Eligible Applicants

Eligible borrowers include:

- o Any municipal corporation, including irrigation, water, drainage and port districts as specified in the statute.
- o Businesses whose principal income is from farming in Oregon. Any organization formed for the purpose of community water supply distribution.

Eligibility Requirements

Projects funded by loans from this program must be in the public interest and have a primary purpose of irrigation or drainage of agricultural property, or supply water to a community which has more than three service connections and a population of less than 30,000. Money borrowed from the fund may be expended for new construction, engineering, legal fees, acquisition of water rights, acquisition of existing facilities and acquisition of rights-of-way.

Funding and Activity Level

The WDLP is strictly a loan program, with no grants available. There are no limitations placed on the amount of money that can be requested for each project. However, for the current biennium, the Water Resources Department has the budgetary authority to issue \$50 million in General Obligation Bonds

The Department will usually finance loans at the interest rate on the bonds sold plus an administrative charge. By statute, the maximum maturity is 30 years from the first payment date. Deferral on loan repayment may be allowed for two years while the project is under construction.

Bonds have not been sold for the program since 1984 due to a lack of demand. The loan rate on the available funds ranges between 9.5 and 10.5%. This rate includes an administrative fee.

The Department of Water Resources is anticipating several new loan applications in the near future and therefore may issue bonds. The loan rate on the new funds will depend on the market interest rates received on the bonds.

Application Process

The loan application is very specific and addresses the economic feasibility, engineering adequacy and the ability to repay the loan. The Department also specifies that any permit required for specific projects from any local, state, or federal agencies be obtained or a written authorization received before loan approval is granted.

**OREGON DEPARTMENT OF TRANSPORTATION
OREGON ECONOMIC DEVELOPMENT DEPARTMENT
IMMEDIATE OPPORTUNITY FUND PROGRAM**

Description and Program Objectives

The purpose of the Immediate Opportunity Fund is to support specific economic developments in Oregon through the construction and improvement of roads. Funding for the program was created by the 1987 Legislature with revenues from the state gasoline tax.

The Immediate Opportunity Fund is designed to meet the following criteria:

- o Provide needed road improvements to influence the location or retention of businesses in the state.
- o Provide procedures and funds for the Oregon Transportation Commission to respond quickly to economic development opportunities.
- o Provide criteria and procedures for the Economic Development Department and other agencies, local governments and the private sector to work with ODOT to provide road improvements for specific job development opportunities in the state.

A key goal of the program is to respond quickly to economic development opportunities where a rapid commitment of road construction/improvement funds is needed to help secure a project.

Legal Authorization

ORS 366.507 authorizes the use of state gas tax revenues to fund a number of ODOT programs, including the Immediate Opportunity Fund.

Eligible Applicants

Cities, counties and any other governmental agency responsible for public streets and roads.

Eligibility Requirements

A key factor for determining eligibility of funds is whether an immediate commitment of funds is required to influence the location of a firm or development in the state. Funding is

reserved for cases where there is an actual transportation problem to be solved, and where a location decision hinges on an immediate commitment of road construction resources.

All project applications must meet the following criteria:

- o The application must identify the direct benefits in terms of jobs created or retained by the road project.
- o Projects are limited to off-site road construction and improvements and must serve general transportation in addition to access to a specific economic activity.
- o The project and development meets all necessary land use and environmental requirements.

Funding and Activity Level

Funding for the Immediate Opportunity program is provided at a level of \$5 million per year to a maximum of \$40 million through FY 1996. The maximum amount of funding available for a single project is \$500,000.

The fund may be used only when other sources of financial support are unavailable or insufficient. The fund is not to be used as a replacement or substitute for other funding sources.

During the current 1989-91 biennium, the Immediate Opportunity program has funded six projects totalling \$1.8 million.

Application Process

Applications are first evaluated by the Director of the Oregon Economic Development Department. Recommendations are then forwarded to the Director of ODOT, who reviews the projects and recommends action to the Transportation Commission.

ANALYSIS OF STATE ASSISTANCE PROGRAMS

The following analysis addresses

- o how local governments respond to the state's current assistance programs,
- o what alternatives are available to the state for providing assistance, and
- o how to increase the attractiveness of the assistance for both parties.

A detailed discussion of the nature and extent of current Oregon state assistance programs is provided in a prior section of this report.

NATURE OF STATE ASSISTANCE

State assistance to local government infrastructure financing can be summarized into the following types:

- o Grant programs.
- o Loan programs, including "Bond Banks" (Bond Banks are programs which makes loans to local governments by buying locally issued bonds.) These programs are usually funded from:
 - * state revenue sources, such as lottery funds, Federal grants, etc.
 - * state issued General Obligation or Revenue bonds.
- o State assisted capital market access (debt issued locally with "enhancements" from the state).
- o Combinations of the above.

The most common type of assistance, in Oregon and elsewhere, is the loan program. Next to grant programs, loan programs are usually the simplest and can produce larger sums of assistance for the least investment of state funds, since most funds are derived from state borrowings. Unfortunately, the benefit to the local jurisdiction also tends to be minimal, given the state's typical security requirements. State-assisted capital market access programs are more complex, but, if properly structured and supported, can leverage greater amounts of local benefit per program dollars spent. Unfortunately, these enhancement programs require greater risk-taking on the part of the state, and the state dollars involved are funds not derived from state borrowing. Ironically, the enhancement which provides the most local benefit for possibly no state dollars spent (state bond insurance) also entails the greatest financial risk if things go awry and potentially the greatest impact on the state's credit rating ("contingent liability").

The following addresses:

- o Local Response to State Assistance Programs
- o State Assisted Capital Market Access (Enhancements)
- o Consolidation of State Assistance Programs
- o Case Studies of Attractive State Assistance

LOCAL RESPONSE TO STATE ASSISTANCE PROGRAMS

CURRENT ATTRACTIVENESS OF STATE ASSISTANCE PROGRAMS

Twelve jurisdictions in growing urban areas were interviewed. The appendix to this report contains a complete description of these interviews and the main conclusions. This analysis is based upon those conclusions and the expertise of the report authors.

Based upon the interviews with the local officials, there are five identified areas wherein assistance is needed:

1. Up-front costs
2. Payback provisions
3. Resources and expertise to address regulations
4. Greater flexibility in types of needs assisted
5. Overall reduction in revenue bonding costs

Whether the State program is a loan program or a capital market assistance program, these areas need to be addressed in order for the State program to be attractive.

UP-FRONT COSTS

Application time, need studies, engineering studies, etc. all require time and resources prior to any funding. If these are required to a major degree, smaller/poorer jurisdictions cannot afford to partake of State loan or market access programs. Only large or well-funded medium-sized jurisdictions can overlook this attractiveness reducer.

Remedy: State loan or market access programs would thus need to provide up-front assistance to make them attractive to medium or small jurisdictions. This assistance would require either money or provision of the service on their behalf by the State (which still costs money). It is likely that a market access program could require less time or resources other than application time, but this is totally dependent upon the State department designing the program and directing its goals/priorities.

PAYBACK PROVISIONS

This area applies primarily to loan programs. To the extent the State requires the same payback provisions as the municipal market, the extra up front costs and regulatory requirements make State loan programs less attractive than finding other financing.

Remedy: Permit more flexible payback structures than the typical market, such as deferred interest as well as principal (used by Special Public Works), term bonds with variable amount AID calls ("any interest date" calls used by DEQ), etc.

If the State provides market assistance programs (see "Enhancements" starting on page 109) but has heavy penalties if the enhancement is drawn upon, then the assistance is not attractive unless interest rates are reduced significantly. *Remedy:* do not require onerous payback or penalty provisions if the enhancement is drawn upon (e.g., reserve fund, insurance, etc)..

ONGOING REGULATORY RESOURCE AND EXPERTISE NEEDS

Often State loan and grant programs carry ongoing regulatory or certification requirements, many due to federal pass-through provisions. For the small jurisdiction, these requirements may exceed their budget or manpower.

Remedy: State provision of appropriate expert staff time could ease this burden. (DEQ provides expert staff to assist in meeting regulatory requirements.) Otherwise, loan and grant programs with extensive requirements will be progressively less attractive as the jurisdiction is smaller and less wealthy.

The same would be true if the State market assistance program required extensive reporting, etc.

GREATER FLEXIBILITY

There are many diverse needs among the many jurisdictions. The State assistance programs need to be multi-faceted. For example, if the jurisdiction wishes to address a road problem by encouraging use of mass transit, the assistance program should permit this variation. Interviewees reported that they felt there were often conflicts between the state objectives and their local needs. They felt the state needed to be more of a "partner" in the financing program.

REDUCTION IN REVENUE BONDING COST

While the state can provide relatively little assistance to local governments that can access General Obligation bonding, it can provide significant assistance to revenue bonding. This assumes that:

- o the local loan is on a revenue basis,
- o the state accepts lower security provisions (coverage, reserves, etc.) than the market requires for revenue-based financings,
- o the state borrows at a rate lower than the local government can borrow (loan program approach) or it provides enhancements to the local revenue bond issue (capital assistance approach).

Enhancements are discussed elsewhere in this report. The state can access lower borrowing rates on its own bond issues primarily by the following techniques:

- 1) issuing state General Obligation bonds which are then used to fund local revenue loans; or
- 2) issuing state revenue bonds which are secured in a manner which lowers its revenue bond rate substantially.

The first option is obvious and is currently being utilized by the DEQ in financing the mid-Multnomah County sewer projects. The second option is more difficult to achieve in a cost-effective manner.

If the state consolidates two or more funding programs that have state General Obligation and state revenue bond issuance authority, there may be a unique opportunity to provide this assistance. This approach assumes:

- o that the loan repayments are pooled and the bond proceeds are pooled (producing a melded rate),
- o that both revenue and General Obligation bonds are issued by the state for these projects,
- o that the total loan repayments are applied to the state revenue bonds first, then the General Obligation bonds.

ADVANTAGE: The revenue bonds would achieve an interest cost and rating very close to that of the General Obligation bonds and thus would produce a melded rate and borrowing cost only slightly higher than that of full General Obligation bonds. This approach would permit the state to lower the state General Obligation bonding amounts dedicated to assisting local governments while still providing substantial cost reduction to the local jurisdictions.

DISADVANTAGE: The General Obligation bonds would absorb the risk of revenue shortfalls. The structure of the local revenue loans would determine the level of this risk. For instance, the local loans could require payments of 1.1 times debt service (i.e., 110% of the annual debt service requirement), thus producing a pool of excess revenues as security, up to a maximum amount. The early years of the loans would incur the most cashflow risk.

This approach has not been developed in depth. The Health Division, at the time of this writing, is exploring this option with the funding departments. Initial conversations with bond counsel indicate that this would be feasible legally. Many details remain to be determined, but the concept is an example of innovations the state could use to provide assistance.

OVERALL ATTRACTIVENESS

In general, attractiveness of either program depends upon the State's willingness:

- o to assume some of the costs and
- o to accept risk (usually experienced as a risk that additional cost will be incurred).

Lowering the interest cost alone does not make a program attractive if the other costs or resource burdens increase by a greater margin. In evaluating loan or market access programs, all soft and hard costs should be added, including the cost of acquiring special expertise or reporting (e.g., cost of a CPA, certified engineer, etc.).

Provisions which reduce the risk to the State generally increase the cost to the municipality. If the State cannot accept the potential cost of risk, then the only jurisdictions which will find the programs attractive are those that are essentially precluded from other avenues of financing their projects. Few jurisdictions are totally excluded from the market, but the cost increases as the risk increases. A loan program is very attractive if the payback costs and ongoing monitoring costs total less than what the market will charge. Riskier projects and very small jurisdictions will find the market costs quite high; unfortunately, the risk to the State is also higher on these loans. If the State provides market assistance on these riskier projects and jurisdictions, the cost of the market assistance will be higher and the

likelihood that the enhancement will be drawn upon is higher. Therefore, the attractiveness is in direct relation to the State's assumption of cost or risk of possible cost.

Regarding access to the capital markets, growing jurisdictions have a more favorable response and thus a better "access" than those which are static or declining in growth. To the extent the market access is tied to growth management goals or policies, those which have the growth are those which least need the capital market assistance. Since the interest rates tend to also be lower, State loans would also require greater cost reduction in order to be attractive to growth jurisdictions.

PROJECTED USE OF STATE ASSISTANCE

GENERAL OBLIGATION BOND ASSISTANCE

If a jurisdiction can access its own General Obligation bonding, use of state assistance (loan or capital market) will be limited to the small or poor jurisdictions.

LIMITED TAX GENERAL OBLIGATION (LTGO) OR REVENUE BOND ASSISTANCE

If a jurisdiction cannot or will not obtain voter approval and/or legal authority for a full general obligation debt, then the state assistance is much more attractive. The following types of infrastructure will use the indicated type of assistance MOST. Both types could be attractive (see report analysis of "Attractiveness"), but the following chart indicates the likely preference. In this evaluation it is assumed that:

- o State loans to a local jurisdictions do NOT require the full general obligation backing of the jurisdiction (no voter approval). This means that the loans are made primarily on a revenue only basis.
- o State market assistance to local jurisdiction involves no loan component, but assumes a State-funded enhancement to a bond issue which is fully issued by the local jurisdiction. There are two primary types of assisted local issues addressed here:
 - * TAX = Supported by a special tax with no full General Obligation taxing ability supporting the bonds. These special tax bonds may be limited GO or other special taxes (e.g., hotel/motel), special assessments (including SDCs), impact fees, etc.
 - * REV = Revenue bonds effectively assisted by the State to be more marketable.

CHART: PREFERENCE FOR LOANS VERSUS MARKET ASSISTANCE

MORE = Prefer loan more than market assistance

MOST = Most districts would only want a loan

YES = Definitely would want the type of assistance indicated

TOO COSTLY = Issuing these bonds would be too costly to the entity

	LTGO or Revenue Loan	LTGO or Revenue Market Assistance
Very small jurisdictions	Yes	Too costly
Very small projects	Yes	Too costly
Streets and Roads	More	TAX: Only if sufficient fees/assessments
Water Systems	Small Systems	REV
Sewerage Systems	Small Systems	REV
Storm Drainage Systems	Small Systems	REV or TAX
Parks	Most	TAX
Open Space	Most	TAX
Recreational Facilities	Most	TAX: Hotel/motel most likely, or new source
Police and Fire Stations	Most	TAX: Assessment unusual, but possible; new source
Primary and Secondary Schools	Most	TAX: New source?
Libraries	Most	TAX: New source?

IMPACT OF MEASURE 5 ON PROJECTED USE

With the passage of Measure 5, more jurisdictions may be interested in loans to access the State's GO where the local cannot use GO. Others may also appreciate more market assistance now that their own financings will be limited GO or revenue, where once they could have been financed by local GO. The State's ability and willingness to fund those areas precluded from local financing will become attractive regardless of other concerns. Some examples:

- o Acquisition of land. To the extent land cannot be financed, the State might be able (depending upon its authorizations) to acquire the land and lease it to the municipality,
- o Equipment. The State might be able to finance the equipment (again subject to its authorization restrictions) and lease it to jurisdictions.
- o Easements. There may be difficulties with easements for transportation and bridge projects. The State may be able to use its transportation bond authority on behalf of the jurisdictions.
- o Components of "actual cost," such as depreciation, reserves, etc. "incurred charges" and "special assessments" are exempted from the limitation only if they cover only the "actual cost," which is not defined. This leaves such costs as depreciation, reserves, insurance, etc., unclear. If not exempted, assistance from the State may be welcome in funding them.

STATE-ASSISTED CAPITAL MARKET ACCESS (ENHANCEMENTS)

GENERAL PROGRAM DESIGN

The design of a state program to enhance municipal access to capital markets requires that:

- o the goals of the state program be identified (e.g., sound growth management practices, economic development, etc.), and
- o the willingness of the state to absorb costs or risk to achieve these goals be quantified by Legislative authorizations and enablements for funding the costs and risk.

Then the "enhancement" mechanisms discussed can be evaluated and incorporated. (Note that this section does not consider state loan programs, only state assistance to local governments who are issuing their own debt. It is possible that future state assistance programs will combine aspects of both of these.)

As discussed below, the program design is dependent upon the extent to which the state can and will provide revenues or other forms of security. The complexities of the program design derive mostly from the need to coordinate between:

- o the overall goals of the program and how they are implemented without increasing costs,
- o the source(s) of revenue/security, and
- o effective delivery of the assistance to the local jurisdictions.

"BARRIERS" TO CAPITAL MARKETS

Very few municipalities in Oregon are denied access to the capital markets. Indeed, every study examining the benefits of a bond bank in Oregon (one in 1975, another in the early 1980s) found that the market responded exceedingly well to local bond issues, regardless of size.

The real "barrier" is the cost of financing -- if the jurisdiction cannot afford to repay the borrowing, then it cannot borrow. Unlimited General Obligation bonds are considered close to risk-less and thus receive low rates; voter approval is generally the barrier. Revenue bond and Certificates of Participation (COP) are more risky and thus require various forms of security. Indeed, often local jurisdictions can barely produce sufficient non-property tax revenue to retire the debt, let alone further secure it. Therefore, the market access is more restricted for COP and Revenue bond financings.

THE COSTS OF BORROWING

The costs of borrowing consist of three major parts:

- 1) The interest cost, which is comprised of
 - a) the return to the investor,
 - b) the expected inflation rate, and
 - c) the risk assessment.
- 2) The costs to provide security: debt reserves, coverage, insurance premiums, restrictions on the facility, etc.
- 3) The sales costs (lawyer, underwriter, financial advisor, registrar/paying agent, printing, etc.).

RISK

The first two elements both address "risk." This is a true cost paid to those who lend the funds. If the perception of risk is reduced, the interest rate is less and the security requirements are less. Even if there is never the slightest disruption in the payment of the debt service for the life of the bonds, this cost is not refunded to the borrower. Therefore, this cost is, in a sense, wasted.

Often the "risk" is actually a disruption in the flow of revenues, rather than default on the debt. That is why larger jurisdictions with large funding bases are given higher ratings and lower interest rates: they can absorb a disruption by using other revenues. If the state could provide its larger base as a cushion for the cashflow risk of smaller governments, the cost to borrow would be reduced.

In most cases, there would never be any funding by the state: security is only utilized when there is a problem. The catch is that the security may be used during hard times and the state must then provide the amount of the revenue shortfall necessary to retire the bonds. Thus the state must identify that revenue source and be willing to use it. Otherwise, the jurisdictions are faced with security requirements equal in cost to those assessed by the market and must also add the cost of reporting/monitoring requirements to meet state goals.

STATE ASSISTANCE: IMPACT UPON THE USE OF LONG-TERM FINANCING VERSUS THE USE OF CURRENT REVENUES

Infrastructure financing is customarily divided into four types:

- o Operations Costs
- o Maintenance
- o Annual Small-scale Improvements
- o Major or Large-scale Projects.

Based upon the comments of the interviewees and the experience of the report authors, the portion of infrastructure now funded by "current revenues" is mostly maintenance, operations costs and annual small-scale improvements (eg. road repairs.) Generally, large-scale infrastructure projects cannot be funded by current revenues -- few jurisdictions can accumulate funds over a long enough period to afford the project, given the inflation in cost over the same period. Therefore, long-term financings rather than current revenues are used for major infrastructure projects, or the projects are delayed. Annual operations and maintenance costs are not acceptable purposes for long-term financings.

Where current revenues are not treated as "taxes" under Measure 5, it is unlikely that most jurisdictions will turn to long-term financings to fund the small-scale portion of infrastructure that is now funded by current revenues *solely* because state-assisted capital market access is available. Where current revenues are treated as "taxes" under Measure 5, jurisdictions may increase their use of long-term financings in order to (1), reduce the annual requirement which must fit the \$10 limitation or (2), exempt the annual requirement from the \$10 limitation by issuing voter approved General Obligation bonds. If General Obligation bond authority is not available, then state assistance may further encourage the use of long-term financing for the small-scale improvements.

STATE ASSISTANCE: IMPACT UPON THE USE OF REVENUE BONDS VERSUS THE USE OF GENERAL OBLIGATION BONDS/IMPACT ON GO BOND AVAILABILITY

There are a few enhancements the State could provide which would make a full General Obligation bond issue more marketable than it already is. General Obligation bonds sold to the state (which is a loan program) transfer benefits, but State assistance to local General Obligation bonds is unlikely to produce results worth the effort. The municipal market has long provided ready buyers for General Obligation bonds of even the smallest jurisdictions.

Many small and medium size local jurisdictions which find a ready GO market will find the market less affordable or receptive to a limited GO or revenue bond issue. With the passage of Measure 5, General Obligation bonds still can be issued for many infrastructure projects, but only for the capital construction and improvements portions. Land, equipment and possibly other aspects may not be financed by full GO bonds (at least until there is legislative clarification or court validation for these purposes).

Since it is quite difficult to sell revenue bonds for most small and medium jurisdictions, state enhancements would provide much greater cost impacts than for General Obligation bonds. Even larger municipalities would opt for a State assistance program if it made revenue bonds more feasible than selling General Obligation bonds. Most jurisdictions wish to preserve their General Obligation debt capacity and to avoid voter approval, even if it costs slightly more. *Therefore, assuming state assistance on limited GO or revenue bonds which provides some of the five types of assistance discussed on page 102, the issuance of non-GO bonds in place of GO bonds would be encouraged by state assistance.*

Unfortunately, many infrastructure projects do not generate revenues and therefore cannot be financed with "enterprise revenue bonds" (those bonds retired solely from revenues generated by the financed facility.) Therefore, limited General Obligation bonds or non-enterprise revenue bonds such as special assessment, special tax, fee, etc. bonds may be desirable forms of financing for these projects and may achieve substantial beneficial impacts from state enhancement.

INCREASED ISSUANCE OF NON-GO BONDS: IMPACT UPON THE ABILITY TO ISSUE GENERAL OBLIGATION BONDS.

If the source of repayment and security of the non-GO bonds do not strain the security of the full General Obligation bonds, then there would be no negative impact on the availability of General Obligation bonds for other purposes. To the extent the repayment and security sources (e.g., limited General Obligation pledge) overlap, the ability to issue full General Obligation bonds may be slightly impacted. A parallel situation is seen with those jurisdictions that now issue Certificates of Participation secured by the general fund and that also have full General Obligation bonds outstanding. Their GO debt capacity and limitations are unaffected by the Certificates of Participation, but the rating agencies and official statements require full disclosure of this liability of the general fund.

Increased issuance of revenue bonds for infrastructure would enhance the ability to issue General Obligation bonds, since the total amount of outstanding General Obligation debt would thereby be reduced. Revenue bonds generally do not overlap the security sources of General Obligation bonds, although the repayment sources may (eg., a City may have both GO and revenue bonds outstanding for water or sewer purposes.)

STATE ENHANCEMENT OPTIONS

PURPOSES OF ENHANCEMENTS

The main problem to be addressed is the need to reduce the amount of repayment due each year from the local municipality that is financing an infrastructure project. The primary purpose of enhancements is therefore to lower the annual repayment amount (usually referred to as "debt service"). There are several ways to lower the debt service on local bonds sold to the capital markets:

- o Subsidize the interest cost.
- o Reduce the interest cost:
 - * provide bond insurance;
 - * provide a debt service reserve or other reserves;
 - * enable acquisition of a letter of credit;
 - * offer access to existing state funds which are not funded solely for this purpose;
 - * through a Joint Operating Agency or other pooling programs, create a pool with less risky loans (by wealthier municipalities) and require all to pay shortfalls in return for lower interest cost;
 - * pledge to raise an authorized state tax if necessary;
 - * legislate a new tax raising ability to be utilized only if shortfalls occur;
 - * obtain a line of credit from a commercial bank which would provide funds for any unexpected annual shortfall.
- o Sometimes the affordability problem is due to the nature of the cashflow, which may be virtually none initially and then increase over time. Enhancements by the state would then provide funding assistance so as to rearrange the overall debt service, creating a cashflow which matches a growing revenue source. The state would provide loans or grants for the early years' debt service. These loans could later be repaid by the municipality when the revenues are increasing.

ENHANCEMENTS: SUBSIDIZE THE INTEREST COST

This requires non-bond state monies to pay part of the interest cost.

1. LOCAL BONDS SOLD TO MARKET; STATE SUBSIDIZES RATE

The local government sells bonds in the municipal market and the state pays part of the interest cost. The _____ part of the interest cost. This pre identify some long-term (life of the loan) source of funds to pay the subsidy. This can be accomplished by:

- * An appropriation which must be assured and must bind beyond the current biennium.
- * Funding of a reserve which will fully cover the obligation (including interest earnings during the term of the bonds).
- * Providing a binding pledge of a reliable source of revenue; these revenues will be utilized to pay the subsidy and must be expected to continue into the future at the needed levels or greater.

2. REVOLVING FUND: NO BONDS SOLD; SUBSIDY LOANED TO MUNICIPALITY

The state uses non-bond money to fund the loan and charges a rate lower than that the local government would pay to issue its own bonds. The state loses use of the money except for the annual repayments. As the money is repaid it can be reloaned, but this is a fairly long turn-around period. This is the "revolving fund" approach used by the DEQ, Special Public Works Fund, etc. The initial source of funds is usually federal grants or lottery funds.

ENHANCEMENTS: REDUCE THE INTEREST COST

Most approaches offer additional security to the bonds. The interest rate directly reflects the perceived risk to the bond holder.

PROVIDE BOND INSURANCE

There are two approaches to this:

1. The state purchases the bond insurance premium on the local bond issue from a private insurance company.

The bond insurance company will want state guarantees or reserves in order to insure the issue. Yet the amount of initial funding is probably considerably less than if the state serves as the insurer. A pledge of the pooled loan reserve and repayment fund, with a promise not to let it drop below a specified level (such as the total annual obligations outstanding against the pool), may suffice.

2. The state is the insurer.

The state essentially guarantees the local government bonds sold to the market. There would need to be a reserve fund which meets reasonable risk levels and a pledge of some other fund which could make up the difference in the case of a default. If the state were able to assume payment of the bonds in case of default, the reserve amount would probably be one year's debt service and the state revenue source must be sufficient annually over time to pay the remaining debt service.

The most likely case would be a shortfall by the local entity which would be subsidized as needed by the state. Hopefully, the subsidy would be recovered later and returned to the insurance pool.

The credit markets will treat the obligation as a contingent liability of the state and thereby still impact the debt load of the state.

PROVIDE DEBT SERVICE RESERVE OR OTHER RESERVES

When the local government sells bonds to the market, a debt reserve fund can be helpful. Debt reserves are lesser security than insurance:

- o insurance covers the entire debt service for the term of the bonds, while
- o a debt reserve has only one year's debt service and is limited to that amount.

Therefore, a debt reserve provides some protection from cashflow disruptions, but not all-out default. Debt reserves typically are funded from bond proceeds or cash, thereby reducing the amount of proceeds/cash available for the project and increasing the amount of principal upon which interest must be paid (or cash to be invested).

The state can assist the local government by putting away an amount equal to the average annual debt service on the local bonds. This fund must remain funded for the life of the bonds. It may be used for other purposes, but the total sum may not fall below the reserve requirement. Earnings can be used to make other loans or subsidy payments.

It may also be possible to obtain a surety for the debt service reserve from an insurance company. This involves payment of a premium only, rather than setting aside the full amount. The insurance company will still be concerned that the issue is well secured, so other enhancements will probably be necessary.

ENABLE ACQUISITION OF A LETTER OF CREDIT

This option is essentially the same as bond insurance, except the guarantee is obtained from a commercial bank. The bank charges fees for the letter and the state could pay those fees. The banks may be more motivated to assist if the local entity is a customer of the bank for other services or if the pooling of entities could bring it additional business in other areas from the pooled entities.

Letters of credit generally do not extend over the long term of a typical borrowing. Many contain provisions for extensions, but there is no certainty that they will be extended. To the extent that the state could assure assumption of the obligation if the letter of credit expires, this could provide excellent security to a local issue.

The reason for providing either insurance or a letter of credit is to reduce the interest charged on the entire issue. The greater the security, the less the interest rate. While this is quite beneficial to the bank, the cost/benefit analysis may indicate that the cost of the insurance premium or bank fee may be less than the extra interest charged without the additional security.

The following approaches eliminate the fee to an outside entity. Instead of using the large pools of funds available to the insurance company or bank, the state provides a pool of funds. This eliminates the fee to other entities, but leaves the state exposed to using this pool.

OFFER ACCESS TO EXISTING FUNDS WHICH ARE NOT FUNDED SOLELY FOR THIS PURPOSE

This does not stand alone, but is a way to provide security or reserves for a number of options. When the state was setting up the Umbrella Bond Program for riskier Industrial Development Bonds, the program offered security by pledging another fund of the state held by the State Treasurer. This was a large fund and there was little desire that the fund ever be tapped, but it provided a way to assist small local businesses in obtaining financial assistance.

There may be many state divisions and funds which could provide ample security, but few will be willing to allow pledging of their funds. There may also be legal impediments to use of the funds (e.g., State road funds may be legally restricted to only road purposes), but could be pledged for appropriate project funding. There should be methods to achieve repayment of any borrowings from this pledged fund.

This concept is similar to how insurance companies offer coverage. They have large pools of funds which they certainly do not wish to utilize, but are essentially committing to draw upon those funds if a default occurs on an insured bond. The companies are quite aggressive about recovering any expenditures from those funds, but they provide great comfort to the bond holder.

JOINT OPERATING AGENCY: POOL WITH LESS RISKY LOANS AND REQUIRE SHARING OF SHORTFALLS

If the program will include better funded entities who simply wish to get a lower-cost funding program, or some share of grants, they can be pooled with the smaller risky programs and asked to share in funding any shortfalls.

Why would a wealthier entity agree to this? This assumes that the shortfall sharing would still be less costly than paying a full market rate on the bonds to the wealthier entity. This may also be desirable where the wealthier entity wishes to preserve its General Obligation debt capacity and so can issue revenue bonds with state enhancement. Revenue bonds require the following additional costs:

- o a debt reserve funded usually at the time of closing;
- o higher interest rates, which vary from 0.25% to 1.00%;
- o coverage, meaning that the annual revenues must exceed the annual debt service by some percent, such as 25% or 30%;
- o higher issuance costs.

The savings from these costs could be passed along, in part, to help out the less fortunate entities. This is the Robin Hood approach. It was explored by several small water districts using the "Joint Operating Agency" approach, but not utilized (see ORS 264.360). It may require legislative changes to allow this sharing of risk.

PLEDGE TO RAISE AN AUTHORIZED TAX IF NECESSARY

Additional security could be offered by either the state or local entity by pledging to raise a specified tax if necessary (similar to a General Obligation pledge). This tax would be already fully authorized and could be implemented immediately.

One such tax is the hotel/motel tax. The local authorizing body would have to approve a resolution which essentially raises the tax or commits to raising the tax in the case of a revenue shortfall. This would be most viable in areas that are tourism-dependent and therefore the infrastructure situation may matter to the local motels or hotels.

Another such approach would be an assessment upon benefitted properties. The full assessment procedures must be followed and the liens recorded, but the assessment would be levied only if and to the amount needed to meet the shortfall. The assessments would be tailored to levy more heavily upon those with greater resources to pay. Therefore, the assessment formula would require some creativity; legislative changes may be required to provide full flexibility.

LEGISLATE A NEW TAX-RAISING ABILITY TO BE UTILIZED ONLY IF SHORTFALLS OCCUR

The methodology is the same as above, but the state legislates a new type of tax which is available to local entities or to the state. It would be levied only as needed, but if the state levied the tax, it might have a wider populace upon which to spread the tax. Utilizing it only for shortfalls may lessen the impact and acceptability.

The new tax could also be used to fund the early years when it is hardest to pay and then be reimbursed in later years when revenues are greater.

OBTAIN A LINE OF CREDIT FROM A COMMERCIAL BANK WHICH WOULD PROVIDE FUNDS FOR ANY UNEXPECTED SHORTFALL

The state could obtain a line of credit from a bank which would assist itself or the local entity if there is an unexpected shortfall. Unlike a letter of credit, this is not a guarantee of debt, but is a committed sum of money available as needed. There are annual fees for this commitment, and when money is borrowed, there will be an interest charge. Obtaining a line of credit would lessen the sums which would need to be set aside to supplement the cashflow shortfalls.

A line of credit is not currently used as a debt reserve for bonds, but may be an additional tool to add to other approaches for this purpose as well.

ENHANCEMENTS: TO ASSIST CASHFLOW PROBLEMS

DEFER INITIAL PAYMENTS FOR A CERTAIN NUMBER OF YEARS

The Special Public Works program is willing to defer payments for two years, then amortizes them into the debt service. This service is provided only upon special request, when the applicant makes a good case for the deferral. This is possible because the state did not issue bonds which it must repay for the program.

State loans to cover early years' debt service which are later repaid may solve cashflow difficulties for otherwise affordable projects. This would be an example of a combined enhancement and loan.

EFFECTIVENESS OF ENHANCEMENT OPTIONS

The effectiveness of the enhancement generally is determined from:

- o the ease and speed (liquidity) with which it can be accessed when in need,
- o the certainty of the enhancement's funding, and
- o the dollar amount of the enhancement.

The rules are similar to those of home or life insurance: insurance provided by a single company about to go bankrupt is less effective than that provided by a conglomerate of three multi-billion dollar companies.

The general effectiveness of each enhancement is discussed below. If several enhancements are combined, the effectiveness is obviously increased. It is assumed here that the local governments are issuing Certificates of Participation or Revenue bonds.

1. INTEREST COST SUBSIDY

The effectiveness is determined by the amount of the annual subsidy and by its certainty for the term of the bond issue. A promise to fund is less effective than a fully funded reserve from which the annual payments are drawn. State legislatures have difficulty committing future legislatures, so unfunded interest subsidies are not very effective.

Generally, interest subsidies are the most costly enhancement. Even a fully funded interest reserve would produce some skepticism regarding the likelihood that the reserve would remain untapped for other purposes during the entire twenty year term. If funds are actually available up front, then a direct grant or low interest loan would reduce the size of the borrowing, thereby reducing the annual debt service.

If the interest subsidy is committed from an existing and reliable revenue stream, the local government bonds may receive a slightly lower interest rate.

2. BOND INSURANCE

This is a very effective enhancement and is quite economical for the state. The state would pay the insurance premium for the insurance from a highly rated bond insurance company on behalf of the issuing jurisdiction. If the company is rated AAA, then the interest rate can be as much as 0.50% to 0.75% less (quite significant on a long-term bond issue).

The catch is that either the state or the local government would have to provide reserves and coverage at levels necessary to convince the insurance company that it would never be called upon to provide insurance. Even if the local jurisdiction had to provide these security features, the reduced interest rate might worth it. Most likely, the insurance company would prefer that the state provide some assurances of repayment on behalf of the local government.

3. INSURANCE POOL FUNDED BY THE STATE

This is very effective if the state can produce sufficient revenues to fund the pool (the commitment is to pay total debt service, if needed). Over time, the pool's earnings could reduce the state's commitment, but early years require significant and reliable funding. The market would evaluate the state's level of insurance (just as one would evaluate other self-insured funding levels). An independent actuarial evaluation may be required. If satisfied, the interest cost savings would be close to commercial bond insurance savings.

If the state were readily able to fund any draws, the pool could also serve as the debt reserve fund, thereby further reducing the cost to the local government. This would be quite effective -- a reduction in both interest cost and reserve funding requirements -- but the state must be prepared financially to substantially endow and replenish the fund.

4. PROVIDE A DEBT RESERVE

Since this would reduce the size of the bond issue, this is a more effective enhancement, because it eliminates the interest cost of the borrowed reserve monies and also provides security which may somewhat reduce the interest cost on the total issue.

The state could also pay the premium to provide a debt reserve surety from a bond insurance company. Once again, the company may attach fairly stringent requirements to assure that the reserve will not be utilized. Thus the state-funded reserve is more effective, especially if the state will assume some risk that the reserve will be utilized and may not be paid back.

5. OTHER FORMS OF PROVIDING RESERVES OR INSURANCE:

LETTER OF CREDIT

ACCESS TO EXISTING FUNDS

PLEDGE TO RAISE AN AUTHORIZED TAX

LEGISLATE (AUTHORIZE) A NEW TAX

LINE OF CREDIT

The effectiveness of all of these would be determined by the same analysis of reliability and liquidity. These are all possible ways to provide a reserve or insurance.

6. POOLED FINANCINGS

This is quite difficult where the local governments, rather than the state, are accessing the capital markets. The statutory mechanism is the Joint Operating Agency, which would need expansion if this option were to be utilized. Making this option available would be some assistance, but the effectiveness would depend upon the creditworthiness of the best pooled credit, the riskiness of the worst pooled credit and the nature of the security offered for the issue.

The state's assistance could then be providing significant security for the pooled financings. Then the same effectiveness criteria would apply: reliability and liquidity.

7. CASHFLOW ENHANCEMENTS

Cashflow enhancements are targeted solely at problems with local jurisdictions producing revenues in a large enough or level enough stream to cover debt service payments, especially in the early years. This again is not especially effective for credit market assistance, but is most useful for loan programs or combined programs.

This enhancement for credit market access would require that the state assume the payments during early years. The effectiveness would depend upon the repayment provisions for the state-paid debt service, if any.

IMPACT ON DEBT LIMITATIONS AND CREDIT RATING

Debt limitations generally do not impact local debt for infrastructure, since the General Obligation limitation exempts most infrastructure projects and revenue bonds are not subject to a limitation.

The state may find its creditworthiness, and therefore its rating, affected if it assumes large portions of local bond risk. Assumption of risk requires disclosure of this "contingent liability." If its obligation to assist the local government becomes an absolute promise to pay debt service, this obligation may become equivalent to a "debt" obligation and therefore would be subject to the state's debt limitations in those cases where the General Fund of the state is pledged. Therefore, limited reserves and specific funds must be pledged, not the state's general taxing power or General Fund.

ENHANCEMENT SUMMARY

There are a number of ways to enhance local debt. The key question is to what level the state is willing:

- o to set aside money and not utilize it for other purposes -- and how much,
- o to provide assistance and subsidies -- and how much,
- o to absorb the risk of shortfalls -- and how much,
- o to pledge other state funds -- and the size of these.

Once the state's level of willingness to directly pay costs or to absorb risk is determined -- and the source of funding for those costs or risk amounts is identified -- then the enhancements are more easily selected.

CONSOLIDATION OF STATE ASSISTANCE PROGRAMS

This report assumes that consolidation means a pooling of state financial assistance programs at various levels. Consolidation could range from sharing only a common entry point to a full merging of the funding, awarding and tracking functions.

Currently there is a proposal known as the "One Stop-Shop" Model. This model, also referenced as the Community Development Bank (CDB), has been proposed by the Oregon Economic Development Department (EDD). It has suggested the consolidation of the local government financial assistance provided by the Community Development Section of the EDD, the Department of Environmental Quality, and the Water Resources Department. As explained by the EDD staff, all regulatory decisions would remain with the department which is providing assistance. The purpose of the CDB is to "streamline the delivery of financial assistance to communities."

This CDB proposal is an example of consolidation, but since it is in the process of development, this specific proposal is not analyzed here. For the purposes of reference, any consolidation program is called the "Consolidated State Financial Assistance Program" (CSFAP).

CONSOLIDATION -- ADVANTAGES AND DISADVANTAGES

The advantages cover various types of coordination that could be achieved. The disadvantages express the concerns of various individuals, including state departments. No single proposal or concept is presented in this section. Rather, the range of reactions to the idea of consolidation is presented. (NOTE: Some of the opinions expressed may not reflect the opinions of the authors of this report. The listing is intended to be representative of differing viewpoints.)

ADVANTAGES

1. Local communities could access the assistance more conveniently.
2. If so designed, the application process could be made simpler and entail hopefully only one effort.
3. If so designed, the CSFAP could provide assistance in the application process, thereby addressing one of the needs identified in the local government interviews.

4. If so designed, the CSFAP staff could review and collect the information initially from the local government, then relaying only the portion needed by each department likely to participate in the financing. This would provide administrative efficiencies to those departments.
5. If so designed, the infrastructure project could be assisted with a "package" of financings, possibly including a mix of grant, loan and capital market assistance. CSFAP staff could assess the most effective mix of assistance mechanisms.

One example could be:

- o a Special Public Works Fund (SPWF) lottery grant, plus
- o a SPWF lottery low interest loan, plus
- o a local revenue bond purchase using SPWF revenue bond proceeds, plus
- o a local bond purchase using Water Resources GO bond proceeds, plus
- o a State provided debt reserve enhancement for a local revenue issue sold to the capital markets.

Properly structured, a major infrastructure project could be funded with less cost to both the State and the local government.

One recent example of a "package" of Special Public Works loans and issuer issued revenue bonds is the Tualatin Development Commission's Leveton District project. (See details below.)

6. Pooling of projects may result in a lower cost to the local governments, through shared costs of issuance, etc. Also, the larger the pool of projects, the larger the state bond issue, which translates into an issue which can be sold to the national market (rather than locally) and thus increasing the demand. Increased demand translates into lower interest cost.
7. To the extent revenue loans are made to the local governments but are funded by state GO bonds, the state's GO interest rate would be passed through. (See the description of the DEQ Mid-Multnomah County Program.) This would allow the local governments to preserve their GO bonding capacity but receive GO interest rates.

8. To the extent State GO bonds are used to finance revenue loans, riskier projects can be financed (assuming the state will assume the risk). Where state revenue bonds are contemplated, riskier projects (or riskier revenue sources) cannot be used.
9. Depending upon the source of funding used by the state for its assistance, the state will have various regulations and restrictions. Consolidating these will provide an opportunity to evaluate the degree to which these present obstacles and to provide resources or expertise in overcoming the difficulties. In some cases the degree of difficulty may be more a perception of the local jurisdictions than a reality in practice.
10. Opportunities to educate the municipalities regarding the availability of assistance would be enhanced.
11. Consolidation may encourage a broadening of the lottery fund's "economic development" definition to permit the use of lottery loans and grants for infrastructure projects. Since the definition of economic development is derived from the legislature, the definition could also be reshaped to include sound growth management practices as a prerequisite to acquisition of lottery funds.
12. Many state loans and assistance require the review and participation of the Attorney General (excluded are CDBG and SPWF), at least in the program design and rule phases. Where bonds are concerned, the State Treasurer is also involved. The CSFAP can assist in the coordination with these offices to assure that their participation is simultaneous rather than sequential, which can delay the financing.
13. Various goals and priorities can be promulgated through the legislature as directives to the CSFAP to reflect the priority of sound growth management (or other priorities such as economic development). The greater the state assistance, the more stringent the requirements can be for meeting those goals.
14. Goals of agencies and departments which do not have bonding authority can be merged into funding programs, rather than only those with bonding. For example, the Health Division (Department of Human Resources) has drinking water health goals which can be reflected in borrowings authorized for the Department of Water Resources.

DISADVANTAGES

1. The greater the layering on of state goals and priorities, the less the "streamlining." Rather than simplification, the process could become more complex.

Also, the costs of monitoring the progress related to those goals will increase the state's costs and decrease the available assistance.

2. Consolidating the various programs into one entry point runs the risk of establishing a monopoly which could concentrate the unattractive aspects of state assistance. Depending upon the CSFAP design and future legislative and staff inclinations, the access for local governments could be reduced rather than increased.

Several points of entry provide reassurance to jurisdictions that the bias of one agency (or individual conflicts or political concerns or changing priorities) does not foreclose the opportunity to approach another state program for assistance. Likewise, an efficiently run program may suffer if the CSFAP staffing or legislative directions introduce inefficiencies. This is the classic argument for decentralization versus consolidation.

3. Busy state staff people do not wish to have "time wasted" by futile efforts to include them in projects which are not deemed feasible by themselves, but are a "pet project" of the CSFAP.
4. The larger or more powerful the financing bank, the greater the political pressure applied.
5. The attractiveness of the programs may decline as the state overlays policies. Local jurisdictions resent the "interference" of the state in their local development, especially if the goals conflict.
6. Participating state programs are concerned that the CSFAP will take the carrot (the financing awarding) but leave the regulatory functions to the department. For instance, DEQ can encourage its environmental standards by offering its financing assistance. The department's effectiveness would suffer if all it were perceived as doing was policing while the good guys at the EDD offered the assistance.
7. Participating programs are also concerned that only the desirable funding tasks would be assumed by the CSFAP. For instance, Water Resources requested that the CSFAP take over its obligation to fund irrigation as well as the drinking water function.

8. If the regulations and requirements for loans increase as a result of consolidation, then the speed of processing the application will decrease and the annual monitoring costs will increase. This is a concern of local jurisdictions which can be avoided in the design of the program.
9. There are many complex regulatory or other details unique to each program which only the individual department can address in negotiations with the local jurisdictions. For instance, the DEQ SRF program requires a complex agreement regarding reserves, coverage, revenues, type of loan, etc. The Department feels comfortable only if it makes these commitments.
10. It is difficult enough to accomplish a financing with one department. It may be overly optimistic and an underestimate of the complexity of the situation to try to coordinate the needs of several departments.

INITIAL CONSOLIDATION SUGGESTION

Attempting to address the various concerns listed above while achieving the advantages is a challenge. The following suggestion is a suggested first approach to designing state assistance program consolidation.

Various state departments can centralize their financing processing while retaining their regulatory and incentive functions. The project evaluation and application processing can be streamlined by providing a single point of entry for the local jurisdictions. This would enable the following processing:

- o The CSFAP staff could review the project and determine the appropriate mix of programs, if any.
- o Program priorities could be examined, such as those defined as representing sound growth management goals.
- o The CSFAP staff could act as facilitator, screen out inappropriate applications, and provide assistance in collecting and processing information which may be useful to several state financing programs.
- o The CSFAP could structure the financing "package" and coordinate the flow of information and negotiations in the proper order.
- o After this initial review and packaging, the relevant information could then be sent to the appropriate department staff persons for assessing the proper fit to their goals and priorities.

- o The CSFAP could assure that the State Attorney General's office was involved as early and as often as required.
- o The actual awarding should flow from the department(s) that approve the financing, so they do not lose their positive contact or influence with the jurisdiction.
- o The department(s) could also conduct the necessary negotiations to finalize the agreement.

In this manner responsibility and reward remain with the individual state departments, but the local jurisdictions receive the most feasible assistance with the least effort on their part. To the extent that the CSFAP staff develops an expertise in the areas of concern for the state offices, there are administrative efficiencies achieved here as well.

Regardless of the participants, the State Treasurer should be involved in the program design. While no bonds can be issued without the participation of the Treasurer, the overall credit impact and financial soundness of the CSFAP must be continuously assessed.

CASE STUDIES OF "ATTRACTIVE" STATE-ASSISTED LOCAL FINANCINGS

LOAN PROGRAM CASE STUDY: The Tualatin Example

Purpose: To entice two Japanese plants to the area.

Financed: Primarily streets and roads.

Revenue Source: Tax increment paid primarily by the Japanese plants. The urban renewal area was new and was assumed to have minor development other than the plants. Therefore, the growth in assessed valuation was predominantly from the plants themselves.

State Assistance: Two Special Public Works Fund Lottery Loans.

Local Financing: Tax increment revenue bonds to the full amount possible given the projected levels of tax increment.

State Assistance Benefits:

1. State 5% loans **reduced the total amount** of the project cost to a level which could be financed by the tax increment.
2. State loans **eased the cashflow** restraints by deferring the first two annual payments completely, helping to allow time for the increment to grow. The loans were also long-term, thereby reducing the amount due each year.
3. State took a **subordinate position** (permitted itself to be paid **AFTER** the bond holders are paid, so if the tax increment is insufficient, the State assumes the loss) to the local bonds. Without subordination (and thus, assumption of risk), the bonds would have been "junior lien" and very difficult to sell.
4. The state provided some 5% funds for a **debt reserve**. Since the reserve was not funded by bonds, earnings also assisted the reserve amount. If not provided, more bond proceeds would have been required for the reserve, reducing the amount available for the project.

RESULT? Two large industrial Japanese firms are located in Tualatin. Without the assistance, the projects were not affordable and the firms would not locate without municipal provision of the infrastructure.

**COMBINATION LOAN AND STATE-ASSISTED MARKET ACCESS CASE STUDY:
THE DEQ/MID-MULTNOMAH COUNTY SEWERS EXAMPLE**

Purpose: To finance the sewers in the mid-county area. This example covers the area Gresham is assisting.

Financed: Primarily sewer lines and connections.

Revenue Source: Special assessments levied upon the property owners.

State Assistance: LOAN PROGRAM -- Purchase of local special assessment (special tax revenue) bonds using the proceeds of state issued General Obligation bonds.

Local Financing: Special Assessment Bonds.

State Assistance Benefits:

1. No **reserve fund** was required by the State.
2. The city issued special assessment bonds, rather than Bancroft Bonds (full General Obligation bonds), thereby **not affecting the GO debt capacity** of the City.
3. The city assumed the risk of non-producing assessments up to 8% of the total debt service. The state assumed the remainder of the **risk**.
4. The State's **full General Obligation interest rate** was passed along to the city (adding an annual administrative fee).
5. The **cost of selling** the bonds was reduced by sharing with the City of Portland in a joint bond offering.
6. A flexible repayment schedule was utilized which matches the **cashflow** of the assessments.

**PROPOSED LOAN PROGRAM CASE STUDY:
Reducing the Payback and Eliminating the "Totally Self-Supporting" Mandate
THE SAFE DRINKING WATER FUNDING PROGRAM**

For a complete description of the program, please see the Description of Existing State Assistance Programs section.

The proposed program combines many of the recommendations contained within this report related to making state assistance more attractive to local jurisdictions. It is being proposed by the Strategic Water Management Group's Task Force on Drinking Water Construction Funding as a legislative concept. (Many aspects of this proposal still must be established by participating agencies and no state department has officially approved this approach as of the date of this report.) As a recommended approach, the Safe Drinking Water Funding Program (SDWFP) is proposed to be sited in an existing department and to utilize existing state bond authorities. The proposed program would provide attractive financial assistance to local jurisdictions in that it:

- o **lowers payback provisions** for local loans
- o **assumes some of the risk** by providing a set-aside state appropriation in lieu of a local bond reserve (for the General Obligation portion)
- o **assumes some of the costs** by funding the Revenue bond reserve and pays the bond sale and administrative costs.
- o **melds Revenue and General Obligation bonding** authorities and pools all of the loan repayments as security
- o **pools loans** to reduce issuance costs and reduce risk
- o coordinates cooperation between three state departments, **simplifying the application requirements**
- o obtains access to **lottery funds** where appropriate.

Under the proposal, the loans would be funded by a combination of state Revenue and General Obligation bonds, melding the rate and combining the loans as the security. The Revenue bonds would have first claim on all loan payments, so the Revenue bond "coverage" is 2 times annual debt service (coverage is an indication of how much repayment revenues exceed debt service.) This would create an excellent Revenue bond issue and it would receive a lower interest rate than otherwise. The Revenue bond reserve would be funded from state monies, but would be recovered over time from a portion of the

coverage paid by local jurisdictions on their loans. The state would benefit from issuing Revenue bonds for half the loan amount because it would cut its General Obligation debt load by half and would insulate its General Obligation bond rating.

The General Obligation bonds would then have a claim upon the loan repayments. These bonds would NOT be considered fully "self-supporting" (i.e., paid solely from loan repayments) as currently mandated by the state, but would set a fixed percentage equal to the amount the state will assist. The proposal currently suggests a 90% self-supporting, 10% assisted division. This is similar to the former DEQ bond program 70%/30% wherein 70% of the DEQ debt was considered self-supporting and 30% state funded (making only 30% of the debt part of the state's "Net Debt Load"). The state would appropriate 10% of the debt service due each fiscal year on the General Obligation bonds but would only use it to the extent necessary to assist local loans which are delinquent (or to provide some level of grant assistance.) This would add only 10% of the General Obligation bonds to the Net Debt of the state. The full General Obligation of the state is pledged to the bonds, so the bonds receive the best interest rate, but the state clearly permits its departments to accept riskier loans which may be delinquent at times up to a 10% level. Eliminating the mandate of full self-sufficiency, and replacing it with clear legislative support for partial self-sufficiency can produce loans which provide real financial assistance to local jurisdictions at a minimal cost to the state.

The key to providing real financial assistance is the reduction of the payback provisions to levels less than the market would demand for comparable local revenue bonds. The state would fund the reserve needed for the Revenue bonds and would not require a reserve funded at the beginning of the loans by the jurisdictions. The loans would require 1.1 times coverage of annual debt service (rather than the 1.3 to 1.5 required by the local market) and would use half of that to pay back the reserve funded originally by the state. The interest rate would be the melded rate of the Revenue and General Obligation bonds, therefore the rate would be lower than Revenue bonds issued locally.

Configured in this manner, a \$10,000,000 project is estimated to require \$240,000 less each year than for locally issued Revenue bonds. Since the real cost determinant is the cost to local ratepayers, reduction of coverage and reserve requirements play as important a role in these savings as the interest rate reduction.

OTHER STATES' ASSISTANCE PROGRAMS

State programs to assist local governments with infrastructure finance can take a variety of forms. The first section reviews a nonprofit corporation which provides technical assistance in Maryland, a multipurpose loan fund in Washington, bond banks in Alaska and Michigan, and revolving loan funds and other water and sewer assistance programs in Oklahoma and Texas. The section concludes with lessons for Oregon. A second section looks at the growth management states to determine whether they are using state infrastructure aid to promote their growth management objectives.

SELECTED STATE ASSISTANCE PROGRAMS

Technical Assistance

Maryland Environmental Services
2020 Industrial Drive
Annapolis, Maryland 21401
(301) 974-7281

Maryland Environmental Services (MES), an agency in the Maryland Department of Natural Resources, operates both as a state agency and a not-for-profit corporation. As a state agency, MES operates water and sewer systems at state facilities and manages state-mandated environmental protection programs. As a nonprofit corporation, MES provides engineering, operations, and administrative services to local governments on a contractual basis.

Of particular interest are MES's "roving public works directors" which cities and counties can hire when they need assistance with planning and financing infrastructure. These people are particularly helpful to small communities who lack the expertise to do the projects themselves or even, as noted by the Office of Technology Assessments (1990), to evaluate the experts. The "roving public works directors" help communities plan projects, obtain grants, float bonds, or even have MES float bonds for the community if they can obtain a lower rate of interest.

Multipurpose Loan Program

Washington Public Works Trust Fund
Department of Community Development
Ninth and Columbia Building
Olympia, Washington 98504
(206) 753-3205

A 1982-83 statewide survey in Washington revealed enormous existing and future needs for infrastructure improvement and development and a shortage of financial resources to meet these needs. The Public Works Trust Fund was set up to help meet local infrastructure needs. This fund is capitalized on a pay-as-you-go basis with dedicated revenues from taxes on water, sewer, and garbage utilities and a portion of the state real estate transfer tax. The first loans were made in 1986. Loans are designed to improve local planning and meet pressing existing needs. No growth related projects are funded on the principal that the beneficiaries of growth should pay the costs. This also separates the program from debates about where growth should occur in the state.

The trust fund has three loan programs. In 1990, \$36 million was available through the construction loan program, \$1 million through the emergency loan program, and \$400,000 through capital improvement loans.

Cities, counties, and special districts may apply for construction loans for bridges, roads, water, sewer, and storm sewer systems. The local government must have a capital improvement plan, and cities and counties must be levying the optional 1/4 percent real estate transfer tax dedicated to capital projects. No jurisdiction may borrow more than \$2.5 million annually. A local match of 10-30 percent raised from local sources or the local share of the state gas tax is required. Interest rates are 1 percent with a 30 percent match, 2 percent with 20 percent, and 3 percent with 10 percent. Loans are for the useful life of the project.

A 13 member Public Works Board reviews applications. The state legislature gives final approval and may delete, but not add, to the list of approvals. Both need and local effort are considered in awarding loans with more emphasis on effort than on need. In 1986, only 15.2 percent of requests were funded, but by 1989 63.7 percent received funds. Between 1986 and 1989, 34 percent of funds were used for water systems, 29 percent for roads and streets, 27 percent for sewer systems, 5 percent for storm sewers, and 4 percent for bridges.

The second program for emergency public works situations makes loans up to \$250,000 at 5 percent interest. Up to 100 percent of the project costs may be borrowed.

The third program recognizes that small communities may need assistance with developing the required capital improvement plan. These communities may borrow interest-free up to 75 percent of the cost of completing a capital improvement plan and pay back the loan over 5 years. Maximum loans are \$15,000 per jurisdiction.

Bond Banks

Alaska Municipal Bond Bank Authority
601 West Fifth Ave., Suite 430
Anchorage, Alaska 99501
(907) 274-7366

Michigan Municipal Bond Authority
Treasury Building
430 West Allegan
Lansing, Michigan 48922
(517) 373-1728

Alaska and Michigan are two of the eight states which have bond banks to help local communities access the bond markets for a variety of infrastructure projects. Several other states have bond banks for more limited purposes. These banks are particularly helpful to small communities which do not have much experience with the bond markets (Leithe and Joseph, 1990). Both bond banks assist local governments with the financing process and pool bonds to obtain lower interest rates.

Alaska Municipal Bond Bank

The Alaska Municipal Bond Bank was established in 1975 and has issued 27 GO bonds totaling \$180 million and 5 revenue bonds worth \$33 million. The bond bank either buys local bonds or provides direct financing of projects. There has recently been a shift to direct financing. The State of Alaska has only a moral obligation to pay the Authority's bonds as the Authority is an independent corporation. Bonds are secured by the borrowing municipality's taxes or other revenues. In the event of default, the Authority has the right to demand any funds held by other state agencies payable to the defaulting community. The Authority also maintains a reserve fund as further security.

All Alaskan municipalities are eligible for loans from the bond bank. In FY 89-90, the bank issued \$11 million in bonds for 5 different municipalities. The 43 projects funded since 1975

include 10 sewer systems, 9 schools, 9 public buildings, 8 port/airport/docks, 7 water/electric/telephone systems, 4 street projects, 3 hospitals, and 3 power distribution or transmission projects.

Michigan Municipal Bond Authority

The Michigan Municipal Bond Authority was created in 1986 to provide local governments and schools with low cost methods of financing public improvements and cash flow needs. The Authority buys notes and bonds issued by local governments creating pooled issues with lower interest rates. In FY 89-90 the Authority lent local governments about \$400 million. Sixty-nine percent of the funds were used for cash flow loans. The remainder of the funds were used to finance infrastructure or buy equipment.

The Authority has several funds for public improvements. Capital improvement loans are provided through the Qualified School Bond Program, the Transportation Fund Bond Program, the Revenue Sharing Pledge Bond Program, the Insured Bond Program, and the Local Project Bond Program. Each of these funds has a AA or AAA rating. Loans for the purchase of equipment or acquisition of land and public facilities is through the Equipment and Real Property Program. In FY89-90 the Authority made the following loans for public improvements and equipment purchases:

	<u>No. of Loans</u>	<u>Amount (millions)</u>
Water and sewer facilities	24	\$19
Municipal facilities	12	76
Roads	13	2
School Construction	1	0.3
Equipment, school buses, etc.	<u>24</u>	<u>30</u>
	74	\$127.3

Bond security varies. In 1989-90, three-fourths of the bonds issued by the Authority were limited tax general obligation bonds. The remainder used revenue, transportation fund, special assessment, and/or general obligation bonds.

The Authority and the Michigan Department of Natural Resources also jointly administer the state's Water Pollution Control Revolving Fund. The Municipal Bond Authority is the lending agency while the Department of Natural Resources reviews plans and specifications. This program provides low interest loans (currently 2.0%) for wastewater treatment and other sewer

projects. The fund was capitalized with money from the Federal Environmental Protection Agency. The local 20% match was raised with a "Quality of Life" environmental bond issue approved by voters. This fund made its first two loans, which totaled \$5.8 million, in September 1989 and February 1990.

Water and Sewer Loans and Grants

Oklahoma Water Resource Board
P.O. Box 53585
Oklahoma City, Oklahoma 73152
(405)-271-2555

Texas Water Development Board
P.O. Box 13231
Austin, Texas 78711
(512) 463-7867

The Oklahoma Water Resource Board and Texas Water Development Board administer loan and grant programs for water and sewer systems, including revolving loan funds which, like Michigan's, were established under Clean Water Act provisions.

The Oklahoma Water Resources Board

The Oklahoma Water Resources Board (OWRB) provides loans and emergency grants to finance water and sewer projects. OWRB serves as the lending agency for the state revolving fund for wastewater treatment while the Oklahoma Department of Health reviews and certifies projects.

In 1985 the Oklahoma legislature appropriated \$25 million to guarantee a loan program for water and sewer projects. OWRB issued revenue bonds in 1986 and 1989 to provide additional funding for the program. The November 1989 \$50 million issue features a six-month variable rate interest rate currently at 6.592 percent, up to 30-year terms, and a greater portion of funds available to smaller, non-ratable entities. All political subdivisions of the state are eligible to apply for loans for water and sewer systems improvements. Between 1986 and October 1990, 52 loans totaling \$45 million were made.

A second program provides grants of up to \$100,000 for public works in emergency situations. Funds are from interest on a Statewide Water Development Revolving Fund created in 1982. Both the type of emergency and the financial situation of the local government are considered in

awarding grants. Preference is given to smaller requests. One hundred eighty-two grants totaling \$12 million have been made.

The state revolving loan fund for waste water treatment facilities made its first loan in August 1990 to the city of Tulsa. The loan was for \$11 million at 4.75% interest.

The Texas Water Development Board

The Texas Water Development Board provides a variety of technical and financial assistance to local governments for water and wastewater projects. The primary aims of the programs are to encourage regional solutions and to help financially distressed communities. Programs include planning grants and technical assistance, low interest loans for water supply and wastewater treatment facilities, and the state acquisition of reserve capacity in regional facilities.

The Research and Planning Fund makes 50-50 matching grants for regional water planning. The planning area must encompass more than one service area or political subdivision. In addition the planning staff of the Board can provide technical and financial assistance to any community.

Both the State Revolving Fund and the Water Quality Enhancement Account loan up to 100 percent of the costs of wastewater treatment plants. The revolving fund uses Federal EPA funds and has more stringent engineering and construction standards than the Water Quality Enhancement Account which is funded with state GO bonds. Rates for each fund are set annually. In FY 1989 the revolving loan rates were 5.5 percent with a 20 year payback. Water Quality Enhancement loans depend on the cost of the GO bonds.

The Economically Distressed Areas Program provides financial assistance to bring water and wastewater services up to minimal standards in counties with low per capita income, high unemployment, or along the international border. The program is funded by GO bonds approved by voters in November 1989. The Board works with each applicant to determine the financial package which will provide affordable water and wastewater projects for the area.

The State Participation Account is a loan program which helps communities defer part of the cost of regional wastewater treatment facilities until enough growth occurs to pay for reserve capacity. The Board may purchase up to 50% of the capacity of regional systems and sell the capacity back to local communities as need develops. The Board only funds projects where it expects to recover its investment and where optimal size facilities could not be built without state aid. State GO bonds are also the funding source for this program.

STATE INFRASTRUCTURE AID IN GROWTH MANAGEMENT STATES

Oregon was a pioneer in adopting statewide growth management programs. Most other programs are still at the local plan development stage. These states may provide state assistance for planning or use state aid for infrastructure to encourage planning. Some also require planning before local areas can adopt certain local finance mechanisms such as impact fees. Few are at the stage where state infrastructure aid could be used to foster growth management objectives of the local plans. Only Vermont has plans to target funds to areas where growth will be encouraged. New Jersey targets some funds to areas where growth is occurring provided these areas adopt plans to raise part of the funding from new development.

The following summarizes the results of telephone interviews with state officials in growth management states:

Florida has a policy of concurrency which requires "...that public facilities and services needed to support development shall be available concurrent with the impacts of development" (Section 163.3117(10)(h), Florida Statutes). But the state does not provide aid beyond revenue sharing and allowing local option taxes to finance this required infrastructure.

Georgia is just beginning the growth management process. They are using state aid programs to encourage planning and multi-jurisdictional efforts. Local impact fees can be adopted only if local comprehensive plans and capital improvement budgets are in place.

Hawaii's state-local governmental relations are unique, and few lessons can be drawn from them for other areas. More responsibility is centralized in the state government than in Oregon. In particular, the state has exclusive responsibility for schools and roads. Land use planning is a responsibility of both the state and the four counties with the division of responsibility depending upon whether the land in question is in an urban, rural, agricultural, or conservation zone.

Maine does not link state infrastructure aid with growth management because local communities are only beginning to plan.

New Jersey's Department of Transportation moves projects within Transportation Development Districts up the priority list for state aid. These growth corridor districts use a combination of state aid, local transportation funding, and special assessments on non-residential property for highway improvements.

Rhode Island does not use state monies to assist local governments with infrastructure, except for revenue sharing.

Vermont is currently identifying growth centers where growth will be encouraged and plans to give priority to these centers for state aid for transportation (gas tax revenue), water and sewer systems, and economic development. Communities must also have approved land use plans and capital improvement plans before enacting impact fees.

LESSONS FOR OREGON

Ideas that may be helpful in Oregon include:

- Providing technical assistance to small communities who need help developing capital improvement plans and planning major projects. Maryland's "roving public works directors", Washington's interest-free loans for capital planning, and Texas Water Board's technical assistance are examples of different ways to achieve the same objective.
- Having the state assume more of the risks and costs. Several states offer loans at rates well below market levels.
- Targeting aid to existing needs, not growth induced needs, as the state of Washington does.
- Jointly administering programs with one department having financial expertise and responsibility and another technical proficiency and review. Both Michigan and Oklahoma have joint administration of wastewater revolving loan funds using the strengths of two departments.
- Oregon could continue to be a pioneer in land use planning by developing ways to use state infrastructure aid to help meet growth management objectives.

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Washington

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APPENDIX 1

LOCAL OFFICIALS INTERVIEWED

Cities

Beaverton - Odie Sarmiento, Finance Director

Cornelius - Jerald Taylor, City Manager

Gresham - Greg DiLoreto, City Engineer

Lincoln City - Richard Ullian, Director of Planning, and Bill Works, City Recorder/Finance Director

Newport - Kenneth Hobson, Director of Community Planning and Development

Portland - Robert Stacey, Acting Planning Director

Tualatin - Marilyn Matthias, Finance Director

Counties

Lincoln County - Matthew Spangler, Director of Planning

Washington County - John Rosenberger, Deputy Director of Land Use and Transportation

School Districts

Beaverton - Steve Gray, Executive Director of Business Services

Special Districts

Kernville-Gleneden Beach-Lincoln Beach Water District - Harold Haight, Manager

Unified Sewerage Agency - Robert Swenson, Manager of Administrative Services

APPENDIX 2

DESCRIPTION OF INTERVIEWS

In order to supplement the larger study, twelve jurisdictions in growing urban areas were selected for more detailed analysis. Both special districts and full service municipalities were chosen. Small and large jurisdictions were also included. The jurisdictions were selected in order to better understand infrastructure finance in growing areas. This sample provides a taste of the local government perspectives on infrastructure finance and growth but cannot be considered definitive because of the small size of the sample.

A key person who was familiar with the financing of infrastructure within each jurisdiction was contacted and interviewed. In several instances, the finance director was selected; however, in a number of jurisdictions, the city manager or the planning director was the person of contact because of availability and knowledge.

Using a structured in-depth interview format, these individuals were questioned about the sources of revenue and financing mechanisms used by the jurisdiction, the factors contributing to the demand for new infrastructure, the overall problems of maintaining and providing infrastructure, the relationship of growth to infrastructure development, and the role of the state in providing assistance to the jurisdictions.

While the information gathered is detailed, it is for the most part qualitative. Interviewees were asked to recall information and judgements were requested. Their responses should not be assumed to represent the perspective of the elected officials or the people within the jurisdiction as we have sought information from public administrators only.

A brief discussion of each selected jurisdiction follows.

COUNTIES

Lincoln County grew by 12% in the 1980's¹ but is for all practical purposes out of the business of providing infrastructure with the exception of the county jail. The county has a policy of maintaining roads and not funding infrastructure development to support growth and development. The county regulates the provision of new infrastructure through its land use approval function. It requires developers to provide the infrastructure and for mechanisms to be established either by annexation or by creation of special districts to maintain the roads. The only sources of revenue are from the local share of state gas tax and state timber sales.

Washington County is heavily involved in the process of maintaining and providing roads. There was 20% growth in the population during the 1980's which the County believes it has managed. However, the county is confronted with problems from growth which occurred in the 1960's when there was little response from the County in terms of providing adequate infrastructure.

¹ All population growth estimates are from Center for Population Research and Census, Portland State University, 1990, Population Estimates for Oregon, 1980 -1989.

CITIES

Beaverton, population 44,265, has undergone considerable growth (39% increase) in the last decade. The city provides streets, water, sewer and storm drain collection, libraries, and police and fire stations. Most of the city's infrastructure is relatively new.

Cornelius is a small Washington County community (population 5,105) which grew by 14% over the last decade. The city provides water distribution, sewer collection, storm drainage, parks, a library, and police station. The infrastructure system is barely adequate and needs improvement.

Gresham is a fast growing community. In the decade of the 1980's, the municipality's population grew by 98% from 33,005 to 65,470. Most of this growth was the result of annexation. The infrastructure is relatively new and in good shape. Gresham provides streets, sewer, water, storm drainage, parks, and police and fire stations.

Lincoln City, population 8,710, had 16% growth in the 1980's. The city provides sewer, water, streets, storm, drainage, parks, libraries, and police stations. All of the systems are relatively old. The city is still burdened with debt incurred when it used Bancroft bonds to finance infrastructure on undeveloped properties and the developer defaulted on the bonds.

Newport is a relatively stable, working community located in Lincoln County on the coast. Newport is a full service city. Of moderate size, the city has grown from 7,519 to 8710, or by approximately 16%, between 1980 and 1990. Infrastructure is for the most part older.

Portland is the largest city in the State and provides full services to its citizens. (Libraries, however, are provided by Multnomah County.) While the infrastructure is older, it is not as old as in some eastern cities. Portland grew by 17.39% from 368,139 to 432,175 during the 1980's. Annexation contributed substantially to its population growth.

Tualatin is a fast growing community in Washington County. From 1980-90 the population increased from 7,483 to 13,340, or by 78%. Providing streets, water, sewer and storm drainage collection, parks, library, and police station, the infrastructure of the community is quite new and in good shape.

SPECIAL DISTRICTS

The Kernville-Gleneden Beach-Lincoln Beach Water District in Lincoln County has a service base of 17,000 residential units, most of which are vacation homes. Its voting population numbers approximately 1,000. Its main service is water; however, it also provides sewers for nearby areas.

The Unified Sewerage Agency is a very large service district which provides sanitary sewage and storm water management within the urbanized area of Washington County. Sewer and storm water treatment is also provided to 12 cities within the area. Formed in 1969, the agency brought together 26 separate sewer districts. The agency is governed by the County Commissioners, but its budget is independent of the County's.

SCHOOL DISTRICTS

The Beaverton School District, the only school district interviewed, has grown over the last decade from 22,000 students to 28,000 students.

APPENDIX 3

INTERVIEW RESULTS

REVENUE RAISING AND FINANCE MECHANISMS

Table 1 summarizes the types of infrastructure provided by each of the twelve jurisdictions interviewed while Table 2 indicates the sources of revenue and the financing mechanisms which each jurisdiction uses.

Sources of Revenue for new infrastructure development include property taxes, other local taxes (e.g. gas or motel), hook up fees, user fees, impact fees/system development charges, state and federal grants and loans. While most jurisdictions use some property taxes for infrastructure, most do not consider themselves as highly dependent on property taxes. Some infrastructure such as schools, parks, library, and police and fire stations depend more on property tax revenue. Only Lincoln City and the Beaverton School District classified themselves as highly dependent on property taxes. The Kernville-Glenden Beach-Lincoln Beach Water District also indicated it was dependent as it recently received authorization for a \$1 1/4 million general obligation bond issue for construction of a water filtration facility.

Some jurisdictions are moving toward complete independence of property tax revenue for development of new infrastructure. USA will retire the debt on the original \$36 million general obligation authorization provided at the time the agency was created. In the future the agency will attempt to finance activities with revenue bonds backed by the fees and charges. Portland has not issued a general obligation bond since 1984 and does not anticipate doing so in the future.

Most of the jurisdictions find no problem with the 6% property tax limitation for new infrastructure development as they mainly use special and debt levies which are outside of the 6% limitation. The limitation is a problem, however, for other services such as police and fire protection.

The recent legislation which requires that system development charges for new development be used for growth induced specifically by the new development has required some jurisdictions to clarify their budgeting and others to rethink how they are spending the monies. Most, however, believe that their use of system development revenues fully meet the requirements of the legislation.

Most of the cities and Washington county have ordinances (or requirements within the planning process) stipulating that the developer assume the cost for the provision of on-site infrastructure. Credits may be given for development above code, or tax breaks used to entice new development, particularly with commercial or industrial development.

Exactions are used by only a few of the jurisdictions. Some, in fact, were unfamiliar with the term. Beaverton and Portland negotiate exactions in order to recover infrastructure costs and control growth.

The predominant form of special assessment district is the Local Improvement District (LID). Local improvement districts are used most frequently for upgrading infrastructure on already developed property. In the past some communities, including Lincoln City, created LID's to entice new development and were left with a major debt when development did not occur and the developer defaulted. Communities note this problem and are cautious about using LID's. In two of the communities where LID's are still used for new development, the developer is required to provide evidence of his ability to pay off the debt should there be a problem. One community

expressed little concern with the use of LID's on undeveloped property because the value of the property is sufficiently high to recover any costs if one developer does not work out.

To assist in financing off-site infrastructure development, the municipalities may use current revenue or capital improvement funds. Systems development charges, in particular, usually go into capital improvement funds. For larger projects, they may use general obligation or revenue bonds, certificates of participation, or tax increment financing.

All of the jurisdictions have or will soon have capital improvement funds. These funds are financed by system development charges and fees. In several cases, a jurisdiction has a fund for each service, in others they are combined. The size of these funds varies. Lincoln City is just beginning to develop its fund and its value, in contrast to the total value of the city's infrastructure system, is minor. Even where the size of the fund is large, it is not large enough to finance major capital expenditures (e.g., treatment plants).

All of the municipalities interviewed (with the exception of Lincoln County) accessed the market directly for general obligation bonds. All had good bond ratings and were familiar with the process of accessing bond markets. By far the most frequent type of bond used is the General Obligation because of the lower interest rates and the fear of insufficient revenue to pay off revenue bonds. However, the larger jurisdictions (Beaverton, Portland, USA, Gresham) also use revenue bonds. Several view growth as means to support revenue bonds as growth provides a continually expanding customer base insuring an adequate flow of revenue. One jurisdiction preferred serial levies instead of bonds because of the short term obligation.

For those communities which have used the urban renewal district, the response is favorable. Tax increment financing has provided a base for providing a variety of new infrastructure. Newport, for example, used its tax increment financing to provide matching funds for a Federal grant to construct an outfall for sewerage dumped into the ocean. Portland has used tax increment financing to develop the waterfront area, build parking structures, and Pioneer Square.

FACTORS AFFECTING THE DEMAND/NEED FOR NEW INFRASTRUCTURE

The focus of this study was on growth and its impacts on the demand for and the financing of new infrastructure. The literature, however, suggests that in addition to growth, changing regulations and aging infrastructure are also important factors. While growth was listed in all but two of the jurisdictions interviewed as the number one factor affecting the demand for new infrastructure, over half of the jurisdictions considered changing regulations equally as important (e.g., creating a need for storm drains or a new water treatment facility); and in four communities aging infrastructure is nearly as important. See Table 3.

Clearly, the pressures on communities to find financing for new infrastructure are not all a function of growth. While there are financing mechanisms in place that can use growth to help finance the development of growth-induced infrastructure, the mechanisms to deal with the immediate impact of a regulation change requiring a large capital investment are limited. Building reserve funds to finance major infrastructure replacement is also difficult for several of the interviewed jurisdictions who have not been able to adequately finance ongoing maintenance costs.

GROWTH AND THE DEVELOPMENT OF NEW INFRASTRUCTURE

In the communities interviewed growth has occurred. In several of the communities this growth has been dramatic, as for example, Tualatin, Beaverton, and Gresham, and has been a factor affecting the demand/need for new infrastructure. The interviews suggest, however, that while

growth provided both the demand for new infrastructure, it also has provided the means by which new infrastructure is financed. A variety of financing mechanisms, including ordinances which required the developer to assume the cost of providing infrastructure on-site, systems development charges, hook up fees, exactions, and local improvement districts, are used by jurisdictions to transfer the cost to the developer and the users of the new infrastructure. Growth is also encouraged in some areas by using urban renewal. Expansive growth of a customer base has given at least one jurisdiction the courage to issue revenue bonds, and growth has allowed some communities to keep user fees low.

This positive perspective on growth was tempered by the recognition in several communities that their current maintenance and replacement problems are a result of the past failure of the community to meet the needs for new infrastructure (e.g., Washington County). Lincoln City was one of the communities, that through the mechanism of local improvement districts, put in place infrastructure on the promise of future development. When the developer defaulted, the community was left with paying off the Bancroft bonds. The city is still burdened with this debt. Likewise, not all jurisdictions interviewed about the current situation view growth as self supporting. Portland is aware that growth, particularly through annexation, has caused the city to incur major costs, and has forced it to borrow more.

In addition, while mechanisms exist which allow growth to be self financing, jurisdictions express concern about problems in financing the maintenance of existing infrastructure. For many jurisdictions, the local share of state gas tax monies are not sufficient to cover maintenance costs for streets. In communities where infrastructure is old, maintenance costs are routinely very high and "catching up" is a recurrent theme in discussions of infrastructure.

STATE ASSISTANCE

The use of state assistance to finance infrastructure varies from one jurisdiction to another. See Table 4. Beaverton uses none of the programs, while Portland and Newport use most of them. (Beaverton, like other cities in the Portland metropolitan area, does use Community Development Block Grant Funds, but its funds are not administered by the state.) The response of both Portland and Gresham indicated that larger communities with in-house expertise and resources have a much easier time using the programs ("making them fit our needs"), while smaller communities have greater difficulties accessing the programs. Whether a community uses a program or not, most were critical of their purpose, organization, and implementation.

Such criticisms provide information on how to better design future programs. One consistent theme in the discussions is that State programs do not address the needs of local government for State assistance in infrastructure finance. These needs are seen as variable, related to the size of the jurisdiction, the nature of the growth incurred, the planning goals of the community, and factors other than growth which contribute to the need for new infrastructure. Jurisdictions call for the State to be "a partner" in the process, not just a regulator, enforcer, or auditor.

Small and medium size communities indicate that the costs of acquiring information and applying for assistance are often too great. Such costs weighed heavily, especially considering the competitive nature of the application process. The Department of Environmental Quality's assistance program was noted as having particularly stiff eligibility requirements which made applying difficult and the benefits questionable. One jurisdiction observed that it was easier to access the capital markets than to apply to DEQ. On the other hand, the two-page application for the Department of Energy program was lauded. Some communities also indicated that they had difficulty providing the matching funds required by some programs.

Jurisdictional needs for support in infrastructure financing are structured not only by growth but also by new regulations and aging infrastructure. Several jurisdictions consider government regulations as being very important in defining infrastructure costs. Cornelius is burdened by the requirement that water and sewer workers be certified. New water treatment plants are required by other jurisdictions in order to meet Environmental Protection Agency standards. Other jurisdictions are burdened with aging infrastructure which requires constant maintenance and or replacement.

Then, too, jurisdictions vary as to level of support each would like to see from the State. The school district may argue (as it did in this study) that the state should provide all of the infrastructure for the school districts. Another jurisdiction may want more flexibility in how the monies are used to permit infrastructure related expenses to be financed, such as maintenance. Another jurisdiction, confronted with growth, shuns the development of new infrastructure but rather promotes the more efficient use of existing infrastructure. For example, the City of Portland has a policy not to widen streets in established neighborhoods if other strategies, such as encouraging bus use or redirecting traffic, would accomplish the same goal. State programs do not provide support for these types of programs.

Several interviewees noted that the state could be of assistance not only in providing monies but in several non-monetary ways. The state could design regulations which might recognize local factors in the administration of regulations. The state could provide technical expertise in applying for grant or loan monies. And while the State does provide assistance in accessing capital markets, at least one community was unaware of the service.

While none of the jurisdictions would turn down a grant from the State, there was little interest in having the state provide a bonding program. With one exception, all of the jurisdictions access the bond market themselves. Their ratings were as good or better than the State's and they had been through the process. Communities were interested in State support in the area of bonding only if the State could find a way to make it worthwhile for communities. That is, if it would be cheaper.

PLANNING

Capital improvement plans exist and are frequently updated. Larger jurisdiction frequently rely on in-house expertise in developing the plans. Smaller and medium-sized municipalities (e.g., Lincoln City, Newport, and Kernville-Gleneden Beach-Lincoln Beach-Water District) hire outside consultants to develop the plans. All plans undergo consultation with citizen groups and governing bodies. Most plans include sources of revenue and financing mechanisms. The implementation of the plans, however, is not always as desired.

None of the communities have an explicit policy with respect to annexation timing. The larger communities like Portland indicated a preference for annexation after the development of infrastructure on the areas to be annexed. Smaller communities, however, indicate that they would prefer to annex before development so as to build infrastructure to community standards.

Table 1

Major Infrastructure Services

	Roads/ Streets	Storm Drainage	Sewers	Water	Parks	Schools
Tualatin	✓	✓ ^c	✓	✓	✓ ^a	
Beaverton	✓	✓ ^c	✓ ^c	✓		
Gresham	✓	✓	✓	✓	✓	
Newport	✓	✓	✓		✓	
Glenden Water			✓ ^b	✓		
United Sewerage Agency		✓	✓			
Beaverton Schools						✓
Washington County	✓					
Cornelius	✓	✓ ^c	✓ ^c	✓ ^d	✓	
Lincoln County	✓ ^e					
Lincoln City	✓	✓	✓	✓	✓	
Portland	✓	✓	✓	✓	✓	

Source: Interviews

- ^a Some city parks, however, most managed by Tualatin Hills Recreational District
- ^b Maintains 2 sewer systems in Siletz/Keys Sanitary District
- ^c Sewer collection not treatment; USA treats sewerage
- ^d Buy water wholesale from Hillsboro
- ^e County maintains existing system but has explicit policy not to fund new infrastructure

Table 2

Infrastructure Revenue Sources and Finance Mechanisms of Selected Jurisdictions

	TAXES			FEES		
	Property	Local Gas Tax	Motel Tax	User	Hook-up Fees	System Development Charges
Tualatin				✓	✓	✓
Beaverton	✓	✓		✓	✓	✓
Newport	✓			✓	✓	✓
Washington County	✓					
Lincoln City	✓		✓	✓		
Lincoln County						
Cornelius				✓	✓	✓
Portland	✓		✓	✓	✓	✓
Gresham	✓		✓	✓	✓	✓
United Sewerage Agency	✓			✓	✓	
Gleneden Water District	✓			✓	✓	✓
Beaverton Schools	✓					

Source: Interviews

Table 2
(Continued)

INTERGOVERNMENTAL REVENUE					
	Local Portion Gas Tax	Timber Sales on State Land	State Grants	State Loans	Federal Loans or Grants
Tualatin					
Beaverton	✓		✓	✓	✓
Newport	✓		✓	✓	✓
Washington County	✓		✓	✓	
Lincoln City	✓		✓	✓	
Lincoln County		✓			
Cornelius	✓		✓		
Portland					
Gresham	✓		✓	✓	✓
United Sewerage Agency					
Glenden Water District					
Beaverton Schools					

Table 2
(Continued)

	Current Revenue	Capital Improvement Fund	General Obligation Bonds	Revenue Bonds	Certificates of Participation	Local Improvement Districts	Urban Renewal Districts	Exaction	On Site Requirements - Ordinance
Tualatin	✓	✓ ^b	✓		✓	✓	✓	✓ ^c	✓
Beaverton	✓	✓	✓	✓	✓	✓	✓	✓	
Gresham	✓		✓	✓	✓	✓			✓
Newport	✓	✓	✓			✓	✓		✓
Gleneden Water	✓	✓	✓						
United Sewerage Agency			✓	✓					
Beaverton Schools	✓	✓	✓		✓				
Washington County		✓	✓			✓		✓ ^d	
Cornelius	✓		✓			✓			✓
Lincoln County	✓								
Lincoln City	✓	✓	✓	✓		✓	✓ ^a		✓
Portland	✓	✓	✓	✓	✓	✓	✓	✓	

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- ^a Used for parking lot access streets, relocation traffic signals
^b Begins 91 - 92
^c 1/2 street improvements
^d Safety improvements, signals, build road above code standard

Table 3

Factors Affecting Demand for New Infrastructure

	Growth	Regulation	Aging Infrastructure
Tualatin	1	1	3
Beaverton		1	2
Newport	1	2	3
Washington County	1	2	3
Lincoln City	1	1	1
Lincoln County			
Cornelius		1	2
Portland	1	1	2
Gresham	1	2	3
United Sewerage Agency	1	1	
Gleneden Water District	1	1	
Beaverton Schools	1	2	

Source: Interviews

- 1 = Most Important Factor
- 2 = Second Most Important Factor
- 3 = Third Most Important Factor

Table 4

Use of State Assistance for Infrastructure by Selected Jurisdictions

	DEQ Revolving Credit Fund	Community Development Block Grant	Special Public Works Fund	Small Scale Energy Program	Immediate Opportunity Fund	Water Development Loan Program
Tualatin			✓			
Beaverton		✓				
Newport	✓	✓	✓	✓	✓	
Washington County			✓		✓	
Lincoln City		✓	✓	✓		
Cornelius						
Portland	✓		✓	✓		✓
Gresham	✓		✓			
Unified Sewerage Agency	✓			✓		
Glenden Water			✓			
Lincoln County						
Beaverton Schools		N/A	N/A			

APPENDIX 4

Protocol: Infrastructure Funding/Growth Management

NAME _____ DATE _____

BACKGROUND

We will begin with a few general questions and then have you focus on several specific questions regarding revenue mechanism.

1. Please describe the types of infrastructure which your jurisdiction provides.

2. How would you evaluate the level and quality of infrastructure provided in your community?

- a. Needs improvement
- b. adequate
- c. in very good shape

Probe: what are the problems and/or why?

3. How would you evaluate your general capacity to fund infrastructure in your community.

- a. good shape
- b. fair
- c. struggling

Probe: mechanisms which the jurisdiction relies on and problems or strengths.

FINANCING PREVIOUS NEW INFRASTRUCTURE

4. What types of infrastructure have you built or acquired in the last five years? (Keep in general terms)

5. What sources of revenue/ financing mechanisms did you use to fund these additions?

6. What factors contributed to the use of these financing mechanism/sources of revenue?

7. Were other mechanisms considered?

a. What were they?

b. Why weren't they used?

8. How does your jurisdiction fund maintenance of infrastructure?

Probe: gas tax

9. Is maintenance and replacement a larger expense than new infrastructure?

10. Would it be possible to free the sources of financing for maintenance for use in funding new infrastructure development?

11. What are the most important aspects of the current financing situation which you would like to see changed.

GROWTH QUESTIONS

12. Please describe the type of growth that has occurred in your jurisdiction over the last few years.

Probe for specific classification, e.g., residential, fringe, fill in etc.

13 Has growth affected your ability to provide adequate infrastructure?

If no, why not (probe: excess capacity, adequate revenue)

If yes, describe problems.

15. Has growth had an effect on the types of financing which the jurisdiction uses?

Probe: put strain on existing sources of revenue; led to consideration or use of other sources.

16. Do you anticipate future growth in the jurisdiction?

Probe: kind of growth

17. Will future growth affect your ability to provide adequate infrastructure?

18. Will future growth have an effect on the type(s) of financing mechanisms which the jurisdiction uses?

FACTORS AFFECTING DEMAND/PROVISION OF NEW INFRASTRUCTURE

19. A number of factors including growth determine the level of infrastructure which a jurisdiction needs to provide. What factors have been most important to your jurisdiction in the last five years. Please rank in order of importance.

- growth (kind)
- regulation changes
- aging infrastructure
- other

20. If your revenue sources are inadequate to meet your future needs, how will the jurisdiction respond.

21. What are the most important aspects of the current financing situation which you would like to see changed?

SPECIFIC REVENUE SOURCES AND FINANCING TECHNIQUES

Let's shift to more specific information about infrastructure funding.

1. Please review this list of ways to fund infrastructure and tell me which are applicable in your jurisdiction. Is the list missing any significant revenue sources or financing mechanisms that you could use?

2. Let's review the methods of funding new infrastructure that you currently use.

Then ask for more detailed information about methods used.

3. If uses property tax,

How dependent is your jurisdiction on the property tax for funding new infrastructure?

Is the 6% limitation on tax base increases affecting your ability to fund infrastructure with property taxes as your community grows?

4. If system development charges, ask

For which types of infrastructure to you have system development charges?

How long have you been using them?

Are you making any changes in your systems development charges because of the new state law (Systems Development Charge Act of 1989--goes into effect July 1991)?

5. How important are intergovernmental revenues for funding infrastructure development in your jurisdiction?

6. At the current time, approximately how much of your infrastructure development is funded from reserves, from current revenues, and from borrowing? Which method or methods does your jurisdiction prefer?

7. If has capital improvement fund(s), ask

METHODS OF FUNDING INFRASTRUCTURE DEVELOPMENT

REVENUE SOURCES

Local Determined Revenue Sources

Taxes

Property
Local Income
Local Sales
Dedicated excise tax
Other _____

Fees

User fees
Hook-up fees
Systems development charges
Other _____

Intergovernmental Revenue

Local portion of state gas tax
Timber sales on federal lands
Timber sales on state lands
State grants
State loans
Federal grants or loans
Other _____

FINANCE MECHANISMS

Current Revenue
Capital Improvement Fund
General Obligation Bonds
Revenue Bonds
Certificates of Participation
Special Assessment Districts
Local Improvement Districts
Urban Renewal Districts (Tax Increment Financing)
Service Districts
Other _____

NON FINANCIAL SOURCES OF INFRASTRUCTURE

Exactions (for off-site infrastructure)

How are the funds raised and allocated?

Is the fund adequate for its purposes?

8. If uses bonds, ask

Do you originate the bond issues or do you participate in some other local pools?

For what sorts of projects do you use GO bonds? revenue bonds? How do you choose between these two types?

If uses revenue bonds, what sources of revenue are backing these.

9. If uses special assessments or local improvement districts, ask:

What types are used?

What type of infrastructure is financing with them?

How extensively are they used?

Are they used for new development? If not, why not?

10. If uses urban renewal, ask

What types of development used for?

How many districts has?

11. If uses exactions, are they negotiated on a case-by-case basis or are there specific rules which structure the exaction amount? Do exactions reduce impact fees, if also used?

12. Do any of the funding methods you use have shortcomings or obstacles to use that you would you like to see changed?

Turning to the mechanisms your jurisdiction does not use,
(Review from sheet)

13. Why doesn't your jurisdiction use certain revenue sources or finance mechanisms for infrastructure development? (Probe on

systems development charges, bonded indebtedness, local improvement districts, urban renewal).

14. Would any of these mechanisms be more attractive to your jurisdiction if there were changes in the authorizing legislation?

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POLICY/PHILOSOPHY

1. What criteria does your jurisdiction use in deciding which revenue sources and finance mechanisms to use for infrastructure development? (benefits received, ability to pay, political expediency, fear that growth will go elsewhere, etc.)

2. What is your jurisdiction's policy or philosophy with regard to growth?

pro-----anti

encourage-----just happens-----manage-----restrict

3. How to you plan for future infrastructure needs? If has Capital Improvement Plan or equivalent, ask

How do you decide which projects to include in your plan?

Does your plan ensure sufficient funding for these projects?

How well has your infrastructure planning process worked?

4. Do the ways your jurisdiction funds infrastructure help satisfy your growth policy/objectives?

5. Would you like to see a better fit between your growth policy/philosophy and infrastructure funding? What changes at the local and state level would help you find that fit?

ANNEXATION QUESTIONS

Cities/ Counties

35. How much land has your city annexed in the last five years? (Or for counties, How much unincorporated land has been annexed by cities in the last five years.)

36. At what stage of development was the land you annexed?

37. Does you have a city policy about annexing land at a certain stage of development? I

If yes, what is it?

Why was the policy adopted?

Probe: see if explicit or otherwise policy on stage of development at which to annex.

38. In your opinion does deferring annexation until a parcel is fully developed create any problems with accomplishing the objectives of statewide planning Goal 14 (orderly and economic provision of public facilities and services and maximum efficiency of land use within and on the fringe of existing urban areas).

If problems indicated: how could they be solved?

L. Bronfman
J. Davis
T. Rulolo
September 24, 1990

Measure No. 5 STATE OF OREGON

Proposed by initiative petition to be voted on at the general election, November 6, 1990.

BALLOT TITLE

5 STATE CONSTITUTIONAL LIMIT ON PROPERTY TAXES FOR SCHOOLS, GOVERNMENT OPERATIONS

QUESTION—Shall constitution set limits on property taxes, and dedicate them to fund public schools and non-school government operations?

SUMMARY—Amends constitution. Limits 1991-1992 property taxes for public schools to \$15, and property taxes for non-school government operations to \$10 per \$1000 of market value. Schools limit gradually decreases to \$5 per \$1000 in 1995-1996 and after. Government operations limit remains same. Limits do not apply to government assessments, service charges, taxes to pay certain government bonds. Assessments, service charges shall not exceed cost of making improvements, providing services. General Fund to replace, until 1993, school funds lost due to school limits.

ESTIMATE OF FINANCIAL EFFECT

YES

NO

AN ACT

Be It Enacted by the People of the State of Oregon:

PARAGRAPH 1. The Constitution of the State of Oregon is amended by creating a new section to be added to and made a part of Article XI and to read:

SECTION 11b. (1) During and after the fiscal year 1991-92, taxes imposed upon any property shall be separated into two categories: One which dedicates revenues raised specifically to fund the public school system and one which dedicates revenues raised to fund government operations other than the public school system. The taxes in each category shall be limited as set forth in the table which follows and these limits shall apply whether the taxes imposed on property are calculated on the basis of the value of that property or on some other basis:

MAXIMUM ALLOWABLE TAXES		
For Each \$1000.00 or Property's Real Market Value		
Fiscal Year	School System	Other than Schools
1991-1992	\$15.00	\$10.00
1992-1993	\$12.50	\$10.00
1993-1994	\$10.00	\$10.00
1994-1995	\$ 7.50	\$10.00
1995-1996	\$ 5.00	\$10.00

and thereafter

Property tax revenues are deemed to be dedicated to funding the public school system if the revenues are to be used exclusively for educational services, including support services, provided by some unit of government, at any level from pre-kindergarten through post-graduate training.

(2) The following definitions shall apply to this section:

(a) "Real market value" is the minimum amount in cash which could reasonably be expected by an informed seller acting without compulsion, from an informed buyer acting without compulsion, in an "arms-length" transaction during the period for which the property is taxed.

(b) A "tax" is any charge imposed by a governmental unit upon property or upon a property owner as a direct consequence of ownership of that property except incurred charges and assessments for local improvements.

(c) "Incurred charges" include and are specifically limited to those charges by government which can be controlled or avoided by the property owner.

(i) because the charges are based on the quantity of the goods or services used and the owner has direct control over the quantity; or
 (ii) because the goods or services are provided only on the specific request of the property owner; or

(iii) because the goods or services are provided by the governmental unit only after the individual property owner has failed to meet routine obligations of ownership and such action is deemed necessary to enforce regulations pertaining to health or safety.

Incurred charges shall not exceed the actual costs of providing the goods or services.

(d) A "local improvement" is a capital construction project undertaken by a governmental unit

(i) which provides a special benefit only to specific properties or rectifies a problem caused by specific properties, and

(ii) the costs of which are assessed against those properties in a single assessment upon the completion of the project, and

(iii) for which the payment of the assessment plus appropriate interest may be spread over a period of at least ten years.

The total of all assessments for a local improvement shall not exceed the actual costs incurred by the governmental unit in designing, constructing and financing the project.

(3) The limitations of subsection (1) of this section apply to all taxes imposed on property or property ownership except

(a) Taxes imposed to pay the principal and interest on bonded indebtedness authorized by a specific provision of this Constitution.

(b) Taxes imposed to pay the principal and interest on bonded indebtedness incurred or to be incurred for capital construction or improvements, provided the bonds are offered as general obligations of the issuing governmental unit and provided further that either the bonds were issued not later than November 6, 1990, or the question of the issuance of the specific bonds has been approved by the electors of the issuing governmental unit.

(4) In the event that taxes authorized by any provision of this Constitution to be imposed upon any property should exceed the limitation imposed on either category of taxing units defined in subsection (1) of this section, then, notwithstanding any other provision of this Constitution, the taxes imposed upon such property by the taxing units in that category shall be reduced evenly by the percentage necessary to meet the limitation for that category. The percentages used to reduce the taxes imposed shall be calculated separately for each category and may vary from property to property within the same taxing unit. The limitation imposed by this section shall not affect the tax base of a taxing unit.

(5) The Legislative Assembly shall replace from the State's general fund any revenue lost by the public school system because of the limitations of this section. The Legislative Assembly is authorized, however, to adopt laws which would limit the total of such replacement revenue plus the taxes imposed within the limitations of this section in any year to the corresponding total for the previous year plus 6 percent. This subsection applies only during fiscal years 1991-92 through 1995-96, inclusive.

PARAGRAPH 2. The limits in Paragraph 1, above, are in addition to any limits imposed on individual taxing units by this Constitution.

PARAGRAPH 3. Nothing in this measure is intended to require or to prohibit the amendment of any current statute which partially or totally exempts certain classes of property or which prescribes special rules for assessing certain classes of property, unless such amendment is required or prohibited by the implementation of the limitations imposed by Paragraph 1, above.

PARAGRAPH 4. If any provision of this measure is in irreconcilable conflict with a provision of any other measure amending the Constitution of the State of Oregon submitted to the vote of the people of the State of Oregon and voted on at the same election as this measure, then the provision which is contained in the measure receiving a majority vote and the highest number of affirmative votes shall prevail and become operative.

PARAGRAPH 5. If any portion, clause or phrase of this measure is for any reason held to be invalid or unconstitutional by a court of competent jurisdiction, the remaining portions, clauses and phrases shall not be affected but shall remain in full force and effect.

