SUMMARY

This report provides an overview of finance options for Oregon jurisdictions for non-transportation infrastructure systems such as water, sewage, or parks. The report considers available bond options, grants, and fee structures, while exploring challenges to financing Oregon’s infrastructure, and fiscal constraints such as those presented by state property tax limits. Additional attention is given to areas where state planning goals intersect with infrastructure considerations. Current trends in intergovernmental coordination, the creation of special districts, and current bond considerations are also explored.

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INTRODUCTION

People need roads to travel on, clean water to drink, and sewers to take our dirty water away. A highly functioning infrastructure system for transportation, wastewater, and stormwater is critical for livable communities and thriving economies. However, state and local governments in Oregon have limited options for raising funds to construct, expand, or upgrade infrastructure projects. The need for funds far exceeds the available funding. Federal funding for infrastructure has decreased significantly over the past 40 years. The passage of property tax limitation Ballot Measures 5 and 50 in Oregon in the 1990s reduced the revenue available within general funds for all local governments, limiting their ability to finance new projects, as well as funding for operations and maintenance of existing infrastructure. Local voters are often reluctant to approve additional or new taxes to fund new infrastructure projects and maintenance of existing facilities.

This white paper describes the funding and financing tools currently available to Oregon municipalities at the state and local level to fund non-transportation infrastructure projects (transportation funding is covered in a separate white paper). Oregon cannot afford to wait to fix its aging and crumbling infrastructure. According to the Office of Economic Analysis, Oregon’s population of 3.8 million (2010) is expected to increase to almost 5.6 million by 2050.1 The 1.8 million additional people and businesses they work for will need new and expanded water, wastewater, and stormwater infrastructure. Our current infrastructure also has little hope of resiliency in the face of a major (9.0) Cascadia subduction zone earthquake; a special task force for the State of Oregon estimated that if such an earthquake were to hit our present infrastructure, top-priority highways in the Willamette Valley could take a year to restore, and drinking water and sewage systems in the coast and Willamette Valley areas could take months, or even a couple years to restore.2 Our existing and planned infrastructure systems will need to change and adapt to reduce greenhouse gas emissions, become more resilient to hazards such as earthquakes, landslides, and tsunamis, and be enhanced to better protect our water and air quality.

In a report for the West Coast Infrastructure Exchange (20123), researchers at CH2M Hill reported that the gap of federal funding necessary to address the need for infrastructure improvement will be $2.3 trillion for transportation (Surface Transportation Infrastructure Financing Commission) (between 2015 and 2035); and $122 billion (according to the EPA, with no increase in spending on infrastructure) for clean water (2000-2019) and $102 billion for drinking water (EPA, 2000-2019). The federal government does not have the revenue to address all infrastructure demand across the country.

Likewise states do not have adequate revenue to address infrastructure demands for maintenance and/or new infrastructure. Historically, states and local governments have financed infrastructure with tax-subsidized municipal bonds. State and local governments’ ability to raise revenue through taxes and fees—to cover increasing costs for pensions, healthcare, and government services—is jeopardizing the ability to pay down debt and continue to maintain existing infrastructure. As a result, strained local governments are less likely to take on new debt to fund new improvements. The limited options require state and local governments to think more creatively about funding and financing infrastructure projects. It was this desire to innovate that led the state of Oregon to collaborate with British Columbia, Washington, and California to support the creation of the West Coast Infrastructure Exchange, a non-profit partnership to develop innovative new methods to finance and facilitate development of west coast infrastructure.

POLICY FOR INFRASTRUCTURE IN OREGON

Oregon Planning Goal 11: Public Facilities, Oregon Revised Statute 197, and Oregon Administrative Rule 197 Section 030-840-00309
Plan and develop a timely, orderly, and efficient arrangement of public facilities and services to serve as a framework for urban and rural development. This includes a prohibition of extending sewer service outside of established urban growth boundaries (UGBs) except to mitigate a public hazard.

Plan for rural and urban facilities and services, and create a public facilities plan, community public facilities plan, and plan for a water and sewage system (as appropriate).

Plan current and future public facilities and services at levels appropriate for urban and rural uses.

Statewide Planning Goal 11 supports Urban Growth Boundaries by preventing extension of sanitary sewage facilities, but does not necessarily limit the extension of water for drinking and agricultural production. The Watseco-Barview Water District near Garibaldi provides a practical example of how this can occur. The Watseco-Barview Water District, serving households on the north end of the Tillamook Bay, outside of incorporated Garibaldi, experienced degraded drinking water quality. By 2008, drinking water was frequently testing for high levels of disinfectant compounds threatening public health. Though annexation into nearby Garabaldi may have presented a straight-forward way to tie in to their municipal utilities, this option was politically challenging and unsatisfying to all parties. Instead, Garabaldi helped finance a tie-in with the Watseco-Barview District, which now functions as a wholesale customer of the Garabaldi system. Collaborating for the common good addressed a major public health concern, while allowing the communities their desired autonomy.

WHO PAYS FOR INFRASTRUCTURE?

The idea that those who benefit from infrastructure should be the same who pay for infrastructure is a theoretically fair system for taxation and financing, but fails to capture the full breadth of considerations for equity and efficiency. Not all people, nor municipalities, have the same capacity to fund infrastructure. Likewise, there are many positive and negative externalities of a given investment that blur definitions of the group who benefits.

For example, while cyclists using a bicycle trail derive a direct benefit of the trail, vehicle drivers who experience less congestion on the road benefit as well. Thus, both bicyclists and drivers should pay for the construction and maintenance of the trail.

According to a 2010 Congressional Budget Office spending analysis, state and local governments provide 75% of the funding for water and transportation infrastructure projects, even after subtracting pass-through funds that originated from federal dollars. For some types of infrastructure—such as telecommunications, clean energy, and freight rail—federal dollars provided an even smaller portion. State and local governments are also responsible for most operations and maintenance costs.

According to a Brookings Institute report, overall infrastructure investment in the U.S. peaked during the 1960’s, representing 4.8% of the GDP, and had fallen to 2.8% of the GDP by the 2000’s. Federal grants for infrastructure are now half of what they were in the 1960’s, adjusted for inflation, and direct domestic infrastructure investments through departments such as the Army Corps of Engineers have also fallen.

Our current funding sources fall short of our needs. Local revenue streams are limited, in part, by existing state laws. User fees and rate payments are not feasible for fully funding all forms of infrastructure. Fees levied at the point of development, such as system development charges, are typically unpopular with developers and may present a challenge to economic development. System development charges (SDCs) and impact fees can work to provide a portion of the revenue necessary to support new infrastructure, however this funding source cannot be used for long term maintenance. Governments that turn to bonds, meanwhile, face the risks of uncertainty and the associated costs of making plans before funding is secured as well as other issues. ASCE has identified additional barriers to better infrastructure, such as rising construction costs, limited opportunities to take advantage of economies of scale, competitive funding based on geography, funds that are diverted for emergency repairs, and the inherent costs associated with a climate of funding uncertainty.

While federal money represents a fairly small portion of the country’s overall investment in infrastructure, many small governments nevertheless structure their strategy around the goal of obtaining this “free money.” Some experts have questioned the wisdom of this strategy, since meeting federal requirements requires extensive staff time for grant searching and compliance, Community Development Block Grants (CDBG) can be used for water
and wastewater improvements, community/public facilities, and smaller public works projects, in addition to non-infrastructure expenditures such as microenterprise endeavors, skills training, and housing rehabilitation. In 2014, Oregon received approximately $11.9 million from HUD for CDBG funds\textsuperscript{11} for non-metropolitan (non-entitlement) areas, whereas metropolitan areas and tribes apply for CDBG funds directly from the federal government.

The Infrastructure Finance Authority (IFA), administers CDBG grants for non-entitlement areas, and local governments can access a number of other grants. IFA administers drinking water grants from the Department of Environmental Quality (DEQ), and Environmental Protection Agency (EPA). They also administer grants supported by state lottery dollars. New grant opportunities have also focused on seismic retrofitting, particularly for public buildings. IFA considers a number of factors in grantmaking, including the immediate feasibility of a project, and the current state of related infrastructure systems.\textsuperscript{12}

**PROPERTY TAX LIMITATIONS**

In 1990, voters approved Ballot Measure 5, a bill to cap property tax rates. Over half of Oregon cities have hit this cap and fallen into tax compression in the 2009/10 fiscal year.\textsuperscript{13} Ballot Measure 50, passed in 1997, further cut taxes, and set an assessed value for properties linked to the 1995-96 market value, minus 10%. Further growth in the assessed value was capped at 3% per year.\textsuperscript{14} According to the League of Oregon Cities, inflation is typically out-pacing the allowed growth in assessed value.\textsuperscript{15}

With so much of infrastructure funding relying on local revenue, Oregon’s tax system directly influences the ability of local governments to fund infrastructure. According to the Oregon Center for Public Policy,\textsuperscript{16} between 1990 and 2006, Oregon municipalities received $41.2 billion less in tax revenue than they would have without the passage of Measures 5 and 50. For fiscal year 2012-13, the Oregon League of Cities estimates that Oregon lost a total $185 million to “tax compression.”\textsuperscript{17}

Levies for bonded indebtedness remain basically unchanged under Measure 50; a tax specifically for bonding to pay for capital construction projects may not be subject to compression. While this may appear\textsuperscript{18} to be a saving grace for infrastructure needs within a compressed environment, trouble emerges when a town may be able to finance a bond for construction, but not operation or maintenance. Levies are limited to ten years for capital investments.

An additional property tax limitation has emerged through the Strategic Investment Program (SIP). SIP was created as a means of attracting and retaining capital-intensive employers to Oregon regions, by negotiating millions of dollars in tax breaks over the course of 15 years in exchange for either a minimum of $100 million in investments in an urban area, or $25 million in investments in a rural area.\textsuperscript{19} Local governments negotiate their own agreements, but all SIP arrangements must be approved by the state. While the merits of this economic development strategy may possibly outweigh the losses, SIP payments do not offset forgone property taxes.\textsuperscript{20} A Gain Share program was implemented to allow local governments to claim a portion of income taxes associated with SIP employers, recovering more, but not all, of forgone tax revenue.

**BORROWING OPTIONS**

Municipalities may access long-term financing with relatively low interest rates, which are supported by federal income tax exemptions to those who invest in municipal bonds. Private federal income tax exemptions are estimated to total $30 billion annually, with the total tax forgone actually exceeding the total interest savings enjoyed by local governments.\textsuperscript{21} In theory, a direct subsidy could be more efficient than issuing privately backed bonds, however, the interests of private investors arguably add political weight to keeping these funding options available and supported by the federal government.

In 2012, local governments, hospitals, and ports of Oregon collectively issued $2.8 billion new debt. Multnomah County was the leading bond issuer among local governments in Oregon, with $1.34 billion, 47.5% of the total.\textsuperscript{22}

Municipal bonds offer the opportunity to access a large amount of capital that physical infrastructure projects demand. Since the recession that struck in 2008, however, bond deals have been structured more conservatively. Rates of projected revenue growth have been subject to greater scrutiny, reigning in borrowing limits. Whereas in the early 2000’s, it was not uncommon to see cities projecting 3% annual revenue growth, underwriters have been insisting on more conservatively calculated projections. Moreover, the Securities and Exchange Commission (SEC) has been watching municipalities and their underwriters more closely, insisting, for example, on improved documentation for annual investor reporting.\textsuperscript{23}
Broadly, most municipal bonds fall into one of three categories: full faith and credit, general obligation, or revenue bonds.

General obligation bonds are secured by the power to levy additional property taxes beyond limitations like those presented by Measure 5 and 50. They are therefore not subject to compression, and are also often able to earn lower interest rates. In order to pass a general obligation bond, the bond must go to a public vote and be passed by a simple majority during a November or May election.

Full faith and credit bonds are backed by all revenue sources that the government has, but are not backed by the power to exceed current limits on property taxes. This means that, effectively, repayment of these bonds can compete with other budget items in the general fund—possibly including operation of the infrastructure project itself.

Revenue bonds are usually tied to a specific utility. Agreements must be in place to keep users rates or fees sufficiently high to establish a favorable debt-service coverage ratio. While there are advantages to having a dedicated funding stream, higher utility rates can be a challenge to residents and businesses.

Table 1 shows more information about common debt instruments available to state and local governments.

**FUNDING**

Local governments also have a variety of revenue options for construction, debt payments, and operations and maintenance funding for infrastructure. While there are limitations to property tax revenue and competition for general funds, geographical taxing districts and user based fees offer a funding alternative.

**Special Taxing Districts**

Special Taxing Districts provide another funding mechanism for infrastructure and maintenance. In a designated Urban Renewal Area (URA), tax revenue is essentially capped at the present level, and any additional revenue collected as the tax base grows is dedicated to paying off investments in the area (a process known as Tax Increment Financing (TIF)). If investments encourage growth, then those investments will theoretically pay for themselves through the local diversion of property taxes. TIF has been criticized as sometimes failing to benefit the wider public, diverting funds for essential services like education or public safety, or funneling benefits too narrowly to private developers. Examples of infrastructure developed through TIF in Oregon, include recent new Portland, OR parks developed through Portland’s North Macadam URA, and many transit and street improvements.

Local Improvement Districts (LIDs) allow a group of property owners to effectively share the cost of local physical improvements, such as sidewalks, or water main extensions. Local property owners choose to undertake the investment together, then the local municipality or county typically arranges the longerterm financing, project review, and contracting services. Wilsonville LID 12-95-ST: Canyon Creek Road North project paid for sewer, water, and stormwater facilities by assessing an association of various users, including companies like Tektronix and Mentor Graphics.

Business Improvement Districts (BIDs) and Economic Improvement Districts (EIDs) are also special taxing districts that can contribute to local economic development. However, BIDs and EIDs are not generally intended to fund capital improvements. These districts may only raise funds for events, landscaping and maintenance, business recruitment, or staff time for strategic planning.

**Fees**

Beyond taxes and loans, local governments can levy fees in order to recover costs for a specific service. Some fees are charged as a flat rate to all customers, whereas others may relate to usage or capacity of the users. Fees can also be set to balance supply and demand, curbing inefficient use of utilities or roadways. When considering fees, it is important to assess potential equity concerns, since regressive fees could have the disadvantage of curbing otherwise efficient use, or limiting access to resources for low-income populations.

User fees are paid by residential and business customers based on their use of certain utilities, such as water and sewer rates. These fees can go directly back to the operation and maintenance of related infrastructure, and pay, in part, for construction and replacement infrastructure, including debt service. In some areas, these fees are also used for related improvements, for example, water fees in the City of Portland contribute to stormwater management projects such as bioswales, and pay toward investigation of a superfund site in the Portland Harbor.

Franchise fees are paid by local utilities that use public right-of-way, such as telecommunications companies, pipelines, garbage providers, or wastewater companies.
Oregon cities vary by whether they assess permit fees by land use, flat fees, or a percentage of revenue. The intention of franchise fees is largely to prevent a situation where taxpayers are effectively subsidizing private profits from extraordinary use of public land. While directly related to infrastructure, these fees typically feed directly into the general fund.

Impact fees/SDCs are typically assessed to new development during the permit process to focus on infrastructure in support of a new job or population demand generated by the project. Local jurisdictions have the authority to set these fees according to rules set by the state. In Portland, the departments of environmental services, transportation, the water bureau, and parks...
department all assess SDCs. These fees pay for growth related capital improvements, from sewage line extensions, sidewalks, road improvements, etc.

Improving Coordination

Oregon and other west coast states have taken several steps to improve coordination on infrastructure investments, with the aim of greater efficiency and capacity. The West Coast Infrastructure Exchange is a new collaboration between California, Oregon, Washington, and British Columbia created to help connect governments to technical expertise, foster collaboration between industry experts, and potentially draw connections to private capital. Additionally, the Exchange plans to build capacity for “climate risk factors.”

The Infrastructure Finance Authority (IFA) is part of Business Oregon, the economic development agency for the state. Business Oregon seeks to grow Oregon businesses by leveraging investments and supporting entrepreneurship. IFA was created to organize debt and asset management expertise, coordinate funding partners, and assist on infrastructure planning processes. IFA’s goals are intended to focus on both public health and safety, and creating a climate for effective business. IFA offers a regular workshop where local government representatives can learn about and discuss the best options for their situation.

The League of Oregon Cities and the Association of Oregon Counties sponsors the Local Oregon Capital Assets Program (LOCAP). LOCAP is a pooled financing system for full faith and credit bonds, reducing the overhead costs of administrative tasks and engaging with the municipal bond market. LOCAP also claims to expedite access to funds. The League of Oregon Cities partners with a set of trustees and underwriters, as well as three different bond counsels. This set system represents a public-private partnership, where investors buy portions of the shared pool, called certificates of participation.

Regional Solutions Teams are staffed by regional representatives of state agencies (DEQ, DLCD, ODOT, OHCS, and OBDD), and a regional coordinator representing the Governor, and convened at university centers. The several dozen projects completed between 2011 and 2014 have included a joint infrastructure assessment for Marion, Polk, and Yamhill Counties, a sewage project for an industrial park in Josephine County, and coordination between highway and water systems upgrades in Talen to reduce costs.

CONCLUSIONS

Having multiple opportunities for collaboration between public entities on multiple scales is one of Oregon’s strongest assets in working to improve our infrastructure. In the current landscape, it is clear that states hold most of the responsibility for infrastructure projects like drinking water and sewage, and that means that state and local leaders must be the ones to take political leaps, and ensure that they are leveraging revenue from the local economy effectively.

Meanwhile, we are challenged to take care of what we already have. Janet Hillock reports that the Infrastructure Finance Authority was charged with supporting communities take on asset management tasks after an executive order in 2009, but grant funding soon dried up. Maintenance needs compete with children’s education and everyday operations—the needs of our future generations, competing against the needs of the existing population.

Oregon is up against many constraints. Our property tax system not only limits our ability to collect revenue for infrastructure projects and maintenance, but distorts the distribution of revenue collection. As Oregon faces both future equity issues in its infrastructure finance plans, such as the specter of regressive revenue systems, it also struggles with existing distortions, and communities struggling with disinvestment. Many citizens are distrustful of government spending. They read in the paper about projects gone wrong; they have personally experienced the effects of disinvestment or displacement; they have seen their communities change in ways they don’t like. To maintain and provide infrastructure, to help people find a way to improve their communities through capital investments, some of that trust needs to be restored. Young people need to know that the generations who currently hold power will care for their future; those who have experienced disappointment must trust that investment in our infrastructure will do more for their grandchildren’s future than a savings account.

Oregonians have terrific opportunities to make infrastructure investments today and in the future. Oregon’s legacy of stewardship over natural resources demands that we invest in infrastructure that respects both the land, and the livelihood of upcoming generations. Demand management systems, from transportation to energy consumption, may help us stretch both our civic and natural resources as the population grows, while sacrificing less of what makes Oregon great.
ENDNOTES


10. Ibid, pg 4.


15. Ibid, pg 3.


18. Ibid, pg 1.


20. Ibid.


31. Ibid.

34. Ibid.