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Report on Housing Bonds for Low Income Elderly (State Measure No.3); Report on Domestic Water Fund Created (State Measure No. 4)

City Club of Portland (Portland, Or.)

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REPORT ON
HOUSING BONDS FOR LOW INCOME ELDERLY

(State Measure No. 3)

Ballot Title: "Housing for Low Income Elderly"

Purpose: "Authorizes general obligation bonds to finance multifamily housing for low income elderly. Such bonds to be issued in amounts not to exceed one-half of one percent of true cash value of taxable property in Oregon."

To the Board of Governors,
The City Club of Portland:

I. INTRODUCTION

State Measure No. 3 would amend the Oregon constitution by creating a new Article XI-I. The amendment (see Appendix B) would permit the state to incur an additional indebtedness by issuing bonds to provide funds for multifamily housing "for elderly households of low income."¹ Total indebtedness for the program cannot exceed one-half of one percent of the true cash value of property in the state (the limit currently would yield about \$203 million). The State would fully guarantee the bonds and, under the terms of the constitutional amendment, would be obligated to use general funds or to levy new state-wide ad valorem taxes to repay the bonds if the bond program is not self-liquidating.

II. BACKGROUND

A similar constitutional measure was presented to Oregon voters in the May 25, 1976 election. A report of the City Club relating to that measure was published in the April 30, 1976 City Club *Bulletin*. The 1976 City Club Committee recommended passage by a vote of 4 to 1. The City Club voted 57 to 51 against passage. Oregon voters in the 1976 election voted the measure down.²

The 1976 measure was sponsored by Governor Bob Straub and was the result of campaign promises made by him during his gubernatorial campaign. State Measure No. 3 in its present form was sponsored by the House Committee on Aging. Representative Robert Marx, Chairman of that committee, was the principal legislative proponent.

III. OPERATION AND EFFECTS OF THE ELDERLY HOUSING FINANCE PROGRAM

A. Administration

In addition to Measure No. 3 (the constitutional amendment), the Oregon Legislative Assembly enacted Chapter 485, Oregon Laws 1977 (HB 3143) to carry out the purposes of the amendment should it be adopted by the voters. If so adopted, state general obligation bonds totaling about \$203 million would ultimately be sold and the proceeds of sale would be appropriated to an Elderly Housing Fund. The State Housing Division would administer the Elderly Housing Fund and would advance funds "for the purpose of pro-

1. Neither "elderly households" nor "low income" is defined in the constitutional amendment. Those definitions are found in the enabling legislation discussed below.

2. The vote was 52% against and 48% for.

viding additional financing for multifamily housing for elderly households of low income."³

The Housing Division would be authorized to advance bond proceed funds by "contract, grant, loan or otherwise" to carry out the purposes of the amendment. Under Chapter 485, the Housing Division would be required to adopt standards for (1) determining eligibility of low income elderly households, (2) providing for allocation of funds to finance housing projects, and (3) establishing limitations on interest rates and fees charged on loans, and adopting rules for the efficient administration of the fund.

The Housing Division would be required to maintain, through the State Treasurer, an Elderly Housing Sinking Fund. The sinking fund would be used to repay bond obligations and would consist of contract or loan proceeds, bond reserves, "other funds available for these purposes; and, if necessary, state ad valorem taxes . . ."⁴

M. Gregg Smith, Administrator of the Housing Division, urged that it is the intent of the Housing Division to pattern the administration of this program after the State Veterans' Administration program, which provides funds for residential housing and farms. Under the proposed program the Housing Division would loan money to developers at lower interest rates than would otherwise be commercially available to the developers, thereby reducing the amortization cost of the debt.

The lower amortization cost would allow the developer to charge lower rentals than would otherwise be commercially feasible. As a consequence, a certain percentage of elderly, low income families presumably would then be able to afford the lower rental rate.

The Housing Division would require a lower rental schedule as a condition of loaning funds. According to Mr. Smith, the developer would also be required to enter into a management contract with the Housing Division setting forth the rental schedule and tenant criteria. The management contract would be for the life of the loan, and would be part of any transfer of the housing unit during the term of the loan. The developer's payments on the loan would be deposited to the sinking fund held by the State Treasurer.

Mr. Smith estimates that the interest rate charged for its loans would be about three percentage points below commercial rates.

Under the terms of Chapter 485 (the implementing legislation), the funds advanced by the Housing Division would be to "qualified borrowers." In most instances, the Housing Division would provide permanent financing only and allow commercial institutions to provide the construction financing.

The Housing Division, and others, point out as a practical matter that the funds provided, if this measure is adopted, must be administered in association with a subsidy program such as the Federal Leased Housing Assistance Program (Section 8) under HUD.⁵ HUD funds are allocated among geographic areas. The rent subsidies available through HUD could be spread to more projects if Measure No. 3 passes, thereby offering subsidies to a greater number of low income, elderly households.

3. Section I, Article XI-I of the proposed constitutional amendment. HB 3143, the enabling legislation, provides:

"Elderly household" means a household whose head is over the age of 62, residing in this state, who cannot obtain in the open market decent, safe and sanitary housing, including the costs of utilities and taxes, for 25 percent of the gross income of the household."

4. Subparagraph (2), Section 8, Chapter 485.

5. Section 8 funds are not limited to elderly low income households, but low income households generally. It is a rent subsidy program.

B. Need and Projected Results

Your Committee is convinced that there is a critical need for low income housing for the elderly. Your Committee also believes that the problem will get worse in the future unless some action is taken now. Several factors are involved in reaching these conclusions. The life expectancy of both men and women is increasing. The cost of constructing adequate housing is rising. The vacancy factor in multiple family units in Oregon has been falling, reflecting less and less availability of such units. The low income elderly depend primarily on fixed income sources to sustain themselves, the buying power of which is inversely proportional to the inflationary rate. Bob Straub stated in 1977, "Fully one-quarter of the 369,000 residents of Oregon who are over 60 years old live on the edge of survival."⁶

The following tables show the annual incomes of elderly households in Oregon in 1977 by all households and then broken down to reflect households which rent and households which own their dwelling:

TOTAL ELDERLY HOUSEHOLDS 62 AND OVER—1977⁷**1. All Households (62 and over)**

<i>Income Range</i>	<i>No. of Elderly Households</i>	<i>% of Total</i>
Under \$3,000	32,100	15.1%
\$ 3,000-\$ 4,999	45,500	21.5%
\$ 5,000-\$ 6,999	40,800	19.3%
\$ 7,000-\$ 9,999	40,300	19.0%
\$10,000-\$14,999	34,100	16.1%
\$15,000 and over	19,100	9.0%
TOTAL	211,900	100.0%

2. All Ownership Households (62 and over)

<i>Income Range</i>	<i>No. of Elderly Households</i>	<i>% of Total</i>
Under \$3,000	16,800	10.6%
\$ 3,000-\$ 4,999	31,000	19.5%
\$ 5,000-\$ 6,999	30,100	19.0%
\$ 7,000-\$ 9,999	34,000	21.4%
\$10,000-\$14,999	30,200	19.0%
\$15,000 and over	16,600	10.5%
TOTAL	158,700	100.0%

3. All Rental Households (62 and over)

<i>Income Range</i>	<i>No. of Elderly Households</i>	<i>% of Total</i>
Under \$3,000	15,300	28.8%
\$ 3,000-\$ 4,999	14,500	27.3%
\$ 5,000-\$ 6,999	10,700	20.1%
\$ 7,000-\$ 9,999	6,300	11.8%
\$10,000-\$14,999	3,900	7.3%
\$15,000 and over	2,500	4.7%
TOTAL	53,200	100.0%

6. "Issue Report on the Elderly to the Fifty-Ninth Legislative Assembly" by Bob Straub, March 11, 1977.

In 1976 the State Housing Division estimated that there were 42,000 elderly households living in housing units which were "either substandard or hazardous." *Fact Sheet*, January 28, 1976.

7. Data furnished by the State Housing Division.

The Housing Division has had some recent experience in administering low income housing projects for the elderly.⁸ At the present time, the construction cost of a low income housing project for the elderly will run about 18,000 per unit.⁹ By example, to furnish funds for constructing these units the Housing Division, under Measure No. 3, could loan funds for a period of 25 years at an interest rate of 6½ percent, whereas the developer might be required to pay 9½ percent for conventional financing.¹⁰ The monthly reduction in amortizing the loan (at the present \$18,000 unit cost) by utilizing the Housing Division loan would be about \$34.00 per unit.¹¹

Based on the above, your Committee believes that the proposed constitutional amendment, if adopted, will afford the Housing Division the opportunity to provide low income housing for the elderly at a rental rate of about \$34.00 per unit per month below what is possible presently using conventional funds.

IV. ARGUMENTS FOR AND AGAINST THE MEASURE

A. Arguments for

1. A truly needy sector of the population of the state will be aided.
 2. The program is intended to be self-supporting in that no new taxes or other state funds will be required.
 3. The program is designed to be coupled with either existing federal subsidy programs or other available housing subsidies.
 4. The program provides the one element which is missing in the economy for providing housing: that is, an inexpensive source of long-term mortgage capital with lower rates than available elsewhere.
 5. The economy of the state will be enhanced by the construction work generated through this program.
 6. Efforts to provide housing in Portland's center city locations will become easier as a result of this program.
 7. New projects that might not otherwise receive support because of time constraints can be funded more quickly and more creatively in combination with other local or federal subsidy programs.
 8. The State Housing Division has proven itself capable of administering a complex mortgage lending program with the proper administrative controls by virtue of the \$64 million of revenue bonds that have been placed into single family mortgages during the past two years.
 9. The existing revenue bond program does not adequately serve the elderly since it is projected to reach its ceiling of \$200 million by June of 1979 with only 10% of this capital being utilized for multi-family projects for the elderly.
 10. Recreational, health and social services can best be delivered to the elderly in multi-family units designed for the elderly.
-
8. The 1973 Legislature enacted HB 2398 providing for the issuance of revenue bonds by the Housing Division for low income housing generally. Some revenue bonds have been issued for financing housing for the elderly. See the following discussion for a comparison of the programs.
 9. That unit cost includes land. The average project contains about 30 units. To assure possible federal subsidies, most projects comply with Federal Minimum Property Standards promulgated by HUD (including special standards for the elderly). Such compliance increases unit costs. The average size of a unit is 600 square feet.
 10. The Housing Division feels that these interest rate comparisons reflect a fair analysis of the thrust of the proposed program.
 11. Using a 90% loan in both cases and the same 25 year amortization period.

B. Arguments against

1. The existing state program¹² for providing housing utilizing the revenue bonds is better and safer for the state.
2. There are insufficient safeguards to limit the Housing Division's authority in administering the program.
3. There is a risk that the program will have to utilize general fund monies or require new taxes in order to service the bond debt.
4. The state's credit rating may be adversely affected by any additional indebtedness because of this program.
5. There will be too much reliance on federal and other subsidy funds in order to make the program operational.
6. There are no administrative procedures spelled out in the legislation and the criteria as to eligibility are too loosely defined.
7. The administration of the program may be considerably more difficult than envisioned by proponents.
8. The program will encourage an undesirable solution to elderly housing in that older citizens will be placed in multi-unit dwellings with their peers and thus will become isolated and out of touch with the rest of their community.
9. The state cannot afford additional general obligation bonds.

V. DISCUSSION

Your Committee found no organized opposition to State Measure No. 3. As a consequence, during the course of our investigation we sought to identify the principal reasons against voting for the measure, taking a "devil's advocate" approach as a matter of investigative style. Although such an analysis, and, therefore, our discussions below, may appear somewhat negative to the reader, we are satisfied, after going through that process, that on balance State Measure No. 3 warrants this Committee's support.

Your Committee identified two principal arguments against passage. First, the existing revenue bond program could be expanded and, absent an approximate one percentage point of interest saving, arguably could be used instead of the proposed general obligation bond program with more or less equal effect. Second, the measure as drafted gives the Housing Division very broad powers which might allow the Housing Division to administer the program in a manner inconsistent with the measure's stated purposes. After our investigation, your Committee is satisfied that neither of the above arguments justifies a negative vote.

1. *The proposed general obligation bond program is better than the existing revenue bond program*

As was indicated previously, the 1973 legislature passed HB 2398 allowing the Housing Division to issue revenue bonds to finance low income housing. The Housing Division is implementing this program now. Some units have been completed, others are under construction and still others are proposed. A small portion of these units are for the elderly. Procuring money through revenue bonds allows the Housing Division, under present market conditions, to loan sums at about two percentage points below commercial rates. State Measure No. 3 would allow the Housing Division, again under present market conditions, to loan sums at a rate of at least one point lower than already is the case under the revenue bond program.¹³

12. House Bill 2398 (1973) Lower Income Housing Revenue Bonds discussed at footnote 7 above and below.
13. The revenue bond owner looks only to the loan obligations for repayment, whereas, under the proposed general obligation bond program, the bond owner looks to the general credit of the state. The distinction in risk is reflected in different interest rates.

An additional saving will probably be realized because the existing revenue bond program requires 80 percent financing. The Housing Division will allow 90 percent financing under State Measure No. 3.¹⁴

At first glance a saving of approximately one percentage point over the existing revenue bond program may not sound like a great deal of saving. However, since the average development is about thirty units, the monthly reduction in debt service will be at least \$340 per month per project. Coupled with 90 percent financing, your Committee is satisfied that some programs will become financially feasible, which would not be so, absent passage of the measure. In addition, the revenue bond program has a ceiling of \$200 million.¹⁵ Once the limit is reached, there is no alternative program for elderly housing.¹⁶

2. *There are adequate safeguards to limit the Housing Division's authority in administering the proposed program.*

Under the proposed constitutional amendment the Housing Division is given the authority to advance funds "by contract, grant, loan or otherwise . . ." If the purpose of the measure is to provide cheaper financing for the construction of facilities for the elderly, it is a shame the authors of the measure painted the powers given to the Housing Division with such a broad brush. M. Gregg Smith, Administrator for the Housing Division, urged that the program, if enacted, would be administered as the State Veteran's program. Other than certain specified areas, however, the Oregon constitution allows the advancement of funds by the Director of Veterans' Affairs only upon the "[s]ecured repayment thereof . . ."¹⁷

Looking at the language of the constitutional amendment only, it is technically possible that the Housing Division could make "grants" of one sort or another, such as interest free loans. However, your Committee believes, as a practical matter, that the program can only be administered as a financing tool.¹⁸

Your Committee reviewed how the existing revenue bond program is administered by the Housing Division. Under Oregon law, the Administrator of the Housing Division implements policies established by the State Housing Council. The State Housing Council, a seven member group appointed by the Governor, meets periodically. At such meetings, among other things, it approves or disapproves all loans proposed by the administrator.¹⁹ In addition to the controls imposed by the State Housing Council, there are several other safeguards to assure the proposed program is administered properly:

- a) It would be difficult, if not impossible, to sell even general obligation bonds if the Housing Division could not show how the bonds

14. Because an investor would put up less capital, presumably he would require a lesser rate of return on the total investment.

15. ORS 456.660.

16. As a practical matter, the Housing Division would not use revenue bonds to finance low income housing for the elderly if this measure passes. In addition, the Housing Division estimates the \$200 million ceiling will be reached during the forthcoming biennium.

17. Section 1, Article XI-A, Constitution of Oregon.

18. A developer seeks Housing Division approval of a particular project. If approved, the developer borrows funds from a commercial institution at commercial interest rates. Upon completion, the State Treasurer will "purchase" the mortgage with funds within The Excess Fund of Oregon (a short term investment pool). This is known in the trade as "warehousing." Once the total sum of the loans "warehoused" reaches a certain level, bonds in a sum equivalent to the "warehoused" loans will be issued. The bond proceeds will be used to repay the funds advanced by the State Treasurer from The Excess Fund. At the time the bonds are issued, therefore, specific mortgage obligations will be in existence to amortize the bond debt.

19. The Council technically advises the administrator as to eligibility criteria for loans. As a matter of practice, it approves the loans also. See ORS 456.590 et seq.

were to be liquidated. Presumably, it could not make such a showing if it intended to dole out bond proceeds.

b) The Emergency Board is required to approve the Housing Division's budget regarding this program prior to the commencement of the program. In the future, the Legislature would approve the same budget.

c) There exists a general legal doctrine that the state could not grant sums which were not in the public interest — the so-called "public purpose" doctrine.

d) The Housing Division is required to promulgate standards, supervised by the State Housing Council, which standards would limit the Housing Division to the purposes intended.²⁰

VI. CONCLUSIONS AND RECOMMENDATIONS

The revenue bond program, enacted by the 1973 Oregon legislature, created a vehicle by which the Housing Division could loan funds for the construction of low income housing generally. The passage of State Measure No. 3 will afford the State an additional financial tool to encourage construction of facilities for the elderly specifically—facilities which are in short supply and desperately needed.

It is the unanimous recommendation of the Committee that the City Club favor a "Yes" vote on Ballot Measure No. 3 in the May 23, 1978 election.

Respectfully submitted,
Clemens J. Laufenberg
Nancy A. Rangila
Harvey L. Rice
D. Patricia Smith
Robert Tepper
Dennis F. Todd, *Chairman*

Approved by the Research Board April 3, 1978 for transmittal to the Board of Governors. Received by the Board of Governors April 17, 1978 and ordered printed for distribution to the membership for discussion and action on May 12, 1978.

20. The above safeguards represent a summary of an opinion letter of the Legislative Counsel addressed to Representative Robert Marx and dated February 17, 1978.

APPENDIX A
COMMITTEE SOURCES

Clay Myers, State Treasurer
 Tuck Wilson, Deputy State Treasurer
 M. Gregg Smith, Administrator, State Housing Division
 Bruce Schoen, Economist, State Housing Division
 Representative Robert Marx, Chairman House Committee on Aging
 Lyndon Musolf, Executive Director, Housing Authority of Portland
 Elizabeth S. Achorn, Deputy Legislative Counsel, Oregon Legislative Counsel Committee
 Discussion Draft, "Proposed Housing Policy for Portland," proposed by Neil Goldschmidt as presented to City Council, Dated November 22, 1977
 "Issue Report on the Elderly to the Fifty-ninth Legislative Assembly," Governor Bob Straub, dated March 11, 1977
 "Draft of Argument in Opposition to Measure No. 3" by Diana Evans, to be placed in the Oregon Voters' Pamphlet
 "Fact Sheet, Elderly Housing Finance Program, January 28, 1976," prepared by the State Housing Division

APPENDIX B

State Measure No. 3 would amend the Constitution of the State of Oregon by creating a new Article to be known as Article XI-I and to read:

ARTICLE XI-I

SECTION 1. In the manner provided by law and notwithstanding the limitations contained in section 7, Article XI of this Constitution, the credit of the State of Oregon may be loaned and indebtedness incurred in an amount not to exceed, at any one time, one-half of one percent of the true cash value of all taxable property in the state to provide funds to be advanced, by contract, grant, loan or otherwise, for the purpose of providing additional financing for multifamily housing for elderly households of low income.

SECTION 2. The bonds shall be payable from contract or loan proceeds; bond reserves, other funds available for these purposes; and, if necessary, state ad valorem taxes.

SECTION 3. Bonds issued pursuant to section 1 of this Article shall be the direct obligations of the state and shall be in such form, run for such periods of time and bear such rates of interest as shall be provided by law. The bonds may be refunded with bonds of like obligation.

SECTION 4. The Legislative Assembly shall enact legislation to carry out the provisions of this Article. This Article shall supersede all conflicting constitutional provisions.

REPORT ON
DOMESTIC WATER FUND CREATED
(State Measure No. 4)

Purpose: "Amends state constitution to permit bonded indebtedness up to one-half percent true cash value of property in the state. Funds raised from such bonds to be used by state to acquire local government obligations issued to pay for public water systems. Bonds will be repaid by local governments using the Fund, or by replacement revenue provided by the Legislature. Bonds guaranteed by statewide ad valorem tax in case of default. Enabling legislation required."

To the Board of Governors,
The City Club of Portland:

I. INTRODUCTION

The Oregon constitution prohibits with certain limited exceptions, the creation of a total State debt in excess of \$50,000.¹ Consequently, commencing in 1916, a number of articles have been added to the constitution, with the result that it now permits general obligation bonds in excess of that amount for a variety of purposes; most of these bonds are required by the amendments to be either wholly or partially self-liquidating or secured (see Appendix A). This measure, which was proposed to the voters by Senate Joint Resolution 4 (SJR 4), would add another article to the constitution to permit the issuance of general obligation bonds to create a "Domestic Water Fund." The total amount of these bonds, however, is limited to one-half percent of the true cash value of all the taxable property in the state, which would approximate a \$200 million fund. The money in the Fund would be loaned to municipalities and water districts for the planning, construction, improvement, etc. of public water systems. The bonds would be paid from (a) repayments from the borrowing municipality or water district, (b) a legislative appropriation or (c) an ad valorem tax on all taxable property in the state.

II. BACKGROUND

In its 1971 session the legislature passed, subject to a vote of the people in May of 1972, an amendment to the constitution that would have authorized the state to issue bonds in order to create a "Water Development Fund" primarily for irrigation projects.³ The City Club recommended a favorable vote on the measure but the voters turned it down by a margin of 62 percent to 38 percent.

At its next session the legislature passed, subject to a vote at the 1974 primary election, a revised version of this amendment. This version would have broadened the permitted uses of the Fund to include the acquisition of local government bonds, etc. issued, in addition to irrigation, for the construction, improvement, etc. of what were to be known as "community water supply systems" (i.e., those supplying water for "drinking, culinary or household uses"⁴). A City Club Committee recommended against the amendment, primarily because of concerns over the irrigation aspect of it but also because the Committee believed that "[i]n general, community water systems are presently able to obtain adequate funds."⁵ Again, the amendment failed at the polls (and by the same margin).

1. Article XI, Section 7, Oregon Constitution.

2. Since such TCW is approximately \$40.7 billion, the total amount permitted is about \$203.5 million.

3. 1971 HJR 14. See Committee Report on State Measure No. 5, *City Club Bulletin* Vol. 50, No. 52, presented May 12, 1972.

4. Chapter 701, Section 1 (2) Oregon Laws, 1973 (not codified).

5. Committee report on State Measure No. 4, *City Club Bulletin* Vol. 54, No. 51, presented May 17, 1974.

Last year the legislature passed a constitutional amendment relating to bonding for irrigation and drainage projects and a separate one, which is the subject of this Report, relating to bonding for public systems providing "piped water for human consumption." The irrigation and drainage was separated from the domestic water supply aspect, and they were scheduled to be voted on at different elections. The City Club recommended a "yes" vote on the irrigation measure, and it was approved by the voters in November 1977 (51 percent to 49 percent) with the result that the "Water Development Fund" was created. The domestic water amendment will be on the ballot on May 23, 1978 as State Measure No. 4.

In 1977 the legislature passed Senate Bill 80 (SB 80) (Chapter 406, Oregon Laws 1977) which will go into effect as implementing legislation if State Measure No. 4 is approved. SB 80 limits the use of the Fund to "public water systems," which are defined as those having at least 15 service connections or regularly servicing at least 25 individuals.⁶

Section 6 of the Bill provides that, "Priority for use of moneys in the Domestic Water Fund shall be based upon the need of the public water system and not upon the requirements of the [federal] Safe Water Drinking Act of 1974, P.L. 93-523," which applies to all public water systems and sets forth safe drinking water standards.

Under the Bill applications for a loan from the Fund are to be filed with the Administrator of the Health Division of the Department of Human Resources,⁷ and he "may approve" the project proposed in the application if he finds that:

- 1) the plans and specifications are satisfactory;
- 2) the obligation of the applying governmental unit (whether represented by bonds, notes or otherwise) is "reasonably secured" and the project is a "reasonable risk";
- 3) the project is needed; and
- 4) the applicant's financial resources are adequate to provide the working capital to operate and maintain the system.⁸

Section 7(2) of SB 80 provides that,

"The rate at which the state shall bid for the acquisition of the applicant's bonds, notes or other obligations shall not exceed a rate equal to the rate which the state pays on its bonds, plus an amount not to exceed five percent of the par value of the applicant's bonds, notes or other obligations."

Section 12 of the Bill provides that "(i) f any governmental unit defaults on payments due to the state, the state may withhold any amounts otherwise due to the governmental unit to the indebtedness" (e.g. withholding liquor, gasoline and cigarette tax revenues).

III. ARGUMENTS ADVANCED IN FAVOR OF THE MEASURE

1. There is a need to provide public water systems with low cost, long-term funding for necessary improvements. Some small water districts have had difficulty in obtaining such funds.

2. This measure would enable smaller water districts to construct systems at less expense for a number of purposes including meeting the requirements of the Federal Safe Drinking Water Act of 1974.

3. There is relatively little cost to the state unless there is a default. The ballot measure and enabling legislation provide for loans, not grants; and loans are to be repaid by the water users gaining benefit from the use of the funds. Application fees are to be charged sufficient to cover administrative costs incurred in connection with the application.

6. Chapter 406, Oregon Laws 1977 (or SB 80) Section 3(1) and 1(2) and (3).

7. *Ibid.* Section 3(1) and 1(1).

8. *Ibid.* Section 5.

4. Safe water for human consumption is essential to the health of the citizens of Oregon.

IV. ARGUMENTS ADVANCED AGAINST THE MEASURE

1. There is no sufficient showing that existing local government funding sources are inadequate, unavailable or too expensive.

2. The state may now have too much bonded indebtedness.

3. The proposed amendment does not require that the local water improvement project be wholly or substantially self-liquidating or self-sustaining (as is the case for the higher education building bond amendment and the pollution control bond amendment) nor does it require first priority secured repayment to the state through security on the improvement project (as in the case of the veterans loan amendment and the water development loan fund amendment).

4. Secondary uses under the Water Development Loan Fund amendment passed at the November 8, 1977 general election already include city and county water development projects, so there could be duplication.

5. The implementing legislation (Chapter 406, Oregon Laws 1977) fails to adequately define standards, guidelines or controls to be used by the proposed Water Fund administrator in determining the eligibility of an applicant governmental unit.

6. The implementing statute would result in the expenditure of at least an additional \$60,000 per year to administer and monitor the proposed Water Fund. These costs might not be recovered from loan application fees under the implementing statute.

7. The statutes might not require local voter approval for the projects if the governmental units choose to issue notes rather than bonds to the Domestic Water Fund or if the governmental units enter into a loan contract with the Domestic Water Fund rather than issuing bonds to the Fund.

V. DISCUSSION

State Measure No. 4 was introduced at the 1977 legislature at the request of the Health Division of the Oregon Department of Human Resources. The Health Division was the only major proponent of the measure. The arguments in favor of the measure advanced by representatives of the Division are generally based on the desirability of constructing or improving public water systems at lower costs through the establishment of a Domestic Water Fund [as provided in this specific ballot measure and in Senate Bill 80 (the implementing legislation)]. The Committee did not find evidence sufficient to persuade it of the validity of these arguments.

Research conducted by the Committee revealed no organized opposition to the measure. However, analysis of the amendment and implementing legislation revealed the following weaknesses and defects which the Committee is convinced are serious enough to recommend against passage of the measure.

1. Bonding

The various existing bonding amendments are exceptions to the basic constitutional debt limits of the State. Accordingly, your Committee believes that general obligation bonds of the State should be self-liquidating or self-supporting, or require first priority security repayment to the State, unless strong contrary reasons are expressed and supported.

No substantial reasons were presented to the Committee to justify the fact that this program requires neither self-liquidation nor secured repayment. In the event of default in repayment, the legislature may be required to meet the obligations of the bond holders from the General Fund or, as a last resort, to levy a state-wide ad valorem tax. The measure does not give the state the express right to compel the assessment of local taxes to repay the loan.

If this measure passes, the state will be authorized to incur bonded indebtedness amounting to about 14 percent⁹ of the true cash value of taxable property in the state, of which approximately 7.37 percent is already outstanding. The Committee does not believe that the resulting level of bonded indebtedness would be excessive, in view of the nature and extent of the presently authorized indebtedness, most of which is required to be either self-liquidating or adequately secured (see Appendix A).

However, there was no showing to the Committee of a demonstrable level of need for the cheaper bonding or other financing that would result from the proposed amendment. Your Committee was unable to procure any information that could measure any such need. Small water districts can raise their own money through the sale of municipal obligations which could be purchased by local citizens (including local banks and insurance companies), avoiding any increase on the debt of the State of Oregon. For example, the City of Mosier in April 1978 advertised for a \$21,000 water bond. In the past twelve months, Jacksonville Highway Water District sold \$60,706 of its bonds and Sylvan Water District sold \$75,000 of its bonds to local banks, and Wolf Creek Highway Water District sold \$81,246 of its bonds to a brokerage firm. (See Appendix D for a sample list of additional new-money municipal bond offerings.) In addition, instead of selling bonds, small water districts may tax their own residents rather than asking state taxpayers to assume local obligations. Representatives of the State Health Division indicated that very small eligible water systems would not find the Water Development Fund approach to be feasible. Large cities would not use this mechanism since larger cities can issue their own bonds at favorable rates.

2. The Legislation

Your Committee was impressed by arguments concerning the inadequacy of the enabling statute (Ch 406, Oregon Laws 1977). That legislation should more thoroughly define the standards, guidelines and controls to be used in determining the eligibility of a Fund applicant, and the need for a proposed project.

Moreover, although the statute does provide a mechanism to assure repayment of loans, that mechanism does not apply to all borrowers. Specifically, the statute permits the State to withhold certain revenues (i.e., liquor, gasoline and cigarette revenues), but water districts do not receive such revenues. In addition, since any repayment to the Domestic Water Fund by the local government may be based on local users' fees or local taxes, the enabling legislation should require local voter approval of the project. Chapter 406, Oregon Laws 1977 does not require local voter approval and other statutes only require local voter approval for bonds, not for other forms of local indebtedness.

VI. CONCLUSION AND RECOMMENDATION

Passage of State Measure No. 4 is not in the best interest of the residents of the State of Oregon. Your Committee recommends that the City Club favor a "NO" vote on State Measure No. 4 at the May 23, 1978 primary election.

Respectfully submitted*

John Larsen

Henry G. Laun

Stanley R. Loeb

George W.K. Snyder, Jr.

Jeffrey L. Grayson, *Chairman*

*Committee member Carolyne B. Nelson was unable to participate in the final deliberations of the committee and abstained from voting.

Approved by the Research Board April 20, 1978 for transmittal to the Board of Governors. Received by the Board of Governors April 24, 1978 and ordered printed for distribution to the membership for discussion and action on May 12, 1978.

9. See Note 3 in Appendix A.

APPENDIX A
Summary of General Obligation Bonds of Oregon
As of April 11, 1978

<i>Constitutional Provision¹</i>	<i>Description</i>	<i>% of TCV Outstanding</i>	<i>Amount Outstanding (Millions)</i>	<i>% of TCV Authorized</i>
<i>Non Self-Supporting²</i>				
Art. XI, Sec. 7	General Purpose	(\$50,000)	0	N/A
XI-D	Power Development	1-1/2	0	0
XI-E	Reforestation	3/16	3.1	1/100
XI-G	Higher Ed. Institutions and Activities; Comm. Colleges	3/4	91.2	2/10
<i>Partially (70%) Self-Supporting:</i>				
XI-H	Pollution Control	1	110.6	3/10
<i>Fully Self-Supporting and Fully Secured:</i>				
XI-Sec. 7	Roads	1	58.1	1/10
XI-A	Veterans' Farm and Home Loans	8	2,661.0	6-1/2
XI-F (1)	Higher Ed. Bldg. Projects	3/4	76.7	2/10
XI-1	Water Development	1-1/2	0	0
		<u>14-11/16³</u>	<u>3,000.6⁴</u>	<u>7.37⁴</u>
If SJR 4 passes and is fully utilized	Domestic Water	1/2	203.5	1/2
If HJR 61 passes and is fully utilized ⁵	Multifamily Housing for Elderly	1/2	203.5	1/2
		<u>15-11/16</u>	<u>3,407.6</u>	<u>8.37</u>

1. Article XI-B and Article XI-C have been repealed. In addition, it is no longer possible for bonds to be issued under Article XI F(2).
2. These issues are paid primarily from the General Fund—*i.e.*, tax revenues. They are also paid somewhat by their own revenues (*i.e.*, self-supporting), but the percentage is not fixed (as it is with Pollution Control). For example, Article XI-E requires that funds derived from the program be applied only in the liquidation of the indebtedness, but those funds in fact must be supplemented from the General Fund to meet the payments on the bonds.
3. This percentage is about 13½ when effect is given to additional *statutory* limitations.
5. May 1978 State Ballot Measure No. 3.

APPENDIX B

Persons Interviewed

Jack Cole, Vice-President, Blyth, Eastman, Dillon & Co., Portland, Oregon
Charles Covey, Vice President, Atkinson & Company, Portland, Oregon
Lloyd Keefe, former Director of Planning, City of Portland
Art Goodman, Assistant Administrator, Oregon State Health Division
Robert Gresbrink, Manager, Vector Control & Water Supply, Oregon State Health Division
Wally Priestly, State Representative
Rebecca Marshall, Director of Municipal Debt Advisory Committee, State Treasurer's Office
Ronald Ragen, Attorney, Ragen & Roberts, Portland, Oregon
Ann Squier, Member LCDC and former Chairperson Water Policy Review Board

APPENDIX C**Bibliography**

League of Women Voters, Speakers Kit Primary Election, 1978

Questionnaire—State Health Commission

City Club Reports:

—Irrigation & Water Development Bond (State Measure No. 5)

(City Club Bulletin No. 52—May 12, 1972)

—Irrigation, Water Development & Community Water Supply Bonds (State Measure No. 4)

(City Club Bulletin No. 51—May 17, 1974)

—Water Development Loan Fund (State Measure No. 1)

(City Club Bulletin No. 24—November 4, 1977)

Water Use Issues & Decisions for Oregon, Bureau of Governmental Research & Service,
University of Oregon, Eugene, Oregon 3/31-4/2, 1977

SJR 4—1977 Session.

Candidate statement for Voters' Pamphlet by Cecil Johnson—Statement In Opposition of
Measure No. 4.

APPENDIX D**A SAMPLE LIST OF NEW-MONEY MUNICIPAL BOND OFFERINGS**

1. Name: Lakeside Water G.O.
Purchased By: Federal Government Agency
Rate: 5.00%
Maturity Range: 5/1/80-08
Issue Size: \$322,000
2. Name: City of West Linn Sewer G.O.
Purchased By: Local Bank
Rate: 5.09%
Maturity Range: 4/1/79-93
Issue Size: \$195,452.04
3. Name: City of Wilsonville Water G.O.
Purchased By: Local Bank
Rate: 5.046%
Maturity Range: 2/1/79-93
Issue Size: \$500,000
4. Name: City of Dayton Sewer G.O.
Purchased By: Local Bank
Rate: 5.468%
Maturity Range: 1/1/79-98
Issue Size: \$195,000
5. Name: City of Tillamook Sewer G.O.
Purchased By: Local Bank
Rate:
Maturity Range: 12/1/79-93
Issue Size: \$350,000
6. Name: City of Independence Sewer G.O.
Purchased By: Local Brokerage Firm
Rate: 5.25%
Maturity Range: 1/1/79-98
Issue Size: \$450,000
7. Name: City of John Day Sewer G.O.
Purchased By: Local Bank
Rate: 5.22%
Maturity Range: 1/1/79-98
Issue Size: \$475,000
8. Name: Jacksonville Highway Water District G.O.
Purchased By: Local Bank
Rate: 5.578%
Maturity Range: 10/15/78-97
Issue Size: \$60,706

9. Name: Pacific City Sanitary G.O.
 Purchased By:
 Rate:
 Maturity Range: 1/1/79-98
 Issue Size: \$445,000
10. Name: Sylvan Water District G.O.
 Purchased By: Local Bank
 Rate: 5.16%
 Maturity Range: 6/1/78-91
 Issue Size: \$75,000
11. Name: City of Gresham Sanitary or Water G.O.
 Purchased By:
 Rate:
 Maturity Range: 6/1/78-87(1) 6/1/78-97(2)
 Issue Size: \$100,802(1) \$195,967(2)
12. Name: Bear Creek Valley Sanitary District
 Purchased By: Local Bank
 Rate: 5.27%
 Maturity Range: 5/1/78-97
 Issue Size: \$423,536
13. Name: City of Tillamook Sewer G.O.
 Purchased By: Local Bank
 Rate: 4.66%
 Maturity Range: 1/1/78-87
 Issue Size: \$100,000
14. Name: Scappoose Drainage District G.O.
 Purchased By: Local Bank
 Rate: 4.66%
 Maturity Range: 1/1/78-87
 Issue Size: \$100,000
15. Name: Wolf Creek Hwy. Water District
 Purchased By: Local Brokerage Firm
 Rate: 4.84%
 Maturity Range: 8/1/78-93
 Issue Size: \$81,246
16. Name: Scappoose Drainage District
 Purchased By: Local Bank
 Rate: 5.61%
 Maturity Range: 1/1/78-96
 Issue Size: \$250,000

Source: Blyth, Eastman, Dillon & Co., Inc.

REPORT ON
HIGHWAY REPAIR PRIORITY, GAS TAX INCREASE
(State Measure No. 5)

Purpose: "Requires all highway user revenues available for highway construction and maintenance to be used first for maintenance, reconstruction, rehabilitation and modernization under Six-year Highway Improvement Plan before any new highway construction, except I-205 completion. Increases state motor vehicle fuel tax from 7¢ to 9¢ per gallon. Alternative diesel log truck fees increased, diesel dump truck fees reduced. Weight-mile, flat fee taxes increased."

To The Board of Governors,
The City Club of Portland:

I. INTRODUCTION

State Measure No. 5, if approved by the voters in May, 1978, will result in an increase in certain highway user fees beginning in June, 1978. The Measure would increase the state tax on motor vehicle fuel from 7 cents to 9 cents per gallon, increase the weight-mile tax on motor carriers approximately 12 percent and limit the use of the Highway Fund for purposes not directly related to construction and maintenance of highways.

II. BACKGROUND

The State Highway Fund is a trust fund used for highway construction, improvement and maintenance. It consists of monies received from the federal government for highway purposes, state highway user fees and other minor sources.

Oregon was the first state to levy a gas tax. Highway user fees attempt to raise funds from the users of our highways according to each user's responsibility for the costs of maintaining the highway system.

There are four major sources of "user fee" revenue:

1) From the *motor vehicle fuel tax*, Oregon receives 7 cents for each gallon of motor vehicle fuel sold, excluding fuel used for operation of a motor vehicle on roads or property in private ownership.

2) The *weight-mile tax* is applied to motor carriers,¹ with fees assessed according to the vehicle's weight and the number of miles traveled on our state highways, with the exception of farm and publicly-owned vehicles.

3) To cover costs that accrue irrespective of vehicle miles, a *vehicle registration fee* is assessed on a per vehicle basis.

4) There are other, small sources of user fee revenues such as *driver's license fees*.

The projected values for these revenues for the 1977-79 biennium (excluding increases proposed by Measure 5) and the share each represents are shown in Figure 1.

1. Generally, a motor carrier is any person who operates a vehicle for the purpose of transporting persons or property for hire or incidental to a primary business enterprise.

Figure 1
HIGHWAY FUND REVENUE 1977-79 BIENNIUM
(Without Measure No. 5)

	<i>\$Millions</i>	<i>Percent</i>
Highway User Revenue		
Fuel Taxes	188.3	50.6
Motor Vehicle and Registration*	79.2	21.3
Motor Carrier Tax	101.3	27.2
Other revenues (fines, etc.)	3.4	0.9
	<hr/>	<hr/>
	372.2	100.0
Other Income (park user fees, ** bridge tolls, bond sales, recreation vehicle fees, etc.)	20.7	
Federal Construction Funds	265.6	
	<hr/>	
Total Revenues	658.5	

*Excludes recreational vehicle and snowmobile registration revenues.

**Park user fees and recreation vehicle fees are dedicated to support of parks.

Highway user fees are disbursed in three general categories: for strictly highway purposes (such as construction, maintenance, debt service); for highway-related purposes (such as state police and accident funds); and those not directly related to highway purposes (such as bicycle trails and Marine Board funds). The magnitude and proportion of these disbursements (excluding increases proposed by Measure 5) are shown in Figure 2.

Figure 2
PROJECTED USER FEE REVENUE DISBURSEMENTS, 1977-1979 BIENNIUM
(Without Measure 5)

<i>Item</i>	<i>Amount</i> <i>(Millions of Dollars)</i>	<i>Percent</i>
Strictly Highway Purposes	285.0	76.6
Cities and Counties	100.0	26.9
Administration	15.6	4.2
Construction	69.1	18.6
Maintenance	99.8	26.8
Debt Service	10.9	2.9
Fund Service Charge	(10.4)	(2.8)
Highway Related Purposes	83.6	22.4
Collection Expenses	37.5	10.2
State Police	39.5	10.6
Department of Education	2.4	0.6
SAIF (Accident Fund)	2.2	0.6
LEDS (Police computer)	1.6	0.4
Unrelated to Highway Purposes	3.6	1.0
Marine Board	0.5	0.1
Health Division	0.3	0.1
Mental Health	0.6	0.2
Bicycle Trails	1.9	0.5
Parks	0.1	0.0
Other ²	0.2	0.1
	<hr/>	
Total	372.2	100.0

2. Includes (dollars) transfers to: Natural Area Preserves, \$38,000; Public Museum Grants, \$55,000; Snowmobile Account, \$70,000; for a total of \$163,000.

The last increase in the motor vehicle fuel tax in Oregon occurred in 1967. Since that time, maintenance and repair costs have increased faster than revenues. From 1971 to 1976, cost inflation for highway materials averaged 20 percent per year, largely due to rises in the prices of petroleum products. As an example, the price of liquid asphalt increased from \$47 per ton in 1973 to \$79 per ton in 1974. In addition, vehicle miles have increased from 14.4 billion in 1971 to 17.1 billion in 1976, leading to an increased degree of required maintenance.

Highway revenues, however, have failed to keep pace with the rising costs, in part due to improved fuel economy. Revenues from gasoline sales increased only nine percent from 1973 to 1977 (from \$84.1 million to \$92.8 million). In 1974, revenues actually declined. Revenues from all user fees increased only 20.5 percent over the 1973-1977 period (from \$148.1 million to \$178.5 million). Although revenues are now increasing, between 1979 and 1984 the Oregon Department of Transportation projects the rate of increase in revenues to be 2.8 percent per year, a rate less than the projected 6.0 percent annual inflation in costs.

The average design life of a paved roadway surface is estimated to be about 20 years. Approximately 375 miles of Oregon's highways require rehabilitation every year (7,500 miles of highways over 20 years). The Department of Transportation has identified 4,100 miles of state highway that are deteriorated and in need of preservation measures. Of these, 1,400 miles are extremely deteriorated and in need of immediate repair. In 1977, only 60 miles of highway were rebuilt.

In 1975, the Oregon legislature submitted to the voters a proposed one-cent increase in the state motor vehicle fuel tax. The measure was defeated. Since then, costs have continued to increase faster than revenues. Realizing this, the legislature passed HB 2140 (Measure 5) during the 1977 legislative session.

Legislators considered various proposals, including measures for a tax based on engine displacement and measures limiting the diversion of highway funds to programs not directly related to the state highway system. Measure 5 and related legislation represent a compromise of various interests and arguments relating to collection and disbursements of state user fee revenues.

III. MAJOR FEATURES

Measure No. 5 is one of three related bills passed by Oregon's 1977 legislature: (1) H.B. 2140 (Measure No. 5), which the legislature referred to a vote of the people during the May, 1978 primary election; (2) H.B. 3262; and (3) H.B. 3261 which will be referred to the electorate in November 1978.

Measure No. 5 would do the following:

- a. Increase motor vehicle fuel tax from 7 cents to 9 cents per gallon.
- b. Increase tax on fuel used by aircraft other than those operated by turbine engines (turbo-prop or jet) from 2 cents to 3 cents per gallon.
- c. Increase weight-mile taxes to be paid by motor carriers by approximately 12 percent.
- d. Direct that all highway user revenues available for expenditure by Department of Transportation for construction and maintenance be expended first for highway reconstruction, rehabilitation, modernization and maintenance before they may be used for new highway construction. The particular uses shall be determined by the Six-year Highway Improvement Plan developed by the Oregon Transportation Commission. Measure No. 5 states that this restriction does not apply to U.S. Interstate Highway 205 between Portland, Oregon and Vancouver, Washington.

e. Increase revenues received by the Highway Fund by \$199.1 million over the years 1979-84.

If Measure No. 5 passes, the following provisions of H.B. 3262 also become effective:

a. Limits portion of highway fund that can be used for park and recreation sites to one percent of total highway user revenues.

b. Limits portion of highway fund that can be used for state police to eight percent of total highway user revenues.

c. Directs that footpaths and bicycle trails be financed out of general fund instead of Highway Fund.

House Bill 3261 (to be voted on at the November, 1978 general election) proposes an additional increase in weight-mile taxes and an increase in vehicle registration fees.

The interrelationship of these three bills is shown in Appendix C.

IV. ARGUMENTS ADVANCED IN FAVOR OF THE MEASURE

1. Costs for maintenance, reconstruction, modernization and preservation of our state highway system continue to rise faster than revenues.

2. An adequate highway system is essential to Oregon's economic well-being.

3. The highways are rapidly deteriorating. Preservation and maintenance of our roads needs to be stepped up now in order to prevent more costly rebuilding later.

4. Measure 5 emphasizes preservation and maintenance of existing roads rather than construction of new roads, and limits diversion of highway funds.

5. Measure 5 will continue the method of charging the costs of operating and maintaining highways to the users and will maintain historical tax apportionment between automobiles and trucks.

V. ARGUMENTS ADVANCED AGAINST THE MEASURE

1. The state's existing roads are not sufficiently deteriorated to require an increase in highway user taxes.

2. Too much of the highway fund is spent on major interchanges, highway widening programs which are really new construction, and non-highway purposes. If the funds were reserved for maintenance only, the tax increase would not be necessary.

3. The consumer does not want to pay any additional taxes.

4. Trucks are not paying their fair share of highway maintenance costs, thus truck mileage/weight fees should be increased without a fuel tax increase.

5. Legislation before Congress would increase federal highway funds for maintenance and preservation. If passed, increases in state highway user taxes will not be necessary.

VI. DISCUSSION

During the 1970's, revenues received by the Highway Fund failed to keep pace with increasing costs. Studies show that an increasing number of miles of highway are in need of repair, and that timely repair of roads is less expensive than more major repairs or improvements at a later date. Various improvements in the highway system are necessary to eliminate existing safety hazards.

Measure No. 5 requires that highway user revenues be expended for highway reconstruction, rehabilitation, modernization and maintenance before they may be used for new highway construction, except for completion of I-205. This provision only restricts the use of funds for construction of new highways where no road existed before. It does not prohibit new construction in existing corridors or major improvements such as widening roads. Therefore, it prohibits few, if any, projects. However, as a result of cost inflation and slow growth in revenues, the Oregon Transportation Commission has reordered priorities in highway development and placed emphasis on preservation and maintenance of existing roads rather than construction of new roads.

Your Committee regards the Department as an agency that operates in a professional manner and conducts its programs effectively. Therefore, your Committee believes that existing revenues cannot be better used to produce the extra money to pay for needed maintenance.

The Transportation Commission has adopted a Six-year Highway Improvement Program, Fiscal Years 1979 through 1984. The document describes two programs: The Basic Program and the Additional Revenue Program. The Basic Program assumes that Oregon voters will not approve any further increase in highway user taxes, the Additional Revenue Program requires the additional revenues provided by Measure No. 5.

The Basic Program provides for highest priority projects, which involve the overlay or reconstruction of only 55 miles of existing roads per year. The Additional Revenue Program includes other high priority projects, which involve the overlay or reconstruction of an additional 115 miles per year, or a total of 170 miles per year. This is still less than the approximately 375 miles of highway that each year reach their 20 year average design life. Therefore, Measure No. 5 is only a partial solution to the long-term problem of adequately financing highway rehabilitation and maintenance.

The Additional Revenue Program does contemplate use of some revenues for more than repair and maintenance of roads. Because the projects for the Mount Hood Freeway and I-305 in Salem have been abandoned, federal monies otherwise available for these projects are now available for highway or transit improvements in the Portland and Salem areas. To use these federal monies, local governments must pay 14 percent of the costs of the projects. The Department of Transportation intends to pay one-half of the local governments' costs of the projects if Measure No. 5 and H.B. 3261 become law. The estimated amount of state highway funds to support these projects is \$13.55 million over fiscal years 1979-86. If only Measure No. 5 is approved, the number of projects that would be completed is uncertain, but the use of state highway funds would be significantly less.

Your Committee believes that use of state highway funds for such projects is acceptable for the following reasons: 1) Certain corridors in the Portland and Salem areas need improvement. Affected local governments will determine the exact forms of these improvements; 2) With one exception, these projects involve improvements of existing corridors; and 3) The approximate amount of state highway funds that might be used for these projects, \$13.55 million, is only 4.4 percent of the projected increase in user fee revenues over fiscal years 1979-86 if Measure No. 5 and H.B. 3261 are approved.

The Additional Revenue Program requires \$1,525 million from state user fees over fiscal years 1979-84. Existing fees will provide \$1,217.4 million. Measure No. 5 would provide an additional \$199.1 million. The total, \$1,416.5 million, is \$108.5 million less than what is needed. Most of the remaining difference would be provided by H.B. 3261, which will be submitted to a vote in November, 1978.²

In addition to revenues from user fees, the highway fund will receive approximately \$705 million in federal aid over fiscal years 1979-84. However, the major portion of this aid must be used mainly for construction or reconstruction of the interstate highway system in Oregon, and the amount of federal funds available to repair state roads is limited. To maintain Oregon's highway system, the Additional Revenue Program requires \$1,525 million from state user fees over fiscal years 1979-84 together with the expected federal aid.

Measure No. 5 maintains the apportionment of highway maintenance costs between automobile drivers and motor carriers achieved by House Bill 3262, passed by the 1977 legislature: motor carriers will provide approximately one-third of the revenues raised from highway user fees, and automobile drivers will provide two-thirds of these revenues. Between 1967 and 1977, motor carriers provided less than one-third of highway user fees. Although the one-third/two-thirds apportionment is consistent with historical cost responsibility studies, there is a question whether the apportionment is still valid in light of the increased size and weight of trucks. The question of cost responsibility is extremely complex. Nevertheless, the inequities, if any, do not appear too large, and do not negate the need for additional revenues provided by this measure.

2. The measure to be submitted to a vote in November 1978 proposes an additional increase in weight-mile taxes and an increase in vehicle registration fees.

Certain provisions of H.B. 3262 take effect if Measure No. 5 becomes law. These provisions limit the diversion of user fee revenues to other uses: parks, state police, footpaths and bicycle trails. H.B. 3262 continuously appropriates each year out of the general fund for footpaths and bicycle trails an amount equal to one percent of the total highway user revenues collected during the preceding fiscal year. H.B. 3262 limits the portion of the user fees that can be used for park and recreation sites to one percent of highway user revenues because the Department of Transportation estimates that this represents the amount necessary to maintain those parks serving as convenience facilities along highways. H.B. 3262 limits the portion of the highway user revenues used for state police to eight percent of the Fund's revenues for the purpose of placing a ceiling on the amount of the Fund used for state police. The balance of the funds for parks and state police formerly paid from highway user revenues will come from general fund revenues.

Measure No. 5's impact on automobile drivers is not substantial. Oregon has one of the lowest gasoline taxes in the U.S. A motorist who drives a car averaging 15 m.p.g. for 10,000 miles over a year will pay \$60 in state fuel taxes if the tax is nine cents per gallon and \$46.67 in fuel taxes if the tax remains at seven cents per gallon. The difference is \$13.33.

Motor carriers will pay an increase in weight-mile taxes of approximately 12 percent. Although Oregon already has one of the highest schedules of weight-mile taxes, other states impose additional taxes such as ad valorem taxes that Oregon does not. Therefore, Oregon's shippers will remain competitive with those in other states.

Your Committee has addressed the specific question of whether increased revenues are needed to maintain Oregon's highway system and has concluded that the Additional Revenue Program proposed by the Department is necessary and that highway users, by means of fuel or weight-mile taxes, should bear the burden of maintaining the highways. While additional federal monies may become available in the future, this prospect is uncertain and the amount would be inadequate to finance repairs that are presently needed.

Finally, your Committee is aware that most of the data it has obtained has, by necessity, either been supplied by the Department of Transportation or is derived from information supplied by the Department. Based upon interviews with Department personnel and interested outside groups, your Committee concludes that the information supplied by the Department is reliable.

VII. CONCLUSION

The Committee concludes that additional revenue in the amount generated by Measure No. 5 is needed by the Department of Transportation to maintain Oregon's highway system.

VIII. RECOMMENDATION

Your Committee recommends that the City Club of Portland support and recommend a "YES" vote on Measure No. 5 in the May, 1978, election.

Respectfully submitted,
Judy F. Brady
Raymond L. Carter
Tina I. Christensen
William C. Hill
Edward A. Kazmarek
Charles E. McGinnis
William W. Kinsey, *Chairman*

Approved by the Research Board April 13, 1978 for transmittal to the Board of Governors. Received by the Board of Governors April 17, 1978 and ordered printed for distribution to the membership for discussion and action on May 12, 1978.

APPENDIX A

Persons Interviewed by the Committee:

George Annala, Manager, Oregon Tax Research

Victor Atiyeh, State Senator

Les Bahr, Salem (Citizen opposing Measure 5 in Oregon Voters' Pamphlet)

Robert C. Blensly, Manager, Program Development, Oregon Department of Transportation

Earl Blumenauer, State Representative

Robert Bothman, Administrator, Metropolitan Branch, Oregon Department of Transportation

George Burgess, Economist, Oregon Department of Transportation

Ronald L. Chastain, Economist, Legislative Revenue Office

Lloyd Henion, Economist, Oregon Department of Transportation

Fred Klabeo, Chief of Operations, Oregon Department of Transportation

Robert Knepper, General Manager, Automobile Club of Oregon, AAA

Robert Knipe, Oregon Trucking Association

Tonie Nathan, Libertarian Party

Glen Pierce, Engineer, Bureau of Street and Structural Engineering, City of Portland

Wally Priestly, State Representative

Lawrence W. Rulien, Assistant Director, Transportation Policy and Program Development,
Oregon Department of Transportation**APPENDIX B**

1. Chastain, Ronald L., "Comments on Cost Responsibility."
2. Oregon Department of Transportation, "Preliminary Six-year Highway Improvement Program," Fiscal Years 1979 through 1984.
3. _____. "Six-year Highway Improvement Program," as Adopted by Transportation Commission, 2-22-78.
4. _____. "Presentation on Cost of Deferring Needed Maintenance."
5. _____. "Highway Tax Impacts of HB. 3262, HB. 2932, Measure 5 (HB. 2140) and Measure 3 (HB. 3261) with Selected Motor Vehicle Examples."
6. _____. "State Highway System Preservation Study," February 1977.
7. _____. "Oregon Transportation Commission Policies 1977," Adopted 1-18-77.
8. _____. "A Look Ahead," Adopted 2-15-77.
9. Miscellaneous Exhibits submitted by the Department of Transportation.
10. "Statewide County Road System—Current Conditions, Future Needs," Oregon Association of County Engineers-Surveyors.
11. Statements submitted for and against Measure No. 5 to Secretary of State Norma Paulus to be published in the Voters' Pamphlet:
 - (pro) Highway Improvement Committee
1000 Cascade Building
520 S.W. 6th Avenue
City
Chairman: Warren A. McMinimee
 - (pro) Governor Bob Straub
 - (pro) Family Highway Protection Committee
32205 Boones Ferry Road
Wilsonville
 - (con) Les Bahr
2561 Brown Road, N.E.
Salem
 - (con) Libertarian Party
P.O. Box 10152
Eugene
Chairman: Tonie Nathan

APPENDIX C

These three transportation revenue bills were passed by the 1977 Legislature. The major provisions are outlined here, as well as the interrelationship between two of the bills.

HOUSE BILL 2140

- Increases gas tax from seven to nine cents per gallon.
- Increases commercial vehicle fees to maintain parity with auto related taxes.
- Stipulates that highway funds must be used for reconstruction, rehabilitation and maintenance before new construction.

This bill was referred to a vote of the people during the May 1978 primary election.

HOUSE BILL 3261

- Re-establishes annual vehicle registration.
- Increases annual auto license fee from ten to twenty dollars.
- Sets \$12.50 annual auto license fee for senior citizens.
- Increases commercial vehicle fees to maintain parity with auto related taxes.
- Increases registration fees for motorbikes and motorcycles.

HB 3261 has been referred *by petition* to a vote of the people during the November, 1978 general election.

HOUSE BILL 3262

- Adjusts commercial vehicle fees so that trucks and buses pay their "fair share" of road costs in relation to autos.
- Limits state parks revenue from highway fund to one percent of gross revenues.
- Limits state police revenue from highway fund to eight percent of gross revenues.
- Transfers funding of bike paths to general fund.

These provisions of HB 3262 do not take effect unless HB 2140 is approved by a vote of the people during the May 1978 election.

