

10-31-1980

Information Report on State Bonds for Fund to Finance Correctional Facilities (State Measure No. 8)

City Club of Portland (Portland, Or.)

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City Club of Portland (Portland, Or.), "Information Report on State Bonds for Fund to Finance Correctional Facilities (State Measure No. 8)" (1980). *City Club of Portland*. 555.
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INFORMATION REPORT ON
STATE BONDS FOR FUND TO FINANCE CORRECTIONAL FACILITIES
(State Measure No. 8)

Purpose: "Constitutional amendment would permit state to sell bonds for fund to finance acquisition, construction or improvement of state, regional or local correctional facilities. Bond issuance not to exceed four thirty-fifths of one percent of true cash value of taxable property in Oregon. Requires legislature to provide for payment of bonds. Terminates bonding authority on January 1, 1991. Exempts measure from tax limits of Ballot Measure No. 6."

To the Board of Governors,
City Club of Portland:

I. INTRODUCTION AND BACKGROUND

U.S. District Judge James Burns has ruled that the constitutional rights of prisoners are being violated by overcrowding at correctional institutions and has directed the State to submit a plan for the expeditious reduction of the prison populations to the design capacity of the facilities (the State presently has the Judge's ruling under appeal).

As part of that plan, this Measure was referred to the voters at the 1980 special session of the legislature. Approval of this Measure will amend the Oregon constitution by creating a new Article XI-K to authorize the creation of a Correctional Facility Building Fund to be used to finance acquisition, construction, or improvement of state, regional or local adult or juvenile correctional facilities. There is no requirement that the funds be used exclusively for prisons - they can be used for other types of correctional facilities as well.

II. FINANCIAL EFFECT

Bonds issued to finance the construction of correctional facilities cannot exceed 4/35th of one percent of true cash value of taxable Oregon property. Based on estimated 1980 taxable property, bonds would presently be limited to \$85 million, but would increase as the value of taxable property increases.

Section 4 of the Measure authorizes the legislature to levy a property tax on all taxable property in Oregon to provide for the payment of principal and interest of bonds issued. Section 4 also allows the legislature to "provide other revenues to supplement or replace, in whole or in part, such [ad valorem] tax levies." Should it become necessary for the legislature to impose such a state-wide property tax, and assuming an interest rate of ten percent and a 20-year repayment, the annual tax levied would be approximately 14 cents per \$1,000 of property (\$7.00 on a \$50,000 house).

Section 7 of the Measure provides that if Measure 8 and 1980 Ballot Measure No. 6 (property tax limitation) are both approved by the voters in November, then property taxes for payment of the bonds authorized by Measure 8 will be exempt from the potential property tax limitation posed by Measure No. 6.

III. ARGUMENTS FOR THE MEASURE

1. We should anticipate the need for more prison facilities due to increasing population and increasing crime rates in Oregon. Inflation rates are contributing to increased construction costs. If we wait, the facilities will just cost more.

2. The present lack of adequate prison facilities is affecting sentencing procedures and parole decisions. The question is one of public safety.

3. Judge Burns' opinion represents a mandate that cannot be ignored. If the issuance of the bonds is not authorized, the entire amount of funds required to expand correction facilities presumably will have to come immediately from the

general fund at the expense of other social programs. Long-term capital improvements are best financed by long-term borrowing.

4. The Measure provides for flexibility in that proceeds from the bonds can be used in a variety of ways. Funds can be used to build new facilities, remodel existing facilities and expand regional facilities.

IV. ARGUMENTS AGAINST THE MEASURE

1. The total bonding capacity allowed by this Measure is too great. Assuming continuing inflation in property values, $\frac{4}{35}$ ths of 1 percent of true cash value could provide \$288 million of bonding authority in 1990.

2. The \$85 million provided by the Measure can only be used for construction costs. The Measure does not provide for operating costs.

3. This is not an appropriate use of Oregon's bonding authority which is already overburdened. An income tax surcharge would be a better way to raise the needed funds.

4. An adequate job could be done by using general fund monies for a variety of rehabilitation programs, expansion of regional jails and building of minimum security correctional facilities.

SUBMITTED BY STANDING COMMITTEE ON PUBLIC FINANCE AND TAXATION