BUILD PORTLAND INFRASTRUCTURE INVESTMENT
FREQUENTLY ASKED QUESTIONS

Like many municipalities, the City of Portland faces challenges maintaining the infrastructure that provides core city services. This “infrastructure gap” represents a significant long-term liability for the City and threatens to deprive future residents of the services that make Portland one of the world’s most livable cities. The Mayor has proposed bold action over the next 20 years to begin addressing this problem by investing up to $600 million in the roads, bridges, parks, and buildings that our residents use every day.

How big is the infrastructure backlog?
Since 2002, City reports have consistently identified a large, persistent, and growing infrastructure funding gap: the 2016 estimate is that the City has a funding gap of $288 million per year to maintain existing assets. The funding gap is particularly pronounced for Transportation (77.3%), Parks (5.2%), and ‘Civic’ (7.6%) facilities which collectively represent about 90% of the gap.

Who is going to decide what projects are funded?
Build Portland envisions the creation of a Technical Advisory Committee - to be comprised of staff and industry experts – who will identify projects and analyze the return on investment of bureau proposals. The Committee will establish a consistent methodology for evaluating and prioritizing projects for funding; using this methodology, the Committee will subsequently forward project funding recommendations to Council. The Mayor and Council will retain the authority to authorize specific projects.

How is the City going to pay for all of the projects?
The City is proposing to use a portion of the General Fund dollars that will return to the City as Urban Renewal Areas expire over the next 20 years. The plan would start with a $50 million initial investment in FY 2018-19, with some demonstration projects in FY 2017-18. The second planned investment would be $100 million in FY 2024-25, with $150 million investments every five years thereafter. The City would issue approximately $600 million in Build Portland bonds by 2035.

How is the City going to pay back the bonds?
Initially, the Mayor’s Proposed Budget for FY 2017-18 includes $2 million ongoing to begin making interest-only payments in FY 2018-19. Starting in the mid-2020s, large amounts of property taxes will be realized by the General Fund as the City’s Urban Renewal Areas (URAs) expire and pay off debt. Conservatively, the URA expirations are estimated to annually generate $500,000 in revenue in FY 2020-21, rising to $26.4 million in FY 2025-26 and $45.1 million in FY 2032-33. If Council agrees to the Build Portland proposal, the City’s General Fund forecast would include forecasted debt service costs within the City’s five -year forecast window. Future Councils would decide whether to issue additional bonds and continue the program.
How certain are the forecasted future revenues/costs?

To forecast revenues and expenditures, the model uses a number of economic assumptions, including assumptions around:

- Growth in assessed value returned to taxing jurisdictions;
- Timelines for when URAs reach maximum indebtedness;
- Estimates for when districts will fully payoff debt; and
- Long-range forecasts for interest rates.

Any of the factors could, and likely will, change over time. To the extent there are large changes in current assumptions that negatively impact resource availability, the City will have time to alter the schedule for investing in additional infrastructure projects before taking out additional debt.

How much of the returning taxes from URAs is required for Build Portland?

In the current forecast model, at full implementation Build Portland will use approximately 60%-70% of returned taxes to pay for infrastructure debt service. Actual usage will depend on a variety of factors at the time of each debt issuance; however, tens of millions of dollars will still be available for other City priorities. In addition, addressing our infrastructure maintenance issues now, instead of waiting until the assets fail, will save millions of dollars in future costs – money that can instead be used to support City programs.

Why is the City using interest-only bonding for the first few years? Aren’t interest-only bonds expensive?

Interest-only borrowing does cost more than level-debt service; in this case, interest-only bonding is projected to cost about $4 million more over the 20-year life of the proposed $50 million borrowing. However, the types of infrastructure investments that these funds are proposed to support have a return on investment that is projected to exceed the costs of interest-only bonding. Build Portland includes the creation of a Technical Advisory Committee that will recommend to Council the projects with the highest risk and highest return on investment, ensuring that investment benefits outweigh costs.

Allowing the gap to persist ultimately increases the gap itself, as delayed investment results in increased lifecycle costs and asset failures risking health and safety as well as potential service interruptions.

Is there a risk that other governmental policy changes could impact the amount of additional revenue the General Fund receives in the future? What happens if the URA funds don’t materialize as expected?

There are a number of policy changes that could impact the amount of revenue that will return to the City as Urban Renewal Areas expire, including reforms to Oregon’s property tax system or federal changes to the tax treatment of municipal bonds. Build Portland is intentionally phased in to allow for...
time to adjust to these changes. With each new borrowing, the City will be able to assess the current policy environment and make the most fiscally responsible decision.

What happens if future City Councils make changes to Urban Renewal Areas, such as changing the boundaries or increasing maximum indebtedness?

Build Portland is structured so that the City will be able to assess the relative risk associated with each new debt issuance. If future City Councils make changes to Urban Renewal Areas, they will need to take into account the impact those changes will have on the City’s ability to maintain its existing infrastructure, but there will be ample time to assess those potential impacts before issuing additional debt.

Is the City committing itself to a $600 million investment that it may not be able to afford?

Build Portland is an incremental investment in City assets that increases over time. The initial borrowing of $50 million would most likely occur in FY 2018-19, with the next borrowing of $100 million occurring in FY 2024-25. At that time, the City will be able to assess whether or not it is prudent to move forward with the next stage of investment. If external factors change the underlying assumptions of the plan, the City will have ample time to adjust the plan to those factors.

What is the risk of not making a significant investment in the City’s infrastructure now?

The City’s infrastructure backlog has been growing at an unsustainable rate for many years, posing a significant risk to Portland residents. As assets deteriorate, they become more expensive to repair and, as a result, threaten the City’s ability to provide services to its residents. This lack of investment will either result in asset failure or a significant financial burden on future Portland residents who will be asked to pay for the City services they are receiving as well as the roads, bridges, parks, and buildings that the current generation failed to maintain. The Build Portland initiative may need to be adjusted to account for the factors outlined above, but these risks are small compared to the ongoing risk to future generations if we fail to take action.