## *HB 2274A Connect*Oregon

Testimony House Transportation and Economic Development Jody Wiser 6.22.2015

Tax Fairness Oregon has been studying and evaluating the *Connect*Oregon program through two cycles of funding, and we are quite concerned about this overgenerous use of public funds. HB 2274A changes the program to a grant only program, the opposite direction from what we recommend, which is shift to more loans and fewer grants.

The chart before you doesn't yet include the most recent round of grants. It does show *Connect*Oregon's more than one half billion projected debt service through 2033, with almost half of it -- $224 million -- in interest alone.[1] Debt service is now costing $23 million a year, enough for a day of school. If most of these projects were funded with loans, as the original legislation allows, and if the loans were made through an infrastructure bank dedicated to *Connect*Oregon, the interest would accrue back to that program and become a robust revolving fund, reducing the need for such a high level of new Lottery bond funding each cycle.

Further, we question the value to the state of many of the more recently funded projects, when compared to the human services and days of school that might otherwise be funded.

We would like to draw your attention to three of the projects funded in the most recent cycle, when, as you may recall, you allocated $42 million for ConnectOregon -- funded with additional bonds sales, plus there were several million additional dollars available from re-allocation of earlier loan and grant funds. We believe none of these three projects should have been offered grants. Members of the review committees raised similar concerns. However, the way *Connect*Oregon is operated, the applicant, not Department of Transportation staff or any representative of the taxpayers, decides if a grant or a loan will be approved. Clearly some of the projects deserve grants, but there is currently no mechanism to evaluate which applicants should be considered for grants and which for loans. We believe that has been a major flaw in *Connect*Oregon.

### Teevin Bros.

Privately-owned Teevin Bros. had already received $6,721,785 in *Connect*Oregon grants, through successful applications in rounds I, II, and IV, and one of the rail spurs they use was also publically funded under the Industrial Rail Spur Fund, when they applied for more in found V. This is a perfect example of the missing element of judgment in the *Connect*Oregon program: one committer noted in reviewing their Round IV application, "the applicant could finance the improvements with private funds which would be repaid with fees," yet they were given a Round IV grant and yet another in Round V, this grant for another $2.3 million to purchase land and expand their facilities, bringing the total subsidies for this private port business to over $9 million dollars.

This business is thriving. An interest-bearing loan from *Connect*Oregon might be appropriate, but there is no justification for more grants for this business. Yet, as written, HB2274A means there is no chance they'll be required to repay the next allotment they ask for.

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[1] The chart is from prior to the most recent round of grants and loans.

## Sause Bros. Inc.

The Sause Bros. grant of $1,113,632 of *Connect*Oregon V funds will pay for two new cargo handling machines -- rolling stock. We assume similar grants for cargo handling machines will continue to be allowed under the definition of "vehicle" added to the law with this bill: "*…any devise in, upon or by which any person or property is or may be transported or drawn upon a public highway…."* Sause's equipment, and much of the equipment used at rail yards and ports, is not designed for highway use, will it be excluded under ORS 801.590? We believe all vehicles and rolling stock should be unequivocally excluded from *Connect*Oregon; it could easily be used to another state despite Oregon's *Connect*Oregon investment.

We are not the only ones with this concern. The NWACT, for example, raised concerns about:

"(1) using public funds to benefit private companies and
(2) that these private companies compete with public port facilities. . . .
(3) using grant funds to pay for equipment (rolling stock) rather than infrastructure (fixed assets)."

Sause Bros. is a thriving business. Growing their business is their responsibility. If this is an application deserving a public grant, we're handing out too much money.

## Sisters Airport

The Sisters Airport is within 22 miles of two other fully-adequate public airports that *Connect*Oregon has appropriately been improving – Redmond and Bend. We question the rationale for this airport being added to those receiving public support. The same businesses could be located at, and/or flights made to and from, either of the nearby airports. Yet *Connect*Oregon first fully paid to rebuilt the Sisters runway, a $600k cost, and now has agreed to pay the full cost* of lighting to accommodate folks "arriving home from work elsewhere after nightfall," a taxiway, and AWOS, for another $733k. These may be "desirable" improvements, but it is simply not fiscally sound for Oregon to underwrite an airport with all amenities every twenty-two miles. Next will *Connect*Oregon fund snow removal equipment and then a building to house the snow removal equipment? Will they want the public to subsidize a pilots' lounge? According to staff notes, the airport averages four flights a day.

The users of this privately-owned airport should pay for the improvements they desire. This project is a perfect example of a *Connect*Oregon applicant that should have been offered a loan. Instead the owner purchased the airport for $900,000 and has now received gifts of $1,333,000 from Oregon taxpayers, using the airport's purchase price for the required match.

## In Conclusion

We appreciate the policy changes in the bill about who can sit on the Final Review Committee, and the addition of life expectancy of projects as part of the criteria and increasing the match to 30% of project cost. However we recommend you amend this bill, expanding the definition of vehicles that can't be funded, returning loans to the language, and requiring that 50-60% of the funds be allocated as loans, with the repayments funding a ConnectOregon Infrastructure Bank.

| | | Lottery Revenue Bonds | | |
|---|---|---|---|---|
| | | *Connect* Oregon Program | | |
| Payment Date | | Principal | Interest | Debt Service |
| Totals: | | 327,112,132.40 | 223,961,454.61 | 551,073,587.01 |
| By Fiscal Year | | DEBT SERVICE BY FISCAL YEAR | | |
| 2007 | | - | 613,707.19 | 613,707.19 |
| 2008 | | 920,000.00 | 5,066,260.07 | 5,986,260.07 |
| 2009 | | 9,215,000.00 | 4,848,484.93 | 14,063,484.93 |
| 2010 | | 5,420,000.00 | 9,077,074.17 | 14,497,074.17 |
| 2011 | | 5,540,000.00 | 8,945,261.02 | 14,485,261.02 |
| 2012 | | 2,315,000.00 | 13,853,561.35 | 16,168,561.35 |
| 2013 | | 4,997,208.00 | 13,745,883.08 | 18,743,091.08 |
| 2014 | | 4,046,216.00 | 14,851,421.02 | 18,897,637.02 |
| 2015 | | 8,735,000.00 | 14,697,494.04 | 23,432,494.04 |
| 2016 | | 9,130,000.00 | 14,304,844.04 | 23,434,844.04 |
| 2017 | | 9,565,000.00 | 13,866,769.04 | 23,431,769.04 |
| 2018 | | 10,010,000.00 | 13,422,299.04 | 23,432,299.04 |
| 2019 | | 11,648,222.03 | 12,935,399.04 | 24,583,621.07 |
| 2020 | | 12,797,479.26 | 12,376,611.08 | 25,174,090.34 |
| 2021 | | 13,211,792.73 | 11,757,978.06 | 24,969,770.79 |
| 2022 | | 13,777,599.50 | 11,114,210.58 | 24,891,810.08 |
| 2023 | | 25,005,896.43 | 10,441,568.20 | 35,447,464.63 |
| 2024 | | 26,265,263.80 | 9,179,564.58 | 35,444,828.38 |
| 2025 | | 27,604,128.41 | 7,838,999.46 | 35,443,127.87 |
| 2026 | | 32,018,557.49 | 6,427,818.42 | 38,446,375.91 |
| 2027 | | 26,255,302.97 | 4,793,365.96 | 31,048,668.93 |
| 2028 | | 16,208,500.99 | 3,477,013.52 | 19,685,514.51 |
| 2029 | | 9,780,181.47 | 2,651,261.32 | 12,431,442.79 |
| 2030 | | 20,486,036.89 | 2,185,804.06 | 22,671,840.95 |
| 2031 | | 16,623,434.44 | 1,116,411.64 | 17,739,846.08 |
| 2032 | | 2,700,981.92 | 253,719.40 | 2,954,701.32 |
| 2033 | | 2,835,330.07 | 118,670.30 | 2,954,000.37 |
| TOTALS | | 327,112,132.40 | 223,961,454.61 | 551,073,587.01 |