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Subject: CTAC: Funding and Financing

After reviewing the minutes of CTAC6 on TSP funding and financing, I feel it worthwhile to bring forward the discussions from Mike Riley's breakout group at that meeting since they were deemed 'commentary' rather than 'proposals' by the moderator and so were not offered for discussion or a vote by the committee as a whole. Hopefully, they will be considered in future discussions for presentation to the Steering Group.

I do note that the proposal to recognize the uncertain future of transportation in our funding and financing mechanisms is echoed in the consultants' thorough TSP project report (Technical Appendix) which we reviewed last week.

I found the ECONorthwest report on funding/financing options to be very impressive, easy to digest and a comprehensive guide to the means by which we will be able to fund and then finance the development of the Transportation System. I list below some conclusions on their report, driven by industry experts presentations, from outside transportation consultants and from a review of other cities' approach to development of their own transportation system.

These were the topics discussed by Mike Riley's breakout group at CTAC6

Note: I also attach these as a Word document for ease of review.

ECONorthwest Report – Notes, Observations and Proposals. Nov 12 2018.

In brief:

1. Link Funding/Financing to Use of the Transportation System as a core principle.
2. Pay as you Go rather than a one-time large 'ask' of the community.
3. Recognize the nature of Property Taxes in a GO Bond and use such financing conservatively.
4. Optimize Resident Value.

1. Link Funding and Financing to Use of the Transportation System

Prioritize the use of tools that link system use to funding and financing - such as a VMT tax, Gas Tax, Vehicle Registration Fee, Parking fee and a Transportation Utility Fee. Use these tools as far as possible in whatever 'basket' CTAC recommends.

The arguments for prioritizing funding tools that create a link between Funding/Financing and Use are several.

- ✓ 'The Tragedy of the Commons'. This economic principle states that a common resource made available at no cost will be used to destruction. This is true for a transportation system where 'destruction' can be defined as 'apparently free = guaranteed congestion + maximum wear and tear'. Adopting financing tools that bring home the cost of the system should provide a reason to pause and reflect on the necessity for a trip or to delay and combine with another trip or even share the ride. It only takes a relatively low reduction in vehicle miles traveled to realize a significant reduction in congestion (the Fayetteville study indicated no more than 10%), the need to build new roads and lower roadway wear and tear.
- ✓ Greater equity in financing is more certain through an association of use and payment. Such an association cannot be absolute, however, since even those that do not drive or bicycle or even walk in the City do enjoy some benefit from its transportation system (emergency response, commerce, school buses, transit, sidewalks, etc) and so a basic level of general funding is necessary for equity (such as a transportation utility fee per household). This mechanism is also self-regulating to some degree as, in times of economic downturns, there is a natural adjustment in user payments (the less you use the roads, the less you pay).
- ✓ Reduce roadway wear and tear (e.g. - parking fees cause road users to combine some trips, share some rides, use mass transit or even consider walking/cycling – and, soon, e-scooting!)
- ✓ improve livability: reduce air and noise pollution.
- ✓ Note: Even measures to bring home the true cost of using the transportation system don't eliminate the potential for peak hour congestion (the number of vehicles on the road at any one time). Building new connections can spread the load across more corridors but cities with a visionary TSP use, or plan to use, time variable congestion charges. This approach does require an investment in vehicle recognition or tracking technology (an example of such technology is the license plate recognition system in Bend OSU-Cascades parking lot).

2. Pay as You Go.

Whatever debt we incur, link it to projects in a series of short term bonds. Avoid a large, one time and long life bond as a preferred source of funding

First, we are witnessing considerable disruptive changes in the world of transportation – autonomous vehicles, ride sharing services, on-call/dynamically routed transit, e-bikes, e-scooters. Nobody yet knows how this will affect a transportation system. Hedging our bets is a sensible strategy when faced with such uncertainty. Bundling projects into sets, sorted according to probability of need and also risk from new transportation models, with each having a relatively short debt term will keep our options open.

Second, a stated goal of the Funding subcommittee is to protect the City from the volatility in funding that results from economic cycles. This is understandable but insulating the Administration from

volatility doesn't insulate the community itself from economic cycles. There will be a downturn, even a recession, in our future and this will have the usual effects.

- Jobs will be lost, wages will decline and income from investments/savings will drop.
- but also
- The costs of materials and labor will fall from their current lofty heights.

These considerations argue for a series of smaller bonds with a shorter life, linked to projects or groups of projects.

- ✓ Avoid the scenario in which there is no flexibility for residents or businesses to adjust to changing economic conditions (choose to pay less, live with what they have and defer new projects).
- ✓ Take advantage of cheaper materials and labor resulting from a downturn in overall economic activity.
- ✓ Leverage the 5 year review that is already part of the TSP process. Solid project deliverables should provide convincing evidence to justify the next 'ask' of the community.
- ✓ Maintain flexibility in the face of uncertainty from the disruptive changes that are taking place in transportation technology, systems and services.
- ✓ Allow time to assess the impact of policy changes on the demands placed on the transportation system.

3. Minimize the use of Property taxes.

Levy a tax on accumulated assets is not an equitable way to spread the burden of financing the TSP. A local income tax would be fairer.

Early in the ECONorthwest report is a statement on equity in financing and which was followed by a specific reference to 'income' which I interpret as 'everyone should pay roughly the same proportion of their disposable income'. This is a widely accepted principle whereby those with a larger income pay more in absolute terms but no greater a proportion of their income. However, the statement was then followed by a description of 'wealth' which is broadly the value of accumulated assets and, in the case of property taxes, real estate. These two concepts are quite different and the one is not a synonym for the other.

If we intend to achieve broad equity in the proportion of disposable income taken from each taxpayer, we should recognize that property taxes don't and can't address this goal. They attach to a specific and volatile asset (real estate) and are only paid by property owners. They have long been used as a proxy for 'ability to pay' which is highly questionable as we cannot use real estate to pay for anything. Income, on the other hand, is what we do use to pay for everything.

This seems important on a number of counts.

As was explained at our meeting, a General Obligation Bond financed by property taxes is a special case. It acts as a mortgage and repayments do not reduce when property values decline (as can happen, and has happened, in Bend and elsewhere for the property tax levied to finance the operations of local government). When income declines as a result of natural economic cycles, equity in GO Bond financing is lost as those with a lower income incur a disproportionate rise in the impact of property tax on their disposable income. Those on a fixed income, pensioners and young people are usually hit the hardest. In the extreme case, homes become unaffordable.

So, a discussion on preferred means to fund and finance the TSP seems to be merited and other options explored. For example, would a local income tax offer a more equitable approach to financing a TSP? It doesn't change the nature of GO Bond repayments – it's a mortgage and the repayments will not rise or fall with economic activity. Would it be feasible to create a ring-fenced, rainy-day fund when, in good times, a rise in incomes increases the tax revenues collected and the surplus used to meet any shortfall in taxes revenues in a time of economic downturn? This form of funding has been chosen by other cities.

4. Optimize Resident Value

Link payment for development of the transportation system to benefits arising from its extension and modernization. Raise revenue for specific TSP projects from those that directly benefit from its development.

✓ Existing residents may not benefit from the development of infrastructure to serve new development in undeveloped areas of the City and shouldn't be asked to subsidize it. Developers and Construction companies should bear the cost through System Development Charges - or privately fund them.

UNLESS

there is a clear and justified benefit to the existing community (e.g. economic benefit, safety, reduced congestion, quality of life, etc).

✓ Conversely, developers and construction companies should not be asked to subsidize projects to modernize the existing infrastructure - unless there is a clear and direct benefit to them.

✓ Revenues raised from existing residents should be directed to modernization of the existing transportation system as a priority. There's plenty to do. We have heard from residents in Bend who have no sidewalks, are plagued by speeding vehicles, have no mass transit services and others who are still served by County quality - or even dirt – roads.

Other observations from our break-out discussions that could properly be deemed 'commentary'.

SIMPLICITY.

A stated objective of the Funding subcommittee is 'simplicity'. This shouldn't mean an aversion to complexity. Complexity isn't bad if it enables goals to be met. Some explanation from the Funding Sub-committee and discussion of any trade-offs associated with 'Simplicity' is merited. How many of us still heat our home with an open fire in every room? Simpler than a furnace with ducting or piping but the

benefits - economic, comfort and operation - easily justify the upfront cost of implementation, over time.

In particular, associating Funding/Financing for the Transportation System with Usage will be more complicated than simply raising everyone's property taxes or levying a new utility fee. New accounting, new tracking systems, new processes and software will be needed. It may add complexity and take longer to implement...but every journey begins with the first step. We have the opportunity now to take such a step. And, if not now, then when? 2040? Our children will not thank us.... and they'll be the ones paying for the system.

POLITICAL FEASIBILITY

One other consideration in the deliberations of the sub-committee is an apparent concern over voter rejection. We risk an accusation of elitism and arrogance in an apparent assumption that voters will not grasp the cost benefits of CTAC recommendations and so will reject them outright. I offer that properly communicating the rationale for projects and *the options* to fund and finance them will generate an informed debate, confidence in our work and community support for proposed funding/financing.

It is always possible that the result of a vote may be a decision by the community to spend less and live with the result. But that's Democracy, after all.

We are planning for the next 20 years. I would welcome a candid discussion on the appropriate point in our work to apply a filter of 'voter acceptance' to our proposals and I offer that this is the purview of the Steering Committee and, anyway, it is far too early to do so at this point in our work. We shouldn't lack conviction in our fact based, data driven findings or hesitate to make recommendations so based at this stage of our work. To limit our thinking or set a ceiling on the possibilities for a modern transportation system in Bend by second guessing our neighbors' reaction will not serve to help our new Mayor, our new Council, nor our community – and especially our children.