Assessment of Statewide Growth Subsidies in Oregon

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Introduction

The goal of this study was to develop a reasonable estimate of the extent to which growth is being subsidized in Oregon. The project is directed towards answering the basic research question:

> ***To what extent is urban growth in Oregon being encouraged and subsidized through public sector policies and programs?***

This study is the first effort we know of to quantify all the growth-inducing public policies in any state of the US. While it is an ambitious project, it has been approached from a realistic perspective. We have not sought to produce the definitive report on growth subsidies, but rather to conduct an initial inquiry into the general nature and extent of these subsidies. In doing so, it is hoped that more research and reporting will follow.

For the purposes of this study, the focus is on *urban* growth. Urban growth represents both local population increase and land development and growth of the built environment. *Economic growth* is a related, but different phenomenon that is not included in this definition.

The magnitude of growth subsidization by state and local governments in Oregon was completely unknown until we concluded our research and began to tally the costs. The results of this ground-breaking study surprised us. While we expected that cost of growth subsidization would be high, we did not expect the figure to be so high. Oregon voters may be shocked to learn that so many of their tax dollars are being spent in this manner.

The state and local growth-subsidizing programs reported here were selected from among hundreds of candidates. Some program costs had to be left out of the total because they could not be reasonably determined or estimated within the scope of this research effort. Wherever estimates were made or, uncertainty existed, we chose

the middle or lower end of the cost range. Our final tally of costs is a conservative one and tends to understate the magnitude of growth subsidies. This study focused only on state and local government spending in Oregon. No federal funds were included.

As noted in the report, we subsidize growth in many other ways that are not among the local government expenditures reported here. These subsidies include environmental and social impacts that affect local quality of life and increase the cost of living. Such costs are borne by all residents and businesses of the state. The extent to which the public costs are offset by benefits from growth is the topic of a great deal of speculation and represents an opportunity for further research.

Establishing the definition of a *growth subsidy* was a hard wrought process and represented a significant part of this project. While to some extent the definition may seem intuitive, it was a challenge to put it in the clear and unambiguous terms necessary for this study. Readers are encouraged to review the section, *What Is a Growth Subsidy*? to see the range of issues involved and the rationale used.

A thorough literature review was performed to determine what, if any, similar work had been done. Most of the work identified was related to economic growth and development. The size of this large body of research and literature was narrowed considerably by our focus on *subsidization*. The results are summarized briefly in the main report and more fully in the Appendix.

"There are no reasonably accurate estimates of the amount of money states shovel out [for economic development]. That's because few want to know. ... All that's certain is the figure is many billions of dollars each year."

– ***Time Magazine***, *Corporate Welfare*, a special 18-month investigation by Donald L. Barlett and James B. Steele, November 1998.

Research for this report was made more challenging by the lack of any standard reporting of growth-related costs and expenditures by local governments. While most local governments can readily calculate the new tax revenues resulting from development, few keep track of the costs. To compound the challenge, fiscal reporting by state agencies was abysmal. We labored to find and analyze agency budgets. In some cases a complete, detailed, current budget was not available for public use. We were often obliged to rely on agency staff to make determinations as to the amount of various budget lines.

All growth subsidies examined in this report were evaluated for the year 2000 (the most recent period for which data was available). Most visible among these subsidies are economic development programs that offer incentives to lure new businesses. But there are many other hidden subsidies that also stimulate growth. These subsidies are distorting business and land development markets and inducing growth that is generating more costs for Oregon's taxpayers and impacting communities across the state.

Public opinion surveys clearly show that Oregonians are not enamored with growth. A 1999 statewide survey found that 95% of respondents think Oregon's population is either too big or just right.[1] Only 2% prefer it bigger. Surveys from two major metropolitan areas in Oregon show that most residents think their area is growing too quickly and Portland Area residents indicate they want local government to try to slow it down.[2]

Given that most Oregonians would prefer less growth, it seems difficult to justify spending taxpayers' money to do just the opposite. This is especially true when considering the severe budget shortfalls the state is experiencing and the unmet needs of public schools, health care, social services, road maintenance and other basic services.

Why are we subsidizing growth that Oregonians don't want? Fully answering this question could be the subject of another research project. Suffice it to say that one of the reasons people tolerate such subsidization is that they are unaware of it.

Those astute folks who do have some inkling of the existence of these subsidies are nonetheless unable to quantify the extent or magnitude of the phenomenon and may be inclined to think it a small matter. This report shows that growth subsidization is, in fact, a very substantial matter.

The report is oriented towards the lay reader. One does not need to be an expert in any particular field to understand the methodology and findings. While some readers may want to skip to the conclusions, the report is written to be read, rather than merely to document a technical process of data gathering and analysis. It is hoped that information provided throughout the report is both useful and interesting.

1. What Is a Growth Subsidy?

It can be difficult to determine with precision what constitutes a subsidy and under which circumstances that subsidy encourages growth. This section presents the rationale and criteria used for adopting a growth subsidy definition for this study. Since we found no prior definition in the literature and very few references to work from, our working definition is somewhat tentative.

According to dictionary definitions, a subsidy is the conveyance of something of monetary value by a government to the private sector.[3] According to the dictionaries the subsidy is usually intended for an outcome that is deemed to be in the *public interest* or is *advantageous to the public*.

The dictionary definitions were modified slightly by not limiting the growth subsidy definition to those actions in the public interest. We included as *subsidies* expenditures for outcomes that were either not in the general public interest, for which little (or no) broad public benefit had been established, or where the public benefit was smaller than the amount of the government expenditure. While many public officials view higher growth rates as advantageous, the general public does not appear to support this view (as pointed out earlier).

The following is part 1 of a working definition of a growth subsidy adopted for this project:

Part 1: ***A 'growth subsidy' is a net economic benefit conveyed by state or local government directly to a private business entity which acts primarily to encourage and stimulate urban growth.***

The *economic benefit* could be in the form of a payment, good, service, or tax relief. These may all be considered expenditures by the government. A direct economic benefit to a business could take the form of a cash grant, low interest loan, waiver of taxes, construction of a public road to serve the business, or provision of planning

and development services at less than full cost. All of these benefits have a clear economic value, the benefits of which flow to a particular business or group of businesses.

Who Pays and Who Benefits?

While the above definition adequately covers much of what we consider as a subsidy, it does not include economic benefits conveyed by parties other than governments. Nor does it include economic benefits conveyed to individuals for non business purposes (like home ownership). For example, if one class of taxpayers pays for services or benefits that go primarily to another class of taxpayers, this may be regarded as a subsidy. Again, this may have a public interest aspect, such as providing housing assistance or health care services to needy, low-income persons. However, it may also have no apparent public purpose or benefit, such as when urban residents subsidize rural residents or established residents subsidize new residents. This sort of subsidy may also occur when all taxpayers are paying for benefits that go to one small group of beneficiaries, such as land developers or new home buyers. This type of subsidy is a matter of fiscal equity: who pays for, and who benefits from, the services government provides. The same type of subsidization can result with local electric and gas utilities where existing customers (or ratepayers) help pay for connecting new customers.

To include this form of subsidization, the following supplemental definition of a growth subsidy is used:

Part 2: ***A 'growth subsidy' occurs when a broad base of taxpayers or utility ratepayers pays for services or investments which are conveyed primarily to the beneficiaries of new urban growth.***

This type of transfer of general public resources to benefit new growth occurs when broad-based property taxes are used to pay for the cost of processing land development applications. In this example, the land developer is not paying the full

cost of processing his/her application. This will tend to induce more land development by lowering the apparent cost of the development.

Subsidies may be categorized by the type of activity being subsidized. The growth subsidies studied here fall into four main categories:

1. ***Infrastructure:*** below-cost access to roads, water, sewer, etc.
2. ***Economic development:*** tax incentives, enterprise zones, urban renewal, marketing, etc.
3. ***Regulatory:*** below-cost processing of development permits, fast-track permit approval, etc.
4. ***Public property use (at less than full cost or value):*** environmental pollution, congestion, technology transfers, wildlife impacts, etc.

Refining the Definition

The general operations of government presumably convey benefits to the public they serve. Since governments expend a great deal of money, and since most of this ends up in the private sector, we must further distinguish a subsidy from the myriad other expenditures that are part of the regular operations of government.

A government's purchases of goods and services from firms at fair market value do not constitute subsidies. If a government hires a paving firm, at a fair price, to pave a new road, the paving firm would benefit from government action but no subsidy would occur. (The action might, however, constitute a subsidy to a firm located along the road if the paving reduced their transportation costs.)

In addition, governments undertake actions to improve the general welfare which benefit businesses, but do so in a way that are not targeted directly at a specific firm or industry. For example, public education reduces firms' training costs, but does so for all employers, private and public. Government enforcement of laws protecting private property benefits businesses, but also protects individual property owners.

Government actions that mainly improve the general welfare, or provide assistance or relief which is generally available to most businesses (or the public), are not considered subsidies in this study.

Who benefits from a subsidy?

Growth has been widely regarded as beneficial in the past. Apparent public support for growth has been long-standing and certain business organizations aggressively promote growth. However, more recently, attitudes towards growth have become less supportive. Opposition to growth has increased, more people are questioning the benefit of growth, and the public sentiment is more ambiguous. Surveys show that a majority of Oregonians favor slower growth or no growth. Given an increasingly widespread desire to slow growth, there appears to be little support for actively encouraging more growth through government subsidies. In this context, growth-inducing expenditures by state and local governments cannot be regarded as generating broad public benefits.

A key test of a subsidy used in this study is whether the benefits are distributed or concentrated. In order to be considered a subsidy, the benefit must go to a selected business firm, specific industry or class of businesses, and not be widely distributed among all businesses or all of society. In this way the subsidy creates an advantage for a particular business or class of business. This business is encouraged by the subsidy to grow or increase its activity, while other businesses must operate without the extra help. Instead of helping to assure a level playing field for all businesses, government subsidies tilt the field in favor of selected businesses.

What about economic benefits to individuals such as social services, financial aid, low income housing assistance, job training programs and personal tax deductions? These expenditures could potentially be considered subsidies and some may also have growth-inducing effects. However, we have chosen not to count such benefits to individuals as subsidies in this study because the benefits are distributed among

many people in the community and they achieve a number of widely-held public goals.

When does a subsidy stimulate growth?

As described earlier, *growth* is defined to include both local population increase and urban growth (expansion of the built environment). A subsidy is growth-inducing when it either selectively encourages a local growth-related enterprise or activity, or directly stimulates local population growth through job creation.

The growth-related businesses included in this study are those engaged directly in some aspect of real estate development. These include: Real estate developers; building and construction industry; real estate brokerages; mortgage bankers and lending institutions; and cement, sand and gravel companies, among others.

Why are job-creation subsidies counted as growth subsidies?

Should an expenditure or policy be counted as a subsidy when the primary goal is to achieve some public purpose? Economic development expenditures are ostensibly made to create jobs in order to lower unemployment and foster a strong economy to benefit local residents. When should these expenditures be counted as growth subsidies?

Job growth stimulates local population growth by creating employment opportunities that attract applicants from out of the area. The U.S. is without internal geographic barriers when it comes to employment opportunities, and people are free to move from one community to another in search of a job. A new job is theoretically available to any qualified U.S. citizen. New jobs will tend to go to those who are most qualified. The most qualified applicants are likely to come from the larger national labor pool, rather than the smaller local pool. Studies confirm that most new jobs tend to go to newcomers. In the long term, 60 to 90 percent of new jobs go in-migrants rather than original residents.[4]

The only way that local job creation programs can reduce local unemployment rates is if they can continually create jobs faster than people can move into the area to absorb them. While it might be possible to create enough jobs to reduce local unemployment rates temporarily, the nationwide demand for jobs is essentially unlimited and the highly mobile labor force will respond and restore equilibrium unemployment rates within a few years.

Therefore, job creation tends to result in local growth, especially when the jobs are in the high-skills/high-wage categories. Local government expenditures on traditional economic development programs that attempt to create new jobs through business incentives will tend to induce local growth. When local taxpayers are funding economic development programs that are primarily creating jobs for people from outside the area, these expenditures can be considered growth subsidies. Note that not all economic development activity fits the growth subsidy definition. For example, education and job training expenditures that directly benefit the general workforce would not be considered growth subsidies.

Why do we subsidize any businesses?

Subsidization of business has increasingly been criticized and labeled "corporate welfare." While social welfare programs have been slashed, this corporate welfare has increased dramatically. According to ***Time Magazine***, the Federal government alone shells out $125 billion a year in such subsidies, an amount equal to two weeks pay for all working Americans.[5] Corporate subsidization reflects the increasing political power and influence of business interests. In the case of growth subsidies, land development and other industries can be credited for generating a menu of subsidies that reflect their powerful political influence at the state and local levels. More insight into this question can be found in the *Literature Review* under the discussion of politics.

Are there non-monetary subsidies?

What about government land use regulations, public policies, or administrative decisions that create benefits or financial windfalls for certain businesses? A zoning change, for example, may convey an economic benefit to the land owner that could encourage growth. However, the zoning change could be merely part of a system of land use regulations that might also include new restrictions on land uses that reduce property values. "Takings" is the term often applied to land use regulations that are perceived to reduce property values. However, regulation of land also generates benefits that increase the value of land and could be termed "givings." It may be reasonable to assume that land use regulation provides overall benefits to society and that the "givings" may well exceed the "takings" by a wide margin. It is less clear that these benefits are primarily, or in large part, a growth subsidy.

Certainly some of these government actions can have growth stimulating results that are similar to monetary subsidies, however they do not involve the same cost to the public sector. An administrative action, such as a zoning change or annexation into a city, might convey substantial benefits to a single landowner or developer, but cost the city government very little. In cases where such decisions have negative impacts on nearby residents or landowners, a secondary public cost (or subsidy) could theoretically be estimated. For example, neighbors who live next to a farm are impacted when the property is rezoned for a 500-unit subdivision. The cost of the neighbors' lost views, increased noise, traffic congestion and so forth, could be considered a growth subsidy paid by residents of the local neighborhood.

2. Literature Review Summary

To determine what, if any, similar work has been done by other researchers, a review of literature related to growth subsidies was undertaken. The following is a narrative summary of the key findings from the most relevant and interesting sources found. An annotated bibliography highlighting key findings of other sources which were also considered relevant and useful is included in the Appendix. The methodology used to conduct this literature review can also be found in the Appendix.

The matter of subsidizing growth was not directly addressed as the principal subject of an investigation or report by any of the literature identified in this review. This was somewhat surprising and left us with few good templates to follow in the current project. However, the dearth of such studies, and related information, was one of the primary reasons for engaging in this project in the first place. Thus, the lack of related literature helps to confirm the need for this project.

Economic Development Focus of Literature

The literature on economic development policies was by far the most prevalent and relevant to this project. There are great volumes of literature on economic development and it was challenging to select those that were pertinent, useful and of good quality.

The topic of *economic development incentives to businesses* is a broad one, inviting a host of approaches and research perspectives. Research has been conducted on the typologies of incentives, their effectiveness in promoting development, the agencies that administer the programs, their importance to firms, their effect on government, and the development's effect on wages, employment, the local community, and local government.

Timothy Bartik, in his widely cited book, ***Who Benefits from State and Local Economic Policies?***,[6] defines economic development (ED) as government actions that provide direct assistance to businesses in the form of cash or services. He does not include government actions related to improving schools that may indirectly affect economic development because these have broader purposes. (This definition is comparable with the one for economic development subsidies used in our study.)

Does Economic Development Work?

Portland State University economist, Anthony Rufolo, conducted a literature review for the Oregon Department of Economic Development on the use of tax incentives for business development.[7] The review found little evidence that widely-used tax incentives are effective in promoting the typical ED objectives.

The executive summary states:

> *The objective [of economic development] is typically measured as either employment or employment growth. There is virtually no evidence pro or con relating to effectiveness [of tax incentives] in achieving other goals, such as increasing average wages. ...*
>
> *Economic development is often identified as the creation of jobs. If this is the goal, then it is seldom accomplished by the use of tax incentives. Further, to the extent that it is accomplished, it appears to generate a net fiscal drain when viewed from the state as a whole. Increasing development that leads to increasing population creates a demand for public services and infrastructure that are likely to offset any tax revenues gains.*

The review concludes by saying:

> *In general, the literature does not find tax incentives to be an effective way to promote economic development, but it does not allow a blanket statement that they can never be effective.*

The studies that do find a positive influence for ED programs, generally estimate it to be small. For example, Jack Lyne[8] reports that only three percent of business executives surveyed said that their firm's location decision could be swayed by even a major incentive package.

In a review of Bartik's book (cited above), Therese McGuire[9] contends that the more critical question is whether economic policies have any effect at all. Bartik had cited McGuire's previous work as supporting the conclusion that economic policies do have a positive effect on development. However, in her review, McGuire notes that her previous work was not robust with respect to the time period studied, nor with the specifications of the model. She also notes that subsequent research does not support the conclusions reached by her early work.

Research on the efficacy of business incentives has changed in the past decade. Early work was concerned with the questions, "Do incentives have any effect?" and "Should governments offer incentives?" Governments offered business incentives regardless of whether they were effective or not, and current research reflects this. The central questions now focus on cost effectiveness and social impacts; the continued existence of incentives is taken as a given. The reasons for the continuation of business incentives may lie more in politics than economics.

The Politics of Incentives

The provision of business incentives is a public policy decision and many authors note the political nature of incentives in the course of their writing. The benefits of incentives accrue not only to business owners, whose costs are reduced, but also to elected officials who appear to be actively expanding local employment opportunties. Of course the cost of these incentives are paid by taxpayers and may be distributed over many years. The disagreement over the provision of incentives between taxpayers and beneficiaries is not just over the cost of the incentives themselves, but also over the cost of supporting any induced growth.

As with many public spending programs, business incentives are characterized by concentrated, identifiable benefits and diffuse, less obvious costs. As noted by Sar Levitan[10] and Kevin Duffy-Deno[11] the ultimate recipient of incentives is likely to be investors with considerable economic and political influence. Levitan describes the legal structure of enterprise zones and observes that firms are not required to spend the tax savings in the local area but are free to disburse the profits to shareholders. The cost of the incentives that are passed on to taxpayers, however, is never presented as an itemized cost on tax bills. The result is that a relatively small number of investors have a large incentive to implement a policy at the expense of a large number of taxpayers who likely have little knowledge of what their cost will be. However, the costs associated with the induced growth are more obvious: traffic congestion, loss of scenic views, school crowding, and higher utility fees. These costs can be experienced directly by local residents and generate concerns about growth impacts. Some political leaders attempt to satisfy both constituencies by supporting both growth controls and economic development, despite their contradictory purposes.

Another explanation for the political popularity of business incentives is the control of the political agenda by powerful business interests. In an examination of the correlation between business climate and economic performance, William Freudenburg[12] notes that "The business-climate concept is almost ideally suited for agenda-control purposes. ...so long as the question itself (business climate) is salient in voter' minds, the outcomes are likely to be more beneficial to business leaders than if other topics are the subject of debate, almost regardless of the answers to the questions." Because workers are strongly concerned about jobs, business leaders can control political agendas simply by presenting every decision on incentives as a decision on jobs. In an era when government is held responsible for employment levels, local officials would almost always support business incentives as long as they are equated with jobs.

Roland Stephen of North Carolina State University explored the question, *Why do so many local governments use public resources to induce growth?,* in his study, ***The Political Logic of Economic Development***.[13] He examined the policies of all 100 counties in

North Carolina using economic and political variables for the period 1992–1996. Average annual per-capita development expenditure by county government was compared with variables that included spending under the following categories:

- planning & zoning
- economic development
- community development
- agricultural extension
- special employment programs.

Stephen reports:

> *"Governments at every level pursue a combination of policies aimed at increased economic activity (using tax breaks, public expenditures and other instruments). The goal: jobs and regional economic growth. However, economic theory and many empirical studies indicate that the aggregate economic gains from such policies are very uncertain. Why do politicians adopt costly policies that yield uncertain economic benefits? There are four families of political explanation: [fiscal] resources, competition among jurisdictions, economic performance and political interest."*

He concludes that political interests, such as those of land development businesses (construction, finance, real estate and insurance), strongly influence the type of economic development mechanisms used. The extent of such expenditures is primarily influenced by the amount of fiscal resources available to the county.

Fiscal Impacts of ED

Some literature reports on the fiscal impacts of ED on local governments. Despite their political popularity, ED incentives carry potentially significant costs to local governments and may result in a substantial net loss of government revenue (i.e., tax credits). It is important to note that fiscal analysis is not the same as a complete benefit/cost analysis. An incentive that causes a fiscal loss to local government may still create some private wealth (that should be roughly comparable to the State's

value of the incentive). Because an incentive may simply be a transfer of wealth from taxpayers to investors, a fiscal analysis is more relevant than a benefit/cost analysis.

An example of fiscal loss due to incentives is the study by David Lawrence[14] of a Tax Increment Financing (TIF) district in Des Moines, Iowa. The surrounding tax districts were forced to subsidize the downtown TIF district for nearly twenty years, by as much as $121,000 in one year. The authors optimistically conclude that the TIF district would soon contribute a surplus to the surrounding tax districts, but neglected to calculate the present value of the past subsidies. Such a calculation would be necessary to determine if the project could ever be cost effective from the State's perspective.

In his review of the literature on tax incentives Robert Wassmer[15] cites studies that show conflicting results on the effects of tax rates on the local tax base. A study in Cleveland shows that a one percent increase in the property tax rate decreased the city's property tax base. It would appear that higher tax rates might be depressing business value and causing businesses to move away, reducing the tax base. But another study of enterprise zones in Indiana showed that the value of taxable capital (tax base) in the average zone also declined 13%, even though the enterprise zone has the effect of lowering property tax rates within the zone.

Other Impacts of ED on Community and Residents

Bartik states that the national labor supply is mobile enough to quickly meet increased local demand in the form of new jobs. New workers move into the area to fill the jobs and the unemployment rate tends to return to an equilibrium rate. Real wages will also drop back to their former level. However, he states, “Even if local labor supply quickly responds to the labor demand shifts, economic development policies would still provide the benefit of higher land values.” He maintains that land and housing prices are bid up and that the costs of other goods increase as well. It is possible to conclude from this that land owners, developers and real estate firms may be the primary beneficiaries of “successful” economic development programs.

In his literature review, Rufolo[16] finds that tax incentives may have a negative effect on the community to the extent that the cost of subsidies are financed by increasing other taxes, or by reducing public services. Existing businesses in the community will face increased competition from the subsidized business. Tax incentives can result in the inequitable treatment of subsidized firms which gain an advantage over non-subsidized competitors. Subsidized businesses may hire workers away from other local firms and increase the cost of labor. Tax incentives that favor a particular area of a community, such as enterprise zones, tend to do so at the expense of other areas. New workers attracted by economic development may push up housing prices, increase traffic congestion and create needs for expanding schools and public facilities.

Use of Incentives is Growing

Despite the lack of evidence of their effectiveness, our survey of the literature on business incentives written over the past decade, indicates increased usage. In many of the works cited in this section the authors made at least a brief mention that the use of incentives is becoming more widespread, regardless of the date of publication. Lyne[17] reported that even as early as 1992, 97% of the business executives (engaged in new site selection) surveyed had been offered incentives for new facilities equal to or greater than the incentives they currently were receiving on existing facilities. In 1995 Venable[18] reported the number of states approving new incentive programs as 63% in 1993, 83% in 1994, and 72% in 1995. The phenomenon of states offering multiple incentives to a firm is referred to as "piling on" in the literature.

3. Recent Growth in Oregon: 1990-2000

The state's population grew 20.4% in the 10 years from 1990 to 2000 reaching a total in 2000 of 3,421,399. While state and federal agencies estimate annual growth rates each year between censuses, the 2000 Census revealed that state agencies had been underestimating actual growth for the period. Rather than using a state estimate of annual growth for the year 2000, this study uses the constant annual growth rate that produces the same growth shown by the US Census over the 1990-2000 period. This rate of growth is 1.9 percent per year. In 2000 this would represent a population increase of about 63,800 people.

As shown in Figure 3-1, 73% of Oregon's growth in the 1990s was the result of net in-migration. Only 23% resulted from natural increase (more births than deaths). Table 3-1 provides the actual population change components for the decade.

Figure 3-1: In-Migration's Share of Population Growth in Oregon.

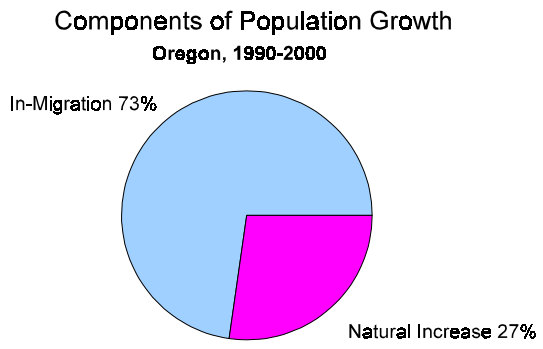


Table 3-1

Components of Oregon Population Change, 1990 - 2000

Component of Population Change	1990 - 2000
Births	430,949
Deaths	(273,323)
Natural Increase (births - deaths)	157,626
Net In-Migration	421,452
Total Population Increase	579,078

Data Source: Population Research Center, Portland State Univ.

Oregon's economy raged throughout the 1990s, producing the third highest overall economic growth rate of any state in the nation (averaging 6.8% per year over the decade). Thanks to extremely rapid job creation in the first half of the decade, unemployment levels dropped for a few years and actually dipped below the national rate for three of the ten years. However, Oregon's job creation was unable to keep up with population growth and the unemployment rate went back up for the second half of the decade, rising above the national rate for the last four years. Oregon ended this period of unprecedented economic expansion with the third highest unemployment rate in the nation. The 63,800 estimated population growth in 2000 was accompanied by 54,000 new jobs, according to the US Bureau of Labor Statistics. Nonetheless, Oregon ended the decade with an unemployment rate of 4.9%, almost a percentage point above the national rate. (The ranking has since worsened and, as of July 2001, the state had the highest unemployment rate in the nation after Alaska, with Oregon at 6.1% and the US at 4.5%).

Figure 3-2: Job creation fails to keep up with population growth

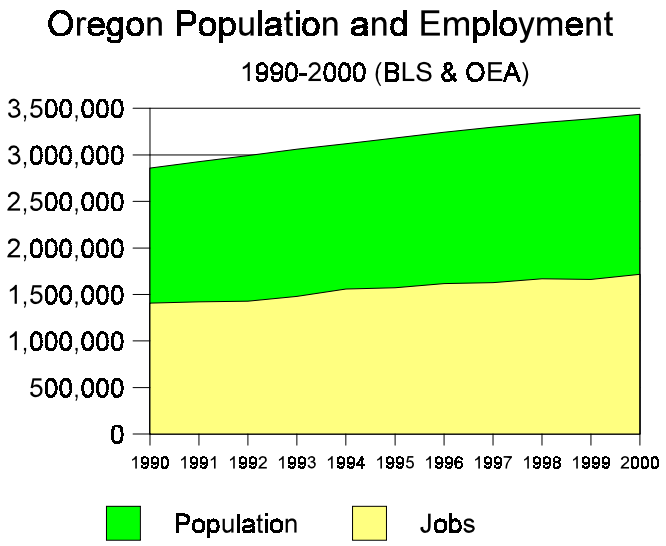
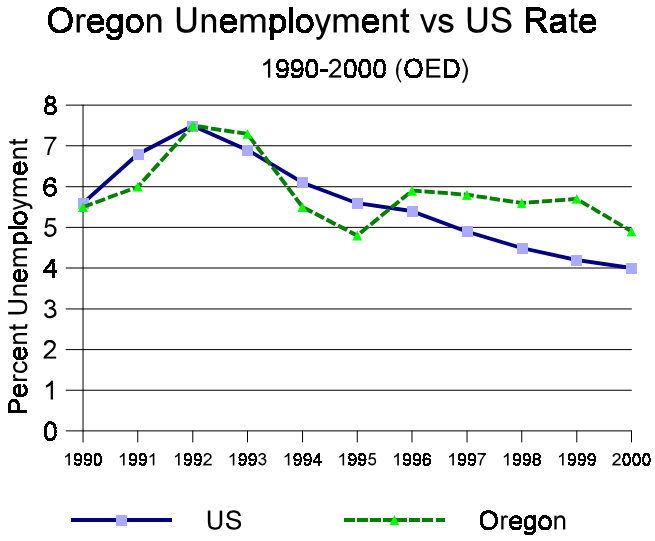


Figure 3-3: Rapid job creation in Oregon fails to keep state unemployment rate down for long.



4. Notes on Methodology

The specific methodologies used in this study for each type of growth subsidy are described at the beginning of each section. Unless otherwise noted, all costs reported in this study are for the calendar year 2000 or the fiscal year (FY) 2000 used by many local governments which typically runs July 1, 1999 to June 30, 2000. Where data were not available for 2000, the most recent prior year's data were used. Unless otherwise noted, all prior year data has been adjusted to year 2000 values with an appropriate economic index.

Oregon state government uses a biennial budget which, in this case, covers the two-year period July 1999 to June 2001. Some budget figures were only available as a biennium amount. Where this was the case, figures for FY 2000 were obtained by dividing the biannual budget in half. This may cause a certain amount of error, since spending isn't necessarily even for both years. This sort of error is not especially important, since the objective is to find data that is typical of what is being spent annually by state and local governments.

Lack of Growth-Related Cost Accounting

State and Local Government account for their costs in various ways, but seldom break out costs in terms of those attributed to new growth and those required to serve the established community. This makes is difficult, and sometimes impossible, to determine all the growth-related costs incurred by government. Without knowing the nature and magnitude of these costs, the public is unable to judge whether their tax dollars are being well spent in a equitable manner.

For example, the Oregon Department of Transportation spends over a billion dollars every year, but their ***Comprehensive Annual Financial Report for FY 2000*** fails to provided any information that could be used to assess growth-related costs. The budget reports only total expenditures on "construction projects" and does not break out funding projects that expand system capacity to meet the needs of growth.

It also fails to break out the sources of funding for the various expenditure categories so that it would be possible to tell who is actually paying for these projects.

Some level of growth-related cost accounting can be found in connection with the use of System Development Charges (SDCs). SDCs are Oregon's version of *development impact fees* and are used by most larger cities and a handful of counties. The state authorization of SDCs applies to five types of infrastructure for which local governments can charge new development an impact fee: transportation, water, stormwater, sewage and parks and recreation facilities. This SCD-eligble infrastructure list does not include schools, police and fire stations, libraries and other costly facilities, which are described in the next section.

Additional growth-related cost information is available in the form of the Capital Improvement Program (CIP) reports issued regularly by most cities and counties. All local governments that opt to charge SDCs must also have a CIP to document planned expenditures on public facilities. While the CIP identifies capital facilities expenditures, it typically does not distinguish between those required to serve growth and those necessary to serve the existing community. As a general rule, most new capital facility projects serve recent past growth and/or anticipated future growth. When capital projects expand an existing system's capacity (such as adding an extra lane to a road) a portion of that expense is attributed to serving growth.

Subsidies Examined

The growth subsidies examined in this study are reported in the following order:

- Infrastructures Subsidies
- Economic Development Subsidies
- Subsidized Planning and Development Services
- Other Growth Subsidies

Each section contains a description of the subsidy, the method used to evaluated it, the available data, and a summary of statewide costs.

5. Infrastructure Subsidies

All urban growth requires new or expanded physical infrastructure such as roads, schools, sewage treatment and other public facilities. These new or expanded facilities carry high costs, which are typically funded through broad-based taxes. The infrastructure expenses become growth subsidies when the costs are borne by the established community, rather than by the new development which creates the need for, and receives the benefit from, the new facilities and services.

As reported in this section, infrastructure subsidies proved to be the biggest ticket item in the growth subsidies basket. The capital costs of building the infrastructure to serve new development is typically the highest net cost of growth to local governments and taxpayers. A recent survey shows that 73% of Metro Area residents want new growth to pay all, or more, of its own way.[19] Clearly there is an opportunity for public policy improvement in this regard.

A listing of the 15 major infrastructure categories for supporting urban development is provided in Table 5-1. All but two of these – natural gas and cable TV are required by residential development. Data were available on the costs for 9 of the 15 infrastructure types in Oregon and are included in this report as shown in the table. No growth-related cost estimates were available for police stations, general government facilities (such as city halls and administrative offices), solid waste facilities, or for several types of utilities.

Table 5-1

Types of Public Infrastructure Required by New Development

Infrastructure Categories	Required by Residential Development	Required by Commercial/ Industrial Dev.	Costs Included in This Report
transportation system	✔	✔	yes
school facilities	✔	✘	yes
fire protection facilities	✔	✔	yes
parks & rec. facilities	✔	✘	yes
sanitary sewer system	✔	✔	yes
storm drainage system	✔	✔	yes
water service facilities	✔	✔	yes
library facilities	✔	✘	yes
police facilities	✔	✔	no
general gov. facilities	✔	✔	no
electrical gen. & trans.*	✔	✔	yes
natural gas facilities*	optional	optional	no
cable TV facilities*	optional	optional	no
telephone facilities*	✔	✔	no
solid waste facilities	✔	✔	no

* The infrastructure associated with publicly-granted monopolies, such as electricity, natural gas, cable TV and telephone service, are included in this list as "quasi-public" facilities. Infrastructure costs are funded through the rate base, rather than the tax base

✘ = not required.

Table 5-2 shows which local governments provide which types of facilities. While this table describes most of the state, there is some variation around the state. For example, Washington County has a sewage treatment agency, while elsewhere most sewage treatment is performed by cities or regional urban sewage districts.

Eleven of the 15 infrastructure categories are provided by a local government or local service district. The remaining 4 of the 15 are included as "quasi-public" facilities provided by utilities with publicly-granted monopolies or franchises.

Table 5-2

Types of New Infrastructure Provided by Local Governments and Districts

Infrastructure Categories	Provided by City	Provided by County	Provided by State
transportation system	✔	✔	✔
school facilities	school district	school district	
fire protection facilities	✔	rural fire district	
parks & rec. facilities	✔	✔	✔
sanitary sewer system	City or District		
storm drainage system	✔		
water service facilities	✔	water districts	
police facilities	✔	✔	✔
library facilities	✔	✔	
general gov. facilities	✔	✔	✔
electrical gen. & trans.	local utility	utility district	
natural gas facilities	local utility		
cable TV facilities	local franchise		
telephone facilities	local utility	local utility	
solid waste facilities	varies	✔	

Accounting for the Costs and Revenues of Growth-Related Infrastructure

Proper accounting of growth-related infrastructure costs and revenues is essential for establishing who pays and who benefits.[20] To better understand the cost and revenue impacts of providing infrastructure to new development in Oregon, consider the following hypothetical scenario which illustrates the differences between a growing and a non-growth community.

"Smallville" Scenario

The hypothetical town of Smallville has had no growth for many years. All necessary public facilities such as parks, schools, fire stations and roads have been built and paid for. All public facilities are being fully utilized and there is little or no "excess capacity." Residents of non-growing Smallville are still paying taxes, but taxes are low because all tax revenues are merely going to pay for government services and the operation and maintenance of existing public facilities. New facilities are rarely needed (only to occasionally replace an inappropriate or decrepit structure with one of similar capacity) and all past bonds are paid off.

Now, if we look at just one year in which this hypothetical town grows by two percent, we can see that all essential public facilities will need to be expanded by two percent to maintain a constant level of service. This will create many new capital costs for the town that must be funded in some manner. Under this scenario, Smallville's existing tax rate is paying only for ongoing services of government, including operation and maintenance of public facilities. New growth will pay its share of these costs. However, the new capital cost must be paid through either a tax increase or by cutting the town's services and/or operation and maintenance expenditures. Assuming that the town elects to maintain current service levels and pay for the new infrastructure though a property tax increase, the costs of the increase will be distributed across all property owners. Since the new growth

represents roughly two percent of the area's total property value, new growth will pay for only two percent of the costs of the new infrastructure it requires. The remaining 98 percent will be paid by the established community. This example shows the extreme inequity of funding growth-related infrastructure through broad-based revenue sources such as property taxes.

As a close approximation, it is reasonable to assume that the 1.9% average annual growth rate that occurred in Oregon from 1990 to 2000 means that each year's growth will pay approximately 1.9% of its own costs through property taxes. The balance of approximately 98.1% will be paid by the established community. This approach provides only a close estimate because each year's growth increases the size of the tax base slightly. To factor this in, we can assume that the tax base increases at about the same rate as the population and use the relationship below:

Percent of Growth Costs Paid by Established Residents =

$$\frac{100\%}{(1+i)} = \frac{100\%}{1.019} = 98.14\%$$

Where i = annual population growth rate (expressed as a decimal).

The balance of the costs are paid by the new growth:

Percent of Growth Cost Paid by Growth = 100% - 98.14% = 1.86%

This distribution of growth costs applies whether or not the cost of infrastructure is financed through bonds or paid outright. The key factor is that these costs are paid through property taxes that are broadly distributed across the community. In fact, financing tends to increase growth costs by adding finance charges and bonding fees to the cost of the capital improvement. However, due to the variation in capital facility financing methods, financing costs are not included in this analysis.

To arrive at a ***net*** growth cost, new growth should be credited directly for any impact fees paid. Impact fees can be deducted directly from the total cost of the needed infrastructure. Once the net cost of year-2000 growth is determined, the cost

to ***established*** Oregon residents and businesses is determined using the above cost distribution. This amount constitutes the growth subsidy, since it is what established residents and businesses pay to provided infrastructure for new growth. It can be represented as follows:

Infrastructure Growth Subsidy =

Net Growth Cost to Established Residents and Businesses =
[Total Growth Infrastructure Costs - Total Impact Fees Paid] x [Fraction of Costs Paid by Established Residents (98.1%/100%, as shown above)]

This simple formula is used in this study to calculate growth infrastructure subsidies. For example, if growth creates the need for a new high school that will cost local taxpayers $20 million (net cost) and there are no impact fees (SDCs) paid to offset this cost, then the subsidy by established residents and businesses is:

[$20 million - $0] x .981 = $19.62 million

The rest of the cost, $0.38 million, will be paid by the new growth through property taxes on the new houses and businesses.

Real World Complexity

Real communities are quite dynamic and it is usually difficult to examine a single year of growth in isolation. Growth may continue year after year. Each year, an additional increment of demand must be accommodated with new or expanded infrastructure. The new growth from last year will form part of the tax base that pays for the current year's growth, and so on. Since established residents and businesses are obliged to fund this new growth every year, there is a mounting cost that continues to accumulate over many years.

Smallville Becomes "Growthville"

To illustrate this accumulation of growth costs upon existing residents and businesses, consider the example where the town of Smallville changes its name to Growthville in the year 2000 and begins growing steadily at 1.9 percent per year (the same average growth rate as the State of Oregon during the 1990s). Assume that growth-related infrastructure costs total $1 million for the first year's growth and that this expense is financed with a 20-year municipal bond to be repaid through property taxes. Each year's new growth causes this cost to be borne again, with the amount increasing slightly each year to match the size of the year's population gain. In the first year, the bond repayment cost is 1/20th of the total, or $50,000 (ignoring finance charges for simplicity). The share of this cost paid by year 2000 residents and businesses is about $49,000. Each year the total amount financed increases to pay for the cumulative growth costs, so the annual payment continues to grow.

After 20 years of this growth the annual payment has increased from $50,000 to $1,203,000 and the cost of the share paid by year-2000 residents and businesses has grown by about 1600%, from $49,000 to $826,000. As long as Growthville keeps growing, this cost will continue to rise, but at a slower rate, since 20-year bonds are starting to be retired each year as new ones are issued.

Over the 20-year period described above, residents and businesses established by the year 2000 will have paid a total of $9,183,000 towards the costs of the period's growth. This total cost is 187 times more than their first year's payment and nine times greater than the total cost of growth infrastructure in 2000 ($1 million). The previously established residents and businesses will have received little or no benefit from these expenditures, since they are made on behalf of the new growth. (Note that, for the sake of simplicity, the cost figures used here are constant 2000 dollars and ignore the effects of inflation and interest, which would tend to further increase growth costs. See *Appendix D* for illustration of cash flow in this example.)

This example helps to illustrate the situation existing in many Oregon cities and counties where a large portion of the tax revenues go towards expenditures that are not benefitting the long-time residents and businesses. Instead, the established community is the "cash cow" for funding new growth. This inequitable funding system has contributed to dissatisfaction with government and strong opposition to tax increases in many fast-growing areas of the Western US.[a]

[a] Examples of voter tax restrictions enacted in fast growing areas include Proposition 13 in California, Measure 5 and Measures 48 and 50 in Oregon, and Initiative 64 and 747 in Washington state, among others.

Other Issues

Developers typically raise a host of issues in connection with the "Who pays and who benefits?" question which can be used here to help sort out complex matters of fairness in public policy. Here are some common examples:

1) *Developers often argue that the new development generates new tax revenues which expand the tax base and pay for the added costs development creates.*

This claim is a case of improper accounting. The new development pays the same tax rate as the rest of the community. In order for growth to pay its own way (with regard to infrastructure costs), it would need to pay additional fees or taxes that accurately reflect the full cost of the new infrastructure required to serve the development. This could be accomplished through either a differential tax rate or a system of impact fees to directly recover these costs. The use of *development impact fees*, such as system development charges (SDCs) in Oregon, provides a simple means of directly assigning infrastructure costs to the new development. The use of impact fees is expanding in Oregon and around the country. However, in most instances, the impact fees pay for only a fraction of the total infrastructure cost.

2) *Developers commonly argue that, since everyone can use new public facilities such as parks and roads, they should be paid for by everyone.*

The need for new roads and parks is directly related to the demands created by new growth. In the non-growing scenario described above, there is no need to continually add new roads and parks, since the community already has enough to meet its needs. To maintain a given standard of parkland per capita, parkland must be expanded for each new person added. The fact that existing residents are free to use a new park is irrelevant, since new residents are also free to use existing parks.

3) *Developers often claim that new development helps pays for other projects that were needed before the development came to town.*

This is partly true, but doesn't change any of the above conclusions. Most cities carry lingering debt burdens from past growth. Typically a new fire station, school, or park bond is being paid off through property taxes. Under this common scenario, new growth will end up paying a portion of previous growth's costs. While this situation is inequitable for new growth, it is even more so for the long-time residents of the community who had little or no role in creating current costs. The solution is certainly not to perpetuate a poor system of funding. Rather it is to fix the funding mechanism so that both new and old residents are paying only for what they get. To the extent that a community charges development impact fees, growth's capital costs can be kept out of property taxes and distributed more equitably.

Findings of Related Studies

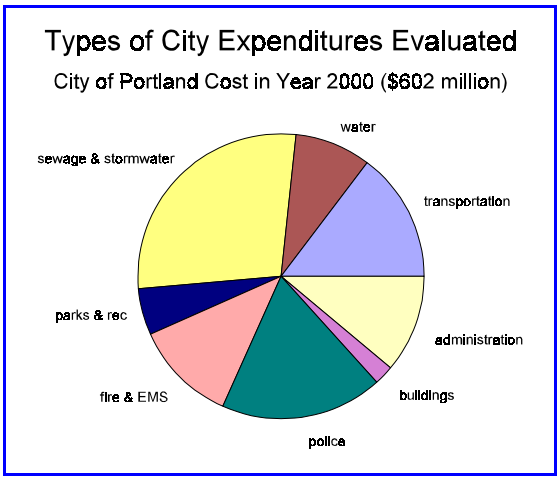
One of the better studies illustrating the costs of growth is an academic study of Oregon's growth by Shepard Buchanan and Bruce Weber of Oregon State University (1982).[21] The authors examined the impacts of population on residential property tax bills. They used cross-sectional data from the 36 counties in Oregon for the year 1977. Five equations were formulated relating tax levies, property values and per capita income to a variety of explanatory variables, including population. The use of multiple equations allowed the authors to identify not only the direct effect of population on taxes, but indirect effects as well. For example, population growth directly affected the per capita tax levy of counties but it also had an indirect effect on property values, personal income, and density. The authors found that the total direct and indirect effect of a larger population was an increase in the average residential tax bill. Overall, a 1.0 percent increase in population was found to increase the average residential property tax bill by 0.41 percent. Cities and counties in Oregon are highly dependent on property taxes for most of their revenues. This study could not be repeated today due to property tax restrictions put in place

during the 1990s. It is certainly plausible that the citizen-initiated property tax limits were the result of growth costs steadily pushing tax rates higher.

Accurately assessing the cost of a state's infrastructure needs is a major undertaking. Washington State's Public Works Board performed a limited study of this type in 1998, as directed by the State Legislature.[22] The study identified $8.16 billion in infrastructure needs by local governments from 1998 to 2003 with a funding shortfall of $3.05 billion. The study included only four categories of infrastructure: roadways, domestic water, sanitary sewer and stormwater. The other 11 types of infrastructure listed in Table 5-1 were not included in the study. Also, the study did not determine the *cause* of these costs. While it is likely that most of the needs identified in this study were generated by urban growth, the report does not attempt to distinguish growth-related infrastructure costs from other cost. No comparable study of state infrastructure needs has been performed in Oregon.

In 1999 the City of Portland hired consultants to help evaluate the fiscal impacts of alternative growth scenarios on city services.[23] Total costs for providing key city services were compared with total revenues. The analysis looked only at those services provided by the city (see Figure 5-1) and consequently did not included schools and certain utilities.

Figure 5-1



The study found that the current Metro regional growth forecast (the "rapid growth" scenario), based on current growth policies, resulted in a fiscal deficit throughout a 20-year study period (2000 to 2020). As shown in Figure 5-2, an alternative scenario with half the growth rate (the "slower growth" scenario) resulted in a smaller deficit. Revenue shortfalls were also reported on a per-capita basis, as shown in Figure 5-3.

The implication is that growth results in net costs and therefore more growth results in greater costs and a worse fiscal condition for the city. According to the report, changes in the demographic characteristics of households and employment account for most of the cost increases over the study period. The *Final Report* for the project reaches the cautiously worded conclusion that " ... the costs of growth do not extraordinarily exceed revenues."

Figure 5-2

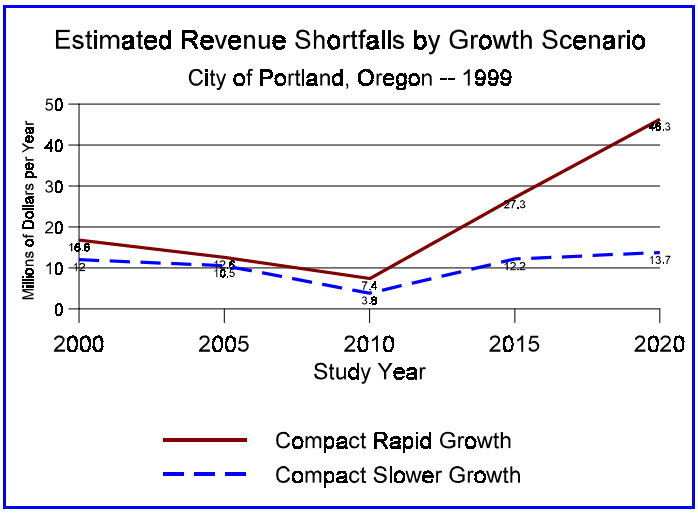
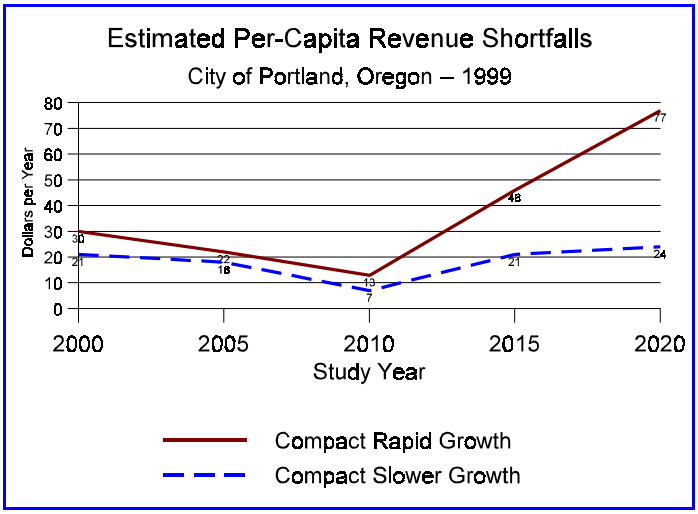


Figure 5-3



The same consultants who did the Portland Study also performed a fiscal impact analysis for Salem to examine the consequences of growth and annexations there.[24] The study was limited to city services, including streets, parks, water, sewer, stormwater and municipal services (fire, library and office space). It did not considered schools, transit, special districts, or state or county facilities or services. Rather than comparing alternative growth scenarios, as in the Portland study, this study compared the likely growth scenario with a no-growth baseline. A no-growth baseline can provide an excellent means of assessing fiscal impacts. However, the model used for the baseline in this case carried a very heavy load of unpaid costs from recent growth. This load was so high that capital costs for the no-growth scenario were *higher* than the total capital cost required to serve new growth over the 20-year study period for all types of public facilities. The no-growth baseline also carried some excess system capacity. The value of this excess capacity was not charged to the growth scenario. These two omissions greatly distort the findings of this study.

Furthermore, the study uses a 20-year analysis period but a 30-year financing period for all growth costs, causing a fundamental inconsistency that is not reconciled in the report. Since most local government financing is done over a 20 year period, the study's approach requires some explanation. The likely effect of extending the

financing period to 30 years for all capital costs is to reduce the annualized cost of the debt and to push some of the costs outside the 20-year study period. This would lower the apparent costs of growth reported in the study.

The study assumes that existing development impact fees (SDCs) and utility rates fully recover the costs of growth, and that where they don't, the city will create them or adjust them automatically. For example, a non-existent stormwater impact fee is assumed to exist in the growth scenario. Utility rates that are raised to cover growth costs place an unfair cost on the non-growing part of the customer base. These increased utility costs are not allocated to growth in the study.

The study's methodology leads to the conclusion that growth pays its own way with regard to the costs of the city's capital facilities it requires. This finding appears to be inconsistent with a large body of research and other available evidence, such as the Buchanan study described above. The conclusion fails to explain why, if growth pays its way, Salem currently has a $188 million backlog of unfunded capital needs.[25]

The authors of the Salem study make the assumption that the cost of operating city government will grow more slowly than population growth (1.4%/yr vs. 1.7%/yr for population). This means they expect the cost of government services to decline on a per-capita basis. However, most empirical evidence is to the contrary. Larger cities tend to have higher taxes, so it would be more likely that these costs would increase at a *faster* rate than population growth. The authors provide no historical or statistical data, nor any references or explanation for making their conclusion. The effect of this assumption is to lower projected city costs under the growth scenario, reducing the fiscal impacts of growth. Under this assumption, the authors are able to show a slim fiscal surplus for the growth scenario over the no-growth scenario with regard to city services.

Notes on Methodology for Infrastructure Subsidies

The infrastructure subsidies reported here represent the net costs to taxpayers after any charges or payments (such as impact fees) have been accounted for. The process starts by estimating the full cost of the new infrastructure needed to serve the state's growth in 2000 and then subtracting any impact fee payments (SDCs) by new development to arrive at a net cost. The final step is to determine the amount of the net cost which constitutes a subsidy by subtracting the small fraction of this cost paid by the new development through property taxes and other broad-based taxes. Since state and local governments track their infrastructure spending independently, this section begins with an analysis of local government spending and concludes with estimates of the state's expenditures.

Local Government Infrastructure Costs – Residential

The best available data on residential growth-related infrastructure costs in Oregon comes from the author's ***The Cost of Growth in Oregon: 1998 Report***.[26] This report evaluates most of the basic infrastructure costs associated with residential development. The data is adapted for use in this study by updating all capital facility costs to year 2000 costs using a construction cost index. Some figures are further adjusted or refined to improve their accuracy, as described below. Note that this study did not include costs for municipal facilities; police facilities; solid waste facilities, or public franchise facilities like natural gas, cable TV, and telephone facilities.

School Facility Costs

While school operations are primarily funded by the state, school facility construction is funded by the local school district through general obligation bonds (paid with local property tax revenues). The ***1998 Report*** allocated school facility costs to new housing based on a national average number of school-age children per

new house, as reported in the ***Development Impact Assessment Handbook***. This source reported 0.67 school-age children per new house. Recent data for Oregon is available from the 2000 Census showing that 18.2 % of the state's population was age 5 through 17. The total cost for new school facilities to serve 2000 growth can be estimated based on the number of new public school students added to the state. With about 11,000 new public school students and facility costs of about $19,500[27] per student capacity, Oregon's 2000 school facility costs would have been about $215 million.

To check the reasonableness of this theoretical cost estimate, this figure was compared with empirical data from actual school construction in Oregon. Oregon began a new School Bond Guaranty Program in January of 1999 that allows the State to guarantee qualified bonds of eligible school districts, education service districts, and community colleges throughout Oregon. As a result, the program allows qualified districts to have their bonds rated based on the State's credit rating, currently at the AA level by Moody's, Standards & Poor's, and Fitch. Most school districts are participating in the program since it saves districts thousands of dollars in interest costs over the life of the districts' bonds.

Reporting by the Oregon State Treasury (OST) shows that a total of $398 million in bonds was issued by school districts under this program in 2000. According to the OST, this figure represents about 83% of all general obligation bonds issued by school districts. Adjusting this figure accordingly results in a total of $479 million spent on school facility construction. It is assumed that most of this expenditure went towards increasing school capacity. However, some may have gone towards modernization and replacement that did not increase capacity. According to the Oregon Department of Education, there is no information that breaks out growth-related capital costs. Since a detailed analysis of each bond issue was beyond the scope of this project, it was assumed that at least 70% of this construction was growth-related (capacity increasing). This proportion represents a rough estimate based partly on past experience in light of the large unmet need for new classrooms that is documented later in the report (see *Unmet Infrastructure Needs* under the *Other Growth Subsidies* section). Given limited funds, the need to provide essential

classroom space for students is likely to prevail over the need to modernize. (Proper accounting of growth-related costs by school districts and the Oregon Dept. of Education would make such rough estimates unnecessary.) Therefore, $335 million is a rough estimate of the school facilities costs due to growth in 2000. Since there are no school impact fees in Oregon, this figure represents a net cost to local governments (via school districts).

Actual empirical data of this type is always preferable over theoretical calculations. Therefore, the bond sales figures are used in this report as the best means of estimating statewide school facility costs. (It is noteworthy that the commonly-used theoretical method for estimating school costs, generates figures that are about 64% of the empirical estimate.)

Transportation Costs

The transportation costs report in the ***1998 Report*** were based on the 20-year transportation plan for the Eugene-Springfield Metro Area. As noted in the report, the costs reported in this plan did not maintain the existing levels of service. Instead service standards were allowed to be degraded by new growth as congestion and delays increased, while road conditions worsened. This is the situation in most cities. A 2000 study of Washington State growth costs by the author reports that the costs necessary to maintain existing service standards for the transportation system alone are more than $50,000 per new house for the necessary road infrastructure.[28] This figure is 10 times greater than the cost reported in the ***1998 Report*** and illustrates that the cost included in local transportation plans may be far below what is required to maintain the quality (level of service) of an automobile-reliant transportation system. Since there is no comparable data for Oregon, this study uses the lower figures from the ***1998 Report***. However, it is important to note that this cost does not reflect the full cost of growth's impact on the transportation system. Instead of paying these costs, Oregon communities are putting off the costs for future taxpayers to fund and are absorbing the costs in the form of degraded transportation systems and more time spent traveling in congested conditions.

Congestion-related growth costs are reported under *Other Subsidies*. Needed, unbuilt road infrastructure is also included under *Other Subsidies*.

Electric Power Generation and Distribution Costs

The electric power system is an important and costly part of the infrastructure supporting growth. Under nationwide deregulation, local and regional power planning has become much more difficult, as recent power shortages in California demonstrate. While new growth requires new generation and distribution capacity, it is no longer clear who is responsible for planning and funding it. Where it once was the responsibility of the local utility to assure adequate power supplies at reasonable prices, it is now in the hands of private power developers and the open market. However, regardless of whether or not a locality participates in the decision to build new power facilities, the cost of these facilities will be included in the power rates paid by all customers. As a result, the cost of new power facilities to serve growth is distributed across the entire rate base. This results in a similar funding inequity as with the public facilities funded through the tax base and is include here as a growth subsidy for that reason.

Data from the ***1998 Report*** is adjusted to 2000 construction costs for use in this study, as shown in Table 5-3. Other utilities, such as natural gas, cable TV and telephone, also subsidize growth through their captive customer base which is obliged to pay the utility's cost of expanding to serve new customers. No estimates of these utilities' growth costs were available, so they have not been included here.

Table 5-3
Infrastructure Costs for New Single-Family House
Adjusted to Year 2000 Dollars

Cost Item	1998 Cost*	Cost Adjusted to 2000 Dollars**
School Facilities	$11,809	$12,411
Transportation Facilities	$4,430	$4,656
Sanitary Sewerage	$1,660	$1,745
Water System Facilities	$2,729	$2,868
Parks and Recreation Facilities	$2,915	$3,064
Stormwater Drainage	$483	$508
Fire Protection Facilities	$298	$313
Library Facilities	$441	$463
Electric Power Generation and Distribution Facilities	$8,494	$8,927
Total:	$33,259	$34,955

* This is a summary of the costs reviewed in ***The Cost of Growth in Oregon: 1998 Report***.

** 1998 costs are adjusted to year 2000 costs using the ENR Construction Cost Index.

To arrive at a net cost to local government (taxpayers), it is necessary to subtract any impact fees paid. As shown in Table 5-4, impact fees for a single family house average $7,751 based on a survey of 18 Oregon cities.[29] While this figure is used to represent the state, it is likely to overstate actual impact fee charges for the state, since the cities included in the survey were among Oregon's largest. Smaller cities can be expected to have fewer impact fees, or none at all. Note that school costs have been left out of Table 5-4 since they have previously been determined based on actual capital expenditures by Oregon school districts.

Administrative fees for System Development Charges (SDCs) are not included in the average SDCs rate shown in Table 5-4, since they are not an infrastructure cost per se. Just over half of the cities surveyed charge an administration fee. Those cities

charging the fee are likely to be recovering the full cost of program administration, while those without the fee are subsidizing the SDC program in some way.

Table 5-4
Net nfrastructure Cost for Single Family House After Deducting SDCs
(not including schools)

Cost Item	2000 Cost	Average SDC Charged*	Net Cost (Cost-SDC)
Transportation Facilities	$4,656	$2,185	$2,471
Sanitary Sewerage	$1,745	$1,870	($125)
Water System Facilities	$2,868	$1,894	$974
Parks and Recreation Facilities	$3,064	$1,462	$1,602
Stormwater Drainage	$508	$340	$168
Fire Protection Facilities	$313	$0	$313
Library Facilities	$463	$0	$463
Electric Power Generation and Distribution Facilities	$8,927	$0	$8,927
Total:	$22,544	$7,751	$14,793

* Based on survey of 18 Oregon Cities by City of Eugene, January 2001. SDC administrative fees are not included in these totals.
Note: Only local city and county government costs are included in this table. State costs are addressed elsewhere.

There were 19,877 new housing units built in Oregon in 2000.[30] Of these, 15,619 were single family homes and 4,258 were multi-unit housing. Multi-unit housing is assumed to have two-thirds (66%) of the infrastructure requirements of single family housing and to pay correspondingly smaller impact fees. Table 5-5 shows that the total local government non-school infrastructure costs associated with residential development in Oregon in 2000 was approximately $273 million. When added to the net cost of school infrastructure, as shown in Table 5-6, the total net cost of residential infrastructure for 2000 was approximately $608 million. This figure represents a net cost after subtracting about $143 million in estimated SDC payments (see *Appendix G* for SDC payment estimate).

Table 5-5

Total Net Cost of Local Infrastructure for Residential Development in Oregon, 2000*

(not including schools)

Residential Type	Number Units Built in 2000**	Associated Infrastructure Cost per Unit	Statewide Cost
Single Family	15,619	$14,793	$231,051,867
Multi-unit	4,258	$9,763	$41,570,854
Total:	19,877		**$272,622,721**

* Local government costs only. Does not include state government costs. Use of the term "net cost" refers to the fact that applicable SDC charges have been subtracted from the total cost.
** Source: US Census.

Table 5-6

Total Net Cost of Local Infrastructure for Residential Development

Oregon, 2000

Category	Cost
Residential Infrastructure (w/o schools)	$272,623,000
School Facilities	$335,000,000
Total Net Cost:	**$607,623,000**

*Note: Local government costs only. Does not include state government costs.
*Use of the term "net cost" refers to the fact that applicable SDC charges have been subtracted from the total cost..

Local Government Infrastructure Costs – Commercial Development

To obtain a complete picture of local government infrastructure costs, commercial, industrial, institutional and other non-residential development must be included as well. While residential development is relatively easy to characterize, commercial and other non-residential development involves a wide variety of building types and business activities. It includes office buildings, warehouses, department stores, manufacturing, gas stations, car dealerships, community colleges and fast food restaurants, among others. There are no studies which accurately characterize the infrastructure costs of these types of development in Oregon.

A number of studies show that commercial land use as a whole generates a net fiscal surplus for cities and counties while residential land use generates a net deficit. However, these figures reflect the ongoing costs associated with all existing land uses and do not specifically address costs or benefits of new development. It is possible that existing commercial development subsidizes new commercial development in the same manner that existing residential development subsidizes the new.

Research on the fiscal impacts of growth (such as the Buchanan study mentioned earlier) shows that the overall costs of growth exceed the new revenues. This would imply that the combined fiscal impact of all types of development is negative. Therefore, either commercial development involves a net cost, or the cost of residential development exceeds any gain from commercial development.

To make a rough estimate of the impacts of new commercial and other non-residential development, it can be assumed that a certain amount of non-residential development is associated with any residential development. While this may or may not be true on a small scale, it is certainly the case on a citywide or statewide basis.

While commercial and non-residential development requires most of the same infrastructure needed by residential development, the need for schools, parks and libraries are usually allocated entirely to residential development. This leaves commercial/non-residential development with the list of infrastructure needs shown previously in Table 5-1.

With regard to transportation system costs, data from Salem and Eugene indicate that residential travel demand generates about 40% of the total systemwide demand with non-residential demand making up the remaining 60 percent.[31] The total transportation system costs to local government for residential development is about $86 million. Therefore, non-residential cost is about $129 million. However, there is no available estimate of the transportation SDC revenues obtained from non-residential development, so a net cost cannot be determined.

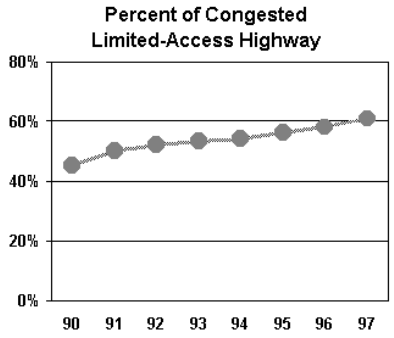
According to the US Census of Governments, Oregon's local governments spent $1.6 billion on all types of capital construction in FY 1997, the most recent year for which figures are available. While there is no breakdown of the various projects funded, it is likely that most of this construction was necessary to serve growth. Some non-growth-related construction would also be included, such as replacing aging libraries and schools. However, the priority for capital spending is likely to be given to increasing capacity over replacing existing facilities. If it is assumed that 70% of the capital construction costs serve new growth, then the growth-related capital expenditures were roughly $1.1 billion to serve all types of development. (Again, rough estimates would not be necessary if governments identified growth-related costs.) The $656 million cost estimated here for residential development would be included in this $1.1 billion expenditure. It is possible that the balance of $445 million reflects infrastructure costs for non-residential development. Again, lacking any good estimate of non-residential SDC revenues, it is not possible to determine net costs for the non-residential component of this development.

State Government Infrastructure Subsidies

According to the US Census of Governments, Oregon's state government spent $624 million on capital construction during FY 1997. These expenditures go primarily towards constructing state roads and highways, but they also go towards state office buildings, state park facilities, and state police facilities. If it assumed that the spending priority goes toward capacity-increasing projects and therefore roughly 70% of the capital construction costs are for new or expanded facilities to serve growth, then about $437 million is spent on growth-related infrastructure. Since the state collects no impact fees, this full amount is a ballpark estimate of the net cost of growth to the state. The state obtains these funds from broad-based sources such as income taxes, gas taxes and the lottery, so most of this amount would constitute a growth subsidy. However, due the lack of a detailed breakdown of these state expenditures, this approach was not used here and this cost is not included in the final tally of growth subsidies.

A review of state transportation spending shows that, of the $691 million spent on roads in 2000, about $144 million went towards new and expanded roads.[32] This expenditure includes state funds used for construction of both state and local roads but does not include any federal funds spent on these projects. The $144 million represents the state's expenditure on roads to meet the needs of growth, however it does not reflect the full cost impact of growth on the transportation system. This is because the level of service is steadily declining. As with local streets, the system is becoming more congested each year and the cost of the resulting delays and inconvenience is passed off on the entire population (see Figure 5-4). This cost of increasing congestion is reflected in the ***2000 Oregon Population Survey*** by the Office of Economic Analysis, which found that respondents rating auto traffic as a "very serious problem" or "critical problem" increased from 22% in 1990 to 33% in 2000. Traffic congestion costs are addressed later in the report under *Other Growth Subsidies*.

Figure 5-4



Source: State of Oregon 1999-2001 Budget in Brief
http://www.governor.state.or.us/governor/budget99-01/budget99-01.html

Total Growth Infrastructure Subsidy Estimate

As noted in the above discussion, it was not possible to develop a complete estimate of net infrastructure costs to serve new growth in Oregon. The summary provided in Table 5-7 (below) gives costs for those categories where reasonable estimates were possible. These figures represent net costs, but not the subsidy amount, as explained below.

Table 5-7
Summary of Identified Statewide Net Infrastructure Cost*
Oregon, 2000

Program Type	Amount in FY 2000
Local Government Net Growth Costs	
Residential Development	$607,623,000
Commercial & Non-Res Devel.	unknown
State Government Net Growth Costs	
New Roads	$144,000,000
Other Facilities	unknown
Statewide Net Growth Infrastructure Costs:	**$751,623,000**

*Use of the term "net cost" refers to the fact that applicable SDC charges have been subtracted from the total cost.

The total infrastructure subsidy is the amount of the total net cost which is not paid by the development itself. Referring back to the description of growth cost/revenue accounting earlier in this section, the following formula reduces the net cost figures above to reflect the fact that new growth pays a small fraction of these costs through its property taxes and other broad-based taxes.

Percent of growth costs paid by existing residents and businesses =
$$[1/(1+i)]x100 = 98.1\%$$

Where i = the annual growth rate of 1.9% (0.019)

The amount of the statewide infrastructure subsidy is therefore $738 million ($752 million x 0.981). This is a conservative figure, since it does not include some categories of state and local expenditures, as explained above. The $738 million subsidy does not include the cost of some needed, but unbuilt, infrastructure, which is addressed under the *Other Subsidies* section.

6. Economic Development Subsidies

Economic development (ED) programs sponsored by state and local governments are typically intended to stimulate economic activity and thereby create jobs for people living in the city, county or state sponsoring the program. As described earlier in this report, ED expenditures often perform poorly when it comes to achieving their stated objective and instead end up subsidizing and stimulating urban growth.

This section includes all those ED programs that fit the definition of a growth subsidy. The definition of a growth subsidy was described earlier in *Section 1*. The applicable part of the definition is repeated below for the reader's convenience. The definition was applied carefully throughout this section to distinguish those ED programs that represent growth subsidies from those that seemed to achieve broad public purposes without primarily inducing growth. Note that ED programs with a primary purpose of job creation are consider growth subsidies, as explained in *Section 1*. (Further insight into this issue can be gain from the *Literature Review Summary* in *Section 2*.) To illustrate the selection process, *Appendix C* describes examples of programs that were *not* included and explains why.

Growth Subsidy Definition, Part 1:

A 'growth subsidy' is a net economic benefit conveyed by state or local government directly to a private business entity which acts primarily to encourage and stimulate urban growth.

All Oregon state agencies use a two-year budget cycle that matches the biannual assembly of the State Legislature. Program expenditures included in this report are from the 1999-2001 biennium. For most programs it was possible to obtain an accurate figure for FY 2000. However, where an annual expenditure was not available, half of the biennium amount was used instead.

Classification of Economic Development Programs

The information on economic development subsidies presented in this section is divided into the following five categories which are described below:

- Tax incentives for business development,
- Tax incentives for housing construction,
- State-wide business finance programs,
- State-wide ED expenditure programs, and
- Local ED programs.

A ***tax incentive*** expenditure is the dollar value of a state-authorized tax break program, such as a tax credit. It is the amount of money *not* collected as the result of a tax break. Although the property tax breaks included in this category usually require the participation of local governments, they are authorized by the State and the expenditure information is collected at the state level. ***Tax incentives for business development*** include tax-based programs that benefit businesses and induce business growth. ***Tax incentives for housing construction*** are tax-based programs that benefit businesses and induce housing construction. Housing incentives technically don't fit the ED schema, since their primary purpose is to provide housing, not create jobs. However, they are included here to consolidate reporting of tax-based subsidy programs.

State-wide business finance programs consist of loans or financing assistance directly to individual businesses. These programs are operationally distinct within the departments that administer them and are treated separately here. In these programs the State functions as a bank or loan broker for private businesses that, presumably, would not be able to receive similar services from a private bank. Since most of these loans are repaid, the net cost of these business financing programs comes from administration, loan losses (defaults) and opportunity costs on below-market-rate loans. Opportunity costs were calculated by determining the difference in revenues from the lower rate offered by the state and the prime rate extended to

businesses by banks. This is an estimate of the potential revenue forgone by the state agencies. The opportunity costs are typically not reported by state agencies, but they have been included here when adequate information was available to make the necessary calculations.

State-wide expenditure programs may also make loans in addition to grants and simple expenditures. Programs in this category appear to target job creation indirectly. Funds may go to a public or quasi-public intermediary on behalf of several businesses or an industry. Programs to develop ports and airports are an example of this. As described later in this *Economic Development* section, several of the larger programs in the *Statewide Expenditure Programs* category seemed to have vague objectives and lacked accountability.

Local programs are varied and include finance and expenditure programs. They are distinguished by not being applied outside the local jurisdiction.

The inclusion of programs in this *Economic Development Subsidies* section does not imply that the programs lack broader social functions aside from encouraging growth. Nor does it imply that they are undesirable or ineffective in achieving results. No attempt was made at judging program merits or at evaluating program effectiveness, such as is done in an audit. Inclusion was based simply on whether the program met the criteria of the growth subsidy definition used in this project. This included programs that ranged from promoting popular goals such as business energy conservation to programs that seemed to benefit only a small number of profit-seeking businesses.

OECDD Programs

The Oregon Economic and Community Development Department (OECDD) administers many of the state-level business finance and expenditure programs listed in this section. While department staff were generally helpful and patient in collecting information used in this study, some difficulties were encountered. These

was partly due to the nature of the information required. Detailed program descriptions were needed to determine aspects of the program relating to growth, as was detailed information on the costs of programs, and even parts of programs. The difficulty of gathering information also seemed to be due to an overall lack of organization in the department. For example, a detailed budget for the whole department was not available. Nor was a single, comprehensive list of the programs the department administers. Different OECDD publications used different organizational schemes for presenting department programs and none were complete. Information on expenditures by the OECDD was usually obtained from a single source, making verification difficult.

The Oregon Secretary of State conducted an audit of OECDD in April of 2001 that noted some of the departments weaknesses, including unreliable data. The audit stated:

> "Our review showed that while the department has taken positive steps in developing a performance measurement system, some fundamental improvements are needed to ensure that reliable performance information is produced. The department recently conducted a review of its methods for evaluating its performance and identified some new performance measures. Our review found that further actions are needed to address weakness in the department's performance measurement system. Weaknesses include unclear objectives, weak performance measure design, a lack of comparisons, and unreliable data. More work is needed to ensure that the department's performance information is useful and reliable for decision-making and public accountability."[33]

While no reason was found to suspect the accuracy of the data provided by OECDD for this report, it must be noted that the possibility for flawed data exists.

Local Programs

Information on local programs was collected primarily through a survey of local ED officials and agencies conducted as part of this project. A sample of jurisdictions was selected from among the membership of the Oregon Economic Development Association. A telephone survey was conducted to ascertain relevant economic development programs and budget amounts. Local governments differ in their approach to economic development programs. Some jurisdictions incorporate programs as a normal part of their organization; some, such as Portland, establish a separate public commission to administer programs; and some, such as Corvallis, enter into contracts with private agencies to pursue most of their economic development goals. Local governments may be very flexible in their approach to assisting businesses, having a "whatever it takes" approach instead of developing fixed, ongoing programs. This is especially true when recruiting new businesses. One result of this approach is that program administration is often one of the largest and most identifiable expenditures.

Urban renewal districts are the principal source of local funds available to local governments for economic development. Jurisdictions that have urban renewal districts generally spend much more on economic development than jurisdictions without such districts. Local governments also use other funds such as community development block grants (CDBG's), which are Federal funds not included in this study, and lottery funds, which are distributed by OECDD and are included in the State-wide categories.

Understanding the Oregon Economic and Community Development Department Budget

The Oregon Economic and Community Development Department (OECDD) is a cabinet level agency directly accountable to the governor. The five-member Oregon Economic and Community Development Commission guides the Department. The

mission of the Department is to "Assist Oregon businesses and governments to create economic opportunity and build quality communities throughout Oregon." In an effort to deflect public criticism of its prominent role in business subsidization, the Department changed it's name several years ago from the Oregon Economic Development Department and began to broaden its mission and programs. The Department is still struggling with accountability and performance issues.

As shown in Figure 6-1 below, the OECDD received $340.5 million in funding during the 1999-2001 biennium. General and lottery funds accounted for about $83 million of this and Federal funds amounted to about $53 million. "Nonlimited" funds, such as bond sales and revenue from self-supporting revolving loan programs, amounted to about $142 million. The size of these funds is not limited by statute but can be increased with the approval of the Department of Administrative Services. Fees, limited bond revenue, and other revenue added about $60 million in funding. The ***OECDD 1999-2001 Biennial Report*** provides no budget detail and does not reconcile revenues with expenditures. The two pie charts reproduced here are the only budget figures provided in the report. The OECDD programs included in this study account for about $25 million, or about 60% of the $41.5 million in annual revenue the department receives from the lottery and general funds (half of the biennium amount shown in Figure 6-2).

Figure 6-1

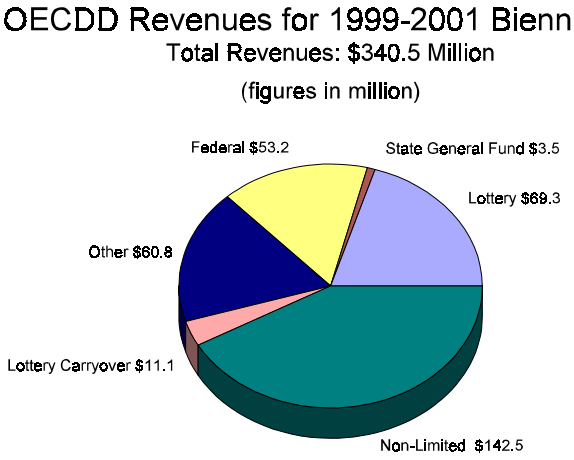
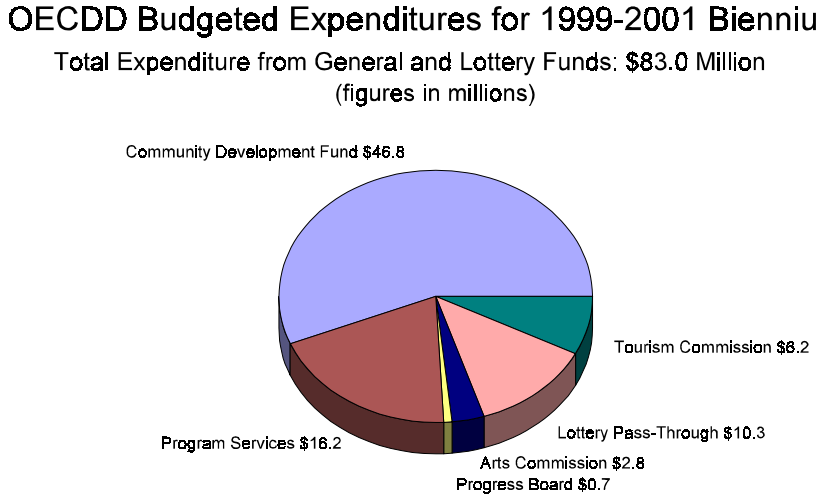


Figure 6-2



Most of the OECDD programs considered in this study are funded by the lottery and, to a lesser extent, general funds. The two largest programs that rely on lottery and general funds are the Community Development Fund and Program Services, at $46.8 and $16.2 million respectively for the biennium. The Community Development Fund contains many of the subsidy programs included in this report in the *State-wide Expenditures* section. Of course, many Community Development Fund programs did not meet the criteria for inclusion in this study so the total

expenditures for the Fund do not equal the total of programs in this study. *Program Services* is for program administration expenses. Instead of being presented as a separate category, the appropriate portion of OECDD administration expenditures has been included in the expenditure for each program described in this study, based on information provided by OECDD.

The Tourism Commission also relies on lottery and general funds and is included in this study. Other programs that rely on lottery and general funds failed to meet the criteria for inclusion. These programs include: the Oregon Progress Board, the Arts Commission, and programs that pass through lottery funds to local jurisdictions. The "pass-through" category is included in the *Local Programs* section where appropriate.

Programs, or portions of programs supported by Federal funds were excluded from this study. The principle amount of loans made by the OECDD are also excluded from this study since this capital will presumably be repaid to the State.

Description of Growth-Inducing Economic Development Programs Offered in Oregon

The various categories of ED programs described earlier in this section are reported in greater detail below. Each program activity is described and the corresponding growth subsidy amounts are reported. At the end of each subsection, a table summarizes the subsidies for that category of ED program. The section concludes with a summary table of all the ED growth subsidies. The inclusion of an ED program here is based solely on its meeting the *growth subsidy definition*, as described in *Section 1* and again at the beginning of this section.

Tax Incentives for Business Development

A tax incentive expenditure is the dollar value of a state-authorized tax incentive program, such as a deduction, credit, or exemption. They are indirect expenditures in the form of forgone revenues. Tax expenditures are distinguished from direct expenditures to businesses such as grants and loans. Here's how the State Department of Revenue explains it:

> "The term 'tax expenditure' derives from the parallel between these tax provisions and direct government expenditures. For example, a program to encourage businesses to purchase pollution abatement equipment could be structured with an incentive in the form of a tax credit or a direct payment by the state to businesses. Tax expenditures can be viewed as: (1) providing financial assistance to certain groups of taxpayers, (2) providing economic incentives that encourage specific taxpayer behavior, or (3) simplifying or reducing the cost of tax administration. While the third of these policy objectives eliminates inefficiencies within the tax code, the first two *could* be implemented with direct expenditures rather than tax expenditures."[34]

The tax expenditures reported here come from either local property taxes or business income taxes. To determine property tax expenditures, the Department of Revenue combines two separate components: the amount lost as government revenue due to the program, and the amount shifted onto other taxpayers in the form of higher tax rates. The total expenditure combines these two amounts and that figure is reported here, since it best reflects the total public cost. Income tax expenditures reported for programs in this section include amounts from corporate returns, and personal returns where the expenditures reflect business operations. Expenditures not related to business operations are excluded. Subsidies to both for-profit and nonprofit businesses are included.

Unless otherwise noted, expenditure figures reported here were obtained from the Oregon Department of Revenue and from the State's ***Tax Expenditure Report.***[35] The fourteen tax exemptions reported here were selected from several hundred such programs offered by the state.

No attempt is made to model potential behavioral or cumulative effects from changing the tax laws. Because of this, the amounts presented here do not necessarily reflect how much revenue the State could collect if it ended the subsidy.

Enterprise Zones: $33,300,000

The Oregon Enterprise Zone Program is the state's largest single tax incentive program. It was created in 1985 by the Oregon legislature as a business incentive to generate new jobs by encouraging business investment in economically lagging areas of the state. If a facility is located in an enterprise zone, new construction and most of the equipment installed in the plant will receive a 100% property tax abatement (exemption) for a minimum of three years, with potential extension for two more years. Manufacturing, distribution and most call centers are eligible activities.

Thirty-seven areas in Oregon have been designated as Enterprise Zones (EZ). If employee compensation at the facility is 150% of the average wage in the county

where the new or expanded facility is established, the property tax exemption can be extended to a total of five years.

By conveying this tax exemption on the land within the EZ, the development value of the land is increased. As a result, the primary beneficiaries of this program appear to be the developers and land speculators owning land inside the EZ, since they will capture most of this benefit when selling, developing or leasing the land.

Enterprise Zone Case Study

Symantec Corporation's Relocation

A recent example of the unproductive nature of the costly Enterprise Zone (EZ) program is provided in the use of the Springfield EZ to help lure the Symantec Corporation away from its downtown Eugene location to the outskirts of Springfield. In spite of an adequate supply of convenient and accessible downtown Eugene office space, the $3.1 million EZ property tax exemption was part of a package of incentives motivating the company to relocate five miles away in an industrial park setting in the Gateway area. Symantec's 700 employees will be obliged to commute across town to the urban fringes and Eugene's downtown businesses will suffer from the loss of a major employer.

Key Industry Strategic Investment Program: $24,300,000

The Strategic Investment Program exempts that portion of capital investments over $100 million from property taxes for 15 years with local approval. To offset the fiscal impacts to the community where the project locates, the manufacturer pays a community service fee equal to 25 percent of the abated taxes, up to a maximum of $2 million annually. Since the business pays a fee to partially offset the property tax exemption, the amount reported here is conservatively estimated at 75% of the combined tax expenditure to reflect this partial re-payment.

Pollution Control Facilities: $9,200,000

This program allows a credit against income taxes equal to fifty percent of the cost of pollution control facilities. The investment must be certified by the Oregon Department of Environmental Quality. Most of the benefit from this tax expenditure goes to large corporations in manufacturing, including wood processing, steel and metals, electronics, and food processing. About seventy-five percent of the expenditure is for pollution control facilities that are required by law. Since most of these facilities are already required, this tax incentives is primarily a growth inducement.

Construction-in-Progress (Commercial Buildings): $8,100,000

Under provisions of Oregon law, new commercial facilities are completely exempt from all property taxes while they are under construction and not in use on January 1 of the taxing year. This construction exemption may be valid for two years with manufacturing projects. The exemption also applies to any machinery or equipment located in the unoccupied facility on January 1. The exemption does not apply to the land. Depending on the construction status and occupancy of the project on January 1, substantial tax savings can be realized by a company during the construction period.

Accelerated Depreciation of Buildings: $5,800,000

This income tax exclusion is designed to promote investment in business buildings. This tax break is clearly designed to reduce the cost of newly constructed business buildings and may, according to the OECDD, "reduce the financial incentive to remodel and re-use older buildings."[1] The tax expenditure reported for this incentive program combines amounts from both personal and corporate returns since the deduction only applies to buildings used for business purposes. The amount calculated is the difference between using a "straight-line" method of depreciation and the accelerated depreciation allowed by the program.

Nonprofit Electrical Distribution Associations: $5,300,000

The transmission and distribution lines of nonprofit electrical associations are exempt from property tax. The purpose of this exemption is to simplify assessment of distribution lines and to encourage construction of electrical distribution facilities. It is included as a subsidy to infrastructure growth.

Accelerated Depreciation of Equipment (for new buildings): $3,970,000

This income tax exclusion is designed to promote investment in new capital equipment by allowing it to be depreciated at a faster rate than the standard straight-line depreciation method. Most production processes require somewhat fixed proportions of inputs. Reducing the cost of a major component, such as capital equipment, will likely stimulate the businesses' use of new buildings and labor. Therefore, this program can reasonably be expected to lead to new construction or employment.

According to the State's ***Tax Expenditure Report***,

> "...this tax expenditure tends to increase the demand for new or younger equipment relative to older equipment. In doing so it may reduce the financial incentive to repair and re-use older equipment in favor of scrapping it and replacing it with new equipment."

As a consequence, this program tends to promote, or subsidize, *consumption* of new equipment.

The total cost for this program in FY 2000 is $79.3 million. However, the State does not maintain separate expenditure accounting for equipment in new or expanding businesses (as opposed to existing businesses upgrading their old equipment). Accordingly, an estimate of the growth-subsidy portion of the total expenditure must be made. Business growth in the state can be estimated based on business registrations tracked by the Secretary of State's office. Over the four year period

from July of 1997 to July 2001, business registrations grew by an average of two percent per year. Therefore it is reasonable to assume that at least two percent of this figure is growth-related. However, several factors indicate that the true cost is much higher than this. First, new business equipment is depreciated over a period of 3 to 20 years, so 2000 costs will include growth-related costs from previous years. This could result in a cost estimate up to five time greater than the simple business growth figure (i.e., 10 percent). Second, new businesses will tend to have more new equipment than older businesses and will therefore constitute a greater share of the program's cost. A rough, but conservatively low, figure of five percent of total program cost is used here.

Amortization of Business Start-up Costs: $1,000,000

This income tax deduction allows corporations and individuals to deduct certain costs of starting a business before the business actually begins. Since the tax break is ultimately due to business creation, the value of both the corporate and personal deductions are included. Since this program targets business expansion, it is primarily a growth inducement.

Regional Economic Development Incentives: $800,000

Certain bonds issued by communities that are designated as "enterprise communities" provide income that is tax exempt. The purpose of the designation is to promote economic development. Purchasers of these bond do not have to pay state taxes on interest earnings. Bonds provide a source of capital for businesses located in the designated community. This income tax exemption provides a subsidy to certain businesses in these communities in the form of tax-exempt bond financing.

Pollution Control Facilities for Non-Profits: $500,000

Pollution control facilities owned by cooperatives and nonprofit corporations are exempt from property tax for a period of twenty years. (For-profit corporations

receive an income tax credit for these facilities, as reported above.) Since the law already requires most pollution controls eligible for this program, this subsidy serves to reduce the cost of building these facilities and therefore is primarily a growth inducement.

Nonprofit Water Associations: $150,000

This property tax exemption was created to encourage the development of central private water supplies for commercial and domestic use. The association must be organized as a nonprofit. No more than twenty-five percent of the water produced by an association may be for commercial purposes. It is included as a subsidy to infrastructure development.

Contributions in Aid of Construction for Utilities: $50,000

This income tax exclusion benefits water and sewage utilities. It exempts certain income the utilities receive from taxation if the income is used for the construction of new facilities within two years. It is a subsidy that promotes infrastructure development.

Subsidy Summary: Tax Incentives for Business

As shown in Table 6-1 (below), growth subsidies in the form of tax incentives to business totaled approximately $93 million in 2000. Enterprise Zones and the Strategic Investment Program were by far the largest subsidies, representing 62% of the total.

Table 6-1

Statewide Tax Expenditures for Business Development Incentives

Oregon, 2000

Program	Amount in FY 2000	Source of Fund	Program Administrator*
Enterprise Zone	$33,300,000	Property tax	City/county
Strategic Investment Program	$24,300,000	Property tax	OECDD
Pollution Control Facility Tax Credit**	$9,200,000	Income Tax	DEQ
Construction in Progress	$8,100,000	Property tax	County
Accelerated Depreciation-Bldgs.	$5,800,000	Income tax	DoR
Non-profit Electrical Association	$5,300,000	Property tax	PUC/County
Accelerated Depreciation-Equip.	$3,970,000	Income tax	DoR
Business Start-up Costs	$1,000,000	Income tax	DoR
Regional ED Incentives	$800,000	Income tax	DoR
Pollution Control Facilities (non-profits)	$500,000	Property tax	EQC
Non-profit Water Association	$150,000	Property tax	DoR
Aid of Construction for Utilities	$50,000	Income tax	DoR
Total Business Devel. Tax Incentives:	**$92,470,000**		

Source: Expenditure figures derived from data provided by Oregon Dept of Revenue

** Amount based on one-half of biennium expenditure.

*Key:
OECDD=Oregon Econ and Community Development Dept
DEQ=Dept of Environmental Quality
DoR=Dept of Revenue
EQC=Environmental Quality Commission
PUC=Public Utility Commission

Tax Incentives for Housing Construction

Many housing construction incentive programs are subsidies to developers to build more housing. While many of these programs are targeted at building housing for lower income renters and homebuyers, the financial benefits of the subsidies clearly flow to the builder of the housing and not directly to the low income residents. Some housing programs are designed to benefit individual residents directly and not businesses. Programs that clearly specify that most of the benefit must be passed on to individual residents, are not counted as growth subsidies. (For more information on excluded programs, see the discussion and examples provided in Appendix C.) The following programs allow for most, or all, of the benefits to be captured by the business, either for-profit or nonprofit, and may reasonably be expected to lead to an increase in housing construction. Inclusion of a program here, does not reflect a judgement about whether the program is good or bad, merely whether or not it constitutes a growth subsidy.

Housing Authority Rental Units: $7,000,000

Property owned or managed by housing authorities is completely exempt from property taxes. Private, for profit businesses may own the property. This tax break is not limited to new construction but reducing the cost of housing may reasonably be expected to lead to an increase in this type of rental unit construction.

Accelerated Depreciation – Rental Housing: $5,600,000

This is an income tax exclusion available for corporate and personal incomes. The amounts from both types of returns is reported since leasing property is a business activity. The purpose is to promote investment in rental housing. The amount of the tax expenditure is the difference between using "straight-line" and accelerated depreciation. Reducing the cost of owning rental property is expected to increase construction of rental housing.

Low Income Housing Lenders: $2,200,000

This provides a tax credit against corporate income taxes to lenders that make loans at below market rates for the construction of low-income housing. The purpose of this is to "promote the construction and rehabilitation of low-income housing."[36] Analysis by the Housing and Community Services Department found that without the program the number of low-income housing units would decline.

Multi-family Rental Housing in City Core: $1,800,000

This property tax exemption applies for up to ten years on new and converted multiple family housing. It varies from partial to full exemption according to the number of taxing districts that approve the exemption. The purpose of this tax break is to "stimulate the construction of rental housing in core areas."[37]

Non-Profit, Low-Income Rental Housing: $1,700,000

Rental housing owned by nonprofits may be exempt from property tax for an unlimited number of years. The renters must meet certain income guidelines. The exemption may be either full or partial, depending on the number of taxing districts that approve the exemption. Although new and existing property is eligible, reducing the cost of housing should lead to an increase in construction. Most of the properties exempt in this program were in Portland.

Nonprofit Elderly Housing State Funded: $900,000

This program differs from other tax breaks for housing. It exempts property owned by nonprofits that are housing the elderly and places certain requirements on deposits and rents charged. The principal difference is that the State reimburses local governments for the loss of tax revenue. Since the program acts to reduce the cost of housing, it is expected to induce more housing construction.

New Houses in a Distressed Area: $700,000

This tax break allows a partial to full property tax exemption for new single-family houses in distressed areas. The city may designate properties eligible for a partial exemption. To be eligible for full exemption, districts representing fifty-one percent of the taxes must also agree to the exemption. The exemption may be for up to ten years. Since it applies to new construction and there is no requirement that the house be owner occupied this tax break clearly promotes growth.

Subsidy Summary: Tax Expenditures for House Construction

As shown in Table 6-2, the subsidy total for the nine tax incentive program to encourage house construction was approximately $20 million for FY 2000.

Table 6-2

Statewide Tax Expenditures for House Construction Incentives

Oregon, 2000

Program	Amount in FY 2000	Source of Fund	Program Administrator*
Housing Authority Rental Units	$7,000,000	Property tax	County
Accelerated Depreciation--Rental Housing	$5,600,000	Income tax	DoR
Low Income Housing Lenders	$2,200,000	Income tax	HCSD
Multi-Family Rental Housing	$1,800,000	Property tax	City
Non-profit Low Income Rental Units	$1,700,000	Property tax	City/County
Non-Profit Elderly Housing	$900,000	Property tax	County
New Housing-Distressed Areas	$700,000	Property tax	City
New Low Income Rental Housing	$240,000	Property tax	City/County
War Veterans Housing	$80,000	Property tax	County
Total Housing Incentives:	**$20,220,000**		

Source: Expenditure figures derived from data provided by Oregon Dept of Revenue

*Key:
HCSD=Housing and Community Services Department
DoR=Dept of Revenue

Statewide Business Financing Programs

The state offers a variety of loan programs aimed at promoting economic development. Overall, the business finance category represented the smallest subsidy area included in this study. The flow of financial capital makes accounting for loan funds more complicated than for tax expenditures or simple expenditure programs. The estimates presented here represent the net effect of all program costs and revenues, including: administrative costs, opportunity costs, loss reserves, capital losses, and revenues earned by the program (usually interest income). This provides an overall estimate of whether the program represents a net financial loss or gain to the taxpayer. Typically, the flow of the loan principal to and from the government agency administering the program does not represent a net expense. This is especially important in revolving loan funds.

Opportunity costs represent the loss of potential interest income that results from loaning money at below market rates.[38] Loss reserves are monies set aside to provide insurance against future loan losses. Budget figures were obtained from internal documents provided by the Oregon Economic & Community Development Commission and the Oregon Department of Energy.[39] Descriptions of business finance programs administered by Oregon Economic and Community Development Department are based primarily on descriptions from the publication ***Business Finance Programs***, by the OECDD, unless otherwise noted.

Oregon Capital Access Program: $334,767

The Capital Access Program is designed to increase the availability of loans from banks to small businesses, however loans are available to almost any business for virtually any purpose. The primary purpose of the program is to increase employment. The program provides a form of loan portfolio insurance so lenders can make business loans that carry higher than conventional risks, but are within the soundness and safety requirements of federal and state banking regulations. Both the borrower and OECDD contribute to loan loss reserves. The expenses for

this program during FY 2000 consist of administration and OECDD contributions to loan loss reserves.

Oregon Credit Enhancement Fund: $293,855

The Credit Enhancement Fund helps small business firms create jobs by providing loan guarantees, thereby increasing capital availability. The fund can guarantee working capital or fixed asset bank loans. Banks originate and service the loans and the Oregon Economic & Community Development Department reviews and approves the loan guarantees. The main expenses for this program are administration and loan losses.

Oregon Entrepreneurial Development Loan Fund: $52,632

This program allows OECDD to make initial loans of up to $25,000 to entrepreneurial businesses and follow-up loans of up to $15,000. The loans are targeted at new, small businesses (less than 200 employees). This program has the traditional economic development goal of job creation. Real property collateral is not required but applicants must provide a minimum of twenty percent equity. The maximum term of a loan is five years and the interest rate is fixed at two percentage points over the prime rate. The cost reported here is for OECDD administration and contributions to the loss reserve.

Industrial Development Revenue Bond Program: ($66,433)

The Oregon Economic & Community Development Commission issues Industrial Development Revenue Bonds for basic industries such as manufacturing and processing facilities in Oregon. The goal of this program is the generation of new jobs. The rate can be 75-80% of conventional rates. Projects range from $1.5 to $10 million. Approximately $62 million in bonds were issued in FY 2000. This program generated a net revenue for 2000.

Oregon Business Development Fund: ($574,788)

The Oregon Business Development Fund (OBDF) is a revolving loan fund. Projects that assist manufacturing, processing, and regionally significant tourism projects are eligible. The fund provides long-term (fixed-rate Treasuries +1%) financing for land, buildings, equipment, machinery and permanent working capital. The fund has earned a 5.6% return on investment. Creation of new jobs or retention of exiting jobs is required. The program has a target of creating one new job for every $20,000 invested. The program places particular emphasis on rural and distressed areas and on businesses with fewer than 50 employees. The maximum loan is $500,000 or 40% of a project, and may be subordinated to a senior lender. In calculating the fiscal impact of the fund a seventeen-year average for loss reserves was used instead of the amount just for FY 2000 due to an unusual loss reserve contribution in 2000. Additionally, during the biennium $550,000 was transferred from this account to the Capital Access Program. One-half this amount is included as an expense. Also included as an expense is the opportunity cost of the low interest rate. The prime rate averaged about 8.55% in FY2000 and the yield for twenty-year Treasury bonds averaged 6.48%.[40] This implies that the OBDF is yielding about 1-3% below the prime market rate for the $11.4 million in financial capital. The more conservative estimate of 1% is used to estimate the approximately $114,000 loss in interest earnings. This program generated a net revenue for 2000.

OBDF Targeted Development Account (Cost included in OBDF above)

Loans made out of the OBDF targeted account are at a rate of 4% less than the prime rate. The maximum term is 5 years, with a maximum amortization of 15 years. Loans from the Targeted Account must have either a senior or co -senior lien position on the assets. The amount of loans outstanding was not available as a separate figure from the regular OBDF program. Accordingly, the opportunity cost of the Targeted Account is calculated using the 1% yield difference instead of 4%. This results in a conservative estimate. The net expenditure for this program is included in the amount reported for the regular Oregon Business Development Fund.

Subsidy Summary: Business Finance Programs

As shown in Table 6-3, the subsidy total for the seven business financing programs reviewed here was approximately $40,000 for FY 2000. These programs are certainly among the least expensive ED programs offered by the state and the costs are almost insignificant when compared with the other ED categories reported here.

Table 6-3
Statewide Business Financing Programs for Economic Development
Oregon, 2000

Program	Net Public Expenditure (Gain) FY 2000	Fund Source	Administrator
Capital Access Program	$334,767	Interest	OECDD
OR Credit Enhancement Fund	$293,855	Interest, lottery	OECDD
OR Entrepreneurial Development Loan Fund	$52,632	Lottery	OECDD
IDR Bond Program	($66,433)	Bond Market	OECDD
OR Business Development Fund (OBDF)	($574,788)	General funds, bonds, lottery	OECDD
OBDF Targeted Fund	Included in OBDF	Gen. funds, bonds, lottery	OECDD
Total Business Finance:	**$40,033**		

Sources: Expenditure figures derived from data provided by OECDD and ODOE

Statewide Economic Development Expenditure Programs

This category of ED programs includes those involving direct expenditures of public resources such as grants, project funding and program administration, which do not involve tax exemptions and are not solely financing in nature.

Rural/Regional Investment Funds: $10,507,933 (combined cost)

The Rural Investment Fund and the Regional Investment Fund are essentially the same types of program but are budgeted separately. Each provides assistance to regional investment boards in support of their approved regional economic and community development strategies. The Regional Boards cover two or more counties and are composed of representatives from counties, cities, councils of government, tribes, ports, and private economic development agencies. Their purpose is to implement strategic planning for economic development for the region and to implement flexible, region-specific programs to achieve the plan. The vague program objectives may, or may not, include job creation or some other readily-measurable goal. These funds allow the most discretionary (or least accountable) spending of the various OECDD programs.

Special Public Works Fund: $4,007,300

The Special Public Works Fund uses Oregon lottery money to issues bonds and make loans for public infrastructure supporting business development projects that create or retain permanent jobs. Eligible applicants include Oregon cities and counties, port districts, water and sewer districts, metropolitan service districts and federally-recognized Indian tribes. Although the fund does not make loans directly to businesses it does fund infrastructure growth on behalf of businesses.

Funding is a loan or a combination of loans and grants made available through direct financing or from the sale of revenue bonds sold through the Oregon Bond Bank. Loans of up to $10 million are available. Grants of up to $500,000 are

available if the municipality demonstrates it cannot service loan financing and if businesses commit to job creation. The net financial effect for FY 2000 is estimated using half of the biennium total.

Small Business Development Centers: $3,242,823

The OECDD contracts with the Small Business Development Center Network to provide counseling, libraries, international trade assistance, and education services to small businesses. Many of the programs are through community and state colleges, who also participate in funding. The U.S. Small Business Administration also supplies funding, though federal expenditures are not included in this study.

Tourism Commission: $3,204,226

The Tourism Commission is included in the Oregon Economic and Community Development Department. It provides resources and marketing for the statewide visitor industry. This includes research, grants, development assistance, and marketing. Tourism is a major growth-oriented industry in Oregon leading to increased land development and expansion of infrastructure.

ODOT Immediate Opportunity Fund: $2,207,000

The Oregon Department of Transportation (ODOT) Immediate Opportunity Fund is intended to support economic development through the construction and improvement of public streets and roads. These road improvements target new business plant locations and other "immediate opportunities." The fund is separated into two categories:

- *Type A* projects support a specific economic development activity that creates or retains jobs.
- *Type B* projects are to help the revitalization of business or industrial centers.

Both types of projects require additional fifty percent matching funds from other public or private sources.

This program is both an economic development program and an infrastructure subsidy and could be included under either section of this report. It is included here because the primary purpose is economic development.

Strategic Reserve Fund: $1,914,484

This fund provides discretionary grants and loans to assist with gaps in financing business and community assistance projects targeted at job creation, investment and infrastructure creation.

International Trade Offices: $1,911,090

The OECDD operates offices to promote export of Oregon products and to recruit foreign investment in Oregon. The department has offices in Tokyo and Taipei and contracts for services in China, Mexico, and the EU (London). Foreign investment in Oregon has been a significant factor in developing the computer-related industry in Oregon.

Industry Sector Outreach: $1,000,000

This program targets firms in Trade Sector Industries (industries with national or international competition). Activities eligible for assistance include establishing R&D consortia, marketing new products, commercializing new technology, and enhancing capacity. Firms are generally required to provide matching funds; only public expenditures are included in this report.

Permitting Assistance: $50,000

In Oregon, state and local government agencies work together to "fast track" construction permits for selected businesses. The Oregon Economic & Community

Development Department has permitting and regulatory experts on staff. At the City level, developers and city staff work closely and cooperatively as the project moves forward. Only state expenditures for administration are included here.

Siting Assistance: $50,000

OECDD provides a custom proposal describing available sites to traded-sector companies. Once the completion of a site requirements form is completed, they solicit and assemble a list of qualifying sites, along with specific community information. Staff and administrative expenses are included here.

Ports Revolving Fund: $NA

This fund loans money to publicly-owned ports for improvements and expansions to privately-leased infrastructure and buildings. Projects such as dredging, constructing airplane hangars, and building expansions are undertaken. Administrative costs are paid by the fund itself. Loan rates are either six percent for projects that benefit the general port or seven percent for projects that benefit only one tenant. The economic cost is estimated to be the opportunity cost of the loan which is the difference between the actual earnings at the loan rate and the potential income at the prime rate (8.55%) for the loans outstanding in FY2000. Unfortunately the information on loan amounts for FY 2000 was not available, and therefore no cost could be determined for this program.

Subsidy Summary: Expenditure Programs for Economic Development

As shown in Table 6-4, the total for 2000 subsidies in the ED expenditures program category was about $28 million.

Table 6-4

State-wide Expenditure Programs for Economic Development

Oregon, 2000

Program	FY 2000 Expenditure	Fund Source	Administrator
Regional Investment Fund*	$6,507,933	Lottery	OECDD
Special Public Works Fund*	$4,007,300	Lottery, interest, bonds	OECDD
Rural Investment Fund*	$4,000,000	Lottery	OECDD
Small Business Development Centers	$3,242,823	Lottery, Community and State Colleges	OECDD/SBDC Network
Tourism Commission*	$3,204,226	Lottery	Tourism Commission
ODOT Immediate Opportunity Fund	$2,207,000	Statewide Trans. Improvement Program	ODOT
Strategic Reserve Fund*	$1,914,484	Lottery	OECDD
International Trade Offices	$1,911,090	Lottery	OECDD
Industry Sector Outreach	$1,000,000	Lottery	OECDD
Siting Assistance	$50,000		OECDD
Permitting Assistance	$50,000		OECDD
Ports Revolving Fund	NA	NA	OECDD
Total Expenditure Programs:	**$28,094,856**		

*Amount based on one-half of 1999-01 biennium expenditures.
Sources: Expenditure figures based on data from ODOT, OECDD, and SBDC Network
NA=Not Available

Local Economic Development Programs

The following descriptions for local ED programs are based primarily on a survey of local government programs at selected locations around the state conducted as part of this project. In some cases the data is incomplete, since administrative cost for local ED programs may be in other department budgets. For example Springfield has a full-time Economic Development Director, but did not count this staff cost as part of the city's ED spending and the cost is not reported here. Some local governments contract with private or semi-private organizations, like the Eugene-Springfield Metro Partnership, to provide ED services. These contract costs are included, when available. Figures for specific local urban renewal districts come from the survey, while statewide figures are from the Department of Revenue.

Non-profit corporations, like the Metro Partnership and Work Systems, Inc. in Portland, conduct most of the economic development programs in certain areas of the state. These organizations are not obligated to make their budgets public and lack the public oversight and accountability of local governments. For example, Work Systems, Inc. is a non-profit 501(c)(3) organization with an annual budget of $26 million. But, it is difficult to find out how this money is spent and what programs the company operates.

Costs for each of the programs described below is reported in Table 6-5 at the end of this section.

Housing Programs

The only growth-inducing local housing program identified in the survey was at the City of Corvallis. Corvallis has a program to make loans to first-time home buyers. This program would be expected to increase demand for lower cost homes. Principle and interest payments are deferred for the first five years of the loan. The amount reported in Table 6-5 reflects the opportunity cost associated with the deferred payments. No administrative costs were available.

Urban Renewal Districts

Urban renewal districts (URDs) are the largest source of economic development dollars for local programs in Oregon. There are 58 districts managed by 40 agencies statewide which spent a total of $84,333,297 in FY 2000.[41] URDs are special assessment districts that divide the regular tax assessment into two parts: a base amount that is fixed at the revenue level existing when the district is established, and an incremental amount that results from subsequent increases in property values. URDs are also known as *Tax Increment Financing Districts*.

Instead of going into the city's general fund, all of the tax revenues from new development and increased property values in the URD are diverted to the district. Ordinarily a city will issue bonds to make investments within the district, using revenue from the tax increment to service the bonds. A subsidy to the district usually occurs because, as time passes, the base amount does not provide an equitable contribution to the city's general fund and other tax revenues must make up the difference. Urban renewal districts tend to function as small, independent jurisdictions that focus on economic development. In light of this, the tax increment may be viewed as an expenditure for economic development. Cities and counties that elected to have an URD are required to establish an urban renewal agency and adopt an urban renewal plan in conjunction with the improvement district.

The amount reported in the Local Programs table (Table 6-5) is an estimate of the tax increment collected, not program expenditures. The reporting of estimated revenues instead of expenditures distinguishes this category from the others in this study. Actual expenditures may fluctuate considerably depending on financing and project schedules, whereas revenues tend to be a more stable indication of the economic benefit the district receives. District expenditures may include administration, marketing, transportation, and other local program categories, but since all expenditures are restricted to the district, the amount is reported only in the Urban Renewal District category. The amount reported is an estimate because tax collections only average about ninety-five percent of the amount levied.[42] Only amounts for taxes levied were available.

Economic/Business Improvement Districts

An economic or business improvement district is a type of assessment district in which the affected property owners chose to be assessed a fee, in addition to usual property taxes, that is collected by the cities and spent on improving the district. Since the fee is in addition to usual taxes, these expenditures are not included in this study. Any general fund expenditures on behalf of the improvement districts are included in this study.

Marketing

The City of Hillsboro reported that staff had made some trade missions as part of their job duties. Details of the missions were not available. The amount is included in administration expenses. It is likely that many cities engage in marketing activities that are not classified as economic development and for which specific cost figures are not available.

Finance

The Portland Development Commission, the economic development agency for the City of Portland, operates a variety of business loan programs. All but three had job creation as a criterion for loan approval and are included in this study. The loans are made at below market rates and the difference between the two rates represents an opportunity cost to the City. The total outstanding loan balance for FY 2000 was not available but staff reported that approximately $4 million in new loans were made at interest rates ranging from 7-7.5 percent.[43] This was approximately one percent below the prime rate in FY2000 and results in an opportunity cost of about $40,000. This is clearly a conservative figure, since it does not include ongoing costs of past loans.

Transportation

The City of Hillsboro works with developers on a project-by-project basis to develop the transportation infrastructure necessary for new businesses. The cost for conducting this coordination is included in administration. No estimate was available for the cost of the infrastructure although a large portion of transportation funding is provided by the State and Federal governments and is reported in other categories.

Though not identified in this survey, some Oregon counties, like Lane County, use their Road Fund as an economic development tool. The Board of County Commissioners may elect to spend Road Fund money to provide access to a new industrial park or upgrade an intersection needed by a new retail area. These Road Fund moneys come from the state gas taxes and are paid by all vehicle drivers.

Siting

The City of Hillsboro offers business siting assistance as part of their Economic Development Department's usual duties. The amount for this is included in administration expenditures.

Administration

Administration expenditures for economic development departments or staff are often not allocated to specific programs but instead treated as a separate category. Staff may have a variety of programs that they manage and/or they may have a project oriented approach to economic development, especially in smaller departments. Amounts in this category also include expenditures to private agencies that administer development services for the local jurisdiction.

Portland Development Commission

The Portland Development Commission (PDC) was created as a City agency in 1958 to deliver projects and programs that achieve the City's housing, economic development and redevelopment, and jobs priorities. The PDC operates dozens of programs and had total expenditures of approximately $110 million for FY 2000 of which about $27 million was direct or indirect Federal funds and about $72 million was raised from taxes or bonds from urban renewal districts. The tax increment for these districts is estimated to be $34.6 million but it must be remembered that the tax increment does not equal the revenue since the city generally sells bonds financed by the tax increment.

Remaining programs that are included in the table (Table 6-5) are amounts from the Urban Redevelopment Fund, which functions as PDC's general fund, the Regional Strategies Fund, which uses lottery proceeds for target industries and economic development, and the Oregon Area Fund, which was used for street improvements and parking garage construction.

Table 6-5

Survey of Local Economic Development Programs[1]

Oregon, 2000

Programs Surveyed	Portland	Clackamas	Hillsboro	Corvallis	Eugene	Springfield
Workforce Training**	none	none	none	none	none	none
Local Employee Screening**	none	none	none	none	none	none
Housing‡	none	none	none	$41,461	none	none
Urban Renewal Districts†	$34,600,000	$14,300,000	$7,700,000	none	$3,500,000	none
Economic Improvement	$194,708	none		$35,900		none
Marketing	none	none	Included in Administration	none	none	$3,500
Finance*	$40,000	none		none	none	none
Transportation	$47,820	none	Included in Administration	none	none	none
Siting	none	none	Included in Administration	none	none	none
Administration	10,264,257[2]	$230,000	120,000[3]	$35,250	$30,000	$48,000
Total Local ED:	**$45,146,785**	**$14,530,000**	**$7,820,000**	**$112,611**	**$3,530,000**	**$51,500**
Area Population:	529,000	338,391	70,186	49,322	137,893	52,864
Per-Capita Local Spending on ED:	$85	$43	$111	$2	$26	$1

Source: Survey by Fodor and Associates

[1] Note that this table does not include several major local programs that are listed elsewhere such as Enterprise Zones and Strategic Investment Programs.

[2] See discussion of Portland Development Commission.

[3] Amount is for FY2001 since FY2000 data was not available.

† Amount is tax increment collected. See program description for details.

‡ Based on opportunity cost of below market loans. No administration costs were available.

* Based on opportunity cost of new loans only. Does not include opportunity cost of existing loans because no data was available for outstanding loans.

** These categories were included in our survey, though no programs were identified in the surveyed cities/counties.

Subsidy Summary: Local Programs Cost Estimate

Based on the survey of six local governments around the state (see Table 6-5), the average per-capita ED spending for in Oregon was $60 for the year 2000. Since the Department of Revenues has statewide figures for all Urban Renewal Districts (URDs), those figures were used here and the costs for the URDs was removed from the survey totals. Local ED programs averaged $9.42 in per-capita spending in 2000 without the URDs. This figure was applied statewide for a total of $32,230,000 in non-URD spending. When combined with the statewide URD spending ($84,333,297), the estimated total statewide spending on local ED programs was about $116,563,000, as shown in Table 6-6.

Note that the survey of local governments revealed that actual URD spending was at least 10-20% higher than what was reported by the state in all cases. Based on these findings, the actual statewide URD spending may be on the order of $10 million higher than reported here.

Table 6-6
Estimate of Statewide Local Economic Development Expenditures
Oregon, 2000

Program Type	Amount in FY 2000
Urban Renewal Districts	$84,333,297
Estimated Non-URD Local ED Programs	$32,230,000
Total Local ED Expenditures	**$116,563,297**

Summary of Economic Development Incentives

The costs of the five categories of economic development activities reviewed in this report are summarized in Table 6-7 below. The total cost of economic development programs that subsidize growth in Oregon are conservatively estimated at about $257 million.

Table 6-7
Summary of Statewide Economic Development Expenditures
Oregon, 2000

Program Type	Amount in FY 2000
Total Business Tax Incentives	$92,470,000
Total Housing Construction Tax Incentives	$20,220,000
Total Business Finance:	$40,033
Total ED Expenditure Programs:	$28,094,856
Total Local ED Programs:	$116,563,000
Total All ED Programs:	**$257,387,889**

7. Subsidized Planning and Development Services

This section reports on the extent to which Oregon cities and counties are charging developers the full cost of processing land use applications, development proposals and building permits. Many cities have been scrambling to increase their development fees over the past few years in response to the demands of rapid growth, budget constraints and increased public oversight. Portland has recently increased its development processing fees substantially to cover more of the full cost. However, most Oregon cities and counties appear to be charging less than the full cost to process these applications. The key question addressed here is: ***To what extent is growth and development paying for the administrative services it requires?***

The subsidies addressed in this section fall into two main categories:

1) Planning (all types of urban planning)
2) Development and Land Use Application Processing (including building permits)

Not all localities separate these functions in the same way.

Planning involves the short and long range planning and comprehensive planning. Most of the traditional planning work performed by cities and counties is planning for the accommodation of future growth. To the extent that this work primarily or exclusively benefits new growth and development, it constitutes a growth subsidy. However, to the extent that this work achieves important public goals and primarily provides broad public benefits, the cost would not be counted as a subsidy.

It was generally not possible to distinguish clearly between growth-related and non growth-related planning activity for all of the cities and counties sampled. Therefore, in order to obtain a rough estimate, it was assumed that all planning activity was growth-related. This will tend to overstate the amount of the growth subsidy somewhat. To understand how much planning is growth-related, one needs to ask the question*: How much of this planning activity would be needed if there were no*

growth? While there is certainly a role for planning in a non-growing community, almost all planning today is driven by growth.

Development and land use application processing includes the city's or county's cost in administering the land development process. Land use applications include:

- Zoning changes
- Annexations
- Subdivisions
- Planned Unit Developments
- Conditional Use Permits
- Site Reviews

Depending on complexity, these applications can cost a local government several thousand dollars or more to process. Most local governments charge a fee to recover some, or all of this cost.

Once the land use designation is consistent with the development plan, site development requires a building permit, plan check, and various inspections. This part of the development process may be handled by a separate "Building" or "Development" division. For the local governments surveyed here, it was only possible to break out the planning function from the broader development activity.

It was beyond the scope of this project to analyze the expenditures and revenues for all of Oregon's 240 cities and 36 counties to determine the extent of statewide planning and development subsidies. Instead, a sample of 3 cities and 4 counties was selected and evaluated. These cities and counties were selected to be geographically varied and of different sizes and growth rates (see Table 7-1) so as to be fairly representative of the state. Department budgets for planning and development services were compared with fees collected. This sample was used to form a rough estimate of the degree of subsidization of planning and development statewide.

Table 7-1

Population and Growth Rate of Selected Oregon Cities and Counties

Location	2000 Population[1]	Average Annual Growth Rate, % 1990-2000
City:		
Albany	40,852	3.3
Bend	52,029	9.8*
Eugene	137,893	2.0
County (unincorporated area only):		
Deschutes	48,898	0.5*
Jackson	63,753	0.6
Lane	98,948	0.1
Washington	190,260	2.5
State (for comparison)	3,421,399	1.9

[1]Source: US Bureau of The Census, Oregon Office of Economic Analysis.
* This growth rate affected by Bend's annexation of entire UGB.

Notes on Methodology

The general methodology used in this examination of land use planning and construction permitting is budget-based. It uses the actual revenues from development applications and building fees and compares them with the costs for providing these services for the 2000 fiscal year as reported in a given jurisdiction's budget documents. The degree of subsidy is based on the extent to which the cost of planning and development services exceeds the fees collected. Various methods were considered for this part of the project, however this method was selected based on the following advantages:

1. The necessary data is available.
2. It is a fairly quick method, permitting data to be collected and evaluated from more cities and counties.
3. It results in greater uniformity in reporting between cities because Oregon statutory requirements ensure a large degree of data consistency from jurisdiction to jurisdiction.
4. It is a less subjective method. There is no need to evaluate whether or not each project or type of application is growth-related. Nor is it necessary to assign a cost for the services provided to each project. The latter would be difficult to determine, as the data does not seem to be available.

This methodology may be subject to criticism on the grounds that non-growth related projects may be included. In the land use planning area, code enforcement, conditional use permit renewals and change in use applications are examples of applications that may not be growth-related. In calendar year 2000 the City of Eugene processed 299 land use applications.[44] Of these, only 8 involved conditional use permits (both new and renewal). During the same period there were 49 subdivision applications (both final and tentative). Given the infrequency and minor nature of these non-growth related types of applications, in comparison with the number, size and complexity of the applications for new projects, it is reasonable

to conclude that the impact of including them has a minor impact on the final result.

The gross construction permit figures include costs and revenues from construction that is both growth-related and non-growth-related. The vast majority of this construction activity is new or expanded capacity associated with growth. However, tenant improvements in existing commercial buildings, kitchen and bathroom remodeling in private residences and replacement of fire or flood damaged buildings are examples of non-growth-related construction. While it may be possible, working from permit applications, to back out the permit fees for this non-growth-related construction, it is not possible to also back out the local government expenses associated with providing said services. Without that data it is not possible to separate non-growth related construction from the full construction permit figures with any degree of accuracy. Therefore we can assume that this category overstates the amount of the subsidy somewhat.

If one assumes that the relationship between the fees collected and the costs in providing the services are relatively consistent across all projects, then the subsidy percentage calculated for all construction permits does have value as an indicator of the degree of the subsidy provided to growth-related construction. For example, if the total permit revenues for a jurisdiction are $70,000 while the expenses are $100,000 it is reasonable to conclude that the growth subsidy is about 30 cents on the dollar.

City and County Results

Albany

Albany maintains separate budgets for planning, building permits and electrical permits. As shown in Table 7-2, planning expenses exceed revenues from fees by $504,000. Planning programs and services are 87% subsidized (development pays for only 13% of costs). In the "development services" category, building permits operate

at a net loss (subsidy) and electrical permits have a net gain (surplus). Overall, Albany's planning and development services are 39% subsidized by local taxpayers at a cost of $543,527 in FY 2000.

Table 7-2
Planning and Development Revenues/Expenses
City of Albany, FY 2000

Program Area	Fee Revenues	Program Expenses	Difference (Rev - Exp)	% Subsidized	% Surplus
Planning	$74,159	$578,394	($504,235)	87	
Building	$630,429	$716,519	($86,090)	12	
Electrical	$160,088	$113,290	$46,798		41
Total:	**$864,676**	**$1,408,203**	**($543,527)**	**39**	

Data obtained from *99/00 Revenue/Expenditure Report* provided by the City of Albany

Bend

Planning, construction permitting, and public works engineering functions in the City of Bend are contained within the same department. While the expenses for each function, as well as the department's administration, are maintained separately, that is not the case for revenues. There are several revenue line items, totaling $88,997, that are not clearly attributable to any single function. These include interest on fund balance, copying and reproduction charges and revenues from the sale of maps, plans and ordinances. As providing these products and services does impact on the cost of departmental operation they were allocated to the departmental subdivision on a prorated basis according to the operating budget of each subdivision.

In addition to the above revenues, the department received several large inter-fund transfers, totaling $849,400, to pay for planning and engineering work done on various city projects. This revenue was also allocated to the Planning and Building subdivisions on a prorated basis. Expenses associated with departmental

administration were allocated to the various departmental subdivisions on a prorated basis using the same methodology.

During the fiscal year Bend also received $20,564 in state grants (community development) which were excluded from revenues, since they are not development fees and are not paid for by the development.

As shown in Table 7-3, Bend's planning programs are 34% subsidized by taxpayers. However, the city makes up for this with building permit revenues. Overall Bend has an 11% surplus.

Table 7-3
Planning and Development Revenues/Expenses
City of Bend, FY 2000

Program Area	Fee Revenues	Program Expenses	Difference (Rev - Exp)	% Subsidized	% Surplus
Planning	$957,802	$1,450,203	($492,401)	34	
Building	$2,294,586	$1,194,582	$1,100,004		92
Engineering	$732,730	$953,193	($220,463)	23	
Total	**$3,985,118**	**$3,597,978**	**$387,140**		**11**

Source: Data from YTD actuals reported in the *Budget Preparation Worksheet for Fiscal Year 2000*, provided by the City of Bend.

Eugene

Planning Programs

The City of Eugene's operating budget is divided into 46 service areas. These service areas cross departmental and funding lines. There are two service areas involved in land use planning. These are Metro and Community Planning, under which Eugene's long range land use planning is conducted, and Land Use Permits, under

which the City's land use code is administered. The combined budgets for these two service areas is $1,754,951.

There are also two other service areas that impinge in the land use planning area. The first is the Zoning and Nuisance Administration, that administers the city's zoning and nuisance standards in regards to the built environment. The city staff in this service area responds to citizen complaints such as junk accumulations, storage of unlicenced vehicles, non-permitted uses. As these complaints mainly involve existing structures and development rather then new growth none of the costs associated with this service area were included here.

The other is Planning and Development Administration. PDD administration has the mission of providing the necessary resources, guidance, vision and support that enables the functioning of the 11 service areas operating under the department's umbrella. In FY 2000 this service area had 4.25 full time employees (FTEs) and a budget of $490,836 to administer a department with an operating budget of $12,229,612. Assuming that the administrative support provided to each of the city's 11 service areas is in proportion to their budgets, then $70,034 in administrative expenses should be attributed to the growth-related Planning and the Land Use Permits programs.

Construction Permitting

The only service area associated with permitting construction is "Construction Permits" and those expenditure figures are reported here. The City of Eugene maintains a separate *Special Revenue Fund* for revenues from permit applications, plan checking and inspection fees. The monies needed to operate this service area are transferred from the Construction Permits Fund to the respective Departmental Operating Budgets as a part of the annual budget process. This fund may have a carry-over balance from the previous year's surplus revenues and these monies may be used to make up shortfalls in the next year's revenues. Because we are attempting to get a snapshot of a single year, we have taken the annual revenues to the

Construction Permits Fund rather then the inter-fund transfer reflected in the budget for the service area for the revenue figure used below.

As shown in Table 7-4, Eugene planning programs are 91% subsidized. Construction permit are 29% subsidized. Overall, the planning and development programs are 45% subsidized and had a net cost to taxpayers of about $3.1 million in FY 2000.

Table 7-4
Planning and Development Revenues/Expenses
City of Eugene, FY 2000

Program Area	Fee Revenues	Program Expenses	Difference (Rev - Exp)	% Subsidized	% Surplus
Land Use Permits	$159,537	$853,579	($694,042)	81	
Metro and Community Planning	$4,554	$901,372	($896,818)	99	
PDD Administration	$0	$70,034	($70,034)	100	
Planning subtotal	$164,091	$1,824,985	($1,660,894)	91	
Construction Permits	$3,690,003	$5,176,261	($1,486,258)	29	
Totals:	**$3,854,094**	**$7,001,246**	**($3,147,152)**	**45**	

The above data is from the City of Eugene's FY 02 Proposed Budget. The expenses for PDD Admin. are prorated as discussed in the text. $28,000 in grant money has been subtracted from the Metro and Community Planning service area revenues total.

Deschutes County

In Deschutes County the planning and permitting functions are performed by subdivisions of the Community Development Department along with Environmental Health, GIS, and code enforcement. For the purposes of this study only data pertaining to the Building Safety, Electrical, Current and Long Range Planning subdivisions were used. The revenue figures for Long Range Planning were adjusted by backing out $108,389 in State Grants. Due to the complexity of this

department, the costs for department administration were not allocated to the various subdivisions as was done in the examination of the other jurisdictions. This results in an understated cost figure for each program area.

As shown in Table 7-5, Deschutes County's planning and development programs generate a surplus in all but the long range planning area. The overall surplus is 56 percent with net revenues of about $1.1 million in FY 2000.

Table 7-5
Planning and Development Revenues/Expenses
Deschutes County, FY 2000

Program Area	Fee Revenues	Program Expenses	Difference (Rev - Exp)	% Subsidized	% Surplus
Building Safety	$1,712,246	$776,239	$936,007		121
Electrical	$399,090	$280,090	$119,000		42
Current Planning	$723,254	$563,151	$160,103		28
Long Range Planning	$240,851	$349,240	($108,389)	31	
Total	**$3,075,441**	**$1,968,720**	**$1,106,721**		**56**

Revenue data from spreadsheet *BPREP 01-02 Revenue Analysis-Aug 31* Est.xls. Expense data from spreadsheet titled *Community Development, Expenditures-Budgeted and Actual*, July 1, 1999 Through Jun 30, 2000 (100% of year Elapsed).

Jackson County

The fee revenues figure for planning was adjusted from the total reported by Jackson County by subtracting $27,127 in State grant revenues. As shown in Table 7-6, Jackson County's planning programs are 85% subsidized and the building programs area 15% subsidized. Overall the county's planning and development is 48% subsidized with a net cost of about $1.3 million in FY 2000.

Table 7-6
Planning and Development Revenues/Expenses
Jackson County, FY 2000

Program Area	Fee Revenues	Program Expenses	Difference (Rev - Exp)	% Subsidized	% Surplus
Planning	$197,845	$1,283,328	($1,085,483)	85	
Building	$1,185,380	$1,399,489	($214,109)	15	
Total	**$1,383,225**	**$2,682,817**	**($1,299,592)**	**48**	

Data source: Jackson County Finance Dept. *Expenditure and Revenue Report* by Program for period ending 6/30/00.

Lane County

Lane County has a policy of having its Land Management Division operate on fees collected from land use applications, building permits, and other charges for services. As shown in Table 7-7, the county's planning programs are 21% subsidized, while building permits and services have a small 1% surplus. Overall, Lane County's planning and development services are 11% subsidized at a net cost of $243,473 in FY 2000.

Table 7-7
Planning and Development Revenues/Expenses
Lane County, FY 2000

Program Area	Fee Revenues	Program Expenses	Difference (Rev - Exp)	% Subsidized	% Surplus
Planning	$956,442	$1,209,423	($252,981)	21	
Building	$1,104,179	$1,094,671	$9,508		1
Total	**$2,060,621**	**$2,304,094**	**($243,473)**	**11**	

Data is from Program Summary, Planning and Zoning, General Fund p230 of Lane County FY 99-00 Budget. These figures were adjusted as follows: For the Planning section the revenue figure is reduced by backing out $117,704 in "Video Lottery Proceeds." Note that the adjusted revenue total does include $19,460 in #453910 Miscellaneous, $424 in #466690 Miscellaneous and $49,035 in #466980 Refunds & Reimbursements. The fee figure for Building includes $30 in #466980 Refunds & Reimbursements and $15,503 in #496110 Fund Balance.

Washington County

As reported in Table 7-8, Washington County's planning is 25% subsidized and its building programs are 16% subsidized. Overall, the planning and development is 18% subsidized with an net cost of about $1.4 million in FY 2000.

Table 7-8
Planning and Development Revenues/Expenses
Washington County, FY 2000

Program Area	Fee Revenues	Program Expenses	Difference (Rev - Exp)	% Subsidized	% Surplus
Planning	$1,729,390	$2,306,538	($577,149)	25	
Building	$4,670,353	$5,539,982	($869,629)	16	
Total	**$6,399,743**	**$7,846,520**	**($1,446,778)**	**18**	

Data is from Washington County *Revenue and Expenditure Summaries for Fiscal Year 99-00.* Planning revenues include $42,689 in grants, and $1,686,700 in charges for services. Inter-fund transfers were not included.

As shown in summary Table 7-9 below, the selected cities and counties have a total subsidy amount for planning and development programs of $5,186,661. These local governments represent a total 2000 population of 632,633 people, or 18.5% of the state's population. Assuming this sample is fairly representative of the state, a rough, population-weighted estimate of the annual statewide subsidy amount is $28 million.

Table 7-9
Summary of Subsidy Amount for Planning and Development Services
Selected Oregon Cities and Counties, FY2000

Location	2000 Population[1]	Subsidy Amount ($)
City:		
Albany	40,852	$543,527
Bend	52,029	($387,140)
Eugene	137,893	$3,147,152
County (unincorporated area only):		
Deschutes	48,898	($1,106,721)
Jackson	63,753	$1,299,592
Lane	98,948	$243,473
Washington	190,260	$1,446,778
Total:	**632,633**	**$5,186,661**

[1]Source: US Bureau of The Census, Oregon Office of Economic Analysis.

Oregon Department of Land Conservation and Development

To complete this section, urban planning expenditures by state agencies must also be include in the total. The state's planning agency is the Department of Land Conservation and Development (DLCD). The DLCD is primarily planning for growth in Oregon by enforcing the State Land Use Program and helping cities and counties to plan. The portion of DLCD's biennium budget for the 99-01 period that is funded from the state's general fund is $9,483,000. Half this amount is assigned to the FY 2000 cost ($4,742,000).

Transportation and Growth Management Funds

The Transportation and Growth Management Program provides grants and technical assistance to local communities to help with planning new transportation facilities and services. The total budget for the 1999-01 biennium was approximately $7.2 million most of which is spent as grants to local governments. The Federal government provides approximately ninety percent of the funding for the program. The State portion of this expenditures is $372,000 for FY 2000.

Summary of Subsidized Planning and Development Services

Table 7-10 (below) summarizes the subsidies for planning and development services in Oregon. The total subsidy of $33 million includes both local government and state agency programs.

Table 7-10
Estimated Statewide Cost of Planning and Development Subsidies
Oregon, 2000

Program Area	Subsidy Amount ($)
Oregon Cities and Counties	$28,000,000
DLCD State-Funded Programs	$4,742,000
TGM State-Funded Programs	$372,000
Total:	**$33,114,000**

Notes: TGM is the Transportation and Growth Management program. DLCD is the Dept of Land Conservation and Development.

8. Other Growth Subsidies

This section includes the remaining types of growth subsidies. Foremost among these are unmet needs for roads and schools. These are real costs that simply haven't been paid. Due to the lack of adequate information about these costs, only traffic congestion costs are included in the final 2000 subsidy total.

Unmet Infrastructure Needs

When communities grow, they often fail to keep up with the demand for expanded infrastructure. This can occur for a variety of reason, such as lack of adequate funds or lack of planning. It can affect all types of basic public infrastructure, as described earlier.

When the infrastructure does not keep pace with growth, levels of service decline. Roads become more congested, schools become overcrowded and sewage plants overflow. Since the cost of maintaining the local service standards are not being fully paid, these costs are being shifted onto future taxpayers.

These unpaid capital costs represent a growth subsidy in the sense that the costs are not being paid by current growth and are instead reflected in overburdened facilities and degraded public services for all residents and businesses in the community. The cost of traffic congestion to the vehicle drivers has been included in the following section, however there is no comparable estimate of the social cost of overcrowded classrooms.

In some instances, cities that have failed to keep up with the needs of growth choose to lower their standards to avoid raising the necessary funds. In this manner the costs will appear in terms of the overall quality of community services and livability, and may not appear on any balance sheets. This is generally the case with the transportation systems as described below. Unmet infrastructure needs are estimated below for two of the most costly categories: roads and schools. These

unmet needs for infrastructure can accumulate over many years and therefore do not necessarily represent cost incurred in any single year.

Transportation

The ***2001 Urban Mobility Report*** by the Texas Transportation Institute examines road and travel conditions in 68 urban areas around the country every year.[45] According to the report, during the 17-year study period in which TTI data has been collected, less than half the road infrastructure needed to keep congestion levels constant is being built in US cities. In the most recent period (1994 to 1999) the study found that only 39% of needed roadways were built. This finding overstates the need for roads somewhat since it assumes that road expansion is the only technique used to reduce congestion.

The TTI Report contains data for Oregon's three largest urban areas: Portland-Vancouver, Salem and Eugene-Springfield. As shown in Table 8-1 below, These cities built from 0% to 41% of the needed infrastructure over the most recent 1994-99 period.

Table 8-1
Percent of Needed Roads Built in Selected Oregon Urban Areas
(1994-1999)

Urban Area	Average Annual Growth in Vehicle Miles Traveled (%)	Annual Lane Miles Needed to Prevent Congestion Growth	Percent of Needed Roadway Added (1994-1999)†
Portland-Vancouver	3.0%	49	41%
Eugene-Springfield	3.9%	9	0%
Salem	2.0%	8	38%

Source: ***2001 Urban Mobility Report*** by the Texas Transportation Institute
† Assumes all increase in travel demand is met with new road construction. However some of this demand is met with increased use of transit and other means.

The TTI study also calculates the annual costs due to traffic congestion in each of the urban areas. This cost includes both the additional fuel expended in traffic delays and the value of the total time spent in delays by travelers. Fuel costs are based on statewide average costs from the American Automobile Association. Time costs assume 1.25 persons per vehicle and a time value of $12.40 per person-hour. Figure 8-1 below shows that very large urban areas (over 3 million population) have more than four times as much travel delay as smaller areas (less than 500,000 population). Figure 8-2 shows that annual per-capita costs due to congestion also increase with city size from a low of $230 for small areas to a high of $920 for very large areas. Congestion costs have been increasing steadily in most urban areas. Figure 8-3 shows the remarkable increase in annual per-capita congestion costs for the three Oregon urban areas included in the TTI study.

Figure 8-1

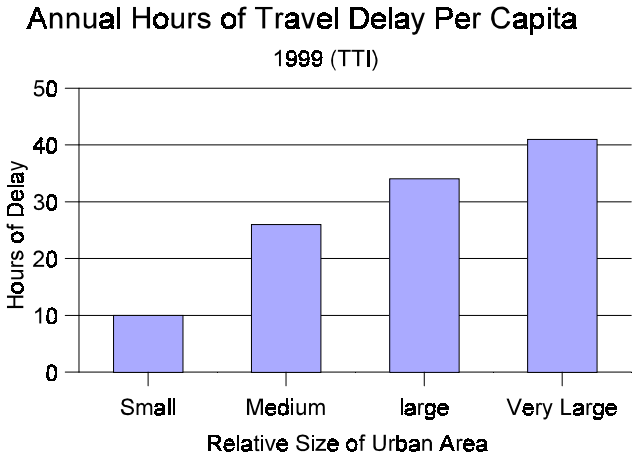
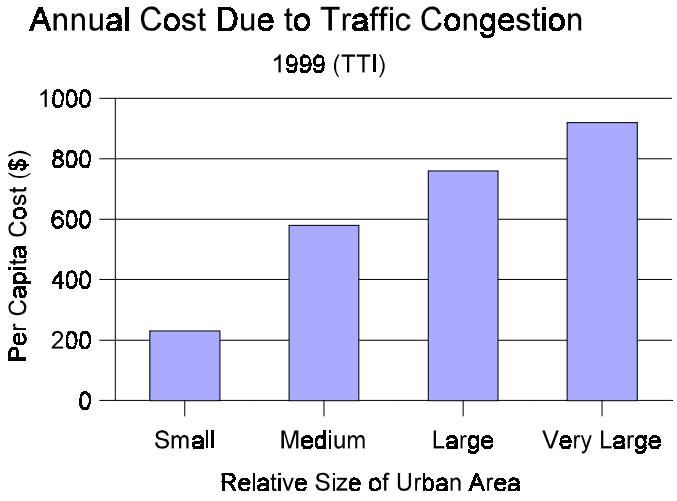


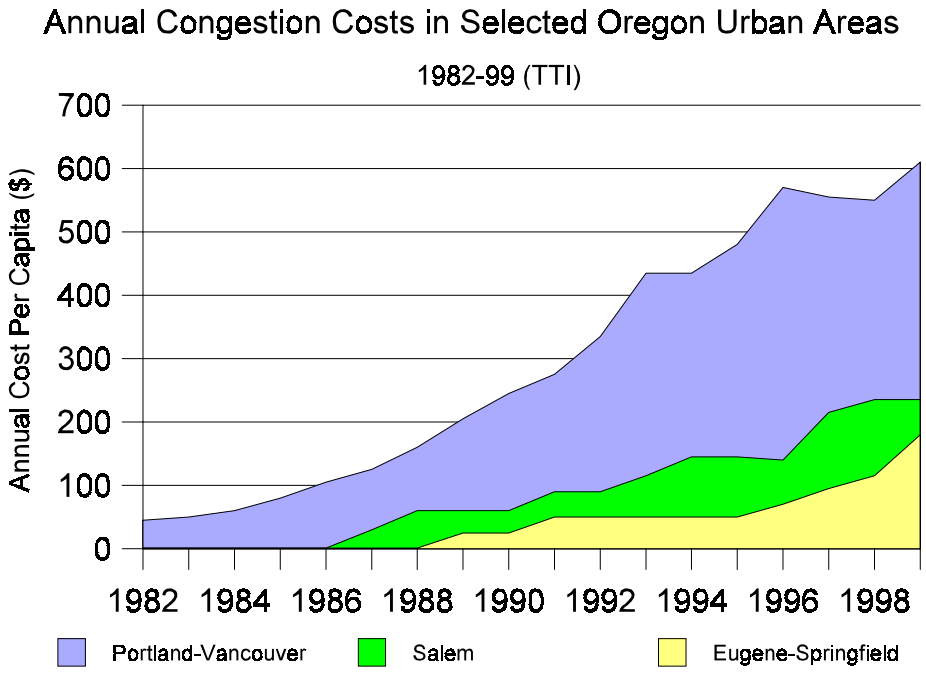
Figure 8-2



In general, it appears that traffic congestion is worse in the larger urban areas than in the smaller ones. There are instances in the smaller areas where conditions at a localized roadway bottleneck or intersection may resemble the conditions that exist in much larger urban areas. But, as urban areas get larger, so does the overall congestion level.

– **2001 Urban Mobility Study,** Texas Transportation Institute

Figure 8-3



The congestion costs calculated by the TTI for the three Oregon urban areas shown in Table 8-2 total almost $1 billion for 1999 (the most recent year for which data is available). While this congestion is a growth-related cost, not all of the congestion was created in 1999 and not all of the cost can be considered a growth subsidy. Instead, the total cost represents unmet infrastructure needs spanning more than 17 years. It is possible that most of the nearly $1 billion congestion cost could be considered an annual growth subsidy, however the matter becomes increasingly muddled as we go further back in time. The question of who is subsidizing whom becomes less and less clear.

The increment of congestion cost added in 1999 for all three Oregon urban areas was $115 million, as shown in Table 8-2. Virtually all of this incremental cost can be considered a growth subsidy, as could the additional congestion produced in other recent years. However, there are other factors that would make a summation of all previously-created congestion difficult. Instead, the very conservative one-year figure of $115 million is used here. The three Oregon urban areas in the TTI study represent about 57% of Oregon's 1999 population. Instead of extrapolating this

limited data to all of Oregon's urban areas, the $115 million congestion cost is used here as a very conservative estimate of 2000 statewide cost. This congestion cost is counted as a growth subsidy since it is paid by all of the state's residents on behalf of the year's growth.

It is worth reiterating that the $115 million annual congestion cost reported here is a consequence of failing to build sufficient road infrastructure in 1999 to maintain the previous level of service. The capital cost to build this needed infrastructure is likely to be a much higher figure than the congestion cost. Unfortunately, there is no data on what the full cost to build these roads would be.

Table 8-2
Congestion Costs in Selected Oregon Urban Areas
(1999)

Urban Area	Per-capita Annual Congestion Cost ($)	Total Annual Congestion Cost ($millions)	Increment of Congestion Growth in 1999 ($millions)
Portland-Vancouver	$610	$910	$100
Eugene-Springfield	$180	$40	$15
Salem	$235	$45	$0
Totals:		**$995**	**$115**

Source: ***2001 Urban Mobility Report*** by the Texas Transportation Institute

Unmet School Facility Needs

Unmet school facilities needs appear as overcrowded schools and classrooms. While it is difficult to accurately assess the statewide need for more school capacity, the Confederation of Oregon School Administrators surveyed Oregon's school districts in February of 1998 to determine their need for additional classroom space. The COSA survey identified a need for 2,280 new classrooms statewide. The estimated cost of providing these classrooms was $672 million. According to COSA, this is the most recent estimate available and no other organization in the state has prepared this type of information. A COSA official estimates that this figure is still in the same ballpark today, but has likely increased somewhat. This cost represents a need that has accumulated over many years, so it is not possible to determine the amount attributed to growth in any particular year. As a result, no estimate of the 2000 cost of unbuilt, needed school facilities is included here.

Land Use Windfalls

Land use windfalls are regulatory changes such as Urban Growth Boundary expansions, annexations and zoning changes that provide a substantial net benefit to affected landowners. A zone change from agriculture to residential, for example, might increase the value of land by a factor of ten. This is a sizable windfall for the land owner that results from a simple change in the zoning designation. Such windfalls become growth subsidies when they encourage land speculation and development.

Changes in land use regulations can also work the other way and have the net effect of reducing certain property values. For example, new regulations requiring riparian buffers of 250 feet from all streams, limits the development potential for affected properties and may lower their value.

In this study, changes in land use regulations are assumed to have been adopted on behalf of the general welfare and not as a subsidy which primarily encourages growth. Nonetheless, some of this regulation can act to encourage land development, induce growth and produce unearned income for landowners (the windfall).

The biggest windfalls result when the set of rules and regulations under which the land was purchased are changed to allow new development rights that were previously prohibited. For example, a landowner may pay only for undevelopable farmland, but receives a windfall in value when the land is annexed into the city or converted to residentially-zoned property. See the Lane County Case Study below for an example of how this works.

Windfall Case Study: Lane County

In 1998 a California developer bought 150 acres of farm and forest land in Lane County. This land was located just outside the Eugene Urban Growth Boundary and adjacent to the city's Ridgeline Trail Park system. Under the existing agriculture and forestry zoning, no further development of the land was allowed.

The developer sought to have the property re-zoned to "non-resource" land so that it could be subdivided into 30 five-acre parcels and developed. In spite of large-scale public opposition, the majority of county commissioners supported the zoning change and approved the developer's application with only minor changes.

The developer had purchased this property for a total of about $450,000. The cost of the zoning change application and subsequent site preparation may have doubled this cost for a total investment of $900,000. Based on lot values at the time, the property value increased to about $5 million after the county zoning change – more than ten times its previous value. The developer became a millionaire, thanks to a land use designation conveyed by the county. The developer subsequently donated $250 to the chair of the county commission's unsuccessful bid for re-election.

Like many land use windfalls, the development of this property carries other public cost that are the result of the county decision:

- Parkland views and solitude were impacted. While the city could have purchased this property for parkland at $3,000 an acre before the zoning change, it became unaffordable after the zoning change at more than $30,000 an acre. (In spite of this, the Eugene Parks Planning Director supported the zone change in written testimony.)
- 90% of all vehicle trips generated by the new subdivision are expected to use city roads, funded by city taxpayers and not supported by the development.
- The added vehicle traffic from the subdivision will force the City of Eugene to upgrade the road and intersection used by the new traffic.
- The county action creates a belt of low-density rural sprawl outside the urban growth boundary that precludes more efficient use of this land in the future.

Various data was collected to ascertain the extent of private windfalls from zoning changes around the state. The City of Eugene, for example, received 16 applications for zone changes (and 30 for annexations) during 2000. In Lane County, 36 applications for zone changes were filed and 30 were approved. Statewide, about 2000 acres of farm and forest land were rezoned to allow residential, commercial or industrial development in 2000. Due to the complexity and ambiguous nature of assessing regulatory impacts on land values, no growth subsidy was estimated for land use windfalls.

Other Growth Subsidies Not Included

A number of growth subsidies were not included in this study for various reasons, mainly involving the complexity and difficulty of obtaining any reasonable cost estimates. They are summarized briefly below:

- **Federal Expenditures and Transfers.** As stated previously, no Federal funds were included in this report. The Federal government channels hundreds of million of dollars to Oregon every year and much of this, like freeway funding, does subsidize growth in the state.

- **Industry Subsidies.** In order to keep the focus of this study on urban growth, subsidies to agriculture, timber and mining businesses were not included.

- **Social and Environmental Subsidies.** Other than traffic congestion costs, social and environmental costs of growth were not included. Nonetheless, these social and environmental cost are likely to be substantial. They include the costs shown in Figure 8-4 below.

Figure 8-4

Environmental, Social and Other Growth-Related Impacts

- Decreased Air Quality
- Decreased Water Quality
- Increased Rates of Natural Resource Consumption
- Lost Open Space and Resource Lands (farms, forests)
- Lost Visual and Other Amenity Values
- Lost Wildlife Habitat
- Increased Noise
- Lost Mobility Due to Traffic Congestion (delays and increased commute time)
- Higher Cost of Housing
- Higher Cost of Living
- Lost Sense of Community
- Increased Regulation (loss of freedoms)
- Costs to Future Generations

Among the environmental and social costs listed in Figure 8-4 is the cost of increased regulation. It is interesting to note that the cost of increased regulation due to growth includes a loss of property rights. Freedoms such as making noise, burning trash, outdoor lighting, building a fence, or operating a home business all become more regulated and restricted with growth. Oddly, property rights advocates are often growth proponents as well.

- **Family Size Subsidies.** To keep the focus on urban growth, this study did not include subsidies that might influence family size decisions. For example, it did not include individual tax deductions for an unlimited number of dependent children. Nor did it include funding for schools which are paid for by all taxpayers, whether or not they have children.

- **Sports Stadiums, Convention Centers and Airports.** Sports stadiums, convention centers and airports tend to be massive public investments that induce regional growth. They are typically heavily subsidized by local or regional taxpayers. Seldom can these facilities be built using just the revenues

they generate from ticket sales, hotel and meeting room revenues, or other user fees.

- **Subsidies to Rural Communities.** Federal grants and low interest loans are targeted specifically to boosting businesses and investment in rural communities. For example, Federal Rural Electrification programs subsidize electric service connections to rural residents.

9. Summary of Growth Subsidies

The final tally of all growth subsidies evaluated in this report is about $1.14 billion for 2000. Table 9-1 below provides a summary of the major subsidy categories and Figure 9-1 provides a graphic representation of the data. The largest subsidy is the provision of infrastructure to serve new development at three quarters of a billion dollars, or about two thirds (65%) of all subsidies. The second largest growth subsidy is economic development at $257 million, or 22 % of all subsidies. Traffic congestion ranks third at a sizable $115 million cost. Among such sizable expenses, subsidized planning and development services seems like a minor cost at only $33 million.

While this is not a complete picture of growth subsidies in Oregon, it is the best estimate available to date. The cost of this subsidy is paid primarily by Oregon's taxpayers. The total subsidy estimate is a conservative figure, since some costs were not available. The subsidy estimate does not include either unmet (unfunded and unbuilt) infrastructure needs or the environmental and social costs of growth which impact public health and quality of life.

Table 9-1

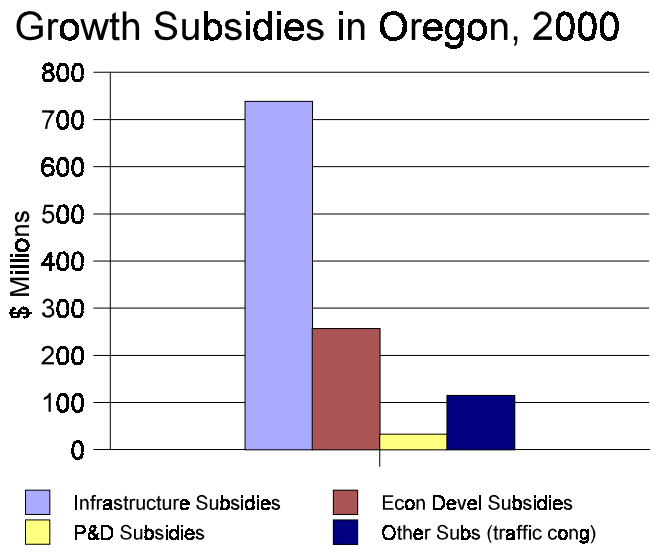
Summary of Statewide Growth Subsidies

Oregon, 2000

Program Type	Amount in FY 2000
Infrastructure Subsidies	**$738,000,000**
Economic Development Subsidies	**$257,388,000**
Subsidized Planning & Development Services	**$33,114,000**
Other Growth Subsidies:	
• **Traffic Congestion Costs (fuel, time)**	**$115,000,000**
• **Un-met Infrastructure Needs**	**NA**
• **Land Use Windfalls**	**NA**
Total Growth Subsidies:	**$1,143,502,000**

NA=Not Available

Figure 9-1



Conclusions

There was very little precedent to follow in preparing this study of statewide growth subsidies. As a trail-breaking research effort, we found our share of challenges and roadblocks. Nonetheless, it was possible to develop a rough estimate of the magnitude of growth subsidization in Oregon.

The statewide growth subsidies evaluated in this report total $1.14 billion for the year 2000. This figure includes only state and local government spending and does not include any federal funds. It is a conservative estimate, since not all of the subsidies could be reasonably determined and since our estimates tended to err on the low side. This level of subsidy is equivalent to an annual per-capita cost of $334 for all Oregonians. Based on an estimated state population increase of 63,800 in 2000, the growth subsidy amounts to about $18,000 per new resident of the state.

The total amount of this subsidy is substantial and comes at the expense of taxpayers and other public programs and services provided by state and local government. Not only is growth subsidization a heavy burden for Oregon's taxpayers, but it is stimulating the urban growth most Oregonians have indicated they don't want.

In addition to the subsidies reported here, a number of other growth-related costs have been identified. They include:

- $880 million in annual traffic congestion costs for the state's three largest urban areas (created by pre-1999 growth).
- $672 million in needed school facilities.

There is little or no indication that the general public wishes to have their tax dollars spent subsidizing growth. Local governments and public officials who believe otherwise, should survey their local residents on the matter. The question of growth subsidies should be referred to the voters to confirm that these growth-

inducing expenditures truly enjoy the strong public support that should accompany such a considerable use of public funds.

While we have no evidence that local governments act to hide growth-related costs in their budgets, very little effort has been made to break out this major expense category from other services the city, county or state provides. Local governments would greatly improve their accountability if they regularly audited their budgets to determine what their growth-related cost are, and report how these costs are being funded.

It is apparent that growth is being heavily subsidized in communities throughout the state. The fact that these subsidies pass largely unnoticed by the public, contributes to their proliferation. Lack of awareness of extent and magnitude of growth subsidies may be the main reason why they continue to be tolerated in Oregon. Better information, awareness and understanding of growth subsidization should result in wiser growth policies and better decisions about the use of public funds to induce local growth.

While the issue of growth subsidization has largely been a sleeper, it is about to wake up. Contrary to the thinking that growth subsidization may be a small matter, this report clearly shows that the cost are a heavy burden on the state's taxpayers. Growth subsidization depletes funds needed to maintain the state's existing infrastructure and contributes the budget shortfalls the state is experiencing. Due to its high cost and controversial nature, continued growth subsidization should be among the top public policy issues in the state.

□

Appendix to Report

Assessment of Statewide Growth Subsidies in Oregon

CONTENTS OF APPENDIX

Appendix A
Growth Subsidies Literature Review
Annotated References

A number of individual references from the literature review provided useful and relevant information for this study which was were either not included in the previous narrative, or warrants some additional coverage. Summaries of key aspects of these references are presented below in annotated form.

1. **Who Benefits from State and Local Economic Development Policies**, by Timothy J. Bartik, W. E. Upjohn Institute for Employment Research, Kalamazoo, MI, 1991.

Bartik is a believer in the benefits of traditional economic development and seeks to refute the naysayers in this book. He uses reasoning/argument, a review of literature, and his own empirical research to support his viewpoint.

As shown in Table A-1 below, his typology of direct economic development policies describes both traditional and newer forms of economic development.

Bartik finds that expenditures from state development agencies in the U.S. totaled about $1.5 billion in 1990 (source: National Association of State Development Agencies)

Table A-1

TYPES OF STATE AND LOCAL ECONOMIC DEVELOPMENT POLICIES THAT DIRECTLY AID BUSINESSES*

TRADITIONAL ECONOMIC DEVELOPMENT POLICIES
(Primarily Targeted at Branch Plant Recruitment)

Financial Incentives
- Property tax abatements
- Other tax relief
- Industrial revenue bonds
- Provision of land at below-market prices
- Direct state loans

Nonfinancial Incentives to Branch Plants
- Expedited provision of site-specific infrastructure
- Help with regulatory problems
- Customized industrial training

Marketing of Area for Branch Plant Location
- Industrial development advertising
- Marketing trips to corporate headquarters
- Provision of site information to prospects

"NEW WAVE" ECONOMIC DEVELOPMENT POLICIES
(Primarily Targeted at Small or Existing Businesses)

Capital Market Programs
- Predominantly government-financed loan or equity programs
- Government support for predominantly privately financed loan or equity programs

Information/Education for Small Business
- Small business ombudsman/information office
- Community college classes in starting a business
- Small business development centers
- Entrepreneurial training programs
- Small business incubators

Research and High Technology
- Centers of excellence in business-related research at public universities
- Research-oriented industrial parks
- Applied research grants
- Technology transfer programs/industrial extension services

Export Assistance
- Information/training in how to export
- Trade missions
- Export financing

** Source: Adapted from Table 1.1 of **Who Benefits from State and Local Economic Development Policies**, by Timothy J. Bartik, W. E. Upjohn Institute for Employment Research, Kalamazoo, MI, 1991.*

2. ***Do Government Incentives Attract and Retain International Investment? A Study of Foreign-Owned Firms in North Carolina****, by* Dennis A. Rondinelli and William J. Burpitt for The Kenan Institute of Private Enterprise, University of North Carolina, Chapel Hill, 2000 [http://www.kenaninstitute.unc.edu/].

This survey of leaders of international firms operating in North Carolina by two professors from the Kenan Institute of Private Enterprise, University of North Carolina, Chapel Hill finds that tax incentives are not an important factor in deciding where to locate a plant. Executives of the 118 foreign-owned firms surveyed responded that the three most important factors are: 1) quality and availability of labor and transportation, 2) the overall quality of life, and 3) the general business climate. Tax incentives and several other types of state inducements ranked at the bottom.

3. ***Economic Development in Minnesota: High Subsidies, Low Wages, Absent Standards***, by Greg LeRoy, Director, Good Jobs First, 1311 L Street N.W., Washington, DC 20005, 1998.

This study reveals fundamental problems with economic development in the state. The research reviewed more than 550 subsidy disclosure reports collected by the state under Minnesota's 1995 subsidy reform law. According to the author, it is believed to be the most detailed analysis of its type ever performed, due to the quality of Minnesota's data.

The subsidies reviewed included loans, grants and tax increment financing. Among the startling conclusions:

- 84% of the jobs created paid <u>below</u> prevailing market average rates for similar industries. More that 79% of deals in the Minneapolis-St. Paul Metro area paid wage 20% or more below market.
- 38 of the deals cost $100,000 or more per job. Most of these were TIF (tax increment financing) subsidies.

- Almost all of the TIF deals resulted in subsidized job migration (or "piracy") within the state.
- Two-thirds of the deals created jobs with such low wages that a family of three would qualify for Medicaid.

A number of simple reforms are suggested such as wage floors, subsidy caps per new job, anti-piracy rules, and recapture terms for deals that fail to deliver jobs.

4. *Who Benefits from Local Job Growth: Migrants or the Original Residnets?*, by Timothy J. Bartik, W.E. Upjohn Institute for Employment Research, Kalamazoo, MI, published in ***Regional Studies***, Vol.27.4, pages 297-311, December 1992.

This paper surveys research on new jobs created by growth in the local economy to determine who received the jobs. One author cited in the survey estimates that the national labor pool is so mobile that any benefits achieved in the form of locally-lower unemployment rates would be eliminated in less than a year. Several other authors estimate that it may take five to seven years for unemployment rates to resume their former level. Bartik concludes that in the long run, about one-fourth of new jobs go to local residents, while the remainder go to in-migrants. More specifically he states that, in the short-run, between 30% and 50% of the new jobs from employment growth go to in-migrants. In the long run, 60% to 90% of jobs go to in-migrants.

5. *The Great American Give-Away: Are cities selling themselves short for the sake of redevelopment?*, by Matthew Ulterino, ***Metropolitics***, Magazine of the Center for Urban Research and Policy, Columbia University, Volume I, Number 4, Spring 1998.

This article explores the growing trend of using public subsidies to encourage urban redevelopment. The benefits of transferring money from government to private

businesses through economic development are questioned and compared with other means of achieving similar goals, while providing broader benefits. The money used for low interest loans and tax breaks to businesses could instead be used to improve schools, streets and public services. Examples of hefty giveaways for convention centers, stadiums, casinos, and the like are given. The article concludes that ED can be achieved at far less public expense.

6. ***Measuring Capital Subsidy Cost and Job Creation: The Case of Rural UDAG Grants***, by Marie Howland, **APA Journal**, Winter, 1990, p 54-65.

This article reports on study of the effectiveness of Federal low-interest loans in creating jobs. Findings are qualified by the difficulty measuring both the true cost of the loan program and number of jobs created by the loan. The author concludes that government-subsidized loans are a cost-effective means of stimulating job creation and cost an average of $1,963 to $4,216 per job. The cost of these loans is much lower than other forms of ED, such as grants for public works costs.

7. ***Virginia's Economic Incentives: Missed Opportunities for Sustainable Growth***, Environmental Law Institute, Washington, D.C., February 2001. http://www.eli.org/pdf/vasmartgrowth.pdf

This report examines several major economic incentive programs and funds used in the Commonwealth of Virginia to attract new businesses and to support the expansion of existing businesses. Virginia operates a number of programs that provide loans and grants to businesses for economic development and job creation purposes. The programs reviewed in this report provide nearly $30 million per year in government support to businesses.

The report recommends that Virginia consider land use impacts in administering current economic incentive programs by funding growth in locations that are designed to maximize benefits to the surrounding communities. Virginia officials have the ability to take land use impacts into account in allocating funds by: giving

preference to proposals that take sustainable land use and development into account; requiring sustainable land use as an element of these programs; disclosing impacts and potential impacts and advantages; and determining the amount of funding based in part on sustainable development criteria.

This report also recommends that economic development agencies require greater reporting from project applicants related to their impacts on the surrounding community and the anticipated external costs and benefits of their activity with regard to sustainable development concerns.

8. ***City Limits: Putting the Breaks on Sprawl***, by Molly Omeara Sheehan, Worldwatch Institute, Washington, DC, Paper 156, June 2001.

This recent booklet from Worldwatch focuses on the role of cars in promoting sprawling development patterns. Sheehan emphasizes better use of alternative transportation and concentration of growth in the urban core. The author is concerned primarily with reducing sprawl, rather than slowing growth. Growth subsidies are not discussed in any detail, however, sprawl-inducing subsidies are mentioned, especially in connection with transportation. Infrastructure investments by government lead to new development. She maintains that these investments should be targeted to existing communities and centrally-located places where growth is more desirable. Another suggestion is to raise the price of driving to reflect its true cost through an increase in gas taxes.

9. ***Local Economic Development in Southern California's Suburbs: 1990-97***, by Max Neiman, Gregory Andranovich, and Kenneth Fernadez, Report of the Public Policy Institute of California (an independent, nonprofit research organization), San Francisco, CA, 2000.

This study examines local competition for economic development and concludes that the state does not need to tighten regulations to limit use of ED resources and prevent unproductive competition between local jurisdictions. In fact, the authors

conclude that such restrictions may "exacerbate the problem of weak local authority in an effort to *solve* the less urgent problem of costly give-aways." Surprisingly the authors oppose regulatory solutions and do not seem to have any recommendations for improving this admittedly costly and wasteful system of local government ED.

10. ***Subsidizing Redevelopment in California***, by Michael Dardia, Public Policy Institute of California, San Francisco, CA, January 1998. [http://www.ppic.org/publications/PPIC108/PPIC108.pdf/index.html]

California's Redevelopment Agencies, or RDAs, are similar to Oregon's Urban Renewal Districts. They both rely on a federally authorized tax increment financing schemes (TIF) crafted circa 1940s to fund urban development or re-development. The money to fund the RDA comes from increases in property values within the RDA district. RDA funds are used for purchasing property, razing buildings, providing municipal infrastructure such as streets and lighting, developing affordable housing, and renovating downtown commercial areas.

This report finds that, while some of the increased property values within the district are the result of projects of the RDA, almost half is the result of other factors that increase regional property values. The author contends that this component constitutes a subsidy of the RDA. The study found that most RDA projects could not generate enough increase in tax revenue (via increases in property values) to pay for the costs of the project. Twenty of 114 projects studied were on mostly vacant land, leading to the conclusion that some of the business of the RDA was simply development, rather than redevelopment.

11. *The Effects of Foreign Direct Investment on Local Communities*, by David N. Figlio and Bruce A. Blonigen, ***Journal of Urban Economics***, Vol. 48, 2000, p. 338-363.

Figlio examines the effects of foreign direct investment on local communities in South Carolina and compared the effects to domestic investment. The authors

estimates that foreign direct investment did raise real wages more than domestic investment but that it came at a cost of lower per capita revenue and expenditures for local government. Foreign direct investment also changed the mix of local government expenditures, reducing the spending for public education and increasing expenditures for transportation. The reduction in education spending was largest in low-income school districts.

12. *Can Local Incentives Alter a Metropolitan City's Economic Development?*, by Robert W. Wassmer, ***Urban Studies***, Vol. 31, No. 8, 1994, p. 1251-1278.

In this rigorous study of incentives in the Detroit metropolitan, Wassmer concludes that incentives had a positive influence on local economic development in about 31% of the instances measured. To gauge this effect, Wassmer used six measures of economic development as his dependent variables: manufacturing employment, manufacturing value added, retail employment, retail sales, service employment, and service receipts.

Local economic and demographic factors have a strong influence on whether the incentive was successful. The Wassmer study highlights the difficulties that even thorough researchers have when studying incentives. Two examples in the Wassmer study are 1) that *gains* in economic growth were attributed to incentives but *declines* were assumed to be unrelated to incentives, and 2) economic growth was measured five years after the incentives were introduced, allowing sufficient time for other factors to influence the economy.

13. *Regional Economic Activity and Petroleum Industry Incentive Policies: Utah's Uintah Basin*, by Kevin T. Duffy-Deno and M. Henry Robison, ***Growth and Change***, Vol. 26, Fall 1995, p. 553-572.

This study of oil drilling incentives by Duffy-Deno examines both causation and cost effectiveness. The State of Utah attempted to revitalize its oil production by offering tax incentives for reworking wells. The authors used regression techniques

and a regional input-output model to estimate the effectiveness of the tax incentives and the fiscal impact on the State. They concluded that oil well workovers increased about forty-six percent and that employment increased. However, even including multiplier effects, the State of Utah lost about $10,000 per well workover. The estimated cost per job created ranged from $4,800 to $9,600 per year.

The study found that despite the gains in employment, the incentives nonetheless resulted in a fiscal loss for the State. The average well workover project received over $17,000 in tax credits and, after all the induced business activity was accounted for, resulted in a net loss to the State of over $10,000. Not even half of the tax credit was recouped. In their conclusion the authors raise the issue that there may be more cost effective methods for increasing employment but also note that such considerations are often lost in the politics of devising policy.

14. *Categories of Local Economic Development Techniques: An Empirical Analysis,* by Laura A. Reese, ***Policy Studies Journal***, Vol. 21, No. 3, 1993, p. 492-506.

Laura Reese presentes empirical analysis of a typology of economic development techniques. The categories she uses are marketing, financial incentives, land/property management, and governance/infrastructure. Although these category descriptions are not widely used, the article presents a useful description of other economic development typologies and is a good place to start when attempting to answer the question, "What are the categories of economic development?"

15. *Balancing Business Attraction, Growth Control: A Growing Political Issue for Local Governments*, by Deborah S. Fusi, ***Site Selection***, Vol. 35, No. 5, 1990, p.1098-1102

Fusi observes that local governments simultaneously pursue contradictory policies of managing growth and pursuing economic development. She reports on a survey conducted in 1990 of nearly 2,000 city and county executives that reveals executives concerned about their ability to provide infrastructure, especially roads and bridges,

to meet even current demands. Forty-six percent of the respondents reported that there had been organized opposition to growth in their jurisdiction in the past twelve months and 31% percent reported that they had raised taxes in the past twelve months to finance infrastructure improvements. Further, 61% of the government executives whose jurisdictions had passed or proposed growth controls stated that rising taxes was a rationale for enacting the ordinances. Despite this concern about growth by taxpayers, nearly one-third of the respondents said their jurisdictions had approved new incentives for industry.

Appendix B
Literature Review Methodology

A search for literature related to this study was conducted using the the following key words and search terms: growth, subsidy, tax incentive, enterprise zone, urban renewal, marketing incentive, export incentive, tax abatement, economic development, and Oregon. In some databases specializing in business publications the term *business development* was also used. The literature search was conducted using academic resources, the Internet, professional contacts and other resources as discussed below.

No studies were found that directly address the matter of subsidizing growth as the principal subject of an investigation or report. This was somewhat surprising and left us with few good templates to following in the current project. However, it was the dearth of such studies and related information was one of the primary reasons for engaging in this project in the first place. Thus, the lack of related literature helps to confirm the need for this project. Obviously growth is being actively subsidized in communities throughout the country. The fact that these subsidies pass unnoticed by the public contributes to their continuation. Better information, awareness and understanding should result in better public policies and decision about the use of public funds to induce local growth.

Most of the relevant literature related to growth subsidization fell under the broad heading of economic development. While there are thousands of articles on this topic, articles that provide useful analysis of economic development policies are rare. Some databases returned an exceedingly large number of records and searches were refined by publication type, date or search term to limit the results to more useful records. Overall, the general interest publications, such as newspapers, returned a larger number of records but fewer useful records.

ACADEMIC RESOURCES

Oregon State University, Valley Library

Database name and results:

Oasis (Library catalogue)-Forty-eight records, three useful.
Business Source Elite-Thirty-seven records, one useful.
ABI/Information-2008 records, refined search to 313 records, none useful.
Business Dateline-Eight records, four useful.
NTIS-147 records, seven useful.
CAB-853 records, refined search to twenty-three records, none useful.

Western Oregon University, Hamersly Library

Database name and results:

Business Source Elite-Thirty-seven records, one useful.
EconLit-1012 records, refined search to forty-three record, one useful.
Oregonian (also included Wall Street Journal)-Number of records not displayed (exceeded 100), none useful.
Article First-Six records, none useful.
World Cat- Twenty-one records, one useful.
Academic Search Elite-Over 5000 returns, refined search to 146 records, five useful.

Oregon Economic and Community Development Department

A summary of state business incentive programs and other publications were identified through an OECDD contact and the agency web site.

INTERNET SEARCH

Keyword search using the following Internet search engines.

- Yahoo.com
- Google.com

Internet Search Terms

growth, subsid*, tax incentive*, enterprise zones, urban renewal, marketing incentive*, export incentive*, tax abatement, and economic development. Where necessary these terms were combined with "Oregon" to limit the field of results. (Note that the use of a "*" above indicates that all word endings are included in the search.)

The Google site was much more productive than Yahoo. A summary of the Google search results is shown below in Figure B-1.

Figure B-1

Internet Search Report: Google.com Search Engine

6/15/01

Search terms and results:

- growth subsidy – 23 hits (reviewed all, limited usefulness)
- tax incentive – 27,300 hits
  + Oregon – 1,370 hits (reviewed first 80)
- Enterprise zone – 72,400
  +Oregon – 2,190
    + growth – 1,160 (reviewed first 30)
- Urban renewal + Oregon – 4,940
    + growth – 2,150 (reviewed first 30)

- marketing incentive – 1,170
  + Oregon + growth – 17 hits (none applicable)

- tax abatement – 22,400
  +subsidy – 1,320 (reviewed first 20)
  + growth subsidy – none
  + Oregon + growth – 459 (reviewed first 30)

- economic development + growth – 667,000 hits

- economic development + subsidy – 60,000
    + Oregon – 3,350
- economic development + growth subsidy – 3 (all foreign)

PROFESSIONAL CONTACTS

Professor Bruce Weber, Economist, Oregon State University

Recommended an institutional contact but knew of no recent work in Oregon.

Professor Anthony Rufolo, Economist, Portland State University

Published an annotated bibliography with eight useful articles listed.

Professor Russ Beaton, Economist, Willamette Univ.

Discussion did not yield any additional references.

Dr. William Boyer, Author/Activist, Bend

Emailed ideas on subsidies and provided feedback on land use windfalls. No additional references provided.

Dr. Roland Stephen, NC State University

Email contact did not produce any new references. Followup phone calls unsuccessful.

OTHER REFERENCES, INDEXES AND JOURNALS

In addition to database searches and professional contacts, the references of useful academic articles were examined and the indexes of the academic journals, ***Growth and Change*** and ***Journal of Urban Economics*** were reviewed. This proved to be an effective method for locating articles which analyze the effects of economic development programs.

Appendix C
Economic Development Programs *Not* Included as Growth Subsidies

Certain publicly-funded programs may promote economic development but not be considered in this section due to the selection criteria used in this study. Some examples of ***excluded*** programs are presented here for illustration purposes. A brief description of these programs and the rationale for their exclusion follows.

The selection criteria is based on the growth subsidy definition used in this study:

> A *growth subsidy* is a net economic benefit conveyed by state or local government directly to a private business entity which acts primarily to encourage and stimulate growth in land development. (See the main report for additional explanation and criteria.)

STATE PROGRAMS

Tax Incentive Programs

Numerous income and property tax breaks are given to farming, timber, mining, and cemetery operations. Although the tax breaks may affect the development of these industries, in most cases they do not lead to land development, construction, and new employment that is the focus of this report. The land use that results from the establishment and continuation of these industries generally provides some protection (however imperfect) of open space. Accordingly, the tax breaks favoring these industries are not included in this report.

Corporations receive a few tax breaks related to employee benefits, such as stock ownership plans and worker's compensation. Although these tax breaks reduce the

cost of labor and may increase employment, they are not included because their primary purpose is to directly benefit employees.

Not-for-profit corporations constitute a significant part of Oregon's economy and are beneficiaries of numerous government programs. When these programs are directly related to growth, such as tax breaks for groups to construct housing, they are included in this report. When the programs are not directly tied to growth, such as income tax exemptions for religious organizations, they are not included.

For-profit corporations receive dozens of tax breaks in Oregon, such as an exemption from property taxes on inventory, that are valuable and promote business in general. If these tax breaks act primarily to encourage land development they are included. If they act only to support general business activity or encourage a particular industry without necessarily stimulating growth, these are not included in this study.

When state and federal property is leased to private parties, property tax is then due on the leased land. This property tax is often waived on the basis that collecting the tax would simply reduce the amount the private party would pay for the lease. Types of properties that receive this tax break are docks, airports, oyster growing facilities, and recreation areas. The value of these tax breaks is not included in this report because it is assumed that most of the tax break is made up through higher rents.

New Housing for Low Income Rental

Newly-constructed rental units for low-income people may be exempt from property taxes for up to twenty years. This exemption also varies from partial to full depending on the number of taxing districts that approve the exemption. The owners may be for-profit businesses. About half of the properties using this exemption are in Eugene. These were not included because rental rates must reflect the full property tax reduction, so all benefits are passed on to tenants.

War Veterans in Nonprofit Elderly Housing

This program provides property tax exemptions for nonprofit corporations housing war veterans and their spouses provided that they pass the value of the tax break through to the residents. As with other programs that reduce the cost of housing this exemption is expected to increase housing construction. However, since the benefit is passed through to the tenants, it is not included.

Marine Navigation Improvement Fund

This fund is primarily used for dredging navigable waterways and is administered by the OECDD. It is related to the department's responsibility for port development. These infrastructure projects are not closely tied to new land development and generally serve a broad public interest.

Water/Wastewater Fund

This program offers loans and grants to local governments to construct and improve systems in compliance with the federal Safe Drinking Water Act and the Clean Water Act. This programs was not included because the purpose was primarily to comply with Federal law and health standards.

Safe Drinking Water Revolving Loan Fund

This program also provides loans to communities and nonprofits to make water systems compliant with federal standards. It was formed with federal funds, which were not included in this study.

Targeted Training Fund and Key Industry Training

These funds are used to establish training programs to serve specific industry needs. However, the training is generally provided through community colleges and is

available to the general public even though enrollment may be targeted to industry employees.

Business Retention Services

This program provides unsecured loans up to $5,000 for businesses in crises to hire qualified business consultants. The purpose is to prevent business closings, not specifically to encourage growth.

Small Scale Energy Loan Program

This is another loan program. It was started in 1981 by the Office of Energy to make loans to individuals, businesses, state agencies and other government jurisdictions for projects to conserve energy or produce energy from renewable resources. These projects would reasonably lead to growth in energy distribution or reduce the cost of operating a facility. However, the main purpose of this program is resource conservation and not economic development, so the cost was not included as a growth subsidy. The program is self-supporting with administration and loss reserves being paid for by revenue from interest payments. The program made approximately $5.5 million in new loans in FY2000 and had a total of approximately $150.8 million loans outstanding as of June 30, 2000. Amounts are not available directly for loans that lead to new development or infrastructure but the Office of Energy Finance Officer examined the large (about one million dollars or larger) outstanding loans and estimated that approximately $59.8 million was loaned to businesses. The loan rate was 7.25%, which is 1.3% below the average prime rate of 8.55% for FY 2000. This net interest savings to businesses represents the "opportunity cost" of the loans to state government and yields an estimated program cost of $777,000.

LOCAL PROGRAMS

Economic/Business Improvement Districts

An economic or business improvement district is a type of assessment district in which the affected property owners chose to be assessed a fee, in addition to usual property taxes, that is collected by the cities and spent on improving the district. Since the fee is in addition to usual taxes, these expenditures are not included in this study. Any general fund expenditures on behalf of the improvement districts are included in this study.

Neighborhood Improvement Finance Programs

The City of Portland has three business loan programs that do not target job creation: Deferred Loan, Seismic Loan, and Storefront Improvement. The purpose of these programs is to enhance the neighborhood visually or increase safety, not to promote growth.

Community Development Block Grants

This is a federal program to provide funding for a variety of local improvements and economic development projects. Funds are distributed by the OECDD. Programs are not included since the funds originate at the federal level.

Appendix D

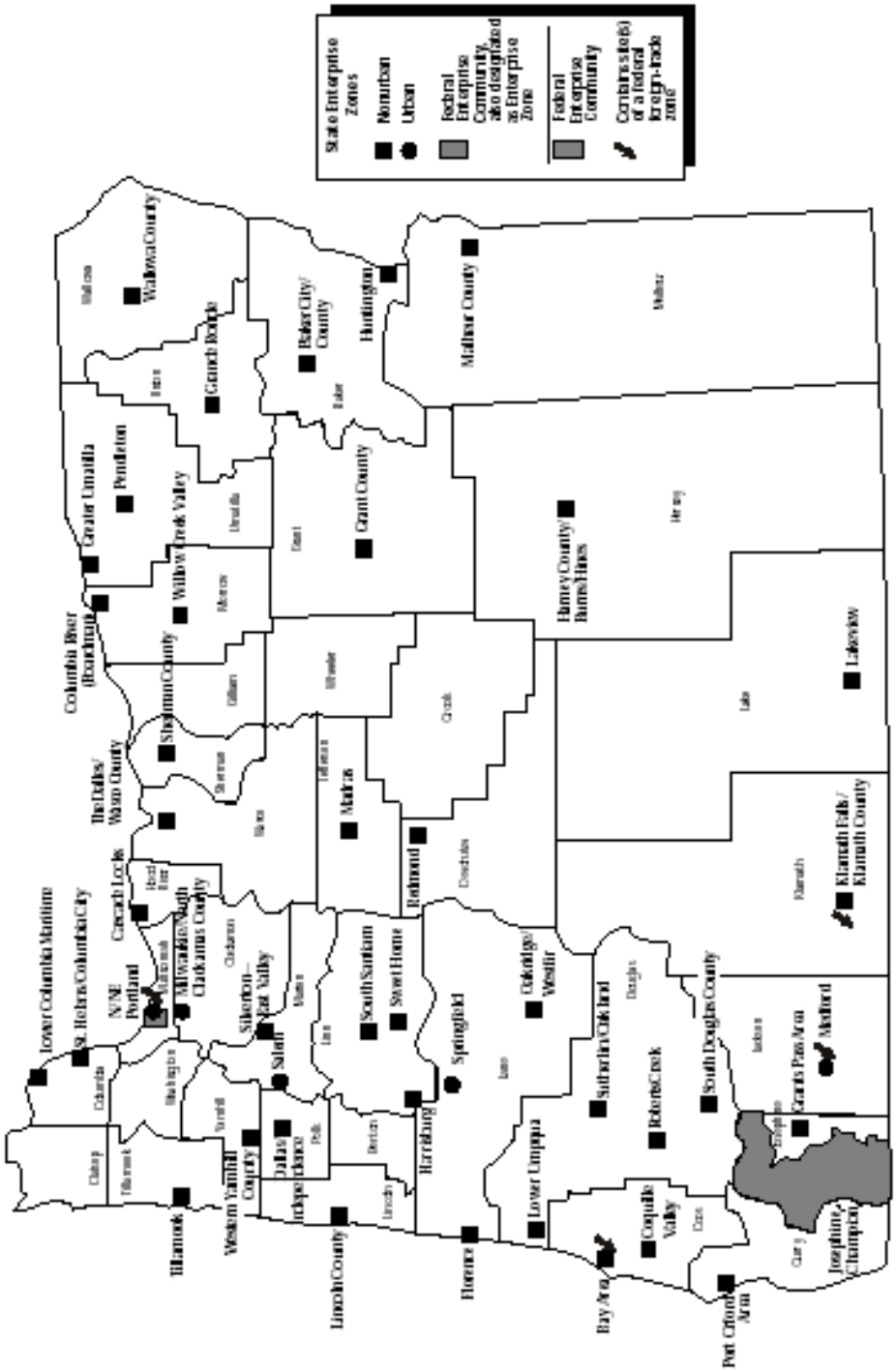
Illustration of Property Tax Cost Burden of Future Growth Occurring Over Next 20 Years On Year 2000 Established Residents and Businesses (Assumes all costs financed through 20-year bonds*)

Year	Population Based on Growth at Historic Rate of 1.9%/yr**	Percent of Property Taxes Paid by Year 2000 Residents and Businesses	Percent Property Taxes Paid by Growth Occurring after 2000	New Bond Issue Necessary to Cover Costs of New Growth Each Year (starting with $1000)	Total Value of Outstanding Growth Bonds	Total Annual Bond Repayment Cost	Annual Growth Costs Paid by Year 2000 Residents and Businesses
2000	100	100.0%	0.0%	$0	$0	$0	$0
2001	102	98.1%	1.9%	$1,000	$1,000	$50	$49
2002	104	96.3%	3.7%	$1,019	$2,019	$101	$97
2003	106	94.5%	5.5%	$1,038	$3,057	$153	$144
2004	108	92.7%	7.3%	$1,058	$4,115	$206	$191
2005	110	91.0%	9.0%	$1,078	$5,194	$260	$236
2006	112	89.3%	10.7%	$1,099	$6,292	$315	$281
2007	114	87.7%	12.3%	$1,120	$7,412	$371	$325
2008	116	86.0%	14.0%	$1,141	$8,553	$428	$368
2009	118	84.4%	15.6%	$1,163	$9,715	$486	$410
2010	121	82.8%	17.2%	$1,185	$10,900	$545	$451
2011	123	81.3%	18.7%	$1,207	$12,107	$605	$492
2012	125	79.8%	20.2%	$1,230	$13,337	$667	$532
2013	128	78.3%	21.7%	$1,253	$14,590	$730	$571
2014	130	76.8%	23.2%	$1,277	$15,868	$793	$610
2015	133	75.4%	24.6%	$1,301	$17,169	$858	$647
2016	135	74.0%	26.0%	$1,326	$18,495	$925	$684
2017	138	72.6%	27.4%	$1,351	$19,847	$992	$721
2018	140	71.3%	28.7%	$1,377	$21,224	$1,061	$756
2019	143	69.9%	30.1%	$1,403	$22,627	$1,131	$791
2020	146	68.6%	31.4%	$1,430	$24,057	$1,203	$826
Cumulative Totals:				$24,057			$9,183

* Assumes a $1000 bond issued in first year to cover growth costs. Annual bond issues increases each year to match size of population increase for that year. All bond costs are amortized over 20 years. To simplify the model, all cost are in 2000 dollars and interest rates, bond financing costs and depreciation are assumed to be zero.
** Oregon grew at an average annual rate of 1.9% from 1990 to 2000

Appendix E

OREGON ENTERPRISE ZONES



Appendix F

SURVEY QUESTIONNAIRE FORM
LOCAL ECONOMIC DEVELOPMENT PROGRAMS

Thank you for your assistance. I am collecting information on the programs that local governments have to promote economic development. Collecting this information directly from the individual jurisdictions is difficult due to differing organizational structures and diffuse responsibility for economic development programs.

In the table below I have listed several types of programs that local governments may operate to promote economic development. I would appreciate your help in describing the particular programs offered by local governments in your area. In many cases you may not know the amount spent on a program but if you can provide the name and contact information of the program administrator I can determine the amount from them.

Please do not list programs that are Federal or State administered/monitored such as Enterprise Zones, Strategic Investment Program, Construction in Progress Program, and State financing programs such as IDR bonds, Capital Access Program, Oregon Business Development Fund, Oregon Bond Bank, etc.

Program Type	Program Name	Total Expenditures for FY 2000	Percent Publicly Funded	Program Administrator	Contact Information
Employee Screening					
Workforce training					
Urban Renewal Districts					
Marketing Assistance					
Export Assistance					
Transportation					
Permitting/ Siting Assistance					
Fee Waivers					
Other					

Appendix G

ESTIMATED TOTAL SDC REVENUES FROM RESIDENTIAL DEVELOPMENT

SDC revenues must be deducted from the infrastructure costs to obtain a net cost to local government. This can be estimated using the housing construction data and average SDC charges based on a recent survey or Oregon cities. Table 5-6 show that estimated statewide SDC revenues from residential development were approximately $143 million. The actual amount of SDC revenues is almost certainly lower than this figure, since the survey data was skewed toward larger cities that are likely to make greater use of these charges than smaller cities or counties.

Table G-1
Estimated Total SDC Revenues from Residential Development
Oregon, 2000

Residential Type	Number Units Built in 2000*	Associated SDC Charges per Unit**	Statewide SDC Revenues
Single Family	15,619	$7,751	$121,062,869
Multi-unit	4,258	$5,116	$21,783,928
Total:	19,877		**$142,846,797**

* Source: US Census
** Based on survey of 18 Oregon Cities by City of Eugene, January 2001. SDC administrative fees are not included in these totals. Assumes multifamily unit SDCs are two-thirds the level for single family units.

Endnotes

1. 1999 Oregon Annual Social Indicators Survey (OASIS) by the University of Oregon Survey Research Laboratory . The survey was conducted from the middle of November to early December, 1999 and asked opinions from a random sample of 420 Oregon residents over the age of 18. The survey results accurately represent the opinions of Oregonians with a maximum error of plus or minus 4.8%. Responses to the question, "Oregon's population is..." were: about the right size – 65.4%; too large – 29.3%; too small – 2.4%; don't know/no answer – 2.9%.

2. ***2001 Metro Public Opinion Study*** by Davis and Hibbitts, Inc., May 2001, showed that 54% of respondents think Metro and their local governments "ought to try to slow growth down." ***City of Eugene Community Survey*** (Conducted January 5-19, 1999 for the City of Eugene by Advanced Marketing Research.) asked "Do you believe population growth and development in Eugene during the past 10 years has been too fast, too slow, or just about right? Responses: Too fast – 56%; Just about right – 37%;Too slow – 3%; Don't know – 5%.

3. Dictionary definitions of "subsidy":

> "Monetary assistance granted by a government to a person or group in support of an enterprise regarded as being in the public interest." – ***American Heritage Dictionary of the English Language, Fourth Edition 2000***
>
> "a grant by a government to a private person or company to assist an enterprise deemed advantageous to the public" – ***Merriam-Webster OnLine Dictionary***
>
> "a direct pecuniary aid furnished by a government to a private industrial undertaking, a charity organization, or the like." – ***Infoplease.com***

4. Bartik, Timothy J., "Who Benefits from Local Job Growth, Migrants or the Original Residents?" ***Regional Studies*** vol. 27, No. 4, 1993, p. 297-311.

5. *Corporate Welfare*, ***Time Magazine***, a special 18-month investigation by Donald L. Barlett and James B. Steele, November 1998.

6. **Who Benefits from State and Local Economic Development Policies**, by Timothy J. Bartik, W. E. Upjohn Institute for Employment Research, Kalamazoo, MI, 1991.

7. ***Literature Review of Business Development Tax Incentives***, by Anthony M. Rufolo and J. O"Shea Gumusoglu, for the Oregon Department of Economic Development, April 1995.

8. *Incentives are Important, Executives Say, but Business Concerns Drive the Location Process*, by Jack Lyne, ***Site Selection***, Document 41150, April 1992, p. 1-4.

9. **Book Review-Who Benefits from State and Local Economic Development Policies?**, by Therese J. McGuire, ***National Tax Journal***, Vol. 45 No. 4, December 1992, p.457-459.

10. *Enterprise Zones are No Solution For Our Blighted Areas*, by Sar A. Levitan and Elizabeth I. Miller, ***Challenge***, Vol. 35, No. 3, 1992, p.4-8.

11. *Regional Economic Activity and Petroleum Industry Incentive Policies: Utah's Uintah Basin*, by Kevin T. Duffy-Deno and M. Henry Robison, ***Growth and Change***, Vol. 26, Fall 1995, p. 553-572.

12. *A "Good Business Climate" as Bad Economic News?*, by William R. Freudenburg, ***Society and Natural Resources***, Vol. 3, 1990, p. 313-334.

13. ***The Political Logic of Economic Development***, by Roland Stephen, Department of Political Science and Public Administration, North Carolina State University, Raleigh, NC
http://www2.chass.ncsu.edu/stephen/incentmain.html

14. *The Economics and Politics of Tax Increment Financing*, by David B. Lawrence and Susan C. Stephenson, **Growth and Change**, Vol. 26, Winter 1995, p. 105-137.

15. **Can Local Incentives Alter a Metropolitan City's Economic Development?**, by Robert W. Wassmer, ***Urban Studies***, Vol. 31, No. 8, 1994, p. 1251-1278.

16. Ibid #2.

17. Ibid #3.

18. *Sunny Sessions for Business: Incentives Soar, Taxes Slashed*, by Tim Venable, ***Site Selection***, Conway Data, Inc., (GeoTEAM/Fax, Document #43243), October 1995, p. 1-5.

19. ***2001 Metro Public Opinion Study*** by Davis and Hibbitts, Inc., May 2001. When asked who should pay the cost of growth, 40% felt developers and new home buyers should pay all of costs associated with infrastructure, 33% felt new growth should pay a greater share, and 21% felt that the costs should be shared equally (6% don't know).

20. For more information on this topic see ***Cost of Growth in Washington***, by Fodor & Associates for Columbia Public Interest Policy Institute, Bellevue, WA, 1-888-200-6160, www.columbiapolicy.org and ***Better, Not Bigger***, *Chapter 5*, by Eben Fodor, New Society Publishers Gabriola Island, BC, Canada, 1999, 1-800-567-6772, http://www.newsociety.com.

21. Buchanan, Shepard C., Bruce A. Weber, *Growth and Residential Property Taxes: A Model for Estimating Direct and Indirect Population Impacts*, ***Land Economics***, Vol. 58, No. 3, August 1982, p 324-337.

22. ***Local Government Infrastructure Study: Washington Faces a Critical Problem Funding Infrastructure***, State of Washington Public Works Board, Authorized by the Washington State Legislature, 1998.

23. ***The Fiscal Impacts of Growth***, Task 4 & 5 Reports, by Terry Moore of Econorthwest, Galardi Consulting, et al, for the City of Portland, Oregon, August 1999. This report is based on a complicated model which is not fully explained in the report. As a result, it is difficult to draw useful conclusions or determine policy implications beyond those mentioned here.

24. ***Fiscal Impact Analysis Relating to City Growth and Annexations***, by John Tapogna and Terry Moore of Econorthwest, for the Community Development Department, City of Salem, January 2001.

25. This capital cost figure is from the *City of Salem Operation, Maintenance and Capital Needs* summary tables provided by Salem Mayor Mike Swaim, October 15, 2001. It does not include costs for water and sewer or schools. For reference, Salem had a population of 137,000 in 2000.

26. ***The Cost of Growth in Oregon: 1998 Report***, by Eben Fodor, Fodor & Associates, Eugene, Oregon, October 1998.

27. Based on costs from ***The Cost of Growth in Oregon: 1998 Report*** adjusted to the year 2000 construction costs using the ENR Construction Cost Index.

28. ***The Cost of Growth in Washington State***, by Eben Fodor, Fodor & Associates, for Columbia Public Interest Policy Institute, Bellevue, Washington (www.columbiapolicy.org or 1-888-200-6160), October 2000.

29. ***System Development Charges Community Comparison***, January 2001, Public Works Engineering Division, City of Eugene.

30. This figure is based on private housing units authorized by building permits according to the US Census Bureau. The figures are somewhat lower than totals shown by the 2000 Census.

31. The computer model for the Eugene-Springfield Metro Transportation Plan (TransPlan) calculates that 42% of new travel demand is from residential land uses (see ***The Cost of Growth in Oregon: 1998 Report***, by Eben Fodor, Fodor & Associates, October 1998, page 24). The City of Salem estimates that 40% of new street spending is attributed to residential development (see ***Fiscal Impact Analysis Relating to City Growth and Annexations***, by John Tapogna and Terry Moore of Econorthwest, for the Community Development Department, City of Salem,

January 2001, Table 11, page A-29).

32. Expenditure data obtained from the ***Oregon Highway Cost Allocation Study***, June 1, 1999 and ***2001 Oregon Highway Cost Allocation Study***, from the Office of Economic Analysis, Department of Administrative Services. Expenditures are broken out for "modernization," "preservation" and "maintenance." The term *modernization* is used in this report for new and expanded roads and those figures are reported here. Note that the Oregon Department of Transportation's ***Comprehensive Annual Financial Report for FY 2000*** provided inadequate information to assess growth-related costs. The budget reports only total expenditures on "construction projects" and does not break out funding by federal and state sources for the various expenditures.

33. ***Audit Report-Oregon Economic and Community Development Department: Evaluation of Performance Measurement Practices***, Oregon Secretary of State, Audits Division, Report No. 2001-15, April 17, 2001.

34. ***State of Oregon 2001-2003 Tax Expenditure Report***, Budget and Management Division, Department of Administrative Services, 155 Cottage St. N.E., Salem, OR 97310.

35. Figures for FY 2000 expenditures were provided by Gregory Kramer, Research Section, Department of Revenue. Biennium figures were obtained from various sources including ***State of Oregon 1999-2001 Tax Expenditure Report***, Budget and Management Division, Department of Administrative Services, 155 Cottage St. N.E., Salem, OR 97310.

36. ***State of Oregon 1999-2001 Tax Expenditure Report***, Budget and Management Division, Department of Administrative Services, Salem, Oregon.

37. ***Tax Expenditure Report***

38. Opportunity costs for below-market-rate loans was calculated using the average prime rate as a reference (see Federal Reserve Bank of St. Louis, www.stls.frb.org/fred). The average prime rate for FY 2000 was estimated by using an average weighted by the number of months that the rate remained at each value. The Treasury bond rate, used as a reference for below-market-rate bonds, was an average of the rates reported for each month of FY 2000.

39. Expenditures for business finance programs administered by Oregon Economic and Community Development Department were from internal budget documents supplied by Janet Rafalovich, Fiscal Services Manager, OECDD, Salem OR, unless otherwise noted.

40. Opportunity costs for below-market-rate loans was calculated using the average prime rate as a reference (see Federal Reserve Bank of St. Louis, www.stls.frb.org/fred). The average prime rate for FY 2000 was estimated by using

an average weighted by the number of months that the rate remained at each value. The Treasury bond rate, used as a reference for below-market-rate bonds, was an average of the rates reported for each month of FY 2000.

41. Statewide data on Urban Renewal Districts is from ***Oregon Property Tax Statistics, FY 1999-00***, provided by the Research Section of Department of Revenue.

42. Gary Cook, Clackamas Development Agency, Personal communication.

43. Fred Atima, Portland Development Commission, Personal communication.

44. Memo from City of Eugene, Planning Division, "Land Use Applications Received" undated (faxed by city on 9/18/01).

45. See ***2001 Urban Mobility Report*** by the Texas Transportation Institute, Texas A&M University System, College Station, Texas (available at http://mobility.tamu.edu/).