Eric Fruits, Ph.D.
Vice President of Research
eric@cascadepolicy.org

4850 SW Scholls Ferry Rd., Suite 103
Portland, OR 97225

www.cascadepolicy.org
503-242-0900

Via Email
September 30, 2020

Council President Lynn Peterson
Deputy Council President Juan Carlos González
Councilor Shirley Craddick
Councilor Christine Lewis
Councilor Craig Dirksen
Councilor Sam Chase
Councilor Bob Stacey
Metro
600 NE Grand Ave
Portland, OR 97232

Re: Reject Ordinance 20-1449 and delay implementation of Supportive Housing Services income taxes

Dear Council President Peterson, Deputy Council President González, and Councilors:

I urge Metro Council to reject Ordinance 20-1449. More importantly, I urge Council to delay implementation of Metro's Supportive Housing Services income taxes that are scheduled to go into effect January 1, 2021.

Outrageous implementation and collection costs

The ordinance would authorize the sale of up to $28 million in revenue bonds. The funds would be used to implement, impose, and collect Metro's new personal and business income taxes. When Metro was considering these taxes, I warned you that the implementation and collection costs would be huge. In one forum, Councilor González agreed with my estimate of $15-20 million. We both were wrong—$28 million is a staggering sum far in excess of even the most aggressive expectations.

The amount is all the more outrageous because Council President Peterson repeatedly gave the impression that the City of Portland's collection system was already in place and wouldn't require significant additional expenditures. In addition, last week Metro's posted a FAQ for the taxes that claims:

The City currently administers business taxes for Portland and Multnomah County, as well as other taxes. The City also has experience administering the Multnomah County personal income tax ("ITAX", 2003-2005). The City has the experience, the technical capability and a scalable team to allow for collection of these taxes for Metro.

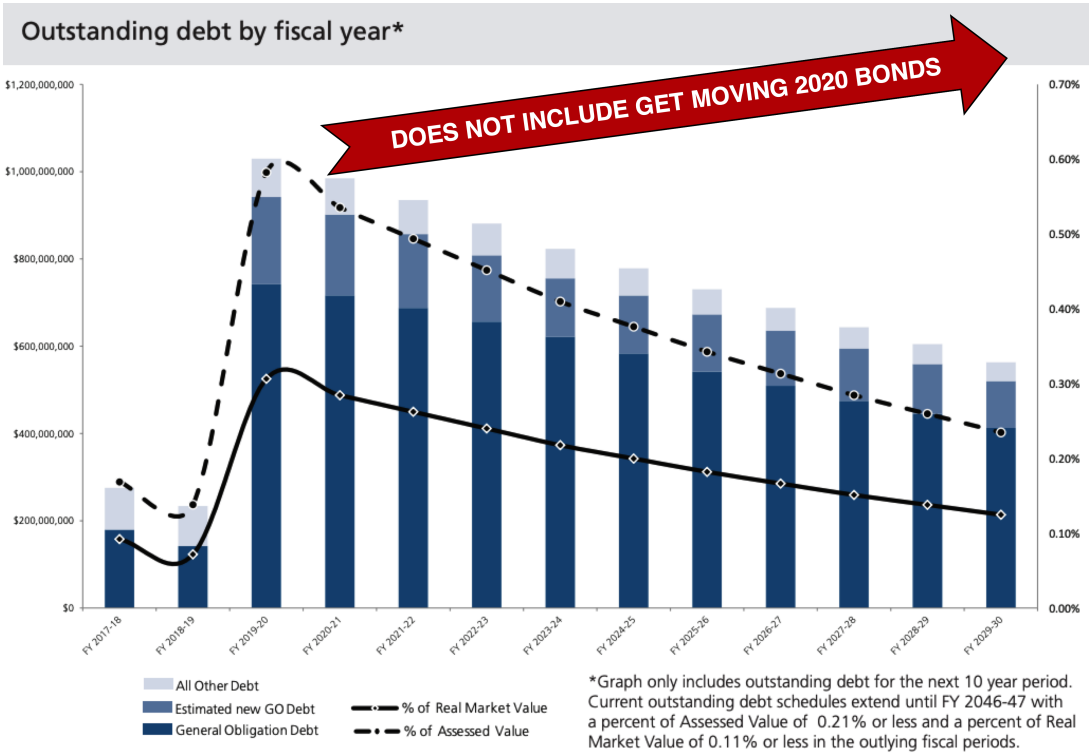
Metro is deep in debt and getting deeper

Perhaps even more outrageous than the dollar amount is the fact that Metro is in such dire financial condition that it must turn to the bond market to borrow the money.

As you know, since this Council took office in 2019, Metro's debt has more than quadrupled and currently has more than $1 billion in outstanding debt. Approximately 1-in-6 dollars spent by Metro goes toward debt service. Every dollar spent on debt service is a dollar that can't be spent on the core services voters expect Metro to perform.

During Metro Council meetings to refer the "Get Moving 2020" payroll tax to voters, Council President Lynn Peterson indicated if the measure passes, she intends Metro to "immediately" issue bonds backed by the anticipated payroll tax revenues. While she doesn't say how big the bond issue would be, it could easily double Metro's outstanding debt to something more than $2 billion.

While waiting for the payroll tax revenues to roll in sometime in 2022, Metro will again be under enormous pressure to raise taxes, fees, and charges just to cover the increased debt service costs. How much do you think you can raise taxes on your voters before they say, "Enough is enough"?



Metro's revenue bonds are no "gold standard" of quality

You should pay special attention to the staff report for Ordinance 20-1449. It claims, "Metro currently carries bond ratings of 'AAA,' the gold standard, from Moody's Investor's Service and S&P Global Ratings." This is not entirely truthful as it conflates the bond ratings on Metro's *general obligation* ("GO") bonds with the ratings on its *revenue* bonds. Because Ordinance 20-1449 would authorize the sale of revenue bonds, Metro's GO bond ratings are irrelevant.

According to the 2020-21 fiscal year budget you approved, Moody's rates Metro's revenue bonds as "Aa3," which is not "the gold standard." In fact, "Aa3" is the weakest of Moody's high quality ratings, which is four steps below the strongest creditworthiness and only one step "above average."

Metro's revenue bonds are tied to transient lodging tax revenue associated with the Convention Center Hotel. The New York Times mentions the Convention Center while reporting about the pandemic-related plunge in convention hotel travel that has put municipal bonds, such as Metro's, at risk of default.

You are taking an unnecessary risk authorizing revenue bonds at this time, with no assurance of how much revenue will be generated by the income taxes.

Metro's misplaced priorities and mismanagement

Metro gets 57% of its revenues from running commercial enterprises (CAFR, p. 17). These revenues include fees from solid waste disposal at Metro's two transfer stations and MERC revenues at four visitor venues: Oregon Convention Center, Oregon Zoo, Portland'5 Centers for the Arts, and Portland Expo Center. Less than 30% of Metro's revenues come from property and excise taxes.

Over the past few years, Metro has been running these enterprises into the ground. In the 2017-18 fiscal year, Metro's commercial enterprises provided nearly $10 million in income to support the agency's other operations and programs. However, in 2018-19—when the economy was still booming and the current council took office—Metro's business activities managed to *lose* money. The pandemic has made things worse. In this fiscal year, Metro expects its commercial enterprise to lose nearly $40 million.

Metro has completely misplaced its priorities. Instead of focusing on its core obligations, it has spent the last two years expanding its mission by chasing expensive new programs funded with new and increasing tax burdens on its constituents.

Reject Ordinance 20-1449 and delay implementation of Supportive Housing Services income taxes

This Council must step back from the messes it has made for itself and Metro as a whole. Spend your next two years recovering Metro from the pandemic's financial hit and focusing on the organization's mission, not its mission creep.

There is no reason to charge full speed ahead on the Supportive Housing Services measure. You're not missing out on federal matching funds. There's no major infrastructure project that'll be put on hold. You'll be giving a much needed break to your tax weary and struggling constituents. And, you'll save yourselves from being known as the Council that created the most hated tax since Portland's Arts Tax.

Respectfully submitted by,

Eric Fruits, Ph.D.