# Oregon Public Banking Alliance

*Our Money, Our Future* www.oregonpublicbanking.com

## Public Banking & State Infrastructure

**Oregon has a Big Infrastructure Problem. Could a public bank help?**
The recent amended budget forecast for ODOT's Rose Quarter project has state officials scrambling to develop a plan to make up the gap between the project's initial cost estimate of around $500 million to the eye-watering number reported at the commission's September 2022 meeting of more than $1 billion.

Rural Malheur County's shipping depot project has now been indefinitely suspended after the $26 million budgeted isn't enough to construct its main building; a blow to processing costs for the region's farmers and eliminating an anchor project for major industrial development, as well as many as 300 jobs. They were unable to find a private lender for the shortfall of $4 million to complete the project.

In addition, huge portions of infrastructure budgets go to pay back interest on loans and bonds—frequently as much as 50% of payback budgets go to interest alone. Federal and state-funded block grants are limited compared to the potential of leveraging those funds through state credit. In the current economic climate, we can be sure that interest costs for newly financed projects will increase.

***Can public banks support better infrastructure?***
Public banks can help correct market failures that limit municipalities' ability to acquire affordable financing for infrastructure development. One such failure is the lack of markets and commercial financing for small-scale infrastructure projects, which may result from private sector capital constraints and unwillingness to lend. Municipalities, especially rural communities, often struggle to obtain private sector loans or issue bonds for small, unglamorous, yet critical infrastructure.

Wall Street Banks that underwrite most municipal bonds have outsized power to set the terms of bond deals, and they typically do so in a manner that guarantees profits for themselves and bondholders, at taxpayers' expense. Financial staff for many state and local governments view and treat bond underwriters as de facto advisors, even though they are not legally required to put taxpayers' interests above their own bottom line.


**For specific questions or concerns, please contact:**
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**What strategies should a public bank consider when financing infrastructure?**
The task force will provide the opportunity for deep inquiry and cost benefit analysis when addressing public infrastructure financing. Should infrastructure investment be commingled rather than separated by sector to enable cross-subsidization? Could pooling municipal capital and resources into an umbrella institution such as a state bank help local governments access cheaper financing and improve their ability to compete for federal and state grants? What are the best strategies for the state bank to have public-centered profit motive, market discipline, political independence, and good governance?

**Is there a cost to doing nothing?**
Institutional change is almost always avoided in favor of sticking with the status quo. However, in these times of increasing public challenges, economic uncertainty, and insufficient funding, we should explore financial tools that will provide more value for our public dollars and raise revenue without increasing our tax burden.

A task force could also explore re-finance options and structures to consolidate current public debt payments in Oregon. The cost of doing nothing is amply displayed in the current ongoing debt payments, as well as the future increasing costs of credit while we need major investments to uphold quality of life.

*In 2019, Oregon paid $581 million dollars in interest payments while Portland paid $110 million and the University of Oregon paid $32 million in the same year. *Most recent Comprehensive Annual Financial Report (CAFR) or Audited Financial Statements (AFS).*

Meanwhile, due to collateralization requirements, many of our local and state funds are deposited with out-of-state banks in addition to those banks providing checking services. Four Major Banks used frequently by Oregon Municipalities: US Bank, Bank of America, Wells Fargo, and JP Morgan Chase all rank as insignificant investors in small business and small farm lending according to BankLocal.info.

This task force could explore how a state bank could help facilitate increased partnerships with community banks and credit unions while decreasing our affiliations with large out-of-state banks.