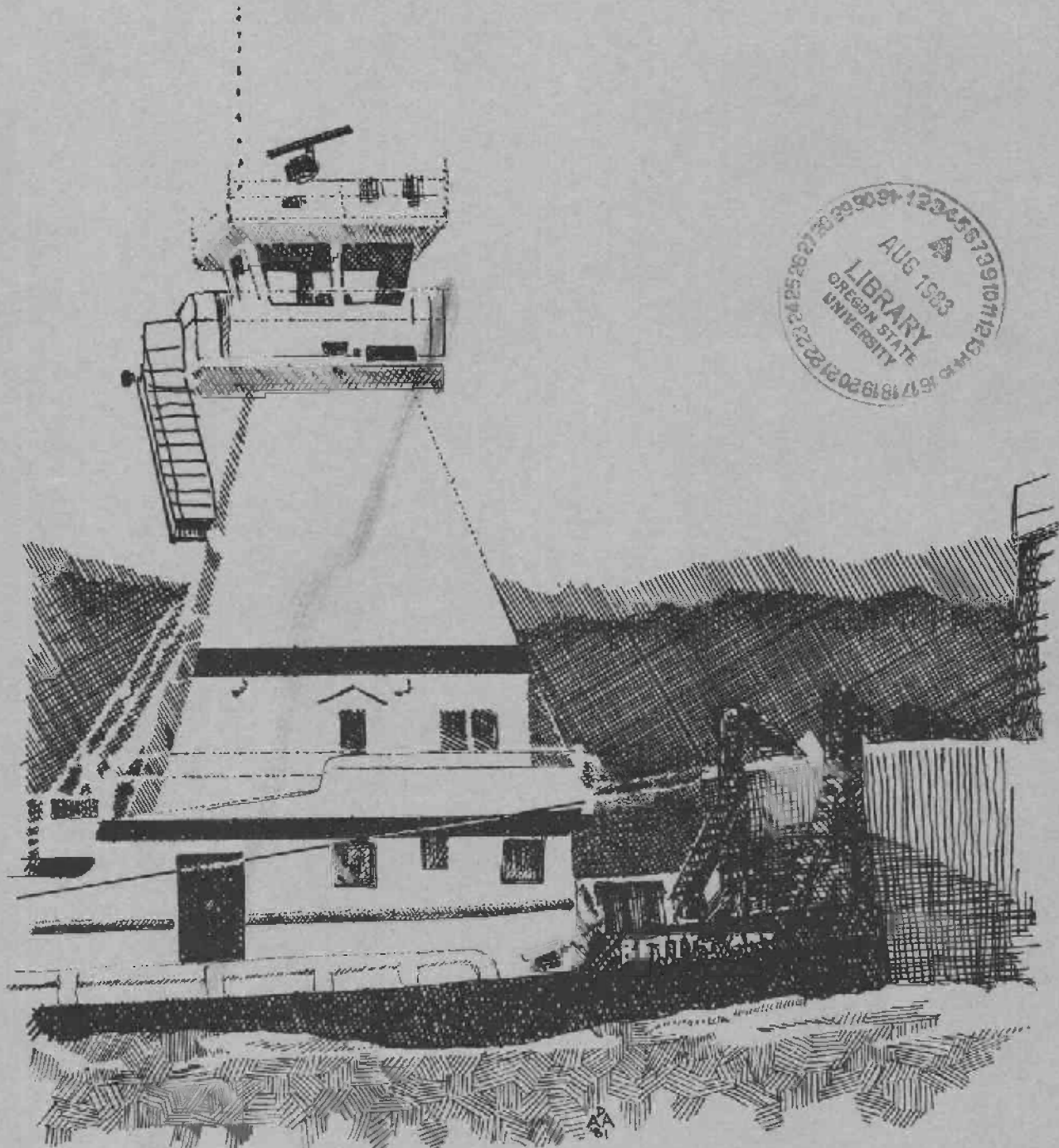


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# Economic Development Tools for Oregon Ports

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## Economic Development Tools for Oregon Ports

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The principal function of many Oregon ports is to help bring economic development to their districts. Oregon ports have some powerful tools that can be used to increase community income, reduce unemployment and stabilize the local economy.

This special report illustrates six tools that Oregon's 22 smaller ports may use to promote economic growth within their political boundaries. The six economic development tools are: (1) bond financing, (2) loans and grants, (3) commercial loans, promissory notes and warrants, (4) direct promotion, (5) land and industrial park development, and (6) projects of the U.S. Army Corps of Engineers. Ports in other states and the Port of Portland have many of the same tools, depending upon local and state statutes. An understanding of these six economic development tools will help you make more effective use of your port as an organization for economic development.

However, the use of these six tools alone will not increase your community income, reduce unemployment, or stabilize your local economy. You must also use good planning, good management, and intelligent financing. You must think about the appropriate and rational kinds of economic development for your community. You must be aware of your port's statutory authority, community support, industrial relations, and financial status.

Although the information presented in this report is directed to port officials, it will also be of value to interested citizens, state and local planning officials, economic development groups, and business and industrial leaders.

### Bond Financing

Perhaps the most important economic development tool is bond financing. The issuance of municipal (port) bonds is especially useful for projects requiring large capital expenditures. Your port can issue bonds to finance maritime projects as well as to acquire land and construct facilities for lease or sale to new or expanding firms within your district.

The most important feature of municipal bonds is their tax-exempt status. In Oregon, the interest paid on bonds issued by a port district is exempt from Federal and state personal income tax. If you were an investor, the interest from municipal bonds would be more valuable to you than an equivalent amount of interest from corporate bonds or other fixed income investments. As a result, your port is able to borrow funds at interest rates lower than those available to private borrowers. These low interest rates can then be passed on to private industry as a means of attracting new investment and generating new job opportunities.

Your port may issue both general obligation bonds and revenue bonds. General obligation bonds are backed by the full faith, credit, and taxing power of your port. This means that your port promises to use its full taxing power to ensure that interest and principal payments are made in accordance with the bond's terms. As such, these bonds require voter approval and generally may not be issued in excess of 21/2 percent of the

true cash value of all property within your port district. In an "emergency," however, your port may issue limited term (5-year) general obligation bonds for up to \$50,000 a year without voter approval. The maximum rate of interest either of these general obligation bonds can yield (currently 14 percent per year) is mandated by state law.

The secure backing behind the general obligation bond enables them to receive high ratings and pay low interest rates. Yet their ability to assist in economic development is limited not only by voter approval and debt limitations, but also by use restrictions. For the most part, general obligation bonds can only be used to finance port-related projects from which your entire community may benefit (i.e., navigation improvements, harbor and marina facilities, pilotage service, water commerce-related activities). Ports tend to use this line of financing sparingly; since the early 1970's, only about \$7 million in general obligation bonds has been issued in Oregon.

The revenue bond is not a general obligation of your port district, since it is not secured by the taxing power of your port. Your port district has the authority to issue revenue bonds without voter authorization. Revenue bonds also differ from general obligation bonds in that they may be issued for a wide variety of purposes, including your port's own operations or for the benefit of private industry. Although Oregon statutes permit a broad use of this financial tool, your port district may have its own policies controlling eligibility.

Because of their flexibility, revenue bonds issued by Oregon ports have raised more income for industrial development than any other type of revenue bond. In the past decade, these bonds have generated over \$160

million. By looking at table 1 you can discover how your port district ranks in respect to bond sales. A sample of projects receiving assistance from port revenue bonds includes: pollution control equipment (Port of Astoria), grain elevator (Port of Arlington), salmon ranch (Port of Newport), cold storage plant (Port of Umatilla), and ship repair facility (Port of Coos Bay).

Two types of revenue bonds may be issued by your port: the industrial development revenue bond (IDRB) and the port management revenue bond (PMRB). The IDRB involves a lease or conditional sales arrangement between your port district and the applicant. Under this arrangement, your port retains title to the financed real property and/or equipment during the life of the bonds. For example, to attract a shipyard, your port would sell a bond issue and use the proceeds to construct shipyard facilities. The private shipyard owner would then use the facilities on a lease basis. Its lease payments are used to pay interest and principal on the bonds. Once the bonds have been paid off, the title to the project is sold or transferred to the shipyard owner in accordance with the original agreement.

The debt service on an IDRB is secured only by the earnings of the facility that was constructed from the proceeds of the bond sale. No tax monies or non-tax revenues of your port can be used to retire these bonds. In fact, should the project fail and the lessee default, your port would have no continuing responsibility to provide financial support for the operation. Thus, your port's ability to market the IDRB is dependent solely upon the financial status of the lessee firm.

TABLE 1. Industrial Land Inventory and Bond Generated Capital of Twenty-two Oregon Ports

Port	Owns industrial land	Owns and operates industrial park	Issue Amount of Bonds Currently Outstanding as of March 1983 (thousands of dollars)	
			General Obligation	Revenue
Alsea			\$ 0	\$ 0
Arlington	X		0	5,300
Astoria	X	X	2,200	12,850
Bandon	X		1,515	0
Bay City	X		0	0
Brookings	X		0	615
Cascade Locks	X	X	0	2,550
Coos Bay		X	1,950	5,620
Coquille			0	0
Gold Beach	X		185	0
Hood River	X	X	0	1,660
Morrow	X	X	0	79,686
Nehalem			0	0
Newport	X		2,640	4,399
Port Orford			0	0
St. Helens	X	X	350	36,435
Siuslaw	X	X	0	2,200
The Dalles	X	X	0	3,040
Tillamook	X	X	100	5,699
Toledo	X		0	0
Umatilla	X	X	1,025	7,550
Umpqua		X	50	14,050

Sources: Oregon Public Ports Association, Oregon Port Directory - 1982.  
Oregon State Treasury Department

The PMRB is a relatively new financial instrument (1979) that allows ports to acquire and develop land, or develop land already owned, for such purposes as attracting and providing assistance to new enterprise. In many ways, this instrument is similar to the IDRB. Typically, your port will sell bonds to purchase land and construct a manufacturing plant. The facilities are then leased to a relocating or expanding company for a period of time and at a sufficient rental to service the bond. This arrangement differs from the IDRB in that there is no agreement to convey title of the facility to the tenant. In other words, your port retains ownership of the facility even after the bonds have been paid off.

This approach has two major advantages. First, when your port retains ownership over industrial-commercial areas, you have more control in planning and economic development. Your port will remain in a position to influence the type, size, and timing of new economic activity within the region. Second, by leasing, your port is assured a source of revenue from the site after the bond has been retired (assuming a successful enterprise!). Likewise, the acquisition of property allows your port to build up equity that, in addition to bringing about financial stability, can support new projects.

Given the advantages, you might wonder why your port would choose not to use the PMRB. A closer look reveals that with these advantages comes a degree of financial risk and responsibility not present with the IDRB. If a project fails with the IDRB, your port has no responsibility to pay the outstanding bond service. The debt service on the PMRB is secured not only by the earnings of the project but also by any non-tax derived revenues of your port not already pledged for other purposes. Should the financed

venture result in failure, your port has the legal obligation to meet all principal and interest payments of the bonds.

Prior to making any long-term financial commitment, you should fully assess the benefits and risk of the project to be financed. With professional help, you can use the instrument which best suits your needs and situation.

### Loans and Grants

Loans and grants can also be used to stimulate economic development. Many Oregon ports have used state and Federal loan or grant programs to finance projects, including road construction, sewer systems, water works, and industrial site preparation. While all ports are eligible for such funds, the amount and type of financial aid received is largely influenced by the nature of your proposed project, the jurisdiction of the agency considering the request, as well as your skill and experience in "grantsmanship." To use this line of finance successfully, you must often be willing to spend a good deal of time and effort preparing proposals and fighting for approval.

State agencies that might be able to assist you include the State Marine Board, the Department of Land Conservation and Development, and the State Aeronautics Division. In 1977 the Oregon Legislature created a Port Revolving Fund of \$4 million. You may be able to borrow money from this fund to finance virtually "any port development project."<sup>1</sup> Since its inception the Port Revolving Fund has provided 46 loans totaling \$6.5 million. Of these, over half the loans were taken out to aid private



businesses. Approximately 410 full-time jobs have been created through this program.<sup>2</sup>

The continued success of the Port Revolving Fund has spurred the legislature to amend the original statutes and extend the borrowing power of the ports. Today, you can borrow up to \$500,000 in a one-year period; however, no port may have more than \$750,000 outstanding to the Port Revolving Fund at any one time. The total loan capacity of the Port Revolving Fund has recently been increased to \$7 million. The interest paid on these funds is based on an amount equal to two percentage points over the most recent state general obligation bond issue rate. To assure fair access to this money, which is secured by a lien on any real or personal property of your port district, including the financed project, the terms of repayment must not exceed 10 years. These higher interest rates make the Port Revolving Fund a relatively expensive financial tool when compared with bonds. However, this tool does provide a quick and flexible interim funding vehicle for projects which are not large enough to warrant port-generated bonds.

A wide variety of port projects directly associated with industrial development are eligible for federal assistance. Some of the more recent agencies and programs contributing funds for port development include the Economic Development Administration (water and industrial site improvement), Farmers Home Administration (land leveling, industrial waste disposal system, water and electrical extension), Federal Aviation Administration (airport improvements, land acquisition), and the Land and Water Conservation Fund (landscaping, water systems, marina park improvements).

### Commercial Loans, Promissory Notes and Warrants

In addition to the funding instruments discussed above, your port may borrow money in the commercial market, issue promissory notes, and dispense warrants to finance local economic development. Promissory notes are similar to bonds in the sense that they return a stated rate of interest, mature at a specific date in the future, and can be bought and sold on the open market. However, promissory notes may not exceed terms of 5 years or a debt of \$250,000, and can only be issued for specific development "suitable for use by any industry... or by a commercial enterprise" (i.e., acquisition of land, construction of buildings, and related improvements).<sup>3</sup> Furthermore, notes are secured only by the assets and revenues of the project for which they are intended and are not backed by the full faith and credit of your port. The allowable interest paid on promissory notes is mandated by the same statutes which set the rate for general obligation bonds issued by your port. These restrictions limit the promissory notes application for anything other than short term, low capital projects.

On the other hand, the power to issue warrants presents your port with a unique, but little used, opportunity. This device is a draft on your port district, payable on presentation when funds are available for the purpose specified or at a fixed date with interest. Warrants are a more flexible means of interim financing than promissory notes because Oregon statutes place no limitations upon their amount, term, purpose, or source of repayment.

Given the lack of restrictions, you would expect the warrant to be in common use. Surprisingly, the warrant is seldom used by ports. The greatest strength of the warrant may also be its greatest weakness. The

lack of statutory guidelines and restrictions results in apparent confusion and uncertainty in using warrants. By consulting professional help you may be able to make effective use of warrants to enhance economic development.

### Direct Promotion

Your port has the authority to conduct economic development studies, publish and distribute economic development literature, and to deal directly with potential new enterprises or potential expanding enterprises.

Your port may also provide research and technical assistance to any city, county, or municipal corporation within its district. You can work towards a comprehensive approach to the planning and implementation of economic development within your district. You can ensure that the recruitment and geographic arrangement of new enterprises is in harmony with the region's economy and natural resources.

Lacking the necessary time, expertise, or resources, you may rely on outside sources to assist in needed research. Such sources include: private consultants, university students, local government agencies, Cooperative Extension Service, and Sea Grant. For example, the Port of Toledo contacted the Geography Department at Oregon State University to prepare an investment prospectus on a parcel of waterfront property. A management study was recently conducted for the Port of Brookings by a team of professionals funded through Sea Grant. The Port of Port Orford hired an engineering consultant to assess the feasibility of a boat marina and water-related industrial park.

In Oregon, you can also seek help from the Ports Division of the Economic Development Department. Through its statewide coordinating,

planning, and research efforts, this agency promotes efficient and orderly operation of the ports.

In addition to research and technical assistance, your major role as an economic development agent centers on promoting and "selling" the port district. Having the facilities and organization to accommodate economic development is one thing, but there remains the task of seeking out and providing information to prospective firms. Furthermore, once representatives come to your port district, you must persuade them that the community, its people, and facilities would meet their needs. To accomplish these tasks there are statutory provisions that allow you to engage in promotional activities. Within the realm of "selling" the community, your port may advertise and promote facilities and commerce through public and trade media, exhibits, trade fairs, etc.

#### Land and Industrial Park Development

In the late 1960's and early 1970's, the Oregon Legislature approved several bills that give your port the power to develop and use land specifically for promotion of industrial and commercial enterprise. This port legislation can play a vital role in meeting your economic development objectives.

There are advantages to providing developed, serviced, accessible land for industrial and commercial uses. To many firms, particularly those of a small to medium size, developed sites and industrial parks are becoming a practical and economic answer to the search for more growth space and increased utility needs. Imagine the convenience in locating a plant where the bothersome and costly details associated with zoning, adequate roads,

water and sewer facilities, utility hook-up, and other site preparation tasks have all been taken care of in advance.

Planned industrial site development furnishes your port with a systematic and efficient means to influence the magnitude, structure, and mix of new economic activity. Aside from the obvious benefits of enhancing local employment and community-industry compatibility, this approach can avoid piecemeal location of industry throughout your community. The extension of public services and utilities to such scattered sites can place a heavy financial burden on local government units. Likewise, planned development is also capable of reducing industrial nuisances, thus promoting harmony between industry and surrounding land uses. In the long run, such unity creates a better business climate for future economic growth.

Your port possesses a number of tools with which to undertake commercial land development. Specific authorization includes the following:

- 1) Acquire and develop land as a site for a single industry or an industrial park.
- 2) Construct and operate necessary services (water, power, sewage, etc.) incidental to development of a site.
- 3) Construct buildings or other improvements and acquire personal properties suitable for use by manufacturing, industrial, or commercial enterprise.
- 4) Full power to lease or sell all improvements and personal properties, together with the lands on which they are situated.

- 5) Adopt regulations necessary to implement a comprehensive plan for development of an industrial park.
- 6) Establishment and collection of fees for services provided within the industrial park.

The majority of Oregon's port districts own industrial parks or land suitable for industrial clientele (table 1). The diverse mix of companies that have chosen to locate on port industrial sites largely reflects the natural and human resources found within each port district's boundaries. These companies include: sporting goods manufacturing (Port of Hood River), fish processing (Port of Newport), lumber production and shipment (Port of Coos Bay), potato processing (Port of Morrow), and electric power generation (Port of St. Helens).

#### Projects of the U.S. Army Corps of Engineers

The planning and construction activities of the Corps of Engineers offers a unique Federal subsidy to your port. The corps is involved in navigation, hydroelectric generation, industrial water supply, recreation, and fisheries enhancement. These services clearly assist the continuing operation of your port's water related activities. Moreover, through creative planning and coordination, civil works of the Corps of Engineers can provide you with a means of implementing site improvements which promote comprehensive economic growth.

The Corps of Engineers has the direct authority to undertake small projects (requiring not more than \$2 million) that provide substantial benefits to commercial and recreation navigation.

For larger projects, the corps forwards its recommendations to Congress, where funds are allocated to the most beneficial projects. The corps then dispenses the funds for construction, operation, and maintenance of authorized works.

Presently, there are over a half-dozen active corps projects and numerous project investigations along Oregon's coast. Much of the work involves channel maintenance and breakwater facilities. Over the past 5 years, operation and maintenance costs have totalled \$38 million, with the entire Federal investment to date near \$100 million.<sup>4</sup>

Projects on the Columbia River range from small-boat basins to industrial landfills, to channel maintenance at the mouth of the Columbia. Over \$60 million in Federal funds has been appropriated for the latter activity alone.<sup>5</sup>

#### Summary

General obligation bonds may be used to finance projects that produce broad community benefits and are secured by the taxing authority and full faith and credit of your port. Revenue bonds may be used to finance specific economic development projects. Port management revenue bonds are secured not only by the assets in these particular projects, as with industrial development revenue bonds, but also by the ability of your port to generate non-tax revenue. Both of these revenue bonds offer relatively low interest, high leverage financing.

Loans or grants may be used for special projects that qualify. However, some loans may carry very high interest costs. Most loans or

grants require considerable skill and time to prepare. The Oregon Port Revolving Fund is the most important loan source for your port.

You may also use promissory notes, warrants, or regular commercial loans for short term financial needs. While more costly than bonds, these tools may be more flexible and faster to process.

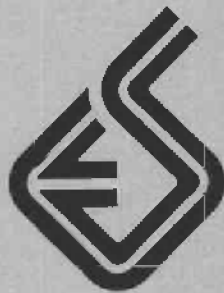
Your port has the authority to conduct studies, distribute literature, advertise, and otherwise directly promote economic development. Your port can also create and promote industrial parks. Finally, your port can take advantage of the services provided by the U.S. Army Corps of Engineers.

Good planning, good management, and intelligent financing must complement any of these economic development tools before your port can effectively increase community income, reduce unemployment, and stabilize the local economy.



## FOOTNOTES

1. Oregon Revised Statutes, Chapter 777.850.
2. Ports Division, Department of Economic Development, "Oregon Port Revolving Fund," department communique (Salem, 1982).
3. Oregon Revised Statutes, Chapter 777.250.
4. U.S. Army Corps of Engineers, Portland District, "Coastal Project -- 1982," congressional communique (Portland, 1982).
5. U.S. Army Corps of Engineers, North Pacific Division, Water Resources Development: Oregon (Portland, 1977), p. 30.



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