Vote Yes on the May 2025 Bond

NOTE: This is an edited version of the article at https://www.robgforpps.com/may-2025-bond.

In January and February 2025, I had serious reservations about the May 2025 General Obligation Bond. In fact, in January I testified against the bond authorization.

Eventually I came around to a **strong Yes vote**. Here I'll explain why.

My background

I am not a financial professional, but I've been doing finance-adjacent work for a long time, including building technology platforms processing billions of dollars a year.

I'm definitely a policy wonk and can keep up with technical jargon pretty well. I have spent hours reading over PPS budgets and bond reports as part of forming my opinion of this upcoming bond.

I have a deep interest in municipal finance, especially as a member of Strong Towns PDX. Many of us are finance nerds. Our default position is that public entities spend way too much on "unprofitable" programs which do not increase the total wealth of the community. Suburban sprawl, which almost never ends up bringing in enough tax money to pay for the public expenses involved, is the common example. This approach ultimately impoverishes the entire community and isn't healthy for anyone.

We can say that making good spending decisions if about **fiscal stewardship.**

Educating kids is expensive, and there's no free lunch. Except at school, because free lunch is an excellent way to improve outcomes of students living in poverty.

Free lunch is a good example of "fiscal stewardship" (free lunch because it produces the outcomes we want cost-effectively) vs. "fiscal responsibility" (no free lunch because the families don't deserve it). We could feed kids just because it's "the right thing to do," but there may be much better ways to spend the money; if we get too caught up in spending simply because it's "the right thing to do," and don't compare it to other ways to spend, we can do more harm than good.

What is a Bond?

Let's get on the same page with a true-enough but simplified definition of what a bond is.

A bond is a loan, sort of like a mortgage. Bondholders (banks) give PPS *principal* ($1.8 billion) upfront and then expect PPS to pay back the *principal plus interest* in the future (like $2.5 billion).

But what we vote on is an *authorization* for PPS to borrow a certain amount of money (that $1.8 billion) over a given amount of time (32 years). This comes in the form of multiple loans (*offerings*) that PPS sells to bondholders every few years. So it's like PPS can buy a number of small mortgages, totaling $1.8 billion, over 32 years. Notably, each offering has its own interest rate, so we may want to make bigger offerings when rates are low.

We also vote on a *tax levy* to raise revenue to pay back the bond. In this case, because we have other bonds we've almost paid back, our tax rate won't increase, even though this bond levies taxes. So even though this bond authorization involves a new tax, it is the same as renewing the tax that is about to expire.

What's in the Bond?

Let's be honest: $1.8B is a massive bond, about 50% larger than the largest previous $1.2B bond, which we passed in 2020. There is a lot in this bond. I am not going to go over absolutely everything. I am going to list my concerns, and how I got over those concerns.

I'm going to start with the smaller stuff and end with the difficult ones, like Jefferson High School. Note that these amounts are from various PPS Board Meeting presentations, and may not be the final amounts, but are roughly correct.

Curriculum ($56m)

Why are we funding non-capital projects from a capital bond?

Because we can, and don't have another source. This is (from what I'm told) a one-time expense to get us up-to-date on curriculum needs. PPS had no standardized curriculum for years, but we've fixed that, and this finishes that off and provides ongoing support.

Future curriculum updates need to be included in normal operations budget. Financing them through the bond means we're paying interest.

Technology Updates ($176m)

Even though the bond covers 32 years, this spending only covers 8. As with curriculum spending, we need to get this out of capital spending and back into the normal budget.

However, given the historic cuts we're going to have to make, the question is: should we cut more teachers to pay for technology updates in the short term? Or should we pay 20-40% more but kick the can down the road?

I'm okay with kicking *this* can down the road. Cutting another $20m/year from the budget would do such tremendous damage, that I can't believe this is medicine we should be taking. Technology updates are a relatively new thing, and the legislature will need to factor it into school funding in the next few years.

Athletic Improvements ($75m)

Improvements at West Sylvan, Roosevelt, Grant, and Franklin.

I am not too familiar with these, honestly. It's possible there is some unnecessary spending here. But this is the sort of stuff capital bonds are supposed to be used for. If you have something to add, please let me know! robg.pdx@gmail.com

Deferred Maintenance ($190m)

Maintenance is like dental hygiene. If you take good care of your teeth with regular brushing and flossing, your teeth stay healthy. If you don't keep on top of it, you will need expensive surgeries.

PPS has a significant maintenance backlog. Unless we act proactively, the increased maintenance cost will grow even faster than the interest on the debt would if we were to maintain our assets and keep them in good repair.

It should be said that, many entities, especially infrastructure bureaus like the Portland and Oregon transportation departments, are functionally insolvent in terms of deferred maintenance. Their deferred maintenance backlogs are larger than their entire budget many times over, and many of the things they call *assets* are actually *liabilities.*

> *Assets are like things you can sell for money. Liabilities are unpaid costs. Roads need to be maintained constantly for money, and cannot be sold, so should really be considered liabilities.*

My BS detector is very tuned in whenever I hear “deferred maintenance,” because it can look like throwing good money after bad in a hopeless quest to maintain assets you simply cannot afford.

For PPS, however, there isn’t much we can do to avoid this maintenance. Our maintenance costs are where our kids are. If we let a roof get worse and worse, the whole thing may need to be replaced, rather than patched.

If anything, I’d want to see the deferred maintenance budget go up, since this means cost savings in the future.

Elementary and Middle Schools ($470m)

This doesn’t seem like very much to modernize so many schools, and was one of my major concerns.

But school costs can go up exponentially with school size. There is a lot more complexity (and space needed per student!) for upper grades. And bigger projects require more specialized contractors and equipment.

This $470m is enough to renovate a deceptive number of elementary and middle schools. It won’t be enough for all of them, but it does get us on a path.

Cleveland and Ida B Wells High Schools ($360m each)

Finally, high schools. I’m worried there are cost savings we can pursue here, that haven’t been fully explored for political reasons. We need to put all possible savings on the table.

I want to acknowledge: **this isn’t fair to Cleveland and Ida B Wells families.** We made mistakes in planning and executing these and other modernizations that may cause them to get less modernization funding than other high schools.

But as explained above, we have to make decisions based on what is good for all the families we serve. We need to be very focused on finding cost savings here, creating a quality school which may sacrifice the nice-to-haves.

I believe it would also get rid of some of the sting of this funding injustice if the cost savings could be channeled to renovate elementary and middle schools in the same cluster.

Jefferson High School ($366m)

Jefferson High School's remodel has been contentious. It currently has around 500 students. The remodel would have capacity for 1700 students.

This seems ridiculous and was definitely one of the areas of most serious criticism I had. Shouldn't we be looking at *closing* Jefferson, not expanding it?

There are a few things going on:

- Even though PPS enrollment projections are going down, the areas projected to shrink the least feed into Grant and Jefferson.
- Grant is already overcrowded.
- We are going to need to rebalance our high schools, and a key part of that will include the area near Jefferson.
- Jefferson being a modern school is the only way we can pull off this rebalancing.
- I am betting on Portland for the long term, and believe we are going to grow as a city, significantly, in the next few decades (we will probably have a few more flat/down years). To handle even modest growth, we need to have some capacity in our schools; dealing with this later by trying to site and build a new high school will be even more expensive. I discuss this more when talking about enrollment forecasts below.
- When betting on the future, we have to think about the upside vs. the downside. In the upside case (Portland grows), there is a very large upside, as just explained. In the downside case (Portland shrinks), the extra cost will be a drop in the bucket. We have massive structural problems with paying out firefighter pensions that makes growth almost a requirement. I can't see a future where we lament wasting $100m on a too-big Jefferson, since that future will be a huge tax abyss.
- Betting on future growth must not be an invitation to spend on lower-value projects. We need to tighten our spending considerably.

General Concerns and Thoughts

There are some concerns I have, not related to specific spending items. Many of these are touched on above, too, but here are organized as themes.

This is a Big Bond

$1.8B is a lot of money, and the bigger the bond, the harder it is to manage effectively.

If you have a $400m bond with a $20m issue, that becomes a serious concern, at 5% of the bond. But if you have a $2,000m bond with a $20m issue, that is just a rounding error. This rounding error is about the cost to remodel an elementary school.

This actually happened when the bond was presented to the board for a vote; I still cringe, and think it is worth keeping in mind that we need to apply extra scrutiny.

I am worried that, if the wrong people are on the board, we will make irresponsible spending decisions. Along with the bond, will be four Board Director elections. Vote wisely!

That said, our audits for previous bonds have actually turned out well, with exceptions noted below. I have "audited the audits" to a small degree, and they are rigorous, not cherry-picked to arrive at a foregone conclusion.

The two problems with previous bonds identified by auditors are:

- The Center for Black Student Excellence. I don't really have much to say about this that hasn't been said by others (https://www.wweek.com/news/schools/2024/12/17/auditor-warns-portland-public-schools-center-for-black-student-excellence-is-falling-behind/).
- High school modernization costs.

Smaller Bonds are not Necessarily More Frugal

Case in point is the mess we find ourselves in, behind on high school modernizations. If we passed a smaller bond, there is no reason to believe we'd get cheaper high schools.

Good fiscal stewardship and smarter spending comes down to who you elect, not the bonds you pass.

We Went 17 Years With No Capital Bond

In 1995, voters passed a modernization bond; then next bond passed was in 2012. We are playing catch-up, and as explained above, deferred maintenance gets expensive.

I cannot say how things would be different if, say, we had authorized a capital bond every 8 years. But we're in the situation we're in, to some degree because of lack of previous investment. Even if we halved the costs of the high school modernizations, we'd still need a big bond to catch up.

There is Place for Pork to Hide

The bigger the numbers, the easier it is to spend wastefully. We should be thankful for lean years that allow us to make hard decisions about where we can trim.

That said, some of these numbers are taken largely for granted. Do we need $176m for technology upgrades? Has that project been managed well? Can we find some millions in savings?

I don't know. This is a concern. It warrants more scrutiny.

We Cannot Pass Another Large Bond

I'm not saying this as a moral statement, I'm saying it as a fiscal reality.

There is no way we can pass another bond this large in the next 20+ years (barring higher taxes or serious tax reform).

Because of the bonds that are maturing this year, we can allocate about $0.90 of our $2.5 per $1000 levy rate to this bond.

In 8 years (2032), we have fewer loans maturing, so we're only able to borrow against about $0.45 of our $2.5. In simple terms, that means we would be able to bond for at most $900m without raising rates.

If we keep maxing out our credit card, so to speak, we about halve our bonding capacity every 8 years, so that by 2040 we are only able to raise $450m, and so on.

That said, passing a smaller bond doesn't really change this reality. We need to be in a position to borrow less in the aggregate.

Growth is Important

It's very important Portland grow in population for its fiscal health (including for our absurd legacy fire/police pension system (https://www.wweek.com/news/2023/10/25/financial-analyst-new-to-portland-lobbies-against-costly-antiquated-pension-system/)). If we have deteriorating schools, that becomes almost impossible.

Eliminating your debt and moving to a pay-as-you-go system sounds nice to these "son of an immigrant" ears, but in practical terms, it creates a "doom loop" where your economy shrinks, your city or country is permanently crippled, and you can't even pay off what you owe.

This was the argument against "austerity" during the Eurozone crisis in countries like Greece after the Great Recession/Global Financial Crisis. The argument has proved correct, and the best way out of a fiscal crisis is through modest financed growth and frugal spending.

That is to say: you must "spend money to make money." But not all spending is created equal, and we need to be smart about it.

This bond is "spending money to make money" by modernizing our schools to keep and attract parents to PPS, especially in the areas most likely to see growth (like Jefferson). It's a good bet to take.

Enrollment Forecasts Are Just That

The Portland State University Population Research Center enrollment forecasts (https://www.pps.net/Page/1834) are truly excellent work. But, they're statistics, so can only predict future performance based on past performance. Take a sampling of projections to see how they have fared:

- 2007: 45k students. 43-49k students in 2021.
- 2012: 46k students. 47-52k students in 2021
- 2016: 48k students, 50-52k students in 2021, 52-57k in 2031
- 2021: 47k students, 45-47k students in 2031
- 2023: 44k students, 38k students in 2032

The 2007 estimate for 2021 was actually more correct than the 2016 estimate. This isn't because the later estimate was worse; it's just how statistics works! Trends are powerful, but trends change.

If Portland were to see growth along the lines of what we had in the 2010's, we can easily be looking at 10k or more students above projections.

Let's remember that the enrollment projections are not fate, and by creating a better school system and city, we have the ability to change what happens.

Smaller Bonds May Not Be Workable

The causes for such a big bond are to get our high school modernizations done with. Just doing those, and nothing else, will be $1B at least.

But as explained earlier, we do need to do some more things, especially deferred maintenance and technology and curriculum upgrades.

So the only way to have a smaller bond ($1.4B instead of $1.8B, so still huge) is to defer one or two high school modernizations for 8 years, until we're ready to pass another bond.

We could certainly do this! I understand the moral issues involved. If I had my druthers, I would have cut $400m from this bond by delaying a high school modernization. Many of my arguments make positive assumptions about Portland's trajectory, and in 8 years we'd know more.

If those positive assumptions play out, then authorizing (and spending) the money sooner doesn't make much difference. Your taxes are going to stay at the same rate when we'd raise the new bond to modernize Jefferson in 8 years.

If those assumptions don't play out, and enrollment forecasts mean we don't need the capacity Jefferson affords, we will have overspent. It'll be among the least of our problems, due to structural budget issues explained above. It will also not be the worst of things to overspend on, as explained next.

Purposes For Raised Funds Are Limited

It is possible that we spend $300m or more on Jefferson, and it turns out to be less important than this bond expects. It's worth considering what else this money could have been used for.

Because of the way Measure 5 and 50 work, this "unraised money" (the $400m we could have eliminated from this bond) can **only be raised for other PPS capital projects.** We cannot, say, use this revenue capacity to authorize a bond to build an MLB stadium or whatever other ideas people have.

The only things we can prioritize against the $400m for Jefferson are:

Other PPS capital projects. There is a compelling case here, especially if we look at something like using capital funds for technology upgrades that would free up operating budget. Or we could speed up elementary and middleschool renovations. As someone on the more cautious side, this is what I would have gone for. But reasonable people can disagree on this and there is obviously merit to the Jefferson case.

Returning the funds to taxpayers. While $400m is a lot (really, more like $500m due to interest), it's over 32 years, so we are not looking at some big tax break without it. But, it's still a big chunk of change, and spending taxes on stuff we don't need is a bad thing.

If you are upset about spending money on stuff we don't need, as I am, there are plenty of projects that could use your scorn. For example, we're spending $2b to widen a mile of freeway (https://cityobservatory.org/if-were-so-broke-why-are-we-spending-2-billion-to-widen-a-mile-of-freeway/). I am *not* trying to minimize wasteful spending through "whataboutism". What I *am* saying is that, projects like the Jefferson modernization have a much more compelling argument than a lot of the stuff our local and state governments are spending billions of dollars on.

And it bears repeating: while the modernization itself has compelling arguments, we need to look at all the features of the modernization and cut whatever does not have a compelling argument compared to spending the money on other projects.

Ongoing Concerns

All of this said: I have ongoing concerns about the bond.

- Using bond funds for technology upgrades is simply unsustainable in the long run. We will be paying 2x the costs due to interest, compared to pay-as-you-go. This needs to be solved as part of the operating budget.
- If revenues drop, or the interest rate increases, we will run into serious revenue problems. We aren't really holding anything back in terms of being able to raise a big bond in the next few decades, as explained above. This is the right decision, I think, but we need to keep in mind the high stakes this bond comes with.
- PPS still has structural problems, and having this money may tempt us to paper over those structural problems. A crisis is an opportunity; we must not forget we're in a crisis.
- There is a lot of potential wiggle room for some of the high school modernizations. We need to be extremely diligent about cost savings. Having this authorization must not allow us to overspend.