



Senate Bill 785

Testimony by Lynn Schoessler, IFA Director

April 3, 2013

The Infrastructure Finance Authority of the Oregon Business Development Department funds community development and health/safety infrastructure statewide using a variety of state and federal resources, including the proceeds from lottery and revenue bonds. Senate Bill 785 causes me great concern regarding the additional cost it will impose on bond financed capital construction projects.

The bill, as I interpret the requirements of the language, calls for determining the residency of all project workers in order to determine the percentage of FTE that are residents of Oregon. While this information should be readily available from contractor employment records, the verification seems to be required of the general contractor and subcontractors at all levels. A general contractor may not know who the sub-subcontractor(s) are on a project. The calculation is complicated by the lack of direction within the bill regarding the treatment of construction company executives and officers, payroll, accounting, and other central service personnel that work for the company and are paid by the company from project revenue. Are these persons to be included in the calculation? Similarly, the project has ongoing work during construction by engineers and inspectors (both public and private). To what degree are these professions included in the calculation?

Determining the origin of manufactured goods or services provided to a capital construction project is very difficult. The IFA's experience when implementing the Buy American provisions of the American Recovery and Reinvestment Act (ARRA) demonstrated it was difficult to determine United States produced products, let alone Oregon manufactured goods. How deep into the nuts and bolts (literally?) would the analysis have to delve?

Most capital construction projects are a blend of financing resources including local general funds, dedicated funds, and bond fund proceeds. Bond fund proceeds are often mixed with federal funds within IFA financings. To what degree do bond funds within a project financing obligate the reporting of Oregon based labor and good/services for the entire project?

The aforementioned general data source concerns are exceeded by my greater concern regarding the cost of assembling the data. As an entity that will finance capital projects with bond proceeds, the IFA does not have staff to track and accumulate the necessary data; the IFA will pass the obligation on to the borrower. The typical IFA borrower is a small rural community or county with limited staffing and administrative capacity. The borrower will pass the obligation on to the project general contractor. The general contractor will pass the obligation on to his subcontractors. Whether the subcontractors will pass it along is debatable. Regardless, at every step of passing along the obligation, the price of the project is going to increase due to the additional administrative overhead. How much additional administrative cost will be incurred, I can't say at this time. But for small rural projects of \$1.5 to \$2 million, I believe as a percentage of the total contract cost the increase in expense will be significant. Bond proceeds are the 20% program match for the Federal Safe Drinking Water financing the IFA administers. I don't believe the additional administrative expense is warranted for the limited amount of bond funding included in these projects.

Based upon the Buy American experience, I fully expect the IFA will need additional staff to sort out the errors and discrepancies inherent to the required reporting and thereafter provide the directed analysis for the 20 subject IFA projects each year.

Finally, as the economy continues to slowly improve, the bidding competition for construction projects is becoming less aggressive. I fear imposing the additional reporting requirements of SB 785 will make bond financed projects less attractive, appealing to only a limited number of contractors, and more expensive than projects with only conventional reporting requirements.

- End -