2009 Regular Legislative Session
FISCAL ANALYSIS OF PROPOSED LEGISLATION
Prepared by the Oregon Legislative Fiscal Office

MEASURE NUMBER: HB 2105 **STATUS:** A Engrossed
SUBJECT: Allows state agencies and public bodies to hold related bonds without automatic cancellation or extinguishment of the bonds
GOVERNMENT UNIT AFFECTED: State and local governments, State Treasurer
PREPARED BY: Steve Bender
REVIEWED BY: Daron Hill
DATE: April 29, 2009

	2009-2011	2011-2013
EXPENDITURES:		
See Analysis		

EFFECTIVE DATE: On passage

GOVERNOR'S BUDGET: This bill is not anticipated by the Governor's recommended budget.

LOCAL GOVERNMENT MANDATE: This bill does not affect local governments' service levels or shared revenues sufficient to trigger Section 15, Article XI of the Oregon Constitution.

ANALYSIS: The effect of this measure on expenditures is indeterminate. House Bill 2105 as amended would allow state agencies and other public bodies to purchase and hold debt instruments that have been issued on their behalf. Under current law, agencies may purchase these instruments, but only for purposes of extinguishing or refinancing the debt. This measure would allow the agencies to acquire and hold the debt without extinguishing or cancelling it. The measure also allows the State Treasurer to invest in state bonds without the bonds being canceled or extinguished.

Recently, financial market turmoil has periodically increased debt service costs for some debt instruments. Some public bodies have issued auction rate securities, which are long-term securities with interest rates that are periodically reset through an auction process. During certain periods in 2008, these auctions to reset the interest rates occasionally failed when bondholders sought to liquidate their holdings and there were an insufficient number of buyers willing to purchase the securities. The bond issuers in those cases were required, under the provisions of the securities, to pay bondholders a substantially increased rate of return. This measure would allow the debt issuers to purchase and hold the securities in such instances, with the intent of reselling them when market conditions improve. This would allow the bond issuers to avoid paying the higher interest rate payments to other parties during periods when short-term rates rise.

The fiscal impact of this bill is indeterminate. It is not known when or what extent market conditions will again make the purchase of existing debt instruments attractive for state agencies or other public bodies. Furthermore, the Legislative Fiscal Office (LFO) does not have information on the levels of state agency and public body cash holdings that are available to temporarily purchase the debt instruments. LFO notes that any state agency or public body exercising the authorities established by this bill would be assuming considerable risk, as it would always be uncertain when the market conditions for the securities would improve. The use of cash balances to purchase the securities could, therefore, absorb cash needed for other purposes for considerable periods of time.