REVENUE IMPACT OF PROPOSED LEGISLATION
75th Oregon Legislative Assembly
2009 Regular Session
Legislative Revenue Office

Bill Number:	**HB 2105 A**
Revenue Area:	Debt Management
Economist:	Mazen Malik
Date:	5/6/09

Measure Description:
Authorizes state agencies and public bodies to purchase and hold bonds issued by state agency or public body, respectively, without causing automatic cancellation or extinguishment of bonds. Authorizes state agencies and public bodies to use bond proceeds or moneys available for debt service to purchase bonds of state agency or public body. Prevents other state agencies from buying other agency bonds. Requires the State Treasurer to report to the Legislative assembly within two days, when exercising this authority, and an annual report on the activity. Authorizes State Treasurer to buy state government bonds as investment.

Revenue Impact:

The repurchase of the variable rate bonds by state agencies when credit markets experience stress might be a needed temporary solution, which saves state agencies and local governments higher interest costs on their bonds. However, there is an inherent risk on agency's cashflow and revenue resources if the conditions that necessitate this action is prolonged. Thus, the reporting and monitoring of those transactions is essential.

Impact Explanation:

The State Treasury office is given the authority to allow the purchase of variable rate bonds by the same agency or the State Treasurer without the bonds being considered bought back and thus extinguishing the debt. Additionally, the Investment function of the state treasurer is given the explicit authority to invest in Oregon state bonds without the purchase being considered as a repurchase of the debt.

The need for this authority was recognized as a result of the failure of the market due to the credit crunch in the late 2008 and early 2009. At that time, the variable rate bonds that are re-priced weekly, experienced tight market conditions and loss of liquidity. With the freezing of the credit markets, some agencies, that had millions in these bonds (ODVA, OHCSD, and ODOT), were exposed to higher interest rates on their bonds.

Although the variable rates are riskier than fixed rate bonds (thus resetting of a lower rate for a shorter period of time), The debt management section of the state treasury estimates that the agencies would have saved over $2.1 million if the authority existed at that time.

Creates, Extends, or Expands Tax Expenditure: Yes ☐ No ☒

State Capitol Building
900 Court St NE, Room 143
Salem, Oregon 97301-1347

Phone (503) 986-1266
Fax (503) 986-1770
http://www.leg.state.or.us/comm/lro/