State Debt Policy Advisory Commission

Presentation to
the House Revenue Committee

On Key Findings in 2013 SDPAC Report

Office of the State Treasurer
Debt Management Division

February 28, 2013

Introduction

Purposes of SDPAC Report

1. Annual Debt Capacity Forecast and Report Required by ORS 286A.255
2. Provides a Framework for Measuring, Monitoring and Managing the State's Overall Debt Position
3. Provides Information to Assist Governor and Legislature in Formulating Long-term Capital Spending Plans
4. Highlights Emerging Debt Policy Issues of Concern

Current Committee Membership

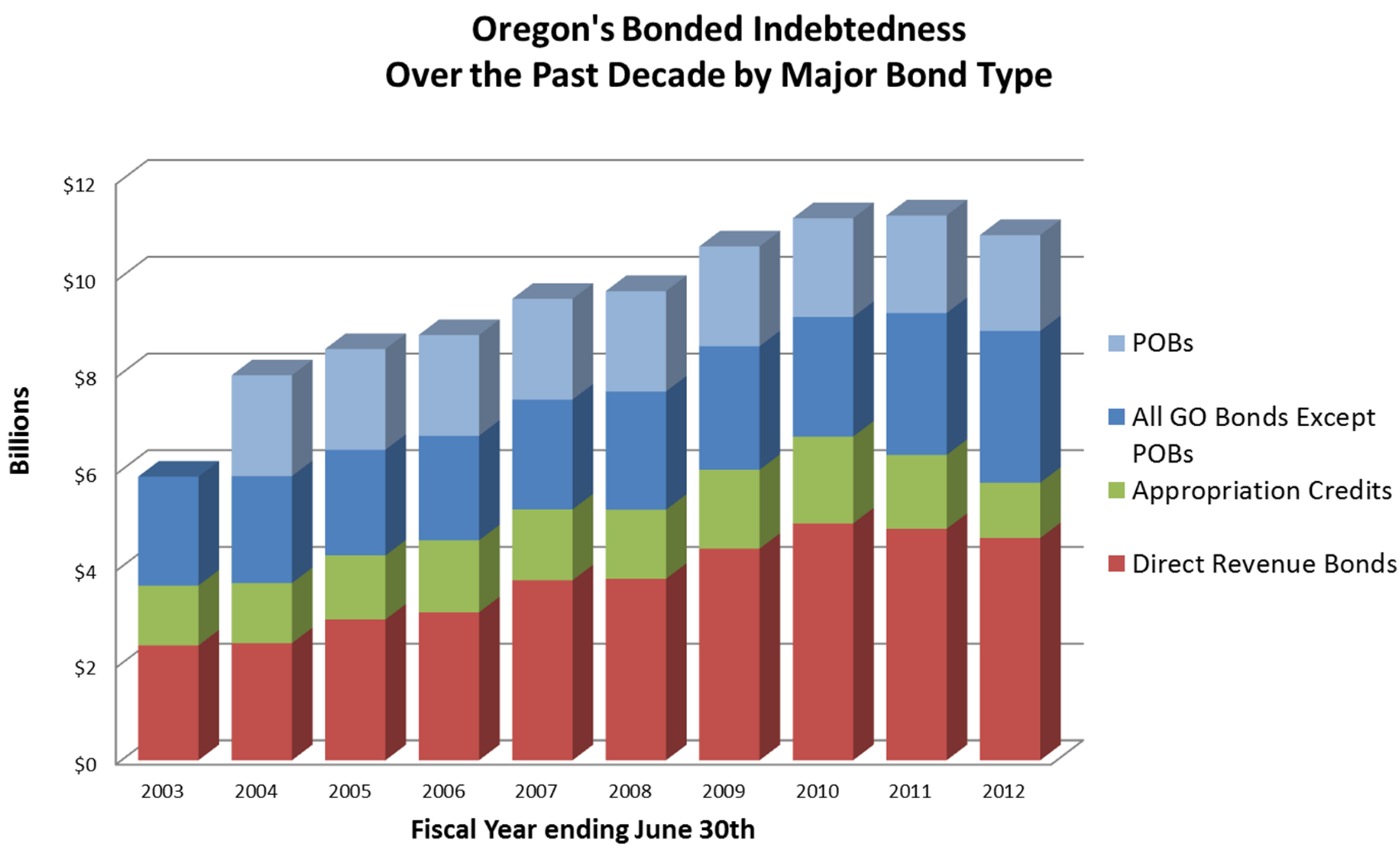
- State Treasurer Ted Wheeler, Chair
- Senator Richard Devlin
- Representative Phil Barnhart
- Micheal Jordan, DAS Director
- Tim Duy, Economist, University of Oregon

Debt Capacity Concepts

Four Types of Long-Term Debt

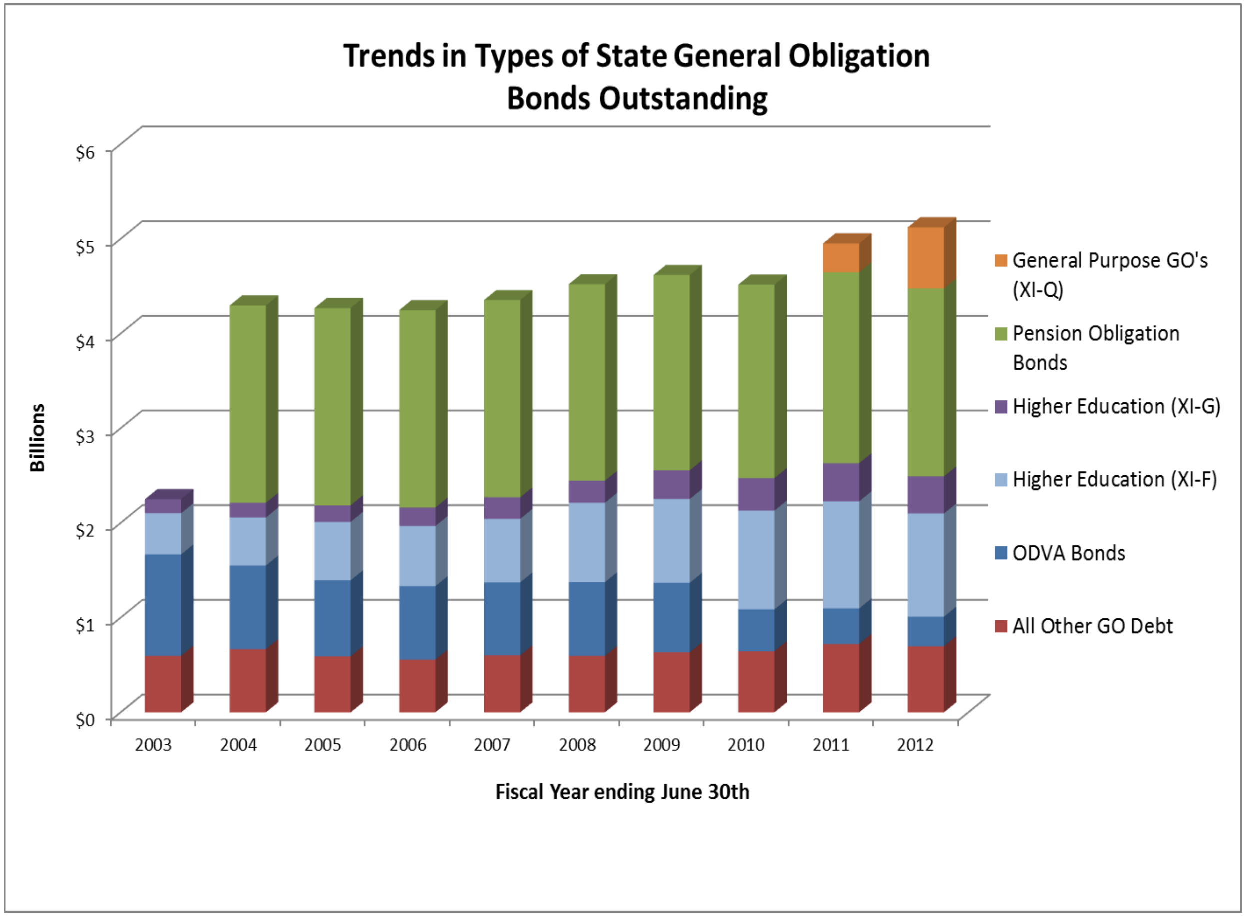
1. General Obligation Bonds	• Requires voter approved constitutional amendment • Pledges the full faith & credit of the State • Includes both GF-supported <u>and</u> non GF-supported bond programs
2. Direct Revenue Bonds	• Generally created by the Legislature through statute • Not secured by the State's pledge to pay • Fully self-supporting through program revenues
3. Appropriation Credits	• Appropriation "Deficit" Bonds and Certificates of Participation (COPs) used to finance real or personal property • Generally payable by State agencies from GF sources • Not secured by the full faith and credit of the State
4. Conduit Revenue Bonds	• State is the issuer but has no obligation to pay debt service – no General Fund or other State support • Debt service paid by the entities on whose behalf the bonds are issued

Debt Capacity Concepts



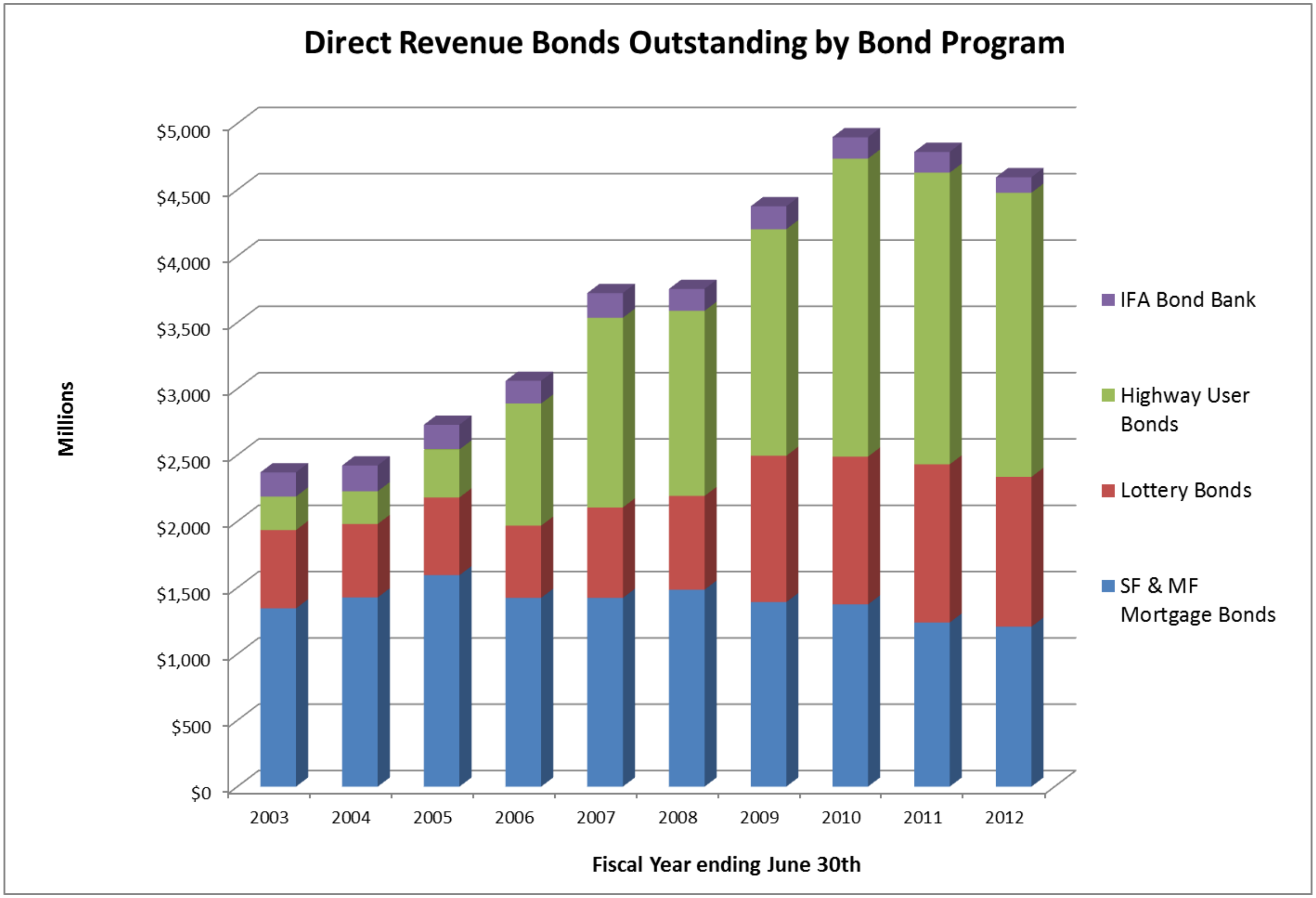
Debt Capacity Concepts

- Ten years ago, ODVA debt represented roughly half of all state GO debt outstanding
- In FY 2004, the State issued \$2.4 billion in POBs, of which roughly \$2 billion remains outstanding at the end of FY 2012
- In recent years, most new GO bond issues were related to various Higher Education and Community College projects
  - \$1.6 billion outstanding in combined Article XI-F(1), XI-G, and XI-L bonds



- Since FY 2011, the State has refinanced \$575 million of outstanding COPs as higher rated and lower cost XI-Q bonds, saving over \$72 million in interest cost to date

Debt Capacity Concepts



- ODOT's Highway User Tax Bonds related to its multi-year $2.4 billion OTIA bridge and road improvement program is responsible for most of the growth in outstanding revenue bonds

Four Debt Capacity Categories

1. General Fund-Supported Debt	• SDPAC Recommended Target Limit -- 5% of General Fund Revenues
2. Lottery-Backed Debt	• Legal Bond Covenant Limit: 4x Coverage (no more than 25% of net lottery revenues) • Moral obligation pledge of State
3. Net Tax-Supported Debt	• National bond rating agency perspective. • States compared with each other using "apples-to-apples" measurement approach
4. Non Tax-Supported Debt	• No generic capacity limit or measurement. • State programs in this category are managed based on revenue streams available

General Fund-Supported Debt Programs

GF-Supported State Debt Programs

General Obligation Bonds

- Higher Education Facility Bonds (XI-G)
- Community College Bonds (XI-G)
- Pollution Control Bonds (42% of total)
- Alternate Energy Bonds (19% of total)
- Oregon Opportunity Bonds (OHSU)
- Pension Obligation Bonds (32% of total)
- Seismic Rehabilitation Public Education Buildings (XI-M)
- Seismic Rehabilitation Emergency Service Buildings (XI-N)
- State General Purpose (XI-Q) (85% of total)

In the future

- Public Schools (XI-P)

Appropriation Credits

- Certificates of Participation (85% of total)
- Appropriation Deficit Bonds

Outstanding as of June 30, 2012 -- $2.9 Billion

Model Inputs & Assumptions

- Accounts for all debt outstanding as of June 30, 2012 and $191.8 million in planned issuance in FY 2013, based on 2011 and 2012 legislative authorizations, including:
  - *$142.1 M in GO bonds for State Buildings (XI-Q)*
  - *$10.9 M in GO bonds for DEQ orphan site clean-up projects (XI-H)*
  - *$9.5 M in GO bonds for Higher Ed and Community College projects (XI-G)*
  - *$9.5 M in GO bonds for Higher Ed energy efficiency project loans (XI-J)*
  - *$7.1 M in GO bonds for school seismic upgrade grants (XI-M)*
  - *$12.5 M in COPs and financing leases*
- Uses December 2012 General Fund revenue forecast for next eight years
- New debt issued as level debt service over 20 year term at 4.41% interest rate
- Target of 5% of General Fund revenues to support General Fund debt service

Projected General Fund-Supported Debt Capacity
FY 2014 to FY 2021

Fiscal Year Ending June 30th	Maximum Amount that can be Issued within Target Capacity ($ Millions)	Debt Service as a % of General Fund Revenues
2013	-*	5.14%
2014	$585	5.00%
2015	786	5.00%
2016	463	5.00%
2017	335	5.00%
2018	359	5.00%
2019	432	5.00%
2020	266	5.00%
2021	381	5.00%
Total General Fund Capacity Over Next Eight Years	**$ 3,607**	

*Based on planned issuance of $236 million in bonds authorized by the 2011 and 2012 Legislatures

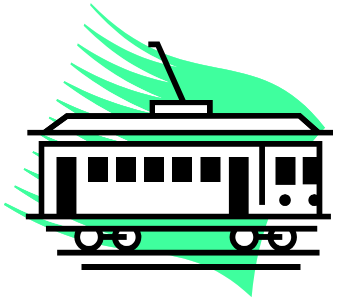
Factors that Could Impact Projected General Fund Debt Capacity

	FY 2014 - FY 2021	Per Biennium *
Base Case	**$ 3,607**	**$ 902**
Change in General Fund forecast		
10% decline	2,920	730
10% increase	4,294	1,073
Change in Interest Rate forecast		
1.0% higher	3,313	828
1.0% lower	3,942	985

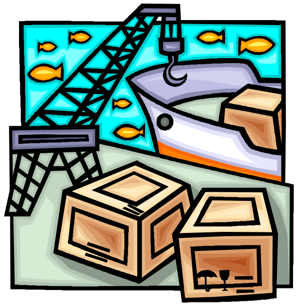
* May not total exactly due to rounding

Lottery-Backed Debt

Lottery Bond Projects & Programs



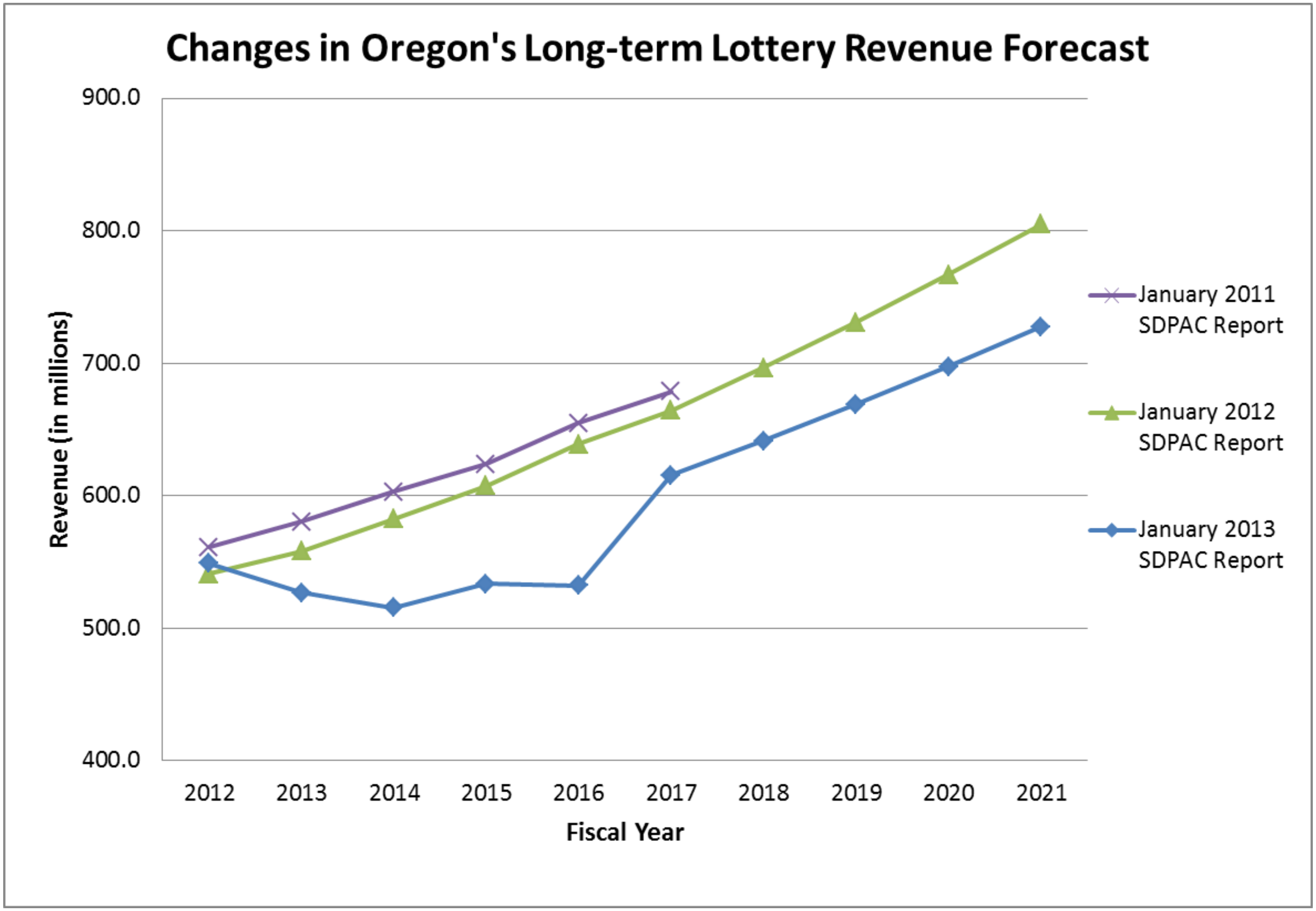
- **$1.1 billion** in bonds outstanding as of 6/30/12
- Programs funded to date include:
  - Light Rail Projects
  - State Parks
  - Drinking Water
  - Schools & Education
  - State Fair & Oregon Gardens
  - Community Loans & Grants
  - Economic & Rural Development
  - "Connect Oregon" Grants
  - Regional Port and Airport Improvements
  - Supportive Housing



Key Changes to Lottery Bond Capacity Model Since Last Year's Report

- A modest amount of outstanding Lottery debt was restructured in March 2011 to free up additional lottery debt capacity this biennium
- Since the SDPAC report of January 2012, the long-term forecast of Lottery revenues over the next eight years has declined by 8.2% overall, with 11.9% declines over the next two biennia
- Due to the continued drops in projected Lottery revenue and the reduced debt service coverage on existing and planned bonds, the model assumes:
  - Two years of deferred principal in the Spring 2013 Lottery bond sale
  - One year of deferred principal in the FY 2015 Lottery bond sale
- Uses 4.41% for future Lottery bond sales (based on the current 5 year average BB-20), but assumes a 3.50% rate for the upcoming April 2013 sale

Lottery-Backed Debt



Model Inputs & Assumptions

- Accounts for all Lottery debt now outstanding and planned issuance of **$207.5 million** in new lottery bonds, as authorized by the 2011 and 2012 Legislatures
- Incorporates December 2012 Lottery revenue forecast for next eight years
- New debt issued after FY 2015 as level debt service over 20 year term at 4.41% interest rate (average BB-20 over last 5 years), with use of deferred principal in the FY 2013 and FY 2015 sales
- Target based on 4x debt service coverage or maximum of 25% of net lottery revenues

Lottery Revenue Bond Capacity
FY 2014 – FY 2021

Fiscal Year Ending June 30th	Amount of Debt That May be Issued within Debt Service Coverage Ratios (in millions)	Projected Debt Service Coverage Ratio (Times)
2013*	-*	4.1
2014	$ 0	4.0
2015	151	4.0
2016	49	4.0
2017	321	4.0
2018	86	4.0
2019	150	4.0
2020	127	4.0
2021	98	4.0
Lottery Debt Capacity Over the Next Eight Years	**$ 981**	

*Based on planned issuance of $207.5 bonds authorized by the 2011 and 2012 Legislatures

Factors that Could Impact Projected Lottery Bond Capacity
(in millions)

	FY 2014 - FY 2021	Average Per Biennium*
Base Case	**$981**	**$ 245**
Change in lottery revenue forecast		
10% decline	748	187
10% increase	1,224	306
Change in long-term interest rates		
1.0% higher	904	226
1.0% lower	1,073	268

* May not total exactly due to rounding

Net Tax-Supported Debt

Net Tax-Supported Debt Programs Include:

All

General Fund-Supported Debt Programs

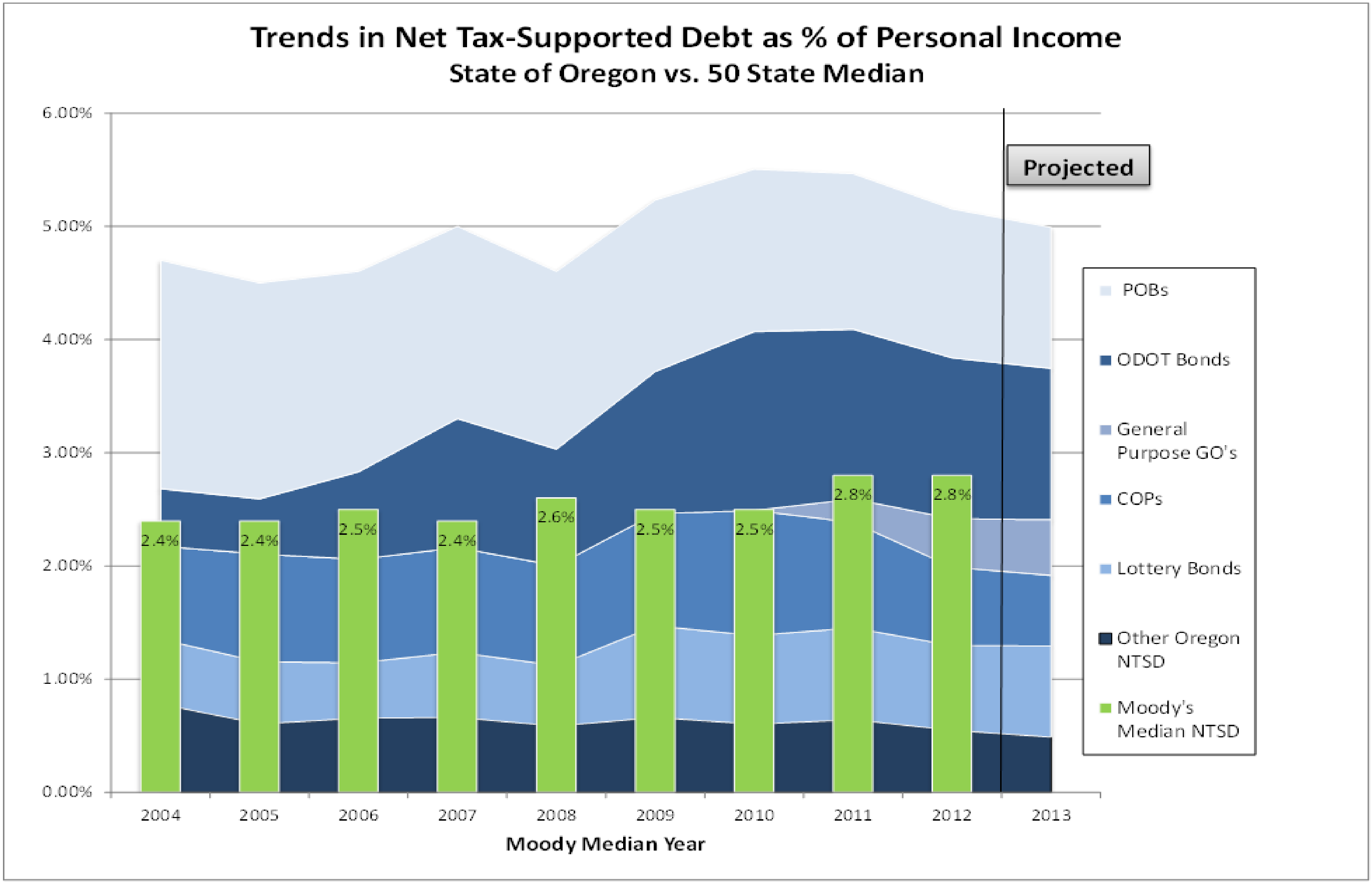
Plus

- Balance of Pension Obligation Bonds (68% of total)
- Balance of COPs and XI-Q bonds (15% of total)
- Lottery Revenue Bonds
- Highway User Tax Revenue Bonds

State of Oregon
Net Tax-Supported Debt Ratios

	Fiscal Year Ending June 30th		
	FY 2011 (Actual)	**FY 2012** (Actual)	**FY 2013** (Projected)
Net Tax-Supported Debt **(in Billions)**	$ 8.02	$7.78	$7.79
NTSD Per Capita	$ 2,080	$ 2,003	$1,990
NTSD as % of Personal Income	5.46%	5.15%	4.99%
Excluding Pension Obligation Bonds			
NTSD Per Capita	$ 1,557	$ 1,492	$1,494
NTSD as a % of Personal Income	4.09%	3.84%	3.75%

Net Tax-Supported Debt



Sources: Moody's State Debt Medians Reports, 2003– 2012

Non Tax-Supported Debt

Non Tax-Supported Debt Programs

General Obligation Programs

- Veteran's Welfare Bonds
- Elderly & Disabled Housing Bonds
- Higher Education Facility (XI-F) Bonds
- Alternate Energy Bonds (81% of total)
- Oregon School Bond Guarantee Program

Direct Revenue Bond Programs

- Single & Multifamily Housing Bonds
- Economic Development Bond Bank

Conduit Revenue Programs

- Economic Development Revenue Bonds
- Oregon Facilities Authority Bonds
- Multi-Family Housing Revenue Bonds

Alternate Energy General Obligation Bond Program

- Established in the Oregon Constitution by voters in 1980 to promote energy conservation and renewable resource energy projects throughout the State (Article XI-J)
- The Oregon Department of Energy administers this historically "self-supporting" General Obligation bond program
  - Bond proceeds are used to make fixed-rate loans through the Small Scale Energy Loan Program (SELP) to individual residents, businesses, non-profit organizations, municipalities, school districts, state agencies and tribes for projects that are designed to save or produce energy
  - With introduction of energy loans for various OUS efficiency and deferred maintenance projects, approximately 19% of this program is now supported through annual General Fund appropriations

Alternate Energy General Obligation Bond Program

- The Department built up loan reserves over time by charging a spread to borrowers on its loan rate above the State's cost of borrowing
- Over the past few years, however, SELPs loan reserves have deteriorated significantly due to the default of a large loan to an ethanol producer and a growing number of delinquent loans to private parties that are 91 days or more days past due
- ODOE has estimated that SELP will need cash infusions ranging from **$12 to $25 million** over the next several years in order to meet its scheduled General Obligation debt service payments
  - This number may increase if more loans become delinquent and/or existing poorly performing loans are written off as uncollectible
- Careful monitoring of SELP's existing loan portfolio as well as future loan commitments is warranted to assure that State support of this "self-supporting" bond program is kept to a minimum

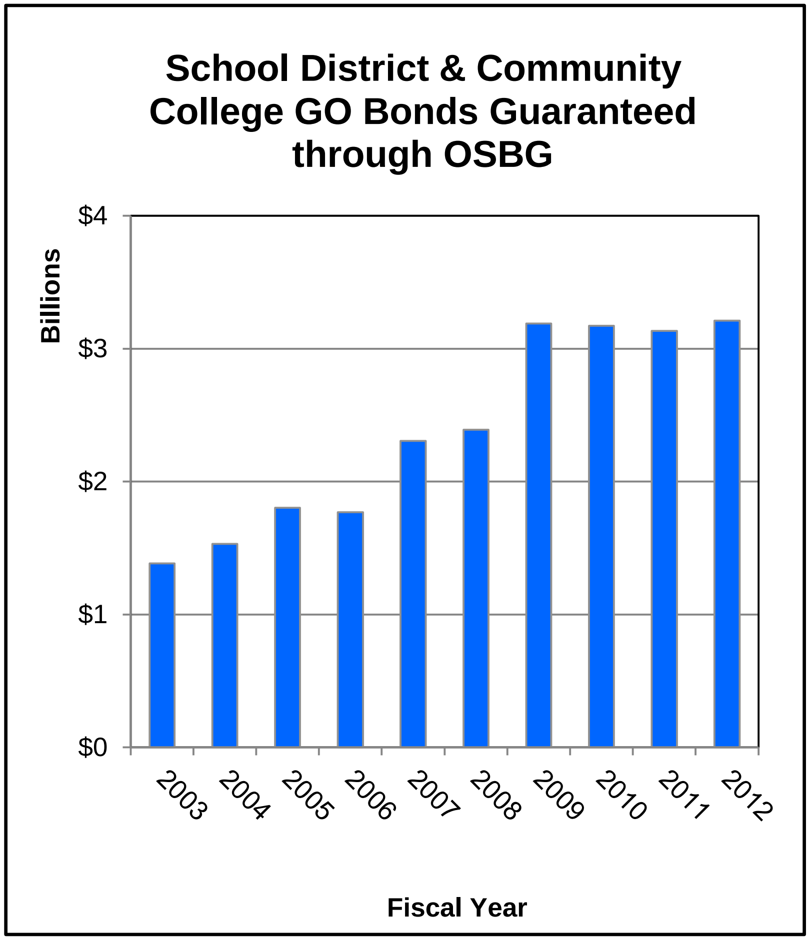
Other Emerging Debt Policy Issues

OHCSD

- Governor's proposed 2013-15 budget contemplates the reorganization and/or dissolution of the Oregon Housing and Community Development Department (OHCSD)
- OST is concerned about the on-going management of the Department's various bonding programs, which total over $1.5 billion in bonds outstanding
  - OHCSD, more than any other state agency, has used sophisticated public finance tools like variable rate bonds with liquidity facilities and interest rate swaps to provide low-cost funds to its borrowers
- Adequate funding and proper oversight of technical staff who manage the day-to-day operations of OHCSD's complex bonding and mortgage operation is crucial

State Aid Intercept Bonding Programs for Oregon Schools and Community Colleges

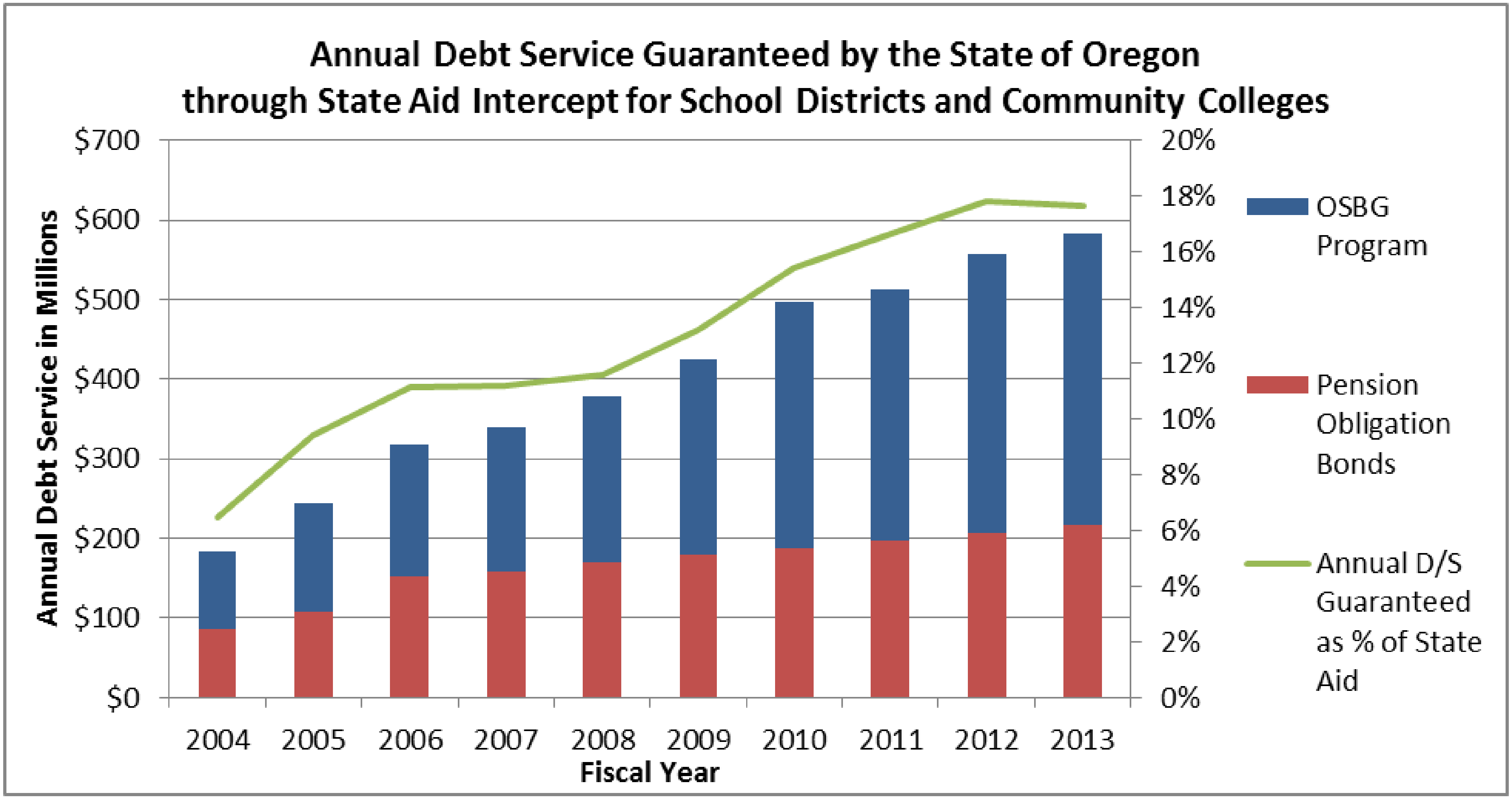
- The Oregon School Bond Guaranty (OSBG) program was created in 1998 via Constitutional amendment as a way to enhance the credit rating and lower the borrowing cost on General Obligation (GO) school bonds
  - State's pledge of full faith and credit guarantees payment of a qualifying school district or community college's GO debt service when due
  - OSBG bonds receive the same credit rating as the State's GO bonds
- State statute authorizes the State Treasurer to use state school funds to assure repayment of any draws on state funds used to make OSBG-related debt service payments
- Huge program growth in recent years due to improved state credit ratings and elimination of bond insurance as an alternative means of credit enhancement



State Aid Intercept Bonding Programs for Oregon Schools and Community Colleges

- In 2001, the Legislative Assembly authorized the use of fund diversion agreements as a means of improving the creditworthiness of Pension Obligation Bonds (POBs) issued by Oregon school districts and community colleges to prepay their accrued unfunded PERS liabilities
- Under these diversion agreements, the State Board of Education makes POB debt service payments to a POB bond trustee out of annual state aid grants of participating districts and colleges
- Between 2002 and 2007, $3.1 billion was issued in nine separate pooled POB borrowings with this fund diversion provision
- Like the OSBG program, the State guarantee of debt service repayment greatly enhanced the credit rating and lowered the borrowing cost on these bonds

Non Tax-Supported Debt



- While the State has not been required to make any OSBG-related debt service payment to date, these guarantees represent a growing contingent liability that warrants closer monitoring to assure that the State's General Fund is never put at risk

Conclusions

- Based on the most recent forecast of General Fund revenues, there will be **$902 million** in General Fund-supported debt capacity available for the 2013-15 biennium
- Projected Lottery debt capacity has dropped significantly since last year's report due to the sharp reduction in forecast revenues over the next eight years
    - The issuance of $207.5 million in lottery bonds authorized for 2011-13 biennium is still achievable but will require structuring the bonds with at least two years of deferred principal
    - Future lottery bond capacity totals $981 million over the next eight years, but only **$151 million** of this capacity will be available in the second year of the next biennium

Conclusions (continued)

- Oregon's net tax-supported debt ratios continue to stabilize, but remain above national averages due to the issuance of $2.4 billion in POBs and the significant growth in ODOT revenue bonding over the past several years
- The Alternate Energy General Obligation Bond program's loan reserves are rapidly being depleted due to loan defaults and the extended delinquency of several other large loans
  - Careful monitoring of SELP's existing loan portfolio as well as future loan commitments is warranted to assure that infusions of cash by the State for this "self-supporting" bond program are kept to a minimum