

# State Bond Financing in Oregon



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# Presentation Outline

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- **Background on Bond Financing in Oregon**
- **The Municipal Bond Market Generally**
- **Highlights of HB 5005 Introduced “Bond Bill”**

# Background on State Debt

- Issuing bonds is a form of borrowing; a bond is a certificate that represents a promise to repay investors who loan money
- As a general rule, tax-exempt borrowing is for capital assets only
- State typically structures transactions to achieve “level debt service” over the period debt is outstanding
- Benefits of financing:
  - Inter-generational equity
  - Ability to take advantage of opportunities that might be missed under a strict pay-as-you-go approach

# General Obligation Debt

- **Constitution prohibits Legislature from creating debt in excess of \$50,000 “except in case of war or to repel invasion or suppress insurrection or to build and maintain permanent roads” unless an exception has been made. Programs authorized by such exceptions are denoted by an “Article XI” prefix, including the following examples.**
- **Article XI-A** Veterans’ farm and home loans
- **Article XI-F (1)** Higher Education Building Projects (self-supporting)
- **Article XI-G** Higher Education/Community College
- **Article XI-H** Pollution Control
- **Article XI-I (2)** Elderly & Disabled Multifamily Housing
- **Article XI-J** Small Scale Energy Loan Program
- **Article XI-L** Oregon Opportunity Bonds (OHSU)
- **Article XI-M/N** Seismic Rehabilitation Schools/Emergency Services Buildings
- **Article XI-O** Pension Obligation Bonds
- **Article XI-Q** Real or Personal Property Owned or Operated by State
  
- **Article XI-D** State Power Development
- **Article XI-K** School Bond Guarantee
- **Article XI-I (1)** Water Development Projects
- **Article XI- P** School District Capital Costs

# Other Debt Types

- **The Legislature has authorized other forms of debt that are outside of constitutional restrictions**
  - **Revenue Bonds (specific revenue streams are pledged, but not general income of State)**
    - ✦ **Highway User Tax Bonds**
    - ✦ **Lottery Bonds**
    - ✦ **Certain Housing, Business Development and Energy Bonds**
  - **Appropriation Bonds (debt service payment subject to appropriation)**
    - ✦ **Certificates of Participation**
    - ✦ **Appropriation Bonds**
  - **Tax Anticipation Notes (cash flow borrowings repaid within a biennium)**

# Bonds Outstanding as of June 30, 2014

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## General Obligation Bonds

General Fund Supported \$2.23 billion

Self-Supporting \$3.13 billion

## Revenue Bonds

Direct State Revenue Bonds \$4.72 billion

Conduit Revenue Bonds \$2.23 billion

## Appropriation Bonds

Certificates of Participation \$675.55 million

# What's our credit score?



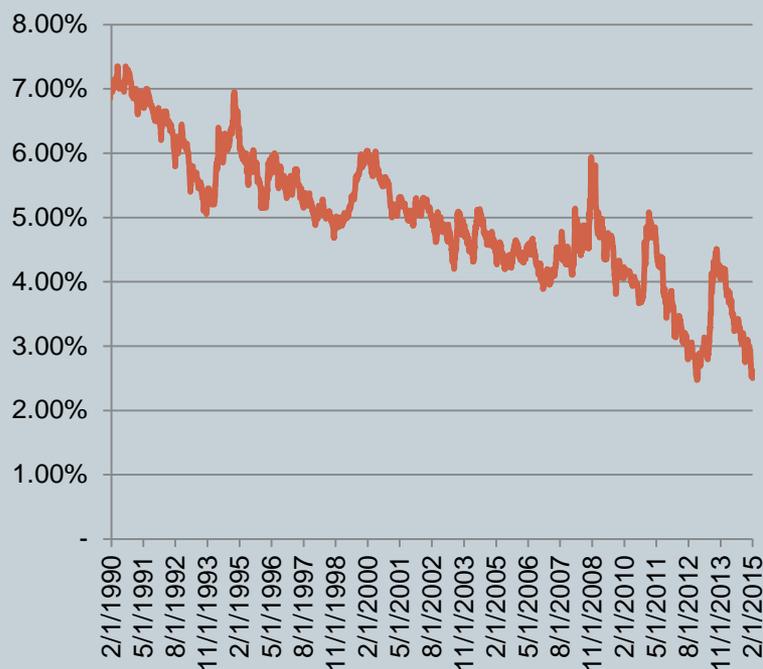
**Credit Ratings provide investors with an easily identifiable way to assess the degree of risk relative to a particular security.**

Credit Ratings			
	Standard & Poor's	Moody's	Fitch
General Obligation Bonds	AA+	Aa1	AA+
Highway Revenue Bonds – Senior Lien	AAA	Aa1	AA+
Highway Revenue Bonds – Subordinate Lien	AA+	Aa2	AA
Lottery Bonds	AAA	Aa2	--
Certificates of Participation	AA	Aa2	AA
Housing and Community Services:			
Mortgage Revenue Bonds	--	Aa2	--
Housing Revenue Bonds	--	Aa3	--
Multi-Family Housing Revenue Bonds	--	Aaa	--
Business Development Dept – Infrastructure Bonds	AA+	Aa3	--

# History of 30-Year AAA MMD

- Over the last year, MMD has continued to hover at historically low levels
- With on-going low new issue supply, investors in the municipal market are very receptive to the successful sale of municipal bonds, particularly higher rated credits such as the State's credit

**30-Year AAA MMD Since 1990**



**30-Year AAA MMD Since 2008**



- **Tax-exempt interest rates remain near historically low levels**
  - After experiencing upward pressure in 2013, tax-exempt rates rallied in 2014 and now hover near 40-year lows
  - In 2014, the Federal Reserve ended its bond-buying program and has signaled that it will closely monitor economic indicators for evidence of inflation
- **Euro Zone volatility continues to drive market fluctuations**
  - Both equity and bond markets have continued to experience day-to-day instability as there is uncertainty about economic and political outcomes for European Union
  - Russian-Ukraine relations remain strained with ongoing violence and conflict
- **Mixed economic recovery**
  - Economic reports continue to show mixed signs of improvement while the rate of recovery is differing across various regions
- **Expected modest increase in new bond issue supply**
  - New bond issue supply will still be down compared to peak years in 2008 – 2011, but there is expected to be some increase from last year's levels

# Highlights of 2015 “Bond Bill” HB 5005

## General Obligation Bonds

- **XI-G Higher Education Coordinating Commission**
  - OHSU Cancer Institute \$199.8 million
  - OSU Forest Science/Marine Studies 55.0
  - PSU Neuberger Hall Renovation 10.0
  - U of O Multiple Facilities 52.4
  - Community Colleges 79.3
  
- **XI-M Oregon Business Development** 70.0
- **XI-N Oregon Business Development** 30.0

# Highlights of 2015 “Bond Bill” HB 5005

- **XI-Q Department of Administrative Services** **\$506.7 million**
  - \$162.1 M Public Universities’ Capital Needs
  - \$160.2 M Facility Improvements (DAS, OJD, OMD, OYA)
  - \$96.0 M IT Systems (DOJ, DOR, OJD, DOC, DOF, DOE)
  - \$85.9 M Affordable Housing (OHCS)
  
- **XI-A Department of Veterans’ Affairs** **\$100.0 million**
- **XI-F(1) Higher Education Coordinating Commission** **67.9**
- **XI-H Department of Environmental Quality** **10.0**
- **XI-I(1) Water Resources Department** **30.5**
- **XI-I(2) Housing & Community Services Department** **25.0**
- **XI-J Department of Energy** **100.0**
  
- Total General Obligation Bonds in Bond Bill** **\$1,336,576,600**

# Highlights of 2015 “Bond Bill” HB 5005

## Direct Revenue Bonds

• Housing and Community Services Department	\$ 300.0 million
• Highway User Tax Bonds	393.2
• Oregon Business Development Department	30.0
• Lottery Revenue Bonds	219.3
• Department of Energy	20.0

**Total Direct Revenue Bonds in Bond Bill    \$ 962,450,000**

# Highlights of 2015 “Bond Bill” HB 5005

## Pass-Through Revenue Bonds

- |   |                  |
|---|------------------|
| • OBDD Industrial Development Bonds         | \$ 200.0 million |
| • OBDD Beginning and Expanding Farmer Loans | 10.0             |
| • Oregon Facilities Authority               | 950.0            |
| • Housing and Community Services Department | 250.0            |

**Total Pass-Through Revenue Bonds in Bond Bill \$ 1,410,000,000**

**Other Financing Agreements \$40.0 million**

# Highlights of 2015 “Bond Bill” HB 5005

- **Establishes Private Activity Bond Allocations**
- **Proposes changes in law to finance OHSU Cancer Challenge Article XI-G bonds in 2015-17, including increasing amount authorized instead of using Lottery Revenue Bonds**