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Dear Senate Finance and Revenue Committee:

When SB 80 was last before the Committee, Senator Boquist asked a question regarding the liability of the state on bonds made to universities in light of the impending transition from the Oregon University System (OUS) and the independence status of the seven universities that were a part of that system. My answer that the State's liability is protected under the related university bonding measure, HB 3199, was incomplete and I'd like to present more information for the Committee as it considers the more technical SB 80 that cleans up references to OUS in Oregon statutes.

In short, Treasury believes HB 3199 presents the best protections for the State's interests while allowing universities to benefit from the State's superior credit rating.

While all bonds available to universities, save lottery bonds, involve a pledge of the State's full faith and credit, concerns regarding unanticipated State liability are most appropriate for Article XI-F(1) bonds. HB 3199 also includes a new bond administration process for Article XI-G bonds but the proceeds on these bonds are contingent on a money match from the particular university. And while HB 3199 does not deal with Article XI-Q bonds, the legislature knowingly takes on general fund debt service whenever it approves of a Q bond project that benefits a university.

Article XI-F bonds are the greatest concern because they are structured as loans, with a university pledging to pay the State the required debt service on the underlying bonds. Given the universities' new independent legal status, the State has required universities to enter into loan agreement contracts that spell out the debt service payments the universities are to make among other obligations. If a university does not pay according to the loan schedule, the State will make the payment to Bondholders, and then reimburse itself from the university's general fund appropriation, to the extent that runs are available.

One key feature of HB 3199 is the focus on the certification of revenue sufficiency before the State enters into any loan agreements with universities. Previously when universities were part of OUS, this work was conducted initially by the chancellor's office, to assure that a school's future auxiliary revenues were conservatively estimated. Treasury also reviewed these projected revenues before each XI-F bond sale, and took comfort in the combined fund balance of the OUS systems.

Now that the universities are on their own, the State must carefully look at the financial health of individual schools before issuing XI-F bonds. HB 3199 places HECC in charge of performing a detailed analysis of the school's financials to determine that there will be sufficient revenue to pay back the loan to the State and to better ensure the State won't be left on the hook for XI-F debt service payments. This is particularly important as universities are free to pursue revenue bonds apart from the State on their own credit, and pledge the same revenue streams that the State is relying on for repayment of both legacy and new XI-F bonds.

Overall, much effort has been put into providing a framework for XI-F bonds in particular so that the State will be best protected from unforeseen liability. In practice, it is expected that universities will look more to XI-Q bonds instead of XI-F bonds given the State pays the debt service on XI-Q bonds.

Hopefully this response answers the Committee's concerns. Treasury stands willing to provide any more information as desired.

Best,

Drew Johnston
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