

Joint Ways and Means Committee

Subcommittee on Capital Construction

2017 State Debt Policy Advisory Commission Report



**Office of the State Treasurer
Debt Management Division**

April 28, 2017

Introduction

Purposes of Report

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



Debt Capacity Concepts

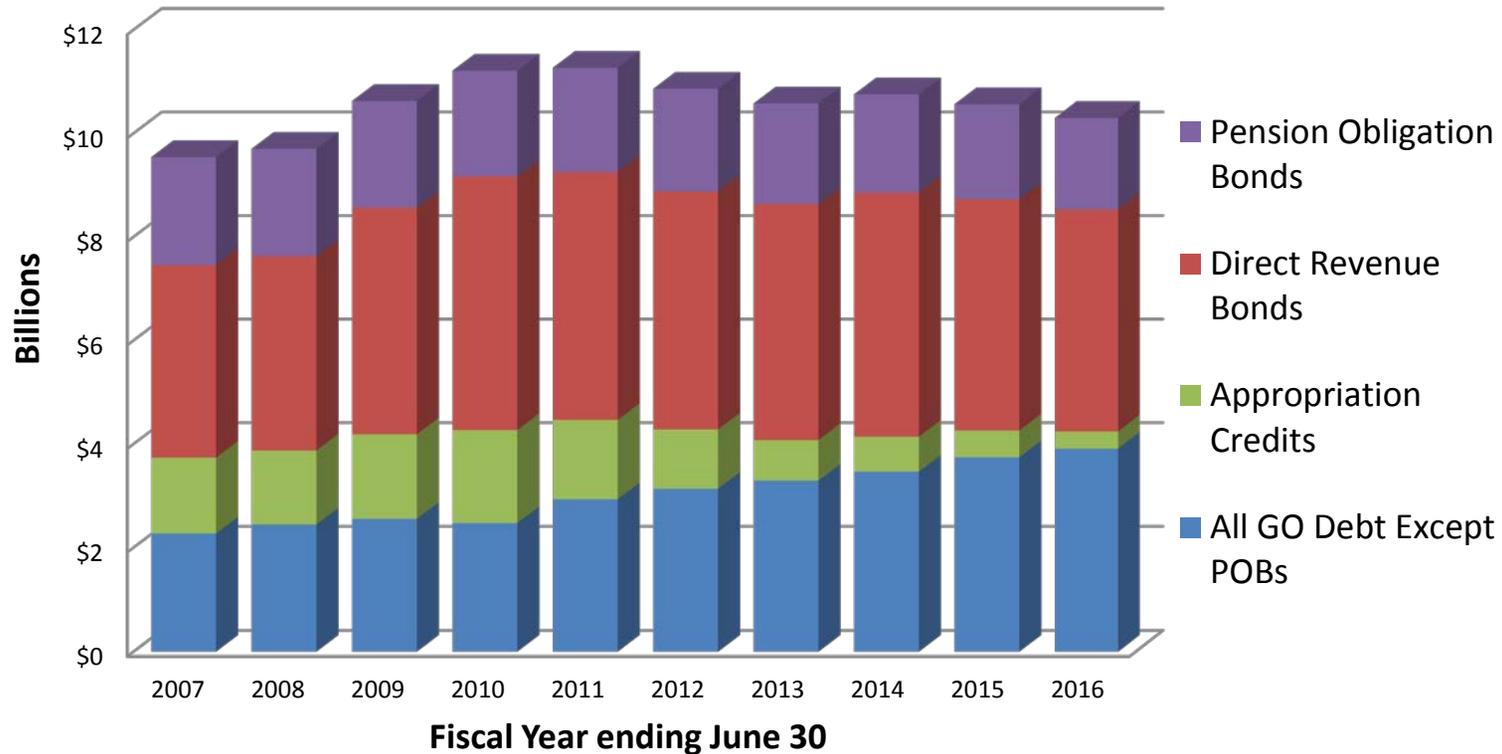
Four Types of Long-Term Debt

1. General Obligation Bonds	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• Historically, Certificates of Participation (COPs) were used to finance real or personal property owned by the State• Generally payable by State agencies from GF sources• Not secured by the full faith and credit of the State• With passage of XI-Q GO bond authorization in 2010, higher cost COPs are not often used for State capital projects
4. Conduit Revenue Bonds	<ul style="list-style-type: none">• 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

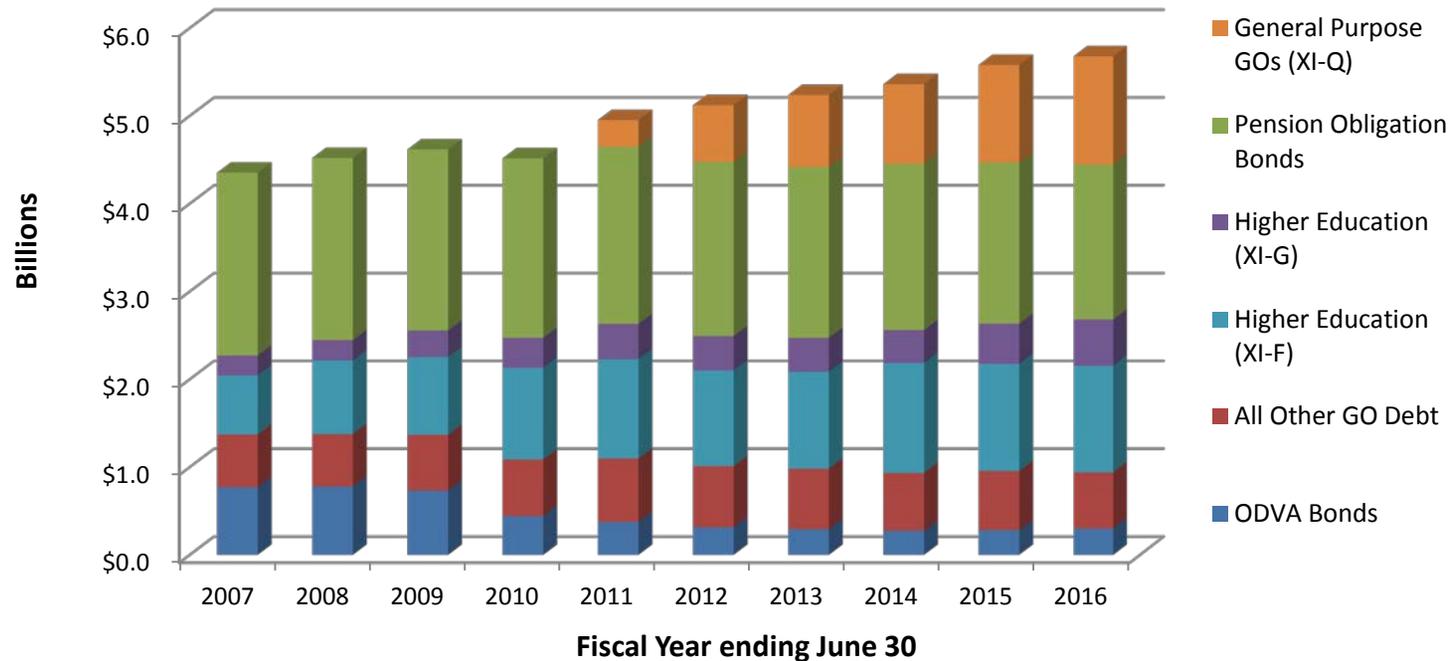
Oregon's Bonded Indebtedness Over the Past Decade



- The State's overall debt levels peaked in FY 2010, but has declined and remained relatively stable since then, as existing debt retirement has generally kept pace with new debt issuance



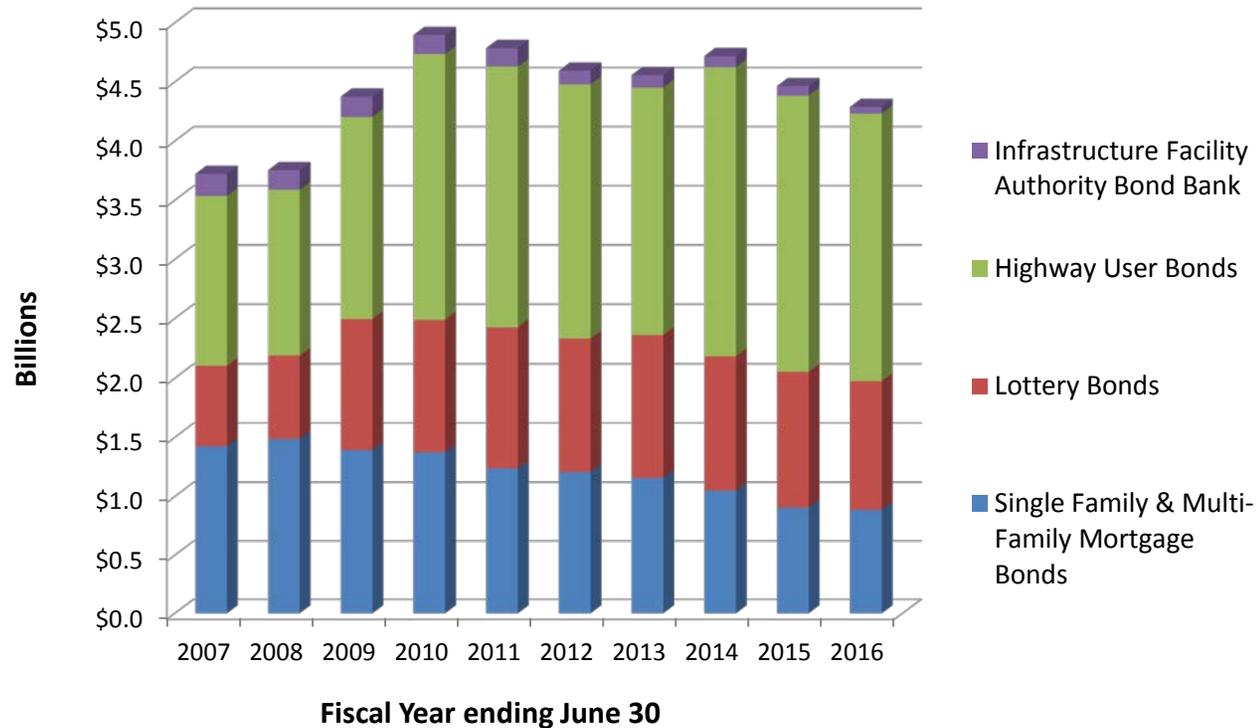
State General Obligation Indebtedness Over the Past Decade



- In FY 2004, the State issued \$2.4 billion in Pension Obligation Bonds, of which \$1.8 billion remained outstanding at the end of FY 2016
- In recent years, most new GO bonds were issued to fund building projects at public universities and community colleges
 - ❑ \$1.8 billion of debt for this purpose was outstanding as of June 30, 2016
- A substantial portion of the State's outstanding COPs have now been refunded as lower cost XI-Q GO bonds

Debt Capacity Concepts

Direct Revenue Bonds Indebtedness Over the Past Decade

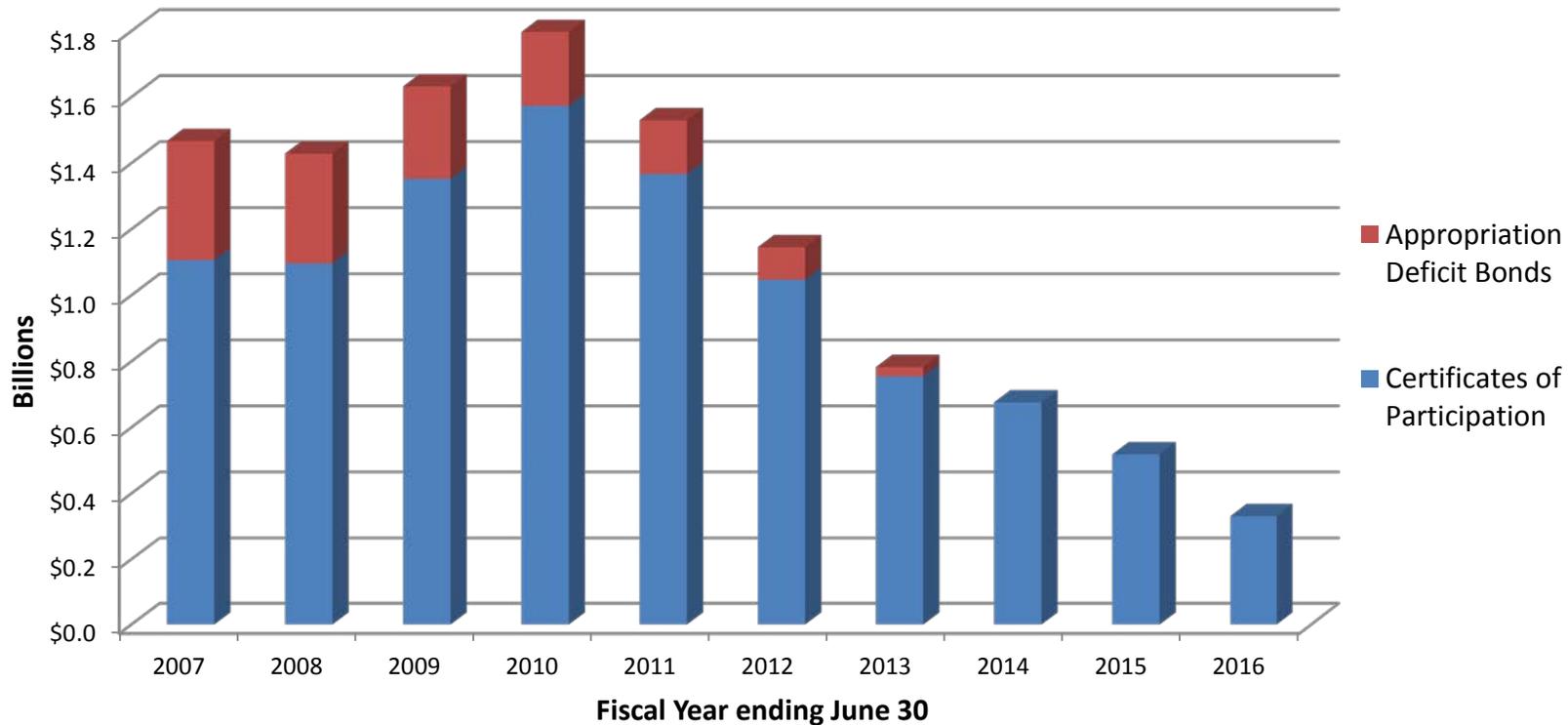


- The issuance of \$2.4 billion Highway User Tax Bonds over the past several years to fund ODOT highway and bridge projects is responsible for the majority of the growth in outstanding state revenue bonds
- Lottery revenue bond issuance following the introduction of video line games due to the significant increase in annual net lottery revenues available to the Legislature
- The volume of annual issuance of single and multifamily housing revenue bonds has declined substantially over the past decade



Debt Capacity Concepts

Outstanding Appropriation Credit Indebtedness Over the Past Decade



- The final payment on the appropriation deficit bonds sold in 2003 was made in September 2013
- The State has refunded \$580 million in COPs to date with lower cost Article XI-Q GO bonds, saving an estimated \$92.4 million in interest costs on a present value basis
- The State continues to monitor the market for opportunities to refund the remaining balance of COPs whenever financially and legally feasible



Credit Ratings of Major State Bond Programs

Bond Program	Standard & Poor's	Moody's	Fitch
General Obligation Bonds	AA+	Aa1	AA+
COPs/Appropriation Credits	AA	Aa2	AA
Lottery Revenue Bonds	AAA	Aa2	--
Highway User Tax Revenue Bonds Senior/Subordinate Lien	AAA/AA+	Aa1/Aa2	AA+/AA



Results of Recent State Bond Sales

Sale Date	Type of Bond	Par Amount (\$M)	New Projects Funded (\$M)	Uses of Funds	PV of Refunding Savings (\$M)	All-in Interest Rate
Feb 8	GO (XI-Q,M,N,J)	\$ 476.4	\$ 474.2	Various state capital projects; school and public safety building seismic grants; refunding of GO bonds linked to SELP	\$ 5.7	3.10%
March 1	GO (XI-P)	62.1	72.4	K-12 school capital improvement matching grants		3.20%
March 16	GO (XI-G)	84.9	98.0	OHSU Knight Cancer Center matching grant		3.65%
March 22	Lottery Revenue	230.5	173.3	Various state and local projects; refunding of outstanding bonds	4.7	3.34%
April 4	GO (XI-F(1),G)	329.5	115.3	Various university and community college projects; refunding of GO bonds linked to universities and community colleges	25.6	3.16%
April 19	GO (XI-Sec 7)	30.2	35.0	Various ODOT projects		3.47%
Total – Year to Date		\$ 1,213.6	\$ 968.2		\$ 35.9	



Four Debt Capacity Categories

1. General Fund-Supported Debt	<ul style="list-style-type: none">• SDPAC Recommended Target Limit -- 5% of General Fund Revenues
2. Lottery-Backed Debt	<ul style="list-style-type: none">• Legal Bond Covenant Limit: 4x Coverage (no more than 25% of net lottery revenues)• Moral obligation pledge of State
3. Net Tax-Supported Debt	<ul style="list-style-type: none">• National bond rating agency perspective.• States compared with each other using “apples-to-apples” measurement approach
4. Non Tax-Supported Debt	<ul style="list-style-type: none">• 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 (37% 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) (82% of total)

Appropriation Credits

- Certificates of Participation (85% of total)

Outstanding as of June 30, 2016 -- \$2.83 Billion



Model Inputs & Assumptions

- Accounts for all debt outstanding as of June 30, 2016 and assumes **\$1.15 billion** in issuance during the current biennium, based sale of all 2015 and 2016 legislative authorizations for General Fund-supported GO bonds, including:
 - *\$433.5 M for State Buildings (XI-Q) (General Fund-supported portion)*
 - *\$550.8 M for Higher Education Facilities , OHSU 's Cancer Center, and Community College projects (XI-G)*
 - *\$207.3 M for school and public safety building seismic upgrade grants (XI-M & XI-N)*
 - *\$126.2 M for school improvement match grants (XI-P)*
 - *\$35.5 M for state highway projects (XI, Sec 7)*
- Uses December 2016 General Fund revenue forecast over ten year horizon
- New debt issued as level debt service over 20 year term at **4.50%** interest rate (32 basis points above average BB-20 over last 10 years)
- Target of 5.0% of General Fund revenues used to make payment on General Fund debt service



Projected General Fund-Supported Debt Capacity over the Next Four Biennia

Fiscal Year Ending June 30	Maximum Amount that can be Issued within Target Capacity* (\$ Millions)	Debt Service as a % of General Fund Revenues
2017	-	3.4%
2018	\$ 1,301.5	5.0%
2019	450.4	5.0%
2020	285.1	5.0%
2021	546.4	5.0%
2022	568.8	5.0%
2023	316.7	5.0%
2024	485.4	5.0%
2025	612.4	5.0%
Additional General Fund Capacity Over the Forecast Period	\$4,566.6	

*These amounts do not include the \$1.15 billion in GF-supported bonds authorized by the 2015 and 2016 Legislatures.



Factors that Could Impact Projected General Fund Debt Capacity (in millions)

	<u>FY 2018 – 2025</u>	<u>Per Biennium *</u>
Base Case	\$ 4,567	\$ 1,142
<u>Change in General Fund forecast</u>		
10% decline	3,710	927
10% increase	5,423	1,356
<u>Change in interest rate forecast</u>		
1.0% higher	4,117	1,029
1.0% lower	5,067	1,267

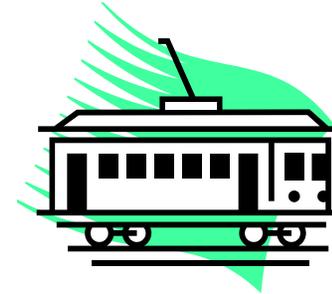
* May not total exactly due to rounding



Lottery-Backed Debt

Lottery Bond Projects & Programs

- **\$1.08 billion** in bonds outstanding as of 6/30/16
- 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



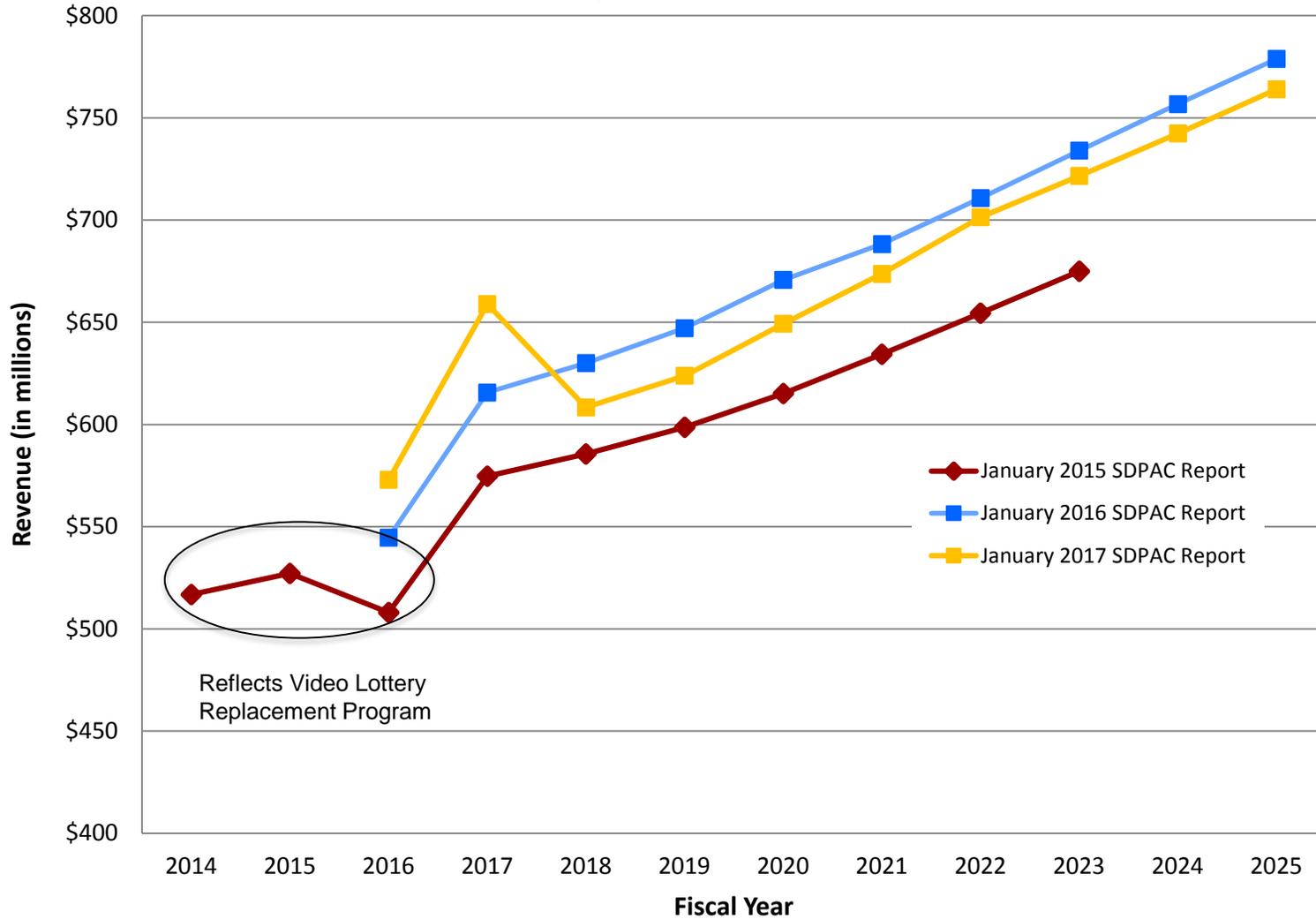
Model Inputs & Assumptions

- Accounts for all Lottery debt now outstanding and planned issuance of **\$213.1 million** in new lottery bonds, as authorized by the 2015 and 2016 Legislatures
- Incorporates December 2016 Lottery revenue forecast for the next ten years
- New debt issued as level debt service over 20 year term at 4.50% interest rate (32 basis points above average BB-20 over last 10 years)
- Target based on 4x debt service coverage or maximum of 25% of net lottery revenues



Lottery-Backed Debt

Recent Trends in Oregon's Long-term Lottery Revenue Forecast



Projected Lottery Revenue Bond Capacity Over the Next Four Biennia

Fiscal Year Ending June 30	Maximum Amount That Can be Issued within Debt Service Coverage Ratios* (in millions)	Projected Debt Service Coverage Ratio (Times)
2017	--	5.6
2018	\$ 249.6	4.0
2019	95.5	4.0
2020	139.8	4.0
2021	80.9	4.0
2022	63.6	4.0
2023	70.3	4.0
2024	67.5	4.0
2025	70.2	4.0
Lottery Debt Capacity Over the Forecast Period*	\$ 837.5	

* Does not include the \$ 213.1 million in Lottery bonds authorized by the 2015 and 2016 Legislatures.



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

	<u>FY 2018 - 2025</u>	<u>Average Per Biennium*</u>
Base Case	\$837	\$209
<u>Change in lottery revenue forecast</u>		
10% decline	589	147
10% increase	1,086	271
<u>Change in long-term interest rates</u>		
1.0% higher	752	188
1.0% lower	935	234

* May not total 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
- Balance of COPs and XI-Q bonds
- Lottery Revenue Bonds
- Highway User Tax Revenue Bonds



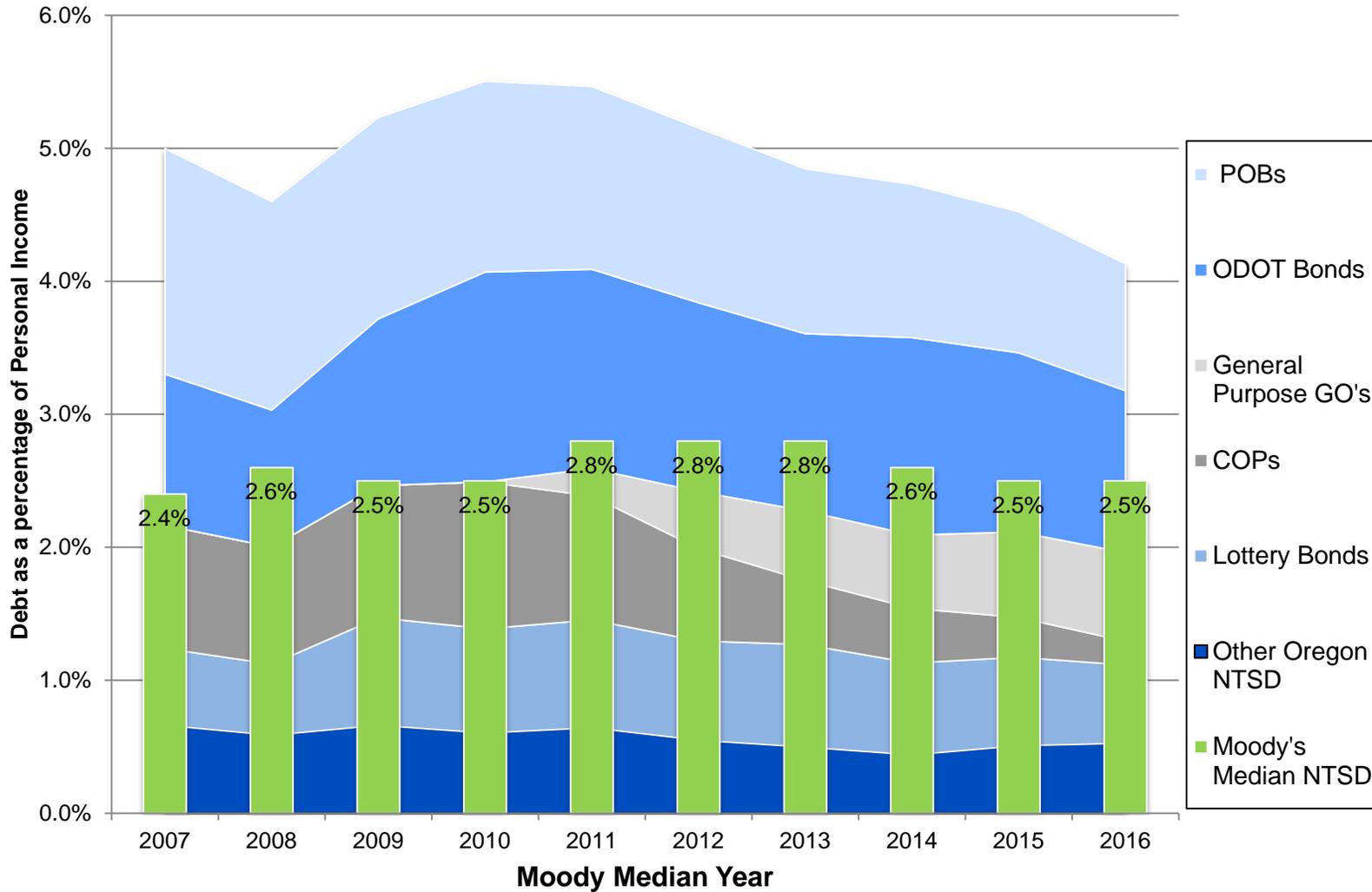
State of Oregon Net Tax-Supported Debt Ratios

	Fiscal Year Ending June 30 th		
	FY 2015 (Actual)	FY 2016 (Actual)	FY 2017 (Projected)
Net Tax-Supported Debt (in Billions)	\$ 7.8	\$7.6	\$8.8
NTSD Per Capita	\$1,944	\$1,876	\$2,120
NTSD as % of Personal Income	4.4%	4.1%	4.5%
<i>Excluding Pension Obligation Bonds</i>			
NTSD Per Capita	\$1,487	\$1,442	\$1,712
NTSD as a % of Personal Income	3.4%	3.2%	3.6%



Net Tax-Supported Debt

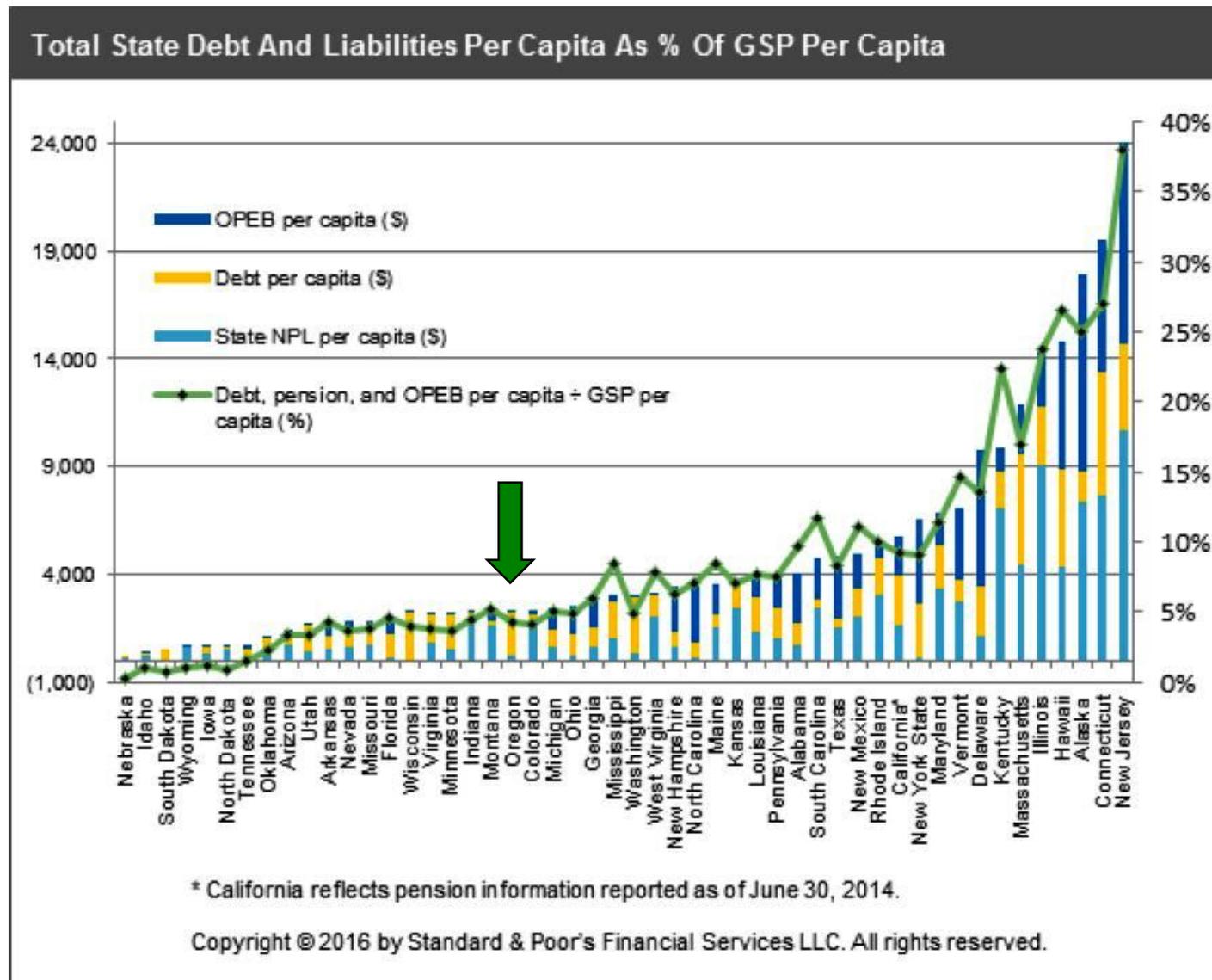
Trends in Net Tax-Supported Debt as % of Personal Income State of Oregon vs. Moody's 50 State Median



Sources: Moody's State Debt Medians Reports, 2007-2016



Net Tax-Supported Debt



Source: S&P pension report published on Sept 12, 2016, based on fiscal year 2015 state comprehensive annual financial reports. State of Oregon data does not reflect the impact of the *Moro* decision and other actuarial assumption changes made in the 2015 or 2016 actuarial valuation periods.



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 (63% of d/s)
- 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



Conclusions

- Tax-exempt interest rates have declined over the past several year, allowing the State to issue bonds for new projects and to refund existing bonds at historically low interest rates
- Based on current assumptions, the Commission projects there will be **\$4.57 billion** in additional General Fund-supported debt capacity available over the next four biennia while remaining within the SDPAC's 5% debt service limit
- The Commission has historically recommended that the State conserve General Fund debt capacity by averaging out available capacity over time
 - For the 2017-19 biennium, this averaging approach suggests a maximum GF debt capacity of **\$1.14 billion**



Conclusions (continued)

- Based on the December 2016 forecast of long-term Lottery revenues and the planned sale of \$213.1 million in Lottery bonds in the spring of 2017, there will be **\$837 million** in additional Lottery bond capacity over the next four biennia
- Based on the capacity “averaging” approach historically recommended by the Commission, the recommended allocation of Lottery bond capacity for the 2017-19 biennium is **\$209 million**



Conclusions (continued)

- While Oregon's net tax-supported debt ratios remain well above national averages, the State's overall liability (which is the sum of both its public debt and its unfunded PERS liability) will likely remain below the national average among U.S. states in the coming years

