



Testimony re SB 614

Submitted by Laura Lockwood-McCall, Director of Debt Management, Oregon State Treasury

Good Morning, Chair Riley, Vice-Chair Girod, and Members of the Senate Committee on Business & General Government.

I am here today to testify on SB 614 which would prohibit the State Treasurer from selling General Fund Supported debt (either GO bonds or appropriation-based credits) if the overall amount of existing General Fund supported debt service is greater than 5% of projected general fund revenues. This is the same long-term guideline that has been used to make debt capacity recommendations by the State Debt Policy Advisory Commission over the past twenty years. This Commission is established under State law (ORS 250A.250) to annually review the state's overall debt position and to make recommendations to the Governor and State Legislature on prudent new debt levels; it is composed of the State Treasurer, who is the chair; a member of the Senate; a member of the House; the Director of the Department of Administrative Services and a public member, appointed by the Governor. The Debt Management Division of the State Treasurer's Office, which coordinates the structuring and sale of all bond issues sold by the State of Oregon, and for which I have served as its director for the past 15 years, also serves as staff to the Commission.

The fact that various Oregon Governors and State Legislatures have adhered to the SDPAC debt capacity guidelines for the past twenty years, whether in good budget times or bad, is testimony to the strength of our state's existing SDPAC process, which has been noted by the three national rating agencies, who all give us their highest possible scores (AAA) with regards to our long-term liability management practices.

While our office wholeheartedly supports the concept underlying the 5% general fund debt capacity guideline, we advise against locking this long-standing debt capacity formula into state law. The bill offers no flexibility for emergency situations, which could be a problem if the state found itself in a position where revenues dropped suddenly but the state still needed to issue bonds to address an immediate crisis or infrastructure repair situation, like a major earthquake event, where the 5% threshold might be temporarily crossed. (As a side note, the selection of 5% as the general fund debt capacity threshold was initially selected by the Commission as it was the average level then in us among states who had debt capacity models, but there are some states who are also highly rated who have chosen to use higher capacity target rates as well.)

During the height of the Great Recession, due to declining long-term general fund revenue forecasts, the Commission met frequently and issued interim reports between legislative sessions suggesting that the Governor and Legislature delay the issuance of bonds for new capital projects that were authorized in





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the Bond bill based on the Commission's determination that long-term debt capacity was shrinking significantly – while painful to project sponsors, these recommendations were nevertheless accepted and acted upon by state officials. Once state general fund and lottery fund revenues stabilized, these projects proceeded and were built, albeit a few years later than originally planned.

These actions by the executive and legislative branch of our state government demonstrate that SB 614 is not necessary, as we have developed a robust system of checks and balances that helps keep us within prudent debt levels even when times were difficult, while maintaining strong credit ratings.

Thank you for accepting my testimony.

