April 3, 2019

TO: House Committee on Rules

FROM: Angie Peterman, OASBO Executive Director

RE: HB 3123

As the Executive Director for OASBO, I work with virtually every one of our 197 school districts and 19 ESDs. They all continue to face daunting increases in pension costs as well as health insurance, etc. I am here in opposition to HB 3123 as we believe it may eliminate or seriously curtail the one tool we have that has been used successfully to reduce PERS costs.

- **Savings.** Over 100 school districts have issued pension obligation bonds (POBs) in the past 17 years. As with the State, most districts have saved money – in most cases considerable amounts - from the use of this tool. Of the 8 pooled issuances for school districts executed since 2002, only 1 (consisting of 7 school districts) issued in 2007 right before the recession was not in the black as of the 2017 valuation.

  The follow table shows select schools from each pool and their **actual savings** through the 2017 valuation. Schools that borrowed at the same time will have similar levels of savings.

District	Pension Bonds Issued	Amount Issued	TIC	Savings through calendar year 2017 Pension Bond Savings	PV Savings @ 5.73%
	2002		5.6%		
	2003		5.73%		
North Clackamas School District	2011 Rfdg	$ 117,468,012	4.24%	$ 57,043,025	$ 43,269,174
	2002		5.6%		
	2003		5.73%		
Portland Public Schools	2012 Rfdg	210,103,857	2.87%	225,370,678	164,081,967
Reedsport School District	2002	2,908,726	5.60%	1,393,360	974,606
Astoria School District	2003	17,365,161	5.73%	6,384,048	4,623,423
Oregon City School District	2004	45,990,000	5.49%	11,027,622	8,983,262
	2005A		4.77%		
Hillsboro School District	2015	102,850,000	4.15%	33,254,128	24,007,914
Warrenton - Hammond School District	2005A	4,695,000	4.77%	807,842	571,288
David Douglas School District	2007	38,060,000	5.67%	(1,877,937)	(1,041,485)

- **Advice received.** We've heard some concern regarding districts utilizing due diligence in making determinations as to whether or not POBs are appropriate and whether or not they fully understand the risks involved in issuing POBs. Some of that concern revolves around the assumption districts only receive "advice" on risk, etc. from the underwriters they work with that may ultimately be involved in issuance of the POBs. I would like to make sure each of you understand districts take this process very seriously and have sought independent expert advice prior to borrowing from various other sources. All of the school district issuances were preceded by borrowers seeking expert advice from ECONorthwest in the form of an econometric 'Monte Carlo' simulation that looked at the then existing asset allocation of the PERS fund and determined probabilities of success.
- **Strong understanding of risk.** Further, every issuance of debt was preceded by the provision of considerable information about the risks associated with POBs. Borrowers attended workshops,

and were provided written reports, and analyses, as well as information directly from PERS all to ensure that borrowers understood the potential tradeoffs.

- **Amortization is prudent.** We have heard concern expressed that the amortization of these POBs is imprudent because it increases over time. While it is true that it increases in most cases, these increases were designed to match the existing amortization of the PERS UAL. Thus, it is no more expensive than what districts would be facing if they didn't issue a POB. If borrowers structured the debt with higher amortizations than the PERS UAL, they would be penalizing themselves even more in an already tight financial situation.
- **Debt capacity maintained.** We have also heard concerns that the issuance of POBs 'crowds out' debt capacity for critical infrastructure. In fact, it does not crowd out such projects any more than the PERS UAL already does. School districts have more than adequate debt capacity under Oregon law to borrow for this purpose. Other capital projects are more likely to be done with a general obligation bond, and these borrowings do not infringe on that capacity. So it is NOT a choice between a new school and a pension obligation bond.
- **No State guarantee.** Despite what you might have heard, under the terms of our agreements with ODE, the State is NOT on the hook for POB debt service for school districts. The State has merely agreed to send SSF dollars that have already been appropriated to a Trustee, but ONLY if there are sufficient funds available. If funds are not available, there is NO obligation on the part of the State to make up the difference – the District is on the hook. SSF funds are District funds, they do not belong to the State.
- **Rating agency reaction.** The rating agencies are generally neutral on the subject of POBs as they consider the UAL to be a real debt as well. Rating agencies and investors alike look at these obligations as 'replacement obligations' for debt these jurisdictions already have. To the extent a district has saved money through the issuance of POBs, the rating analysts have actually given them credit as being in 'better shape' than other similar jurisdictions

We understand that POBs are risky, and are supportive of districts considering this option cautiously and with the best information. However, HB 3123 will not accomplish its goals for several reasons:

- Requiring an Independent Registered Municipal Advisor (IRMA) is too restrictive. IRMAs are advisors who have expertise on the municipal bond market, not on investment of pension funds, which is where the bulk of the risk is. This language would not allow a jurisdiction to hire an economics, actuarial or investment firm to provide advice and have them qualify under the provisions.
- Requiring an IRMA to assess the 'advisability' of issuing a POB would be prohibitively expensive, even potentially impossible, given these firms are subject to SEC requirements on acting in a fiduciary capacity. We have been advised by one of the most active IRMAs in the State that they are uncertain they would be willing to provide this opinion given the potential liability.

HB 3123 as currently written will make it virtually impossible for school districts to take advantage of the one tool they have at their disposal to defray pension costs. School Districts have a long history of using this authority responsibly, and most have saved considerable sums of money, allowing funds to go into the classroom in tight budget times.