Capital Construction Subcommittee Of Ways and Means Committee

State Debt Policy Advisory Commission 2019 Report Findings

OREGON STATE TREASURY

April 5, 2019

Introduction

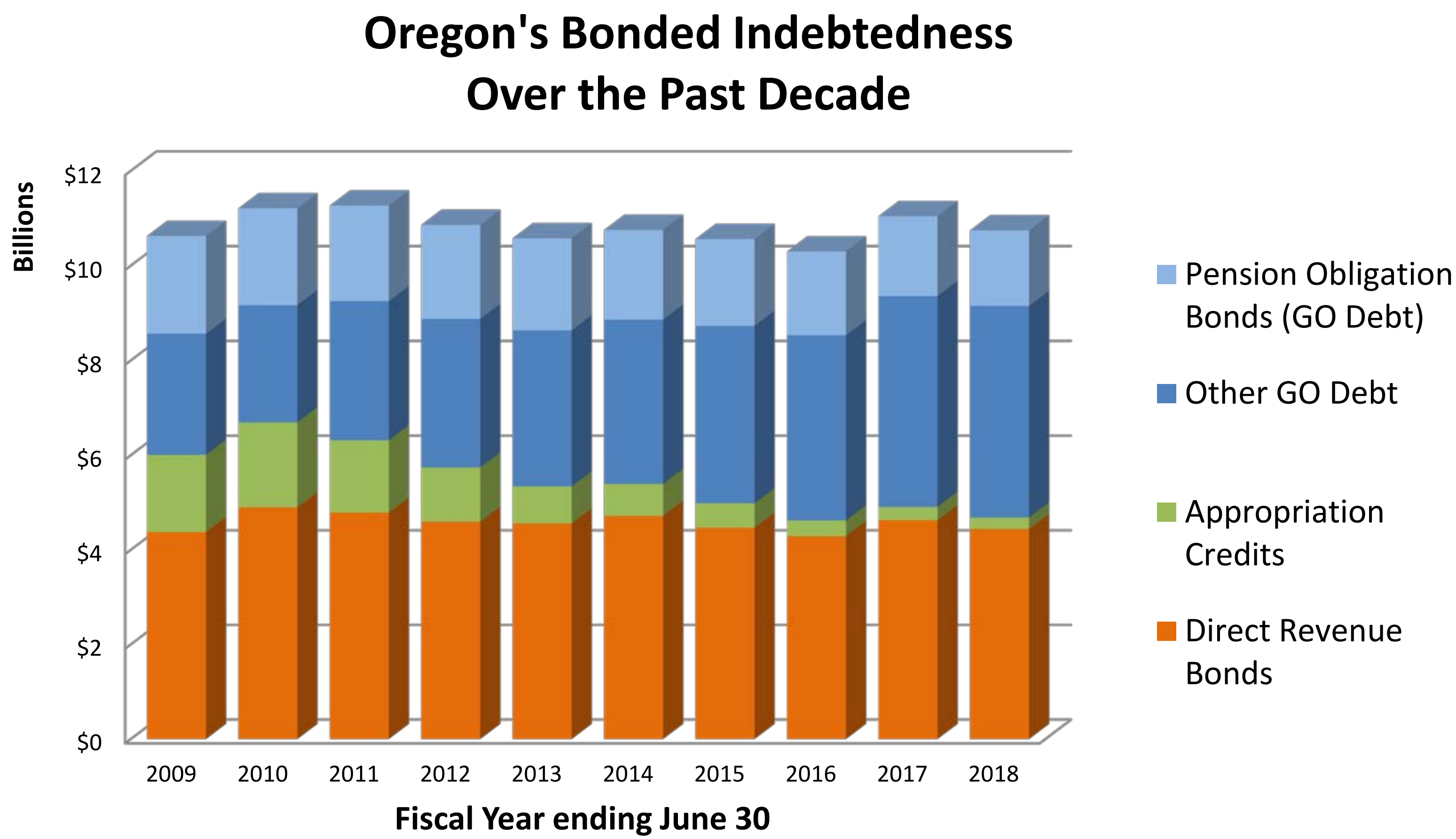
Purposes of Report

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

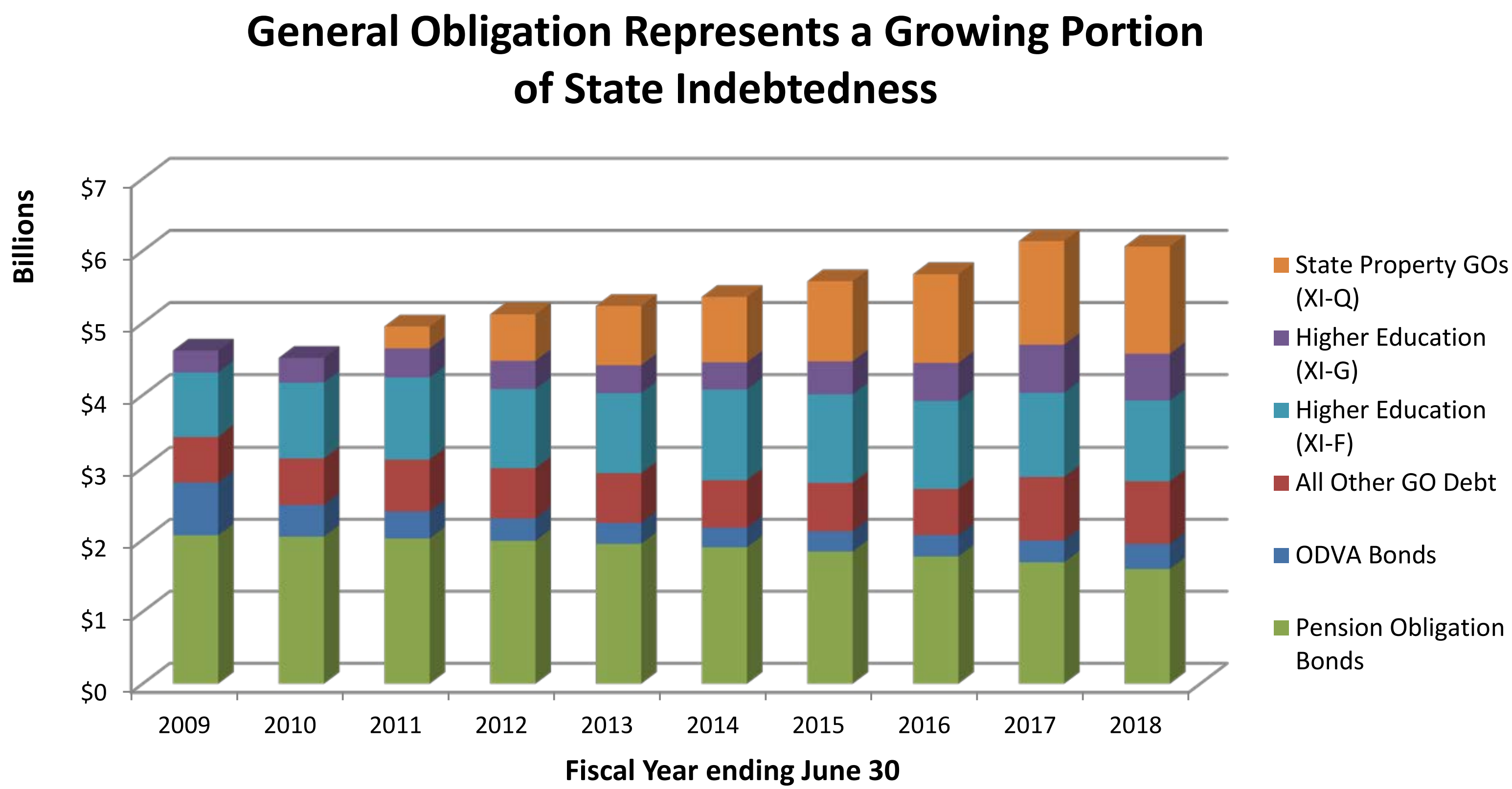
Debt Capacity Concepts

Four Types of Long-Term Debt

1. General Obligation Bonds	• Requires voter approved constitutional amendment for new categories of use • Pledges the full faith & credit of the State • Includes both GF-supported and non GF-supported bond programs
2. Direct Revenue Bonds	• 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	• Historically, Certificates of Participation (COPs) were used to finance essential 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 • Limited use since passage of XI-Q GO bond authorization in 2010
4. Conduit Revenue Bonds	• 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

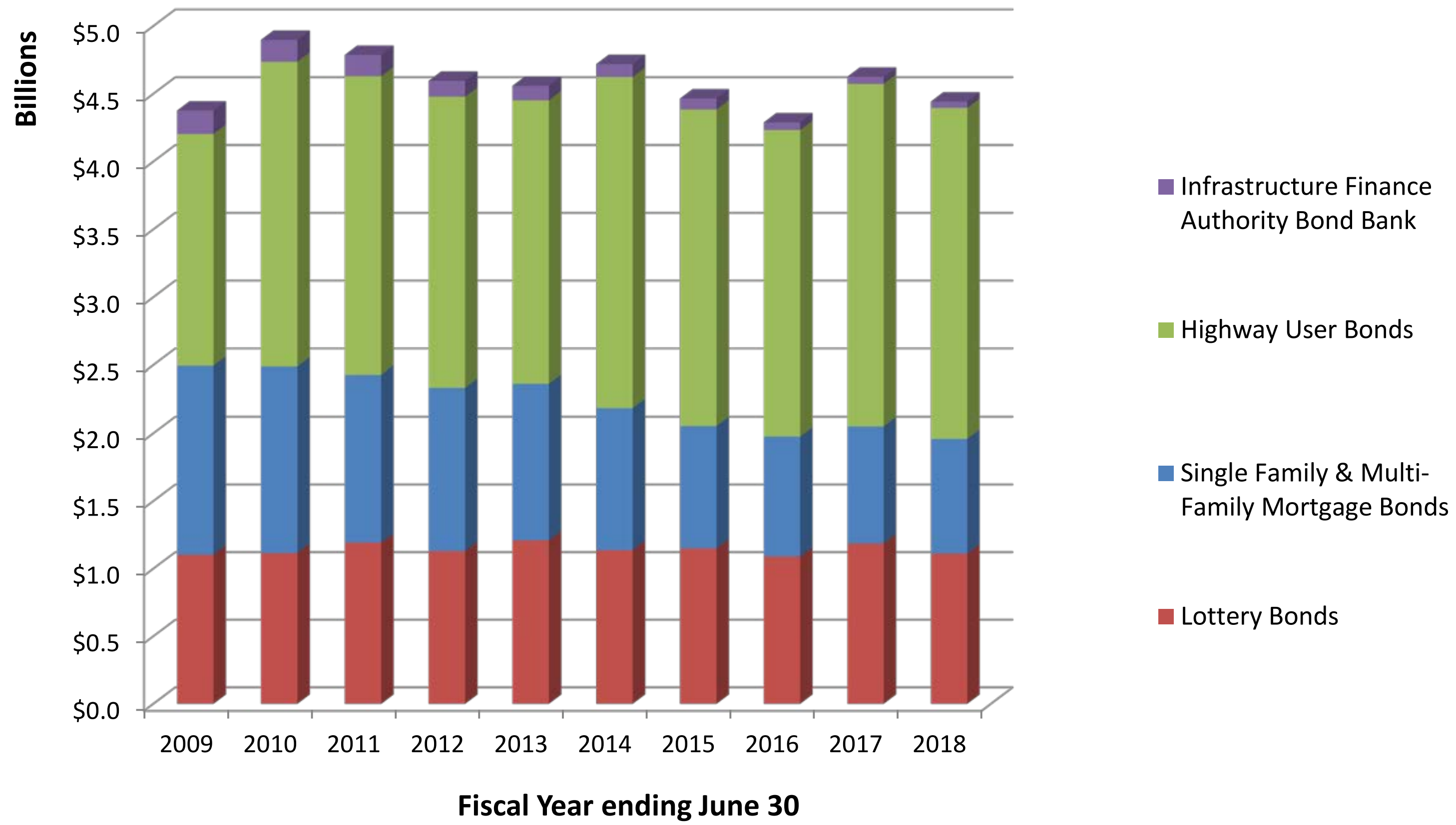


- The State's overall debt levels have remained relatively stable over the past decade, as overall new debt issuance has generally been at a pace equal to that of bond retirement
- With the creation of the Article XI-Q General Obligation bond program, the State has shifted away from the use of lower-rated, higher cost appropriation credits



- In FY 2004, the State issued $2.1 billion in Pension Obligation Bonds, of which $1.6 billion still remained outstanding at the end of FY 2018
- In recent years, a significant portion of the State's GO bonds were issued to fund building projects at public universities and community colleges
    - $2 billion of GO debt related to higher education facilities was outstanding as of June 30, 2018
- Most of the State's outstanding COPs have now been refunded as lower cost XI-Q GO bonds, saving over $90 million in interest costs, with the bulk of new state agency facilities now financed through this GO bond program
    - $1.5 billion in XI-Q GO bonds were outstanding as of June 30, 2018

Direct Revenue Bonds Outstanding by Bond Program



- While overall revenue bond indebtedness has remained relatively stable over the past decade, a growing percentage is composed of Highway User Tax bonds related to ODOT's multi-year bridge and highway improvement and congestion management programs
- Lottery bonds outstanding have remained constant, with new debt issued at the same pace as existing debt retirement
- While single and multifamily housing revenue bond issuance has declined over the past decade, this type of bonding is likely to grow in the future as the state addresses the need for more affordable housing

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	Term of Bonds	All-in Interest Rate
Feb 12	GO Bonds (XI-Q,M,N,P) (tax-exempt and taxable)	$ 526.1	$ 601.8	Various state capital projects; school and public safety building seismic grants; school matching grants; LIFT affordable housing grants.	15 – 25 years	3.21%
March 6	COPs (taxable)	100.6	100.0	Initiating the decoupling of the Elliott State Forest from the Common School Fund	20 years	3.83%
March 22	Lottery Revenue Bonds (tax-exempt and taxable)	159.5	172.7	Various state and local projects	20 years	3. %
Total – Year to Date		**$786.2**	**$874.5**			

OREGON STATE TREASURY

Four Debt Capacity Categories

1. General Fund-Supported Debt	• SDPAC Recommended Target Limit --Keep annual debt service at or below 5% of General Fund Revenues
2. Lottery-Backed Debt	• Legal Bond Covenant Limit: 4x Coverage (no more than 25% of net lottery revenues) • Moral obligation pledge of State
3. Net Tax-Supported Debt	• National bond rating agency perspective. • States compared with each other using "apples-to-apples" measurement approach
4. Non Tax-Supported Debt	• No generic capacity limit or measurement. • State programs in this category are managed based on revenue streams available

OREGON STATE TREASURY

General Fund-Supported Debt Programs

GF-Supported State Debt Programs

General Obligation Bonds

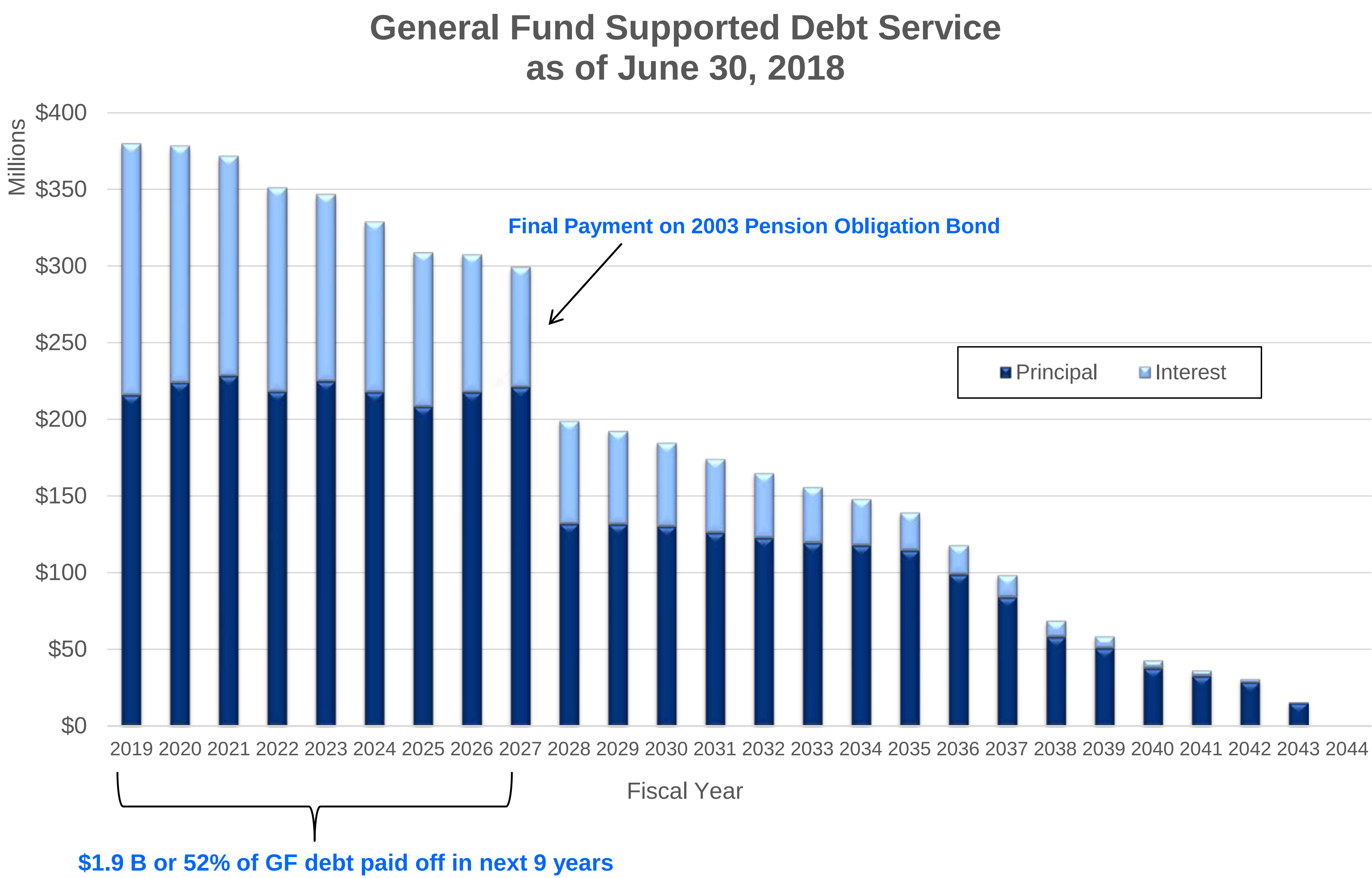
- Higher Education Facility Bonds (XI-G)
- Community College Bonds (XI-G)
- Pollution Control Bonds (XI-H) (34% of total)
- Alternate Energy Bonds (XI-J) (39% of total)
- Oregon Opportunity Bonds (XI-L) (OHSU)
- Pension Obligation Bonds (XI-O) (33% of total)
- Seismic Rehabilitation Public Education Buildings (XI-M)
- Seismic Rehabilitation Emergency Service Buildings (XI-N)
- State General Purpose (XI-Q) (87% of total)

Appropriation Credits

- Certificates of Participation (86% of total)

Outstanding as of June 30, 2018 -- $3.4 Billion

General Fund-Supported Debt

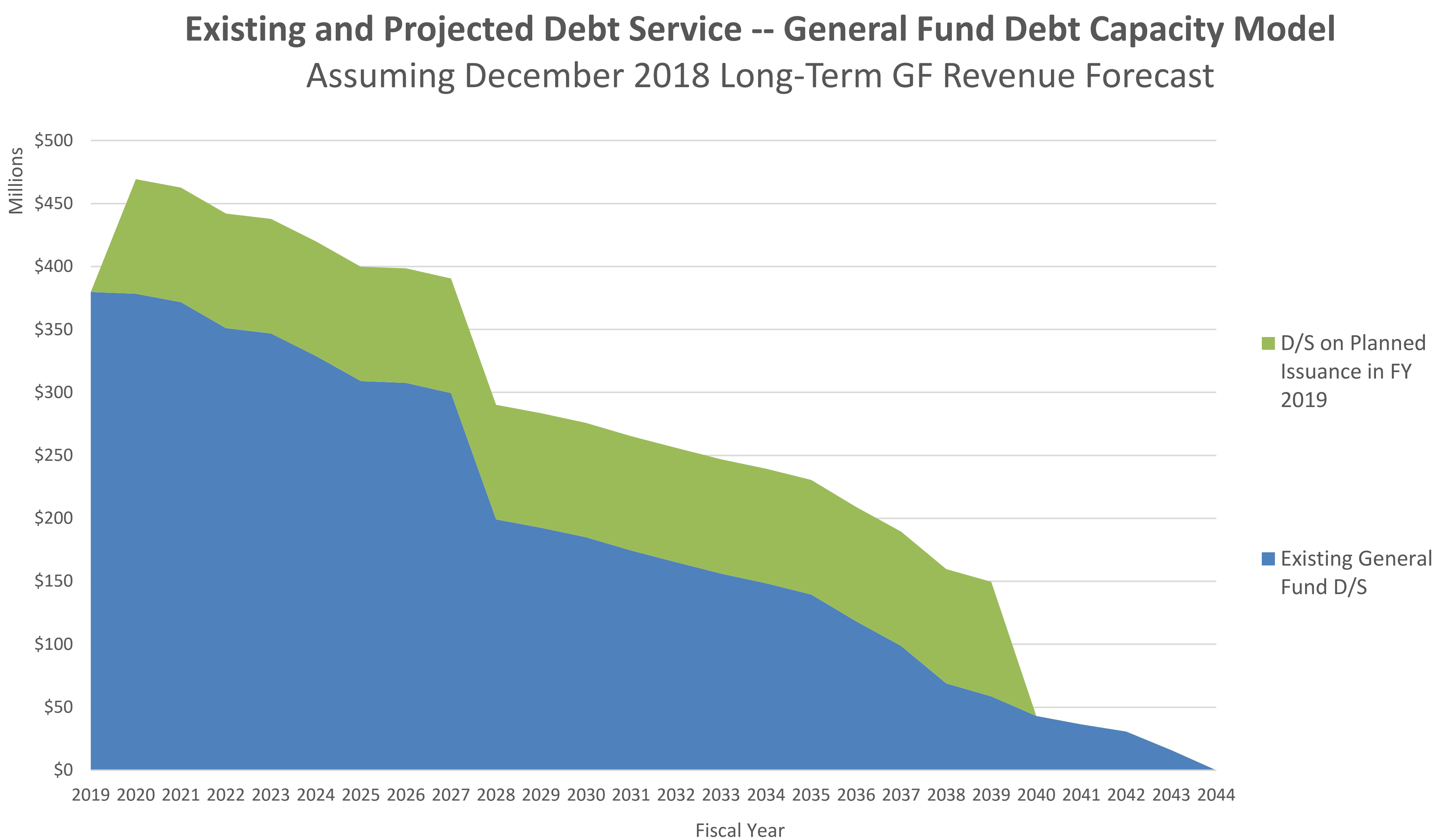


OREGON STATE TREASURY

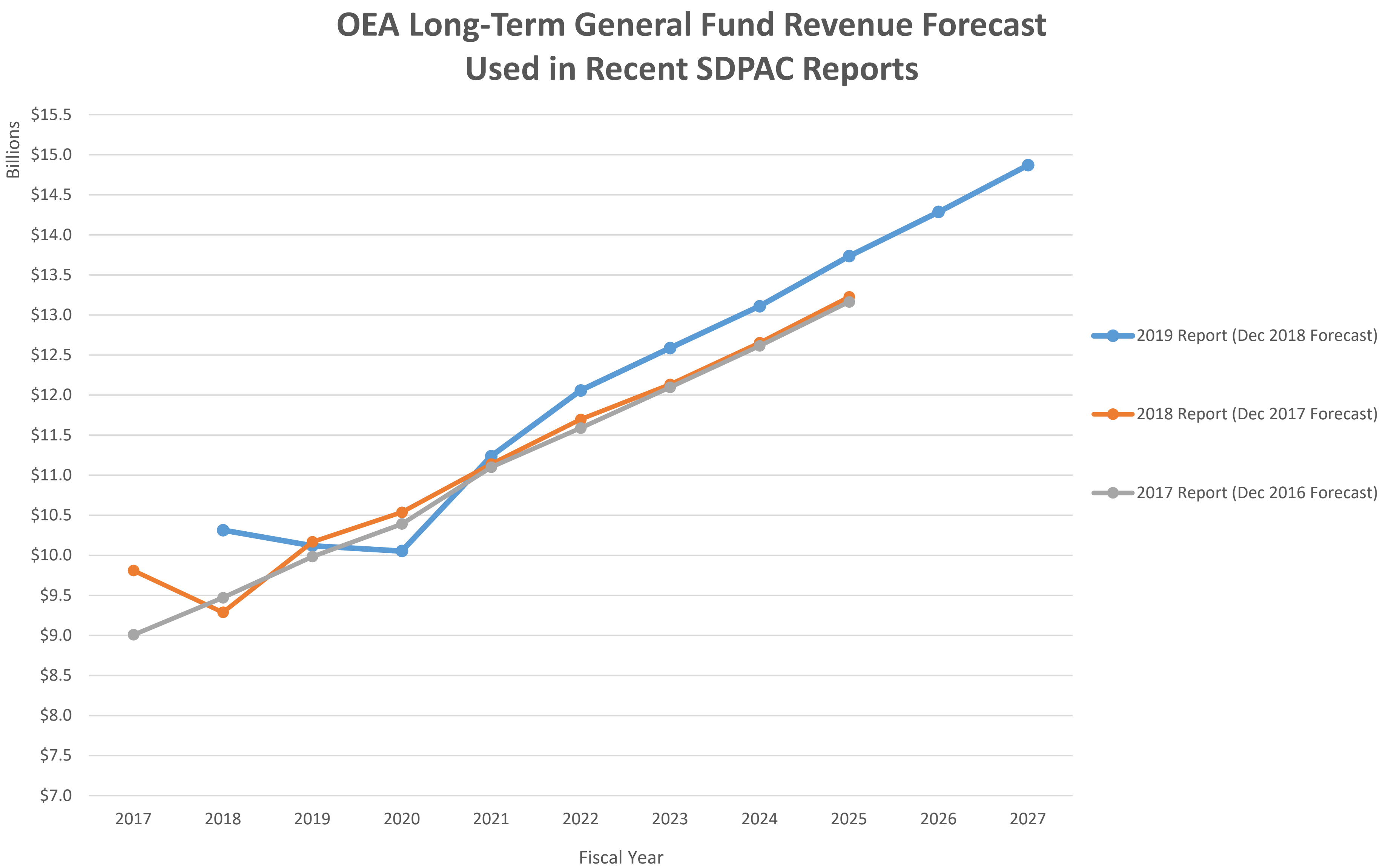
Model Inputs & Assumptions

- Accounts for all debt outstanding as of June 30, 2018 and assumes **$1 billion** in planned issuance by the end of the current biennium based on the 2017 and 2018 legislative authorizations for General Fund-supported GO bonds and COPs, including:
  - *$474.3 M for State Buildings, University projects, and Affordable Housing (XI-Q)*
  - *$245.0 M for Higher Education Facilities and Community College projects (XI-G)*
  - *$91.5 M for school and public safety building seismic upgrade grants (XI-M & XI-N)*
  - *$100.9 M for school construction grants (XI-P)*
  - *$5.3 M for pollution control projects (XI-H)*
  - *$100.9 M for the partial decoupling of the Elliott State Forest from the Common School Fund (COPs)*
- Uses December 2018 General Fund long-term revenue forecast
- New debt issued as level debt service over 20 year term at **4.50%** interest rate
- Assumes maximum of 5.0% of General Fund revenues will be used to make payment on General Fund debt service

General Fund-Supported Debt



General Fund-Supported Debt



OREGON STATE TREASURY

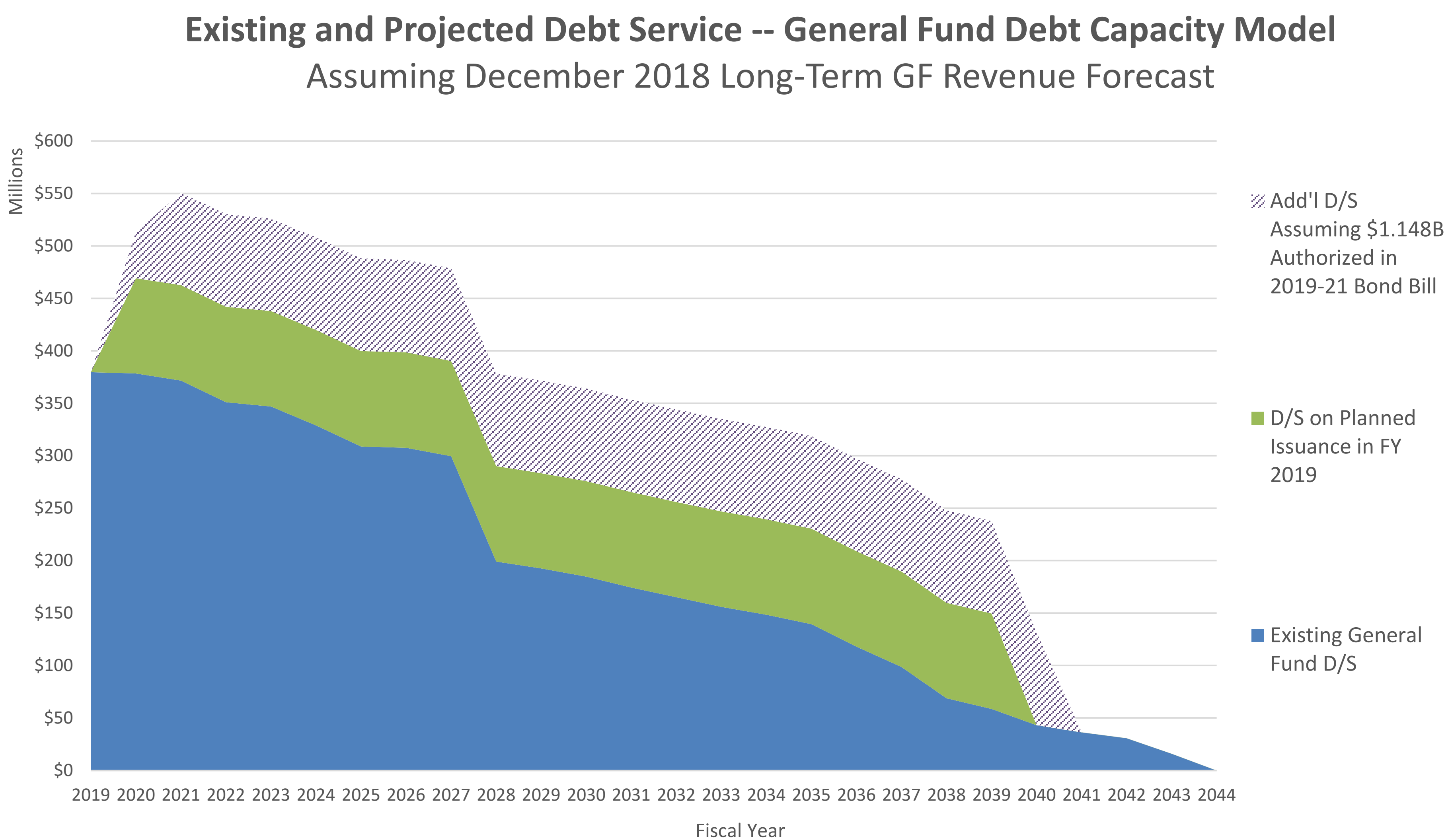
Projected General Fund-Supported Debt Capacity
over the Next Four Biennia*

Fiscal Year Ending June 30th	Maximum Annual Amount of Debt That Can be Issued within 5% Target Capacity	GF Debt Service as a % of General Fund Revenues	SDPAC's Recommended Maximum Annual Amount of Debt that Should be Issued	GF Debt Service as % of General Fund Revenues
2019	-	3.9%	-	3.9%
2020	434.0	5.0%	574.0	5.1%
2021	857.8	5.0%	574.0	4.9%
2022	800.5	5.0%	574.0	4.8%
2023	400.4	5.0%	574.0	4.9%
2024	571.0	5.0%	574.0	4.9%
2025	667.9	5.0%	574.0	4.8%
2026	375.6	5.0%	574.0	5.0%
2027	485.1	5.0%	574.0	5.0%
Total	**$ 4,592.3**		**$ 4,592.3**	

*These amounts do not Include the $1 billion in GF-supported bonds authorized by the 2017 and 2018 Legislatures.

OREGON STATE TREASURY

General Fund-Supported Debt



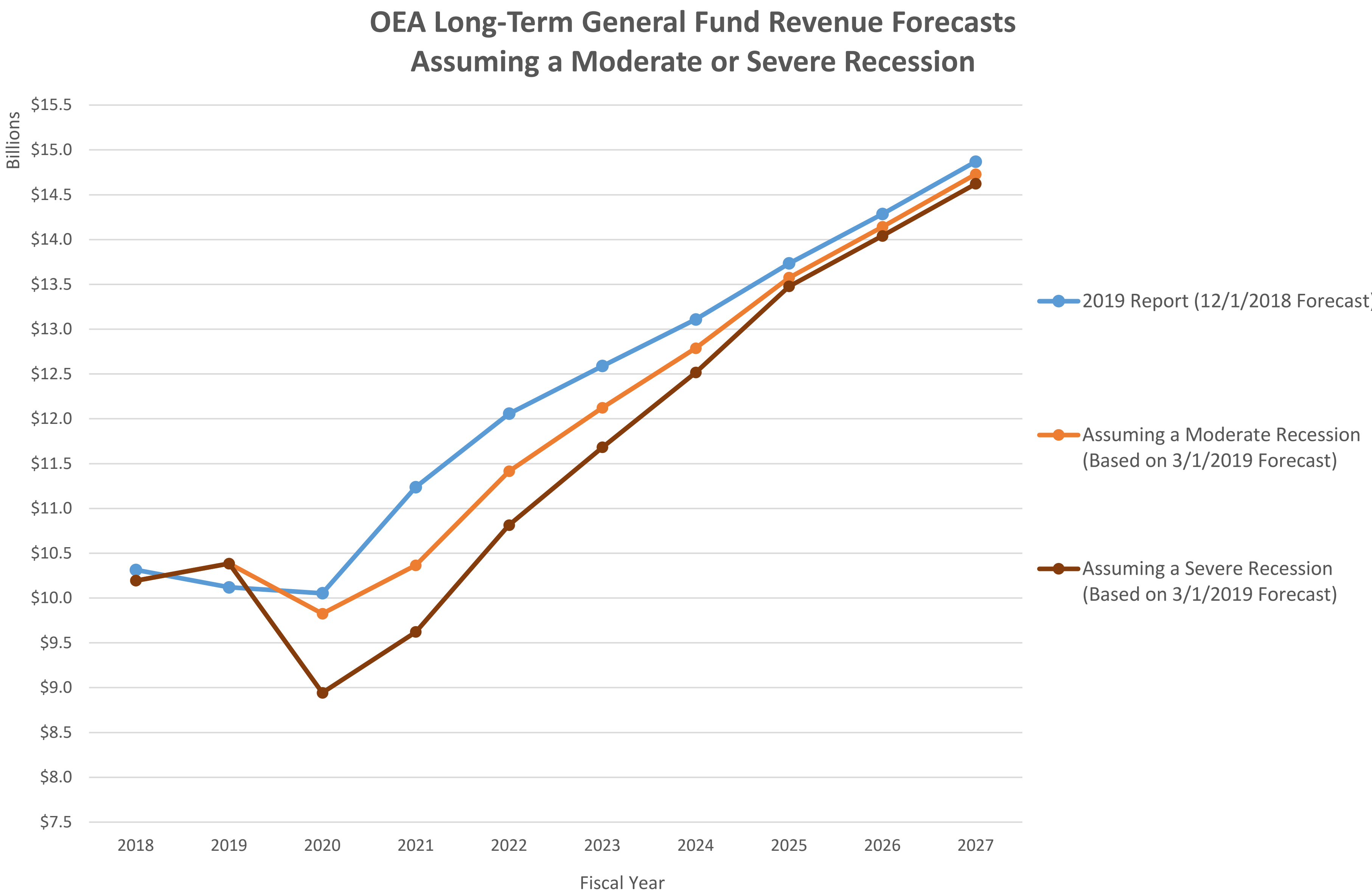
OREGON STATE TREASURY

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

	FYs 2020 – 2027	Per Biennium (over next four biennia)
Base Case*	**$4,592**	**$1,148**
Change in General Fund forecast		
10% decline over forecast period	3,625	906
10% increase over forecast period	5,559	1,390
Change in interest rate forecast		
1.0% higher	4,123	1,030
1.0% lower	5,127	1,282

*Does not include $1 billion authorized by 2017 and 2018 Legislatures.

General Fund-Supported Debt



OREGON STATE TREASURY

Impact of a Moderate or Severe Recession on Projected Long-Term General Fund Debt Capacity

(in millions)

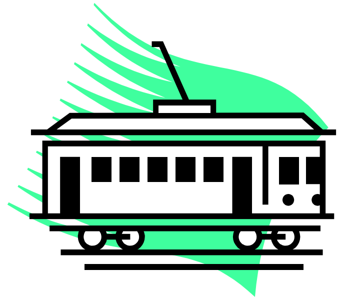
	FYs 2020 – 2027	Per Biennium (over next four biennia)
Base Case*	**$ 4,592**	**$ 1,148**
Moderate Recession Scenario	**4,501**	**1,125**
Severe Recession Scenario	**4,432**	**1,108**

*Does not include $1 billion authorized by 2017 and 2018 Legislatures.

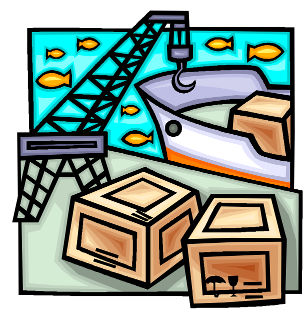
Lottery-Backed Debt

Lottery Bond Projects & Programs

- **$1.1 billion** in bonds outstanding as of 6/30/18
- 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





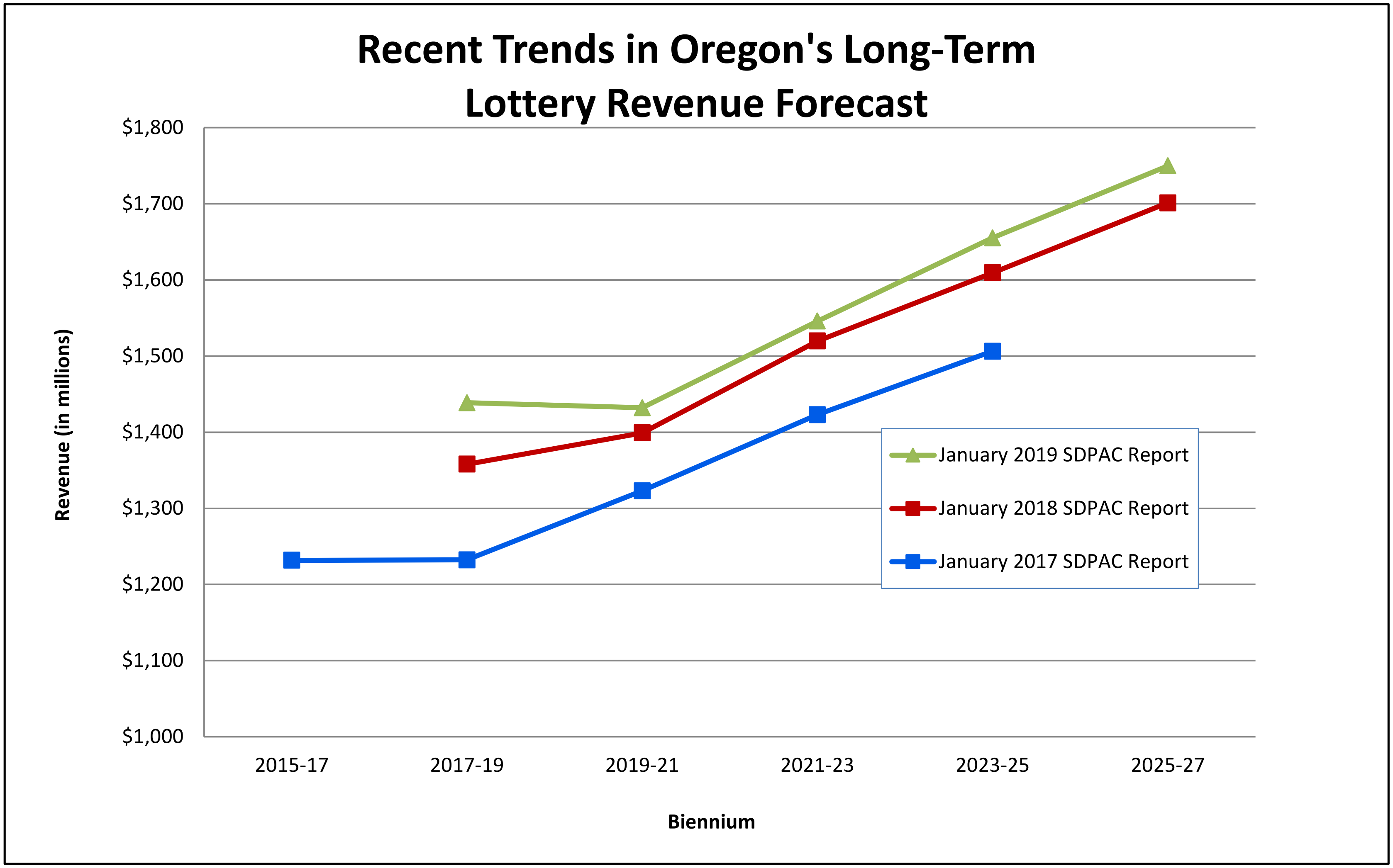


OREGON STATE TREASURY

Model Inputs & Assumptions

- Accounts for all Lottery debt now outstanding and planned issuance of **$221.5 million** in new lottery bonds, as authorized by the 2017 and 2018 Legislatures
- Incorporates December 2018 long-term Lottery revenue forecast
- New Lottery debt issued as level debt service over 20 year term at 4.50% interest rate
- Target based on 4x debt service coverage or maximum of 25% of net lottery revenues

Lottery-Backed Debt



- Improvements in the long-term lottery revenue forecast have allowed for considerably larger lottery debt capacity in the future

Projected Lottery Revenue Bond Capacity

Over the Next Four Biennia

Fiscal Year Ending June 30	Estimated Lottery Revenues Available to Pay Debt Service	Debt Service on Bonds Outstanding As of June 30, 2017 and Planned FY 2019 Issuance*	Maximum Amount of New Debt that can be Issued Within Required Debt Service Coverage Ratio	Projected Debt Service on Additional Issuance	Debt Service Coverage Ratio	Debt Service as a % of Lottery Revenues
2020	$ 703.0	$ (138.3)	$ 487.8	$ (37.5)	4.0	25%
2021	728.9	(138.1)	85.8	(6.6)	4.0	25%
2022	759.1	(140.2)	71.7	(5.5)	4.0	25%
2023	786.8	(139.8)	94.7	(7.3)	4.0	25%
2024	815.2	(139.8)	92.6	(7.1)	4.0	25%
2025	840.0	(139.8)	80.5	(6.2)	4.0	25%
2026	863.0	(137.3)	107.4	(8.3)	4.0	25%
2027	886.8	(127.9)	200.0	(15.4)	4.0	25%
Additional Lottery Debt Capacity:			**$ 1,220.5**			

* Does not include the $221.5 million in Lottery bonds authorized by the 2017 and 2018 Legislatures.

OREGON STATE TREASURY

Factors that Could Impact Projected Lottery Bond Capacity

(in millions)

	FY 2019 - 2027	Average Per Biennium (over four biennia)
Base Case	**$1,221**	**305**
Change in lottery revenue forecast		
10% decline	932	233
10% increase	1,509	377
Change in long-term interest rates		
1.0% higher	1,103	275
1.0% lower	1,354	339

* Does not include the $221.5 million authorized by the 2017 and 2018 Legislatures.

Net Tax-Supported Debt

Net Tax-Supported Debt Programs Include:

All

General Fund-Supported Debt Programs

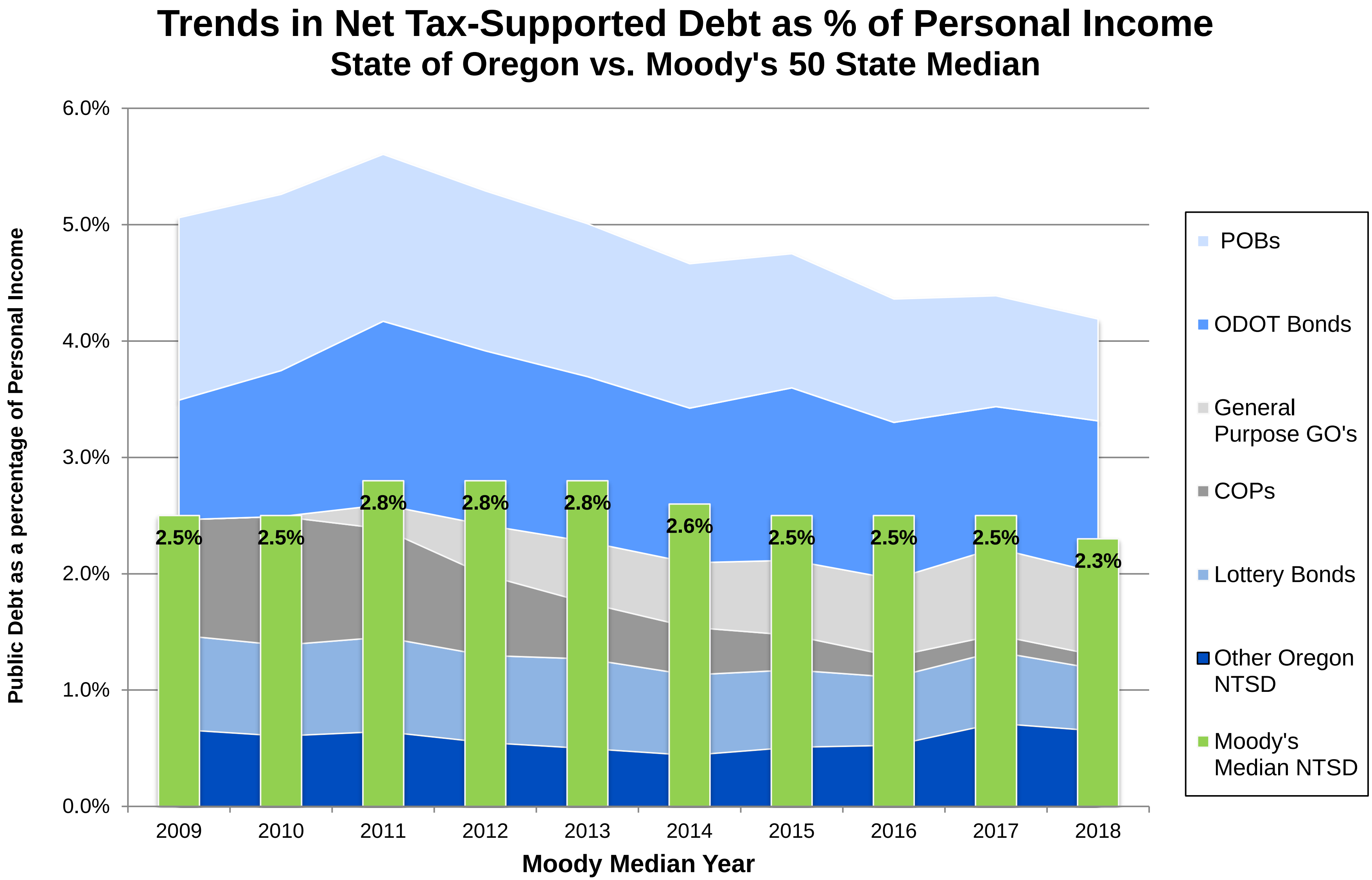
Plus

- 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 30th		
	FY 2017 (Actual)	FY 2018 (Actual)	FY 2019 (Projected)
Net Tax-Supported Debt (in Billions)	**$8.49**	**$8.22**	**$9.04**
NTSD Per Capita	$2,050	$1,957	$2,120
NTSD as % of Personal Income	4.4%	3.9%	4.1%
Excluding Pension Obligation Bonds			
NTSD Per Capita	$1,642	$1,578	$1,771
NTSD as a % of Personal Income	3.5%	3.2%	3.4%

Net Tax-Supported Debt



Sources: Moody's State Debt Medians Reports, 2009-2018.

S&P's Ranking of States' Pension Liabilities

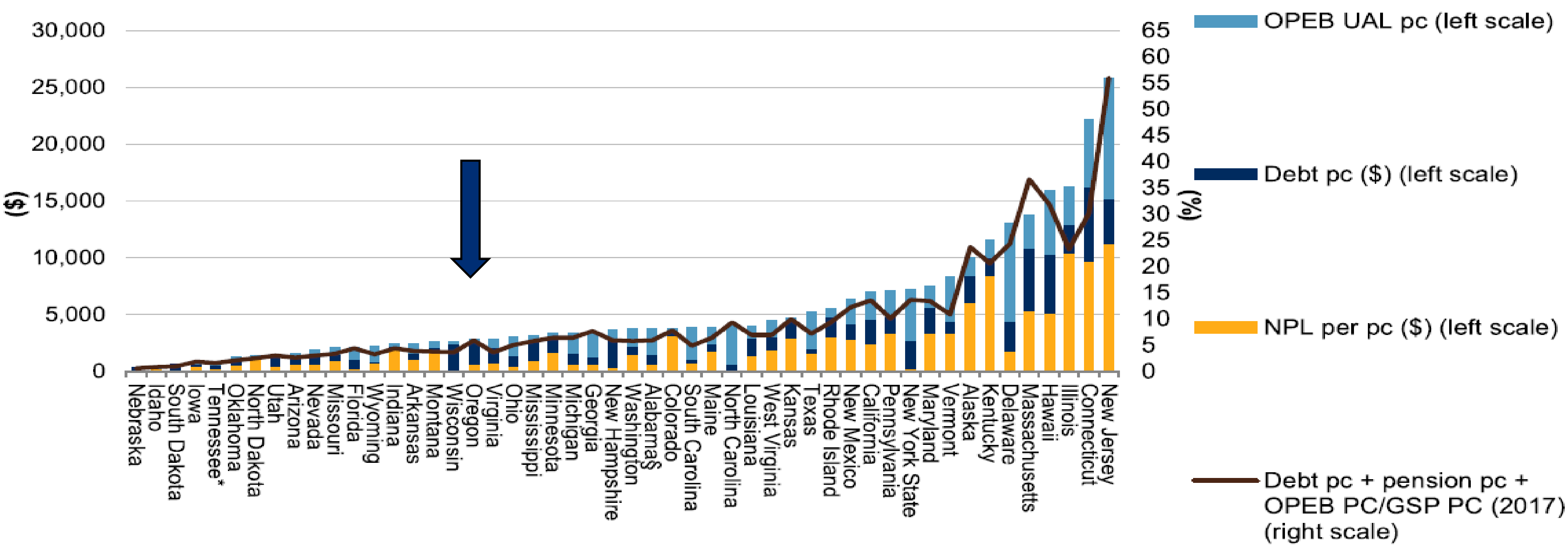
Based on System Funding Ratio at the end of FY 2017

Ranking	State	Pension Funded Ratio	Net Pension Liability (mil.)	Net Pension Liability per capita	Debt, pension and OPEB Liability per capita
1	South Dakota	100.1%	$ -2	$ -2	$ 590
2	Wisconsin	99.1	231	40	2,598
3	New York State	96.7	4,735	239	7,175
4	North Carolina	90.7	1,927	188	3,919
5	Idaho	90.6	421	245	358
12	**Oregon**	**83.1**	**$2,788**	**$ 673**	**$ 2,728**
	50 State Average	**69.5%**	**$4,195**	**$ 1,111**	**$ 3,630**

Source: Standard & Poor's, U.S. State Pensions Struggle for Gains Amid Market Shifts and Demographic Headwinds, October 30, 2018. Please note in the table above, the net pension liability used for each state is based on the amount reported in their Comprehensive Annual Financial Reports as of June 30, 2017, as now required by GASB. "OPEB" means Other Post-Employment Benefits, which generally include retiree health care benefits guaranteed for payment by a state.

Net Tax-Supported Debt

Fiscal 2017 State Debt And Liabilities Per Capita As % Of Gross State Product Per Capita



*Tennessee reflects 2016 plan information for state agent plans as reported in the state fiscal 2017 CAFR.§Alabama incorporates fiscal 2016 information for employees' retirement system agent plans as reported in the state's unaudited fiscal 2017 comprehensive annual financial report (CAFR).

OPEB--Other postemployment benefits. UAL--Unfunded accrued liability. NPL--Net pension liability pc--Per capita. GSP--Gross state product.

Source: Standard and Poor's *U. S. Pensions Struggle for Gains Amid Market Shifts and Demographic Headwinds*, October 30, 2018, which uses information reported in state Comprehensive Annual Financial Reports at the end of fiscal year 2017

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 (61% of d/s)
- Oregon School Bond Guaranty Program

Direct Revenue Bond Programs

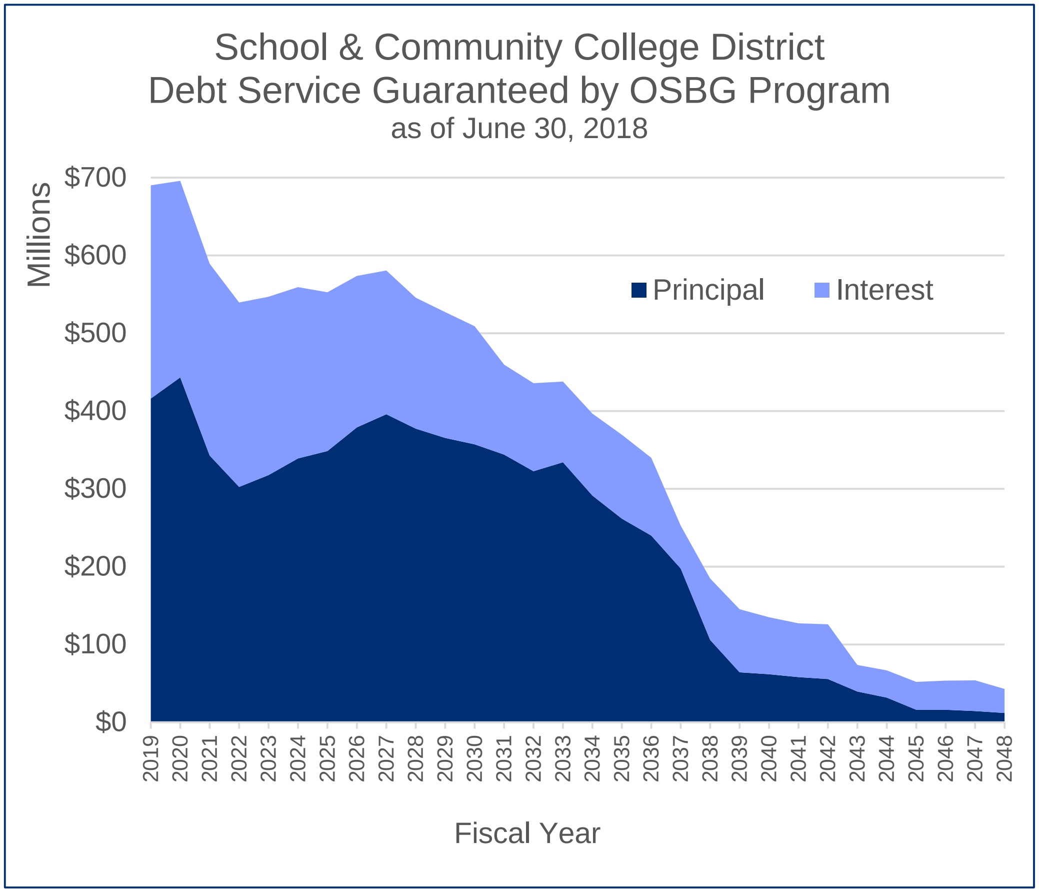
- Single & Multifamily Housing Bonds
- Economic Development Bond Bank

Conduit Revenue Programs

- Economic Development Revenue Bonds
- Oregon Facilities Authority Bonds
- Multi-Family Housing Revenue Bonds

Update on State Guarantees of Oregon School District and Community College Bonds

- The **Oregon School Bond Guaranty** (OSBG) program was created in 1998 via Constitutional amendment as a way to enhance the credit rating and lower the borrowing cost on General Obligation (GO) school bonds
- State pledges its full faith and credit to payment of a qualifying district's GO debt service when due, which allows these bonds to receive the same credit rating as the State's GO bonds
- The State Treasurer is authorized to use State School Aid to repay any draw on state funds used to make an OSBG-related debt service payment – **no state d/s payments actually made since program inception, however**
- The OSBG program has grown dramatically since 2008 due to improved state credit ratings and the elimination of bond insurance as an alternative means of credit enhancement



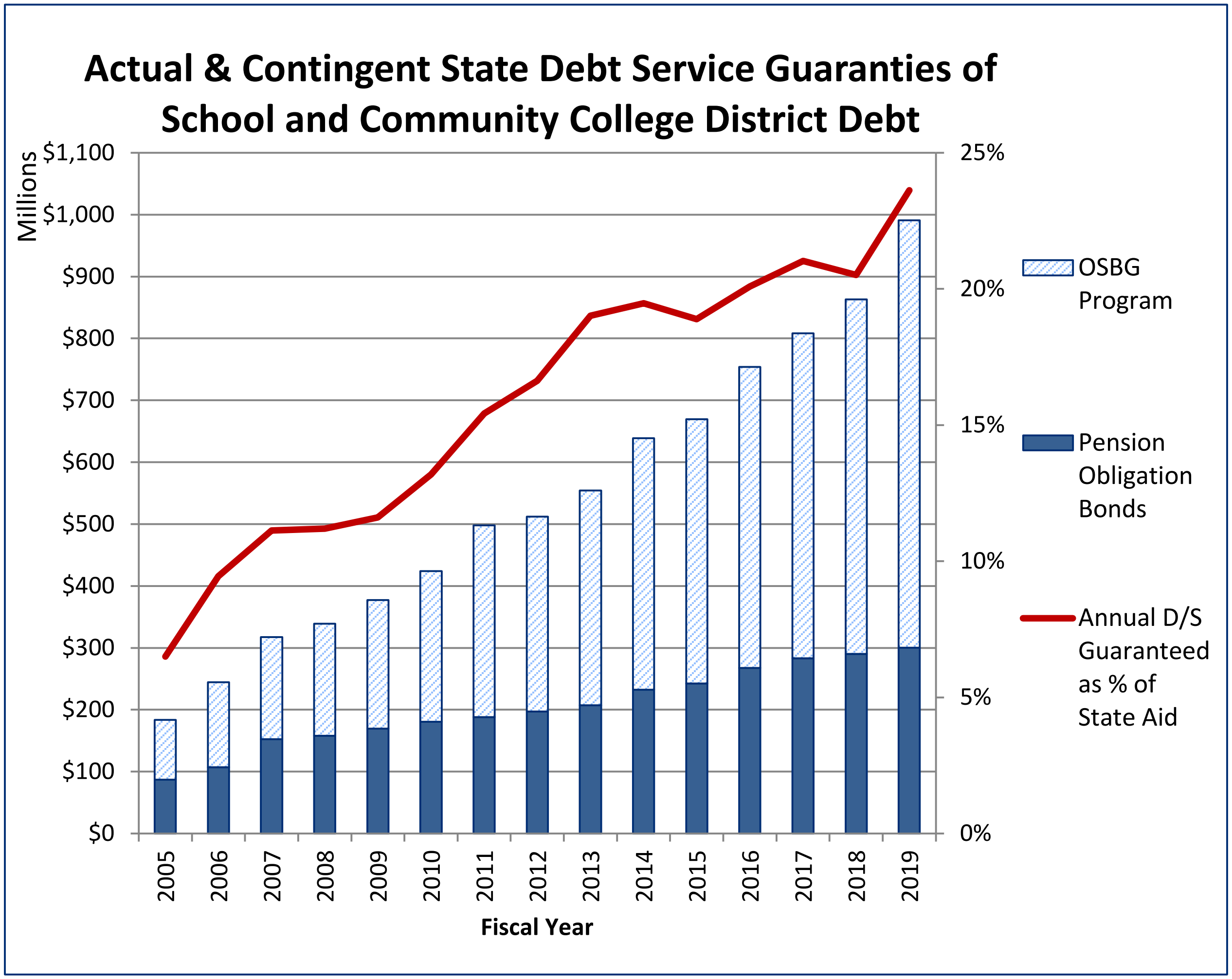
OREGON STATE TREASURY

State Guarantees on Oregon School District and Community College POBs

- In 2001, the Legislative Assembly authorized the Department of Education to enter into fund diversion agreements to improve the creditworthiness of Pension Obligation Bonds (POBs) issued by Oregon school districts and community colleges to prepay their accrued unfunded PERS liabilities (ORS 238.698)
  - Under these diversion agreements, the State Board of Education makes POB debt service payments directly to the POB bond trustee out of annual state aid funds allocated to participating school districts and community colleges
- Between 2002 and 2007, $3.1 billion was issued in nine separate pooled POB borrowings using this fund diversion provision
  - Like the OSBG program, the State guarantee of debt service repayment greatly enhanced the credit ratings and lowered the borrowing cost on these bonds
  - Annual debt service on these POBs increases by 4.7% each year until the bonds are retired in FY 2028
  - The use of this financing approach may increase in the coming years due to the increasing PERS UAL of Oregon school and community college districts
- Under current state law, there is no mechanism for the State Treasurer's review or approval of the POBs issued by the districts using this provision of state law

State Guaranteed Debt Service of Oregon School Districts and Community Colleges Represents a Growing Share of State School Aid

- Pension obligation debt service now represents 7% of annual state school aid, with combined actual and contingent debt service totaling 23% of state school aid
- Five school districts and one community college district currently have combined annual State guaranteed debt service (GO and POB) that exceeds their annual allocation of State school aid
  - Most are located on the Oregon coast and may not be able to repay the State for OSBG debt service payments made on their behalf if a major earthquake or tsunami event strikes their communities



Emerging Debt Issue of Concern – PAB Allocations

- The federal government allocates a limited amount of "private activity" tax-exempt financing authority annually to each state for distribution to various qualified economic and community development projects
- Historically, the Legislature and the PAB Committee have allocated Oregon's private activity bond volume cap (PAB) primarily to affordable housing construction and rehabilitation, first time homebuyer mortgage programs, and a select number of solid waste, port, and energy production projects
- Of the $435 million in CY 2018 PAB authority, Oregon used a record $310 million in PAB allocations
    - $125 M – Mortgage Revenue Bonds - OHCSD's First Time Homebuyers Program
    - $126 M – OBDD Industrial Development Bonds – Red Rock Biofuel project
    - $ 53 M – Home Forward (Multnomah Housing Authority) – 85 Stories project
    - $ 2 M – Housing Authority of Clackamas County – Rosewood Terrace project
- An additional $162 million in previous year PAB allocations (i.e. PAB carryforward) was used to finance tax-exempt multi-family affordable housing projects around the state
- 2018 Carryforward requests totalled $210 million, but only $125 million was available for allocation by the PAB Committee in January 2019

Emerging Debt Policy Issue of Concern – PAB Allocations

- Oregon voters recently approved a Constitutional amendment allowing for voter-approved local government general obligation bonds for affordable housing
  - Metro voters simultaneously approved a $652 million GO bond issue for this purpose
- In order for local borrowers to utilize federal 4% tax credits to generate additional equity funds for affordable housing projects, they must issue tax-exempt bonds as a 50% match to the 4% tax credits, which means that they will require substantial allocations of PAB in the future
- The PAB Committee has seen a sharp increase in requests for PAB allocations for energy production and pollution control projects around the state:
  - Red Rock Biofuel project - $240M (2017 and 2018 PAB allocations)
  - Three Mile Dairy project - $40M (2018 PAB allocation)
  - Intel pollution control project - $120M (2019 PAB allocation)
- Legislative allocations of annual PAB to state agencies and by the PAB Committee will likely become a more challenging process, requiring careful thought and deliberation as to the highest and best uses of this limited financial resource
  - The Governor’s proposed 2019-21 budget recommends increasing the annual allocation of PAB for OHCSD from $125 million to $250 million, which if approved, would reduce the amount available for local projects administered by the PAB Committee accordingly

Conclusions

- Tax-exempt interest rates remain relatively low, allowing the State to issue bonds at very favorable long-term interest rates
- Based on the December 2018 long-term general fund revenue forecast and conservative assumptions about future interest rates, there will be **$4.6 billion** in additional General Fund-supported debt capacity available over the next four biennia while remaining within the SDPAC’s 5% debt service target
- The Commission has historically recommended that the State conserve General Fund debt capacity by averaging out available debt capacity over time
  - This averaging approach suggests a maximum GF debt capacity of **$1.15 billion** per biennium
  - If the Legislature is concerned that a moderate to severe recession is on the horizon, the SDPAC forecast can be updated in May 2019 at the time of the close of session revenue forecast

Conclusions (continued)

- Based on the much improved recent forecast of long-term Lottery revenues, there will be **$1.2 billion** in additional Lottery bond capacity over the next four biennia
- Using the capacity "averaging" approach, future biennial Lottery bond capacity is projected at **$305 million** per biennia, which is $96 million than projected last biennium
- While Oregon's net tax-supported debt ratios remain above national averages, the State's overall long-term liabilities (the sum of both its public debt and its unfunded PERS liability) remains well below the average among U.S. states, even after taking into account the State's increased net pension liability following the *Moro* decision
- The Legislature should carefully consider the future allocations of PAB authority to assure that it closely aligns with the state's overall public policy goals with regard to economic and community development

OREGON STATE TREASURY