May 10, 2019

Joint Committee on Ways and Means

Capital Construction Subcommittee

# Independent Financial Assessment prior to the Sale of Future Local Government Pension Obligation Bonds

OREGON STATE TREASURY

# POBs issued by Oregon local governments

- Local government POBs cannot be issued as general obligation bonds, but rather as taxable, limited obligation bonds.
- In many instances, state resources help pay for POBs, through **Fund Diversion agreements** whereby school aid is diverted to pay debt service on these bonds issued by school districts and community colleges.

**213**
Oregon local governments with POBs
As of 2/20/2019

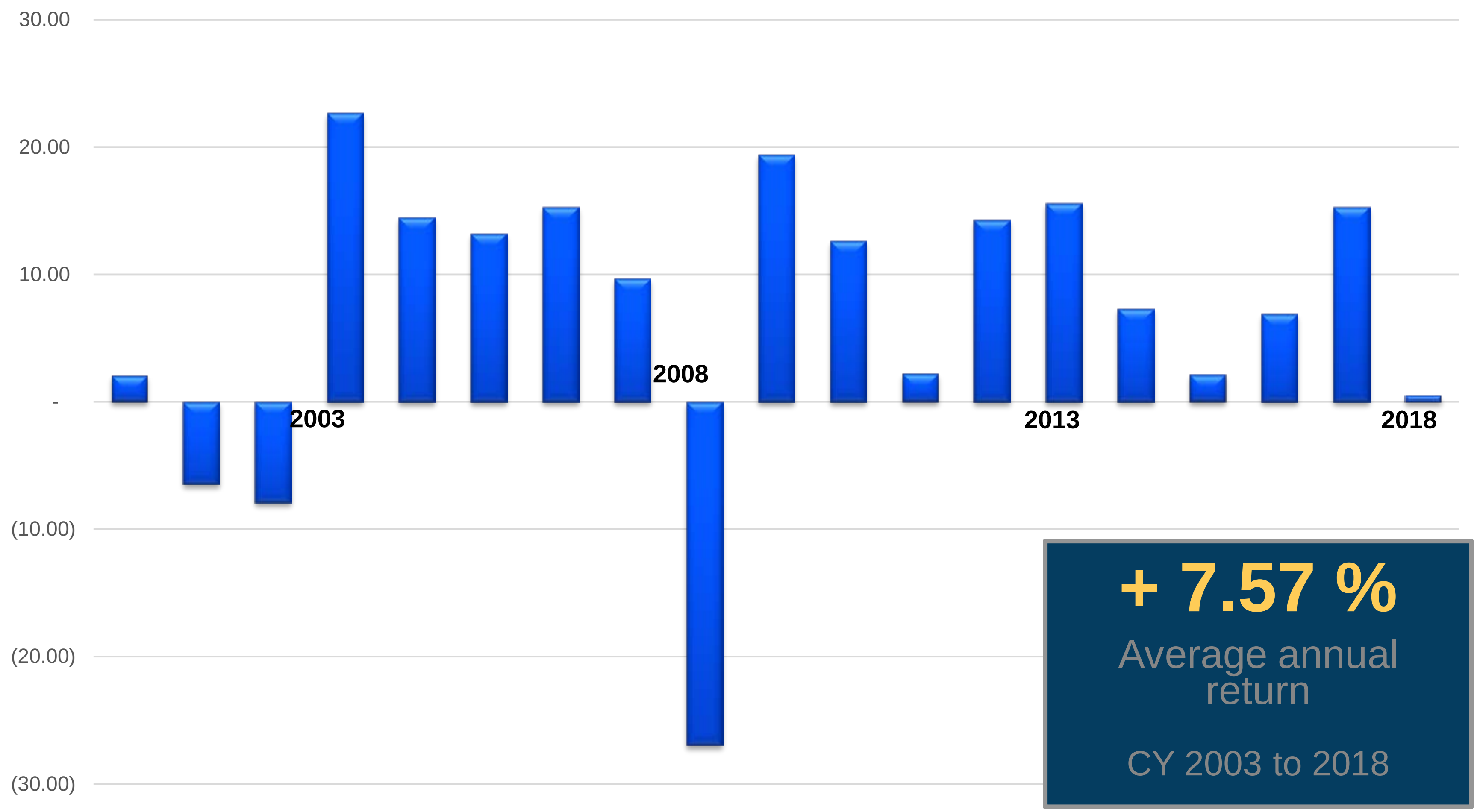
**$4.9 B**
POBs issued since 1996 by local governments

**$3.4 B**
POBs outstanding – other governments
As of 2/20/2019

**~ 62%**
POBs attributable to school districts
As of 2/20/2019

# Timing of POB issuance is critical to success

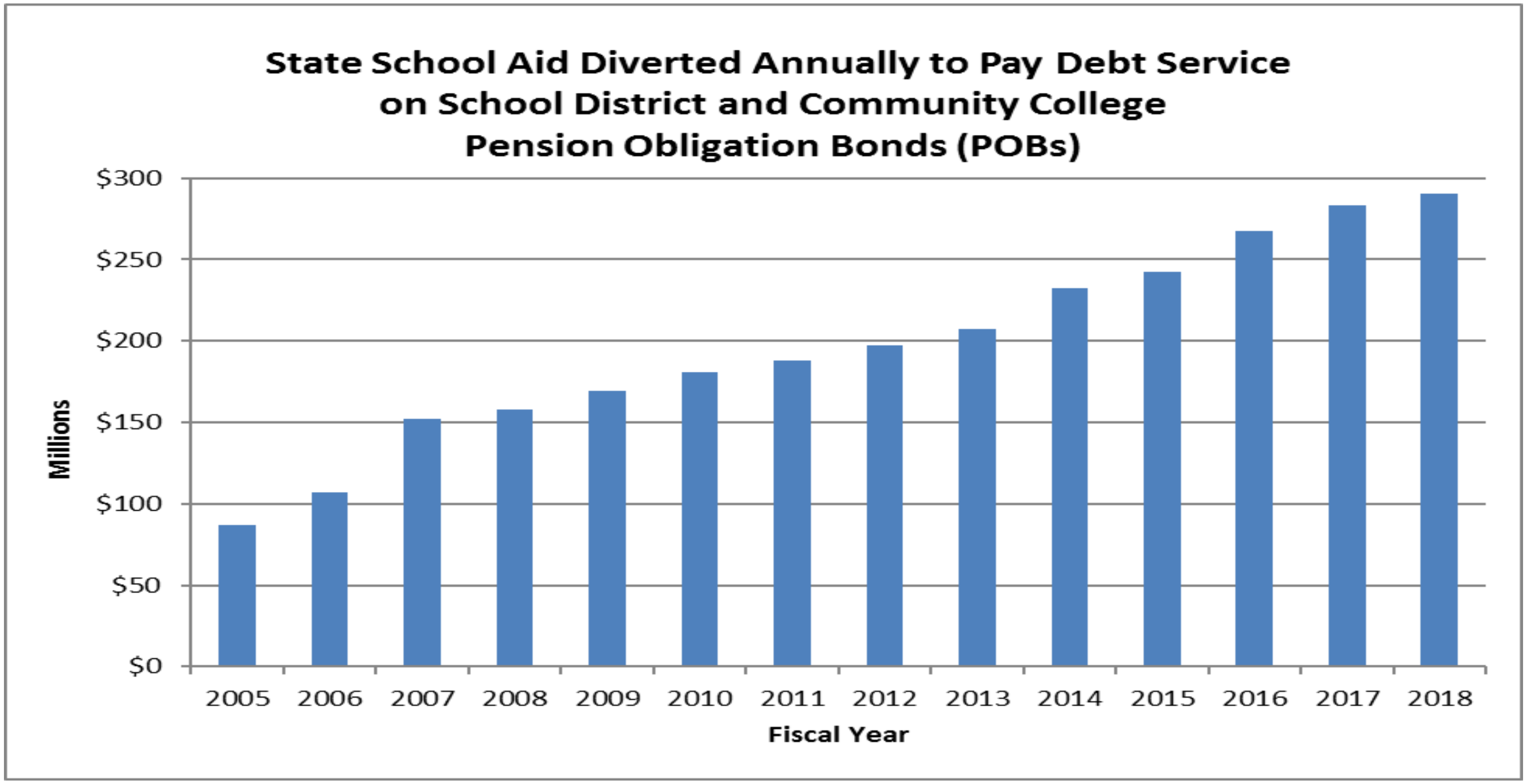
## Oregon Public Employees Retirement Fund, annual performance 2000 to 2018



# State Guarantees on 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 independent review or approval of the POBs issued by the districts using this provision of state law.

# Fund diversions for POB debt service represent a growing share of state school aid




Between 2002 and 2007, there were 9 separate pooled financings totaling $3.16 billion under this program, with annual debt service representing $290 million, or just under **7%** of school aid appropriations in FY 2018.

# Local control over pension obligation bond issues

- As staff to the Municipal Debt Advisory Commission (MDAC), Treasury tracks state and local debt including Pension Obligation Bonds, but the structure and pricing is strictly a matter of local control (ORS 287A).
  - MDAC requires Oregon jurisdictions to report detailed information on its bond sales both prior to and after completion of each transaction, and makes this bond information available to the public.
- The State Debt Policy Advisory Commission (SDPAC) recently suggested the Legislature require local governments officials to obtain an independent financial review of the risks of POBs before voting on future issuances of these bonds.
  - The concept requires local governments to hire an independent economic or financial consulting firm to prepare a report on likelihood of achieving long-term returns that are greater than the interest cost of the POBs, and to report the actual vs. expected return of the resulting PERS side account each year as part of future SDPAC reports.
  - The concept also requires that the consultant report be made available to the public and filed 30 days prior to a POB sale with Treasury and that the report state whether or not the issuing jurisdiction plans on using a SEC-registered municipal advisory firms to assist in the structuring and sale of these bonds.
  - The Government Finance Officers Association recommends that government issuers use municipal advisors who are required to serve in a **fiduciary** capacity, which helps assure that local government POBs will be structured in a prudent manner and sold at market rates, saving Oregon taxpayers far more in interest costs than the upfront cost charged to the jurisdiction by the advisory firm.