Capital Construction Subcommittee of The Ways and Means Committee

State Debt Policy Advisory Commission
2023 Findings Report

OREGON STATE TREASURY

March 24, 2023

Introduction

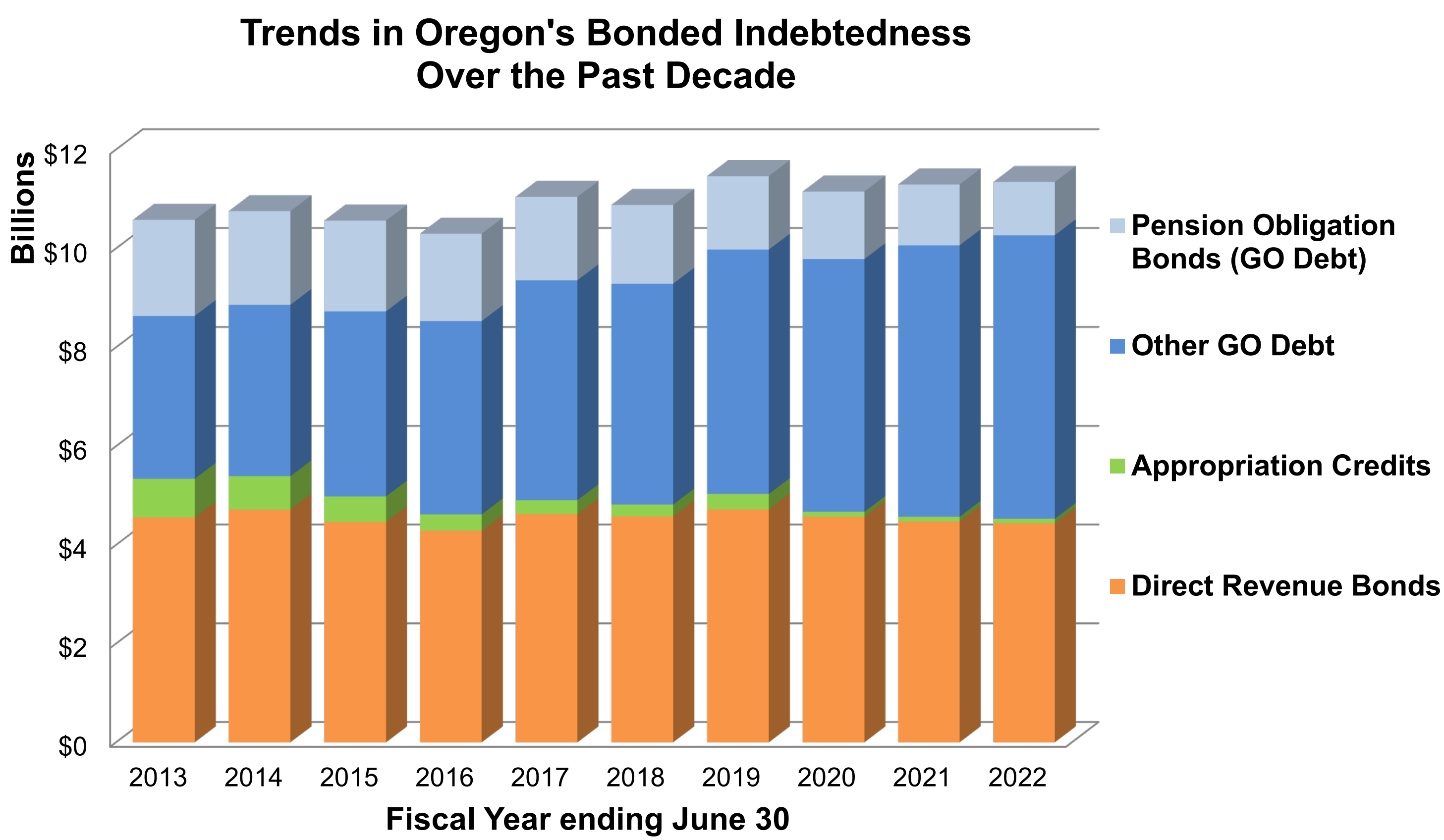
Purposes of the Report

- Review Outstanding Indebtedness of the State
- Report SDPAC Annual Debt Capacity Forecast Required by ORS 286A.255
- Framework for Measuring, Monitoring and Managing the State's Debt Position
- Provide Information to Assist Governor and Legislature in Formulating Long-term Capital Spending Plans
- Highlight Emerging Debt Policy Issues of Concern

Oregon Current Debt Position

Overall State Debt Levels

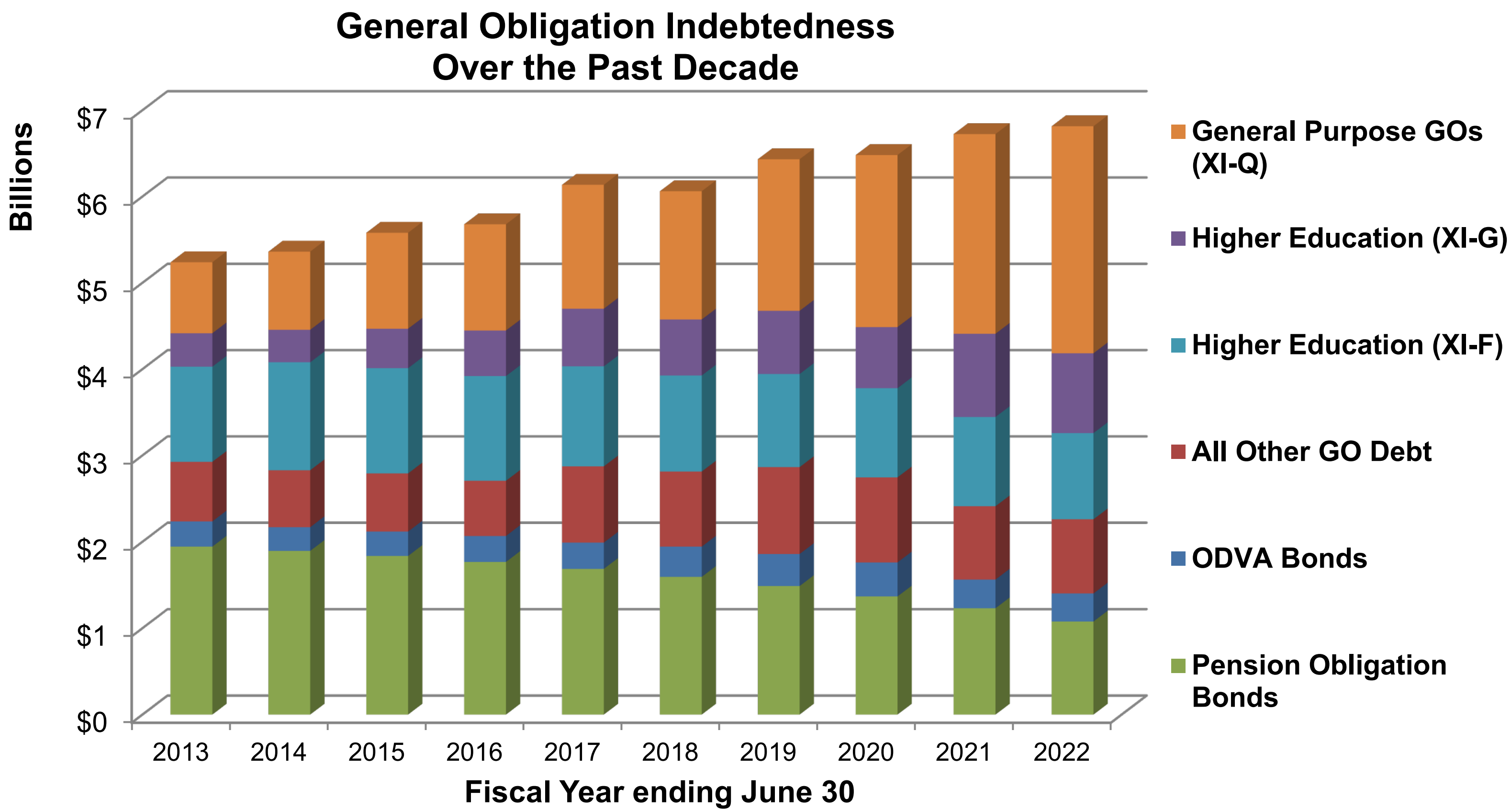
- As of June 30, 2022, the State had $11.33 billion of outstanding long-term debt consisting of:
  - All General obligation bonds (general fund supported and self-supporting)
  - Appropriation debt including Certificates of Participation (COPs)
  - Direct Revenue Bonds include ODOT's Highway User Tax revenue program bonds, OHCSD Single Family and Multifamily Program Revenue Bonds, Lottery Revenue Bonds, and Infrastructure Finance Authority (Bond Bank)



OREGON STATE TREASURY

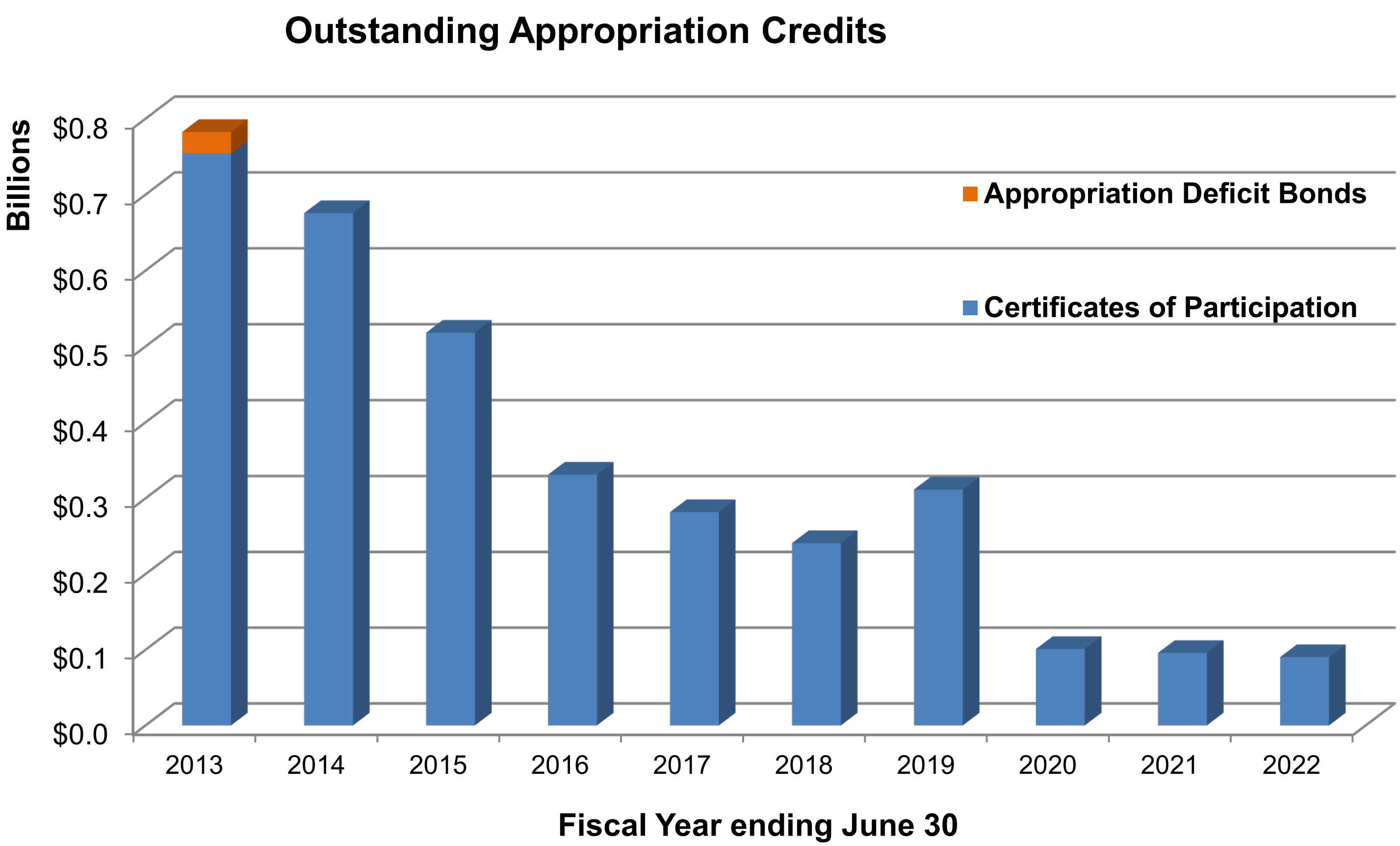
Oregon General Obligation Indebtedness

- As of June 30, 2022, the State had $6.81 billion in outstanding General Obligation (GO) Bonds and Appropriation debt
  - $4.50 billion are General Fund-Supported debt (including Certificates of Participation)
  - $2.31 billion are supported by dedicated funds, such as Oregon Vets (XI-A), Article XI-F Higher Education, certain State owned or operated property (XI-Q) and a portion of the pension obligation bonds (XI-O)
- As of FYE 2022, Article XI-Q bonds comprise $2.6 billion or 38% of all GO indebtedness



State Appropriation Debt

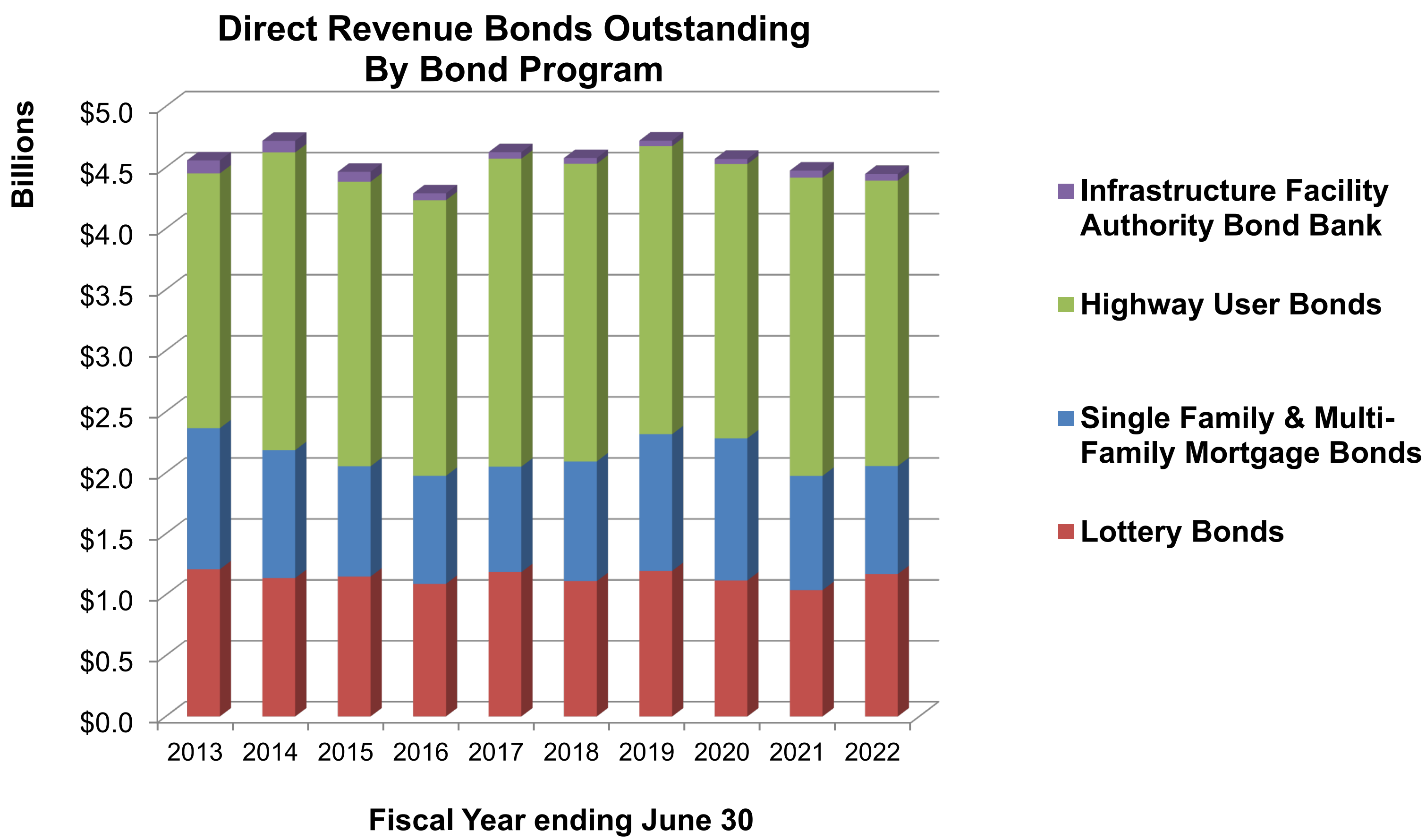
- As of June 30, 2022, $90.2 million of Certificates of Participation are outstanding
- Since 2011, the State has refunded or amortized $1.1 billion of higher cost Certificates of Participation appropriation debt with lower cost Article XI-Q General Purpose GO bonds
- Appropriation bonds issued to finance the State's deficit in FY 2004 were fully amortized in 2013



OREGON STATE TREASURY

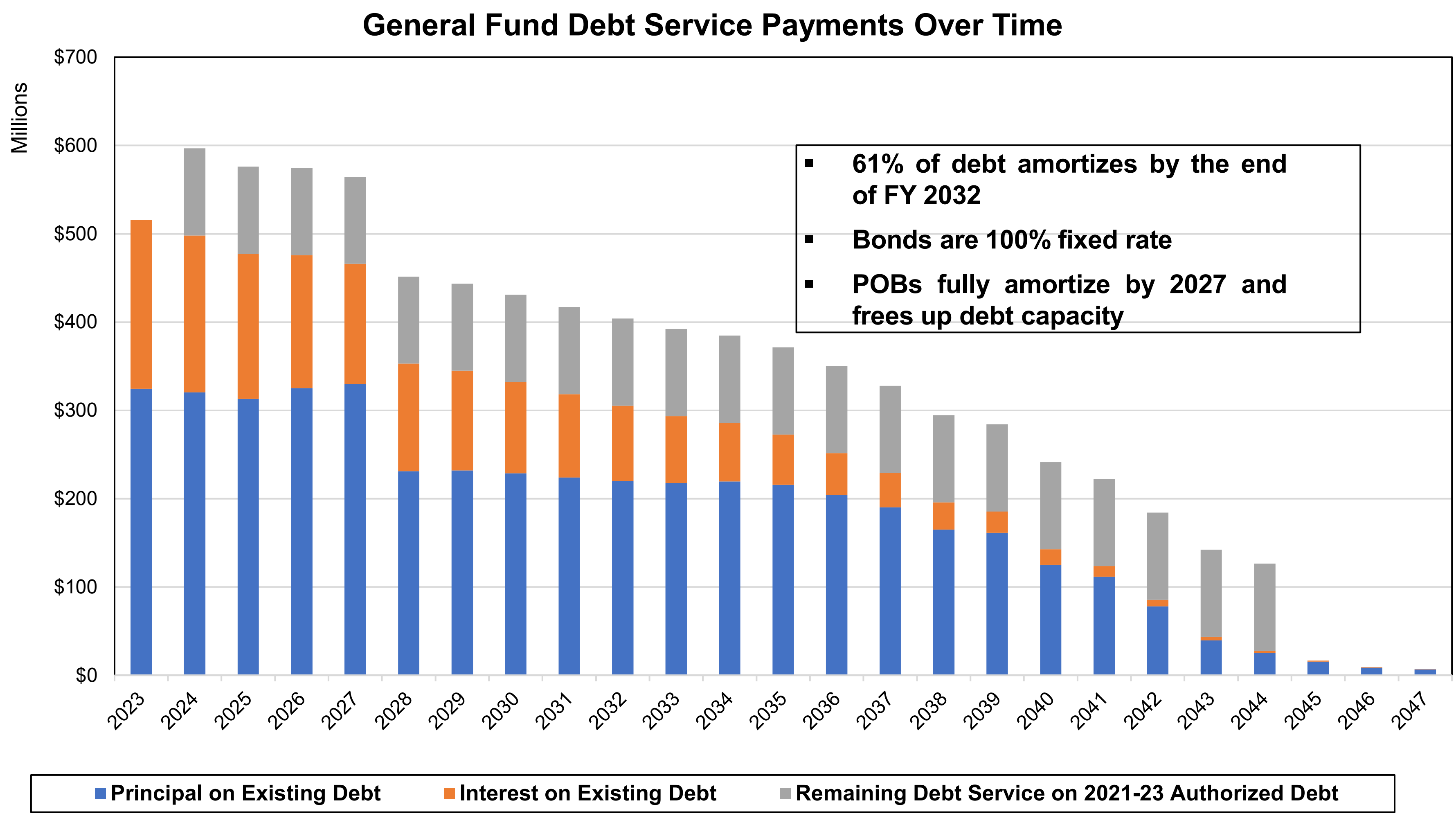
Direct Revenue Bonds

- As of June 30, 2022, the State had $4.43 billion in Direct Revenue Bonds
  - $2.34 billion of Oregon DOT (ODOT) bonds, supported by revenue constitutionally dedicated to road and highway uses
  - $1.17 billion of Lottery Revenue Bonds supported by Net Unobligated Net Lottery Proceeds
  - $866.4 million of OHCSD Single Family and Multifamily Housing Program Revenue bonds
  - $54.5 million of Oregon Business Development Department (Business Oregon) Bond Bank bonds



Prior Biennia and 2021-23 Biennium General Fund Debt Service

- The State maintains a conservative General Fund debt service profile



Oregon Bond Programs Have Strong Credit Ratings

- The rating agencies have cited that Oregon's high credit quality is supported by factors including
  - The State's stable budgetary position and structural budget balance, demonstrated fiscal resilience
  - Strong liquidity position that supports budgetary flexibility and growing reserves (Rainy Day Fund and Educational Stability Fund) with statutory replenishment
  - Proactive management, sound financial controls, willingness to correct structural imbalances and quarterly reviews of financial performance
- "Voter initiatives that can have negative fiscal impacts and constitutional 'Kicker' provisions that limit revenue growth" are cited by the rating agencies as areas of concerns

Oregon Bond Ratings by Credit

Credit	Standard & Poor's	Moody's	Fitch
General Obligation Bonds	AA+	Aa1	AA+
Appropriation / Certificate of Participation (COPs)	AA	Aa2	AA
Lottery Revenue Bonds	AAA	Aa2	NR
ODOT Highway User Tax Revenue Bonds - Senior Lien	AAA	Aa1	AA+
ODOT Highway User Tax Revenue Bonds - Subordinate Lien	AA+	Aa2	AA+
Single Family Program Revenue Bonds	---	Aa2	---
Oregon Business Development Bond Bank	AA+	Aa1	--

Results of Recent Bond Sales

- The State's recent bond sales reflect current market dynamics including:
  - Rising interest rate environment and market volatility
  - Divergent cost of Taxable and Tax-Exempt debt
- OST works with State agencies to structure bonds to reduce overall interest cost to the State

Month of Sale	Type of Bond	Par Amount ($MM)	Uses of Funds	Term of Bonds (Average Life)	All-in True Interest Cost
March 2023	GO Bonds (XI-Q,M,N,P)	$989	Various state capital projects, and seismic resiliency projects, LIFT and permanent supportive housing programs (Tax-Exempt and Taxable)	11.5 years	3.68%
December 2022	Oregon Department of Transportation	$ 240	State Highway Projects including Regional Mobility Projects as part of Keep Oregon Moving (Tax-Exempt)	13.8 years	3.75%
September 2022	Oregon Housing & Community Services Dept.	$46	Single-Family Revenue Bonds (Taxable)	19.2 years	5.15%
July 2022	GO Bonds Veterans Welfare	$39	Oregon's Veteran's Welfare Loans (Tax-Exempt)	18.0 years	3.85%

General Fund–Supported Debt Capacity

General Fund-Supported Debt Programs

General Obligation Bonds

- State Highway Bonds (XI-Section 7)
- Higher Education Facility Bonds (XI-G)
- Community College Bonds (XI-G)
- Pollution Control Bonds (XI-H) (43% of total)
- Alternate Energy Bonds (XI-J) (40% of total)
- Oregon Opportunity Bonds (XI-L) (OHSU)
- Seismic Rehabilitation Public Education Buildings (XI-M)
- Seismic Rehabilitation Emergency Service Buildings (XI-N)
- School Capital Public School Facility Bonds (XI-P)
- State General Purpose (XI-Q) (90% of total)
- State Pension Obligation Bonds (36% of total)

Appropriation Credits

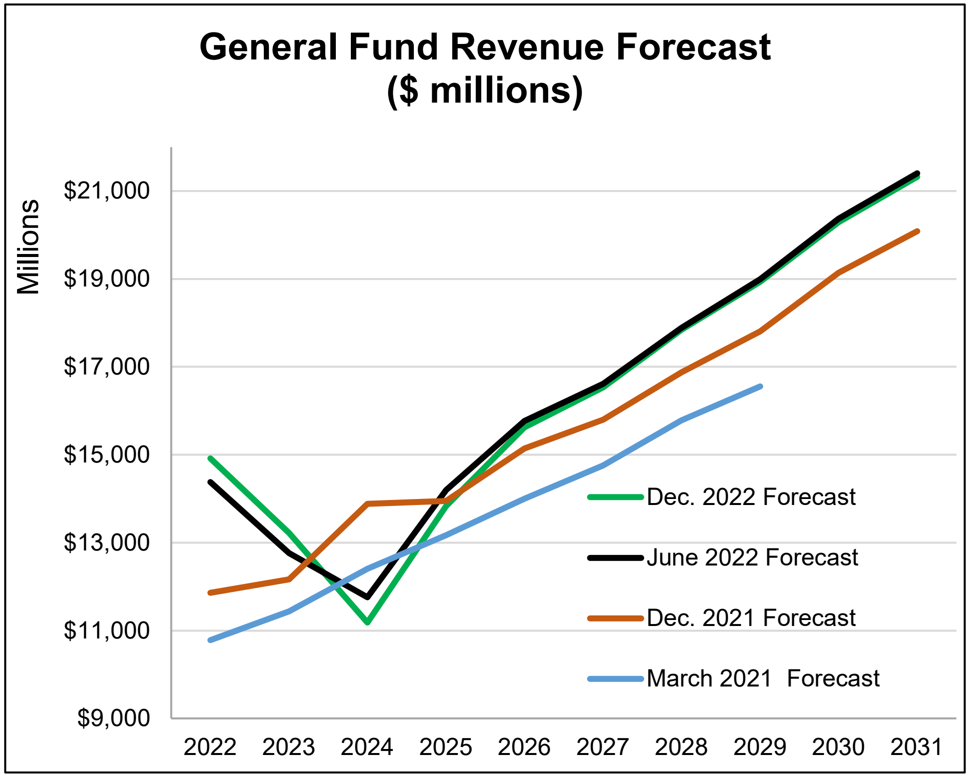
- Certificates of Participation (100% of total)
- Appropriation Bonds

General Fund Debt Capacity Model Inputs and Assumptions

- Accounts for all $4.5 billion in General Fund-supported debt outstanding as of June 30, 2022
- Assumes 2021-23 Biennium issuance of all $1.73 billion of General Fund-supported debt authorized by the 2021 Legislature and amended in the 2022 Second Special Session
  - $77.2 million Article XI-G GO Bonds to provide 50% matching grants for community college building projects
  - $42.8 million Article XI-G GO Bonds for Higher Education Facilities
  - $111.3 million Article XI-M GO Bonds to fund seismic upgrade grants to public schools
  - $50.8 million Article XI-N GO Bonds to fund seismic upgrade grants to public safety facilities
  - $126.1 million Article XI-P Bonds for matching grants for K-12 school capital improvements
  - $1,308.8 million Article XI-Q GO Bonds to fund state buildings, affordable housing projects, and local courthouse project matches
- Uses OEA's December 2022 Forecast of General Fund Revenue Projections for the four future biennia over the forecast period (FY 2024 – FY 2031)
- Assumes a target of **5.0%** of General Fund revenues will be used to pay General Fund debt service
- Structures new debt with level annual debt service over 20 years using a **5.50%** interest rate, to reflect Federal Reserve Board expectation for continued interest rate hikes and maintenance of higher rates to reduce inflation

General Fund Revenue Forecast Trends

- The December 2022 Forecast shows strong growth in General Fund revenues in FY 2021-22, with declines in FY 2023 and FY 2024 and a rebound commencing in FY 2025
  - The forecasted $28.1 billion of General Fund Revenue for the 2021-23 Biennium is $4.9 billion above the 2021 COS Forecast
  - FY 2024 General Fund Revenue is forecasted to decline by $2.7 billion from the December 2021 Forecast
- Due to higher than expected revenues in FY 2021, the State has generated in excess of $3.7 billion personal income tax "kicker" credit that is expected to be rebated to taxpayers in FY 2024 and will contribute to the steep decline in General Fund Revenue
- Key factors contributing to General Fund revenue forecast include:
  - Factors affecting 2023-25 Biennium:
    - "Mild Recession"
    - Expected decline in capital gains tax
    - Kicker credit rebate
  - Long-term forecast include:
    - Rebound in personal income tax receipts growth due to strong demographics
    - Corporate excise and income collections
    - Inflation supporting higher income growth over the long term



General Fund-Supported Debt Capacity

- Using the December 2022 Forecast, General Fund debt capacity is projected to be $7.76 billion over the forecast period (FY 2024 – FY 2031)
- Averaging this capacity over the forecast period results in $1.94 billion issuance for each biennium, or $969 million annually
  - With the averaging approach, our target debt service ratio of 5% is exceeded in each year through FY 2027, then drops below 5% after the pension bonds are fully amortized in 2027
  - At the end of the forecast period, debt service to General Fund revenue reverts to the 5% target

Projected General Fund-Supported Debt Capacity (December 2022 Forecast)

Fiscal Year Ending June 30	Projected General Fund Revenue	Maximum Annual Amount of Debt Issuance within 5% Target Capacity	GF Debt Service as a % of General Fund Revenues*	SDPAC's Recommended Maximum Annual Amount of Debt Issuance	GF Debt Service as a % of General Fund Revenues*
2023	$13,220.5	--	--	--	--
2024	11,183.4	--	5.3%	969.4	6.1%
2025	13,834.1	$ 1,382.1	5.0%	969.4	5.3%
2026	15,623.8	1,088.8	5.0%	969.4	5.2%
2027	16,536.3	661.9	5.0%	969.4	5.4%
2028	17,840.9	2,129.9	5.0%	969.4	4.8%
2029	18,938.0	751.6	5.0%	969.4	4.9%
2030	20,294.1	962.0	5.0%	969.4	4.9%
2031	21,323.0	778.7	5.0%	969.4	5.0%
Total		**$7,755.2**		**$7,755.2**	

* Assumes the issuance of $1.727 billion in General Fund-Supported bonds authorized by the 2021-23 Biennium Bond Bill

Change in General Fund-Supported Debt Capacity

General Fund Debt Issuance Capacity
March 2021 Forecast vs December 2022 Forecast
($ millions)

March 2021 Forecast*			December 2022 Forecast Results		
Additional Available this Biennium	Issuance Capacity FY 2022 through FY 2029	Average Per Future Biennium, Commencing 2021-23	Additional Available this Biennium	Issuance Capacity FY 2024 through FY 2031	Average Per Future Biennium, Commencing 2023-25
$108	$ 6,474	$ 1,619	NA*	$ 7,755	$ 1,939

* March 2021 Forecast was used to determine 2021-23 Biennium debt capacity; Future capacity assumes full issuance of $1.73 in 2021-23 Biennium capacity. Unused debt capacity from the 2019-21 Biennium of $108 million increased the 2021-23 Biennium issuance capacity to $1.73 billion.

- Based on the December 2022 Forecast, future biennia capacity, commencing with the 2023-23 Biennium General Fund debt capacity using the averaging approach is $1.939 billion
  - This represents an increase of $320 million per biennium over the 2021-23 Biennium General Fund-Supported debt capacity using the March 2021 Forecast
  - Future capacity, using the December 2022 Forecast, assumes the full issuance of all $1.73 billion authorized in the 2021-2023 Biennium

Factors That Could Impact General Fund Debt Capacity

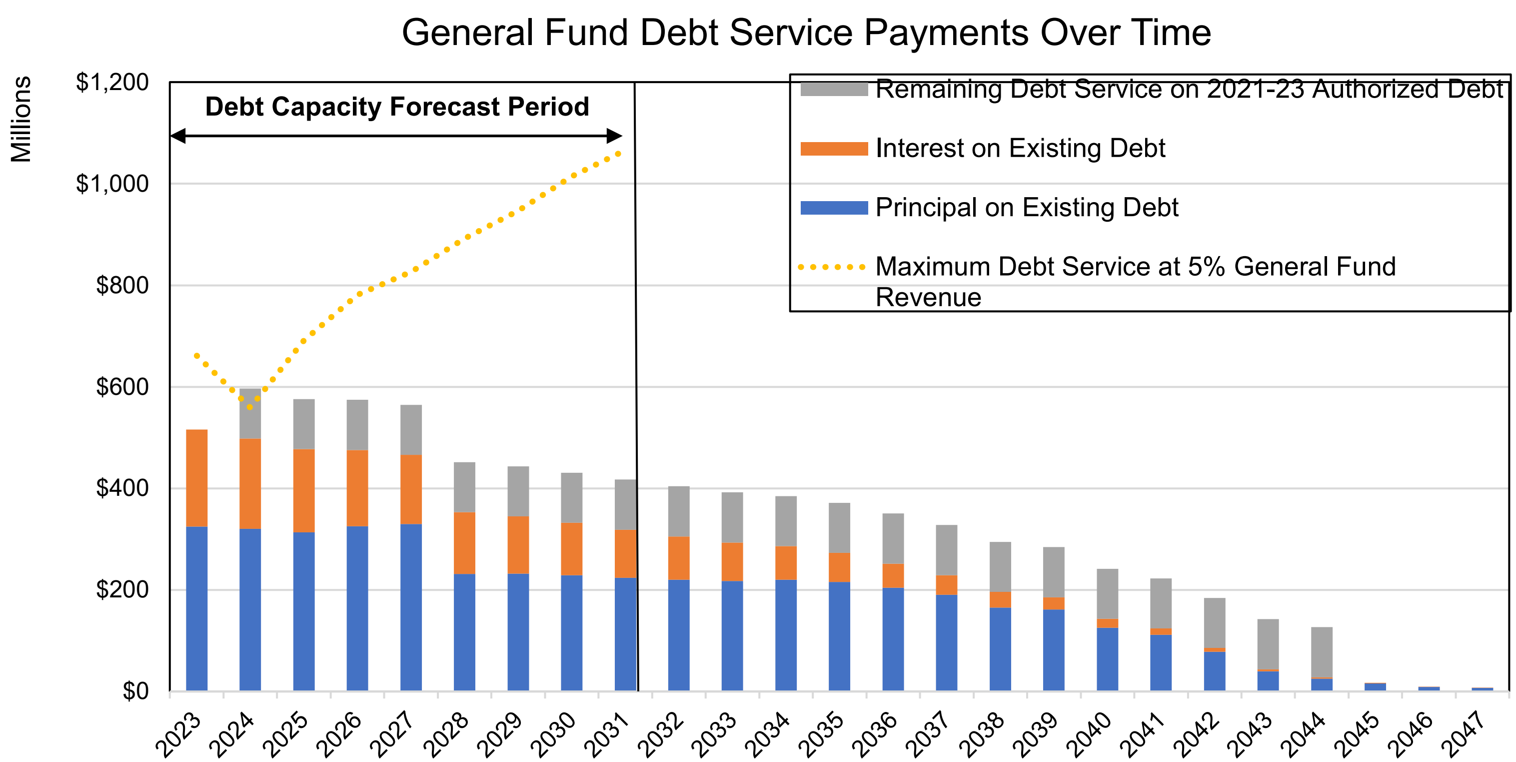
- Projected debt capacity will vary with changes in interest rates assumption or revenue projections

General Fund Debt Capacity
Sensitivity Analysis
(December 2022 Forecast)

$ Million	FY 2024 – 2031	Change from Base Case (FY 2024 – 2031)	Average Per Biennium
Base Case for Next Four Biennia	**$ 7,755**	**$ ---**	**$ 1,939**
<u>Change in General Fund Revenue Forecast</u>			
10% decline	6,481	(1,274)	1,620
10% increase	9,029	1,274	2,257
<u>Change in Interest Rate Forecast</u>			
1.0% higher	7,058	(697)	1,765
1.0% lower	$ 8,546	$ 791	$ 2,136

General Fund Debt Service

- The State maintains a conservative General Fund debt service profile
  - Currently, the State manages outstanding debt to achieve General debt service to General Fund revenue target ratio of 5%
  - Over the past several years, General Fund revenue has increased year over year providing increased debt capacity in each year
  - Using the projected growth in General Fund revenue and the 5% target debt service, projected annual debt service over the forecast period is expected to rise sharply



Lottery Revenue Bond Program Debt Capacity

Lottery Debt Capacity Model Inputs and Assumptions

- $1.17 billion of Lottery Revenue Bonds were outstanding as of June 30, 2022
- Lottery transfers and Lottery Revenue Bond proceeds have been used to fund programs including
  - Light Rail Projects and “Connect Oregon”
  - Drinking Water
  - Community Loans and Grants
  - Economic & Rural Development
  - State Parks, State Fair & Oregon Gardens
  - Schools & Education
  - Supportive Housing
  - Regional Port and Airport Improvements

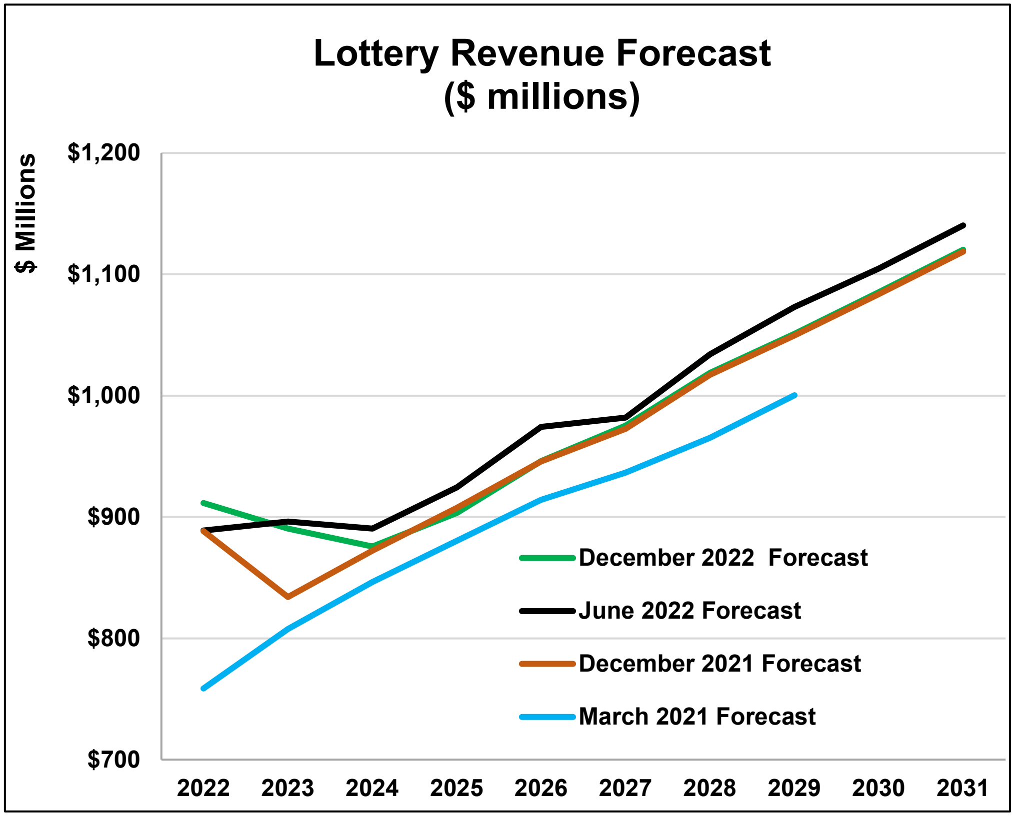
Key Debt Capacity Assumptions

- Accounts for all $1.17 billion of Lottery Revenue Bonds issued and outstanding as of June 30, 2022
- Uses OEA’s December 2022 Forecast of Lottery transfers for FY 2023 and the four future biennia over the forecast period (FY 2024 – FY 2031)
- Assumes issuance of the all $515 million 2021-23 Biennium authorized new money bonds
- Bond Structuring Assumptions Include:
  - Pursuant to the Lottery Revenue Bond Indenture, net unobligated Lottery Revenue must provide a minimum of four (4) times coverage of maximum annual debt service or debt service may not exceed 25% of net lottery revenues
  - Structures new debt with level debt annual service over 20-year term using a 5.50% interest rate , to reflect Federal Reserve Board expectation for continued interest rate hikes and maintenance of higher rates to stem inflation

Lottery Revenues Forecast Trends

- The December 2022 Forecast projects continued rebound in Lottery Revenue above the 2021 COS forecast
  - Lottery revenue for the 2023-25 Biennium is forecasted to be lower than the 2021-23 Biennium due to dampening demand attributable to the recessionary pressures and other entertainment options
- Lottery Revenues available for transfer are expected to grow from $1.78 billion in the 2023-25 biennium to $2.22 billion in the 2029-31 biennium

- Key Factors Contributing to the continued growth in Lottery Revenue include:
  - Consumer cash balances and a healthy jobs market continues to fuel demand
  - Pent up demand and continued popularity of gaming
  - Persistently high inflation is expected to reduce discretionary household income and demand for gaming
  - Competing entertainment options such as travel may damper demand, particularly in light of the “mild recession” forecast



Lottery Revenue Debt Capacity

- The December 2022 Forecast provides for a strong rebound in Lottery Revenues over the period FY 2024 through FY 2031, resulting in debt capacity of $2.0 billion
- Based on the December 2022 Forecast and using an averaging approach, the State's Lottery Revenue debt issuance capacity is $506.4 million in each biennium or $253.2 million annually over the forecast period

Projected Lottery Revenue Bond Capacity
Over the Next Four Biennia
($ millions)

Fiscal Year (ending June 30th)	Maximum Amount of New Debt Issuable Within Debt Service Coverage Requirements	Lottery Revenue to Debt Service Ratio	Debt Service as a % of Lottery Revenues	SDPAC Recommended Maximum Average Annual Debt Issuance	Lottery Debt Service Coverage Ratio	Debt Service as a % of Lottery Revenues
2024	$ 554.3	**4.0**	**25%**	$ 253.2	4.5	22%
2025	82.7	**4.0**	**25%**	253.2	4.2	24%
2026	127.8	**4.0**	**25%**	253.2	4.0	25%
2027	169.4	**4.0**	**25%**	253.2	3.9	26%
2028	348.6	**4.0**	**25%**	253.2	4.0	25%
2029	253.9	**4.0**	**25%**	253.2	4.0	25%
2030	269.5	**4.0**	**25%**	253.2	4.0	25%
2031	219.6	**4.0**	**25%**	253.2	4.0	25%
Total	**$ 2,025.7**			**$ 2,025.7**		

Change in Lottery Revenue Debt Capacity

Change in Lottery Debt Capacity
March 2021 Forecast vs December 2022 Forecast
($ millions)

Based on March 2021 Forecast			Based on December 2022 Forecast		
Available Capacity 2019-21 Biennium*	Capacity for Issuance 2022-2029 Biennium	Average Per Future Biennium, Commencing 2021-23	Available Capacity 2021-23 Biennium	Capacity for Issuance 2024-31 Biennium	Average Per Future Biennium, Commencing 2023-25
$0	$ 2,062	$ 515	NA	$ 2,025	$506

*No Lottery Revenue Bonds were issued in 2019-21 Biennium and no capacity was rolled in to the 2021-23 Biennium

- Based on the December 2022 Forecast, future biennia capacity, commencing with the 2023-23 Biennium Lottery Revenue Bond Program debt capacity using the averaging approach is $506 million
  - This represents a modest decline of $9 million per biennium from the 2021-23 Biennium Lottery Revenue Bond Program debt capacity using the March 2021 Forecast
    - The decline is due in part to higher interest rate assumptions and the curve of Lottery Revenues relative to Debt Service
  - Future capacity assumes the full issuance of all $515 million authorized in the 2021-2023 Biennium

Factors That Could Affect Lottery Revenue Debt Capacity

Lottery Bond Capacity
Sensitivity Analysis
(December 2022 Forecast)

($ Million)	FY 2023 – 2031*	Change from Base Case (FY 2023 – 2031)	Average Per Biennium
Base Case for Next Four Biennia	**$ 2,025**	**$ ---**	**$ 506**
Change in Lottery Revenue forecast			
10% decline	1,691	(335)	423
10% increase	2,360	335	590
Change in interest rate forecast			
1.0% higher	1,845	(181)	461
1.0% lower	$ 2,231	$ 206	$ 558

OREGON STATE TREASURY

Impact of March 2023 Forecast on Debt Capacity

General Fund Revenues –March 2023 Forecast vs December 2022 Forecast

- The OEA March 2023 Forecast of General Fund Revenues shows an expected decline of $314 million in General Fund Revenue over the forecast period relative to the December 2022 Forecast
  - The projected 'mild recession' is delayed to the latter part of the 2023-25 Biennium
  - Future biennia general fund revenue is expected to decline modestly

Change in General Fund Revenues
March 2023 Forecast vs December 2022 Forecast
($ million)

Fiscal Year Ending June 30	March 2023 Forecast ($ Million)	December 2022 Forecast ($ Million)	Change in March over December ($ Million)
2024	$11,245	$11,183	$61
2025	13,953	13,834	119
2026	15,617	15,624	(7)
2027	16,507	16,536	(30)
2028	17,804	17,841	(37)
2029	18,801	18,938	(137)
2030	20,158	20,294	(136)
2031	21,175	21,323	(148)
Total	***$135,260***	***$135,574***	***$(314)***

Summary of Changes: March 2023 Forecast vs December 2022 Forecast

- Due to the overall reduction in projected General Fund Revenue in the recently released March 2023 Forecast, General Fund debt capacity would be reduced from $1.939 billion per biennium to $1.917 billion
- Given the nominal impact of the March 2023 Forecast on debt capacity, the SDPAC recommends no change to the $1.939 billion 2023-25 Biennium General Fund debt capacity recommendation

General Fund Debt Issuance Capacity
December 2022 Forecast vs March 2023 Forecast

($ million)

December 2022 Forecast Results			March 2023 Forecast Results		
Additional Available this Biennium	FY 2024 Through FY 2031	Average Per Future Biennium	Additional Available this Biennium	FY 2024 Through FY 2031	Average Per Future Biennium
NA*	$ 7,755	$ 1,939	NA*	$ 7,667	$ 1,917

*Assumes the full issuance of all $1.73 billion authorized in the 2021-2023 Biennium.

Lottery Revenues –March 2023 Forecast vs December 2022 Forecast

- The OEA March 2023 Forecast of unobligated net Lottery Revenues shows an expected increase of $181 million in Lottery transfers over the forecast period relative to the December 2022 Forecast
  - The projected 'mild recession' is delayed to the latter part of the 2023-25 Biennium
  - Gaming remains an attractive form of entertainment even in inflationary times
  - Future biennia net unobligated Lottery Revenue is expected to increase modestly

Change in Lottery Revenues
March 2023 Forecast vs December 2022 Forecast
($ million)

Fiscal Year Ending June 30	March 2023 Forecast ($ Million)	December 2022 Forecast ($ Million)	Difference ($ Million)
2024	$893	$876	$17
2025	922	903	19
2026	967	946	21
2027	998	975	23
2028	1,043	1,019	24
2029	1,076	1,051	25
2030	1,111	1,085	26
2031	1,147	1,120	26
Total	***$8,157***	***$7,975***	***$181***

Change in Lottery Revenue Debt Capacity

- Due to the overall increase in projected Revenue in net unobligated Lottery Revenue recently released March 2023 Forecast, capacity is increased from $506 million per biennium to $526 billion
- Given the nominal impact of the March 2023 Forecast on debt capacity, the SDPAC recommends no change to the $506 million 2023-25 Biennium Lottery Revenue Bond Program debt capacity recommendation

Change in Lottery Debt Capacity
March 2023 Forecast vs December 2022 Forecast
($ million)

Based on March 2023 Forecast			Based on December 2022 Forecast		
Authorized Issuance 2021-23 Biennium*	Capacity for Issuance 2024-31 Biennium	Average Per Future Biennium	Authorized Issuance 2021-23 Biennium	Capacity for Issuance 2024-31 Biennium	Average Per Future Biennium
$515	$ 2,105	$ 526	$515	$ 2,025	$506

Emerging Areas of Concern

State Net Tax-Supported Debt Per Capita

- As of June 30, 2022, Oregon's Net Tax-Supported Debt was $8.99 billion and is projected to increase to $10.60 billion by the end of FY 2023
- Net Tax Supported debt as a percent of personal income is expected to grow from 3.46% at the end of the 2019-21 Biennium to an expected 3.78% by the end of the current biennium
- Historically, the State's strong population growth over the last decade permitted the State to support increasing debt at affordable levels
  - Recent trends show slowing of the Oregon population growth

State of Oregon
Net Tax-Supported Debt Ratios (Change from End of Last Biennium)

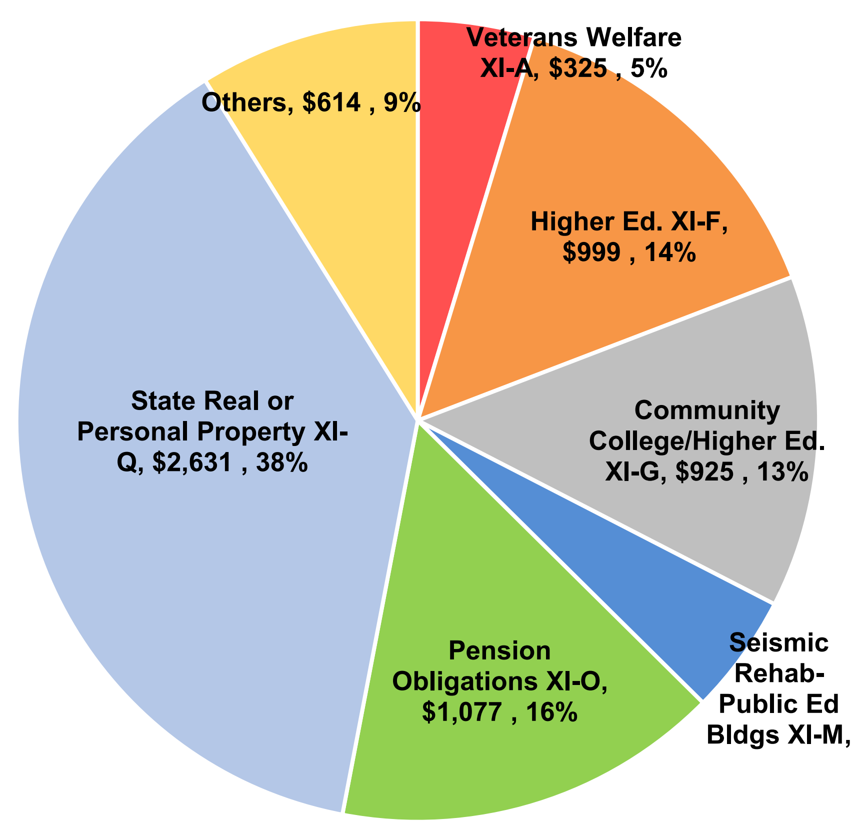
Fiscal Year Ending June 30th				
	FY 2020 (Actual)	FY 2021 (Actual)	FY 2022 (Actual)	FY 2023 (Projected)
Net Tax-Supported Debt ($bn)	$ 8.39	$ 8.83	$ 8.99	$ 10.60
Population*	4,268,055	4,266,560	4,294,500	4,296,300
Personal Income * ($bn)	$ 238.30	$ 254.90	$ 267.70	$ 280.90
NTSD Per Capita	$ 1,966	$ 2,069	$ 2,094	$ 2,470
NTSD as a % of Personal Income	3.52%	3.46%	3.36%	3.78%
Pension Obligation Bonds Excluded				
NTSD Per Capita	$ 1,645	$ 1,781	$ 1,843	$ 2,260
NTSD as a % of Personal Income	2.95%	2.98%	2.96%	3.46%

Source: Population and Personal Income projections are based on OEA Economic and Demographic Forecasts, March 2023 Forecast

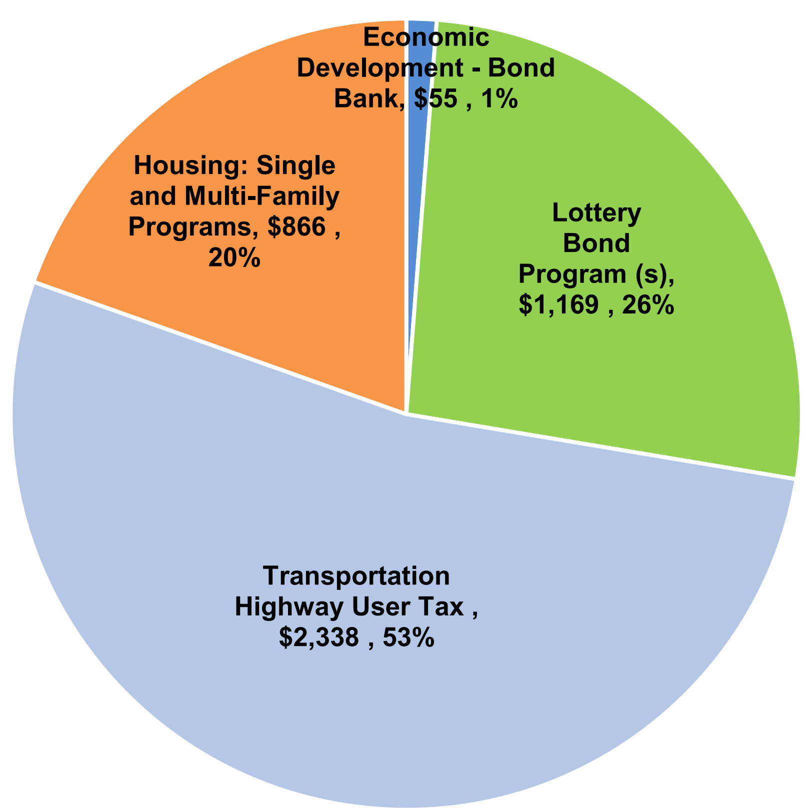
Composition of the State's Overall Indebtedness (FY 2022)

- Article XI-Q Bonds comprise 38% of General Obligation indebtedness and is utilized to fund the LIFT program bonds and capital improvements to State owned or operated facilities
- Transportation infrastructure needs continue to grow and comprise more than 53% of direct revenue bonds

Outstanding General Obligation Debt By Constitutional Authority as of June 30, 2022 ($ Million)

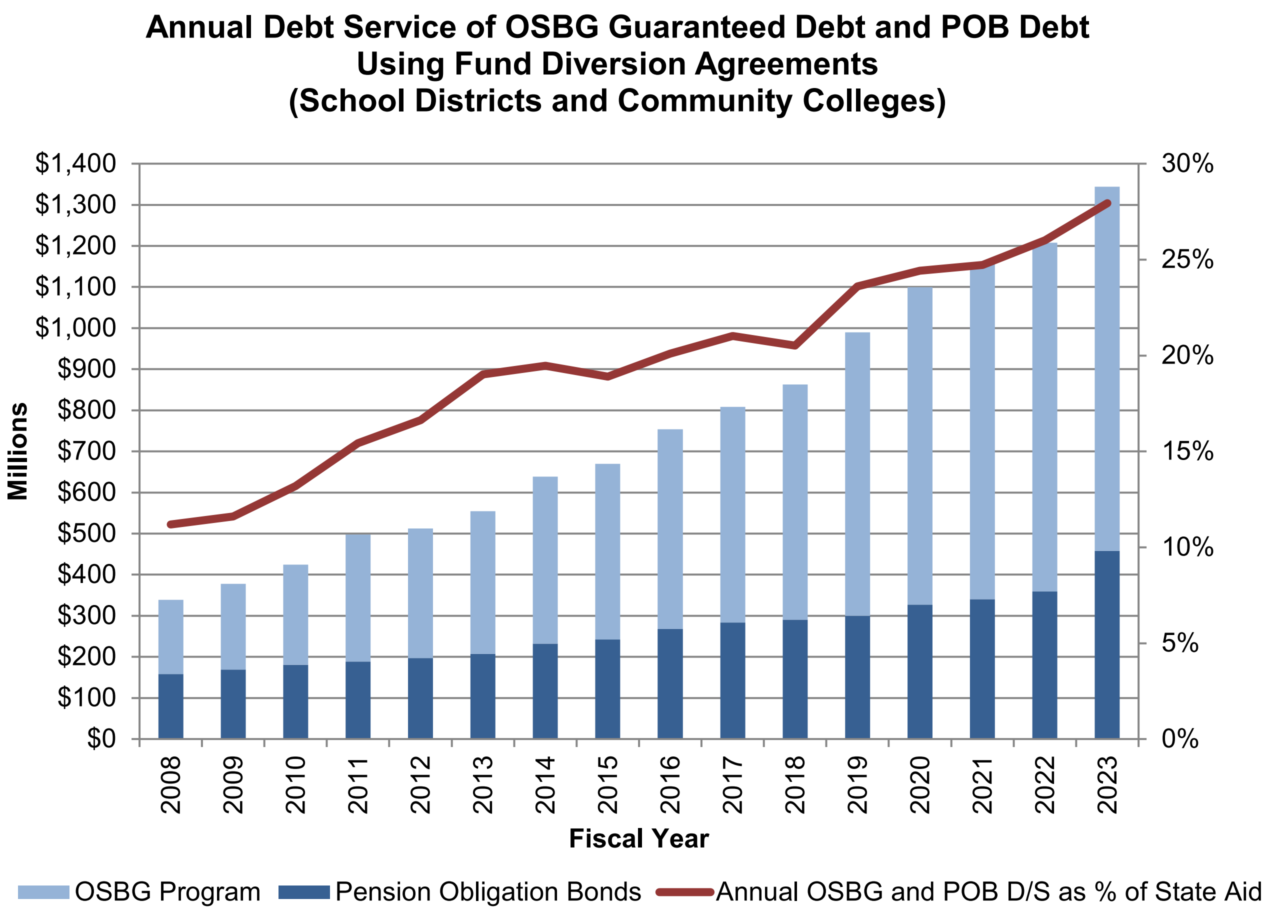


Outstanding Direct Revenue Debt By Program as of June 30, 2022 ($ Million)



Oregon School Bond Guaranty Program and Pension Bonds

- The Oregon School Bond Guaranty (OSBG) program, created in 1998 via constitutional amendment, permits the State to credit enhance general obligation bonds issued by school districts and community colleges using the State Aid intercept where State School Aid may be directed to the pay debt service on OSBG debt
- As of June 30, 2022, the OSBG program guarantees $9.4 billion of outstanding GO bonds issued by Oregon school districts and community colleges
- School districts and community colleges uses the Fund Diversion Agreement to support Pension Obligation Bonds (POBs), which enhances the credit ratings of POB issuances without the use of the Guaranty
- For FY 2023, outstanding POB and OSBG program bond debt service debt service is expected to account for 9.52% and 18.43%, respectively of annual State Aid to Schools and Community Colleges. In the aggregate, guaranteed or potential claims against school aid total 27.95% of such aid
- Four (4) school districts currently have combined annual State guaranteed debt service (GO and POB) that exceed their annual allocation of State school aid

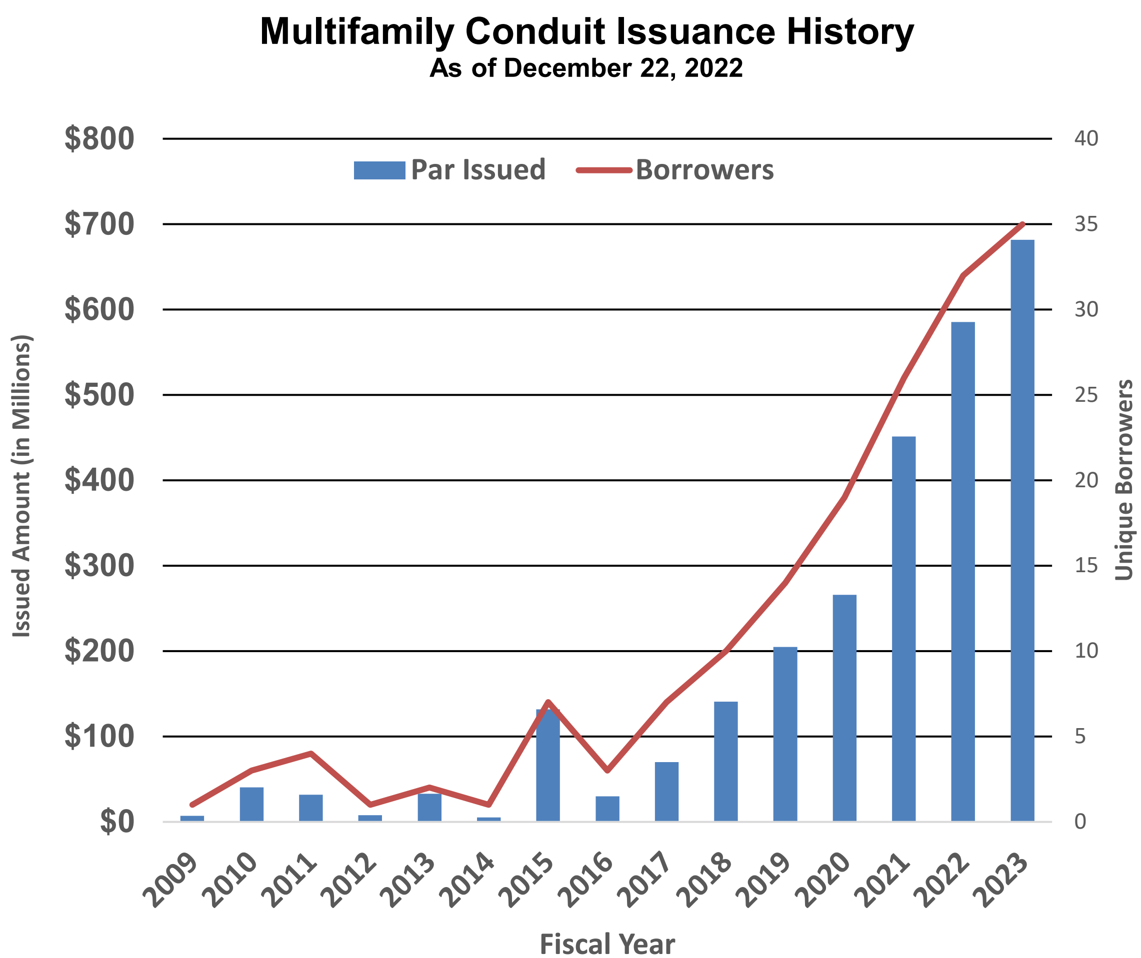


OREGON STATE TREASURY

Multifamily Conduit Revenue Bond Issuance

- Issuance of multifamily conduit revenue bonds has increased sharply since 2018, largely due to the issuance of General Obligation bonds for Local and Innovative Fastrack Program ("LIFT") affordable housing and Permanent Supportive Housing ("PSH") program awards which have been combined with various established housing tax credits including 4% Low Income Housing Tax Credit (LIHTC)

- Multifamily revenue bonds are issued on behalf of public and private entities for the development and rehabilitation of low-income multifamily housing
- During FY22, 32 conduit bond issuances totaling $585 million closed. In FY 23, 17 deals totaling $295 million have closed; 18 more issuances for approximately $682 million are projected to close by the end of FY 2023
- As of May 2022, an aggregate of $518 million in Article XI-Q General Obligation bonds have been issued to support the LIFT program, providing gap funding for affordable and permanent and supportive housing development
- The strong demand for affordable housing statewide has intensified competition for the limited availability of private activity bond volume cap



Private Activity Bond Volume Cap 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
- The 2021 Legislature authorized in each of CY 2022 and CY 2023 PAB Volume Cap of $442.86 million as follows:
  - $250 million Legislative allocation to OHCSD
  - $151.8 million to the Private Activity Bond Committee (PABC) for statewide projects
  - $40 million Legislative allocation to Oregon Business Development Department (OBDD)
  - $1.0 million Legislative allocation to the Beginning & Expanding Farmer Loan program through OBDD
- Based on December 2021 population statistics and IRS volume cap per capita allocations ($110), Oregon's 2022 CY PAB Volume Cap was $467 million, which increased the PAB Committee CY 2022 allocation authority by $24.2million to $176 million
  - During CY 2022, the PABC allocated $173.2 million to affordable housing projects across the State
  - All PAB volume cap during CY 2021 and CY 2022 were applied exclusively to support affordable housing statewide
- Based on December 2022 population statistics and IRS volume cap per capita allocations ($120), Oregon's 2023 CY PAB Volume Cap is $509.5 million, which increases the PABC CY 2023 allocation authority by $66.6 million to $218.5 million
- Unused CY 2022 allocations of $157.9 million (2022 Carryforward) became available in December 2022 and was allocated in its entirety by the PABC to OHCSD January 2023 meeting

Conclusion

Conclusion

- The December 2022 Forecast incorporated a “mild recession” in its forecast, which is projected to dampen 2023-25 Biennium General Fund and Lottery Revenues, after which revenue is expected to increase
- Driven in part by capital gains taxes and strong corporate earnings, 2021-23 Biennium General Fund revenue exceeded the 2021 COS Forecast by over $4.9 billion, which has generated a ‘kicker’ credit to be rebated to Oregon taxpayers in FY 2024
  - The record rebate expected in FY 2024 will reduce FY 2024 General Fund revenue and result in existing general fund supported debt service exceeding the 5% target
- The State’s General Fund revenue performed better than expected during the pandemic and is expected to surpass pre-pandemic levels throughout OEA ‘s December 2022 forecast period
  - Forecasted General Fund revenue provides for $7.755 billion of new General Fund debt capacity for the upcoming four biennia, with an average debt capacity of $1.939 billion per biennium
- Lottery Revenue has demonstrated a robust recovery and is forecasted to exceed pre-pandemic levels throughout the forecast period
  - Lottery Revenue is heavily dependent on video gaming, which is reliant on access to bars, restaurants and gaming facilities
  - Projected Lottery Revenue provides $2.03 billion of new Lottery Revenue debt capacity for the upcoming four biennia, with an average debt capacity of $506 million in each biennium over the forecast period
- The State has strong credit ratings due to its adherence to prudent debt management practices, fiscal discipline, strong management and high liquidity position
  - The State’s long-term General Obligation Bond ratings were recently affirmed by S&P, Moody’s and Fitch in March 2023 at AA+/Aa1/AA+, respectively
  - Evaluation and ongoing management of key revenue and budgetary risk factors as well as buffering reserves are important components of ongoing debt management and safeguarding of the State’s strong ratings

Questions?

Appendices

A. 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 and credit of the State • Includes both General Fund-supported <u>and</u> non General Fund-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 • May include the State back-up support such as moral obligation or an intercept of state aid to specific entity
3. Appropriation Credits	• Requires continuing appropriation by the Legislature to fund debt service payments • Generally payable by State agencies from General Fund sources • Not secured by the full faith and credit of the State • Historically, Certificates of Participation (COPs) were used to finance real or personal property owned by 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

Four Debt Capacity Categories

1. General Fund-Supported Debt	▪ SDPAC Recommended Target • Maintain 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 general capacity limit or measurement ▪ State programs in this category are managed based on revenue streams available

B. Net Tax-Supported Debt

Net Tax-Supported Debt

Net Tax-Supported Debt Programs Include:

All

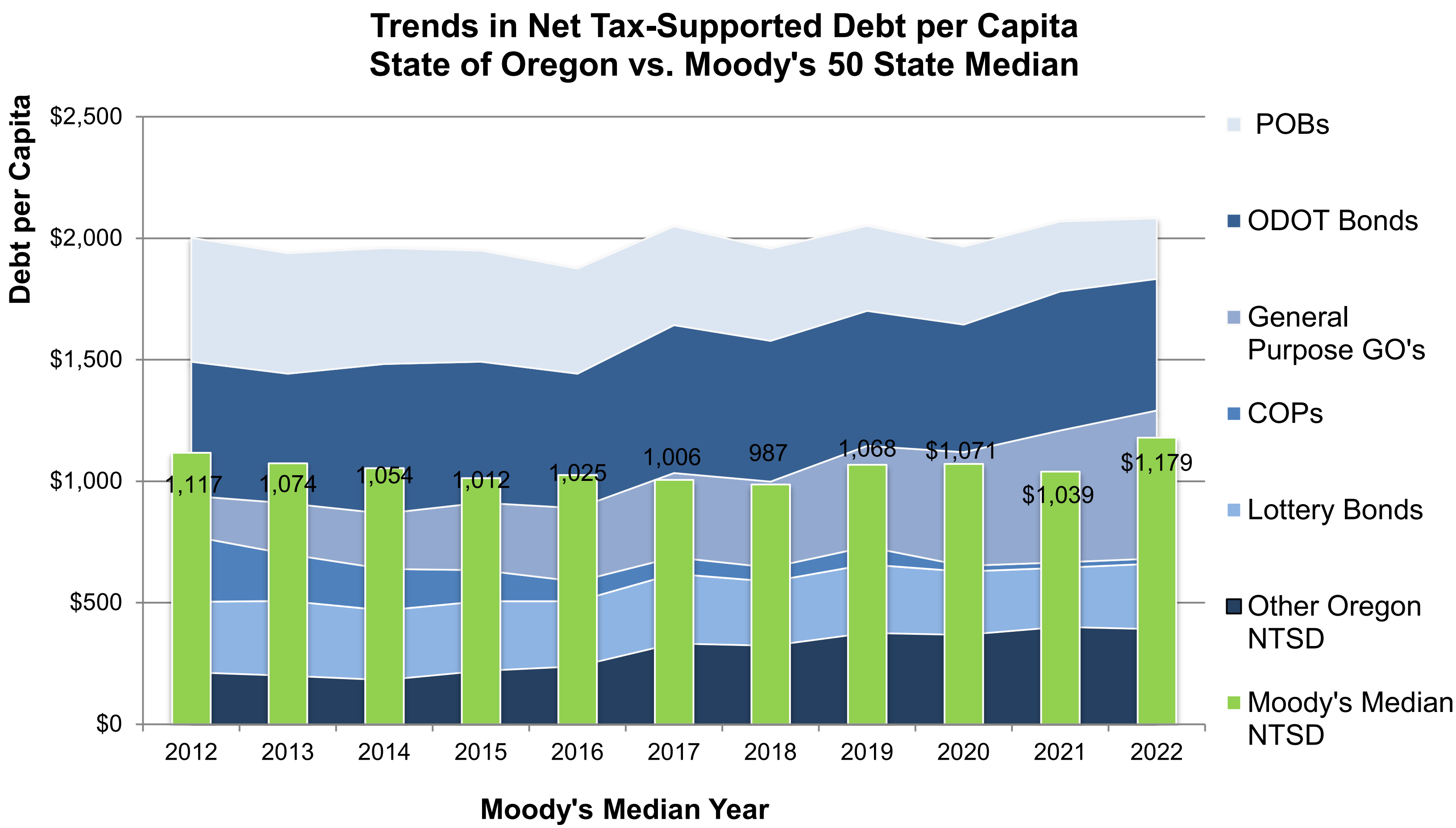
General Fund-Supported Debt Programs

Plus

- Dedicated funds portion of Pension Obligation Bonds
- Dedicated funds portion of XI-Q bonds
- Certificates of Participation
- Lottery Revenue Bonds
- Highway User Tax Revenue Bonds

Trends in Net Tax-Supported Debt

- Oregon's Net Tax-Supported Debt (NTSD) per capita as of FY 2022 is $2,094 which is above the median of $1,179 for all states
- Oregon's Net Tax-Supported Debt to personal income of 3.36% in FY 2022 is above the median of 2.1% for all states

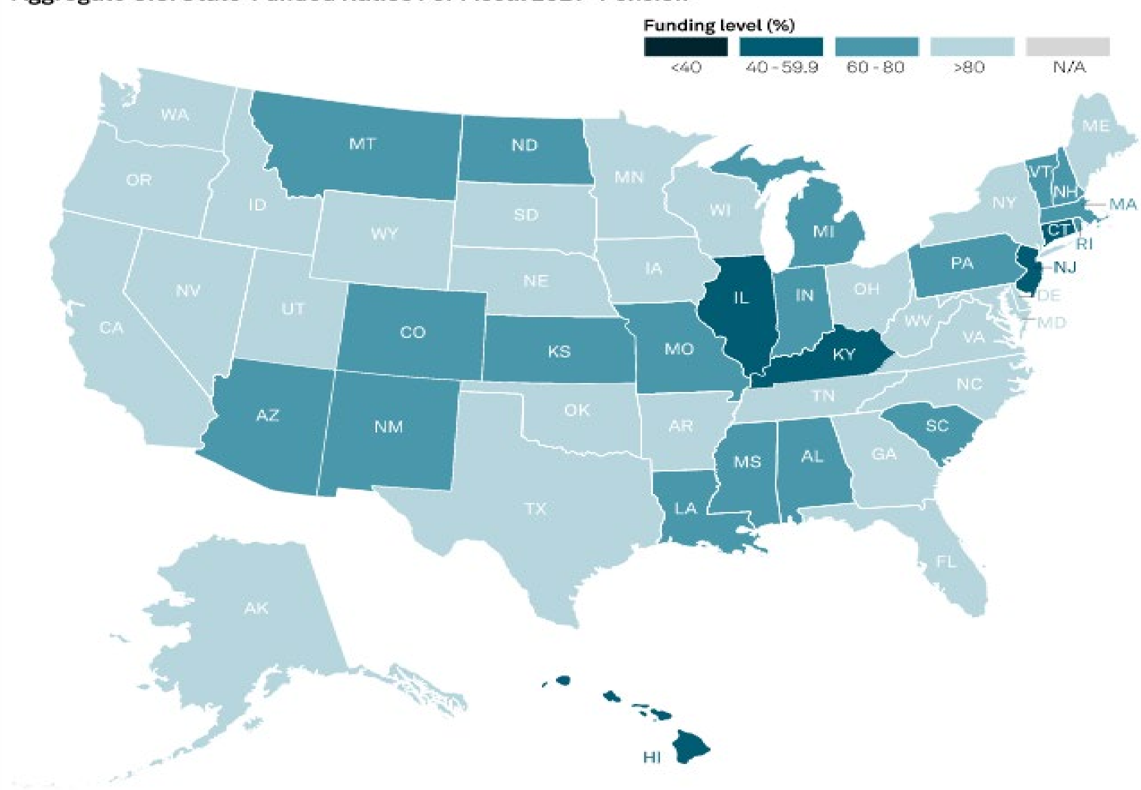


Sources: Moody's Debt, pension and OPEB liabilities all up in fiscal 2021, dated September 7, 2022

Pension and OPEB Funding Level By State

- Oregon ranks among the top states in terms of pension funding status, a measure of pension assets relative to pension liability
- Using FY 2021 data provided by S&P, Oregon ranked 19th highest among all states with pension funded ratio of 87.6%
- In October 2021, PERS reduced the assumed rate of return from 7.20% to 6.90%

Aggregate U.S. State-Funded Ratios For Fiscal 2021 - Pension

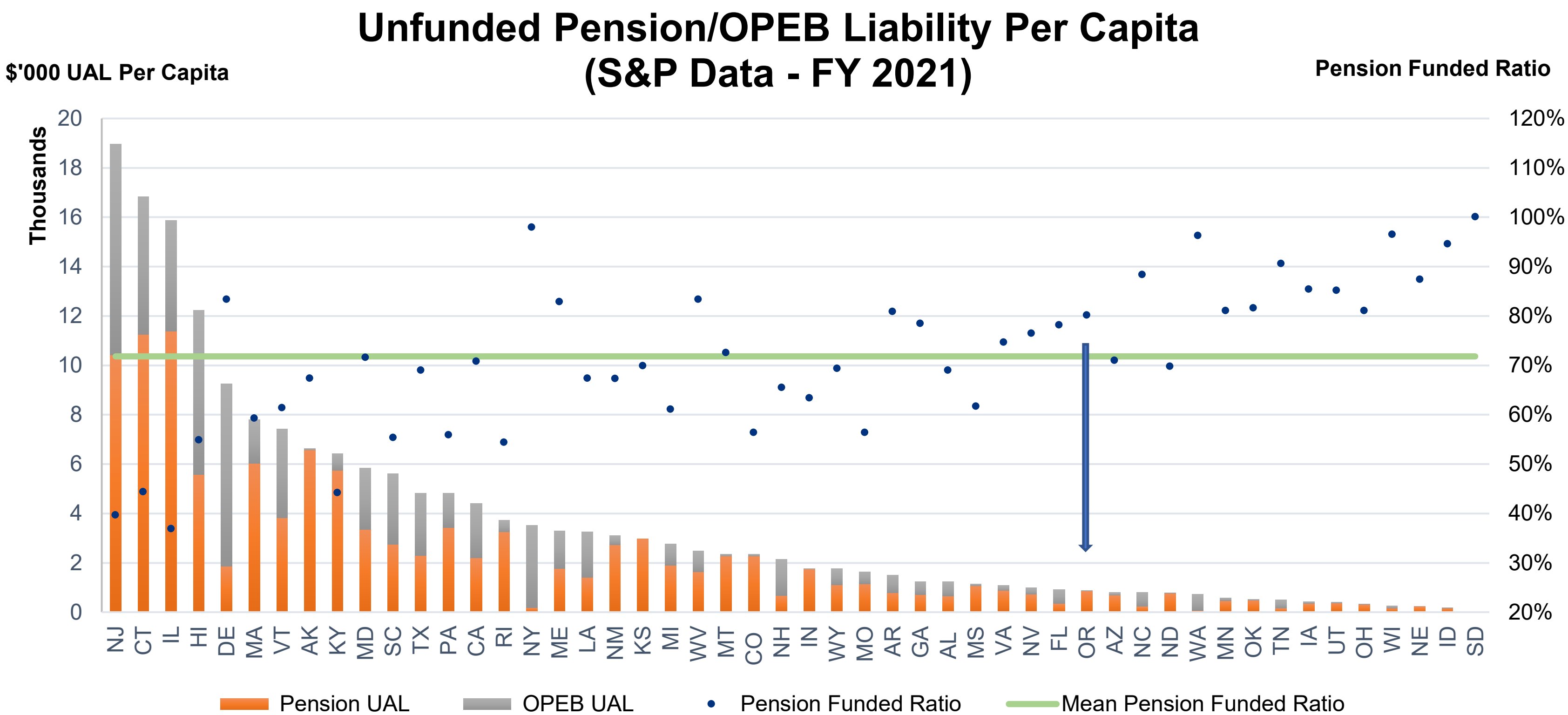


N/A--Not applicable. Source: S&P Global Ratings.

Source: Standard & Poor's Market Swings Could Signal Contribution Volatility for U.S. State Pensions and OPEBs dated, August 3, 2022. Net pension liability used for each state is based on the amount reported in their Comprehensive Annual Financial Reports as of June 30, 2021.

Oregon's Per Capita Pension and OPEB Liabilities Ranking

- Oregon's per capita unfunded pension and OPEB liability is among the lowest level when compared to other states
  - Oregon ranks 15th lowest in Pension and OPEB liability per capita, among all states
- Additionally, Oregon's FY 2021 pension funded status of 87.6% is above the median for all states (81%) for the same period



Source: Standard & Poor's Market Swings Could Signal Contribution Volatility for U.S. State Pensions and OPEBs dated, August 3, 2022.

C. Non Tax-Supported Debt

Composition of Non-Tax Supported Debt Programs

Non Tax-Supported Debt Programs

General Obligation Programs (Self Supporting)

- Veterans' Welfare Bonds
- Elderly & Disabled Housing Bonds
- Higher Education Facility (XI-F) Bonds
- Alternate Energy Bonds (40% of debt service)
- Pollution Control Bonds (43% of debt service)
- 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

Conduit Revenue Bond Programs

Conduit Revenue Bonds

- Conduit revenue bonds are securities that are issued by a governmental unit to finance a project for a third party. Debt service payments are the obligation of the third-party borrower and do not constitute a GO debt of the State or the issuing governmental agency. Economic and industrial development revenue bonds are a common type of conduit revenue security
- The State has four authorized and active conduit or "pass-through" revenue bond programs:
  - Oregon Facilities Authority (OFA) – ORS Chapter 289.200 to 289.240
  - Industrial Development Revenue Bonds – ORS Chapter 285B.320 to 285B.371
  - Housing Development Revenue Bonds – ORS 456.692
  - Beginning & Expanding Farmer Loan Revenue Bonds – ORS Chapter 285A.420 to 285A.435
- Under these programs, the State is considered the issuer, but has no obligation to pay debt service. Payments are made by the entities on whose behalf the bonds were issued

Net Tax Supported Debt Authorized for 2021-23 Biennium Issuance

Net Tax-Supported Debt Authorizations for 2021-2023 Biennium*

Net Tax-Supported Debt Programs	2021-2023 Biennium Authorization	FY 2022 Issuance	FY 2023 Planned Issuance	Remaining Authorization
Community College Bonds (Article XI-G)	$77,160,000	$0	$77,160,000	$0
Dept. of Higher Education Facility Bonds (Article XI-G)	42,840,000	0	42,840,000	0
DEQ – Pollution Control Bonds (Article XI-H)	10,300,000	0	10,300,000	0
Seismic Rehab – Public Education Buildings (Article XI-M)	111,300,000	48,785,000	62,515,000	0
Seismic Rehab – Emergency Services Buildings (Article XI-N)	50,750,000	18,470,000	32,280,000	0
Dept. of Education – School Construction Bonds (Article XI-P)	126,090,000	0	126,090,000	0
State General Purpose Bonds (Article XI-Q)1	1,635,415,000	480,420,000	1,154,995,000	0
Lottery Revenue Bonds ORS 286.563-585	515,510,000	217,690,000	297,820,000	0
Highway User Tax Bonds ORS 376.620	880,000,000	0	454,035,000	425,965,000
Dept. of Transportation –State Highway Bonds (Article XI (Sect7))	0	0	0	0
Certificate of Participation Bonds ORS 283.025-092	0	0	0	0
Total Net Tax-Supported Debt Authorizations	**$3,449,365,000**	**$765,365,000**	**$2,257,995,000**	**$425,965,000**

*Data as of June 30, 2022

D. 2021-23 Biennium Issuance to Date

2021-23 Biennium Issuance to Date

Month of Sale	Type of Bond	Par Amount ($MM)	Uses of Funds	Term of Bonds (Average Life)	All-in True Interest Cost
March 2023	GO Bonds (2023A-D)	$ 989	State Capital Projects, Seismic Resiliency Projects, LIFT and Permanent Supportive Housing Programs	11.5 years	3.68%
December 2022	Oregon Department of Transportation	$ 240	State Highway Projects including Regional Mobility Projects as part of Keep Oregon Moving	13.8 years	3.75%
September 2022	Oregon Housing & Community Services Dept.	$46	Single-Family Revenue Bonds	19.2 years	5.15%
July 2022	GO Bonds Veterans Welfare	$39	Oregon's Veteran's Welfare Loans	18.0 years	3.85%
May 2022	GO Bonds (2022ABC)	$418	General Purpose State Property	11.38 years	3.92%
May 2022	Lottery Revenue Bonds (2022AB)	$218	Capital Improvements, Dam Rehabilitation, Affordable Housing	11.09 years	3.70%

2021-23 Biennium Issuance to Date

Month of Sale	Type of Bond	Par Amount ($MM)	Uses of Funds	Term of Bonds (Average Life)	All-in True Interest Cost
April 2022	Oregon Housing & Community Services Dept.2022A	$79	Housing Mortgage Revenue Bonds	17 years	3.28%
November 2021	ODVA GO (107/108)	$11	Maintenance and Safety Project	10 years	1.50%
August 2021	Single Family Mortgage Revenue Bonds	$99	New Single Family Mortgages	30 years	2.13%
November 2021	ODVA GO (107/108)	$11	Maintenance and Safety Project	10 years	1.50%
August 2021	Single Family Mortgage Revenue Bonds	$99	New Single Family Mortgages	30 years	2.13%