

**REPORT**  
**OF THE**  
**STATE DEBT POLICY**  
**ADVISORY COMMISSION**



**2012**  
**Legislative Update**

January 10, 2012



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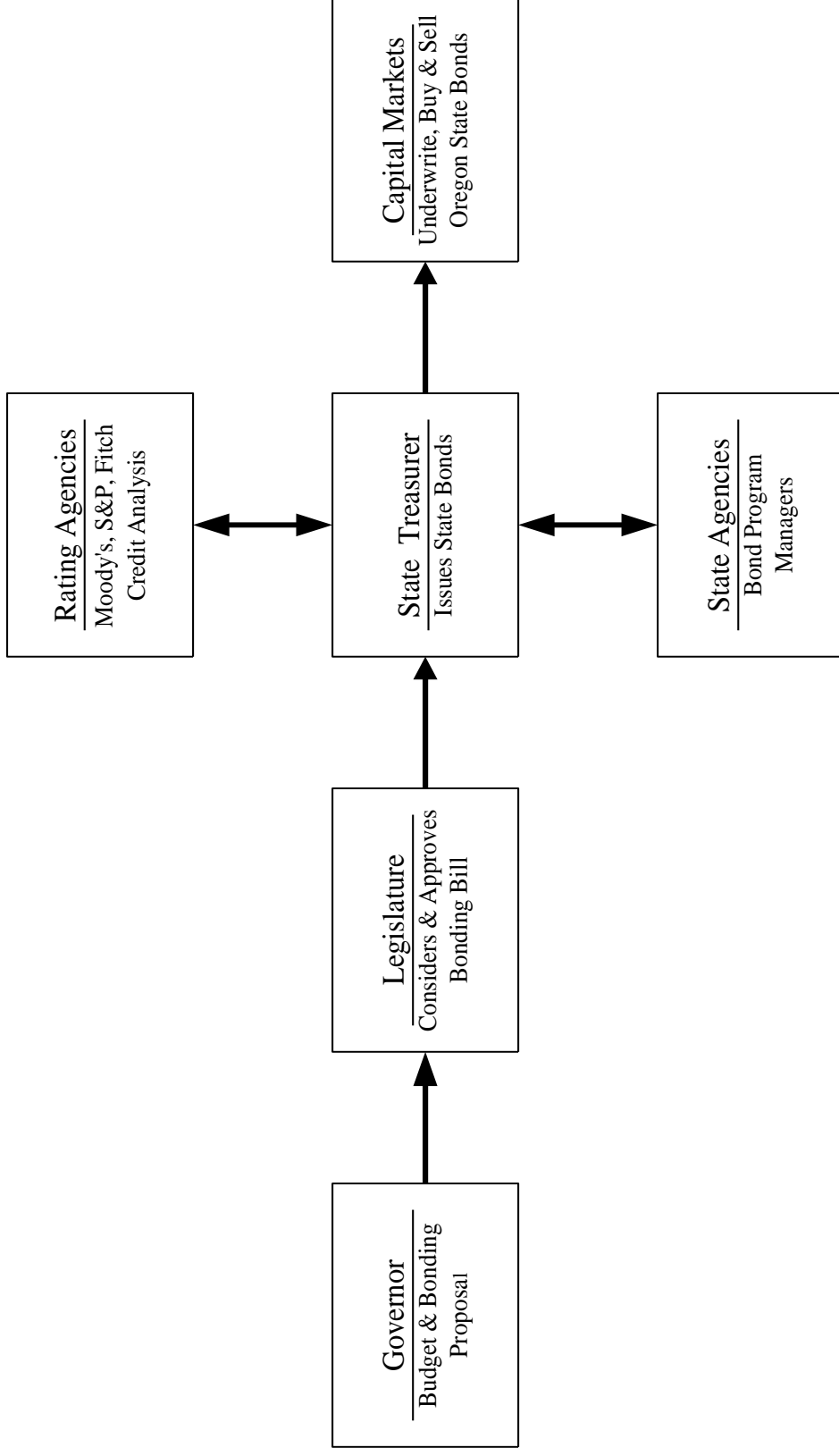
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# Oregon Bonding Process



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COMMISSIONER TED WHEELER, CHAIR  
*Oregon State Treasurer*

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## **STATE DEBT POLICY ADVISORY COMMISSION**

January 10, 2012

Governor Kitzhaber and Members of the 2012 Oregon Legislature:

The State Debt Policy Advisory Commission (the “Commission”) serves to advise the Governor and Legislature on policies related to debt and long-term capital financing. This report is intended to provide policymakers with a current picture of the State’s bonding capacity. In preparing this report, the Commission kept in mind the need to preserve and enhance the State’s credit rating to save taxpayers money through lower interest costs. A high-quality State credit rating enhances the State’s ability to attract investors and obtain low-cost capital financing. Given the recent worldwide financial turmoil, our current strong credit ratings will prove increasingly important as we embark on the sale of state bonds to fund new public works programs, both this spring and in the years to come.

Oregon remains in sound financial position with respect to its outstanding General Obligation debt, as evidenced by the state’s AA+/Aa1/AA+ ratings by Standard & Poor’s, Moody’s Investors Service, and Fitch Investors Service respectively. Our Lottery bond program continues to garner strong credit ratings as well, with ratings of AAA and Aa2 by Standard & Poor’s and Moody’s Investors Service respectively. While there remains significant available debt capacity to meet Oregon’s long-term capital needs over the six year forecast period, continued declines in forecasts of General Fund and Lottery revenues mean that it has become a scarcer resource, requiring careful consideration for its effective allocation.

According to our forecasts, after taking into account the December 2011 revenue forecast and the bonds authorized by the Legislature in 2011, the State will be slightly over its 5% debt service to General Fund revenue target over the balance of this biennium. The Commission therefore recommends that the Legislature and Governor refrain from authorizing new General Fund supported debt in the upcoming legislative session. Our model suggests that the State’s capacity will return in the following two biennia (2013-15 and 2015-17) at approximately \$640 million per year.

With the successful restructuring of a modest portion of our existing Lottery debt in March 2011, the State now has capacity to issue the \$223 million par value in new Lottery Revenue Bond Program obligations authorized during the 2011 Legislative session, as well as up to \$619 million in additional Lottery bonds over the following two biennia (2013-15 and 2015-17). Again, the Commission recommends a considered, phase approach in using this capacity, at the maximum rate of \$309 million per biennium to maintain fiscal flexibility should Lottery revenues continue to decline.

As you make decisions critical to Oregon's long-term financial health, please consider the Commission and its staff as a financial resource available to you at any time.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ted Wheeler', with a long horizontal line extending to the right.

Ted Wheeler, State Treasurer  
Chair, State Debt Policy Advisory Commission

## EXECUTIVE SUMMARY

Public borrowing is an important tool in Oregon's efforts to improve the State's infrastructure, educational facilities, and other public buildings that impact the state's economy and quality of life of Oregonians for generations to come. This public borrowing must be used carefully because the resulting debt repayment becomes a fixed cost in future State budgets and an over-reliance on borrowing can cause deterioration in the State's credit ratings, resulting in higher borrowing costs.

Oregon's current economic climate has reduced revenues across the spectrum of state government operations. These reductions have impacted the State Debt Policy Advisory Commission's ("SDPAC" or the "Commission") latest forecast of the prudent level of bonds that can be repaid by future General Fund and Oregon Lottery revenues. As the Commission's *2011 SDPAC Report* first noted, and this *2012 Legislative Update* now more fully explores, the declines in projected General Fund and Lottery revenues have reduced the state's future debt capacity over the six-year forecast period, with particularly significant implications on debt capacity in the current biennium.

The Commission is established under Oregon Revised Statutes 286A.250 to 286A.255. In accordance with these statutes, the five-member Commission is chaired by the State Treasurer and consists of a public member appointed by the Governor, an appointee from each the Senate and the House of Representatives, and the Director of the Department of Administrative Services. The Commission is charged with advising the Governor and the Legislative Assembly regarding policies and actions that will enhance and preserve the State's credit rating and maintain the future availability of low-cost capital financing. In carrying out this function, the Commission is required to prepare an annual report to the Governor and the Legislative Assembly as to the available debt capacity of the State of Oregon. The Commission's *2011 SDPAC Report* was published February 16, 2011.

This *2012 Legislative Update* is intended to provide a picture of the State's bonding capacity based on current revenue projections and the bonding authorizations made by the Legislature in 2011. It evaluates debt capacity and debt burden for State bonding programs in four major categories: General Fund-supported debt, Lottery revenue-backed debt, net tax-supported debt and non-tax supported debt.

The Commission's report and advice regarding these programs is intended to assist leadership in the budget and policy decision-making process as it relates to debt capacity management and good bonding practices in the State of Oregon.

The projections in this report show that the State cannot authorize additional General Fund supported debt in the current biennium above the levels already approved by the 2011 Legislature and stay within the Commission's debt capacity targets. The report also confirms that due to the Lottery debt restructuring completed in March 2011, the State is able issue up to \$223 million in authorized Lottery revenue bonds and stay within the Commission's current capacity targets and program covenants.

The Commission's findings are briefly outlined below and discussed in detail in the report itself.

- Oregon’s combined long-term general obligation, appropriation and revenue bond debt outstanding was \$11.3 billion as of June 30, 2011.<sup>1</sup> This is a decrease of about \$61 million compared to the end of the 2010 fiscal year.
- For **General Fund supported debt programs**, the total debt outstanding as of June 30, 2011 was \$2.98 billion. This amount is expected to increase to approximately \$3.15 billion by the end of the 2011-2013 biennium based on the issuance of approximately \$167 million in new General Fund debt authorized by the 2011 Legislature. Based on the December 2011 revenue forecast, debt service as a percentage of General Fund revenues is expected to be 5.02% by the end of the current biennium.

Using the maximum ratio of 5.0% of General Fund-supported debt to General Fund revenues, the Commission estimates the State will have remaining debt capacity from FY 2014 through FY 2017 of about \$2.57 billion, but will slightly exceed the 5.0% debt service target for the 2011-13 biennium. This projection assumes that all General Fund supported bonds authorized by the 2011 Legislature are issued over the balance of the next two years. The Commission therefore recommends that the Legislature and Governor not authorize any additional General Fund supported debt in the current biennium.

**Debt Capacity for  
General Fund Supported Debt Programs  
(\$ Millions)**

Fiscal Year Ending June 30 <sup>th</sup>	Annual Amount of Debt That May be Issued within Target Capacity	Total Debt Service as a % of General Fund Revenues
2012	- *	5.07%
2013	- *	5.02%
2014	\$ 977	5.00%
2015	750	5.00%
2016	468	5.00%
2017	373	5.00%
<b>Total FY 2014-2017 General Fund Debt Capacity</b>		<b>\$2,568</b>

\* Assumes issuance of \$167 million in General Fund supported bonds authorized by 2011 Legislature.

- For the **Lottery Bond Program**, the total debt outstanding was \$1.2 billion as of June 30, 2011. Since the publication of the 2011 SDPAC report, the six year forecast for Lottery revenues has dropped by an additional 3%, which reduced debt service coverage levels and debt capacity proportionally.

Lottery revenue bond covenants require a minimum debt service coverage ratio of 4-times unobligated net Lottery proceeds or revenues. Issuing \$222.7 million of Lottery bonds during the remainder of the current biennium, as authorized by the 2011 Legislature, will bring the Lottery debt service coverage ratio very close to this 4.0 minimum -- the Commission

<sup>1</sup> Excludes conduit or “pass through” revenue bonds.

projects that by the end of FY 2013, this ratio will be at 4.3. This projection assumes that future Lottery bonds are sold with level debt service over a twenty year term; under this bond structuring approach, the debt capacity for new Lottery bonds will be \$85 million in FY 2014 or \$167 million for the 2013-15 biennium.

**Debt Capacity for  
Lottery Revenue Bond Program  
(\$ Millions)**

Fiscal Year Ending June 30 <sup>th</sup>	Annual Amount of Debt That May be Issued within Debt Service Coverage Ratios	Debt Ratio Coverage (Times)
2012	- *	4.0
2013	- *	4.3
2014	\$85	4.0
2015	82	4.0
2016	325	4.0
2017	127	4.0
<b>Total FY 2014-17 Lottery Debt Capacity</b>		<b>\$619</b>

\*Assumes issuance of \$223 million in Lottery revenue bonds authorized by 2011 Legislature.

As proposed in last year’s report, a modest amount of outstanding Lottery debt was refunded and restructured in March 2011 to free up additional lottery debt capacity for the 2011-13 biennium. Additionally, Lottery bonds were sold concurrently for new projects and were structured with delayed principal repayment to “levelize” the program’s overall debt service repayment pattern. While this refunding freed up lottery debt capacity this biennium, lottery revenues continue to decline, translating into less overall debt capacity than was projected in the 2011 SDPAC report. Continued use of delayed principal repayment structuring may allow the State to increase future Lottery debt capacity with minimal increased interest costs, however, further reductions in projected long-term Lottery revenues may offset the effectiveness of this debt structuring technique.

The Commission acknowledges that capital projects funded by Lottery-backed bonds are extremely important to Oregon’s long-term economic health. Given the continuing reductions in projected Lottery revenues, we recommend that state decision-makers minimize the authorization of any additional Lottery bonds during the 2011-13 biennium to only the most critical economic development projects and priorities of the State.

- The State’s **Net Tax-Supported Debt (NTSD)** has increased significantly during the past few years. Prior to FY 2003, Oregon’s debt burden was well below the 50-state medians as calculated by Moody’s Investor Service. However, in 2003 the state issued approximately \$2 billion in pension obligation bonds and \$432 million in appropriation bonds for budget deficit financing, which significantly increased the state’s net tax-supported debt. Since that time, the State has continued to issue Lottery and Highway User Tax bonds, substantially adding to its NTSD debt burden and debt ratios.

At the end of FY 2011, Oregon’s outstanding NTSD was \$8.0 billion. By the end of FY 2013, this amount is projected to increase by \$400 million to \$8.4 billion as some bonds are paid off and the balance of General Obligation, Lottery, and ODOT bonds authorized by the 2011 Legislature are sold to investors.

### Net Tax-Supported Debt Ratios

	Fiscal Year Ending June 30 <sup>th</sup>			
	FY 2010 (Actual)	FY 2011 (Actual)	FY 2012 (Estimated) <sup>1</sup>	FY 2013 (Estimated) <sup>2</sup>
<b>Net Tax-Supported Debt (Millions)</b>	\$7,838	\$8,022	\$8,216	\$8,396
<b>Population*</b>	3,844,200	3,856,800	3,887,000	3,923,500
<b>Personal Income (Millions)*</b>	\$142,400	\$146,800	\$152,300	\$159,000
<b>NTSD Per Capita</b>	\$2,039	\$2,080	\$2,114	\$2,140
<b>NTSD as a % of Personal Income</b>	5.50%	5.46%	5.39%	5.28%
<b><u>Pension Obligation Bonds Excluded</u></b>				
<b>NTSD Per Capita</b>	\$1,507	\$1,557	\$1,603	\$1,645
<b>NTSD as a % of Personal Income</b>	4.07%	4.09%	4.09%	4.06%

\*Source: 2010-2013 population and personal income forecasts – Oregon Office of Economic Analysis December 2011.

Rating agencies typically calculate total net tax-supported debt both with and without pension obligation bonds. In this way, states that issue POBs in comparison to others that may have a relatively low debt burden and have not issued POBs but have sizable unfunded pension liabilities are not penalized. For Oregon, if pension obligation bonds are excluded from the NTSD calculation, then the FY 2011 debt burden drops to \$1,557 per capita and 4.09% as a percentage of personal income. The Commission projects that by the end of FY 2013, based on the 2011 Legislature’s bond authorizations, the net tax-supported debt burden without POB will increase to approximately \$1,645 per capita or 4.06% of personal income.

- The Commission has determined that capacity for other **non tax-supported debt programs** is based on ongoing review of constitutional and statutory limitations, program needs, sound program management practices, and biennial review and approval of program debt issuance, rather than a specific dollar limit capacity. Careful and ongoing consideration of these concerns by the Office of the State Treasurer, the Governor’s office, the Legislature, the Department of Administrative Services, and agency management allows the State to maintain

<sup>1</sup> FY 2012 includes the issuance of approximately \$564 million in bonds authorized by the 2011 Legislature.

<sup>2</sup> FY 2013 includes the issuance of approximately \$585 million in bonds authorized by the 2011 Legislature.

debt issuance for these programs at levels that preserve a sound fiscal position for the State and its bonding agencies, while meeting program objectives.

The Commission is concerned, however, about the current financial status of the Oregon Department of Energy (ODOE) Alternate Energy General Obligation Bond Program. This bond program was established in 1980 to provide low-interest loans through the Small Scale Energy Loan Program (SELP) to individuals, companies, state agencies, local governments and non-profits for a range of energy efficiency and renewable energy projects. The Office of the State Treasurer, upon review of ODOE's most recent projected cash flows of outstanding debt, anticipated bonding plans and loan repayments, has concluded that the SELP program is financially stressed and may soon require General Fund support due the rapidly declining levels of its loan loss reserves following the default and write off in 2009 of an \$18 million loan on an ethanol facility coupled with the growing number of other large, delinquent loans that are 91 days or more past due. While ODOE is working on tightening its loan underwriting standards and continues to aggressively pursue delinquent borrowers, ODOE's cash flow projections indicate that they will need General Fund cash infusions to cover their agency's general obligation bond payments ranging from \$2 to \$5 million per year, beginning in FY 2015 and continuing through FY 2019, or up to \$20 million overall based on the current state of their loan portfolio.

Given this impending situation, the Commission recommends that the Legislature and Governor step up their monitoring of the SELP program and put tighter parameters and restriction on ODOE's future loan commitments to assure that General Fund support of this historically "self-supporting" and "non-tax supported" general obligation bond program is kept to a minimum.

In summary, while the Commission projects that the State will have available debt capacity in the years to come, it notes that this debt capacity must be balanced against the considerable backlog of pressing capital projects and transportation improvements for which the State will need to tap the credit markets for funding. The Commission therefore continues to recommend that the Legislature and Governor limit their bonding authorizations to only the highest priority State capital projects in order to maintain the State's strong credit ratings and overall healthy financial position.

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## **I. BONDING IN OREGON**

Oregon operates under a biennial debt review and authorization process. Under that model, each individual bonding program receives specific legislative authorization and is managed by a government agency. The Oregon State Treasury, as issuer of all State of Oregon bonds, is charged with the responsibility to centrally oversee all long-term debt programs. The State uses four primary types of long-term debt finance obligations: general obligation bonded debt, direct revenue bonded debt, appropriation credits, and conduit revenue bonds. General obligation authorized limits are normally expressed as a percentage of statewide value of taxable property. Revenue bonds and appropriation credits are usually limited by the Legislature to a specific dollar amount.

A brief explanation of the bond authorization and issuance process and the debt obligation types and associated State of Oregon bonding programs are provided below.

### **A. *Authorization and Issuance Process***

#### **State Treasurer**

The State Treasurer has been given broad responsibility and authority with respect to the sale and management of State bonds. The State Treasurer has assigned day-to-day responsibility for the coordinated issuance of all state obligations to the Debt Management Division of the Oregon State Treasury. The Division reviews the structure and security features of each bond and appropriation credit and recommends issuance to the State Treasurer. In addition, the Division coordinates the timing of the various agency bond sales, administers the issuance of bonds, secures credit ratings, prepares transcripts and other documents, provides for the delivery of bonds, assists with the signing and closing of bond issues, and coordinates Security and Exchange Commission (SEC) disclosure issues. Also, Division staff provides advice to State agencies regarding market developments and makes debt policy and legislation recommendations to the State Treasurer.

#### **Biennial Legislative Limitations**

In addition to constitutional and statutory authorities and limitations, Oregon follows a legislative practice of biennially approving bond volume limits. Prior to each biennium, the Governor's budget, in conjunction with advice from the State Treasurer, details program amounts recommended for bonding authority during the upcoming biennium. The budget recommendation takes into account requests by agencies for capital project needs, as well as grant and loan program needs. The Legislature then conducts a program-by-program review process and approves what it determines to be an appropriate level of issuance. Although this process has been successful, increasing demand for financing state capital needs necessitates a more comprehensive and longer-range approach to capital financing. The purpose of this report is to give the Governor and the Legislature additional advice when considering and approving biennial bond volume limits, as well as to make recommendations the Commission believes would enhance the State's bond ratings and maintain access to low-cost of capital financing.

## **B. *State of Oregon Bonding Authorizations***

### **General Obligation Bonds**

General Obligation (GO) debt is secured by the full faith and credit of the participating issuer, for our purposes, the State of Oregon. Typically, GO debt necessitates constituency approval. In the State's case, each GO bond program was created by a constitutional amendment passed by state voters. Therefore, the People of the State have unconditionally pledged to pay debt service (i.e. principal and interest) payments, over the life of each GO issue. This means that barring the existence of other adequate repayment sources, all unrestricted public revenues must be used as needed to support debt service payments. This may include the levy of a statewide property tax if necessary and allowed by law.

Article XI, Section 7 of the Constitution provides the State with the general authority to issue general obligation debt. Currently there are 18 constitutionally authorized GO bond programs.<sup>1</sup> While each of these programs has the potential for drawing on the State's General Fund or other taxing authority, many of the programs are fully self-supporting and are repaid from program revenues, gifts, grants, or other revenue streams.

The constitutionally authorized State of Oregon general obligation bond programs are listed below.<sup>2</sup>

- General Purpose Bonds – Article XI, Section 7
- State Highway Bonds – Article XI, Section 7
- Veterans Welfare Bonds – Article XI-A
- State Power Development Bonds – Article XI-D
- State Forest Rehabilitation Bonds – Article XI-E
- Higher Education Building Bonds – Article XI-F(1)
- Higher Education Facilities and Community College Bonds – Article XI-G<sup>3</sup>
- Pollution Control Bonds – Article XI-H
- Water Resources Bonds – Article XI-I(1)
- Elderly and Disabled Housing Bonds – Article XI-I(2)
- Alternate Energy Bonds – Article XI-J
- Oregon School Bond Guaranty Program – Article XI-K
- Oregon Opportunity Bonds – Article XI-L

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<sup>1</sup> General Purpose bonds and State Highway bonds are both provided constitutional bonding authority by Article XI, Section 7. Likewise, Article XI-G provides constitutional bonding authority for both Higher Education bonds and Community College bonds.

<sup>2</sup> State Highway Bonds, State Power Development bonds, State Forest Rehabilitation bonds, Water Resources bonds, and Oregon School Bond Guaranty Program bonds currently have no State debt outstanding.

<sup>3</sup> Higher Education Facilities bonds are issued by the Board of Higher Education whereas Community College bonds are issued by the Department of Education. Higher Education and Community College bond issuance are combined and charged against the total debt authorized by the State Constitution Article XI-G.

- Seismic Rehabilitation of Public Education Buildings – Article XI-M
- Seismic Rehabilitation of Emergency Services Buildings – Article XI-N
- Pension Obligation Bonds – Article XI-O
- Public School Facilities Bonds – Article XI-P
- State General Purpose Bonds – Article XI-Q

### **Direct Revenue Bonds**

Unlike GO bonds, direct revenue program debt is not secured by the State’s unlimited pledge to fund debt service with unrestricted public revenues or, where permitted, a statewide ad valorem property tax. Rather, funds to pay debt service are provided by a specific dedicated revenue stream, and normally program revenues are directly associated with the funded project(s). Further, revenue programs typically do not require a vote of the People, but must be authorized by the Legislative Assembly. The State Legislature at all times holds the right to refer program approval to Oregon voters. For example, the 69th Legislative Assembly referred Measure 52, proposing a Lottery-revenue backed bond program to finance education needs throughout the state.

Oregon Revised Statutes provide for a variety of revenue bond programs. These programs are each considered fully self-supporting, and have no general obligation backing from the State. However, if program revenues were to become insufficient to support debt service payments, this does not preclude the State from providing a funding stream. Statutorily authorized direct revenue bond programs that are currently active are listed below.

- State Highway User Tax Bonds – ORS 367.620
- Oregon Transportation Infrastructure Fund Bonds – ORS 367.630<sup>1</sup>
- Lottery Revenue Bonds – ORS 286A.560 to 286A.585
- Oregon Bond Bank Revenue Bonds – ORS Chapter 285B
- Single-Family and Multifamily Revenue Bonds – ORS 456.661

### **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 general obligation 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 three authorized and active conduit or “pass-through” revenue bond programs:

- Oregon Facilities Authority (OFA) – ORS Chapter 289
- Industrial & Economic Development Revenue Bonds – ORS Chapter 285B
- Housing Development Revenue Bonds – ORS 456.692

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<sup>1</sup> Various legislative bills have authorized \$50 million in Transportation Infrastructure Bonds; however, no bonds have been issued to date by this program.

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.

### **Appropriation Credits**

Similar to revenue program debt, appropriation credits are not secured by the State's unlimited pledge to fund debt service with unrestricted public revenues or, where permitted, a statewide ad valorem property tax. The State has historically used two types of appropriation credits:

- Appropriation Bonds – SB 856 – 2003 Legislature
- Certificates of Participation (COPs) – ORS 283.085

These credits are special limited obligations of the State payable solely from funds appropriated or otherwise made available by the State Legislative Assembly. The obligation of the State to provide appropriated moneys and to pay the bonds is subject to future appropriation by the Legislature for the fiscal period in which payments are due. As with State direct revenue bond programs, appropriation credits do not require a vote of the People, but must be authorized by the Legislative Assembly. With the passage of the Constitutional amendment in 2010 authorizing the State to issue General Obligation Bonds for various State-owned office buildings, facilities and other capital projects, it is unlikely that the State will continue to issue Certificates of Participation in the future. Rather the types of projects that were traditionally funded through COPs will instead be financed through the issuance of lower cost State General Purpose Article XI-Q General Obligation bonds.

**Exhibit I.1**

**State of Oregon  
OUTSTANDING <sup>1</sup> LONG-TERM FINANCIAL OBLIGATIONS <sup>2</sup>  
AND CONSTITUTIONAL AND STATUTORY PROVISIONS**

*As of June 30, 2011*

	<b>Constitutional [Statutory] Provision</b>	<b>Constitutional Debt Limit (as % RMV) <sup>3</sup></b>	<b>Constitutional Debt Limit (in Dollars)</b>	<b>Statutory Debt Limit</b>	<b>Amount Outstanding <sup>4</sup></b>	<b>Authorization Remaining <sup>5</sup></b>
<b>General Obligation Bonds</b>						
<i>General Fund Supported</i>						
General Purpose Bonds <sup>6</sup>	ARTICLE XI SEC 7	0.5000%	\$ 50,000	\$	\$ 0	\$ 50,000
Community College Bonds	ARTICLE XI-G				118,520,000	
Higher Ed. Facility (XI-G) Bonds <sup>7</sup>	ARTICLE XI-G	0.7500%	3,438,723,794		403,131,090	2,917,072,703
Pollution Control Bonds <sup>8</sup> (42% of Total)	ARTICLE XI-H	0.5000%	2,292,482,529	109,200,000	17,782,800	369,127,355
Alternate Energy Bonds <sup>12</sup> (XI-J) (18% of Total)	ARTICLE XI-J	0.5000%	2,292,482,529		43,519,500	369,127,355
DAS Oregon Opportunity Bonds <sup>9</sup>	ARTICLE XI-L	0.5000%	2,292,482,529	203,175,000	150,615,000	
Seismic Rehab – Public Education Bldgs	ARTICLE XI-M	0.2000%	916,993,012		11,105,000	905,888,012
Seismic Rehab – Emergency Service Bldgs	ARTICLE XI-N	0.2000%	916,993,012		10,935,000	906,058,012
DAS Pension Obligation Bonds <sup>10</sup> (32% of Total)	ARTICLE XI-O	1.0000%	4,584,965,058		645,491,200	
State General Purpose <sup>11</sup> (85% of total)	ARTICLE XI-Q	1.0000%	4,584,965,058		<u>257,652,000</u>	4,327,313,058
<b>Total General Fund Supported</b>					<b>\$1,658,751,590</b>	
<i>Fully Self-Supporting</i>						
State Highway Bonds	ARTICLE XI SEC 7	1.0000%	4,584,965,058		0	4,584,965,058
Veteran's Welfare Bonds <sup>7</sup>	ARTICLE XI-A	8.0000%	36,679,720,467		374,730,000	36,304,990,467
Higher Ed. XI-F Bonds <sup>7</sup>	ARTICLE XI-F(1)	0.7500%	3,438,723,794		1,130,713,003	2,308,010,791
Pollution Control Bonds <sup>8</sup> (58% of Total)	ARTICLE XI-H	0.5000%	2,292,482,529	150,800,000	24,557,200	
Water Resources Bonds	ARTICLE XI-I(1)	1.5000%	6,877,447,587		0	6,877,447,587
Elderly & Disabled Housing Bonds	ARTICLE XI-I(2)	0.5000%	2,292,482,529		147,535,000	2,144,947,529
Alternate Energy Project Bonds <sup>12</sup> (82% of Total)	ARTICLE XI-J	0.5000%	2,292,482,529		198,255,500	1,681,580,174
DAS Pension Obligation Bonds <sup>10</sup> (68% of Total)	ARTICLE XI-O	1.0000%	4,584,965,058		1,371,668,800	
State General Purpose <sup>11</sup> (15% of Total)	ARTICLE XI-Q	1.0000%	4,584,965,058		45,468,000	4,539,497,058
<b>Total Self-Supporting</b>					<b>\$3,292,927,503</b>	
<b>Total General Obligation Bonds</b>					<b><u>\$4,951,679,093</u></b>	
<b>Revenue Bonds</b>						
<i>Direct Revenue Bonds</i>						
Lottery Revenue Bond Program(s)	[ORS 286A.563-585]	---	---	---	1,192,080,000	
Transportation Infrastructure Bank	[ORS 367.030]	---	---	200,000,000	0	200,000,000
Highway User Tax	[ORS 367.620]	---	---	3,240,000,000	2,199,465,000	
Single & Multi-Family Housing Programs	[ORS 456.661]	---	---	2,500,000,000	1,237,345,000	1,262,655,000
Economic Development - Bond Bank	[ORS Ch. 285B]	---	---	---	156,900,000	
State Fair & Exposition Center	[ORS Ch. 565]	---	---	10,000,000	0	10,000,000
<b>Total Direct Revenue Bonds</b>					<b><u>\$4,785,790,000</u></b>	

<sup>1</sup> Totals may not agree with sum of components due to rounding.

<sup>2</sup> Does not include Notes issued for less than 13 months.

<sup>3</sup> Percentages listed are of Real Market Value (RMV) of all taxable real property in the state.

<sup>4</sup> Excludes refunded and defeased bonds.

<sup>5</sup> Based on the January 1, 2010 Real Market Value (RMV) of \$458,518,867,537. Authorization does not include inactive programs.

<sup>6</sup> The State of Oregon may not incur indebtedness exceeding \$50,000 without a constitutional amendment approved by the voters.

<sup>7</sup> Outstanding Department of Veterans' Affairs and State Board of Higher Education general obligation debt reflect the proceeds amount of original issue discounted and deferred interest bonds.

<sup>8</sup> The amount of General Fund debt service support will vary over time depending on the amortization and budgeted allocation of debt service on each bond, Pollution Control debt is reported at the 42% General Fund Supported and 58% self-supporting. Both General Fund supported and self-supporting Pollution Control bonds are issued under the authority and limitations of Article XI-H of the Oregon Constitution and ORS 468.195 as amended. ORS 468.195 limits the amount outstanding at any one time to \$260 million.

<sup>9</sup> Authorized to finance capital costs of Oregon Health & Science University in an aggregate principal amount that produces net proceeds in an amount that does not exceed \$200 million. Authorized debt may not exceed ½ of 1 percent RMV of all taxable real property in the State. Bonds issued under the Article may not be paid from ad valorem taxes.

<sup>10</sup> Approved by the voters September 16, 2003. Currently, 32% is General Fund supported, 68% is paid from non-General Fund sources.

<sup>11</sup> The amount of General Fund debt service will vary over time depending on the amortization and budgeted allocation of debt service on each bond. State General Purpose debt is reported at 85% General Fund supported and 15% self-supporting.

<sup>12</sup> The amount of General Fund debt service support will vary over time depending on the amortization and budgeted allocation of each bond, Alternate Energy debt is reported at 18% General Fund supported and 82% self-supporting. Both General Fund supported and self-supporting Alternate Energy bonds are issued under authority and limitations of Article XI-J of the Oregon Constitution.

<b>Pass Through Revenue Bonds</b>						
Economic Development – Industrial Dev	[ORS Ch. 285]	---	---	---	---	\$ 468,957,555
Oregon Facilities Authority	[ORS Ch. 289]	---	---	---	---	1,565,186,686
Multi-family Housing Programs	[ORS 456.692]	---	---	---	---	<u>195,612,600</u>
<b>Total Pass Through Revenue Bonds</b>						<u>\$2,229,756,840</u>
<b>Appropriation Credits</b>						
Certificates of Participation (COP's GF)	[ORS Ch. 283.085]	---	---	---	---	\$ 1,161,571,750
Certificates of Participation (COP's Non-GF)	[ORS Ch. 283.085]	---	---	---	---	204,983,250
Oregon Appropriation Bonds	[SB 856 – 2003 Legislature]	---	---	431,560,000	---	<u>163,195,000</u>
<b>Total Appropriation Credits</b>						<u>\$1,529,750,000</u>

The State of Oregon, Oregon State Treasury, acting on behalf of the Municipal Debt Advisory Commission (MDAC), maintains debt information to assist municipalities in debt related matters. The data is based on information obtained from sources believed to be reliable; however, its accuracy cannot be guaranteed. The Oregon State Treasury does not independently verify the information received from reporting municipalities. The State of Oregon is not responsible for the accuracy, completeness or timeliness of the information obtained and the data presented and disclaims any liability for or obligation to bond owners or others concerning the accuracy, completeness or timeliness of the data and information presented.

### **C. *General Fund Supported and Net Tax-Supported Debt***

The municipal credit rating industry uses a number of different measurements and indicators to evaluate a government's debt burden. Two of those measurements include "*general fund supported debt*" and "*net tax-supported debt*."

A significant proportion of the State's overall long-term debt obligations are fully self-supporting with the source of bond debt service payments coming from resources other than General Fund appropriations or other tax revenue. Bonding programs that do not require State appropriated General Fund support or other direct State tax revenue support would not be included in either General Fund or net tax-supported debt measurements. However, in keeping with rating agency practice, some programs in which debt service payments are made with dedicated funds or special-tax revenue sources may still be viewed as General Fund or net tax-supported debt depending on the interpretation of the funding source(s).<sup>1</sup> Examples of bond programs that do not require State tax revenues or General Fund appropriations to pay debt service include the general obligation Veterans' Welfare housing program, the Single and Multifamily Housing revenue bond program and all conduit revenue bonds.

General Fund Supported Debt (GFSD) is classified as long-term obligations whose debt service is paid primarily from General Fund appropriations made by the State Legislature. Examples include general obligation Higher Education Facility and Community College (Article XI-G) bonds, State General Purpose Bonds (Article XI-Q) bonds, and Certificates of Participation (COPs).

Net Tax-Supported Debt (NTSD) is, by definition, all debt serviced by tax revenues of the State. This would include all General Fund supported debt and other long-term obligations supported by specific State taxes. Highway User Tax Revenue bonds are an example of long-term debt that is net tax-supported but receives no General Fund appropriations. These bonds do not constitute a general obligation of the State but are instead payable solely from revenues received from highway user taxes. Furthermore, in accordance with the Oregon Constitution, highway user tax revenues must be used exclusively for public highways, roads, streets and rest areas of the state and the retirement of bonds for which such revenues have been pledged.

The three national rating agencies, Fitch Ratings, Moody's, and Standard & Poor's, differ somewhat in their assumptions and definitions of General Fund and net tax-supported debt with respect to the State of Oregon. For purposes of this report, the Commission has chosen to follow Moody's model in determining both General Fund and net tax-supported debt. This decision was based primarily on Moody's statistical gathering and publishing of key debt ratios for the fifty states, and its recognition as an accepted model.

As part of the development of this report, staff of the Office of the State Treasurer and the Department of Administrative Services reviewed all outstanding debt of the state with the goal of providing a more precise estimate of the amount of State debt that is actually supported by general fund revenues. This review resulted in reductions in the percentage of debt that is designated as General Fund in relation to COPs and Article XI-Q State General Purpose bonds for State capital projects to General Obligation bonds issued by the Department of Environmental Quality for Pollution Control, and to the General Obligation debt issued by the

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<sup>1</sup> State Fair and Exposition Center bonds for example.

Oregon Department of Energy. Based on these changes, this report includes (at 100% except as otherwise indicated) the following programs in its assumptions of General Fund supported debt:

- Higher Education Facility & Community College Bonds (Article XI-G);
- Forty-two percent of Pollution Control Bonds (Article XI-H);
- Water Resources Bonds (Article XI-I(1));
- Eighteen percent of Alternate Energy Bonds (Article XI-J);
- Oregon School Bond Guaranty Bonds<sup>1</sup> (Article XI-K);
- Oregon Opportunity Bonds (Article XI-L);
- Thirty-two percent of State Pension Obligation Bonds (Article XI-O);
- Oregon Appropriation Bonds (SB 856 – 2003 Legislature);
- Seismic Rehabilitation Bonds for Public Education (Article XI-M) and Public Safety Buildings (Article XI-N);
- Public School Facility Bonds (Article XI-P);
- Eighty-five percent of State General Purpose Bonds (Article XI-Q); and
- Eighty-five percent of Certificate of Participation Obligations (ORS 283.085 to 283.092).

Net tax-supported debt includes the above-listed General Fund supported programs in addition to the following:

- Balance of Pension Obligation Bonds, State General Purpose Bonds, and Certificates of Participation
- Lottery Revenue Bonds (ORS 286A.560-585);
- State Highway Bonds (Article XI, Section 7);
- Highway User Tax Revenue Bonds (ORS 367.620); and
- Oregon Transportation Infrastructure Fund Bonds (ORS 367.630).<sup>2</sup>

*Exhibit I.2* provides a comparison of total outstanding gross debt; General Fund supported debt and net tax-supported debt as of June 30, 2011.

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<sup>1</sup> The Oregon School Bond Guaranty Program (OSBG) allows the State to guaranty qualified bonds of eligible school districts, education service districts and community colleges. As of June 30, 2011 there are no outstanding State general obligation bonds that are guaranteed under this program. While the Oregon School Bond Guaranty Program is technically part of the General Fund and net tax supported debt calculation, it is not directly built into the model because the State has never issued any bonds to date for this program.

<sup>2</sup> No Transportation Infrastructure Fund bonds have ever been issued.

Exhibit I.2

## State of Oregon Comparison of Long-Term Debt Outstanding

as of June 30, 2011

Type & Purpose	General Fund Supported Debt	Net Tax-Supported Debt	Total Gross Debt Outstanding
<b>General Obligation Bonds</b>			
<i>General Fund Supported</i>			
Community College Bonds	\$ 118,520,000	\$ 118,520,000	\$ 118,520,000
Higher Education Facility (XI-G) Bonds	403,131,090	403,131,090	403,131,090
Pollution Control Bonds§42% of Total)	17,782,800	17,782,800	17,782,800
Alternate Energy Bonds (XI-J)§18% of Total)	43,519,500	43,519,500	43,519,500
DAS Oregon Opportunity Bonds	150,615,000	150,615,000	150,615,000
Seismic Rehab - Public Education Bldgs	11,105,000	11,105,000	11,105,000
Seismic Rehab - Emergency Service Bldgs	10,935,000	10,935,000	10,935,000
State General Purpose (XI-Q) Bonds (85% of total)	257,652,000	257,652,000	257,652,000
DAS Pension Obligation Bonds§32% of Total)¶	645,491,200	645,491,200	645,491,200
<b>Total General Fund Supported</b>	<b>\$ 1,658,751,590</b>	<b>\$ 1,658,751,590</b>	<b>\$ 1,658,751,590</b>
<i>Fully Self-Supporting</i>			
Veterans' Welfare Bonds	-	-	374,730,000
Higher Education Facility (XI-F) Bonds	-	-	1,130,713,003
Pollution Control Bonds§58% of Total)	-	24,557,200	24,557,200
Water Resources Bonds	-	-	-
Elderly & Disabled Housing Bonds	-	-	147,535,000
Alternate Energy Project Bonds§82% of Total)	-	-	198,255,500
State General Purpose (XI-Q) Bonds (15% of total)	-	45,468,000	45,468,000
DAS Pension Obligation Bonds§68% of Total)¶	-	1,371,668,800	1,371,668,800
<b>Total Self-Supporting</b>	<b>\$ -</b>	<b>\$ 1,441,694,000</b>	<b>\$ 3,292,927,503</b>
<b>Total General Obligation Bonds</b>	<b>\$ 1,658,751,590</b>	<b>\$ 3,100,445,590</b>	<b>\$ 4,951,679,093</b>
<b>Revenue Bonds</b>			
<i>Direct Revenue Bonds</i>			
Lottery Revenue Bond Program**	-	1,192,080,000	1,192,080,000
Highway User Tax Revenue Bonds	-	2,199,465,000	2,199,465,000
Single-Family & Multi-Family Housing	-	-	1,237,345,000
Economic Development - Bond Bank	-	-	156,900,000
State Fair & Exposition Center Bonds	-	-	-
<b>Total Direct Revenue Bonds</b>	<b>\$ -</b>	<b>\$ 3,391,545,000</b>	<b>\$ 4,785,790,000</b>
<i>Conduit or Pass Through Revenue Bonds</i>			
Economic & Industrial Development	-	-	468,957,555
Oregon Facilities Authority	-	-	1,565,186,686
Multi-Family Housing Programs	-	-	195,612,600
<b>Total Conduit or Pass Through Revenue Bonds</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,229,756,841</b>
<b>Appropriation Credits</b>			
Certificates of Participation (COP's)§85% GF)	1,161,571,750	1,366,555,000	1,366,555,000
Oregon Appropriation Bonds	163,195,000	163,195,000	163,195,000
<b>Total Appropriation Credits</b>	<b>\$ 1,324,766,750</b>	<b>\$ 1,529,750,000</b>	<b>\$ 1,529,750,000</b>
<b>Total Gross Debt</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 13,496,975,934</b>
<b>Total Debt - Less Conduit Revenue Bonds</b>	<b>\$ 2,983,518,340</b>	<b>\$ 8,021,740,590</b>	<b>\$ 11,267,219,093</b>

\*To conform to rating agency methodologies, Pension Obligation Bonds are considered net tax-supported debt.

\*\* Rating agencies recognize that these programs are supported by a dedicated Lottery revenue source.

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## II. CURRENT DEBT PICTURE IN OREGON

### A. *Outstanding Debt*

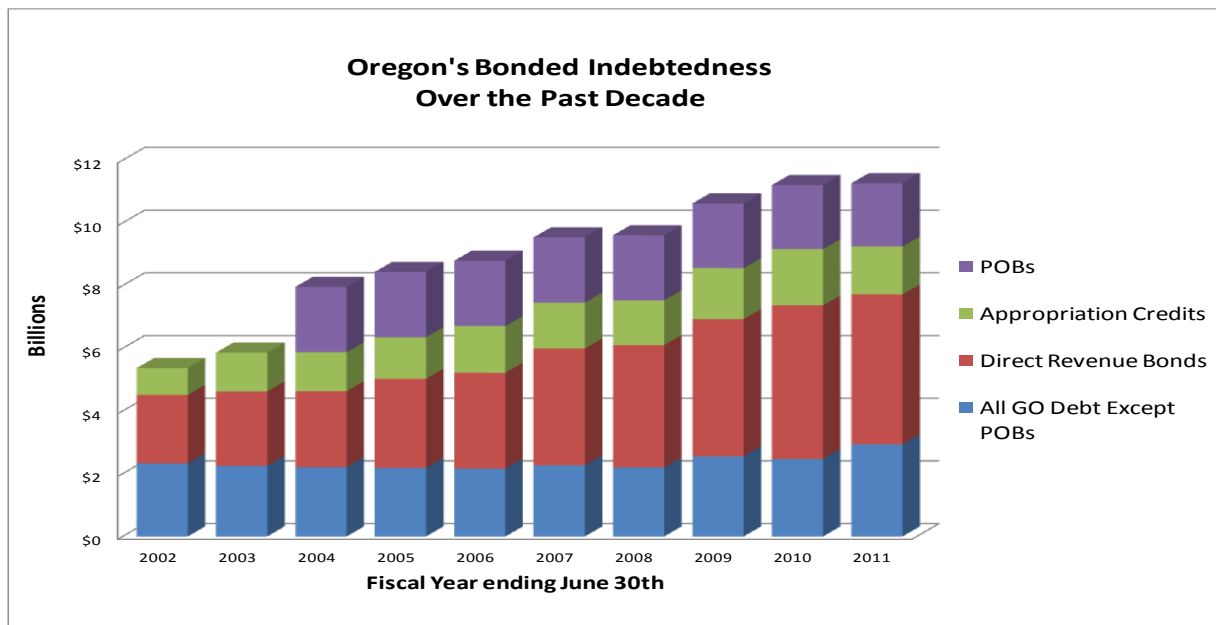
*Exhibit II-1* shows a 10-year history of the State's total outstanding obligations by major category from fiscal years ending 2002 to 2011.<sup>1</sup>

Prior to the late 1990s, the majority of State debt outstanding was linked to the bonds issued by the Department of Veterans' Affairs for veteran's mortgages. Since that time, the State's debt financing has been increasingly employed as a vehicle to fund a variety of State infrastructure and programmatic needs, which has raised the overall level of outstanding indebtedness substantially. While indebtedness for veteran's mortgage bonds continues to decline, debt issuance for state highway improvements and single and multifamily mortgage revenue bonds has grown substantially over the past decade, as has the amount of indebtedness linked to construction of state prisons, economic development, and higher education projects.

In 2003, the Legislature authorized several major new bonding programs, including \$2.1 billion in pension obligation bonds to fund the State's Public Employees Retirement System (PERS) liability, \$432 million in appropriation deficit bonds, and \$1.9 billion in new Oregon Department of Transportation (ODOT) highway user tax bonds to address statewide bridge and highway modernization needs. The collective impact of these initiatives has been a sharp increase in the State's net tax-supported debt since FY 2003, a trend which is expected to continue as the balance of ODOT's bonds are issued.

While new debt issuance has been significant, the numbers also need to be considered in the context of the types of debt issued. The following exhibits reflect all outstanding general obligation bonds, direct revenue bonds and appropriation credit obligations respectively, rather than solely General Fund and net tax-supported debt programs. The exhibits are provided to give a historical overview of the State's overall debt position.

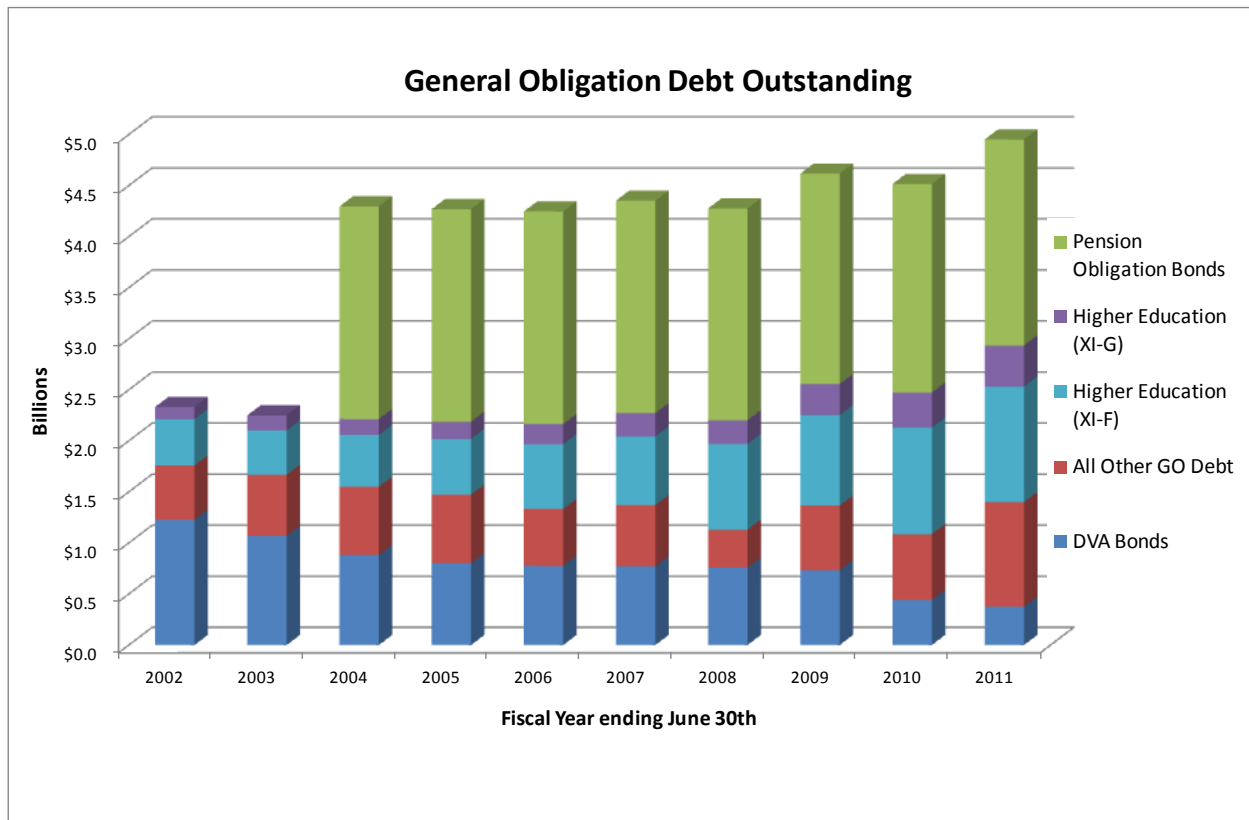
#### *Exhibit II-1*



<sup>1</sup> Does not include conduit or pass through revenue bonds.

*Exhibit II-2* reflects the changing components of State general obligation indebtedness over the past decade. The Department of Veterans’ Affairs (ODVA) has steadily paid down its general obligation bonds since FY 2002 and only a limited amount of new ODVA loans have been originated as a result of other private lender options available to Oregon veterans. Nevertheless, there has been a steady increase in other types of general obligation bond issuance in the past ten years, particularly for self-supporting Higher Education (Article XI-F) capital projects which grew from \$449 million outstanding in FY 2002, to \$1.1 billion in 2011. As noted above, the issuance of approximately \$2.1 billion in pension obligation bonds in October 2003, also sharply increased overall state outstanding general obligation indebtedness. In November 2010, Oregon voters authorized the sale of general obligation bonds for state buildings, facilities and other capital projects (Article XI-Q bonds) as an alternative to the more costly financing of these projects through Certificates of Participation. It is anticipated that over time, the State will substantially lower its debt service costs by refinancing its outstanding COPs with Article XI-Q bonds. As of June 30, 2011, the State had \$303 million in outstanding Article XI-Q bonds, while overall outstanding state general obligation indebtedness totaled \$4.95 billion.

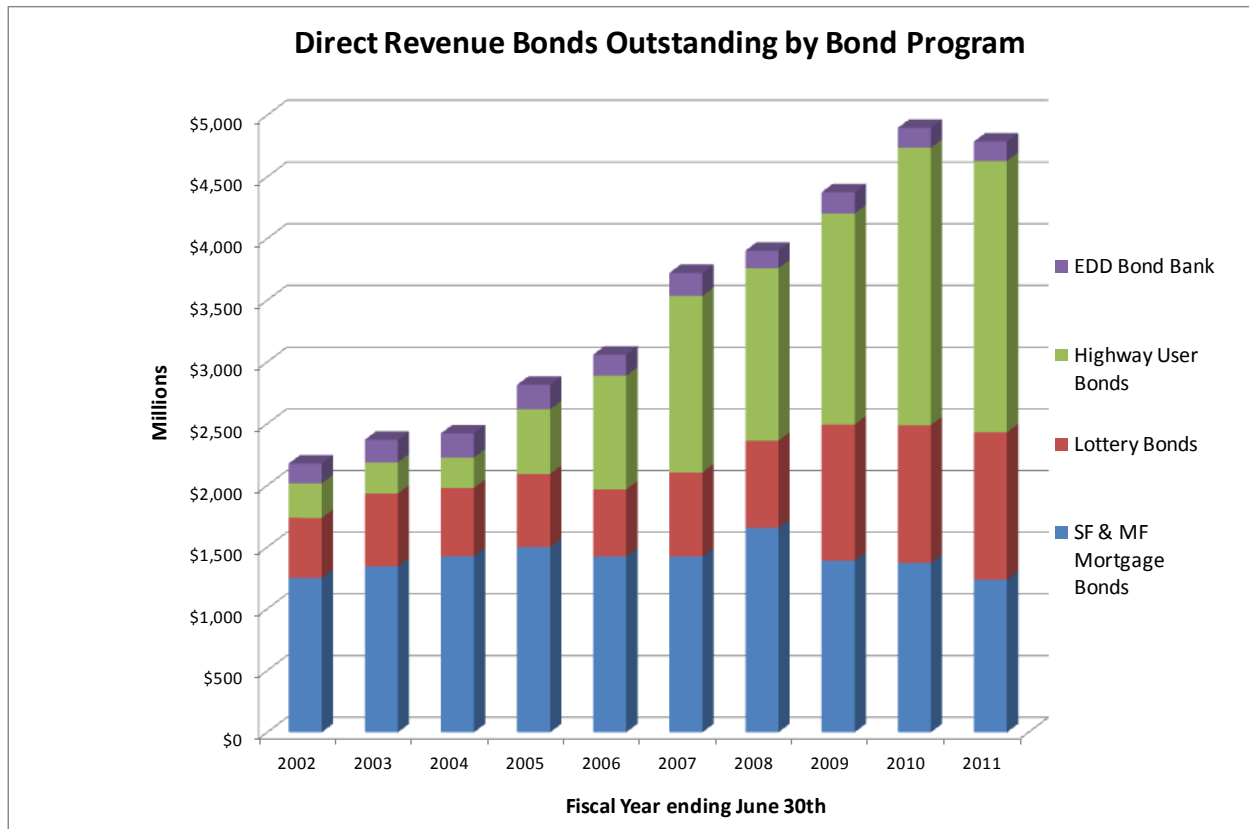
***Exhibit II-2***



The past ten years has also seen a substantial increase in the issuance of direct revenue bonds by the State, as seen in *Exhibit II-3*. There are several reasons for this steady increase in revenue bond debt: Strong housing demand in the earlier parts of the decade was funded through the State’s Single & Multi-Family Mortgage Revenue Bond programs; with the increase of net Lottery revenues following the Oregon Lottery’s expansion into video line games, the State

issued a greater volume of Lottery revenue bonds to fund various economic development programs and activities; and the authorization of Oregon Transportation Infrastructure Act (OTIA) led to the issuance of \$2.4 billion in Highway User Tax bonds to fund critical transportation improvements around the state. Over the next several years, it is anticipated that the amount of outstanding Highway User Bonds will continue to increase with issuance of \$840 million in Highway User Tax bonds to fund the Jobs and Transportation Act (JTA) congestion management program.

**Exhibit II-3**



Appropriation obligations include both Certificates of Participation (COPs) and Appropriation bonds. The amount of appropriation obligation that can be issued is determined by the legislature each biennium. *Exhibit II-4* illustrates appropriation credit issuance history through fiscal year ending June 30, 2011.

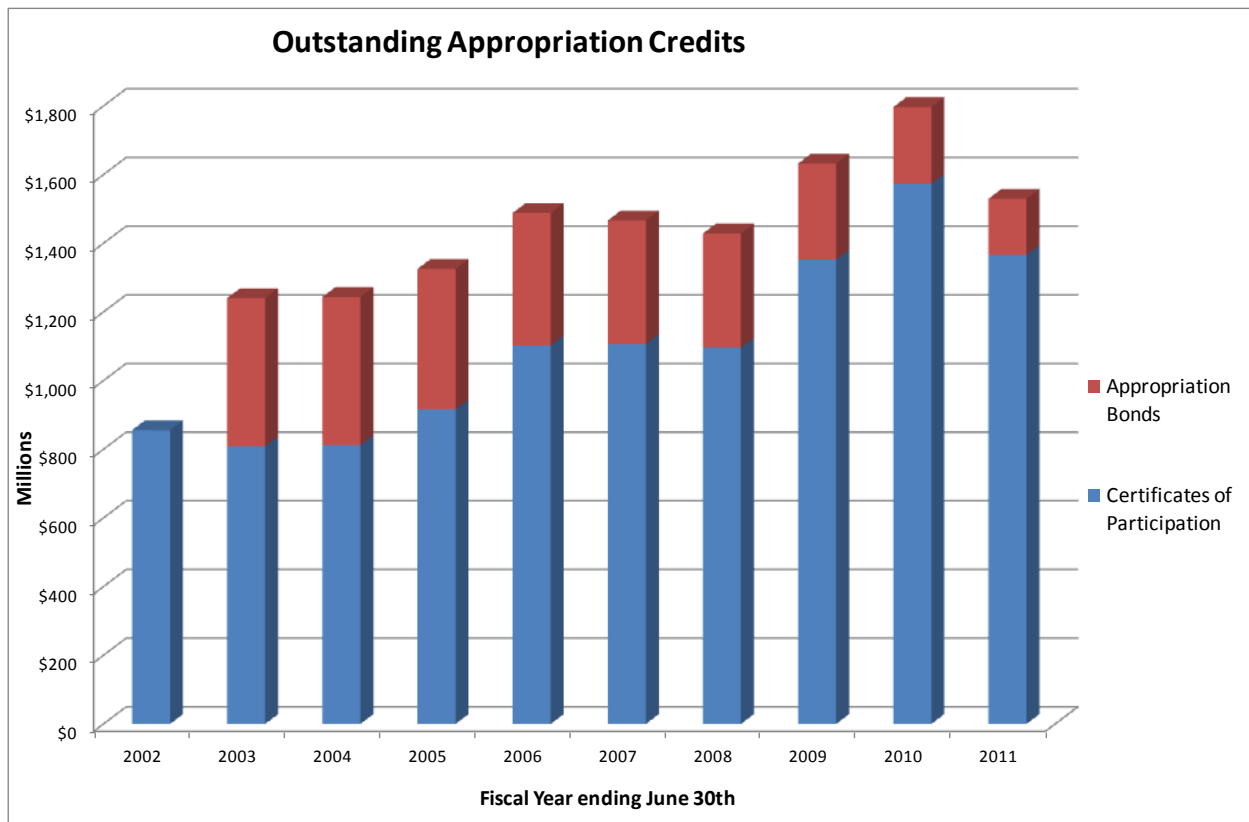
The significant increase in COP debt from about \$191 million in FY 1995 to about \$1.37 billion in FY 2011 was related to the passage of Ballot Measure 11 by Oregon voters in 1994 and to the decision by the 2007 Legislature to replace the aging State Mental Hospital in Salem. Measure 11 created mandatory minimum penalties for specified crimes and required that juveniles charged with certain violent crimes be tried and sentenced as adults. The practical effect of Measure 11 was the considerable requirement for increased construction of adult and juvenile prisons and correctional facilities. COP obligations related to the operations of the State’s prisons, and the State’s responsibility for both the community corrections system and the State’s juvenile justice system currently represents about 39% of the total COP debt outstanding. The

replacement of the State Hospital will be completed in stages over the next 2 years, at an overall projected cost of approximately \$509 million.

With the recent passage of the Constitutional amendment authorizing the issuance of less expensive General Obligation Article XI-Q bonds for the type of state office building, facility, and other capital projects previously financed with COPs, it is unlikely the state will issue COPs in the future. It is anticipated that over time, as COPs become eligible, the State will sell Article XI-Q to refund all existing COPs, saving taxpayers tens of millions in interest costs over time.

The first and only authorized State of Oregon Appropriation Bonds was issued in April 2003 in the amount of \$431.6 million. The bonds were authorized by Senate Bill 856 (2003) and enacted by the 2003 Legislature Assembly for the purpose of financing a portion of the State’s budget deficit which occurred towards the end of the 2001-03 biennium. These bonds were structured with a ten year term and will be paid off in full on September 1, 2013.

**Exhibit II-4**



**B. Unmet Capital Needs of the State of Oregon**

While the State will reach its 5% General Fund debt capacity limit this biennium, with the retirement of outstanding Appropriation Deficit Bonds in September 2013, a significant amount of debt capacity will once again become available in FY 2014 and beyond. In the coming biennium, the Governor and Legislature will need to carefully evaluate the highest and best uses of future General Fund and Lottery debt capacity, as there remains a considerable need for

capital project funding throughout the state. Below is a list of some of the most pressing unmet capital needs in Oregon:

### Human Services

The State has been authorized to sell \$62 million in Article XI-Q general obligation bonds for the State Hospital Replacement Project during the 2011-13 biennium. This will allow for the completion of the Salem site and provide funding to continue some work on the Junction City site. Although final costs of the Junction City facility will depend on a variety of policy decisions and economic conditions, current estimates indicate that completion of the Junction City site will require at least \$80 million.

Achieving additional efficiencies in health care delivery may require further upgrades to information technology (IT) systems in the state. Approximately \$9 million in XI-Q bonds for human services related IT systems was authorized this biennium. It is likely that a similar amount of funding will be required in future biennia to match significant federal commitments in this area.

### Public Safety

The need for further expansion of the State's correctional facilities is dependent upon policy choices as well as projected population growth and demographic trends. At this time, the Department of Corrections (DOC) has identified the need for approximately \$80 million in funding for the construction of the next phase of the Junction City minimum custody facility. The majority of this amount will likely be required in the 2013-15 biennium. In addition, both DOC and the Oregon Youth Authority have significant backlogs of deferred maintenance on their facilities, totaling several million dollars; while some funding has been provided to address this in past biennia, no new funds were authorized for the 2011-13 budget cycle.

The Oregon Military Department (OMD) has identified a substantial need for both new construction and maintenance/renovation projects at armories, readiness centers and other OMD facilities throughout the state. OMD estimates a need for over \$14 million in each of the next two biennia to address these needs. In addition, OMD manages the Seismic Rehabilitation grant program through its Office of Emergency Management; this program makes grants for seismic upgrade of public schools and public safety facilities around the state. The Legislative Assembly authorized the issuance of \$7.6 million in Article XI-M Seismic Rehabilitation general obligation bonds in the 2011-13 biennium. It should be noted that based on the preliminary findings of the Oregon Department of Geology and Mineral Industries (DOGAMI), there is a pressing need for seismic retrofit of a significant portion of Oregon's public schools as well as public safety facilities estimated to cost in the many billions of dollars.

### Education

The Oregon University System (OUS) has projected it still has significant projected capital needs that include both new construction of classrooms, dorms, and other educational facilities, as well as deferred maintenance at existing facilities around the state. While recent legislation has provided OUS greater autonomy, including the ability to issue its own revenue bonds, it is likely that a portion of OUS's significant future capital improvements will continue to be funded through state general obligation and Lottery bonds.

In the 2009-11 biennium, approximately \$190 million in OUS capital construction projects were authorized using bonds supported by General Fund or Lottery revenues. By contrast, during the 2011-13 biennium, no new OUS capital construction projects financed with General Fund supported bonds were authorized, although \$112 million in new OUS capital construction projects financed with Lottery Bonds were approved. Given the State's new goal that 40% of adult Oregonians will have completed a four-year college degree program by 2025, it is likely that OUS facility needs to meet this goal will be significant.

The Department of Community College and Workforce Development has identified a number of construction projects throughout the state that local community colleges would like to undertake if General Fund supported bond funding becomes available again. After providing almost \$125 million in General Fund supported Article XI-G bonds for community college construction projects in the preceding four years, no new projects were authorized by the Legislature in the 2011-13 biennium.

### Public Schools

In May 2010, the Oregon electorate adopted a constitutional amendment allowing for the issuance of State general obligation bonds as a match to local public school district funds for school capital projects (Article XI-P bonds). Given the State's limited General Fund-supported debt capacity relative to the enormous potential need for both school repair and new school construction, it is critical that the State invest in the development of a long-term master capital plan for this bonding program, including the establishment of formal funding criteria and a methodology for prioritizing allocations among the myriad of Oregon school capital needs for which these bonds can be issued.

### Economic Development

The Oregon Business Development Department (OBDD) has traditionally used Lottery Bonds to re-capitalize its Infrastructure Bond Bank. This program makes low interest loans to local governments for infrastructure including drinking water and sewer improvements. In the 2011-13 biennium, the Legislature authorized \$10 million in Lottery Bonds for this purpose. This amount reflects a reduction from the approximately \$17 million and \$21 million authorized in the two preceding biennia. OBDD estimates there remains significant unmet capital needs in this area throughout the state.

### Transportation

In recognition of the need for an efficient and well-maintained transportation infrastructure, the Legislative Assembly approved HB 2001 (2009), "*The Oregon Jobs and Transportation Act*" which increased issuance authority for Highway User Tax bonds by \$840 million; the 2011

Legislature authorized \$663 million in Highway Revenue bonds for this program for the 2011-13 biennium.

On-going planning continues between the States of Oregon and Washington and the Federal Government regarding the proposed \$3 billion plus Columbia River Crossing project (CRC). This multi-faceted, multi-year megaproject includes construction of a new bridge on Interstate 5 between Portland, Oregon and Vancouver, Washington; expansion of Trimet's light rail system into the Vancouver area; and the upgrade and/or replacement of numerous on-ramps and off-ramps over a five-mile stretch of Interstate 5 spanning both sides of the Columbia River. On December 7, 2011, the Federal Highway Administration and Federal Transit Administration signed a Record of Decision regarding the Final Environmental Impact Statement for this project, which allows the CRC to move forward with project design and construction planning. While no bonds have yet been authorized for this project by either state, the CRC's financial plan to date envisions issuance of state-backed toll bonds for roughly 1/3<sup>rd</sup> of the total project costs, in addition to \$450 million in equity contributions by each state that are likely to be funded through some type of future state bonding program.

Finally, there is an on-going need to improve non-highway transportation infrastructure around the state. The 2011 Legislative Assembly approved \$40 million in Lottery bond proceeds to provide grants for multi-modal transportation including projects to improve rail, port and airport facilities (the Connect Oregon program) for the 2011-13 biennium. This amount reflects a sharp reduction from the \$100 million biennial level approved in each of the preceding three biennia for this program.

#### Other

In recent biennia, the Legislative Assembly has used Lottery bonds for a wide range of Oregon local government and community economic development needs, including dredging and other port improvements, trade centers, planning for aquifer recharge and new irrigation systems, forest land acquisition, transit system expansions, downtown parking garages, levee improvements, matching funds for federal disaster assistance, and public television infrastructure. Often, these types of projects would not have been financially feasible if it were not for the Legislature's allocation of Lottery bond proceeds for these purposes.

The Department of Administrative Services has identified the long-term need for at least two new office buildings on the Capital Mall. Each building will require significant amounts of state debt financing, though the debt service costs would likely be repaid by building tenants, many of which are not funded through General Fund resources.

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### III. GENERAL FUND SUPPORTED DEBT CAPACITY

#### A. *Debt Burden*

The key indicators most commonly used by the rating agencies and municipal analysts to evaluate a state’s debt burden include debt per capita, debt to personal income and debt service to revenues. A state’s debt burden may also be evaluated based on the percentage of debt service (i.e. principal and interest) to revenues. In this section we compare debt service for General Fund supported debt as a percent of General Fund revenues, or;

#### Debt Service for General Fund Supported Debt

##### General Fund Revenues

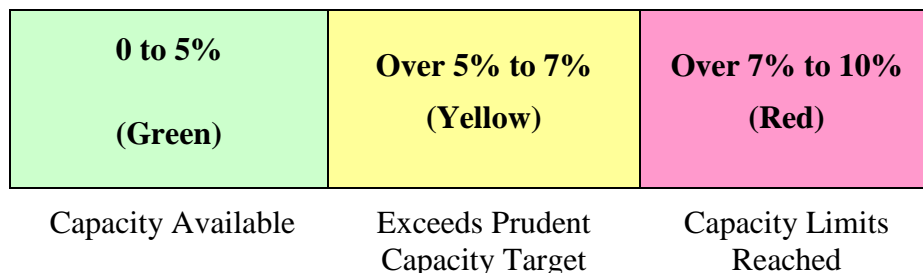
States that have been recognized as having sound debt management practices typically use a range between five and eight percent of revenues in determining their own capacity measurements, with five percent as a frequent commitment. As an example, South Carolina, which is Aaa-rated by Moody’s, limits general obligation debt, excluding State Highway bonds, to 5.5 percent of General Fund revenues, while North Carolina’s overall debt limit is 4% of General Fund revenues.

For purposes of determining Oregon’s own capacity standard, the Commission concludes that there exists a range under which the State can evaluate its capacity. This range exists between a low of zero and a high of ten percent.

In the following illustration, a ratio within the “green” area would signify that the State is within a prudent capacity range to pay debt service, and thus, has the capability to issue additional General Fund supported debt obligations. A ratio within the “yellow” area signifies that the State’s capacity is entering a cautionary zone where debt exceeds prudent capacity targets and may result in negative implications to the State’s long-term credit rating and cost of funds. At this level, it would be wise for the State to reevaluate bonding priorities. Finally, were the State to reach a ratio within the “red zone,” consequences would be expected to include increased interest costs, negative credit rating impacts, and reduced access to capital markets.

Target debt capacity range can be visualized as follows:

#### *General Fund Supported Debt Payments as a Percentage of General Fund Revenues*



## **B. *Inputs & Assumptions for General Fund Debt Capacity Model***

As required by ORS 286A.555, the model projects debt capacity over a period of six years. It does this for General Fund supported debt programs as a whole, intending for the Governor and Legislature to determine what specific programs deserve funding within the capacity range. *The February 16, 2011 Commission Report* outlined capacity for the 2012 fiscal year through the 2017 fiscal year. This 2012 *Legislative Update* provides a look at debt capacity for the 2013 fiscal year through the 2017 fiscal year based on the December 2011 revenue forecast and the bonding authorizations by the Legislature in 2011.

The model is based on General Fund supported debt service as a percentage of General Fund revenues. The Commission has chosen to use five percent as the model's capacity target because it is the dividing point between a "green/available" capacity level and a "yellow/cautionary" target level as depicted above. It is acknowledged that this five percent target is not a strict capacity limitation, but rather reflects an approach into the yellow or cautionary capacity range. The movement from one target level to the next should signal the need for a reevaluation of existing debt authorization and future bonding priorities.

The model first solves for "overall capacity" to pay debt service on General Fund supported debt issuance. As noted earlier, upon a thorough review of all current outstanding state debt, the following programs are considered General Fund-supported debt obligations for purposes of this report:

- Higher Education Facility & Community College Bonds (Article XI-G only);
- Pollution Control Bonds (42% of total outstanding as of June 30, 2011);
- Alternate Energy Bonds (18% of total outstanding as of June 30, 2011);
- Oregon Opportunity Bonds (for OHSU projects);
- Seismic Rehab – Public Education Buildings Bonds (Article XI-M)
- Seismic Rehab – Emergency Service Buildings Bonds (Article XI-N)
- State General Purpose Bonds (Article XI-Q) (85% of total outstanding as of June 30, 2011);
- Pension Obligation Bonds (32% of total outstanding as of June 30, 2011);
- Certificate of Participation obligations (85% of total outstanding as of June 30, 2011);
- Appropriation Bonds

As shown in *Table III.1*, the model solves for overall debt capacity for fiscal years 2012 through 2017 using the General Fund forecasts from the Oregon Office of Economic Analysis and five percent of General Fund revenues as the capacity target. Based on this target capacity, the model demonstrates that yearly dollars to pay debt service ranges from a low of \$325 million in FY 2012 to a high of \$449 million in FY 2017.

**Table III.1**

**General Fund Forecast  
(\$ Millions)**

<b>Fiscal Year Ending June 30th</b>	<b>Estimated General Fund Revenues<sup>1</sup></b>	<b>Calculated Dollars to Pay Annual Debt Service<sup>2</sup> at 5% Capacity Target</b>
2012	\$6,747.1	\$337.4
2013	7,007.9	350.4
2014	7,558.9	378.0
2015	8,108.4	405.4
2016	8,579.5	429.0
2017	8,980.2	449.0

After determining the yearly dollars available, it is necessary to resolve what portion is consumed by debt service on currently outstanding, as well as “planned” General Fund supported debt obligations. For purposes of this report, the 2011 Legislature authorized \$167 million in General Fund supported debt that will be issued during the 2011-2013 biennium, including \$18 million in Higher Education Facility XI-G bonds, \$24 million in Community College XI-G bonds, \$27 million in Energy XI-J bonds for Higher Ed energy projects, \$7 million in Seismic Rehab – Public Education Buildings XI-M bonds, and approximately \$91 million in General Purpose General Obligation XI-Q bonds. Projected debt service needs for planned issuances are based on the following assumptions:

- Level debt service payments;
- An interest rate of 5.03 percent, based on a five-year average of the *Bond Buyer 20-Bond Index plus 50 basis points*<sup>3</sup> as of November 17, 2011;<sup>4</sup> and
- Twenty year average maturity length for all General Fund supported debt obligations.

The model forecasts the remaining dollars available to pay debt service on future issuance and therefore bonding capacity by introducing known annual debt service payments for debt that is currently outstanding and the projected debt service payments for planned issuance. This is shown below in *Table III.2*. A detailed outline of debt service requirements for each General Fund supported debt program is provided in *Appendix A* to this report.

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<sup>1</sup> General Fund revenues are shown as projected by the Oregon Office of Economic Analysis in the *Oregon Economic and Revenue Forecast* for December 2011.

<sup>2</sup> Debt Service = principal and interest payments on outstanding issues

<sup>3</sup> Due to on-going credit market volatility, an additional 50 basis point was added to the 5-year average Bond Buyer 20-Bond Index typically used in the debt capacity model.

<sup>4</sup> The *20-Bond Index* consists of 20 general obligation bonds that mature in 20 years. The average rating of the 20 bonds is roughly equivalent to Moody’s Investors Service’s Aa3 rating and Standard & Poor’s AA-minus rating.

**Table III.2**

**Remaining General Fund Dollars Available for Future Debt Issuance  
(\$ Millions)**

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>Fiscal Year Ending June 30<sup>th</sup></b>	<b>Calculated Dollars to Pay Debt Service (5% target) (From <i>Table II.1</i>)</b>	<b>(Less) Annual Payments for Debt Service on General Fund Supported Debt Outstanding<sup>1</sup></b>	<b>(Less) Projected Annual Payments for Debt Service on “Planned” General Fund Supported Debt Issuance<sup>2</sup></b>	<b>Remaining Dollars Available to Pay Debt Service on Future Debt Issuance</b>
<b>2012</b>	\$337.4	(\$342.3)	-	(\$5.0)
<b>2013</b>	350.4	(348.4)	(\$3.5)	(1.5)
<b>2014</b>	378.0	(295.8)	(3.5)	78.6
<b>2015</b>	405.4	(262.9)	(3.5)	139.0
<b>2016</b>	429.0	(248.9)	(3.5)	176.6
<b>2017</b>	449.0	(238.9)	(3.5)	206.6

The overall dollars available to pay debt service as determined in *Table III.1* is illustrated in *Table III.2* column 1 above. Columns 2 and 3 are the principal and interest payment amounts for General Fund supported debt that is currently outstanding and for new authorized issuances respectively. The remaining dollars available to pay debt service (column 4) is determined by subtracting the current outstanding and planned issuance debt service (columns 2 and 3) from the overall calculated dollars available (column 1).

As outlined above, remaining dollars to pay debt service on future issuance varies over the forecast period as projected revenues change and as debt service requirements come due on debt obligations. We calculate that there is no remaining dollars available to pay debt service on future debt issuance for FY 2012 and FY 2013 debt issuance. The remaining General Fund dollars are based on the previously discussed assumptions and maintaining a General Fund supported debt service level below the targeted five percent of General Fund revenues. (See *Table III.3*.)

<sup>1</sup> Total annual (fiscal year) debt service requirements on all General Fund supported debt issued through June 30, 2011. See Appendix for detail.

<sup>2</sup> The 2011 Legislative Assembly authorized approximately \$167 million in General Fund supported debt. The issuance of the \$123 million for FY 2012 is accounted for in *Table III.2* column 3 and amortized annually as level debt service at \$3.5 million.

**Table III.3**

<b>General Fund Supported Debt Capacity Determination (\$ Millions)</b>					
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Fiscal Year Ending June 30<sup>th</sup></b>	<b>Remaining Dollars to Pay Debt Service</b>	<b>Amount of Additional Debt that May be Issued<sup>1</sup></b>	<b>(Less) Debt Service on Amount of Additional Debt that May be Issued</b>	<b>Net Dollars Remaining to Pay Debt Service</b>	<b>Total Debt Service as a % of General Fund Revenues</b>
<b>2012</b>	(\$5.0)	-	-	(\$5.0)	5.07%
<b>2013</b>	(1.5)	-	-	(1.5)	5.02%
<b>2014</b>	78.6	977.0	(\$78.6)	0.0	5.00%
<b>2015</b>	60.4	750.3	(60.4)	0.0	5.00%
<b>2016</b>	37.6	467.6	(37.6)	0.0	5.00%
<b>2017</b>	30.0	372.8	(30.0)	0.0	5.00%
<b>Total FY 2012-17 General Fund Debt Capacity</b>		<b>\$2,567.8</b>			

*Table III.3* above accounts for all issued and planned General Fund supported debt authorized by the Legislature for the 2011-13 biennium. For FY 2012, total debt service as a percentage of General Fund revenue is projected to be approximately 5.07 percent (column 5), which is slightly above the target debt capacity of five percent. This, as previously noted, is a simple measure of debt burden calculated as a percentage of General Fund supported debt service to General Fund revenues. In FY 2012, the annual debt service costs are \$342.3 million (*Table III.2* column 2) and the General Fund revenue estimate is \$6,747.1 million (*Table III.1*) yielding a debt burden measure of 5.07 percent.

Based on the above analysis of available debt service dollar levels, the Commission concludes that the General Fund supported debt issuance amounts illustrated in *Table III.3* would allow the State to stay within the five percent capacity target. This determination concludes that there is no available capacity for new General Fund supported debt assuming the 5% capacity target this biennium, but there will be \$2.6 billion in General Fund capacity from FY 2014 through FY 2017. Issuing new General Fund supported debt in excess of these amounts may cause the debt service ratios to exceed the target of five percent of General Fund revenues in a given fiscal year.

<sup>1</sup> *Table III.3* accounts for all \$167 million in planned and issued General Fund supported debt as authorized by the Legislature for the 2011-13 biennium.

### **C. Capacity Considerations**

The Commission cautions that decisions regarding funding for General Fund supported debt programs and projects, or for other State programs and projects are best made through the budgetary and legislative process.

The Commission emphasizes that while the State has the capacity to issue General Fund supported debt in the amounts outlined in *Table III.3* using the 5% capacity target, such issuance has budgetary obligations that can extend for significant periods in the future. An increase in monies used to finance General Fund supported debt service could result in a reduction of funding for other State-supported programs.

In addition, the Commission also cautions that while the State will have significant debt capacity beginning in FY 2014, there remains a very large backlog of unmet capital needs throughout the state. The Commission recommends that the Governor and Legislature continue to carefully evaluate the use of the State's general fund bonding capacity and restrict borrowings to the highest priority capital projects.

*Table III.4* and *Table III.5* below illustrate the potential impact of changing interest rates and revenues on the forecast of the State's General Fund debt capacity in future biennia. Based on current planned debt issuances in 2011-13 and estimates of General Fund revenues for the six year forecast period, remaining General Fund debt capacity is \$2.6 billion; a 1% increase in the long-term interest rate would decrease future capacity by \$204 million or \$68 million per biennium (*Table III.4*). A 10% decline in revenue for the forecast period; however, would decrease future capacity by approximately \$558 million, or \$186 million per biennium. (*Table III.5*).

**Table III.4**

**Forecast of General Fund Debt Capacity  
With Changing Interest Rates  
(\$ Millions)**

	<b>5.03% Interest Rate (From Table III.3)</b>	<b>4.03% Interest Rate (1% Decline)</b>	<b>6.03% Interest Rate (1% Increase)</b>
<b>Fiscal Year Ending June 30<sup>th</sup></b>	<b>Additional Debt That May Be Issued</b>	<b>Additional Debt That May Be Issued</b>	<b>Additional Debt That May Be Issued</b>
<b>2012</b>	-	-	-
<b>2013</b>	-	-	-
<b>2014</b>	\$977.0	\$1,065.4	\$899.3
<b>2015</b>	750.3	818.0	690.5
<b>2016</b>	467.6	509.9	430.5
<b>2017</b>	372.8	406.5	343.2
<b>Total</b>	<b>\$2,567.8</b>	<b>\$2,799.8</b>	<b>\$2,363.5</b>

**Table III.5**

**Forecast of General Fund Debt Capacity  
With Changing General Fund Revenues  
(\$ Millions)**

	<b>(From Table III.3)</b>	<b>10% Increase in Unobligated Net General Fund Revenue</b>	<b>10% Decrease in Unobligated Net General Fund Revenue</b>
<b>Fiscal Year Ending June 30<sup>th</sup></b>	<b>Additional Debt That May Be Issued</b>	<b>Additional Debt That May Be Issued</b>	<b>Additional Debt That May Be Issued</b>
<b>2012</b>	-	-	-
<b>2013</b>	-	-	-
<b>2014</b>	\$977.0	\$1,446.8	507.2
<b>2015</b>	750.3	784.4	716.1
<b>2016</b>	467.6	496.9	438.4
<b>2017</b>	372.8	397.7	347.9
<b>Total</b>	<b>\$2,567.8</b>	<b>\$3,125.8</b>	<b>\$2,009.6</b>

#### **D. *Pension Obligation Bonds***

On September 16, 2003, the citizens of the State voted to approve the issuance of State General Obligation bonds to finance part of the State's unfunded actuarial liability ("UAL") to the Public Employees Retirement System ("PERS"). The UAL is the difference between the liability of PERS to retirees and the actuarially determined value of the assets available to pay the liability. Calculated at an actuarial assumed rate of 8%, the State's portion of the pension liability was estimated to be over \$2 billion.

In October 2003, with the interest rate environment at historic lows, the State issued \$2 billion in taxable Pension Obligation Bonds ("POB") through the Office of the State Treasurer. Because the POBs were sold at an average interest rate of 5.8%, 2.2% below the actuarially assumed rate of 8%, the State expects to realize significant budgetary savings over the life of these bonds.

The savings through the issuance of POBs depends on future asset returns. While the costs of the POBs were known and fixed at the time of issuance, investment returns over the term of the bonds was not. Based on assumptions regarding the long-term rate of return of the PERS system made at the time of issuance, it was estimated that the POBs would provide nominal General Fund savings of approximately \$900 million over the life of the bonds. The State Treasurer's office estimates that as of June 30, 2011, the net savings to the State of Oregon and taxpayers due to the issuance of POBs has thus exceeded \$211 million.

## IV. LOTTERY-BACKED DEBT CAPACITY

Due to the importance of State Lottery revenues for funding various state programs and activities, the Commission feels it is important to point out a few considerations with respect to Lottery-backed bonds. True capacity to issue these bonds is based primarily on the prudent management and sound fiscal position of the State Lottery program itself. Accordingly, for purposes of determining capacity, the Commission has chosen to view the Lottery revenue bond program as distinct from both net tax-supported and General Fund supported debt programs.

### A. *Unobligated Net Lottery Proceeds*

Article XV, Section 4 of the Oregon Constitution requires the Legislative Assembly to appropriate Unobligated Net Lottery Proceeds or revenues to first repay Lottery bonds, before appropriating the proceeds for any other purpose.

In each fiscal year, and prior to any use of such moneys for any other purpose, all unobligated net Lottery revenues are deposited into the Debt Service Account until all scheduled debt service for the fiscal year has been provided for. The unobligated net Lottery proceeds consist of all revenues derived from the operation of the State Lottery except for revenues used for the payment of prizes and expenses of the State Lottery.

Once Lottery-backed debt service is paid each year, the remaining State Lottery revenues are distributed to fund the Education Stability Fund and the Parks and Natural Resources Fund as required by the Constitution and then allocated and applied to certain economic development and educational purposes. The Education Stability Fund and the Parks and Natural Resources Fund are allocated 18% and 15% respectively of unobligated net proceeds. Also, an amount of not less than 1% of net Lottery proceeds is allocated to the Problem Gambling Treatment Fund, which is separate and distinct from the General Fund. Article XV, Section 4 of the Oregon Constitution and applicable Oregon law allocate any remaining amounts to various economic development and public education projects as authorized.

The forecast summary of Lottery revenues is presented in *Table IV.1*. Total available Lottery resources are net of Lottery prizes and administration. Also shown is the projected debt service for outstanding Lottery bonds and the projected coverage ratio.

**Table IV.1**

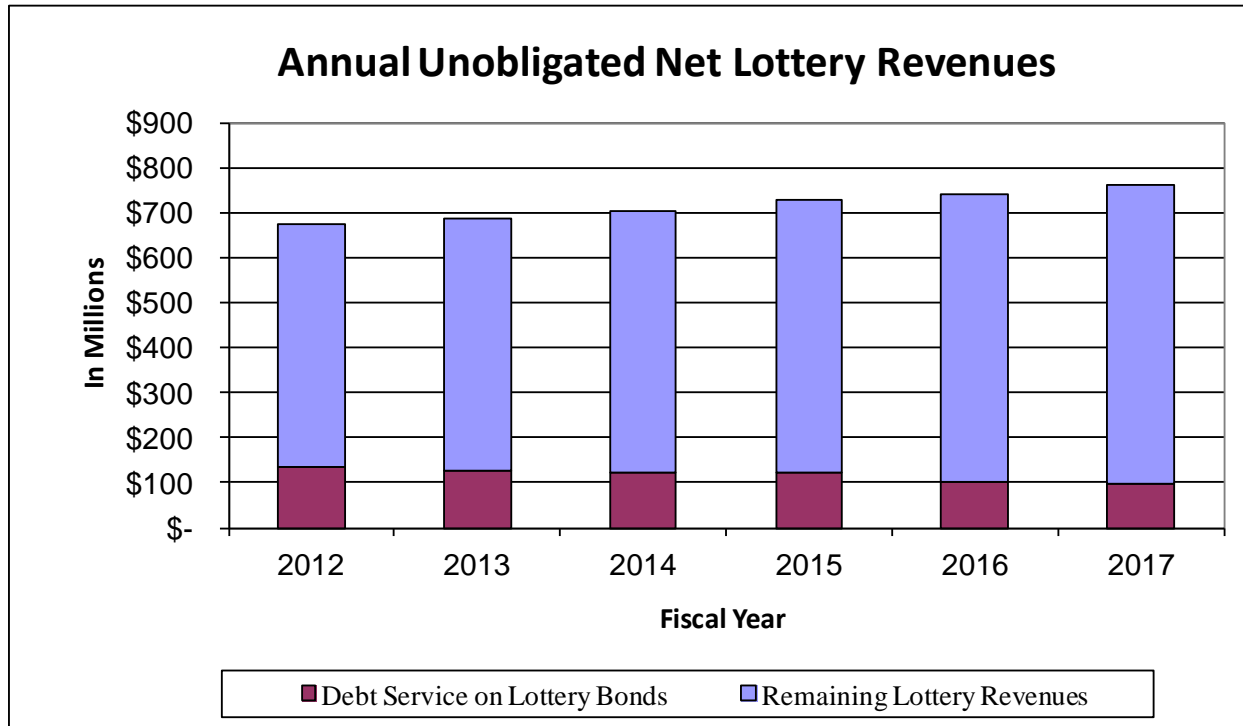
	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
Annual Unobligated Net Lottery Revenues <sup>1</sup>	541.0	558.2	582.6	607.6	638.7	664.4
Total Debt Service on Bonds <sup>2</sup>	134.8	127.4	121.0	120.6	102.1	98.4
Projected Debt Service Coverage (Times)	4.0	4.4	4.8	5.0	6.3	6.8

<sup>1</sup> Oregon Office of Economic Analysis, Oregon Economic and Revenue Forecast, December 2011

<sup>2</sup> Includes Lottery bonds issued through June 30, 2011. This does not include debt service on \$227 million in unissued Lottery bonds, as authorized by 2011 Legislature.

Exhibit IV.1 below graphically displays the amount of revenues consumed by debt service on outstanding Lottery revenue bonds and the remaining proceeds available for other purposes.

**Exhibit IV.1**



**B. Lottery Capacity Determination and Coverage Ratios**

The most appropriate means of determining capacity for this program is its legal debt service coverage requirements. This type of analysis compares expected debt service requirements to the available revenues pledged to repay this debt service. The extent to which the available revenues are forecasted to exceed debt service requirements is referred to as the coverage ratio. For example, if available program revenues were expected to be \$100 million annually, and debt service requirements were expected to be \$10 million annually, the expected coverage ratio would be 10.0 times (\$100 million divided by \$10 million).

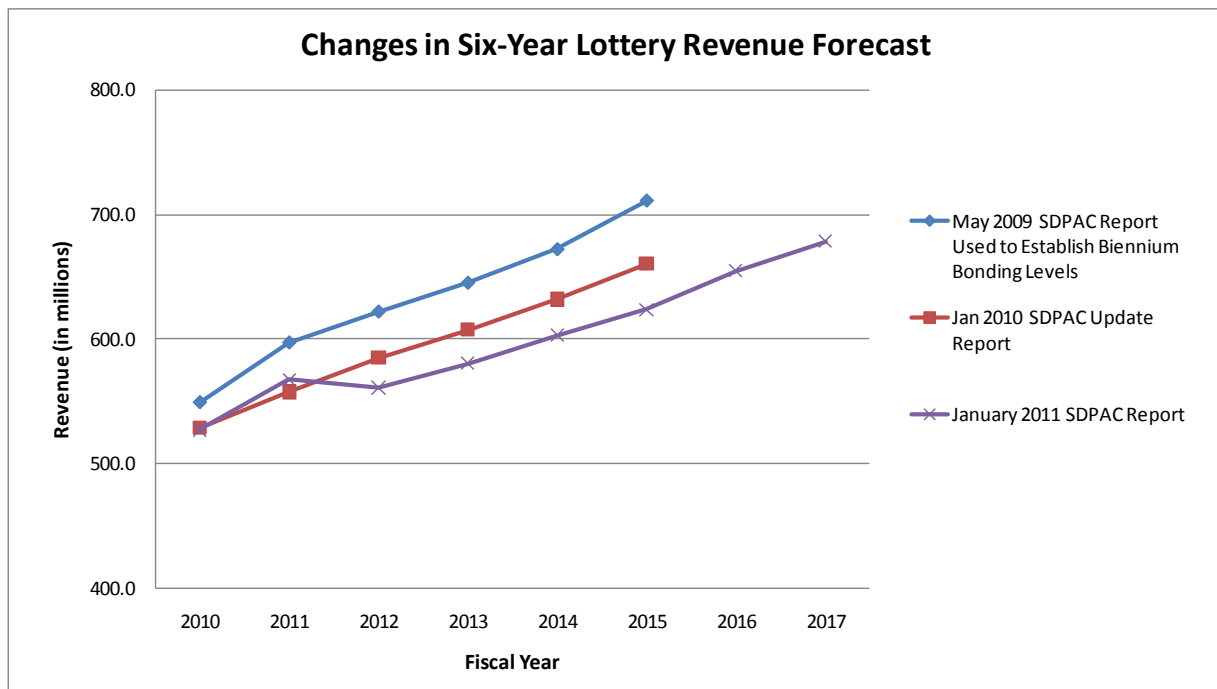
The Commission’s current lottery bond capacity policy is that existing and proposed lottery debt service not exceed four-times coverage or no more than 25% of net unobligated lottery revenues. The four-times coverage ratio, viewed by rating agencies as a conservative yet realistic level, is incorporated in the State’s Lottery Revenue bond indenture as a general bond covenant. This means that in order for the State to issue additional Lottery-backed bonds unobligated net Lottery revenues must be at least four times of the maximum annual debt service on all outstanding bonds, with the newly sought bonds treated as outstanding.

Table IV.1 above shows that the annual debt service for Lottery-backed revenue bonds in FY 2012 will be approximately \$134.8 million with a coverage ratio of 4.0 if no other bonds were issued prior to the end of FY 2012. Debt service decreases slightly, on average, ranging from \$134.8 million to \$98.4 million in FYs 2012 through 2017 with the coverage ratios ranging from

4.0 to 6.8. The coverage ratio is at the minimum four-times coverage as required by Lottery bond covenants, as the new authorized Lottery-backed bonds are sold. However, this ratio will increase above the minimum 4.0 coverage in FY 2013 and beyond.

Since release of the February 2011 SDPAC report, projections of six-year Lottery revenues have continued to decline, albeit at a slower rate than in the 2009 SDPAC report, as shown on *Exhibit IV.2* below. Between the May 2009 and December 2010 revenue forecasts, six-year overall lottery revenue declined by 8.8%, which in turn reduced projections of near-term lottery debt service coverage and therefore future lottery debt capacity. While long-term lottery revenues dropped an additional 3% in the most recent December 2011 forecast as compared to the December 2010 forecast, the restructuring of a modest amount of near-term lottery debt will allow the State to continue to issue Lottery bonds at the four-times coverage ratio.

*Exhibit IV.2*



Assuming the six-year forecast of Annual Unobligated Net Lottery Proceeds and a four-times coverage ratio as displayed in *Table IV.2*, the estimated available dollars for annual debt service would range from \$135.3 million in FY 2012 to \$166.1 million in FY 2017.

For FY 2012 that is:

$$\begin{aligned} \text{Available Revenues} \div \text{Required Coverage Ratio} &= \text{Maximum Annual Debt Service} \\ &\text{— or —} \\ \$541.0 \text{ million} \div 4 \text{ Times Coverage} &= \$135.3 \text{ million} \end{aligned}$$

The six-year capacity forecast for Lottery-backed revenue bonds is illustrated in *Table IV.2*. The table accounts for 1) all outstanding Lottery revenue bonds, 2) new Lottery revenue bonds authorized and expected to be issued during the remainder of the 2011-13 biennium, and 3) an estimate of remaining capacity to issue additional Lottery revenue bonds in FYs 2014 - 2017.

Projected net unobligated Lottery revenues available to pay Lottery bond debt service are displayed in *Table IV.2* column 1. The Lottery revenue bond debt service, as presented in *Table IV.2* column 2, accounts for existing debt service, as of June 30, 2011, and the planned FY 2012 and FY 2013 issuance, as authorized by the 2011 Legislature in the amount of \$222.7 million. Assuming the additional \$222.7 million is split between sales of \$30.3 million in FY 2012 and \$192.4 million in FY 2013, there will be an increase in debt service payments by about \$17.9 million per year. This assumes level debt service payments at an interest rate of 5.03 percent<sup>1</sup> and a 20-year maturity.<sup>2</sup> *Table IV.2* column 4 shows projected debt service for FY 2014-17 resulting from the issuance of the additional Lottery revenue bonds. Lastly, column 5 illustrates that as more debt is issued, the debt service coverage ratios decrease to the minimum required coverage of 4-times unobligated net Lottery proceeds or revenues.

Assuming that the current amount of authorized yet unissued Lottery revenue bonds, \$222.7 million, are sold in FY 2012 and FY 2013, the projected capacity to issue new debt at the start of FY 2014 is calculated to be \$84.5 million. Further issuing the entire projected \$84.5 million capacity in FY 2014 would increase annual debt service payments to approximately \$6.8 million per year and the projected capacity to issue new debt in FY 2015 would be \$82 million. This projected \$82 million capacity, available in FY 2015, factors in the amortization of prior bond issuances as well as additional forecast Lottery revenues.

**Table IV.2**

**Capacity for Lottery Revenue Bond Programs  
(\$ Millions)**

	1	2	3	4	5
Fiscal Year Ending June 30 <sup>th</sup>	Lottery Revenues Available to Pay Debt Service	Debt Service on Bonds Outstanding And “Planned” FY 2012 Issuance As of June 30, 2011	Annual Amount of Additional Debt That May be Issued And Remain Within Authorized Debt Service Coverage Ratios	Debt Service on Current & Additional Issuance	Debt Service Coverage Ratio (Times)
2012	135.3	(\$134.8)			4.0
2013	139.5	(129.8)			4.3
2014	145.6	(138.9)	84.5	(\$6.8)	4.0
2015	151.9	(138.5)	82.0	(6.6)	4.0
2016	159.7	(120.0)	325.7	(26.2)	4.0
2017	166.1	(116.3)	126.8	(10.2)	4.0
<b>Total FY 2014-17 Lottery Debt Capacity</b>			<b>\$619.0</b>		

<sup>1</sup> Five-year average of the *Bond Buyer 20-Bond Index* through November 17, 2011 plus 50 basis points.

<sup>2</sup> Lottery bonds sold prior to December 31, 2004 were structured with 15-year maturities. New Lottery bonds are structured with 20-year maturities.

In summary, the projected capacity for new Lottery revenue bonds in FY 2014 is \$84.5 million or \$166.5 million for the 2013-15 biennium. The capacity for the combined FYs 2014 through 2017 is estimated at roughly \$619 million. It should be acknowledged that issuing new Lottery debt in these amounts will cause debt service coverage ratios to approach the minimum required coverage of 4-times unobligated net Lottery proceeds or revenues.

### **C. *Restructuring of Lottery-Backed Debt***

Given the substantial reduction in Lottery projected revenue, and the importance of this bonding program to the State's overall long-term economic development efforts, the Debt Management Division of the Oregon State Treasury proposed the restructuring and "levelizing" of the overall repayment pattern of the Lottery bond program's debt service so that the State could access some of its future Lottery debt capacity this biennium. This was successfully accomplished in March 2011, in a fashion that maintained the program's strong current credit ratings of AAA with Standard & Poor's and Aa2 with Moody's Investors Service. Due to favorable market conditions, this modest refunding and restructuring of \$23 million in near-term outstanding lottery debt resulted in a small, but positive present value refunding savings of \$370,000, while freeing up sufficient near-term lottery debt capacity to allow for the issuance of \$222.7 million in lottery bonds this biennium.

While this report assumes level debt service in the projection of future lottery debt service, it is anticipated that the planned Lottery bond sales in FY 2012 and FY 2013 for the \$222.7 million in legislatively authorized projects will incorporate some deferral of principal until FY 2016 in order to free up additional bond capacity during the 2013-15 biennium that would otherwise not be available at the 4 times coverage level until the 2015-17 biennium.

### **D. *Other Capacity Considerations after Restructuring Lottery Backed Debt***

Given the State's use of Lottery bonds to promote economic development activities that do not always fit into the Federal government's tax rules with regards to "qualified" private activity, a portion of Lottery debt has periodically been issued on a taxable, rather than tax-exempt basis. Issuance of Lottery debt on a taxable basis generally results in a higher overall interest rate than the tax-exempt rates we have assumed for our capacity calculations. For example, assuming a blended taxable/tax-exempt rate of 5.66% if 50% of the bonds were sold taxable, the available overall capacity for six years would decrease by \$31.1 million, or \$10.4 million per biennium, as noted in *Table IV.5*.

**Table IV.5**

**Forecast of Six-Year Lottery Revenue Debt Capacity After Restructuring Debt  
Assuming a Mix of Taxable/Tax-Exempt Projects  
(\$ Millions)**

	<b>5.03%</b> <b>Interest Rate</b> <b>(From Table IV.3)</b>	<b>5.66%</b> <b>50% Taxable &amp;</b> <b>50% Tax-exempt</b>	<b>5.35%</b> <b>25% Taxable &amp;</b> <b>75% Tax-exempt</b>
	<b>Additional Debt</b> <b>That May Be Issued</b>	<b>Additional Debt</b> <b>That May Be Issued</b>	<b>Additional Debt</b> <b>That May Be Issued</b>
<b>Total FY</b> <b>2012-17</b>	<b>\$841.7</b>	<b>\$810.6</b>	<b>\$825.4</b>
<b>Per Biennium</b>	<b>\$280.6</b>	<b>\$270.2</b>	<b>\$275.1</b>

Table IV.6 and Table IV.7 below illustrate the potential impact of changing long-term interest rate and revenue assumptions in the debt capacity model. Based on current estimates of unobligated net Lottery revenues, the assumed 5.03% long-term interest rate, the maximum capacity of Lottery revenue to support added bond issuance at the start of the FY 2014 is approximately \$84.5 million or \$166.5 million for the 2013-15 biennium. However, a one-percentage point increase in the projected long-term interest rate to 6.03% would reduce the maximum available capacity over the six year period by approximately \$49.4 million; conversely, dropping the interest rate assumption by 1% back to 4.03%, which has been the average actual rate over the last five years, would add roughly \$55.6 million in debt capacity over the six-year forecast period.

**Table IV.6**

**Forecast of Six Year Lottery Revenue Debt Capacity  
With Changing Interest Rates  
(\$ Millions)**

	<b>5.03%</b> <b>Interest Rate</b> <b>(From Table IV.3)</b>	<b>4.03%</b> <b>Interest Rate</b> <b>(1% Decline)</b>	<b>6.03%</b> <b>Interest Rate</b> <b>(1% Increase)</b>
<b>Fiscal Year Ending June 30<sup>th</sup></b>	<b>Additional Debt That May Be Issued</b>	<b>Additional Debt That May Be Issued</b>	<b>Additional Debt That May Be Issued</b>
<b>2014</b>	\$ 84.5	91.6	77.4
<b>2015</b>	82.0	89.9	75.9
<b>2016</b>	325.7	355.8	300.4
<b>2017</b>	126.8	137.3	115.9
<b>Total</b>	<b>\$619.0</b>	<b>\$674.6</b>	<b>\$569.6</b>

As the past three years have painfully demonstrated, changes in overall projected Lottery revenues can have a substantial impact on future Lottery bond capacity. As shown below, a 10% reduction in unobligated net Lottery revenues over the forecast period would reduce the available debt capacity by \$206.8 million over the next six years (*Table IV.7*).

*Table IV.7*

**Forecast of Lottery Revenue Debt Capacity  
With Changing Lottery Revenues  
(\$ Millions)**

	<b>Current Lottery Revenue Projections (From <i>Table IV.3</i>)</b>	<b>10% Increase in Unobligated Net Lottery Revenue</b>	<b>10% Decrease in Unobligated Net Lottery Revenue</b>
<b>Fiscal Year Ending June 30th</b>	<b>Additional Debt That May Be Issued</b>	<b>Additional Debt That May Be Issued</b>	<b>Additional Debt That May Be Issued</b>
<b>2014</b>	84.5	265.0	-
<b>2015</b>	82.0	90.3	-
<b>2016</b>	325.7	336.0	294.2
<b>2017</b>	126.8	133.9	118.0
<b>Total</b>	<b>\$619.0</b>	<b>\$825.2</b>	<b>\$412.2</b>

## V. NET TAX-SUPPORTED DEBT

Net tax-supported debt (NTSD) is, by definition, all debt serviced by tax revenues of the State. Following rating agency models this includes all General Fund supported debt, Lottery revenue program bonds and State Highway bonds. *Exhibit I.2* in the section titled “Bonding in Oregon”, provided a comparison of the State’s total outstanding gross debt, General Fund supported debt, and net tax-supported debt as of June 30, 2011. The State’s net tax supported debt, as of June 30, 2011, was \$8.0 billion.

Lottery revenue bonds are included in the calculation of net tax-supported debt even though they are special obligations of the State with debt service for the bonds coming from non-tax resources, that is, discretionary lottery purchases. However, because Lottery bonds are also secured by a “moral obligation” pledge of the state and a statutory commitment to request appropriated funds for any deficiencies in reserves or inability to pay debt service, these bonds are considered tax-supported and included in rating agency calculations of net tax-supported debt.

Given the importance of Lottery revenue bonds to the State’s overall capital planning process, Lottery revenue bond capacity is discussed separately in the previous section of this report.

Net tax-supported debt does omit a variety of self-supporting debt obligations issued by the State that are directly or indirectly supported by the State’s credit. The Veterans’ Welfare Housing program, the Oregon Housing and Community Services Department’s Elderly and Disabled general obligations, and Single and Multifamily Housing revenue bond programs and all conduit revenue bonds are examples of debt issued by the State but excluded from NTSD calculations. While revenue and self-supporting general obligation bond debt programs are included on the State’s gross debt balance sheet, they are fully self-supported from non-tax revenue resources and there is no practicable expectation that bond debt service payments will come from State tax resources.

*Table V.1* lists new 2011-13 biennium net tax-supported debt authorizations approved by the 2011 Legislative Assembly. For purposes of this 2012 *Legislative Update*, the legislature authorized \$1.1 billion that continues to be issued during the 2011-13 biennium. Highway User Tax bonds, General Purpose General Obligation bonds, and Lottery revenue bonds make up the largest share of the new authorizations and actual issuance.

Table V.1

**Net Tax-Supported Debt  
Authorizations & Projected Issuance  
2011-13 Biennium**

<u>Type &amp; Purpose</u>	<u>Authorization</u>	<u>Expected Issuance</u>
<b>General Obligation Bonds</b>		
Community College Bonds (Article XI-G)	\$ 24,500,000	\$ 24,500,000
Higher Education Facility Bonds (Article XI-G)	17,608,000	17,608,000
Pollution Control Bonds (Article XI-H)	0	0
Alternate Energy Bonds (Article XI-J)	26,585,801	26,585,801
Dept. of Military Bonds (Article XI-M)	7,614,000	7,614,000
Dept. of Military Bonds (Article XI-N)	0	0
State General Purpose (Article XI-Q)	<u>186,685,000</u>	<u>186,685,000</u>
<b>General Obligation Bond Total</b>	<b>\$262,992,801</b>	<b>\$262,992,801</b>
<b>Direct Revenue Bonds</b>		
Lottery Revenue Bonds (ORS (286A.560-585)	\$222,705,000	\$222,705,000
Highway User Tax Bonds (ORS 367.620)	<u>663,000,000</u>	<u>663,000,000</u>
<b>Direct Revenue Bond Total</b>	<b>\$ 885,705,000</b>	<b>\$885,705,000</b>
<b>Appropriation Credits</b>		
Certificates of Participation (ORS 283.085)	<u>0</u>	<u>0</u>
<b>Appropriation Credit Total</b>	<b>\$ 0</b>	<b>\$0</b>
<b>Total Authorized &amp; Expected Issuance</b>	<b><u>\$ 1,148,697,801</u></b>	<b><u>\$ 1,148,697,801</u></b>

Two measures most commonly used by rating agencies and municipal analysts to gauge a state's overall debt burden include:

- Net Tax-Supported Debt Per Capita, and
- Net Tax-Supported Debt as a Percentage of Personal Income.

Prior to FY 2003, Oregon's debt burden was well below the 50-state medians as calculated by Moody's Investors Service. In their *2011 State Debt Medians* report, Moody's determined the average NTSD per capita for the 50 states at \$1,408 and the median at \$1,066.<sup>1</sup> The average NTSD as a percentage of income was reported at 3.5% and the median at 2.8%. By comparison, Oregon's NTSD ranked 17th highest nationally with net tax-supported debt at the time of the report at about \$7.7 billion, but 11<sup>th</sup> highest in net tax supported debt per capita at \$2,006 and 11th highest in net tax-supported debt as a percentage of personal income at 5.6%. The significant jump in Oregon's debt ratios was initially caused by the issuance of \$2 billion in pension obligation bonds and \$432 million in appropriation budget deficit bonds sold in 2003; more recently, the sale of over \$2.4 billion in Highway User Tax revenue bonds for OTIA projects has led to further increases in the state's NTSD ratios.

<sup>1</sup> Moody's *2011 State Debt Medians* reflect NTSD as of the end of calendar year 2010.

As *Table V.2* illustrates, at the end of FY 2011 net tax-supported debt totaled \$8.0 billion with debt ratios of \$2,080 per capita and 5.46% of personal income. Based on the issuance of the debt authorized via the 2011 Legislature, we estimate that by the end of FY 2013, the State’s net tax-supported will increase to about \$8.3 billion.

**Table V.2**

**Net Tax-Supported Debt Ratios**

	<b>Fiscal Year Ending June 30th</b>			
	<b>FY 2010 (Actual)</b>	<b>FY 2011 (Actual)</b>	<b>FY 2012 (Estimated)</b>	<b>FY 2013 (Estimated)</b>
<b>Net Tax-Supported Debt (Millions)</b>	\$7,838	\$8,022	\$8,218	\$8,301
<b>Population*</b>	3,844,200	3,856,800	3,887,000	3,923,500
<b>Personal Income (Millions)*</b>	\$142,400	\$146,800	\$152,300	\$159,000
<b>NTSD Per Capita</b>	\$2,039	\$2,080	\$2,114	\$2,140
<b>NTSD as a % of Personal Income</b>	5.50%	5.46%	5.39%	5.28%
<b><i>Pension Obligation Bonds Excluded</i></b>				
<b>NTSD Per Capita</b>	\$1,507	\$1,557	\$1,603	\$1,645
<b>NTSD as a % of Personal Income</b>	4.07%	4.09%	4.09%	4.06%

\*Source: 2011-13 population and personal income forecasts – Oregon Office of Economic Analysis December 2011

Rating agencies typically calculate total net tax-supported debt both with and without pension obligation bonds. In this way, they do not penalize states that issue POBs in comparison to other states that may have a relatively low debt burden and have not issued POBs yet have sizable unfunded pension liabilities. For Oregon, if pension obligation bonds are excluded from the NTSD calculation shown above in *Table V.2*, the estimated FY 2012 debt burden would decrease to \$1,603 per capita and 4.09% of personal income.

***Debt Ratio Comparisons***

At the time of this report, Oregon’s general obligation debt was rated by Moody’s as Aa1, and AA+ by both Standard & Poor’s and Fitch Investors Service. *Exhibits V.1a & V.1b* compare Oregon’s net supported debt ratios over the past decade with the median ratios of all 50 states. Prior to FY 2003, Oregon’s debt ratios compared favorably to the national averages, with Oregon generally having lower ratios than states with higher credit ratings. Since that time, the State has issued a substantial amount of new debt to address unfunded pension liabilities, operating deficits, economic development, highway modernization and public safety needs. As the charts below show, Oregon’s current per capita debt burden and debt as a percent of personal income have gone from well below the national median to well above the national median since 2003.

Exhibit V.1a and Exhibit V.1b project Oregon’s debt ratios over the next few years assuming the issuance of all net tax-supported bonds authorized by the 2011 Legislature.

Exhibit V.1a

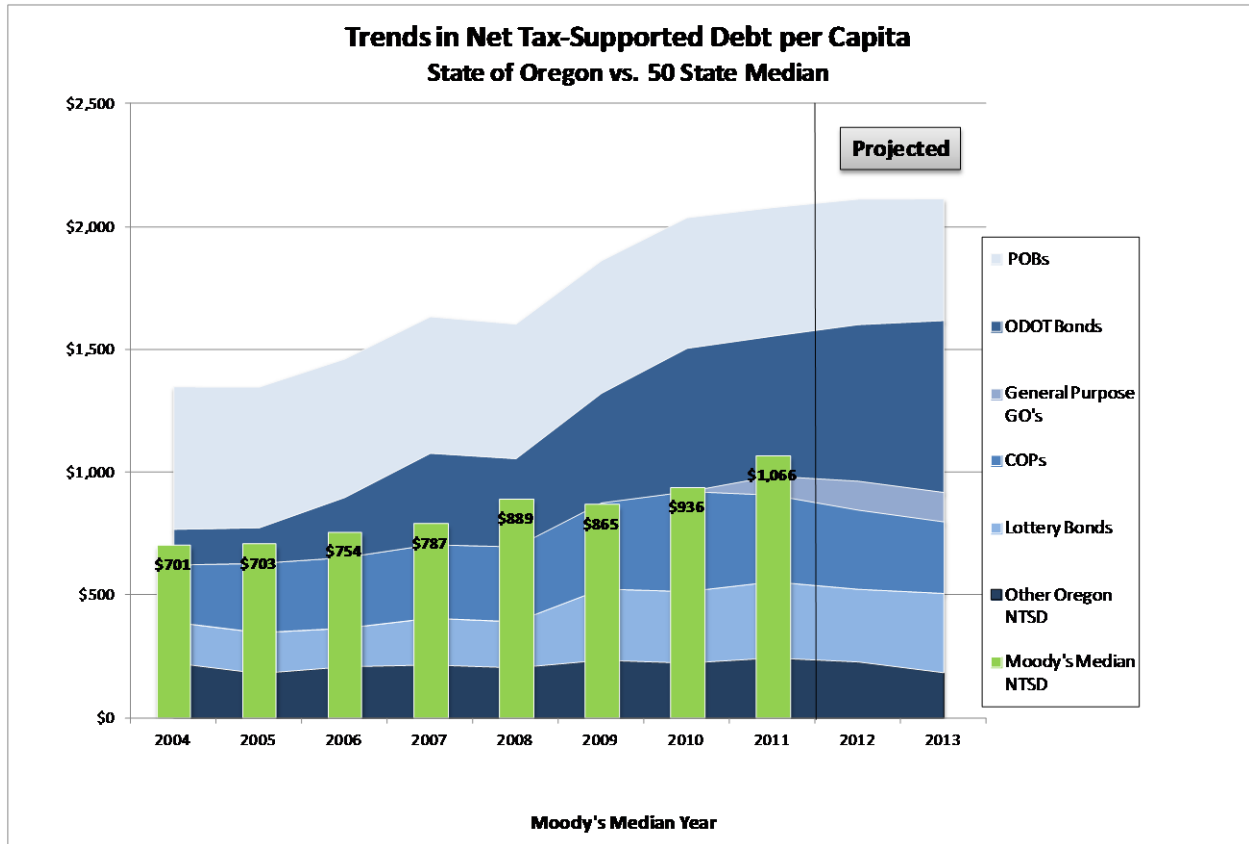
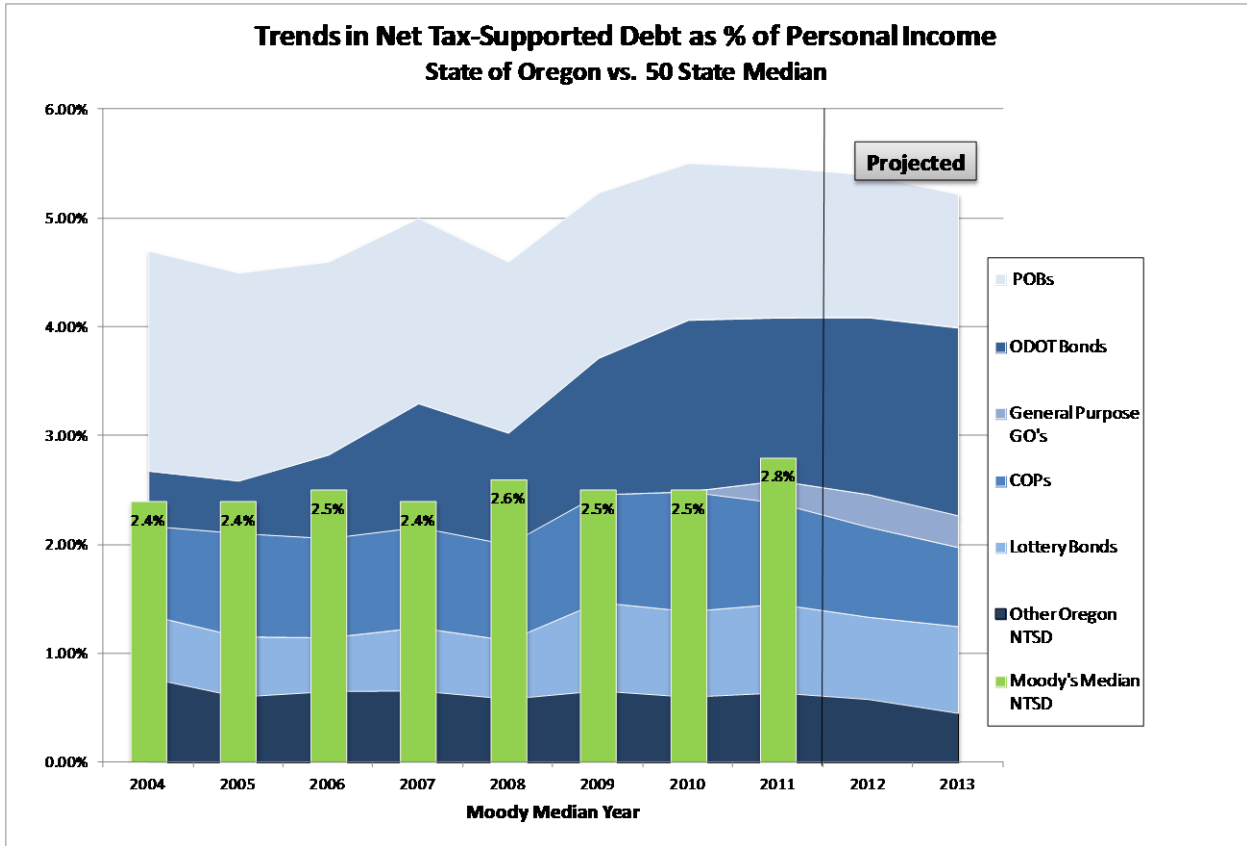


Exhibit V.1b



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## VI. NON TAX-SUPPORTED DEBT

Several of the State’s largest bonding programs do not fall under the definition of either General Fund supported debt or net tax-supported as used in this report. These programs currently include:

- Veterans’ Welfare Bonds (Article XI-A);
- Higher Education Building Project Bonds (Article XI-F(1));
- OHCS<sup>1</sup>D Elderly & Disabled Housing Project Bonds (Article XI-1(2));
- OHCS<sup>1</sup>D Single-Family & Insured Multi-Family Revenue Bonds (ORS 456.661);
- Alternate Energy Project Bonds (Article XI-J);
- Oregon School Bond Guaranty Program (Article XI-K);
- Economic Development Bond Bank and Safe Drinking Water Project Bonds; and
- Conduit or “Pass Through” Revenue Bond Programs.

These programs are fully self-supporting from enterprise revenues or loan repayments and do not constitute a draw on General Fund or special tax revenues. Therefore, it is not meaningful to discuss their capacity in the same terms with which we discuss net tax-supported or General Fund supported debt programs. However, it is understandable that these programs cannot issue debt unconditionally without consequence because, with the exception of conduit revenue bonds, they represent an exposure to the financial resources and reputation of the State. Capacity for these programs is more appropriately judged by reflecting the need for sound management and lending practices, as well as careful consideration of the economic circumstances unique to each program. The Commission proposes that capacity for these programs is more appropriately based on ongoing review of constitutional and statutory limitations, program needs, sound program management practices, and biennial review and approval of debt program issuance rather than a specific dollar limit capacity.

Each of these non-tax supported programs is expanded on below.

### **A. *Veterans’ Welfare Bond Program***

As noted earlier the Department of Veterans’ Affairs (DVA) is authorized to issue bonds to finance mortgage loans to eligible veterans. Although bonds outstanding under this program are fully self-supporting, this was not always the perception by bond market participants. In the late 1970s and early 1980s, the Department faced considerable difficulties due to the effects of the nationwide recession, aggressive lending practices, and poorly structured bond issues. Revenues from the mortgage portfolio were insufficient to cover operating expenses and an increased number of foreclosure losses. At the same time, management practices allowed for an extraordinary volume of bond issuance, resulting in over \$6 billion outstanding in the DVA program alone at one point in 1985. These fiscal decisions were, in part, responsible for an eventual ratings downgrade that led to increased interest costs to the State.

Over the last twenty years the State and the Department have made excellent progress in creating a sound, well-structured Veterans’ loan program. The Department issued no debt between 1987

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<sup>1</sup> Oregon Housing and Community Services Department.

and 1995, and made no mortgage loans between 1987 and 1991. The restructured program began lending mortgage monies again in 1992. Current financial strategies of the Department include: exercise bond call options for high cost debt where opportunity exists; close monitoring of administrative expenses; working to achieve maximum spread permitted under Federal law on new bond sales; and structuring new bonds similar to proven single family mortgage revenue bond programs nationwide.

In addition, requirements for participation in the Mortgage Loan Program are now much more stringent. Individual applicants and properties must generally meet Federal National Mortgage Association (FNMA or Fannie Mae) underwriting standards, which include but are not limited to: adequate income, verification of stable employment, acceptable credit history, and sufficient funds to pay the down-payment and closing costs. A private mortgage insurer must also insure loans that exceed eighty percent of the value of the underlying security.

The Department makes annual cash flow forecasts to assess future ability to meet debt service and related operating expenses. In addition to these cash flow projections, the Department projects for future bond issuance requirements based on demand for program services. While the Department, or any State program, cannot issue bonds without restraint, its debt capacity is a reflection of continuing sound management practices and awareness of demand for program services.

## **B. *Higher Education Building Project Bond Program***

The Department of Higher Education has the authority to issue bonds under two constitutional provisions, Article XI-F(1) and Article XI-G. Debt issued under Article XI-G is considered tax-supported debt for purposes of this report, and is accounted for in the General Fund capacity model and net tax-supported debt ratio calculations. Debt issued under Article XI-F(1), Higher Education Building Projects, is not included in either model.

Again, the basis for a discussion of capacity surrounding this program must focus on sound management practices. The Department of Higher Education administers the Oregon University System, which consists of Oregon's seven public four-year universities, the Oregon Center for Advanced Technology Education (OCATE) and the affiliated Oregon Health & Science University (OHSU) in Portland. The Department, along with the Higher Education Board, continually assesses facility and equipment throughout the Higher Education System. Requests for facilities and related equipment are programmed into a six-year capital improvement plan that is reviewed and approved by the Board. The plan establishes priorities for projects and is updated regularly. Further, the plan is submitted to the Department of Administrative Services and the Legislature biennially for budgeting and approval.

The Department has set Internal Management Directives that require debt service on Article XI-F(1) bonded debt to be paid solely out of revenues associated with the bond financed facilities, such as student building fees, gifts, grants and other similar funds. Under program requirements, the Department must set rates for the use of dormitories, cafeterias, parking structures and other self-liquidating auxiliary enterprises sufficient to produce revenues to fund all operation and maintenance costs, as well as to meet debt service requirements.

As required by Article XI-F(1), these bonds must be fully self-supporting from non-General Fund resources. The Board has defined these terms in the following manner. A bond-supported project is self-supporting when its gross revenues are sufficient to pay all operation and

maintenance expenses, including debt service. Total revenues have historically been more than adequate to meet these requirements.

As with the Veterans' Welfare housing bond program, the capacity of this program to issue additional bonds is based on sound financial management policies and practices, in addition to the revenue producing capacity of individually financed projects.

### ***C. Housing & Community Services Department Bond Programs***

The Oregon Housing and Community Services Department (OHCSA) is authorized to issue general obligation bonds for the Elderly and Disabled Housing program, as well as direct revenue bonds for Single-Family and Multifamily housing mortgage programs and pass-through revenue bonds for its multifamily conduit revenue program. Currently, none of these programs fall under the definition of net tax-supported debt used in this report. Thus, program capacity is discussed separately from assumptions made in the General Fund capacity model.

Like other self-supporting bonding programs, capacity for OHCSA programs is based primarily on the fiscal soundness of these programs and prudent management of the Department. The Director, who is appointed by the Governor, heads the Department. In addition, the State Housing Council, also appointed by the Governor, develops policies for the Department and submits proposed legislation to the Oregon Legislative Assembly on measures the Council considers necessary to address housing programs.

Applicants proposing to borrow monies under any of the Department's housing programs must first meet the eligibility requirements of that particular program. Applicants then follow a strict application review and approval process prior to receiving any loan monies associated with the program. For the purpose of financing a single-family residence, loans in excess of the greater of 75% of applicable of the program purchase price limit or \$190,000 must first be approved by the Housing Council; in addition, any multi-family housing loan, grant, or other award that the Department proposes to make in excess of \$100,000, must also receive Housing Council approval.

As noted earlier, bonds issued by the Department are fully self-supporting. Debt service is paid solely from revenues received from mortgage loan repayments, investment earning, and other assets held under each specific Trust Indenture. In order to assure that these assets are sufficient to fund necessary debt service requirements, the Department is required to submit materials outlining projected revenues annually to the State Treasurer. These projections must outline the ability to repay principal and interest over the life of outstanding bonds, as well as other expenses of the Department. If projected revenues show an inability to provide for these requirements, the Department would be precluded from issuing additional bonds or applying any revenues to the financing of additional mortgage loans.

Similar to other programs outlined here, the Housing and Community Services Department's capacity to issue bonds is based on sound management of the Department, continued prudent lending practices, maintenance of strong operation reserves for program continuance, stability and ratings, and awareness of the economic and social factors affecting individual borrowers' ability to repay mortgage loans.

## **D. *Alternate Energy Program Bonds***

The Oregon Department of Energy (ODOE) is authorized to issue general obligation bonds for the Alternative Energy Project in accordance with the provisions of Article XI-J to finance secured loans for the development of small-scale local energy projects (SELP) within Oregon. The Department may have bonds outstanding equal to one-half of one percent of the true cash value of the property of the State. Most of these bonds are fully self-supporting through program revenues. Constitutional and statutory provisions mandate that secured repayment of loans be provided for prior to any General funds being advanced to the program for repayment of debt.

Energy bonds are used to finance secured loans for the development of small-scale energy projects throughout Oregon. The loan program finances energy conservation and renewable resource energy projects. The projects must meet local community or regional energy needs in Oregon. Renewable resources include water, wind, geothermal heat, solar radiation, biomass, and waste heat. The energy to be produced from these resources can include heat, electricity, and substitute fuels. The energy to be conserved can be any conventional fuel or conventional energy source. Program loans can go to individual residents, Oregon businesses, nonprofit organizations, municipal corporations, State agencies and Federal agencies.

Program staff investigates and evaluates each loan request. Registered engineers typically design larger projects representing loan amounts in excess of \$100,000. In general, the reviews examine project design and the reliability of the resource. The staff investigations provide reasonable assurance that each loan is secured and protected against loss.

Debt service on Alternate Energy Project Bonds is paid from the revenues received from loan repayments. ODOE is also required to periodically submit materials outlining projected revenues and expenses to the State Treasurer. To continue issuing General Obligation bonds for the SELP program, the projections provided to the Treasurer must show the program's future capability of meeting all planned and outstanding bond payments through program resources. Again, capacity to issue these bonds is based on sound program and department management, continued prudent lending practices, maintenance of adequate loan loss reserves, and awareness of underlying borrowers' ability to repay loans.

Currently, a portion of ODOE's Alternate Energy Bonds are considered as General Fund supported as bonds were sold to fund loans for energy projects throughout the Oregon University System (OUS) that will be repaid through General Fund appropriations to OUS. As of June 30, 2011, ODOE had issued \$43.5 million in bonds for Higher Ed energy projects, representing approximately 18% of ODOE's overall bond portfolio. The 2011 Legislature authorized ODOE to sell an additional \$26.6 million of general obligation bonds for OUS energy conservation projects.

As part of the preparation for an upcoming ODOE bond sale, the Office of the State Treasurer recently reviewed the Department of Energy's outstanding and anticipated bond portfolio. This evaluation of SELP's projected cash flows revealed that the program has deteriorating loan loss reserves due to the default of an \$18 million loan on an ethanol facility and a growing number of large, delinquent loans that are 91 days or more past due. While SELP is working on tightening its loan underwriting standards and continues to aggressively pursue delinquent borrowers, it seems likely that the Legislature and Governor will need to provide General Fund cash infusions to the SELP program ranging from \$2 to \$5 million per year, beginning in FY 2015 and continuing through FY 2019, or up to \$20 million overall. The Commission recommends that

given the impending situation, the Legislature and Governor step up their monitoring of SELP's existing loan portfolio and put tighter parameters on SELP's future loan commitments to assure that the aforementioned General Fund support of this "non-tax supported" general obligation bond program is kept to a minimum.

### ***E. Oregon Business Development Department Bond Bank Program***

The Oregon Business Development Department (OBDD) administers both the Bond Bank and Safe Drinking Water bond programs. Legislative changes made during the 1997 Session resulted in treatment of bonds issued through these programs as parity bonds to be issued under the Oregon Bond Bank program name.

The Bond Bank was created by the consolidation of the Water Program, which authorizes loans to municipalities to finance safe drinking water projects and waste water system improvement projects, and the Special Public Works Fund program (SPWF), which provides loans to municipalities for construction, improvement and repair of infrastructure.

Loans made under both programs are typically full faith and credit obligations of the borrowing municipality's payable from the municipalities' General Funds. Under both programs, OBDD may request the State to withhold any amounts otherwise due to the municipality, from the State of Oregon, and to pay such amounts to OBDD in the event that a municipality defaults on its loan payments. Again, capacity to issue these bonds is based on sound management, continued prudent lending practices, and awareness of underlying borrowers' ability to repay loans.

### ***F. Conduit Revenue Bond Programs***

The State of Oregon has three operating conduit revenue bond programs. These programs operate under the cognizance of the Oregon Facilities Authority, the Oregon Business Development Department and the Oregon Housing and Community Services Department.

Conduit revenue programs are viewed uniquely when discussing capacity concepts. These programs, although issued by the State Treasurer, constitute no draw or contingent liability on any State of Oregon revenues. Debt service on these bonds is paid solely from revenues generated by the projects being financed or from other sources available to the conduit borrower. In no case is the credit of the State loaned or used for payment of any of the bonds. Further, the State is not responsible for expenses or costs incurred in connection with the issuance of the bonds. Therefore, capacity judgments should be reflected more in terms of market impact, beneficial interests of the State and prudent evaluation of participating conduit borrowers' ability to repay debt obligations.

### ***G. Oregon School Bond Guaranty Program***

The Oregon Legislature passed the School Bond Guaranty Act in 1997, which was subsequently approved by voters via a constitutional amendment the following year that allows the State to guaranty voter-approved General Obligation (GO) bonds of qualifying Oregon education districts. Participation in the program is voluntary and is open to public school districts, education service districts, and community college districts.

The Oregon School Bond Guaranty (OSBG) program is administered by the State Treasurer's office, which established administrative rules prescribing application procedures and qualification guidelines. Upon determination of a district's eligibility, the State Treasurer issues a

certificate of qualification valid for one year from the date of issuance, which may be applied to all GO bonds issued by the district during that period.

### ***Constitutional, Statutory, and Administrative Framework***

The Constitutional and statutory framework for the OSBG program provides several strong credit enhancement features that have resulted in the program receiving the same credit rating as the State receives on its GO bonds. These features include:

- A pledge of the State’s full faith and credit to guaranty payment of a qualified district/college’s bond debt service when due;
- Authorization of the State Treasurer to make intra-fund loans from the Oregon Common School Fund (OCSF), Oregon Short-term Fund (OSTF), or other State funds to a school district assures immediate liquidity for all debt service payments;
- Constitutional provision authorizing the State Treasurer to issue property tax-backed State General Obligation bonds to fund the State’s guaranty, if necessary; and
- Authorization of the State Treasurer to assure repayment of any draws on state funds to make district/college GO debt service payments, including:
  - use of the state school funds intercept mechanism or
  - legal compulsion of a district or college to levy sufficient property taxes to repay any intra-fund loan or State GO bond sold on its behalf

A participating school district for which the State has made a guaranty payment is obligated to repay the State, with interest, and in certain instances, may be subject to an additional penalty. The range of State school funds that can be intercepted for repayment include any payments for the State’s General Fund, the State school fund, income from the Common School Fund or any other operating funds provided by the State to the district.

In addition, the administrative aspects of the OSBG program have been designed to reduce the likelihood of payment default by educational districts. The district’s business administrator is required to transfer to its paying agent funds sufficient to cover each debt service payment at least 15 days before the scheduled payment date on OSBG guaranteed bonds. If it is unable to do so, the district must notify both the paying agent and the State Treasurer’s office at that time. The paying agent must notify the State Treasurer if sufficient funds are not transferred at least 5 days before the scheduled payment date.

### ***Program Statistics***

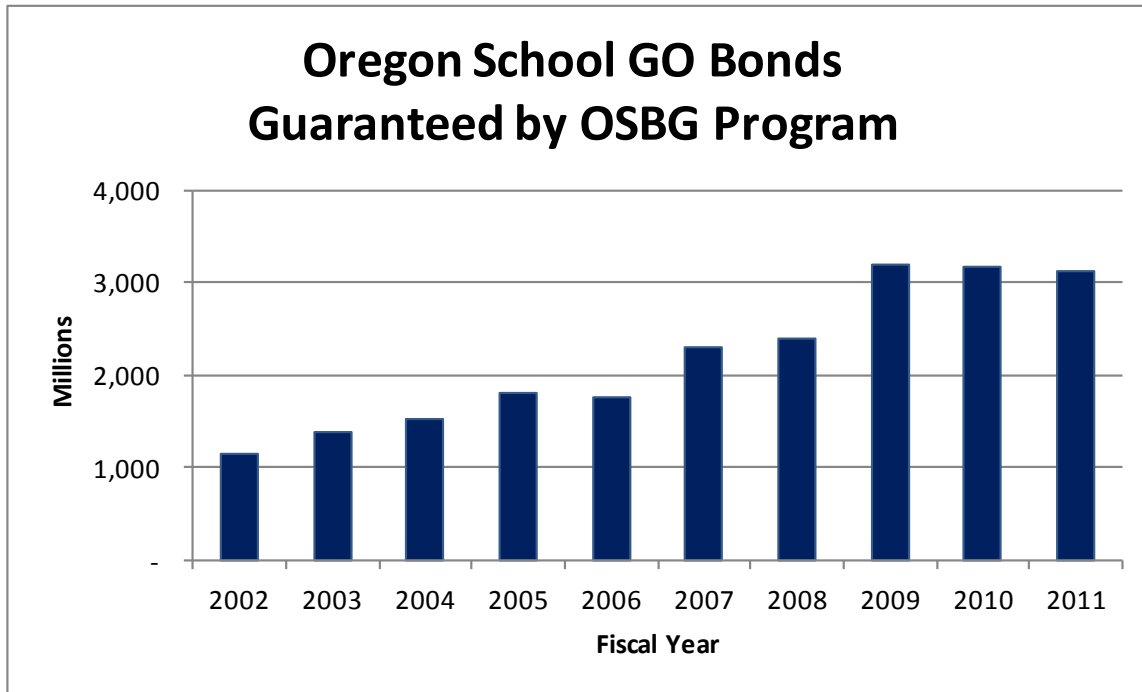
Since its inception in 1999, the OSBG program has grown significantly in size and scope; as of June 30, 2011, the program has guaranties on \$3.13 billion in outstanding general obligation bonds issued by Oregon school districts and community colleges, or \$4.64 billion, when including potential interest, in total debt service. *Exhibit VI.1* below shows the growth of the program since FY 2002.

*Exhibit VI.2* below projects State-guaranteed principal and interest over the remaining life of these school bonds; for FY 2011, this State guaranty applies to local school district debt service payments of \$336.4 million, which is equivalent to approximately 5.2% of total General Fund revenues for the fiscal year.

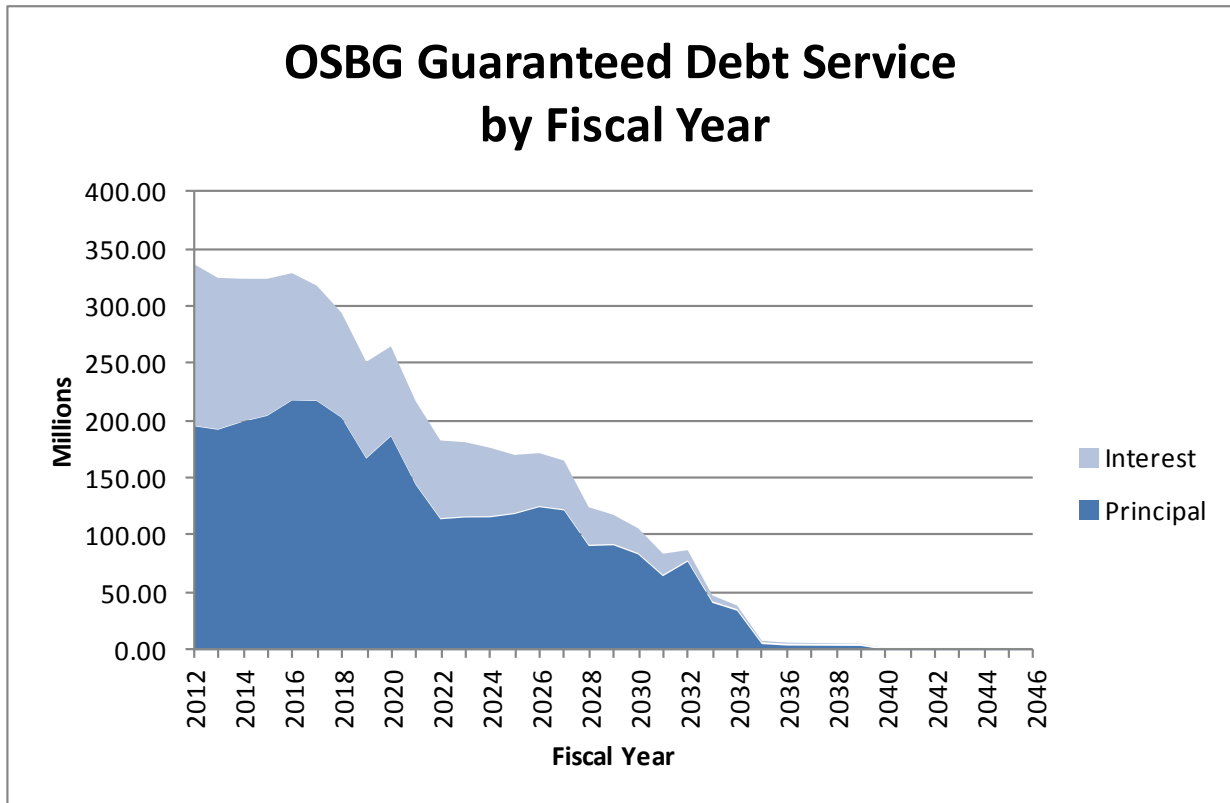
While it is impossible to know precisely how much the State guaranty has saved Oregon taxpayers in interest costs on school bonds, a conservative estimate of an average reduction of

.25% (25 basis points) in borrowing costs suggests debt service savings of roughly \$5.3 million per year, or \$106 million over a twenty year period.

*Exhibit VI.1*



**Exhibit VI.2**



***Policy Considerations***

To date, no participating Oregon school district or college has requested that the State of Oregon make a debt service payment on its behalf. While OSBG guaranties are a contingent liability of the State, this long track record of positive district financial management has meant that to date the rating agencies do not consider this debt as part of the State’s overall General Fund or net tax-supported debt.

While the OSBG program has been successful in terms of lowering the borrowing costs of participating jurisdictions throughout the State, a number of factors now exist which suggest that the scope and emphasis of the OSBG program needs to be rethought going forward. In May 2010, Oregon voters approved the passage of a new Constitutional amendment authorizing the State to sell General Obligation bonds to fund projects in those K-12 school districts who provide a cash match (XI-P bonds), similar to the type of bond programs already in place for Oregon’s higher education institutions and community colleges (XI-G bonds). Similar to the existing XI-G bond programs, it is anticipated that these new XI-P bonds will be repaid from General Fund resources. Given the huge unmet capital needs of Oregon’s school districts, it seems likely that this new bonding program will grow substantially in the years to come.

Given the significant contingent liability represented by the current OSBG program with its annual debt service guaranty at 5.2% of General Fund revenues, the Commission recommends that the Governor and Legislature re-examine the use of both the OSBG program and other State Aid intercepts going forward, in order to ensure that the overall exposure of the State’s General Fund to local school bond debt service remains within financially prudent limits.

Table VI.3

**Debt Issuance Considerations for Non Tax-Supported Programs**

NON TAX-SUPPORTED DEBT PROGRAM	BASED ON:
<p><b>Veterans' Welfare Bonds</b> <i>Article XI-A</i></p>	<ul style="list-style-type: none"> <li>● Demand for loan program services;</li> <li>● Annual cash flow projections;</li> <li>● Legal limitations (8% of State Real Market Value) (RMV);</li> <li>● Governor's budgetary review;</li> <li>● Biennial Legislative Authorization; and</li> <li>● Central debt management review.</li> </ul>
<p><b>Higher Education Building Project Bonds</b> <i>Article XI-F(1)</i></p>	<ul style="list-style-type: none"> <li>● Need for capital building projects;</li> <li>● Revenue producing capacity of desired projects;</li> <li>● Projects self-supporting and self-liquidating;</li> <li>● Legal limitations (.75% of State RMV);</li> <li>● Governor's budgetary review;</li> <li>● Biennial Legislative Authorization; and</li> <li>● Central debt management review.</li> </ul>
<p><b>Alternate Energy Project Bonds</b> <i>Article XI-J</i></p>	<ul style="list-style-type: none"> <li>● Local community/region energy needs;</li> <li>● Applicant screening;</li> <li>● Thorough technical review;</li> <li>● Legal limitations (.5% of State RMV);</li> <li>● Governor's budgetary review;</li> <li>● Biennial Legislative Authorization; and</li> <li>● Central debt management review.</li> </ul>
<p><b>Oregon School Bond Guaranty Program</b> <i>Article XI-K</i></p>	<ul style="list-style-type: none"> <li>● Maybe triggered if state has to pay district debt service;</li> <li>● State-Aid maybe intercepted for debt service payments;</li> <li>● May levy a statewide property tax or district property tax</li> <li>● States full faith in credit; and</li> <li>● Legal Limitation (.50% of State RMV).</li> </ul>
<p><b>Business Development Bond Bank Program Bonds</b> <i>ORS Chapter 285B</i></p>	<ul style="list-style-type: none"> <li>● Municipality Water System needs;</li> <li>● Municipality infrastructure needs;</li> <li>● Legal limitations (.5% of State RMV);</li> <li>● Governor's budgetary review;</li> <li>● Biennial Legislative Authorization; and</li> <li>● Central debt management review.</li> </ul>

<p style="text-align: center;"><b>Elderly &amp; Disabled Housing Project Bonds</b> <i>Article XI-I(2)</i> and <b>Single-Family &amp; Multi-Family Revenue Bonds</b> <i>ORS 456.661</i></p>	<ul style="list-style-type: none"> <li>● Demand for mortgage program services;</li> <li>● Continued strict applicant screening and eligibility requirements;</li> <li>● Annual cash flow review;</li> <li>● Legal limitations; <ul style="list-style-type: none"> <li>▪ Elderly &amp; Disabled (.5% of State RMV)</li> <li>▪ Single &amp; Multifamily (\$2 billion)</li> </ul> </li> <li>● Governor’s budgetary review;</li> <li>● Biennial Legislative Authorization; and</li> <li>● Central debt management review.</li> </ul>
<p style="text-align: center;"><b>Conduit Programs</b> <i>Oregon Facilities Authority Bonds</i> <i>Industrial Development Revenue Bonds</i> <i>Housing Development Revenue Bonds</i></p>	<ul style="list-style-type: none"> <li>● Conduit borrower’s ability to pay debt service on intended projects;</li> <li>● Evaluation of market impact of conduit issues on other State issues;</li> <li>● Biennial Legislative Authorization; and</li> <li>● Central debt management review.</li> </ul>

# **APPENDIX A**

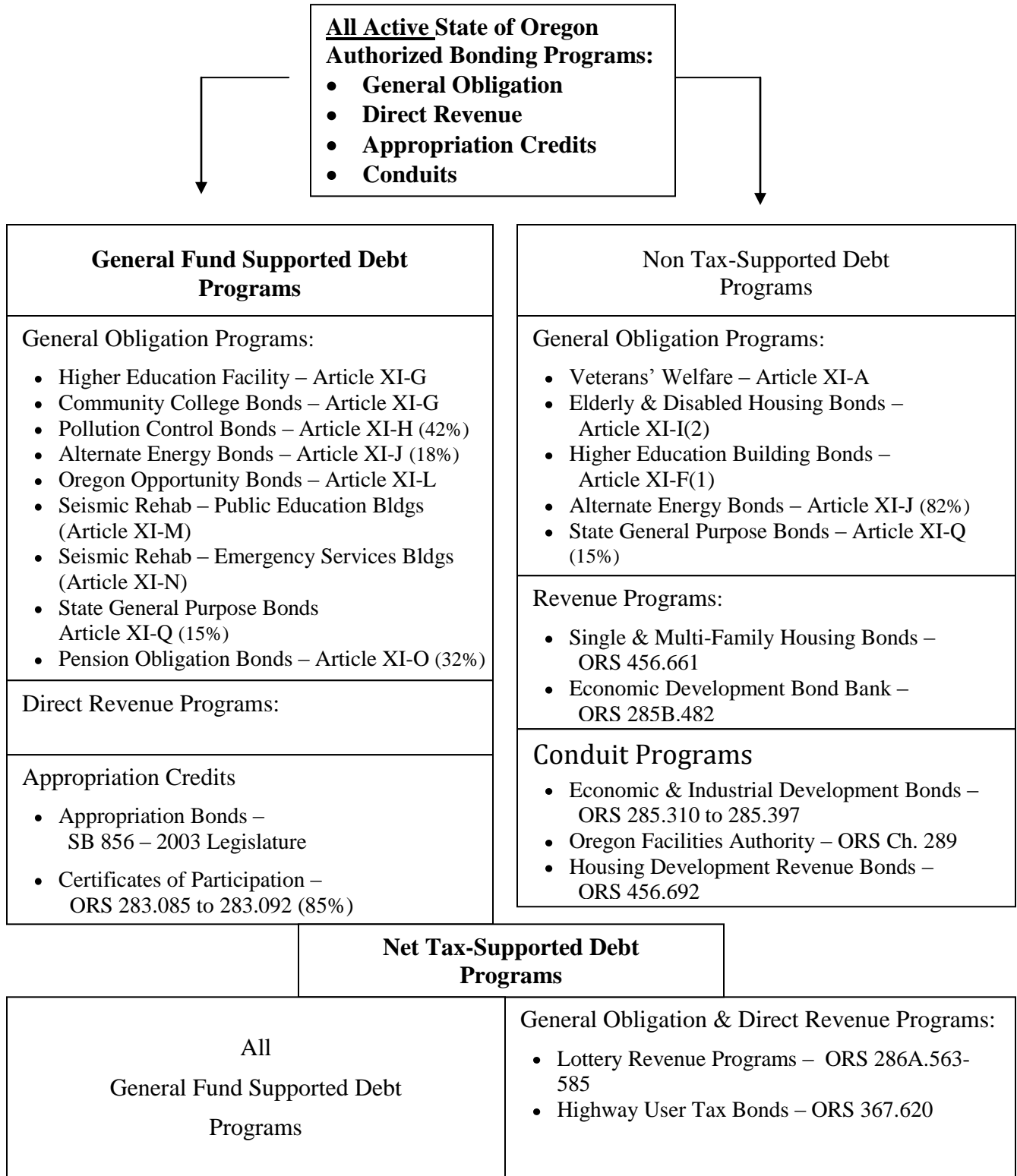
## **Supporting Tables**

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Table A-1

## Oregon Bonding and Appropriation Credit Programs

### Classification of Debt for Capacity and Debt Burden Determinations



**Table A-2****Net Tax-Supported Debt Authorizations for 2011-2013 Biennium<sup>1</sup>**

<b>Net Tax-Supported Debt Programs</b>	<b>2011-2013 Biennium Authorization</b>	<b>FY 2012 “Planned Issuance”</b>	<b>FY 2013 “Planned” Issuance</b>	<b>Remaining Authorization</b>
Community College Bonds Article XI-G	24,500,000	12,250,000	12,250,000	\$0
Pollution Control Bonds Article XI-G	17,608,000	8,804,000	8,804,000	0
Alternate Energy Bonds <sup>2</sup> Article XI-J – 18%	26,585,801	13,292,901	13,292,901	0
Oregon Opportunity Bonds <sup>3</sup> Article XI-L	0	0	0	0
Department of Military Bonds Article XI-M	7,614,000	3,807,000	3,807,000	0
State General Purpose Bonds <sup>4</sup> Article XI-Q – 85%	186,685,000	163,860,000	22,825,000	0
Pension Obligation Bonds <sup>5</sup> Article XI-O	0	0	0	0
Lottery Revenue Bonds ORS 286.563-585	222,705,000	30,305,000	192,400,000	0
Highway User Tax Bonds <sup>6</sup> ORS 376.620	663,000,000	331,500,000	331,500,000	0
Transportation Infrastructure Bonds ORS 367.030	0	0	0	0
Certificate of Participation Bonds ORS 283.025-092	0	0	0	0
State Appropriation Bonds (SB 856 – 2003 Legislature)	0	0	0	0
<b>Total Net Tax-Supported Debt Authorizations</b>	<b>\$1,148,697,801</b>	<b>\$563,818,901</b>	<b>\$584,878,901</b>	<b>\$0</b>

Note: May not foot due to rounding

<sup>1</sup> Amounts as authorized by the 78th Oregon Legislative Assembly – 2011 Legislative Session. Authorization does not guarantee issuance of bonds or appropriation credits in these amounts. For the 2012 Legislative Update, it is assumed that half of the entire authorization will be issued for certain programs in fiscal year 2012.

<sup>2</sup> Alternate Energy Bonds: HB 5005, Legislature approved \$26,585,801 for the 2011-13 biennium and up to six years. The percentage supported by the General Fund will vary from year to year depending on total amount outstanding. Currently, 18% is considered net-tax supported.

<sup>3</sup> Oregon Opportunity bonds are limited by Article XI-L to \$200 million net proceeds. There is no additional authorization.

<sup>4</sup> State General Purpose Bonds: HB5005, Legislature approved \$186,685,000 for the 2011-13 biennium. Currently 85% is considered net-tax supported.

<sup>5</sup> Pension Obligation bonds are constitutionally limited to 1% of RMV or \$4,585,188,675. While there is no Constitutional authorization there is no current intention to issue additional bonds.

<sup>6</sup> User Tax Bonds: HB 5005 Legislature approved \$663,000,000 for the 2011-13 biennium.

**Table A-3**

**General Fund Supported Debt  
Annual Debt Service Requirements<sup>1</sup>**

Fiscal Year (ending June 30th)	State Appropriation Budget Deficit Bonds	Certificates of Participation (GF Supported)	Community College Bonds (XI-G)	Higher Education Facilities Bonds (XI-G)	Oregon Opportunity Bonds (OHSU)	Pension Obligation Bonds (General Fund Supported)	Seismic Rehabilitation of Public Education Bldgs. (XI-M)	Seismic Rehabilitation of Emergency Services Bldgs. (XI-N)	State General Purpose (XI-Q) General Fund Supported	Pollution Control Bonds (General Fund Supported portion)
2012	\$71,602,415	\$144,241,022	\$7,949,588	\$28,632,636	\$15,784,769	\$47,606,106	\$718,083	\$712,415	\$17,233,294	\$2,945,384
2013	73,035,935	142,334,809	7,943,458	30,930,642	15,783,519	49,629,080	719,163	707,863	20,191,708	2,949,196
2014	28,890,905	125,114,439	7,953,608	30,988,672	15,789,469	51,738,233	721,213	710,013	27,528,398	2,959,607
2015	-	118,779,713	7,946,183	30,969,765	15,783,319	53,937,607	721,013	709,913	27,508,083	2,965,035
2016	-	103,134,107	7,941,320	30,988,160	15,785,919	56,230,279	721,813	710,863	26,924,558	2,568,104
2017	-	97,270,240	7,947,595	30,990,936	15,790,869	58,620,352	717,163	706,363	21,188,460	2,349,701
2018	-	91,007,182	7,953,683	30,968,333	15,783,969	61,110,455	719,713	709,063	21,186,165	2,358,115
2019	-	91,013,652	7,938,961	30,140,322	15,788,753	63,707,829	721,713	711,213	14,883,628	1,976,859
2020	-	90,225,121	7,943,359	30,077,551	15,789,181	66,415,515	723,163	707,813	14,893,998	1,977,057
2021	-	80,578,663	7,938,141	29,115,737	15,788,488	69,238,461	719,063	709,013	21,896,993	1,602,319
2022	-	68,608,693	7,946,829	29,102,869	15,788,563	72,181,742	719,563	709,663	19,752,938	1,373,489
2023	-	68,347,992	7,942,911	29,107,281	15,786,325	75,248,863	722,013	712,263	19,754,638	1,380,389
2024	-	64,291,620	7,950,941	29,032,764	8,394,725	78,446,564	721,138	711,544	19,746,563	584,640
2025	-	50,812,871	7,947,639	29,008,571	-	81,781,536	722,025	707,594	19,748,688	586,022
2026	-	50,612,357	7,945,839	28,315,563	-	85,257,296	721,688	712,619	19,754,638	589,062
2027	-	49,775,784	7,946,939	28,288,018	-	88,879,815	720,475	711,594	10,263,750	414,438
2028	-	49,094,321	7,952,654	26,597,689	-	-	718,375	709,688	10,266,300	416,280
2029	-	46,768,312	7,949,435	24,249,703	-	-	722,875	709,388	10,265,450	417,135
2030	-	42,615,340	7,521,947	22,090,796	-	-	721,375	708,288	10,256,313	417,180
2031	-	35,669,703	7,526,700	20,365,376	-	-	723,850	711,175	9,749,713	-
2032	-	30,023,306	7,523,813	19,822,515	-	-	720,075	707,825	9,751,413	-
2033	-	26,314,238	7,510,875	16,479,731	-	-	722,500	710,700	9,743,338	-
2034	-	20,011,062	7,519,391	16,466,726	-	-	721,275	709,925	9,746,313	-
2035	-	17,457,059	4,048,500	13,817,519	-	-	721,500	710,600	9,750,350	-
2036	-	3,191,835	4,043,000	13,814,817	-	-	245,575	235,125	9,741,638	-
2037	-	3,191,283	1,552,000	12,306,188	-	-	-	-	-	-
2038	-	3,192,090	1,558,000	11,462,969	-	-	-	-	-	-
2039	-	3,193,811	-	9,712,000	-	-	-	-	-	-
2040	-	-	-	6,339,625	-	-	-	-	-	-
2041	-	-	-	3,663,500	-	-	-	-	-	-
2042	-	-	-	3,659,250	-	-	-	-	-	-
<b>Program Totals</b>	<b>\$173,529,255</b>	<b>\$1,716,871,124</b>	<b>\$191,843,306</b>	<b>\$697,506,224</b>	<b>\$197,837,866</b>	<b>\$1,060,029,734</b>	<b>\$17,547,115</b>	<b>\$17,272,515</b>	<b>\$411,696,789</b>	<b>\$30,830,010</b>

Note: May not foot due to rounding.

<sup>1</sup> Includes annual fiscal year debt service requirements on all General Fund Supported debt issued through June 30, 2011.

**Table A-3 (Continued)*****General Fund Supported Debt  
Annual Debt Service Requirements<sup>1</sup>***

<b>Fiscal Year (ending June 30th)</b>	<b>Pollution Control Bonds (General Fund Supported)</b>	<b>Energy Bonds (General Fund Supported)</b>	<b>Total General Fund Supported Debt Service</b>
2012	\$2,374,565	\$5,485,522	\$342,341,166
2013	2,530,740	4,571,336	348,376,721
2014	2,069,117	4,312,564	295,816,629
2015	1,943,399	4,631,420	262,930,413
2016	1,935,807	4,496,938	248,869,761
2017	1,678,199	3,998,113	238,908,789
2018	1,651,647	3,521,815	234,612,022
2019	1,445,085	3,453,831	229,804,986
2020	1,311,406	3,793,228	231,880,333
2021	1,240,531	3,632,499	230,828,587
2022	682,520	2,684,695	218,178,072
2023	684,370	2,249,196	220,555,850
2024	623,136	2,037,310	211,956,304
2025	501,440	1,924,731	193,155,094
2026	504,963	1,918,976	195,743,939
2027	505,278	1,732,005	188,823,657
2028	504,641	1,745,398	97,589,065
2029	211,549	1,652,162	92,528,873
2030	211,342	1,230,720	85,357,119
2031	-	945,165	75,691,681
2032	-	490,521	69,039,468
2033	-	-	61,481,382
2034	-	-	55,174,691
2035	-	-	46,505,528
2036	-	-	31,271,989
2037	-	-	17,049,470
2038	-	-	16,213,059
2039	-	-	12,905,811
2040	-	-	6,339,625
2041	-	-	3,663,500
2042	-	-	3,659,250
<b>Program Totals</b>	<b>\$22,610,734</b>	<b>\$60,508,174</b>	<b>\$4,567,252,836</b>

*Note: May not foot due to rounding.*

<sup>1</sup> Includes annual fiscal year debt service requirements on all General Fund Supported debt issued through June 30, 2011.

Table A-4

**General Fund Supported Debt**  
**Total Principal and Interest Debt Service Requirements<sup>1</sup>**

Fiscal Year (ending June 30 <sup>th</sup> )	Principal	Interest	Total
2012	\$198,614,039	\$143,727,127	\$342,341,166
2013	211,314,491	137,062,230	348,376,721
2014	167,074,302	128,742,327	295,815,629
2015	141,187,375	121,743,038	262,930,413
2016	133,399,253	115,470,509	248,869,761
2017	129,414,992	109,493,797	238,908,789
2018	131,594,418	103,017,604	234,612,022
2019	134,379,632	95,425,354	229,804,986
2020	143,012,936	88,867,397	231,880,333
2021	150,014,550	80,814,037	230,828,587
2022	144,313,754	73,864,319	218,178,072
2023	154,398,050	66,157,800	220,555,850
2024	153,576,150	58,380,154	211,956,304
2025	142,445,250	50,709,844	193,155,094
2026	152,657,800	43,086,139	195,743,939
2027	154,011,850	34,811,807	188,823,657
2028	71,187,000	26,402,065	97,589,065
2029	69,637,350	22,891,523	92,528,873
2030	65,882,500	19,474,619	85,357,119
2031	59,494,100	16,197,581	75,691,681
2032	55,717,800	13,321,668	69,039,468
2033	50,900,500	10,580,882	61,481,382
2034	47,102,000	8,072,691	55,174,691
2035	40,476,500	5,759,028	46,505,528
2036	27,568,750	3,703,239	31,271,989
2037	14,642,000	2,407,470	17,049,470
2038	14,531,000	1,681,559	16,213,059
2039	11,884,500	1,021,311	12,905,811
2040	5,845,000	494,625	6,339,625
2041	3,400,000	263,500	3,663,500
2042	3,570,000	89,250	3,659,250
<b>Totals</b>	<b>\$2,983,518,340</b>	<b>\$1,583,734,496</b>	<b>\$4,567,252,836</b>

Note: May not foot due to rounding.

<sup>1</sup> Includes annual fiscal year debt service requirements on all General Fund Supported debt issued through June 30, 2011.

**Table A-5**

**Net Tax-Supported Debt  
Annual Debt Service Requirements<sup>1</sup>**

Fiscal Year (ending June 30th)	State Appropriation Budget Deficit Bonds	Certificates of Participation	Community College Bonds (XI-G)	Higher Education Facilities Bonds (XI-G)	Oregon Opportunity Bonds (OHSU)	Pension Obligation Bonds (XI-O)	Pollution Control Bonds (Gen Fund Supported portion)	Highway User Tax Revenue Bonds	Lottery Revenue Bonds	Energy Bonds (GF Supported portion)
2012	\$71,602,415	\$169,695,320	\$7,949,588	\$28,632,636	\$15,784,769	\$148,769,082	\$5,653,725	\$154,260,059	\$134,784,798	\$5,485,552
2013	73,035,935	167,452,716	7,943,458	30,930,642	15,783,519	155,090,876	6,025,572	154,297,510	127,377,130	4,571,336
2014	28,890,905	147,193,457	7,953,608	30,988,672	15,789,469	161,681,978	4,926,470	154,281,735	120,959,289	4,312,564
2015	-	139,740,839	7,946,183	30,988,672	15,783,319	168,555,022	4,627,141	154,277,655	120,574,511	4,631,420
2016	-	121,334,243	7,941,320	30,969,765	15,785,919	175,719,621	4,609,064	154,260,264	102,112,705	4,496,938
2017	-	114,436,165	7,947,595	30,988,160	15,790,869	183,188,600	3,995,713	154,299,505	98,413,402	3,998,113
2018	-	107,067,273	7,953,683	30,990,936	15,783,969	190,970,172	3,932,493	154,394,345	98,409,741	3,521,815
2019	-	107,074,885	7,938,961	30,968,333	15,788,753	199,086,967	3,440,679	154,532,204	91,748,850	3,453,831
2020	-	106,147,201	7,943,359	30,140,322	15,789,181	207,548,485	3,122,395	154,671,801	89,240,519	3,793,228
2021	-	94,798,428	7,938,141	30,077,551	15,788,488	216,370,191	2,953,645	154,944,411	89,240,759	3,632,499
2022	-	80,716,109	7,946,829	29,115,737	15,788,563	225,567,942	1,625,048	155,172,127	89,246,418	2,684,695
2023	-	80,409,403	7,942,911	29,102,869	15,786,325	235,152,696	1,629,451	155,382,544	89,243,629	2,249,196
2024	-	75,637,200	7,950,941	29,107,281	8,394,725	245,145,513	1,483,657	155,587,786	89,239,005	2,037,310
2025	-	59,779,848	7,947,639	29,032,764	-	255,567,300	1,193,905	155,825,698	89,240,723	1,924,731
2026	-	59,543,950	7,945,839	29,008,571	-	266,429,051	1,202,294	156,043,370	89,241,055	1,918,976
2027	-	58,559,746	7,946,939	28,315,563	-	277,749,421	1,203,044	156,362,908	79,325,543	1,732,005
2028	-	57,758,025	7,952,654	28,288,018	-	-	1,201,525	156,203,218	59,493,950	1,745,398
2029	-	55,021,544	7,949,435	26,597,689	-	-	503,688	155,715,549	45,828,650	1,652,162
2030	-	50,135,695	7,521,947	24,249,703	-	-	505,575	154,988,191	29,745,650	1,230,720
2031	-	41,964,356	7,526,700	22,090,796	-	-	-	154,231,415	19,829,525	945,165
2032	-	35,321,537	7,523,813	20,365,376	-	-	-	153,240,579	-	490,521
2033	-	30,957,927	7,510,875	19,822,515	-	-	-	151,453,891	-	-
2034	-	23,542,426	7,519,391	16,479,731	-	-	-	148,797,399	-	-
2035	-	20,537,717	4,048,500	16,466,726	-	-	-	-	-	-
2036	-	3,755,100	4,043,000	13,817,519	-	-	-	-	-	-
2037	-	3,754,450	1,552,000	13,814,817	-	-	-	-	-	-
2038	-	3,755,400	1,558,000	12,306,188	-	-	-	-	-	-
2039	-	3,757,425	-	11,462,969	-	-	-	-	-	-
2040	-	-	-	9,712,000	-	-	-	-	-	-
2041	-	-	-	3,663,500	-	-	-	-	-	-
2042	-	-	-	3,659,250	-	-	-	-	-	-
<b>Program Totals</b>	<b>\$173,529,255</b>	<b>\$2,019,848,381</b>	<b>\$191,843,306</b>	<b>\$697,506,224</b>	<b>\$197,837,866</b>	<b>\$3,312,592,917</b>	<b>\$53,835,082</b>	<b>\$3,709,491,580</b>	<b>\$1,753,295,848</b>	<b>\$60,508,174</b>

Note: May not foot due to rounding.

<sup>1</sup> Includes annual fiscal year debt service requirements on all Net Tax-Supported debt issued through June 30, 2011.

**Table A-5 (Continued)**

**Net Tax-Supported Debt  
Annual Debt Service Requirements<sup>1</sup>**

<b>Fiscal Year (ending June 30th)</b>	<b>State General Purpose Bonds (Article XI-Q) (GF Supported Portion)</b>	<b>Seismic Rehab Public Ed Bldgs. (XI-M)</b>	<b>Seismic Rehab Emergency Services Bldgs. (XI-N)</b>	<b>Total Net Tax-Supported Debt</b>
2012	\$20,274,463	\$718,803	\$712,415	<b>\$764,323,626</b>
2013	23,753,150	719,163	707,863	<b>767,688,868</b>
2014	32,386,350	721,213	710,013	<b>710,795,722</b>
2015	32,362,450	721,013	709,913	<b>680,899,229</b>
2016	31,675,950	721,813	710,863	<b>650,356,858</b>
2017	24,927,600	717,163	706,363	<b>639,412,022</b>
2018	24,924,900	719,713	709,063	<b>639,355,497</b>
2019	17,510,150	721,713	711,213	<b>632,148,526</b>
2020	17,522,350	723,163	707,813	<b>637,287,044</b>
2021	25,727,050	719,063	709,013	<b>641,937,422</b>
2022	23,238,750	719,563	709,663	<b>632,518,575</b>
2023	23,240,750	722,013	712,263	<b>641,578,460</b>
2024	23,231,250	721,138	711,544	<b>639,172,833</b>
2025	23,233,750	722,025	707,594	<b>625,151,783</b>
2026	23,240,750	721,688	712,619	<b>635,315,153</b>
2027	12,075,000	720,475	711,594	<b>624,579,201</b>
2028	12,078,000	718,375	709,688	<b>324,618,212</b>
2029	12,077,000	722,875	709,388	<b>304,917,662</b>
2030	12,066,250	721,375	708,288	<b>280,441,843</b>
2031	11,470,250	723,850	711,175	<b>258,524,588</b>
2032	11,472,250	720,075	707,825	<b>230,289,950</b>
2033	11,462,750	722,500	710,700	<b>221,085,062</b>
2034	11,466,250	721,275	709,925	<b>211,879,883</b>
2035	11,471,000	721,500	710,600	<b>200,104,234</b>
2036	11,460,750	245,575	235,125	<b>33,554,367</b>
2037	-	-	-	<b>17,612,638</b>
2038	-	-	-	<b>16,776,369</b>
2039	-	-	-	<b>13,469,425</b>
2040	-	-	-	<b>6,339,625</b>
2041	-	-	-	<b>3,663,500</b>
2042	-	-	-	<b>3,659,250</b>
<b>Program Totals</b>	<b>\$484,349,163</b>	<b>\$71,547,115</b>	<b>\$17,272,515</b>	<b>\$12,689,457,427</b>

Note: May not foot due to rounding.

<sup>1</sup> Includes annual fiscal year debt service requirements on all Net Tax-Supported debt issued through June 30, 2011.

Table A-6

**Net Tax-Supported Debt  
Total Principal and Interest Debt Service  
Requirements<sup>1</sup>**

<b>Fiscal Year (ending June 30<sup>th</sup>)</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$369,720,739	\$394,602,888	\$764,323,626
2013	387,269,991	380,418,877	767,688,868
2014	346,713,502	364,082,220	710,795,722
2015	332,520,925	348,378,304	680,899,229
2016	317,348,603	333,008,256	650,356,858
2017	321,441,892	317,970,130	639,412,022
2018	337,447,818	301,907,679	639,355,497
2019	348,069,982	284,078,544	632,148,526
2020	370,269,886	267,017,159	637,287,044
2021	394,112,700	247,824,722	641,937,422
2022	403,548,454	228,970,121	632,518,575
2023	433,192,800	208,385,660	641,578,460
2024	452,608,300	186,564,533	639,172,833
2025	461,638,300	163,513,483	625,151,783
2026	495,937,200	139,377,953	635,315,153
2027	511,382,900	113,196,301	624,579,201
2028	238,669,800	85,948,412	324,618,212
2029	230,618,200	74,299,462	304,917,662
2030	217,728,200	62,713,643	280,441,843
2031	206,955,600	51,568,988	258,524,588
2032	189,234,800	41,055,150	230,289,950
2033	189,770,000	31,315,062	221,085,062
2034	190,755,000	21,124,883	211,879,883
2035	189,720,000	10,384,234	200,104,234
2036	29,665,000	3,889,367	33,554,367
2037	15,125,000	2,487,638	17,612,638
2038	15,040,000	1,736,369	16,776,369
2039	12,420,000	1,049,425	13,469,425
2040	5,845,000	494,625	6,339,625
2041	3,400,000	263,500	3,663,500
2042	3,570,000	89,250	3,659,250
<b>Totals</b>	<b>\$8,021,740,590</b>	<b>\$4,667,716,837</b>	<b>\$12,689,457,427</b>

Note: May not foot due to rounding

<sup>1</sup> Includes annual fiscal year debt service requirements on all Net Tax-Supported debt issued through June 30, 2011.

Table A-7<sup>1</sup>

Annual Debt Service Requirements for Lottery Bonds Outstanding																
Fiscal Year (ending June 30th)	\$6,545,000 1998 Series B State Drinking Water Projects	\$155,410,000 1999 Series B Local Infrastructure Facilities, Schools, Oregon Garden and State Fair Projects	\$33,875,000 2000 Series A Local Infrastructure Facilities and State Fair Projects	\$33,275,000 2001 Series A Local Infrastructure & Economic Development, Education and Natural Gas Pipeline	\$5,560,000 2001 Series B Local Government and Community Loans & Grants	\$48,635,000 2002 Series A Local Infrastructure & Economic Development and Other Combined Programs	\$11,070,000 2002 Series B Local Infrastructure & Economic Development and Other Combined Programs	\$45,140,000 2002 Series C Local Infrastructure & Economic Development, Public Broadcasting & Joseph Branch Railway	\$38,765,000 2003 Series A Local Infrastructure & Economic Development, Southern Oregon University & State Fair	\$44,570,000 2003 Series B Local Infrastructure & Economic Development, Southern Oregon University & State Fair	\$128,800,000 2004 Series A Refunding Bonds	\$39,925,000 2004 Series B Columbia River Channel & Rail Projects	\$25,920,000 2005 Series A Local Infrastructure Facilities	\$11,095,000 2005 Series B Local Infrastructure Facilities	\$14,615,000 2005 Series C Industrial Development Sites	\$33,920,000 2006 Series A Connect Oregon, North Bend Airport
2012	-	-	2,220,750	2,575,925	577,075	3,442,475	1,173,683	3,839,355	3,687,018	4,258,705	31,247,698	3,717,438	1,851,120	891,861	1,237,588	2,526,511
2013	-	-	-	-	576,150	158,963	1,176,058	3,837,605	3,684,468	4,256,535	34,908,298	3,715,000	1,851,276	891,656	1,237,338	2,523,480
2014	-	-	-	-	578,250	15,713	1,172,858	572,180	1,325,593	4,257,670	38,283,578	3,718,000	663,901	894,895	1,235,588	2,522,790
2015	-	-	-	-	578,250	-	1,171,333	3,957,180	3,799,938	4,261,270	10,833,815	3,714,250	1,893,901	891,481	1,236,506	2,528,890
2016	-	-	-	-	575,100	-	1,176,150	3,958,550	3,798,438	4,257,510	7,290,490	3,713,750	1,890,851	891,813	1,235,631	2,526,840
2017	-	-	-	-	-	-	1,171,645	3,957,950	3,799,188	4,261,390	4,165,090	3,716,000	1,890,131	895,488	1,232,963	2,526,865
2018	-	-	-	-	-	-	1,173,150	3,956,750	3,801,688	4,257,220	4,163,250	3,715,500	1,890,819	892,700	1,232,538	2,524,815
2019	-	-	-	-	-	-	-	-	-	-	-	3,717,000	1,892,925	891,760	1,235,013	2,527,415
2020	-	-	-	-	-	-	-	-	-	-	-	-	1,891,125	894,260	1,239,056	2,527,215
2021	-	-	-	-	-	-	-	-	-	-	-	-	1,890,650	894,940	1,240,413	2,523,675
2022	-	-	-	-	-	-	-	-	-	-	-	-	1,892,331	893,800	1,239,081	2,520,506
2023	-	-	-	-	-	-	-	-	-	-	-	-	1,894,331	890,840	1,240,063	2,524,736
2024	-	-	-	-	-	-	-	-	-	-	-	-	1,893,356	891,060	1,238,088	2,525,236
2025	-	-	-	-	-	-	-	-	-	-	-	-	1,894,406	894,200	1,238,156	2,521,743
2026	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,527,180
2027	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,528,218
2028	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2029	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2030	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2031	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2032	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2033	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2034	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2035	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2036	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2037	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Totals	\$ -	\$ -	\$ 2,220,750	\$ 2,575,925	\$ 2,884,825	\$ 3,617,150	\$ 8,214,875	24,079,570	23,896,328	29,810,300	130,892,218	29,726,938	25,181,125	12,500,752	17,318,019	40,406,115

Note: May not foot due to rounding.

<sup>1</sup> Includes annual fiscal year debt service requirements on all Lottery debt issued through June 30, 2011.

**Table A-7<sup>1</sup> (Continued)**

<i>Annual Debt Service Requirements for Lottery Bonds Outstanding</i>															
Fiscal Year (ending June 30th)	\$120,505,000 2007 Series A ODOT Multi- Modal, South Metro, OUS Def. Maint.	\$33,050,000 2007 Series B ODOT Multi- Modal & Shovel Ready Sites	\$23,940,000 2007 Series C SW Oregon Region AP & OUS Deferred Maintenance	\$55,850,000 2008 Series A OPB, Housing Plus, OUS Deferred Maintenance, Transportation, Economic Development	\$14,005,000 2008 Series B OUS Deferred Maintenance & Intermodal Transportation	\$440,345,000 2009 Series A Portland Light Rail Project, Connect Oregon II, Oregon Street Car Project, Hillsboro Parking Project, OUS Deferred Maintenance	\$23,095,000 2009 Series B Grants & Loans for Infrastructure Projects	\$27,125,000 2009 Series C Refunding Bonds (Refunds Series 1999 A)	\$40,825,000 2009 Series D Port of Newport - NOAA Fleet, Gilchrist Forest, Low- Income Housing, Umatilla Aquafier	\$34,195,000 2010 Series A Port of Morrow, Port of Tillamook, Port of Coos Bay, Pendleton Round-Up, Construction & Maintain Court Facilities, Blue Mountain	\$9,245,000 2010 Series B Manufactured Home Dwelling Park, Low- Income Housing, Energy Efficiency & Sustainable Technology Loan Program	\$129,250,000 2011 Series A DAS - Port of Tillamook, DAS - Lane Transit District, Community Colleges & Workforce Development Dept., Connect Oregon III,	\$23,795,000 2011 Series B Advance Refunding - Refunding Various Series (1998 - 2009)	\$25,830,000 2011 Series C Oregon Business Development Dept. and Oregon Housing & Community Services Dept.	Total Outstanding Debt Service Requirements
2012	5,727,788	6,627,201	1,894,095	2,429,199	2,112,123	19,789,726	16,783,474	449,850	3,364,650	1,471,350	1,827,178	6,790,473	1,124,665	1,145,828	\$ 134,784,798
2013	5,727,788	6,625,152	1,896,939	2,429,199	2,113,903	30,649,726	3,290,928	120,250	3,370,050	1,471,350	1,829,156	6,771,663	1,121,550	1,142,654	\$ 127,377,130
2014	7,027,788	5,324,922	1,893,333	3,689,199	853,387	28,695,976	-	2,525,250	3,369,750	1,471,350	1,831,456	6,771,663	1,121,550	1,142,654	\$ 120,959,289
2015	12,353,388	-	1,892,633	18,853,799	-	36,910,126	-	-	3,362,500	1,471,350	1,828,036	6,771,663	1,121,550	1,142,654	\$ 120,574,511
2016	12,351,388	-	1,895,453	3,938,149	-	36,910,181	-	-	3,366,750	1,471,350	1,828,446	6,771,663	1,121,550	1,142,654	\$ 102,112,705
2017	12,350,638	-	1,896,608	3,938,524	-	36,910,113	-	-	3,366,750	3,106,350	191,846	6,771,663	1,121,550	1,142,654	\$ 98,413,402
2018	12,354,438	-	1,896,098	3,939,324	-	36,905,788	-	-	3,367,500	3,302,300	-	6,771,663	1,121,550	1,142,654	\$ 98,409,741
2019	12,354,438	-	1,893,923	3,936,324	-	36,909,538	-	-	3,368,750	3,300,900	-	6,771,663	11,806,550	1,142,654	\$ 91,748,850
2020	12,352,813	-	1,894,423	3,939,524	-	36,907,988	-	-	3,370,250	3,300,050	-	6,771,663	13,009,500	1,142,654	\$ 89,240,519
2021	12,354,563	-	1,894,623	3,938,524	-	36,906,906	-	-	3,366,750	3,299,900	-	6,771,663	745,500	13,412,654	\$ 89,240,759
2022	12,355,313	-	1,892,623	3,938,324	-	36,906,606	-	-	3,368,250	3,298,400	-	6,771,663	-	14,169,522	\$ 89,246,418
2023	12,354,063	-	1,893,423	3,935,074	-	36,906,638	-	-	3,369,250	3,298,550	-	20,936,663	-	-	\$ 89,243,629
2024	12,354,813	-	1,894,898	3,936,118	-	36,906,288	-	-	3,364,500	3,301,650	-	20,933,000	-	-	\$ 89,239,005
2025	12,351,313	-	1,892,488	3,939,618	-	36,910,413	-	-	3,369,000	3,298,900	-	20,930,488	-	-	\$ 89,240,723
2026	12,352,563	-	1,896,513	3,936,438	-	36,908,938	-	-	3,367,000	3,300,400	-	24,952,025	-	-	\$ 89,241,055
2027	12,352,063	-	1,897,350	3,935,188	-	36,905,250	-	-	3,368,500	3,300,650	-	15,038,325	-	-	\$ 79,325,543
2028	-	-	-	3,935,438	-	36,906,250	-	-	3,368,000	3,299,400	-	11,984,863	-	-	\$ 59,493,950
2029	-	-	-	-	-	36,907,500	-	-	3,365,250	3,301,400	-	2,254,500	-	-	\$ 45,828,650
2030	-	-	-	-	-	-	-	-	-	3,301,150	-	26,444,500	-	-	\$ 29,745,650
2031	-	-	-	-	-	-	-	-	-	-	-	19,829,525	-	-	\$ 19,829,525
2032	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ -
2033	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ -
2034	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ -
2035	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ -
2036	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ -
2037	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ -
Totals	179,075,150	18,577,275	30,315,416	78,587,958	5,079,412	632,753,949	20,074,402	3,095,350	60,613,450	53,366,750	9,336,118	237,810,985	33,415,515	37,869,231	\$ 1,753,295,848

Note: May not foot due to rounding

<sup>1</sup> Includes annual fiscal year debt service requirements on all Lottery debt issued through June 30, 2011.

Table A-8

**Lottery Revenue Debt**  
**Total Principal and Interest Debt Service Requirements<sup>1</sup>**

<b>Fiscal Year (ending June 30<sup>th</sup>)</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$77,635,000	\$57,149,798	\$134,784,798
2013	73,655,000	53,722,130	127,377,130
2014	70,555,000	50,404,289	120,959,289
2015	73,585,000	46,989,511	120,574,511
2016	58,410,000	43,702,705	102,112,705
2017	57,445,000	40,968,402	98,413,402
2018	60,100,000	38,309,741	98,409,741
2019	56,250,000	35,498,850	91,748,850
2020	56,315,000	32,925,519	89,240,519
2021	58,960,000	30,280,759	89,240,759
2022	61,725,000	27,521,418	89,246,418
2023	64,665,000	24,578,629	89,243,629
2024	67,825,000	21,414,005	89,239,005
2025	71,285,000	17,955,723	89,240,723
2026	74,900,000	14,341,055	89,241,055
2027	68,810,000	10,515,543	79,325,543
2028	52,410,000	7,083,950	59,493,950
2029	41,360,000	4,468,650	45,828,650
2030	27,345,000	2,400,650	29,745,650
2031	18,845,000	984,525	19,829,525
<b>Total</b>	<b>\$1,192,080,000</b>	<b>\$561,215,848</b>	<b>\$1,753,295,848</b>

*Note: May not foot due to rounding.*

<sup>1</sup> Includes annual fiscal year debt service requirements on all Lottery revenue debt issued through June 30, 2011.

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