REPORT

OF THE

STATE DEBT POLICY ADVISORY COMMISSION

2013 Commission Report

January 22, 2013

STAFF
Debt Management Division
Office of the State Treasurer
350 Winter Street NE, Suite 100
Salem, Oregon 97301-3896
Phone: (503) 378-4930
Facsimile: (503) 378-2870
Email: dmd@ost.state.or.us

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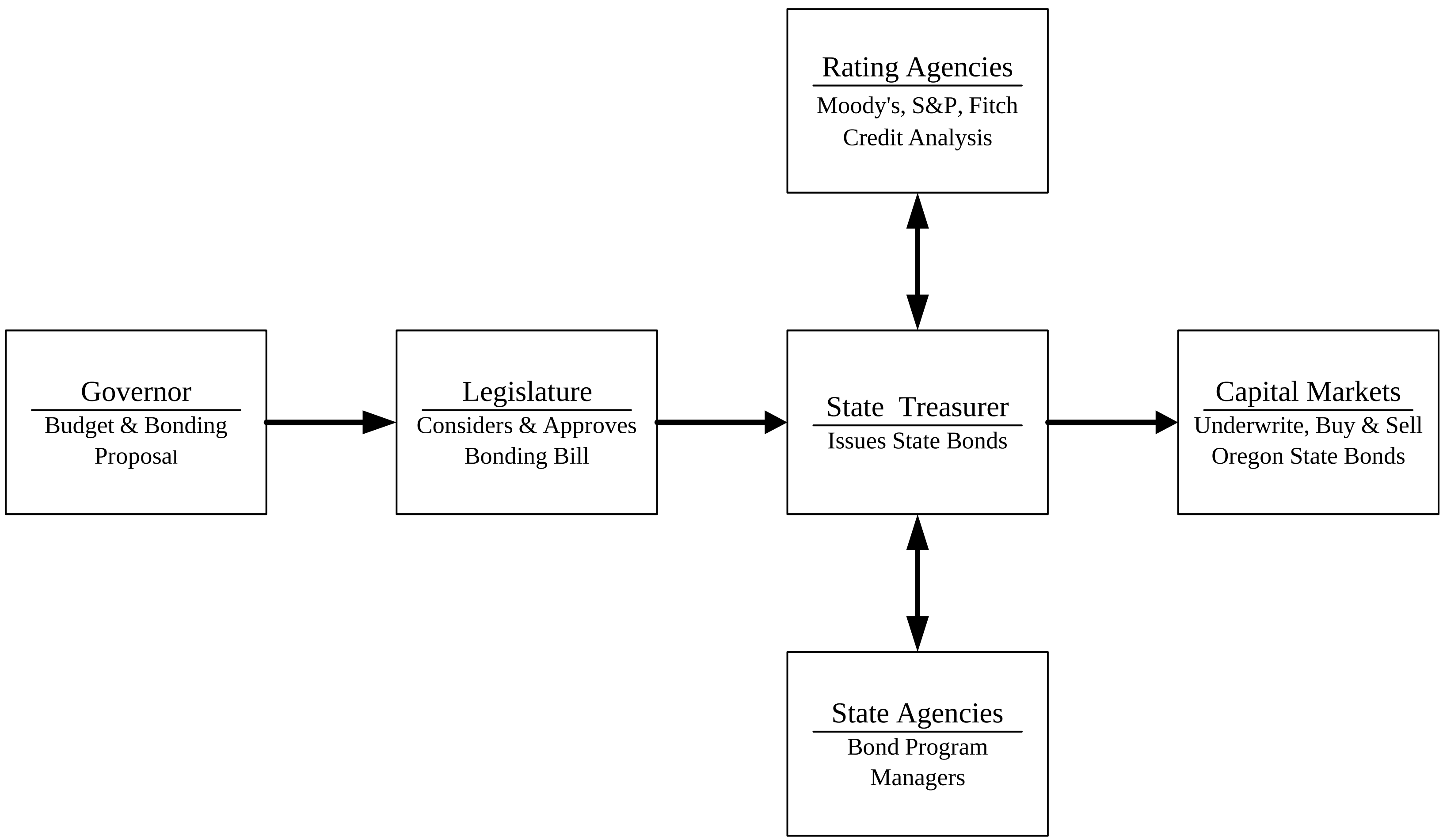
Oregon Bonding Process



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COMMISSIONER TED WHEELER, CHAIR
Oregon State Treasurer

COMMISSIONER TIMOTHY A DUY
Public Member

Phil Barnhart
Representative, Oregon House of Representatives

COMMISSIONER RICHARD DEVLIN
Senator, Oregon Senate

COMMISSIONER MICHAEL JORDAN
Director, Department of Administrative Services

STATE DEBT POLICY
ADVISORY COMMISSION
350 WINTER STREET NE, SUITE 100
SALEM, OREGON 97301-3896
(503) 378-4930
FAX (503) 378-2870

STATE DEBT POLICY
ADVISORY COMMISSION

January 22, 2013

Governor Kitzhaber and Members of the 2013 Oregon Legislature:

We are living in times of economic uncertainty, and Oregon's commitment to prudent management of debt has helped us to better weather these storms. Given the worldwide financial turmoil in recent years, our current strong credit ratings have proven increasingly important as we refinance outstanding debt at record low interest rates and sell new bonds to fund high priority public works projects around the state.

As we look forward, Oregon will continue to be well served by maintaining our fiscal priorities. Debt is a powerful tool that can enhance short-term economic development, help improve our public institutions, an also build the capacity of future generations to compete and thrive. At the same time, it is a tool that has been – and should continue to be – utilized wisely. That means, being judicious with borrowing today to remain within our prudent limits, while also having a deliberate plan for the future.

I am pleased to present you with the new report from the State Debt Policy Advisory Commission (Commission), which provides the latest projections for availability of debt and also outlines the success of the State in saving millions for taxpayers through the refinancing of existing bonds.

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 an overview of the State's long-term bonding capacity and to highlight emerging policy issues of concern in the debt arena. 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.

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 General Fund-supported debt capacity to meet Oregon's long-term capital needs over the eight year forecast period, continued declines in forecasts of net Lottery revenues means that it has become a scarcer resource, requiring careful consideration for its effective allocation.

According to our forecasts, after taking into account the December 2012 revenue forecast and the issuance of bonds authorized by the Legislature in 2011 and 2012, the State will have a maximum of **$902 million in General Fund-supported debt** capacity available in the upcoming biennium, while staying below the 5% capacity threshold recommended by the Commission for this type of debt. Given the continued uncertainty regarding Federal budget negotiations and the fragility of the economic recovery in Oregon and nationally, the Commission urges that the Legislature and Governor exercise great caution in the allocation of new General Fund-supported debt capacity, as proposed changes in the Federal tax code regarding the treatment of tax-exempt interest and/or a stalled economic recovery could substantially reduce the State's long-term debt capacity.

With the successful restructuring of a modest portion of our existing Lottery debt in March 2011, the State has capacity to issue the balance of $208 million par value in new Lottery Revenue Bond Program obligations authorized during the 2012 Legislative session. Given the steep drop in projected long-term net Lottery revenue since last year's report, the Commission estimates the State will have limited Lottery bond capacity in the coming biennium, with a projected maximum of **$151 million in Lottery revenue bond capacity** which will become available in FY 2015. As is the case with General Fund-supported debt capacity, proposed changes in the Federal tax code and/or a stalled economic recovery could further reduce Lottery revenue bond capacity in the coming biennium.

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,

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 capacity, and public buildings that impact the state's economy and the quality of life of Oregonians for generations to come. However, 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 Revised Statutes 286A.250 to 286A.255 establishes the State Debt Policy Advisory Commission. 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 *2012 Legislative Update* was published January 10, 2012.

This *2013 Commission Report* 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 and 2012. 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, and to flag emerging policy issues of concern related to the various debt programs of state agencies.

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 $10.9 billion as of June 30, 2012.[1] This is a decrease of about $398.6 million compared to the end of the 2011 fiscal year.

- For **General Fund supported debt programs**, the total debt outstanding as of June 30, 2012 was $2.90 billion. This amount is expected to increase to approximately $3.09 billion by the end of the 2011-2013 biennium based on the issuance of approximately $191.8 million in new General Fund debt authorized by the 2011 and 2012 Legislatures. Based on the December 2012 revenue forecast, debt service as a percentage of General Fund revenues is expected to be 5.14% at the end of the current fiscal year, which is slightly over the Commission's General Fund supported debt capacity target of 5%.

  Using this maximum target debt ratio of 5% going forward, the Commission estimates the State will have about $3.61 billion in General Fund supported debt capacity from FY 2014 through FY 2021, or a maximum of $902 million per biennium. This projection assumes that $191.8 million of General Fund supported bonds authorized by the 2011 and 2012

[1] Excludes conduit or "pass through" revenue bonds.

Legislatures are issued by the end of FY 2013. Given the continued uncertainty regarding Federal budget negotiations and the fragility of the economic recovery in Oregon and nationally, the Commission urges that the Legislature and Governor exercise great caution in the allocation of new General Fund-supported debt capacity; as proposed changes in the Federal tax code regarding the treatment of tax-exempt interest and/or a stalled economic recovery could substantially reduce the State's long-term debt capacity.

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

Fiscal Year Ending June 30th	Annual Amount of Debt That May be Issued within Target Capacity	Total Debt Service as a % of General Fund Revenues
2013	**- ***	5.14%
2014	$585	5.00%
2015	786	5.00%
2016	463	5.00%
2017	335	5.00%
2018	359	5.00%
2019	432	5.00%
2020	266	5.00%
2021	381	5.00%
Total FY 2014-2021 General Fund Debt Capacity	**$3,607**	

* Assumes issuance of $191.8 million in General Fund supported bonds authorized by 2011 and 2012 Legislatures.

- For the **Lottery Bond Program**, the total debt outstanding was $1.1 billion as of June 30, 2012. Since the publication of the *2012 SDPAC* report, the eight year forecast for Lottery revenues has dropped by over 8%, with an even deeper decline of nearly 12% over the next two biennia due to the planned replacement of the Oregon Lottery's video terminals statewide. This sharp reduction in projected revenue has in turn significantly reduced the State's near term Lottery revenue bond debt service coverage levels and projected Lottery debt capacity.

Lottery revenue bond covenants require a minimum debt service coverage ratio of four times unobligated net Lottery proceeds or revenues. Issuing $207.5 million of Lottery bonds during the spring of 2013, as authorized by the 2011 and 2012 Legislatures, will require the deferral of principal on these bonds for a minimum of two years and will bring the Lottery debt service coverage ratio very close to this 4.0 minimum coverage level. In addition, given the projected drop in Lottery revenues next biennium, Lottery debt capacity is projected at only $151 million next biennium, with no debt capacity available until FY 2015. As is the case with General Fund-supported debt capacity, proposed changes to the Federal tax code and/or a stalled economic recovery would further reduce Lottery revenue bond capacity.

Debt Capacity for
Lottery Revenue Bond Program
($ Millions)

Fiscal Year Ending June 30th	Annual Amount of Debt That May be Issued within Debt Service Coverage Ratios	Debt Ratio Coverage (Times)
2013	- *	4.1
2014	-	4.0
2015	$151	4.0
2016	49	4.0
2017	321	4.0
2018	86	4.0
2019	150	4.0
2020	127	4.0
2021	98	4.0
Total FY 2014-21 Lottery Debt Capacity	**$981**	

*Assumes issuance of $207.5 million in Lottery revenue bonds authorized by 2011 and 2012 Legislature.

- 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, which also substantially added to its overall NTSD debt burden and debt ratios.

  At the end of FY 2012, Oregon's outstanding NTSD was $7.8 billion. By the end of FY 2013, this amount is projected to grow by only $18 million. This is due to outstanding bonds being paid off and the balance of $399 million in General Obligation, Lottery, and ODOT bonds (authorized by the 2011 and 2012 Legislatures) are sold to investors.

Net Tax-Supported Debt Ratios

	Fiscal Year Ending June 30th		
	FY 2011 (Actual)	**FY 2012 (Actual)**	**FY 2013 (Estimated)[1]**
Net Tax-Supported Debt (Millions)	$8,022	$7,776	$7,795
Population*	3,856,800	3,883,100	3,917,700
Personal Income (Millions)*	$146,800	$150,900	$156,200
NTSD Per Capita	$2,080	$2,003	$1,990
NTSD as a % of Personal Income	5.46%	5.15%	4.99%
Pension Obligation Bonds Excluded			
NTSD Per Capita	$1,557	$1,492	$1,494
NTSD as a % of Personal Income	4.09%	3.84%	3.75%

*Source: Oregon Office of Economic Analysis, December 2012 economic and revenue forecast report.

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 overly penalized. The Commission projects that by the end of FY 2013, based on the issuance of $399 million in bonds authorized by the 2011 and 2012 Legislatures, Oregon's overall net tax-supported debt burden will decrease both on a per capita basis and as a percentage of personal income despite the fact that the overall level of debt outstanding will increase slightly. When pension obligation bonds are excluded from this NTSD calculation, projected FY 2013 debt burden drops to $1,494 per capita and 3.75% as a percentage 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 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 remains concerned, however, about the current financial status of the Oregon Department of Energy (ODOE) Alternate Energy General Obligation Bond Program.

[1] FY 2013 includes the issuance of approximately $399 million in bonds authorized by the 2011 and 2012 Legislatures.

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 periodically reviews SELP's cash flow model to determine if projected loan repayments are sufficient to meet all future debt service requirements of the bond program. These evaluations have revealed that the bond 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 to private parties that are 91 days or more past due. While SELP has tightened its loan underwriting standards and continues to aggressively pursue delinquent borrowers, the Legislative Assembly will need to provide cash infusions to the SELP program over the next several fiscal years in order for the program to meet its debt service obligation on its existing bond portfolio. Depending on the outcome of SELP's negotiations with delinquent borrowers, and revenues generated from new loans, total cash infusions needed by the program range of $12 million to $25 million. This number could increase if more loans become delinquent or poorly performing loans are written off as uncollectible.

The Commission recommends that the Legislature and Governor actively monitor SELP's financial situation and put tight parameters on SELP's future loan commitments, to assure that General Fund support of this "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

Historically, Oregon has operated under a biennial debt review and authorization process. Under that model, each individual bonding program receives specific legislative authorization and is managed by a state 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 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 has historically followed 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 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.[1] 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.[2]

- 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[3]
- 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*

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[1] 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.

[2] State Highway Bonds, State Power Development bonds, State Forest Rehabilitation bonds, Water Resources bonds, Oregon School Bond Guaranty Program, and Public School Facilities bonds currently have no State debt outstanding.

[3] 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.

- Oregon Opportunity Bonds – Article XI-L
- 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*[1]
- Lottery Revenue Bonds – ORS 286A.560 to 286A.585
- Oregon Bond Bank Revenue Bonds – ORS Chapter 285B.320 to 285B.371
- 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 289.200 to 289.240
- Industrial Development Revenue Bonds – ORS Chapter 285B.320 to 285B.371

[1] Various legislative bills have authorized $50 million in Transportation Infrastructure Bonds; however, no bonds have been issued to date by this program.

- Housing Development Revenue Bonds – ORS 456.692

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. The passage of the Constitutional amendment Article XI-Q, authorized 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 higher rated, lower cost State General Purpose Article XI-Q General Obligation bonds.

Exhibit I.1

State of Oregon

OUTSTANDING[1] LONG-TERM FINANCIAL OBLIGATIONS[2] AND CONSTITUTIONAL AND STATUTORY PROVISIONS

As of June 30, 2012

General Obligation Bonds	Constitutional [Statutory] Provision	Constitutional Debt Limit (as % RMV) [3]	Constitutional Debt Limit (in Dollars)	Statutory Debt Limit	Amount Outstanding [4]	Authorization Remaining [5]
General Fund Supported						
General Purpose Bonds [6]	ARTICLE XI SEC 7	0.0000%	$ 50,000	$	$ 0	$ 50,000
Community College Bonds	ARTICLE XI-G				115,090,000	
Higher Ed. Facility (XI-G) Bonds [7]	ARTICLE XI-G	0.7500%	3,258,219,357		392,056,452	1,664,999,786
Pollution Control Bonds [8] (42% of Total)	ARTICLE XI-H	0.5000%	2,172,146,238	109,200,000	16,107,000	
DAS Oregon Opportunity Bonds [9]	ARTICLE XI-L	0.5000%	2,172,146,238	203,175,000	138,830,000	
Seismic Rehab – Public Education Bldgs	ARTICLE XI-M	0.2000%	868,858,495		10,815,000	858,043,495
Seismic Rehab – Emergency Service Bldgs	ARTICLE XI-N	0.2000%	868,858,495		10,645,000	858,213,495
DAS Pension Obligation Bonds [10] (32% of Total)	ARTICLE XI-O	1.0000%	1,390,173,592		634,971,200	755,202,392
Alternate Energy Bonds [11] (XI-J) (19% of Total)	ARTICLE XI-J	0.5000%	412,707,785		46,064,550	366,643,235
State General Purpose (85% of total)	ARTICLE XI-Q	1.0000%	3,692,648,605		548,390,250	3,144,258,355
Total General Fund Supported					$1,912,969,452	
Fully Self-Supporting						
State Highway Bonds	ARTICLE XI SEC 7	1.0000%	4,344,292,476		0	4,344,292,476
Veteran's Welfare Bonds [7]	ARTICLE XI-A	8.0000%	34,754,339,804		312,465,000	34,441,874,804
Higher Ed. XI-F Bonds [7]	ARTICLE XI-F(1)	0.7500%	3,258,219,357		1,089,116,823	2,169,102,533
Pollution Control Bonds [8] (58% of Total)	ARTICLE XI-H	0.5000%	2,172,146,238	150,800,000	22,243,000	
Water Resources Bonds	ARTICLE XI-I(1)	1.5000%	6,516,438,713		0	6,516,438,713
Elderly & Disabled Housing Bonds	ARTICLE XI-I(2)	0.5000%	2,172,146,238		141,830,000	2,030,316,238
State General Purpose [12] (15% of Total)	ARTICLE XI-Q	1.0000%	651,643,871		96,774,750	554,869,121
Alternate Energy Project Bonds[13] (81% of Total)	ARTICLE XI-J	0.5000%	1,759,438,453		196,380,450	1,563058,003
DAS Pension Obligation Bonds[10] (68% of Total)	ARTICLE XI-O	1.0000%	2,954,118,884		1,349,313,800	1,604,805,084
Total Self-Supporting					$3,208,123,823	
Total General Obligation Bonds					$5,121,093,275	
Revenue Bonds						
Direct Revenue Bonds						
Lottery Revenue Bond Program(s)	[ORS 286A.563-585]	---	---	---	1,129,055,000	
Transportation Infrastructure Bank	[ORS 367.030]	---	---	200,000,000	0	200,000,000
Highway User Tax	[ORS 367.620]	---	---	3,240,000,000	2,142,990,000	1,097,010,000
Single & Multi-Family Housing Programs	[ORS 456.661]	---	---	2,500,000,000	1,205,855,000	1,294,145,000
Economic Development - Bond Bank	[ORS Ch. 285B]	---	---	---	116,555,000	6,399883,713
State Fair & Exposition Center	[ORS Ch. 565]	---	---	10,000,000	0	10,000,000
Total Direct Revenue Bonds					$4,594,455,000	

1. Totals may not agree with sum of components due to rounding.
2. Does not include Notes issued for less than 13 months.
3. Percentages listed are of Real Market Value (RMV) of all taxable real property in the state.
4. Excludes refunded and defeased bonds.
5. Based on the January 1, 2011 Real Market Value (RMV) of $434,429,247,553. Authorization does not include inactive programs.
6. The State of Oregon may not incur indebtedness exceeding $50,000 without a constitutional amendment approved by the voters.
7. 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.
8. 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.
9. 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.
10. Approved by the voters September 16, 2003. 32% is General Fund supported, 68% is paid from non-General Fund sources.
11. 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 19% General Fund supported and 81% 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.
12. The amount of General Fund debt service payment may vary depending on the amortization and budgeted allocation of each COP. COP obligation are reported at 85% General Fund supported and 15% self-supporting.
13. 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 19% General Fund supported and 81% 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.

	Constitutional [Statutory] Provision	Constitutional Debt Limit (as % RMV) [1]	Constitutional Debt Limit (in Dollars)	Statutory Debt Limit	Amount Outstanding [2]	Authorization Remaining [3]
Pass Through Revenue Bonds						
Economic Development – Industrial Dev	[ORS Ch. 285]	---	---	---	$ 466,564,210	6,049,874,503
Oregon Facilities Authority	[ORS Ch. 289]	---	---	---	1,634,140,007	4,882,298,706
Multi-family Housing Programs	[ORS 456.692]	---	---	---	190,968,871	6,325,469,843
Total Pass Through Revenue Bonds					$2,291,673,088	
Appropriation Credits						
Certificates of Participation (COPs GF)	[ORS Ch. 283.085]	---	---	---	$ 890,090,250	5,626,348,463
Certificates of Participation (COPs Non-GF)	[ORS Ch. 283.085]	---	---	---	157,074,750	820,391,057
Oregon Appropriation Bonds	[SB 856 – 2003 Legislature]		---	431,560,000	98,095,000	
Total Appropriation Credits					$1,145,260,000	

The State of Oregon Office of the Treasurer, 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 Office of the State Treasurer 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.

1 Percentages listed are of Real Market Value (RMV) of all taxable real property in the state.
2 Excludes refunded and defeased bonds.
3 Based on the January 1, 2011 Real Market Value (RMV) of $434,429,247,553. Authorization does not include inactive programs.

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).[1] 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 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 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 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:

[1] State Fair and Exposition Center bonds for example.

- 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));
- Nineteen percent of Alternate Energy Bonds (Article XI-J);
- Oregon School Bond Guaranty Bonds[1] (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).[2]

Exhibit I.2 provides a comparison of total outstanding gross debt; General Fund supported debt and net tax-supported debt as of June 30, 2012.

[1] 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, 2012 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.
[2] 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, 2012

Type & Purpose	General Fund Supported Debt	Net Tax-Supported Debt	Total Gross Debt Outstanding
General Obligation Bonds			
General Fund Supported			
Community College Bonds	$ 115,090,000	$ 115,090,000	$ 115,090,000
Higher Education Facility (XI-G) Bonds	392,056,452	392,056,452	392,056,452
Pollution Control Bonds (42% of Total)	16,107,000	16,107,000	16,107,000
Alternate Energy Bonds (XI-J) (19% of Total)	46,064,550	46,064,550	46,064,550
DAS Oregon Opportunity Bonds	138,830,000	138,830,000	138,830,000
Seismic Rehab - Public Education Bldgs	10,815,000	10,815,000	10,815,000
Seismic Rehab - Emergency Service Bldgs	10,645,000	10,645,000	10,645,000
State General Purpose (XI-Q) Bonds (85% of total)	548,390,250	548,390,250	548,390,250
DAS Pension Obligation Bonds (32% of Total)*	634,971,200	634,971,200	634,971,200
Total General Fund Supported	$ 1,912,969,452	$ 1,912,969,452	$ 1,912,969,452
Fully Self-Supporting			
Veterans' Welfare Bonds	-	-	312,465,000
Higher Education Facility (XI-F) Bonds	-	-	1,089,116,823
Pollution Control Bonds (58% of Total)	-		22,243,000
Water Resources Bonds	-	-	-
Elderly & Disabled Housing Bonds	-	-	141,830,000
Alternate Energy Project Bonds (81% of Total)	-	-	196,380,450
State General Purpose (XI-Q) Bonds (15% of total)		96,774,750	96,774,750
DAS Pension Obligation Bonds (68% of Total)*	-	1,349,313,800	1,349,313,800
Total Self-Supporting	$ -	$ 1,446,088,550	$ 3,208,123,823
Total General Obligation Bonds	**$ 1,912,969,452**	**$ 3,359,058,002**	**$ 5,121,093,275**
Revenue Bonds			
Direct Revenue Bonds			
Lottery Revenue Bond Program(s)**	-	1,129,055,000	1,129,055,000
Highway User Tax Revenue Bonds	-	2,142,990,000	2,142,990,000
Single-Family & Multi-Family Housing	-	-	1,213,660,000
Economic Development - Bond Bank	-	-	116,555,000
State Fair & Exposition Center Bonds	-	-	-
Total Direct Revenue Bonds	**$ -**	**$ 3,272,045,000**	**$ 4,602,260,000**
Conduit or Pass Through Revenue Bonds			
Economic & Industrial Development	-	-	466,564,210
Oregon Facilities Authority	-	-	1,634,140,007
Multi-Family Housing Programs	-	-	190,968,871
Total Conduit or Pass Through Revenue Bonds	**$ -**	**$ -**	**$ 2,291,673,088**
Appropriation Credits			
Certificates of Participation (COP's) (85% GF)	890,090,250	1,047,165,000	1,047,165,000
Oregon Appropriation Bonds	98,095,000	98,095,000	98,095,000
Total Appropriation Credits	**$ 988,185,250**	**$ 1,145,260,000**	**$ 1,145,260,000**
Total Gross Debt			**$ 13,160,286,363**
Total Debt - Less Conduit Revenue Bonds	**$ 2,901,154,702**	**$ 7,776,363,002**	**$ 10,868,613,275**

*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*

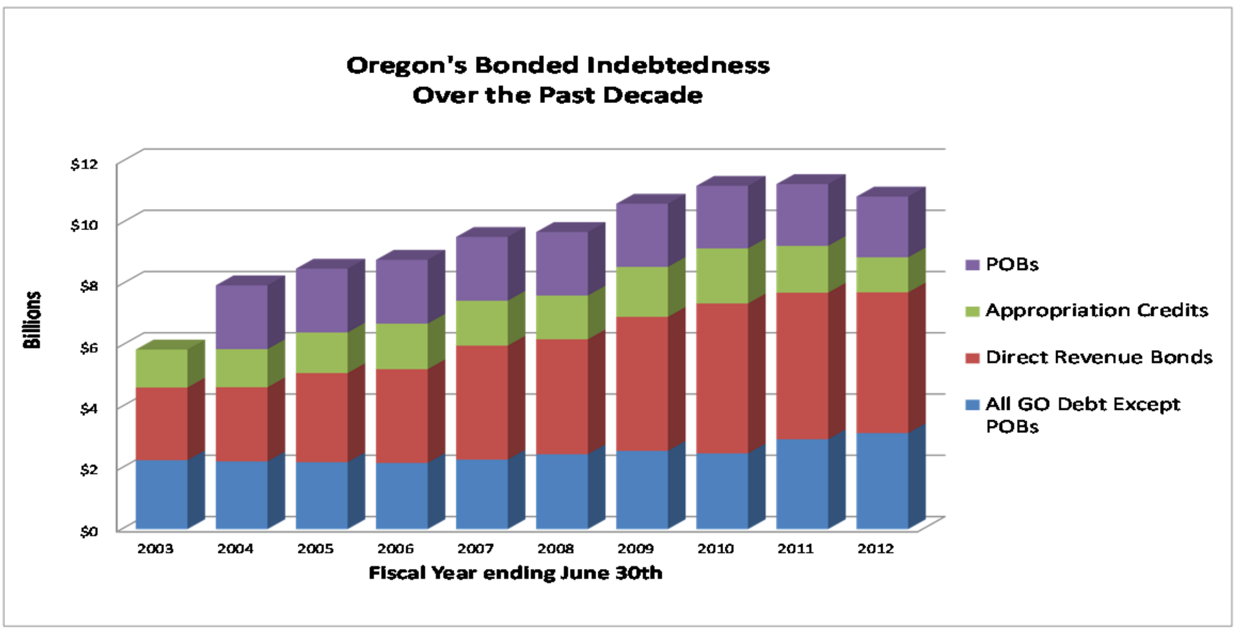
Exhibit II.1 shows a 10-year history of the State's total outstanding obligations by major category from fiscal years ending 2003 to 2012.[1]

Prior to the late 1990s, the majority of State debt outstanding was linked to the bonds issued by the Department of Veterans' Affairs for veterans' 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 substantially raised the overall level of outstanding indebtedness. While indebtedness for veteran's mortgage bonds continues to decline, debt issuance for state highway improvements and single and multifamily mortgage revenue bonds has substantially grown 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.

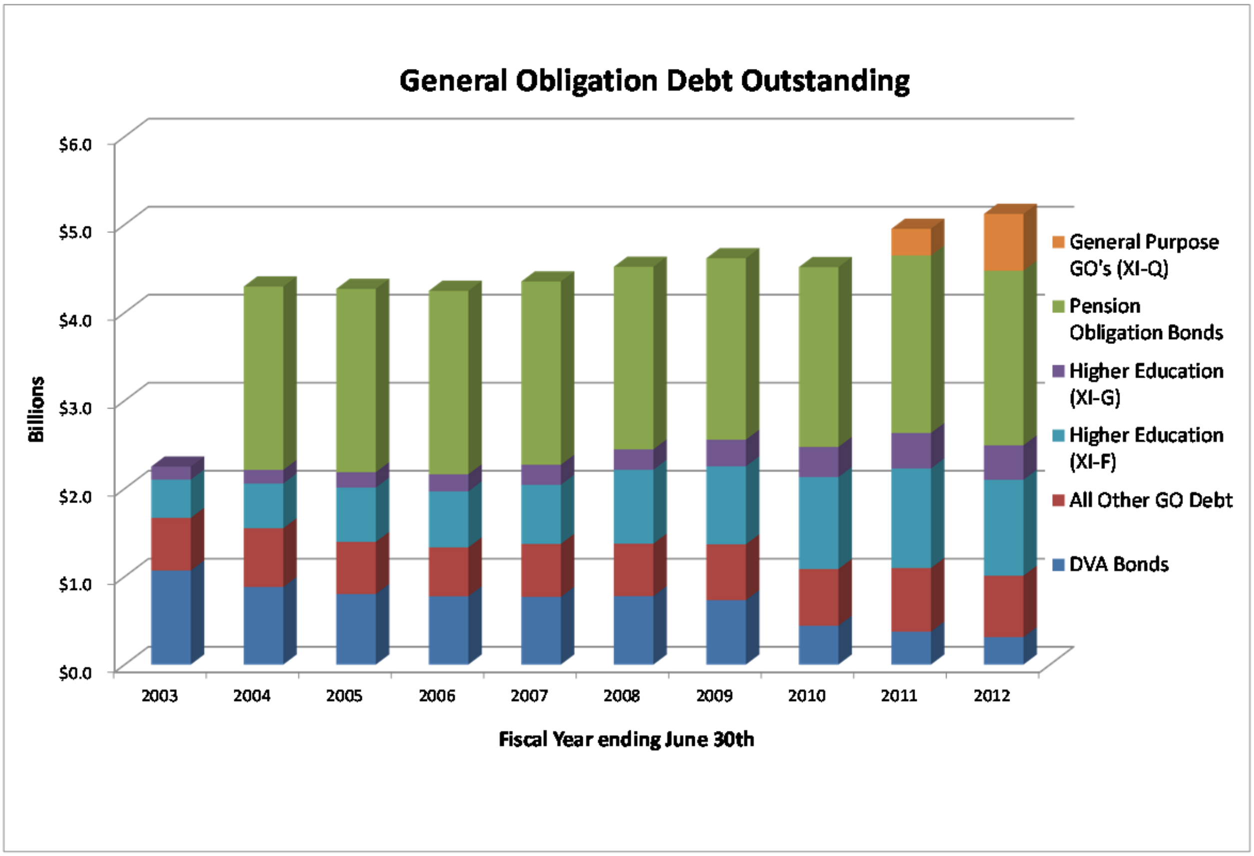
Exhibit II.1



[1] Does not include conduit or pass through revenue bonds.

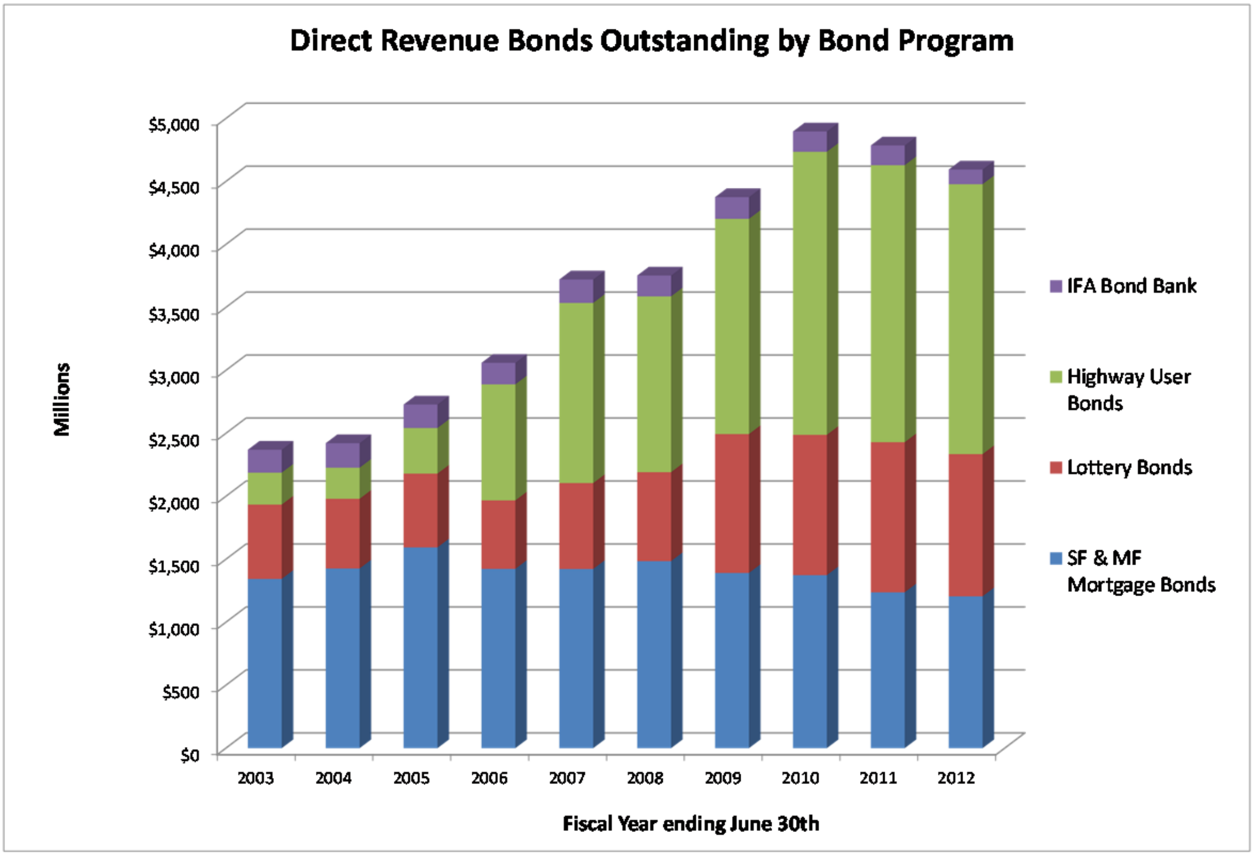
Exhibit II.2 reflects the changing components of State general obligation indebtedness over the past decade. The Department of Veterans' Affairs (ODVA) has steadily paid down its general obligation bonds since FY 2002 and only a limited amount of new ODVA loans have been originated as a result of other 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 $435 million outstanding in FY 2003, to $1.1 billion in 2012. 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 (COPs). 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, 2012, the State had $645 million in outstanding Article XI-Q bonds, while overall outstanding state general obligation indebtedness totaled $5.12 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 the 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



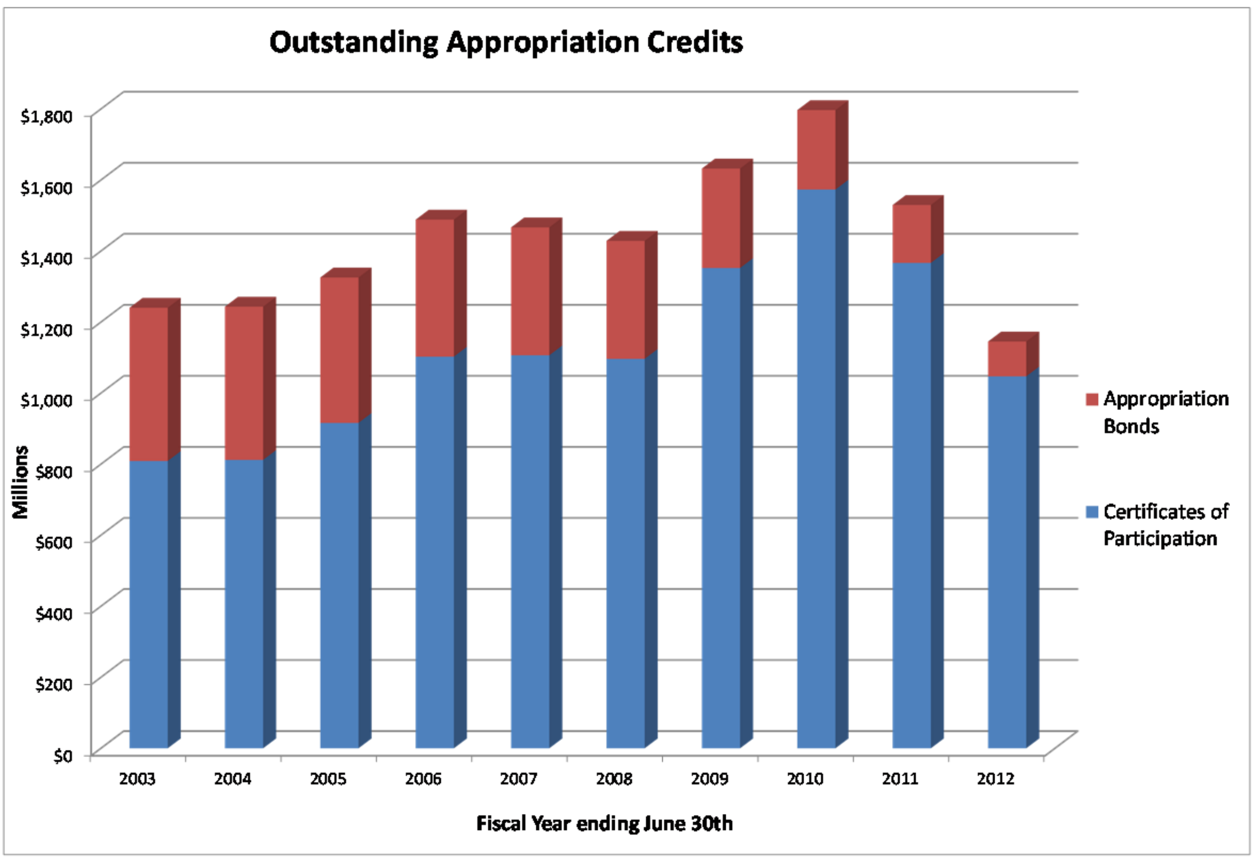
Appropriation obligations include both Certificates of Participation (COPs) and Appropriation bonds. The amount of appropriation obligations that can be issued is determined by the legislature each biennium. *Exhibit II.4* illustrates appropriation credit issuance history through fiscal year ending June 30, 2012.

The significant increase in COP debt from about $191 million in FY 1995 to about $1.05 billion in FY 2012 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 38% 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 bonds 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. Future Capital Needs of the State of Oregon

While the State reached its 5% General Fund debt capacity limit this biennium, with the retirement of outstanding Appropriation Deficit Bonds in September 2013, a significant amount of General Fund-supported debt capacity will once again become available for the 2013-15 biennium and beyond. In the coming years, 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.

To assist in this evaluation and allocation process, the Governor recently signed Executive Order 12-17 regarding a more systematic approach to future planning around the use of General Fund and Lottery Fund debt capacity throughout the State. The four proposed categories for future investment include education infrastructure, state infrastructure, regional and community infrastructure and innovation and emergent opportunities.

Below is a list of some of the most pressing, identified 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 for the completion of the Salem site and to 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 for this purpose 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 in the 2011-13 biennium; it is likely that additional 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 indicated that the construction of the next phase of the Junction City minimum custody facility will cost approximately $80 million. In addition, both DOC and the Oregon Youth Authority have significant backlogs of deferred maintenance on their facilities, totaling several million dollars.

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 has historically managed 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 for public school seismic projects. 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 significant projected capital needs that include new construction of classrooms, dorms, and other educational facilities, as well as deferred maintenance at existing facilities around the state. While legislation in 2011 provided OUS greater autonomy, including the ability to issue its own revenue bonds, it is likely that a significant portion of OUS's 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 now that General Fund supported debt capacity will become available. 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 Department of Education establish formal funding criteria for this new bonding program, including development of 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 local 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 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; it is likely that the majority of the bonds for this program will be issued over the next few years. On-going planning continues between the States of Oregon and Washington and the Federal Government regarding the proposed $3.4 billion 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 bonding has not yet been authorized for this project by either state, the CRC's financial plan envisions that 1/3 of the overall project will be funded through Federal grants, 1/3 through toll-backed federal loans and/or the issuance of state-backed toll bonds, with the balance of the funding through $450 million in equity contributions by each state that are likely to be funded through some type of state bonding program during the 2013-15 biennium. In Oregon, this equity contribution could most cost-effectively be accomplished through the issuance of Article XI, Section 7 Transportation General Obligation Bonds, with annual debt repayment coming from some combination of increased motor vehicle fees and/or fuel taxes.

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 authorized the issuance of Lottery bonds for a wide range of Oregon regional 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 Legislature completed a long-term master plan for the renovation of the State Capitol and grounds in 2009, at a projected cost of approximately $227 million over time. This master plan was designed to ensure the Capitol's longevity through seismic strengthening, code upgrades, and infrastructure improvements while restoring and preserving the historic elements of the Capitol and grounds. The plan also improves ADA accessibility, universal accessibility, and wayfinding within the Capitol and grounds.

The Department of Administrative Services has identified the long-term need for at least two new office buildings on the Capital Mall, as well as the renovation of several older State-owned buildings in the nearby area. Each building project 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;

$$\frac{\textbf{Debt Service for General Fund Supported Debt}}{\textbf{General Fund Revenues}}$$

States that have been recognized as having sound debt management practices typically use a range between 5% and 8% of revenues in determining their own capacity measurements, with 5% 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% 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 0.0% and a high of 10%.

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 capacity 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

0 to 5% (Green)	**Over 5% to 7% (Yellow)**	**Over 7% to 10% (Red)**
Capacity Available	Exceeds Prudent Capacity Target	Capacity Limits Reached

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 January 10, 2012* Legislative Update outlined capacity for the 2013 fiscal year through the 2017 fiscal year. This *2013 Commission Report* provides a look at debt capacity for the 2014 fiscal year through the 2021 fiscal year based on the December 2012 revenue forecast and the bonding authorizations by the Legislature in 2011 and 2012.

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, 2012);
- Alternate Energy Bonds (19% of total outstanding as of June 30, 2012);
- 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, 2012);
- Pension Obligation Bonds (32% of total outstanding as of June 30, 2012);
- Certificate of Participation obligations (85% of total outstanding as of June 30, 2012);
- Appropriation Bonds

As shown in *Table III.1*, the model solves for overall debt capacity for fiscal years 2014 through 2021 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 $372 million in FY 2014 to a high of $524 million in FY 2021.

Table III.1

General Fund Forecast
($ Millions)

Fiscal Year Ending June 30th	Estimated General Fund Revenues[1]	Calculated Dollars to Pay Annual Debt Service[2] at 5% Capacity Target
2014	$7,433.8	$371.7
2015	7,978.2	398.9
2016	8,399.0	420.0
2017	8,701.6	435.1
2018	9,069.9	453.5
2019	9,562.9	478.2
2020	10,006.8	500.3
2021	10,480.9	524.1

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 and 2012 Legislature collectively authorized $306 million in General Fund supported debt that will be issued during the 2011-13 biennium, including $18 million in Higher Education Facility XI-G bonds, $24 million in Community College XI-G bonds, $17 million in Pollution Control XI-H bonds, $27 million in Energy XI-J bonds for Higher Ed energy projects, $7 million in Seismic Rehab – Public Education Buildings XI-M bonds, 13 million in Certificates of Participation, and approximately $200 million in General Purpose General Obligation XI-Q bonds. Projected debt service payments for planned issuances are based on the following assumptions:

- Level annual debt service payments;
- An interest rate of 4.41%, based on a five-year average of the *Bond Buyer 20-Bond Index* as of November 29, 2012[3]; 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.

[1] General Fund revenues are shown as projected by the Oregon Office of Economic Analysis in the *Oregon Economic and Revenue Forecast* for December 2012.
[2] Debt Service = principal and interest payments on outstanding issues.
[3] 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)

	1	2	3	4
Fiscal Year Ending June 30th	**Calculated Dollars to Pay Debt Service (5% target) (From *Table II.1*)**	**(Less) Annual Payments for Debt Service on General Fund Supported Debt Outstanding[1]**	**(Less) Projected Annual Payments for Debt Service on "Planned" General Fund Supported Debt Issuance[2]**	**Remaining Dollars Available to Pay Debt Service on Future Debt Issuance**
2014	$371.7	($312.5)	($14.6)	$ 44.6
2015	398.9	(279.7)	(14.6)	104.6
2016	420.0	(265.4)	(14.6)	139.9
2017	435.1	(255.0)	(14.6)	165.5
2018	453.5	(246.0)	(14.6)	192.9
2019	478.2	(237.8)	(14.6)	225.8
2020	500.3	(239.6)	(14.6)	246.1
2021	524.1	(234.3)	(14.6)	275.1

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. The remaining dollars available to pay debt service on future debt issuance at about $44.6 million for FY 2014 and about $104.6 million in FY 2015. The remaining General Fund dollars are based on the previously discussed assumptions and maintaining a General Fund supported debt service level at the targeted 5% of General Fund revenues. (See *Table III.3*.)

[1] Total annual (fiscal year) debt service requirements on all General Fund supported debt issued through June 30, 2012. See Appendix for detail.
[2] The 2011 and 2012 Legislative Assemblies collectively authorized approximately $306 million in General Fund supported debt. The issuance of the $192 million for FY 2013 is accounted for in *Table III.2 column 3* and amortized annually as level debt service at $14.6 million.

Table III.3

General Fund Supported Debt Capacity Determination
($ Millions)

	1	2	3	4	5
Fiscal Year Ending June 30th	**Remaining Dollars to Pay Debt Service**	**Amount of Additional Debt that May be Issued[1]**	**(Less) Debt Service on Amount of Additional Debt that May be Issued**	**Net Dollars Remaining to Pay Debt Service**	**Total Debt Service as a % of General Fund Revenues**
2013	($ 10.2)	$ 0.0	$ 0.0	($ 10.2)	5.14%
2014	44.6	584.8	($44.6)	0.0	5.00%
2015	60.0	786.3	(60.0)	0.0	5.00%
2016	35.3	463.3	(35.3)	0.0	5.00%
2017	25.5	334.8	(25.5)	0.0	5.00%
2018	27.4	359.0	(27.4)	0.0	5.00%
2019	32.9	431.5	(32.9)	0.0	5.00%
2020	20.3	266.3	(20.3)	0.0	5.00%
2021	29.1	381.0	(29.1)	0.0	5.00%
Total FY 2014-21 General Fund Debt Capacity		**$3,607.0**			

Table III.3 accounts for all issued and planned General Fund supported debt authorized by the Legislature for the 2011-13 biennium. For FY 2013, total debt service as a percentage of General Fund revenue is projected to be approximately 5.14 percent (column 5), which is slightly above the target debt capacity of 5%. 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 2014, the annual debt service costs are $312.5 million (*Table III.2* column 2) and the General Fund revenue estimate is $7,433.8 million (*Table III.1*) yielding a debt burden measure of 4.20%.

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 5% capacity target. This determination concludes that there is no remaining available capacity for new General Fund supported debt this biennium, but there will be $3.61 billion in General Fund capacity from FY 2014 through FY 2021. Issuing new General Fund supported debt in excess of these amounts may cause the debt service ratios to exceed the target of 5% of General Fund revenues in a given fiscal year.

[1] *Table III.3* accounts for $236 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 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.

In addition, as part of the on-going negotiations regarding the Federal budget, the Obama administration has proposed limiting the Federal deduction of tax-exempt interest on all existing and future state and local municipal bonds to 28% of a taxpayer's income. Municipal bond analysts have estimated this reduction from the current tax deduction levels afforded to municipal bond investors (ranging from 35% to 39%, depending on a taxpayer's income level) would increase tax-exempt rates going forward by 40 to 80 basis points (or 0.4% to 0.8%).

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 eight year forecast period, remaining General Fund debt capacity is $3.61 billion; a 1% increase in the long-term interest rate would decrease future capacity by $294 million or $74 million per biennium *(Table III.4)*. A 10% decline in revenue for the forecast period; however, would decrease future capacity by approximately $687 million, or $172 million per biennium. *(Table III.5)*.

Given the continued uncertainty regarding Federal budget negotiations and the fragility of the economic recovery in Oregon and nationally, the Commission urges that the Legislature and Governor exercise great caution in the allocation of new General Fund-supported debt capacity; proposed changes in the Federal tax code regarding the treatment of tax-exempt interest and/or a stalled economic recovery could substantially reduce the State's long-term debt capacity.

Table III.4

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

	4.41% Interest Rate (From *Table III.3*)	**3.41% Interest Rate (1% Decline)**	**5.41% Interest Rate (1% Increase)**
Fiscal Year Ending June 30th	**Additional Debt That May Be Issued**	**Additional Debt That May Be Issued**	**Additional Debt That May Be Issued**
2014	$584.8	$639.2	$537.1
2015	786.3	859.4	722.2
2016	463.3	506.4	425.5
2017	334.8	366.0	307.5
2018	359.0	392.3	329.6
2019	431.5	471.5	396.2
2020	266.3	291.2	244.7
2021	381.0	416.4	349.9
Total	**$3,607.0**	**$3,942.4**	**$3,312.7**

Table III.5

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

	(From *Table III.3*)	10% Increase in Unobligated Net General Fund Revenue	10% Decrease in Unobligated Net General Fund Revenue
Fiscal Year Ending June 30th	**Additional Debt That May Be Issued**	**Additional Debt That May Be Issued**	**Additional Debt That May Be Issued**
2014	$584.8	$1,072.1	$97.5
2015	786.3	822.0	750.7
2016	463.3	490.9	435.8
2017	334.8	354.6	315.0
2018	359.0	383.2	334.8
2019	431.5	463.8	399.1
2020	266.3	295.4	237.2
2021	381.0	412.1	350.0
Total	**$3,607.0**	**$4,294.1**	**$2,920.1**

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 8.0%, 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.

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 are the projected debt service for outstanding Lottery bonds and the projected coverage ratio assuming that no additional Lottery bonds are sold in FY 2013 and beyond.

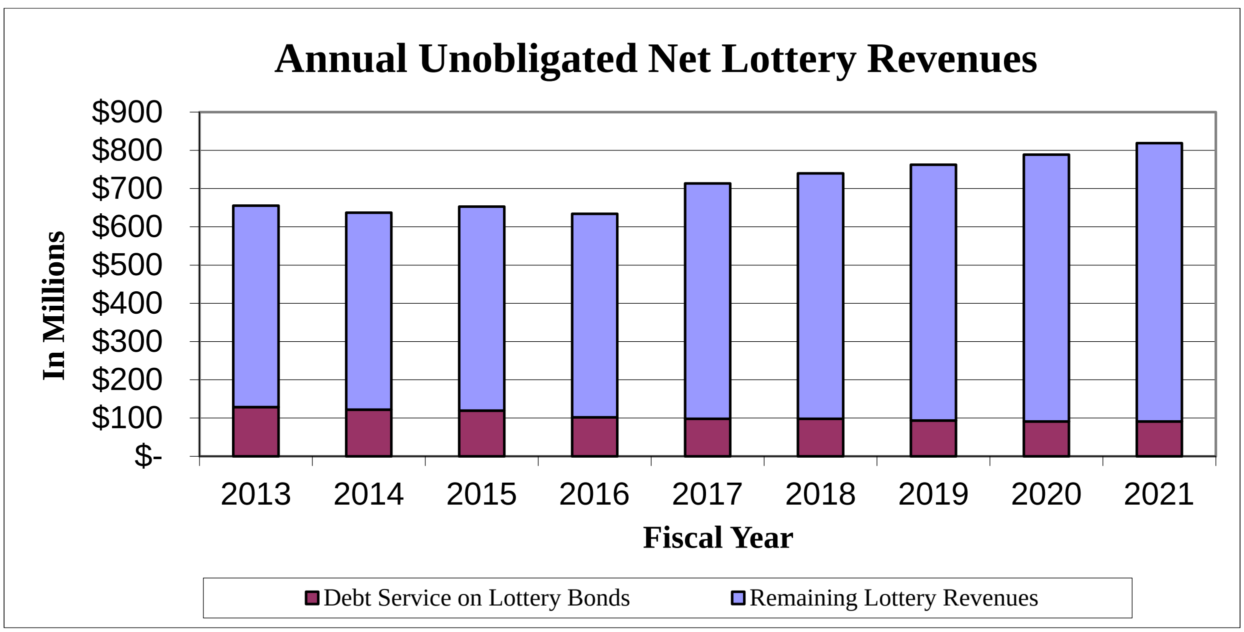
Table IV.1

Forecast of Lottery Revenue, Debt Service on Bonds Outstanding, and Coverage Ratios

Fiscal Year	Annual Unobligated Net Lottery Revenues (millions)[1]	Total Debt Service on Bonds (millions)[2]	Projected Debt Service Coverage (Times)
2013	526.9	128.6	4.1
2014	515.4	121.8	4.2
2015	533.4	119.4	4.5
2016	532.3	101.9	5.2
2017	615.4	98.2	6.3
2018	641.5	98.2	6.5
2019	668.9	93.6	7.1
2020	697.6	91.1	7.7
2021	727.6	91.1	8.0

Exhibit IV.1 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



[1] Oregon Office of Economic Analysis, Oregon Economic and Revenue Forecast, December 2012
[2] Includes Lottery bonds issued through June 30, 2012. This does not include debt service on $212 million in unissued Lottery bonds, as authorized by 2011 Legislature.

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 ten times ($100 million divided by $10 million).

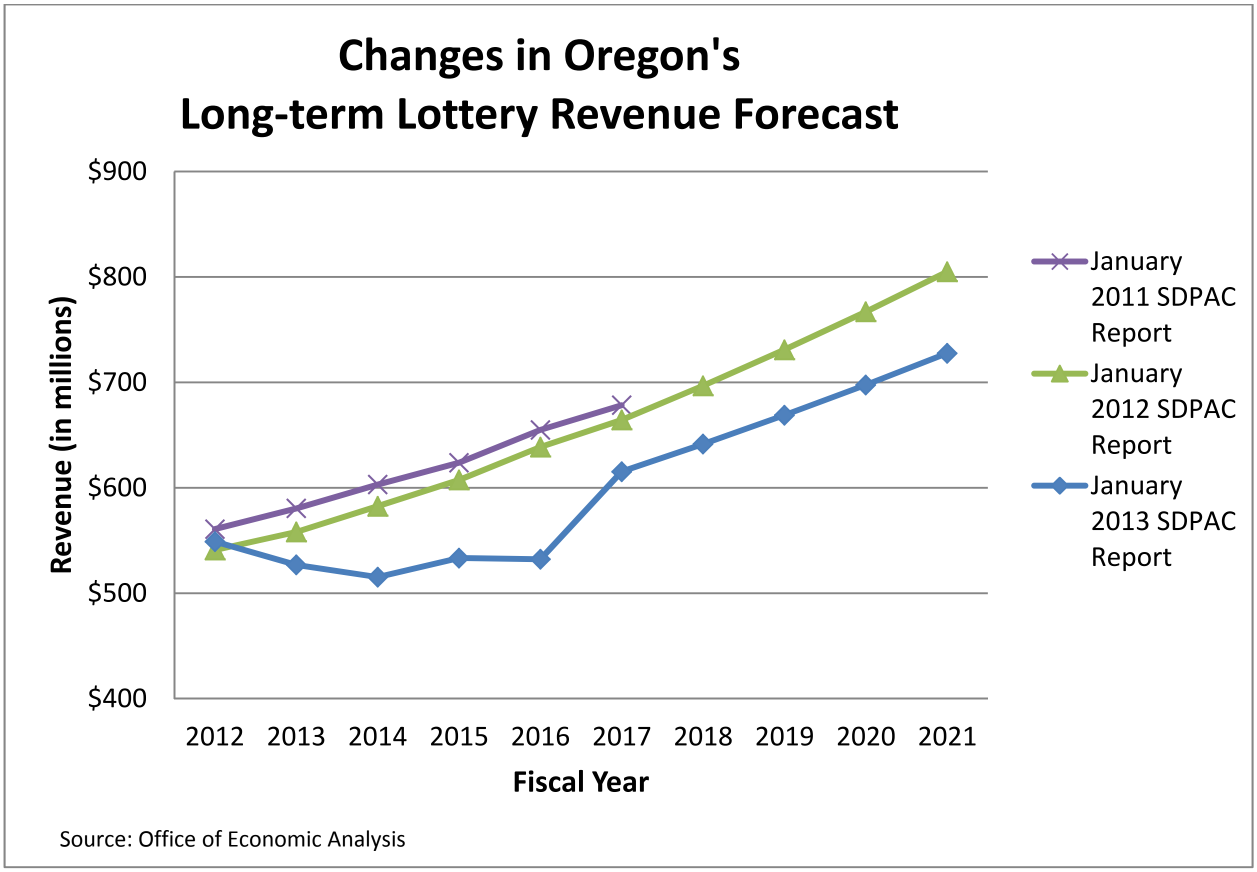
The Commission's current lottery bond capacity policy is that existing and proposed lottery debt service should not exceed four times coverage or no more than 25% of net unobligated lottery revenues. The four times coverage ratio, viewed by rating agencies as a conservative yet realistic level, is incorporated 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 shows that the annual debt service for Lottery-backed revenue bonds in FY 2013 will be approximately $128.6 million with a coverage ratio of 4.1 if no other bonds were issued prior to the end of FY 2013. Debt service decreases slightly, on average, ranging from $128.6 million to $91.1 million in FYs 2013 through 2021 with the coverage ratios ranging from 4.1 to 8.0. The coverage ratios remain slightly above the four times coverage as required by Lottery bond covenants, as the new authorized Lottery-backed bonds are sold. This ratio will increase above the minimum four times coverage in FY 2013 and beyond.

Since release of the 2012 SDPAC report, projections of future Lottery revenues have continued to decline, as shown on *Exhibit IV.2*. Between the 2011 and 2013 SDPAC reports, the Office of Economic Analysis' projections for Lottery revenues for the six-years between FY 2012 to FY 2017 declined by 11.6%. The majority of this decline is attributable to the reduced transfer of net Lottery proceeds over the next four years as the Oregon Lottery executes its video terminal replacement program.

Given the sharp decline in projected Lottery revenue over the next few years, projections of lottery debt service coverage and future debt capacity have substantially dropped. While the restructuring of a modest amount of near-term lottery debt allowed the State to continue to issue approximately $229 million of Lottery bonds at the four times coverage ratio during the 2011-13 biennium, continued reductions in Lottery revenue forecasts since that time will result in sharp reductions in Lottery debt capacity in the upcoming 2013-15 biennium.

Exhibit IV.2



Assuming the eight-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 $128.8 million in FY 2014 to $181.9 million in FY 2021.

For FY 2014 that is:

Available Revenues ÷ Required Coverage Ratio = Maximum Annual Debt Service

– or –

$515.4 million ÷ 4 Times Coverage = $128.8 million

The eight-year capacity forecast for Lottery-backed revenue bonds is illustrated in *Table IV.2*. The table accounts for:

- all outstanding Lottery revenue bonds,
- new Lottery revenue bonds authorized and expected to be issued during the remainder of the 2011-13 biennium, and
- an estimate of remaining capacity to issue additional Lottery revenue bonds in FYs 2014 - 2021.

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, 2012, and the planned FY 2012 and FY 2013 issuance, as authorized by the 2011 and 2012 Legislatures in the amount of $229.1

million. Assuming the additional $207.4 million is sold in FY 2013, there will be an increase in debt service payments by about $15.7 million per year, with the exception of the first two years, due to deference of principal payments in these years. In these two years, the debt service payment would only be approximately $7.3 million, which reflects the interest payment on the bonds issued. The model assumes a 3.5% interest rate for the planned FY 2013 Lottery bond sale, but assumes an interest rate of 4.41%[1] and a 20 year maturity on all bonds sold thereafter.[2] Given the continued reductions in projected net Lottery proceeds, the model also assumes that the FY 2015 Lottery bond sale will also need to be structured with at least one-year of deferred principal, after which time Lottery bond sales are structured with level debt service.

Table IV.2 column 4 shows projected debt service for FY 2014-21 resulting from the issuance of the additional Lottery revenue bonds assuming the above-referenced structuring assumptions. Lastly, column 5 illustrates that as more debt is issued, the debt service coverage ratios decrease to the minimum required coverage of four times unobligated net Lottery proceeds or revenues.

Assuming that the current amount of authorized yet unissued Lottery revenue bonds, $207.4 million, are sold in FY 2013, there is no projected capacity to issue new Lottery debt in FY 2014 at the 4.0 coverage level. Capacity to issue new Lottery debt returns in FY 2015, however, due to the retirement of outstanding Lottery bonds and projected increases in future Lottery revenues. This projected $151.1 million capacity, available in FY 2015, factors in the amortization of prior bond issuances as well as additional forecast Lottery revenues and two years of deferred principal payments on the new bonds issued in FY 2013.

[1] Five-year average of the *Bond Buyer 20-Bond Index* through November 29, 2012.
[2] Lottery bonds sold prior to December 31, 2004 were structured with 15-year maturities. New Lottery bonds are structured with 20-year maturities.

Table IV.2

Capacity for Lottery Revenue Bond Programs
($ Millions)

	1	2	3	4	5
Fiscal Year Ending June 30th	**Projected Lottery Revenues Available to Pay Debt Service**	**Debt Service on Bonds Outstanding As of June 30, 2012 and Planned FY 2013 Issuance***	**Annual Amount of Additional Debt That May be Issued and Remain Within Authorized Debt Service Coverage Ratios**	**Debt Service on Additional Issuance**	**Debt Service Coverage Ratio (Times)**
2014	$128.8	($128.9)	$ 0.0	$ 0.0	4.0
2015	133.4	(126.5)	151.1	(6.7)	4.0
2016	133.1	(117.5)	48.5	(3.7)	4.0
2017	153.8	(113.8)	320.8	(24.5)	4.0
2018	160.4	(113.8)	85.6	(6.5)	4.0
2019	167.2	(109.2)	149.6	(11.4)	4.0
2020	174.4	(106.7)	126.9	(9.7)	4.0
2021	181.9	(106.7)	98.4	(7.5)	4.0
Total FY 2014-21 Lottery Debt Capacity:			**$980.9**		

*Assumes FY 2013 bonds will be sold at a 3.5% interest rate, with two years of deferred principal.

In summary, there is no remaining capacity for new Lottery revenue bonds in FY 2014, but we project there is $151.1 million for the overall 2013-15 biennium based on the most recent State revenue forecast. The capacity for the combined Fiscal Years 2014 through 2021 is estimated at roughly $981 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 four 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 implemented the restructuring of the overall repayment pattern of the Lottery bond program's debt service in March 2011 so that the State could access more of its future Lottery debt capacity this biennium. 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 $229 million in lottery bonds in 2011-13 biennium.

While this report assumes level debt service in the projection of most future lottery debt service, it is anticipated that the planned Lottery bond sale in FY 2013 for the balance of $207 million in legislatively authorized projects defer repayment 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 four times coverage level. In addition, due to recent sharp drops in projected Lottery revenue for the next few years, it appears that it will be necessary to defer principal repayment on the FY 2015 Lottery bond sale as well.

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 5.02% if 50% of the bonds were sold taxable, the available overall capacity for eight years would decrease by $49 million, or $12.3 million per biennium, as noted in *Table IV.3*.

Table IV.3

Forecast of Eight Year Lottery Revenue Debt Capacity
Assuming a Mix of Taxable/Tax-Exempt Projects
($ Millions)

	4.41% Interest Rate (From *Table IV.2*)	**5.02% 50% Taxable & 50% Tax-exempt**	**4.71% 25% Taxable & 75% Tax-exempt**
	Additional Debt That May Be Issued	**Additional Debt That May Be Issued**	**Additional Debt That May Be Issued**
Total FY 2014-21	**$980.9**	**$931.9**	**$956.0**
Per Biennium	**$245.2**	**$233.0**	**$239.0**

As is the case with General Fund-supported debt capacity, proposed changes in the Federal tax code and/or a stalled economic recovery would further reduce Lottery revenue bond capacity.

Table IV.4 and *Table IV.5* 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 4.41% long-term interest rate, the maximum capacity of Lottery revenue to support added bond issuance at the start of the FY 2014 is calculated to be zero, but $151.1 million for the overall 2013-15 biennium. A one-percentage point (1%) increase in the projected long-term interest rate to 5.41% would reduce the maximum available capacity over the eight year period by approximately $76.5 million; conversely, dropping the interest rate assumption by 1% back to 3.41% would add roughly $92.6 million in debt capacity over the eight year forecast period.

Table IV.4

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

	4.41% Interest Rate (From *Table IV.2*)	**3.41% Interest Rate (1% Decline)**	**5.41% Interest Rate (1% Increase)**
Fiscal Year Ending June 30th	**Additional Debt That May Be Issued**	**Additional Debt That May Be Issued**	**Additional Debt That May Be Issued**
2014	$ 0.0	$ 0.0	$ 0.0
2015	151.1	198.5	125.8
2016	48.5	20.8	61.0
2017	320.8	350.8	294.6
2018	85.6	93.6	78.6
2019	149.6	163.5	137.4
2020	126.9	138.5	116.6
2021	98.4	107.8	90.4
Total	**$ 980.9**	**$1,073.5**	**$ 904.4**

As the past years have painfully demonstrated, changes in overall projected Lottery revenues can have a substantial impact on future Lottery bond capacity. As shown, a 10% reduction in unobligated net Lottery revenues over the forecast period would reduce the available debt capacity by $233.4 million over the next eight years (*Table IV.5*), and would eliminate all Lottery bond capacity at the current four-times capacity constraint in the upcoming 2013-15 biennium.

Conversely, increases in projections of net Lottery proceeds would restore Lottery bond capacity to historic levels. As *Table IV.5* illustrates, a 10% increase in projected Lottery revenues would add $243.6 million to the eight year forecast of capacity, with $265 million restored to the upcoming 2013-15 biennium.

Table IV.5

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

	Current Lottery Revenue Projections (From *Table IV.2*)	**10% Increase in Unobligated Net Lottery Revenue**	**10% Decrease in Unobligated Net Lottery Revenue**
Fiscal Year Ending June 30th	**Additional Debt That May Be Issued**	**Additional Debt That May Be Issued**	**Additional Debt That May Be Issued**
2014	$ 0.0	$168.5	$ 0.0
2015	151.1	96.5	0.0
2016	48.5	114.1	30.1
2017	320.8	348.2	293.6
2018	85.6	94.1	77.0
2019	149.6	158.5	140.7
2020	126.9	136.2	117.5
2021	98.4	108.4	88.6
Total	**$ 980.9**	**$1,224.5**	**$747.5**

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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”, provides a comparison of the State’s total outstanding gross debt, General Fund supported debt, and net tax-supported debt as of June 30, 2012. The State’s net tax supported debt, as of June 30, 2012, was $7.8 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 2013 Commission Report, the legislature authorized $1.2 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
2011-2013 Biennium

Type & Purpose	Authorization	Expected Issuance
General Obligation Bonds		
Community College Bonds (Article XI-G)	$ 24,500,000	$ 8,000,000
Higher Education Facility Bonds (Article XI-G)	17,608,000	1,522,000
Pollution Control Bonds (Article (XI-H)	16,740,000	10,975,000
Alternate Energy Bonds (Article XI-J)	26,585,801	13,561,731
Dept. of Military Bonds (Article XI-M)	7,614,000	7,155,000
Dept. of Military Bonds (Article XI-N)	0	0
State General Purpose (Article XI-Q)	200,645,000	182,155,000
General Obligation Bond Total	**$ 293,692,801**	**$223,368,731**
Direct Revenue Bonds		
Lottery Revenue Bonds (ORS (286A.560-585)	$ 233,330,000	$ 229,075,000
Highway User Tax Bonds (ORS 367.620)	663,000,000	200,830,000
Transportation Infrastructure Bonds (ORS 367.030)	0	0
Direct Revenue Bond Total	**$ 896,330,000**	**$429,905,000**
Appropriation Credits		
Certificates of Participation (ORS 283.085)	$ 12,500,000	$12,500,000
Appropriation Credit Total	**$ 12,500,000**	**$12,500,000**
Total Authorized & Expected Issuance	**$1,202,522,801**	**$ 665,773,731**

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 *2012 State Debt Medians* report, Moody's determined the average NTSD per capita for the 50 states at $1,408 and the median at $1,117.[1] The average NTSD as a percentage of income was reported at 3.4% and the median at 2.8%. By comparison, Oregon's NTSD ranked 18th highest nationally with net tax-supported debt at about $7.8 billion, but 11th highest in net tax supported debt per capita at $2,015 and 12th highest in net tax-supported debt as a percentage of personal income at 5.5%.

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 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.

As *Table V.2* illustrates, at the end of FY 2012 net tax-supported debt totaled $7.8 billion with debt ratios of $2,003 per capita and 5.15% of personal income. Based on the issuance of the debt

[1] Moody's *2012 State Debt Medians* reflect NTSD as of the end of calendar year 2011.

authorized via the 2011 and 2012 Legislatures, it is estimated that by the end of FY 2013, the State's net tax-supported will remain at about $7.8 billion.

Table V.2

Net Tax-Supported Debt Ratios

	Fiscal Year Ending June 30th		
	FY 2011 (Actual)	**FY 2012 (Actual)**	**FY 2013 (Estimated)[1]**
Net Tax-Supported Debt (Millions)	$8,022	$7,776	$7,795
Population*	3,856,800	3,883,100	3,917,700
Personal Income (Millions)*	$146,800	$150,900	$156,200
NTSD Per Capita	$2,080	$2,003	$1,990
NTSD as a % of Personal Income	5.46%	5.15%	4.99%
Pension Obligation Bonds Excluded			
NTSD Per Capita	$1,557	$1,492	$1,494
NTSD as a % of Personal Income	4.09%	3.84%	3.75%

*Source: 2011-2013 population and personal income forecasts – Oregon Office of Economic Analysis December 2012

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 2013 debt burden would decrease to $1,494 per capita and 3.75% 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 show, Oregon's current per capita debt burden and debt as a percent of personal income is above the national median due to the aforementioned issuance of both POBs and highway user tax

[1] FY 2013 includes the issuance of approximately $399 million in bonds authorized by the 2011 Legislature.

bonds for ODOT projects. *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 and 2012 Legislative Assemblies.

Exhibit V.1a

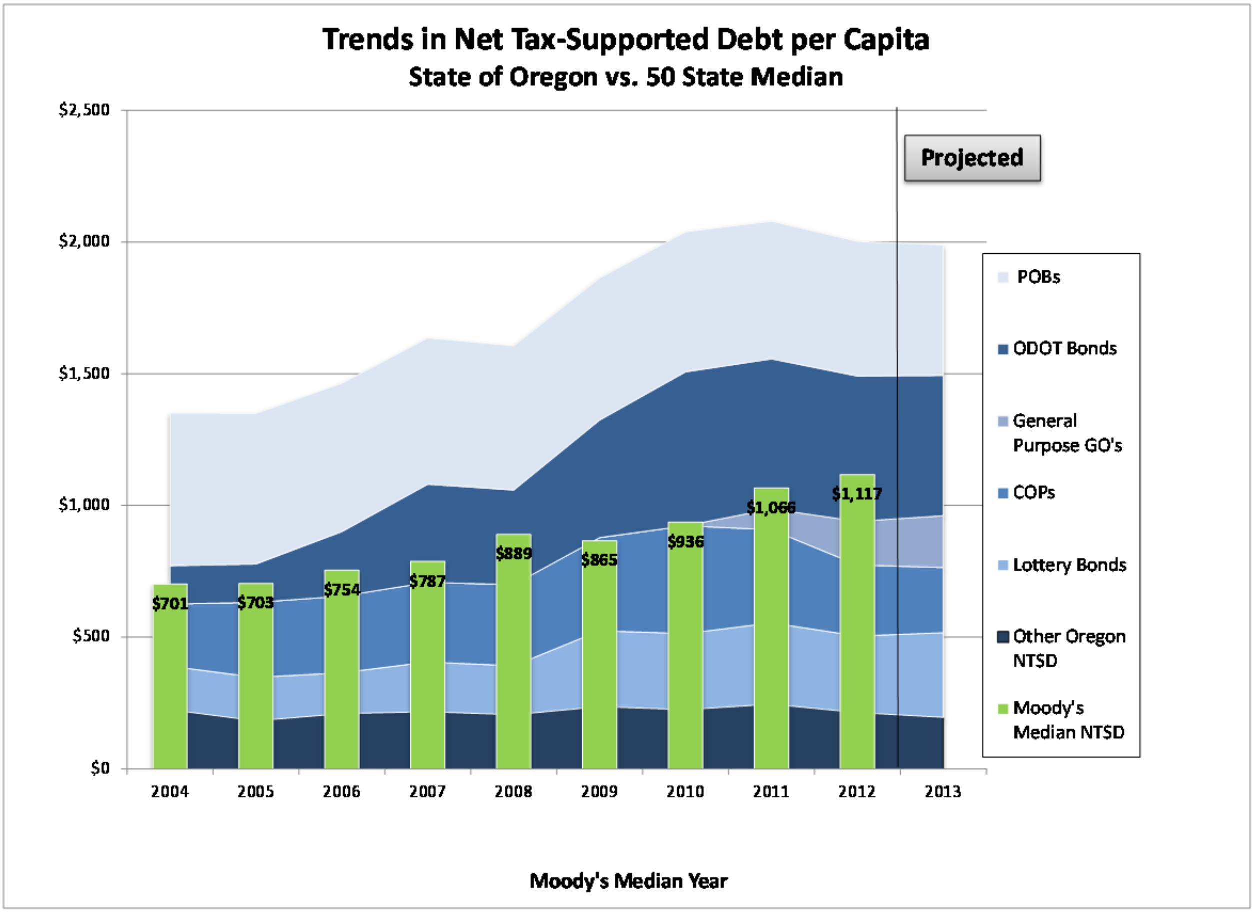
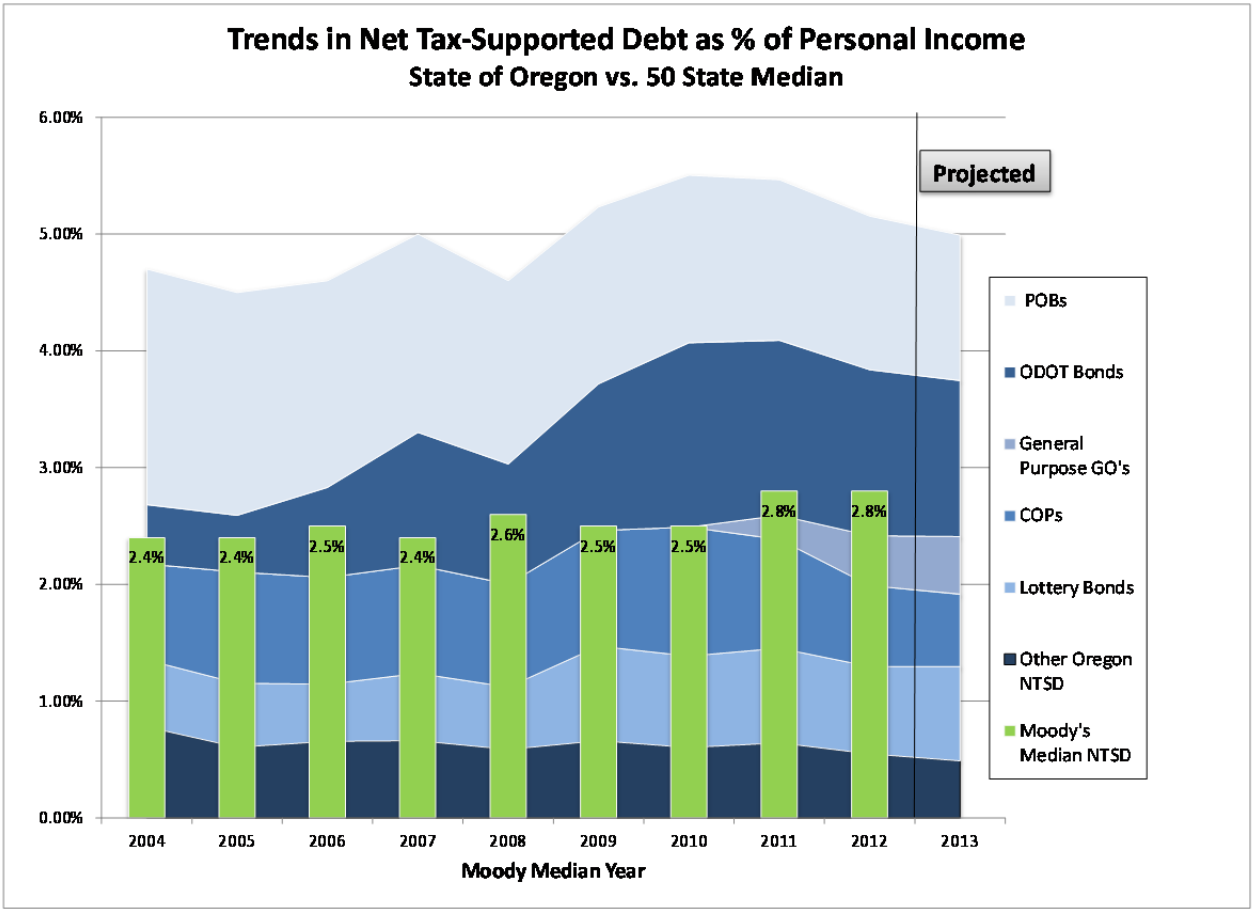


Exhibit V.1b



Trends in Net Tax-Supported Debt as % of Personal Income
State of Oregon vs. 50 State Median
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
Projected
2.4%
2.4%
2.5%
2.4%
2.6%
2.5%
2.5%
2.8%
2.8%
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
Moody Median Year
POBs
ODOT Bonds
General Purpose GO's
COPs
Lottery Bonds
Other Oregon NTSD
Moody's Median NTSD

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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 General Obligation (GO) Bonds (Article XI-A);
- Higher Education Building Project GO Bonds (Article XI-F(1));
- Oregon University System Revenue Bonds (ORS 351.473 - 351.485);
- OHCSD[1] Elderly & Disabled Housing Project GO Bonds (Article XI-1(2));
- OHCSD Single-Family & Insured Multi-Family Revenue Bonds (ORS 456.661);
- 81% of Alternate Energy Project GO Bonds (Article XI-J);
- Oregon School Bond Guaranty Program (Article XI-K);
- Oregon Infrastructure Authority Bond Bank Revenue Bonds; and
- Conduit or "Pass Through" Revenue Bond Programs.

These programs were designed and intended to be fully self-supporting from enterprise revenues or loan repayments and under normal circumstances are not expected to require a draw on General Fund or special tax revenues. Therefore, it is less 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 Oregon Department of Veterans' Affairs ("ODVA") 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 the bond market. In the late 1970s and early 1980s, the ODVA faced considerable difficulties due to the effects of the nationwide recession, aggressive lending practices, and poorly structured bond issues. Revenues from their mortgage portfolio were projected to be insufficient to cover operating expenses, bonded debt service resulting from mortgage refinancings and the increased losses from higher foreclosure rates. During this time, management practices allowed an extraordinary volume of bond issuance, resulting in over $6 billion outstanding in the ODVA program in 1985. These

[1] Oregon Housing and Community Services Department.

management practices were, in part, responsible for an eventual ratings downgrade, leading to increased capital financing costs for the State for many of its programs.

Over the last twenty-five years, the State and ODVA made excellent progress in creating a sound, well-structured Veterans' loan program. ODVA did not issue debt between 1987 and 1995, and did not make any 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 the maximum spread between bond borrowing costs and mortgage lending rates permitted under Federal tax law; and structuring new bonds similar to proven single family mortgage revenue bond programs nationwide.

Requirements for participation in the ODVA Mortgage Loan Program are much more stringent than the early years of the program. Individual applicants and properties must generally meet Federal National Mortgage Association 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.

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

B. *Higher Education Building Project Bond Program*

The Oregon University System ("OUS") has the authority to issue general obligation bonds under two constitutional provisions, Article XI-F(1) and Article XI-G, and revenue bonds under its newly enacted statutory authorization. OUS revenue bonds are repaid solely through OUS revenues, while their general obligation bonds are repaid either through OUS revenues (Article XI-F(1)) or through State general fund appropriations (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), for Higher Education Building Projects, or through OUS revenue bonds, are not included in either model's calculations.

Again, the basis for a discussion of capacity surrounding this program must focus on sound financial management practices. In 2011, the Legislature granted more independence to 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. OUS continually assesses its facilities and equipment needs at each campus throughout the System. Requests for facilities and related equipment are programmed into a multi-year capital improvement plan that is reviewed and approved by the State Board of Higher Education and the newly established Oregon Education Investment Board (OEIB). The plan establishes priorities for projects and is updated regularly. OUS Internal Management Directives require debt service on its Article XI-F(1) bonded debt to be paid solely out of non-General Fund revenues associated with the bond financed facilities. These revenue sources include tuition, student building fees, gifts, grants and other similar funds. Under program requirements, the System 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.

OUS's non-General Fund revenues have always been more than adequate to meet the operating and debt service requirements of their XI-F(1) bonding program. As the State moves towards implementation of the new OUS revenue bond program, careful consideration is required for the allocation and prioritization of system revenues already pledged to pay debt service on existing XI-F(1) bonds. This new stand-alone revenue bond program needs to be structured in a way that can achieve high credit ratings, while not putting the State's general obligation bonds or its credit rating at risk.

As with the Veterans' Welfare housing bond program, the future capacity of OUS self-supporting bonding programs are dependent upon continued sound financial management policies and practices and the revenue producing capacity of various bond financed OUS projects.

C. *Housing & Community Services Department Bond Programs*

The Oregon Housing and Community Services Department ("OHCSD") is authorized to issue general obligation bonds for the Elderly and Disabled Housing program, direct revenue bonds for Single-Family and Multifamily housing mortgage programs, and pass-through revenue bonds for its multifamily conduit revenue program. 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 OHCSD programs is based primarily on the fiscal soundness of these programs and prudent financial management. The Director and the State Housing Council are appointed by the Governor. The Housing Council develops policies for OHCSD 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 OHCSD's housing programs must first meet the eligibility requirements of that particular program. Applicants then follow an 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 OHCSD 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, OHCSD 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 OHCSD. If projected revenues show an inability to provide for these requirements, OHCSD would be precluded from issuing additional bonds or applying any revenues to the financing of additional mortgage loans.

Similar to other programs outlined here, OHCSD's capacity to issue bonds is based on sound management, prudent lending practices, maintenance of strong operation reserves for program continuance, and awareness of evolving economic and social factors affecting individual borrowers' ability to repay mortgage loans. OHCSD, more than other state agency, has used sophisticated public finance tools like variable rate bonds backed with liquidity facilities and floating-to-fixed interest rate swaps in order to offer more competitive mortgage rates to its customers while reducing its bond portfolio's interest rate risk. As the State considers reorganization of OHCSD in the coming years, it is crucial that funding continues for the technical staff who manage the day-to-day operations of its complex bonding and mortgage operation.

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") throughout Oregon. ODOE may have bonds outstanding equal to one-half of one percent of the true cash value of the property of the State. SELP was originally designed to be fully self-supporting requiring prior determination and identification of repayment sources prior to making loans from bond proceeds. Constitutional and statutory provisions mandate that loan repayments are made from secured loan sources before any General Funds are advanced to SELP for repayment of XI-J debt.

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 revenues received from loan repayments. ODOE is 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 appropriate 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 debt, 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, 2012, ODOE had issued $43.5 million in bonds for OUS energy projects, representing approximately 19% of ODOE's overall bond portfolio. The 2011 and 2012 Legislatures authorized ODOE to sell an additional $26.6 million of general obligation bonds for OUS energy conservation projects.

In preparation for ODOE's most recent bond sale in July 2012, staff from the Office of the State Treasurer reviewed SELP's cash flow model to determine if projected loan repayments were sufficient to meet all future debt service requirements of the bond program. This evaluation revealed that the bond 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 to private parties that are 91 days or more past due. While SELP has tightened its loan underwriting standards and continues to aggressively pursue delinquent borrowers, the Legislative Assembly will need to provide cash infusions to the SELP program over the next several fiscal years in order for the program to meet its debt service obligations on its existing bond portfolio. Depending on the outcome of SELP's negotiations with delinquent borrowers, and revenues generated from new loans, total cash infusions needed by the program range between $12 million to $25 million. This number could increase if more loans become delinquent or poorly performing loans are written off as uncollectible.

The Commission recommends that the Legislature and Governor actively monitor SELP's financial situation and put tight parameters on SELP's future loan commitments, to assure that 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 the Oregon Bond Bank. 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, which provides loans to municipalities for construction, improvement and repair of water, wastewater, and other local infrastructure. Periodically, the Legislative Assembly authorizes the sale of Lottery Revenue Bonds to replenish the funds available to OBDD to make new loans for local and regional water, wastewater and other infrastructure projects. Additionally, the Oregon Bond Bank periodically issues stand-alone revenue bonds secured by these loans, which frees up funds that can then be loaned again to municipalities for additional local infrastructure projects.

In 2011, the Legislative Assembly authorized further consolidation of various OBDD loan, grant and bonding programs for local governments through the creation of the Oregon Infrastructure Finance Authority ("IFA"). The Authority was established as an administrative unit within OBDD, with a nine member advisory board that provides policy guidance on the infrastructure loan, grant, and bonding activities of the agency.

Infrastructure loans made through IFA are typically full faith and credit obligations of the borrowing municipality, payable from the borrower's utility enterprise as well as the municipality's General Fund. 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.

Capacity to issue Bond Bank revenue bonds is based on OBDD's sound financial management, continued prudent lending practices, awareness of underlying borrowers' ability to repay loans and any funds provided by the Legislative Assembly as part of their historical practice of providing program capital.

F. *Conduit Revenue Bond Programs*

The State of Oregon has three operating conduit revenue bond programs. These programs operate under the auspices 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 guarantee 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 guarantee payment of a qualified district/college's bond debt service when due;
- Authorization of the State Treasurer to make debt service payments from the Oregon Common School Fund, the Oregon Short-term Fund, or other State funds assures immediate liquidity for all guaranteed school district and community college debt service payments;
- Constitutional provision authorizing the State Treasurer to issue property tax-backed State GO 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 school district 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 loan made, or State GO bond sold, on its behalf.

A participating district for which the State has made a guarantee 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 school district.

In addition, the administrative aspects of the OSBG program have been designed to reduce the likelihood of payment default by participating 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, 2012, the program has outstanding guarantees on $3.2 billion in outstanding GO bonds ($4.7 billion in guaranteed debt service) issued by Oregon school districts and community colleges. *Exhibit VI.1* shows the growth of the program since FY 2003. While it is impossible to know precisely how much the State guarantee 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 $5.4 million per year, or $108 million over a twenty year period.

Exhibit VI.2 projects State-guaranteed principal and interest over the remaining life of these school bonds; for FY 2013, this State guarantee applies to local school district and community college debt service payments of $357.3 million, which is equivalent to approximately 5.0% of total General Fund revenues for the fiscal year, and 10.8% of overall state aid for schools and community colleges.

Exhibit VI.1

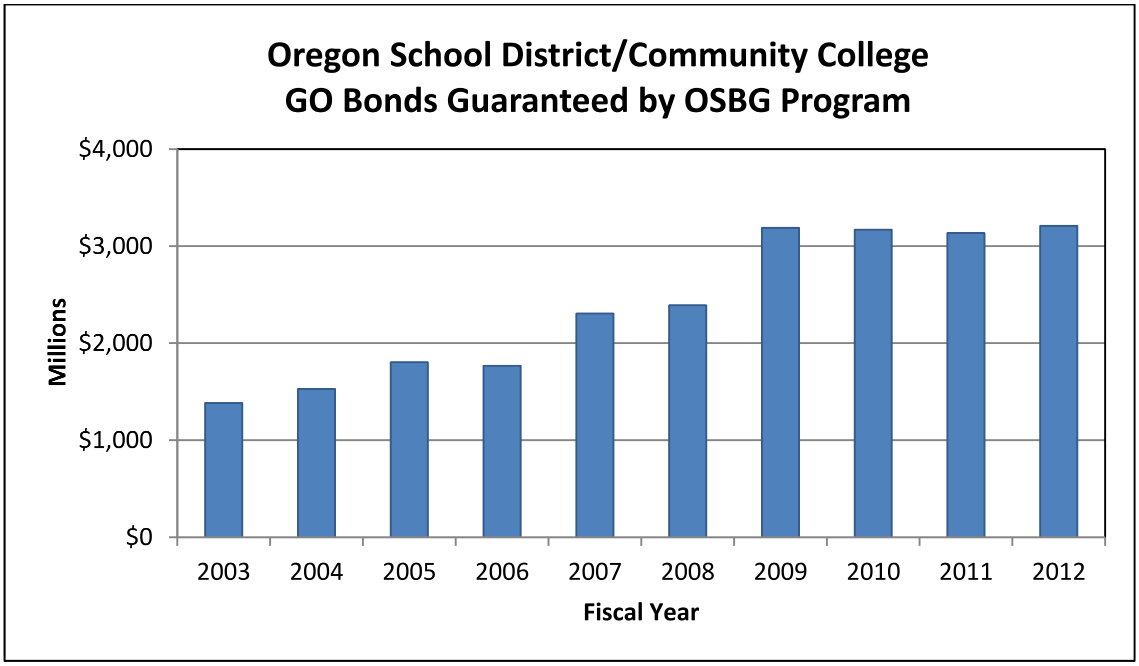
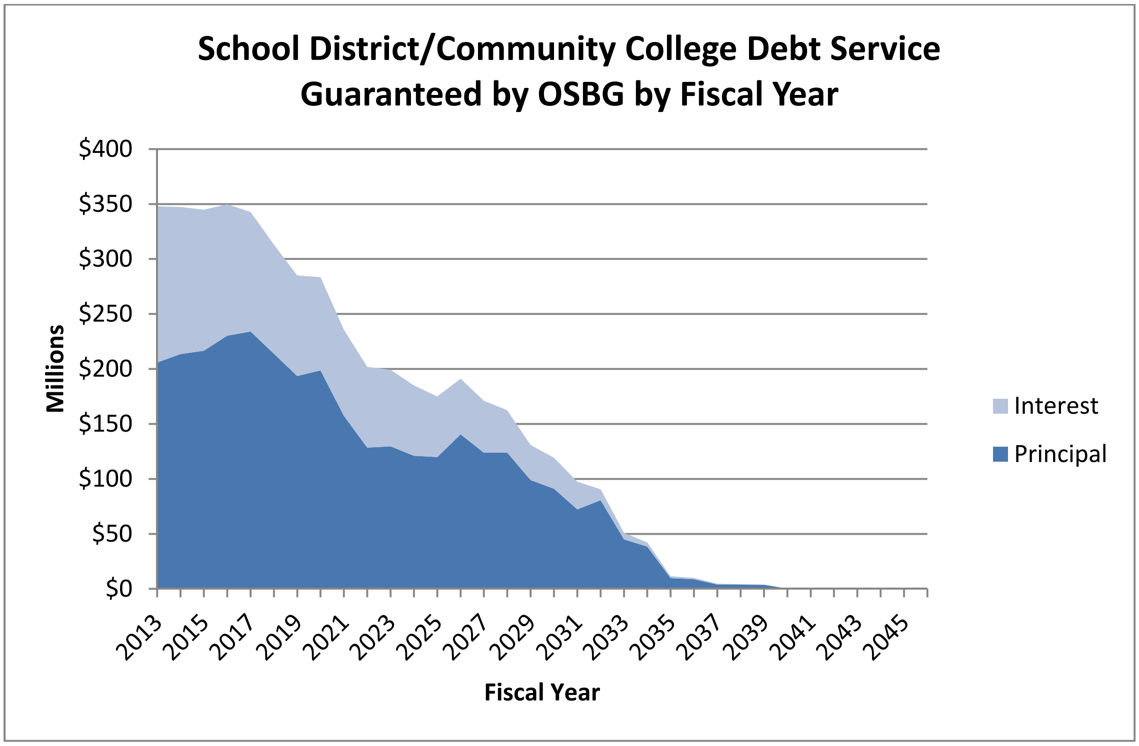


Exhibit VI.2



State Guarantees of School District/Community College Pension Bonds

In 2001, the Legislative Assembly authorized the State Department of Education to enter into Fund Diversion Agreements as a means of improving the creditworthiness of Pension Obligation

Bonds ("POBs") issued by Oregon school districts and community colleges. POBs were issued from 2002 to 2007 by many local Oregon jurisdictions with this Fund Diversion provision to prepay their accrued unfunded pension liabilities in the Oregon's Public Employees Retirement System ("PERS"). Under these Fund Diversion Agreements, the State Board of Education agreed to make POB debt service payments to a POB bond trustee out of the annual state aid grants made to participating districts.

Since 2002, there have been nine separate pooled POB borrowings issued by the Oregon School Board Association and community colleges totaling $3.06 billion that have used this Fund Diversion Agreement approach to guarantee repayment of the POBs. *Exhibit VI.3* shows the substantial growth in the amount of state school aid that has been diverted each year to pay district POB debt service over the past decade. The Commission projects that the State will divert $207.3 million in state school aid for this purpose in FY 2013, or approximately 6.3% of combined annual state aid for school districts and community colleges in the state.

Exhibit VI.3

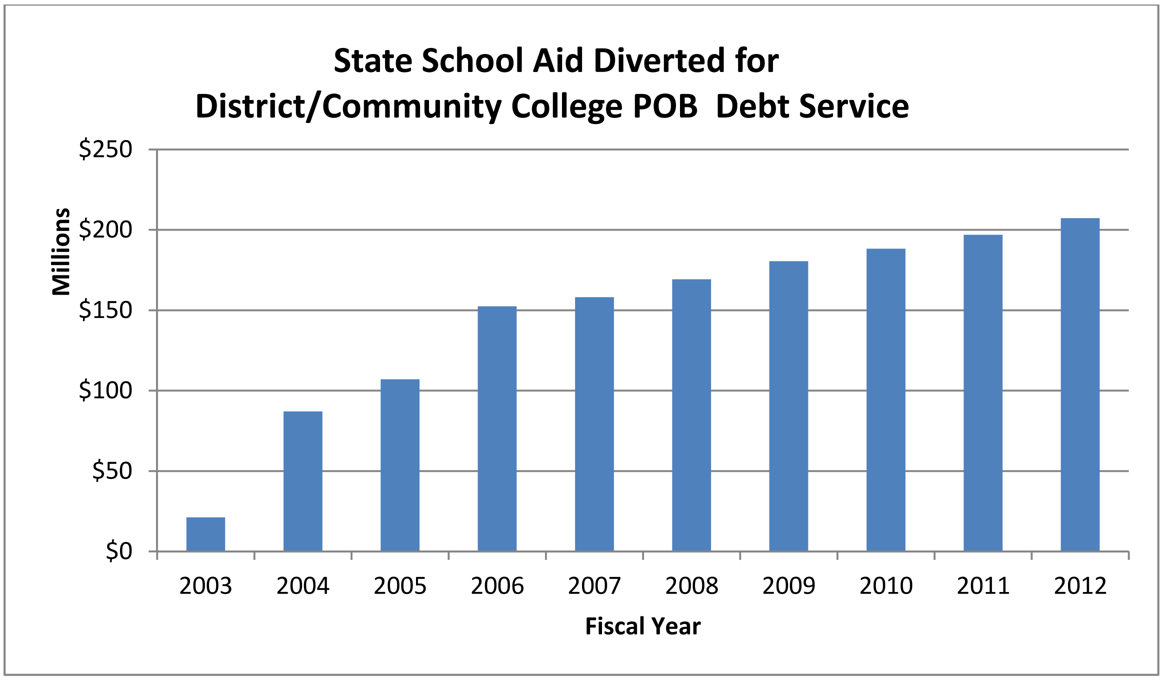
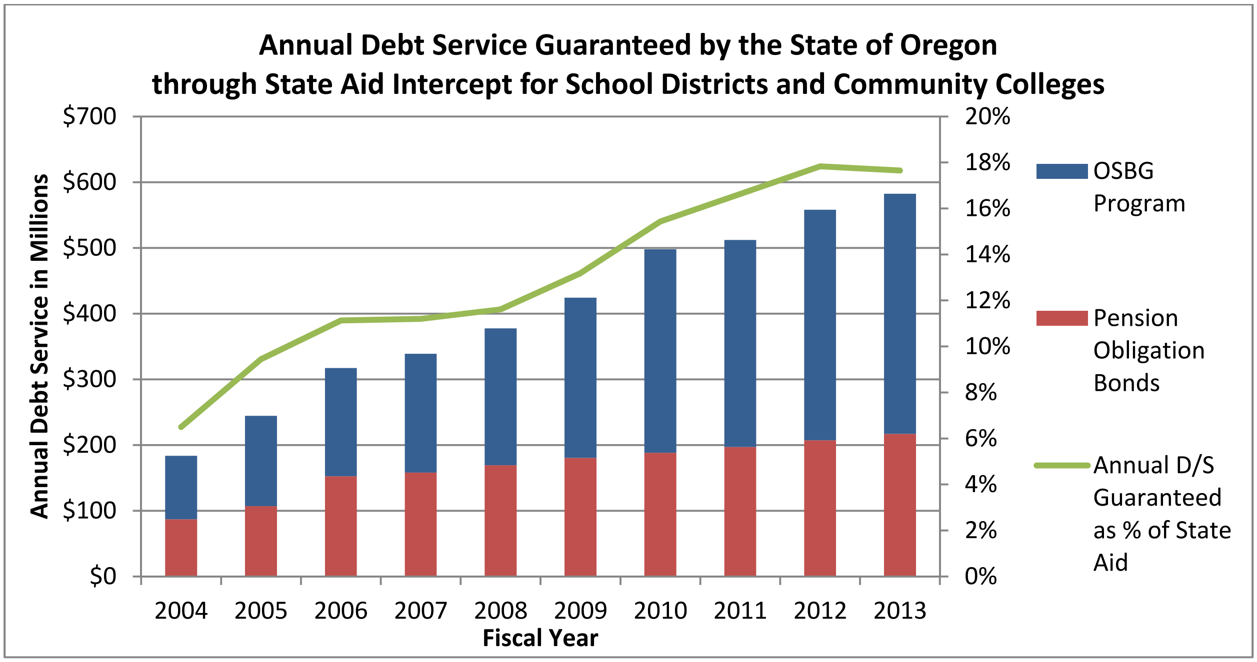


Exhibit VI.4 shows the growth in the State's combined annual guaranteed debt service for both the OSBG program and the POB fund diversion programs. As the chart shows, these two state aid intercept bonding programs are relying on an increasing percentage of state aid to schools – for FY 2013, annual debt service guaranteed by the State is projected at 17.4% of overall state aid for schools and community colleges.

Exhibit VI.4



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 guarantees 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 successfully lowered 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 should be examined. In May 2010, Oregon voters approved the passage of a new Constitutional amendment authorizing the State to sell GO bonds (Article XI-P), to fund projects in those K-12 school districts who provide a cash match similar to the type of bond programs already in place for Oregon's higher education institutions and community colleges (Article XI-G bonds). 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 guarantee equating to 5.0% of General Fund revenues and 10.8% of overall school state aid, coupled with annual diversions of 6.6% of school state aid for district and community college POB debt service payments, 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 and community college bonded debt service remains within financially prudent limits.

Table VI.1

Debt Issuance Considerations for Non Tax-Supported Programs

NON TAX-SUPPORTED DEBT PROGRAM	BASED ON:
Veterans' Welfare Bonds *Article XI-A*	• Demand for loan program services; • Annual cash flow projections; • Legal limitations (8% of State TCV); • Governor's budgetary review; • Biennial Legislative Authorization; • Central debt management review.
Oregon University System Building Project Bonds *Article XI-F(1)*	• Need for capital building projects; • Revenue producing capacity of desired projects; • Projects self-supporting without any General Fund revenues; • Legal limitations (0.75% of State TCV); • Governor's budgetary review; • Biennial Legislative Authorization; • Central debt management review.
Oregon University System Revenue Bonds *ORS Chapter 351*	• Need for capital building projects; • Revenue producing capacity of desired projects; • Projects self-supporting without any General Fund revenues, and after payment of outstanding XI-F(1) bonds; • Biennial Legislative Authorization; • Central debt management review.
Alternate Energy Project Bonds *Article XI-J*	• Local community/region energy needs; • Applicant screening; • Thorough technical review; • Legal limitations (0.5% of State TCV); • Governor's budgetary review; • Biennial Legislative Authorization; • Central debt management review.
Oregon School Bond Guaranty Program *Article XI-K*	• Maybe triggered if state has to pay district debt service; • State-Aid maybe intercepted for debt service payments; • May levy a statewide property tax or district property tax • States full faith in credit • Legal Limitation (0.5% of State TCV)
Infrastructure Finance Authority Bond Bank Program Bonds *ORS Chapter 285B*	• Municipality water and wastewater system needs; • Municipality infrastructure needs; • Legal limitations (0.5% of State TCV); • Governor's budgetary review; • Biennial Legislative Authorization; • Central debt management review.

Elderly & Disabled Housing Project Bonds *Article XI-I(2)* and **Single-Family & Multi-Family Revenue Bonds** *ORS 456.661*	• Demand for mortgage program services; • Continued strict applicant screening and eligibility requirements; • Annual cash flow review; • Legal limitations; ▪ Elderly & Disabled (0.5% of State TCV) ▪ Single & Multifamily ($2 billion) • Governor's budgetary review; • Biennial Legislative Authorization; • Central debt management review.
Conduit Programs *Oregon Facilities Authority Bonds* *Industrial Development Revenue Bonds* *Housing Development Revenue Bonds*	• Conduit borrower's ability to pay debt service on intended projects; • Evaluation of market impact of conduit issues on other State issues; • Biennial Legislative Authorization; • Central debt management review.

APPENDIX A

Supporting Tables

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Table A-1

State of Oregon Bonding and Appropriation Credit Programs

Classification of Debt for Capacity and Debt Burden Determinations

Active
State of Oregon Bonding Programs

- **General Obligation**
- **Direct Revenue**
- **Appropriation Credits**
- **Conduits**

General Fund-Supported Debt Programs

General Obligation Bond Programs:

- Higher Education Facility – Article XI-G
- Community College Bonds – Article XI-G
- Pollution Control Bonds – Article XI-H (42%)
- Alternate Energy Bonds – Article XI-J (19%)
- Oregon Opportunity Bonds – Article XI-L
- Seismic Rehab – Public Education Bldgs (Article XI-M)
- Seismic Rehab – Emergency Services Bldgs (Article XI-N)
- State General Purpose Bonds Article XI-Q (15%)
- Pension Obligation Bonds – Article XI-O (32%)

Direct Revenue Bond Programs:

Appropriation Credits

- Appropriation Bonds – SB 856 – 2003 Legislature
- Certificates of Participation – ORS 283.085 to 283.092 (85%)

Non Tax-Supported Debt Programs

General Obligation Bond Programs:

- Veterans' Welfare – Article XI-A
- Elderly & Disabled Housing Bonds – Article XI-I(2)
- Higher Education Building Bonds – Article XI-F(1)
- Alternate Energy Bonds – Article XI-J (81%)
- State General Purpose Bonds – Article XI-Q (15%)

Direct Revenue Bond Programs:

- Single & Multi-Family Housing Bonds – ORS 456.661
- Oregon Infrastructure Authority Bond Bank – ORS 285B.482
- Oregon University System Bonds – ORS 351.473 to 351.485

Conduit Revenue Bond Programs:

- Economic & Industrial Development Bonds – ORS 285.310 to 285.397
- Oregon Facilities Authority – ORS Ch. 289
- Housing Development Revenue Bonds – ORS 456.692

Net Tax-Supported Debt Programs

All General Fund-Supported Debt Programs

Plus

Direct Revenue Bond Programs:

- Lottery Revenue Programs – ORS 286A.563 to 286A.585
- Highway User Tax Bonds – ORS 367.620

Table A-2

Net Tax-Supported Debt Authorizations for 2011-2013 Biennium[1]

Net Tax-Supported Debt Programs	2011-2013 Biennium Authorization	FY 2012 Issuance	FY 2013 Planned Issuance	Remaining Authorization
Community College Bonds Article XI-G	24,500,000	0	8,000,000	$16,500,000
Pollution Control Bonds Article XI-G	17,608,000	0	1,522,000	16,086,000
Alternate Energy Bonds[2] Article XI-J – 19%	26,585,801	4,020,000	9,541,731	13,024,070
Oregon Opportunity Bonds[3] Article XI-L	0	0	0	0
Department of Military Bonds Article XI-M	7,614,000	0	7,155,000	459,000
State General Purpose Bonds[4] Article XI-Q – 85%	200,645,000	40,015,000	142,140,000	18,490,000
Pension Obligation Bonds[5] Article XI-O	0	0	0	0
Lottery Revenue Bonds ORS 286.563-585	223,330,000	21,605,000	207,470,000	4,255,000
Highway User Tax Bonds[6] ORS 376.620	663,000,000	0	0	663,000,000
Transportation Infrastructure Bonds ORS 367.030	0	0	0	0
Certificate of Participation Bonds ORS 283.025-092	12,500,000	0	12,500,000	0
State Appropriation Bonds (SB 856 – 2003 Legislature)	0	0	0	0
Total Net Tax-Supported Debt Authorizations	**$1,202,522,801**	**$65,640,000**	**$399,303,731**	**$737,579,070**

Note: May not foot due to rounding

[1] Amounts as authorized by the 76th Oregon Legislative Assembly – 2012 Legislative Session. Authorization does not guarantee issuance of bonds or appropriation credits in these amounts. For the *2013 Commission Report*, it is assumed that entire authorization will be issued for certain programs in fiscal year 2013.

[2] Alternate Energy Bonds: HB 5201, 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, 19% is considered net-tax supported.

[3] Oregon Opportunity bonds are limited by Article XI-L to $200 million net proceeds. There is no additional authorization.

[4] State General Purpose Bonds: HB5201, Legislature approved $200,645,000 for the 2011-13 biennium. Currently 85% is considered net-tax supported.

[5] Pension Obligation bonds are constitutionally limited to 1% of RMV or $4,344,292,476. While there is no Constitutional authorization there is no current intention to issue additional bonds.

[6] User Tax Bonds: HB 5201 Legislature approved $663,000,000 for the 2011-13 biennium.

Table A-3

General Fund Supported Debt
Annual Debt Service Requirements[1]

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)
2013	$73,035,935	$119,484,429	$7,943,458	$30,713,224	$18,277,169	$49,629,080	$719,163	$707,863	$55,073,125	$2,142,133
2014	28,890,905	104,536,911	7,953,608	30,829,812	18,283,119	51,738,233	721,213	710,013	62,414,920	1,679,371
2015	-	97,743,724	7,946,183	30,797,186	18,276,969	53,937,607	721,013	709,913	62,804,673	1,553,231
2016	-	84,658,031	7,941,320	30,813,694	17,990,119	56,230,279	721,813	710,863	59,717,296	1,544,039
2017	-	75,591,695	7,947,595	30,817,426	17,758,919	58,620,352	717,163	706,363	57,037,097	1,285,828
2018	-	70,407,090	7,953,683	30,795,893	17,503,919	61,110,455	719,713	709,063	51,512,820	1,257,499
2019	-	60,961,705	7,938,961	29,967,739	17,245,903	63,707,829	721,713	711,213	51,479,542	1,048,097
2020	-	61,784,172	7,943,359	29,902,041	16,963,431	66,415,515	723,163	707,813	49,951,859	912,773
2021	-	57,893,230	7,938,141	28,940,714	16,659,113	69,238,461	719,063	709,013	47,179,637	839,336
2022	-	57,713,471	7,946,829	28,931,564	16,328,688	72,181,742	719,563	709,663	35,057,840	561,812
2023	-	59,253,815	7,942,911	28,933,539	15,978,325	75,248,863	722,013	712,263	32,684,257	563,914
2024	-	61,692,657	7,950,941	28,858,413	8,225,850	78,446,564	721,138	711,544	26,368,120	501,042
2025	-	48,210,067	7,947,639	28,834,151	-	81,781,536	722,025	707,594	26,373,645	501,440
2026	-	48,019,774	7,945,839	28,142,968	-	85,257,296	721,688	712,619	26,371,963	504,963
2027	-	47,172,795	7,946,939	28,113,142	-	88,879,815	720,475	711,594	16,881,222	505,278
2028	-	46,499,431	7,952,654	26,421,869	-	-	718,375	709,688	16,738,550	504,641
2029	-	46,345,756	7,949,435	24,074,331	-	-	722,875	709,388	14,668,668	211,549
2030	-	42,615,340	7,521,947	21,918,816	-	-	721,375	708,288	14,271,495	212,342
2031	-	35,669,703	7,526,700	20,189,583	-	-	723,850	711,175	13,766,218	-
2032	-	30,023,306	7,523,813	19,822,515	-	-	720,075	707,825	13,771,573	-
2033	-	26,314,238	7,510,875	16,479,731	-	-	722,500	710,700	13,766,473	-
2034	-	20,011,062	7,519,391	16,466,726	-	-	721,275	709,925	13,768,088	-
2035	-	17,457,059	4,048,500	13,817,519	-	-	721,500	710,600	13,772,380	-
2036	-	3,191,835	4,043,000	13,814,817	-	-	245,575	235,125	13,756,740	-
2037	-	3,191,283	1,552,000	12,306,188	-	-	-	-	2,857,658	-
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	-	-	-	-	-	-
2045	-	-	-	3,659,250	-	-	-	-	-	-
2046	-	-	-	-	-	-	-	-	-	-
Program Totals	**$101,926,840**	**$1,332,828,478**	**$183,893,718**	**$665,540,946**	**$199,491,522**	**$1,012,423,627**	**$16,828,313**	**$16,560,100**	**$792,045,857**	**$16,329,288**

Note: May not foot due to rounding.

[1] Includes annual fiscal year debt service requirements on all General Fund Supported debt issued through June 30, 2012.

Table A-3 (Continued)

Fiscal Year (ending June 30th)	Energy Bonds (General Fund Supported)	Total General Fund Supported Debt Service
2013	$4,900,000	$362,625,578
2014	4,691,596	312,449,699
2015	5,197,290	279,687,788
2016	5,057,184	265,384,636
2017	4,495,774	254,978,212
2018	4,044,312	246,014,444
2019	3,972,237	237,754,939
2020	4,326,645	239,630,769
2021	4,159,482	234,276,189
2022	3,171,175	223,322,346
2023	2,717,154	224,757,053
2024	2,496,061	215,972,330
2025	2,167,551	197,245,648
2026	2,165,470	199,842,581
2027	1,971,392	192,902,652
2028	1,909,916	101,455,122
2029	1,772,592	96,454,593
2030	1,333,021	89,302,622
2031	1,035,986	79,623,215
2032	561,726	73,130,832
2033	49,987	65,554,503
2034	50,362	59,246,828
2035	-	50,527,558
2036	-	35,287,092
2037	-	19,907,128
2038	-	16,213,059
2039	-	12,905,811
2040	-	6,339,625
2041	-	3,663,500
2042	-	3,659,250
2043	-	-
Program Totals	**$62,246,913**	**$4,400,115,601**

Note: May not foot due to rounding.

Table A-4

General Fund Supported Debt
Total Principal and Interest Debt Service Requirements[1]

Fiscal Year (ending June 30th)	Principal	Interest	Total
2013	$219,193,026	$143,432,552	$362,625,578
2014	177,355,237	135,094,463	312,449,699
2015	151,682,244	128,005,543	279,687,788
2016	144,123,484	121,261,152	265,384,636
2017	140,366,418	114,611,793	254,978,212
2018	138,594,480	107,419,965	246,014,444
2019	138,455,656	99,299,284	237,754,939
2020	147,311,278	92,319,491	239,630,769
2021	150,482,208	83,793,981	234,276,189
2022	146,846,215	76,476,130	223,322,346
2023	156,412,918	68,344,135	224,757,053
2024	155,875,894	60,096,437	215,972,330
2025	145,111,993	52,133,654	197,245,648
2026	155,393,685	44,448,896	199,842,581
2027	156,784,535	36,118,117	192,902,652
2028	73,805,543	27,649,579	101,455,122
2029	72,368,210	24,086,383	96,454,593
2030	68,733,592	20,569,030	89,302,622
2031	62,445,282	17,177,933	79,623,215
2032	58,954,107	14,176,725	73,130,832
2033	54,245,401	11,309,103	65,554,503
2034	50,597,527	8,649,301	59,246,828
2035	44,350,500	6,177,058	50,527,558
2036	31,330,000	3,957,092	35,287,092
2037	17,417,250	2,489,878	19,907,128
2038	14,531,500	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
2043	-	-	-
Totals	**$2,897,467,681**	**$1,502,647,920**	**$4,400,115,601**

Note: May not foot due to rounding.

[1] Includes annual fiscal year debt service requirements on all General Fund Supported debt issued through June 30, 2012.

Table A-5

Net Tax-Supported Debt
Annual Debt Service Requirements[1]

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)
2013	$73,035,935	$140,569,916	$7,943,458	$30,713,224	$18,277,169	$155,090,876	$5,100,317	$148,391,820	$128,612,602	$4,900,000
2014	28,890,905	122,984,601	7,953,608	30,829,812	18,283,119	161,681,978	3,998,503	148,402,450	121,816,448	4,691,596
2015	-	114,992,616	7,946,183	30,797,186	18,276,969	168,555,022	3,698,170	148,399,560	119,430,782	5,197,290
2016	-	99,597,683	7,941,320	30,813,694	17,990,119	175,719,621	3,676,283	148,384,779	101,870,056	5,057,184
2017	-	88,931,406	7,947,595	30,817,426	17,758,919	183,188,600	3,061,495	147,539,142	98,160,748	4,495,774
2018	-	82,831,870	7,953,683	30,795,893	17,503,919	190,970,172	2,994,045	147,743,001	98,164,387	4,044,312
2019	-	71,719,653	7,938,961	29,967,739	17,245,903	199,086,967	2,495,470	149,075,729	93,599,775	3,972,237
2020	-	72,687,261	7,943,359	29,902,041	16,963,431	207,548,485	2,173,270	149,522,288	91,094,644	4,326,645
2021	-	68,109,683	7,938,141	28,940,714	16,659,113	216,370,191	1,998,420	149,303,678	91,093,109	4,159,482
2022	-	67,898,202	7,946,829	28,931,564	16,328,688	225,567,942	1,337,648	150,363,105	91,100,137	3,171,175
2023	-	69,710,370	7,942,911	28,933,539	15,978,325	235,152,696	1,342,651	150,997,608	91,098,298	2,717,154
2024	-	72,579,597	7,950,941	28,858,413	8,225,850	245,145,513	1,192,957	151,749,129	91,090,899	2,496,061
2025	-	56,717,726	7,947,639	28,834,151	-	255,567,300	1,193,905	152,557,456	91,091,066	2,167,551
2026	-	56,493,852	7,945,839	28,142,968	-	266,429,051	1,202,294	153,365,783	91,098,055	2,165,470
2027	-	55,497,406	7,946,939	28,113,142	-	277,749,421	1,203,044	154,206,294	81,181,543	1,971,392
2028	-	54,705,213	7,952,654	26,421,869	-	-	1,201,525	154,776,706	61,350,700	1,909,916
2029	-	54,524,419	7,949,435	24,074,331	-	-	503,688	154,783,843	47,682,650	1,772,592
2030	-	50,135,695	7,521,947	21,918,816	-	-	505,575	154,292,924	31,603,400	1,333,021
2031	-	41,964,356	7,526,700	20,189,583	-	-	-	154,988,191	21,687,025	1,035,986
2032	-	35,321,537	7,523,813	19,822,515	-	-	-	154,231,415	1,853,250	561,726
2033	-	30,957,927	7,510,875	16,479,731	-	-	-	153,240,579	-	49,987
2034	-	23,542,426	7,519,391	16,466,726	-	-	-	151,453,891	-	50,362
2035	-	20,537,717	4,048,500	13,817,519	-	-	-	148,797,399	-	-
2036	-	3,755,100	4,043,000	13,814,817	-	-	-	-	-	-
2037	-	3,754,450	1,552,000	12,306,188	-	-	-	-	-	-
2038	-	3,755,400	1,558,000	11,462,969	-	-	-	-	-	-
2039	-	3,757,425	-	9,712,000	-	-	-	-	-	-
2040	-	-	-	6,339,625	-	-	-	-	-	-
2041	-	-	-	3,663,500	-	-	-	-	-	-
2042	-	-	-	3,659,250	-	-	-	-		-
2043	-	-	-	-	-	-	-	-	-	-
Program Totals	**$101,926,840**	**$1,568,033,503**	**$183,893,718**	**$665,540,946**	**$199,491,522**	**$3,163,823,835**	**$38,879,258**	**$3,476,566,769**	**$1,644,679,572**	**$62,246,913**

Note: May not foot due to rounding.

[1] Includes annual fiscal year debt service requirements on all Net Tax-Supported debt issued through June 30, 2012.

Table A-5 (Continued)

Net Tax-Supported Debt
Annual Debt Service Requirements[1]

Fiscal Year (ending June 30th)	State General Purpose Bonds (Article XI-Q) (GF Supported Portion)	Seismic Rehab Public Ed Blgs. (XI-M)	Seismic Rehab Emergency Services Bldgs. (XI-N)	Total Net Tax-Supported Debt
2013	$64,791,912	$719,163	$707,863	**$778,854,254**
2014	73,429,318	721,213	710,013	**724,393,561**
2015	73,887,850	721,013	709,913	**692,612,552**
2016	70,255,643	721,813	710,863	**662,739,056**
2017	67,102,468	717,163	706,363	**650,427,098**
2018	60,603,318	719,713	709,063	**645,033,373**
2019	60,564,168	721,713	711,213	**637,099,526**
2020	58,766,893	723,163	707,813	**642,359,290**
2021	55,505,455	719,063	709,013	**641,506,059**
2022	41,244,518	719,563	709,663	**635,319,032**
2023	38,452,068	722,013	712,263	**643,759,895**
2024	31,021,318	721,138	711,544	**641,743,360**
2025	31,027,818	722,025	707,594	**628,534,230**
2026	31,025,839	721,688	712,619	**639,303,457**
2027	19,860,261	720,475	711,594	**629,161,510**
2028	19,692,411	718,375	709,688	**329,439,057**
2029	17,257,256	722,875	709,388	**309,980,476**
2030	16,789,994	721,375	708,288	**285,531,033**
2031	16,195,550	723,850	711,175	**265,022,417**
2032	16,201,850	720,075	707,825	**236,944,005**
2033	16,195,850	722,500	710,700	**225,868,149**
2034	16,197,750	721,275	709,925	**216,661,746**
2035	16,202,800	721,500	710,600	**204,836,034**
2036	16,184,400	245,575	235,125	**38,278,017**
2037	3,361,950	-	-	**20,974,588**
2038	-	-	-	**16,776,369**
2039	-	-	-	**13,469,425**
2040	-	-	-	**6,339,625**
2041	-	-	-	**3,663,500**
2042	-	-	-	**3,659,250**
2043	-	-	-	-
Program Totals	**$931,818,655**	**$16,828,313**	**$16,560,100**	**$12,070,289,943**

Note: May not foot due to rounding.

[1] Includes annual fiscal year debt service requirements on all Net Tax-Supported debt issued through June 30, 2012.

Table A-6

Net Tax-Supported Debt
Total Principal and Interest Debt Service Requirements[1]

Fiscal Year (ending June 30th)	Principal	Interest	Total
2013	$399,324,576	$379,529,678	$778,854,254
2014	360,138,087	364,255,474	724,393,561
2015	344,170,294	348,442,258	692,612,552
2016	330,086,534	332,652,522	662,739,056
2017	333,245,968	317,181,130	650,427,098
2018	344,050,580	300,982,794	645,033,373
2019	353,754,106	283,345,421	637,099,526
2020	375,845,978	266,513,312	642,359,290
2021	393,982,108	247,523,952	641,506,059
2022	406,527,115	228,791,917	635,319,032
2023	435,567,068	208,192,827	643,759,895
2024	455,326,994	186,416,366	641,743,360
2025	464,926,543	163,607,687	628,534,230
2026	499,331,585	139,971,872	639,303,457
2027	514,833,085	114,328,425	629,161,510
2028	241,958,093	87,480,964	329,439,057
2029	234,053,060	75,927,416	309,980,476
2030	221,313,792	64,217,241	285,531,033
2031	212,128,032	52,894,385	265,022,417
2032	194,795,607	42,148,398	236,944,005
2033	193,696,901	32,171,248	225,868,149
2034	194,858,777	21,802,969	216,661,746
2035	193,960,000	10,876,034	204,836,034
2036	34,090,000	4,188,017	38,278,017
2037	18,390,000	2,584,588	20,974,588
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
2043	-	-	-
Totals	**$7,790,629,881**	**$4,279,660,062**	**$12,070,289,943**

Note: May not foot due to rounding

[1] Includes annual fiscal year debt service requirements on all Net Tax-Supported debt issued through June 30, 2012.

Table A-7[1]

Annual Debt Service Requirements for Lottery Bonds Outstanding

Fiscal Year (ending June 30th)	$5,560,000 2001 Series B *Local Government and Community Loans & Grants*	$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*	$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	$55,850,000 2008 Series A OPB, Housing Plus, OUS Deferred Maintenance, Transportation, Economic Development
2013	576,150	1,176,058	3,265,425	3,014,530	4,256,535	34,908,298	2,910,750	1,187,375	891,656	1,237,338	2,523,480	5,727,788	6,625,152	1,896,939	2,429,199
2014	578,250	1,172,858	-	655,655	4,257,670	38,283,578	2,913,750	-	894,895	1,235,588	2,522,790	7,027,788	5,324,922	1,893,333	3,689,199
2015	578,250	1,171,333	-	-	4,261,270	10,833,815	-	-	891,481	1,236,506	2,528,890	12,353,388	-	1,892,633	18,853,799
2016	575,100	1,176,150	-	-	4,257,510	7,290,490	-	-	891,813	1,235,631	2,526,840	12,351,388	-	1,895,453	3,938,149
2017	-	1,171,645	-	-	4,261,390	4,165,090	-	-	895,488	1,232,963	2,526,865	12,350,638	-	1,896,608	3,938,524
2018	-	1,173,150	-	-	4,257,220	4,163,250	-	-	892,700	1,232,538	2,524,815	12,354,438	-	1,896,098	3,939,324
2019	-	-	-	-	-	-	-	-	891,760	1,235,013	2,527,415	12,354,438	-	1,893,923	3,936,324
2020	-	-	-	-	-	-	-	-	894,260	1,239,056	2,527,215	12,352,813	-	1,894,423	3,939,524
2021	-	-	-	-	-	-	-	-	894,940	1,240,413	2,523,675	12,354,563	-	1,894,623	3,938,524
2022	-	-	-	-	-	-	-	-	893,800	1,239,081	2,520,506	12,355,313	-	1,892,623	3,938,324
2023	-	-	-	-	-	-	-	-	890,840	1,240,063	2,524,736	12,354,063	-	1,893,423	3,935,074
2024	-	-	-	-	-	-	-	-	891,060	1,238,088	2,525,236	12,354,813	-	1,894,898	3,936,118
2025	-	-	-	-	-	-	-	-	894,200	1,238,156	2,521,743	12,351,313	-	1,892,488	3,939,618
2026	-	-	-	-	-	-	-	-	-	-	2,527,180	12,352,563	-	1,896,513	3,936,438
2027	-	-	-	-	-	-	-	-	-	-	2,528,218	12,352,063	-	1,897,350	3,935,188
2028	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,935,438
2029	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2030	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2031	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2032	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2033	-	-	-	-	-	-	-				-	-	-	-	-
2034	-	-	-	-	-	-	-				-	-	-	-	-
2035	-	-	-	-	-	-	-				-	-	-	-	-
2036	-	-	-	-	-	-	-				-	-	-	-	-
2037	-	-	-	-	-	-	-				-	-	-	-	-
2038	-	-	-	-	-	-	-				-	-	-	-	-
Totals	**$ 2,307,750**	**$ 7,041,193**	**3,265,425**	**3,670,185**	**25,551,595**	**99,644,520**	**5,824,500**	**1,187,375**	**11,608,891**	**16,080,431**	**37,879,604**	**173,347,363**	**11,950,074**	**28,421,321**	**76,158,759**

Note: May not foot due to rounding.

[1] Includes annual fiscal year debt service requirements on all Lottery debt issued through June 30, 2012.

Table A-7[1] (Continued)

Annual Debt Service Requirements for Lottery Bonds Outstanding

Fiscal Year (ending June 30th)	$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 Sereies 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	$9,2454,000 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 & Workforse 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.	$18,855,000 2012 Series A DAS, Oregon University System, and Dept. of Forestry	$53,535,000 2012 Series B Advance Refunding - Refunding Various Series (2002A, 2002C, 2003A, 2004B, 2005A)	$2,750,000 2012 Series C DAS, Oregon University System, and Water Resources	Total Outstanding Debt Service Requirements
2013	2,113,903	30,649,726	3,290,928	120,250	3,370,050	1,471,350	1,829,156	6,771,663	1,121,550	1,142,654	871,080	2,708,293	525,331	**$ 128,612,602**
2014	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	933,300	2,624,200	25,640	**$ 121,816,448**
2015	-	36,910,126	-	-	3,362,500	1,471,350	1,828,036	6,771,663	1,121,550	1,142,654	933,300	11,262,600	25,640	**$ 119,430,782**
2016	-	36,910,181	-	-	3,366,750	1,471,350	1,828,446	6,771,663	1,121,550	1,142,654	933,300	11,260,000	925,640	**$ 101,870,056**
2017	-	36,910,113	-	-	3,366,750	3,106,350	191,846	6,771,663	1,121,550	1,142,654	933,300	11,254,550	922,765	**$ 98,160,748**
2018	-	36,905,788	-	-	3,367,500	3,302,300	-	6,771,663	1,121,550	1,142,654	1,408,300	11,259,650	451,453	**$ 98,164,387**
2019	-	36,909,538	-	-	3,368,750	3,300,900	-	6,771,663	11,806,550	1,142,654	1,854,550	5,606,300	-	**$ 93,599,775**
2020	-	36,907,988	-	-	3,370,250	3,300,050	-	6,771,663	13,009,500	1,142,654	1,856,750	1,888,500	-	**$ 91,094,644**
2021	-	36,906,906	-	-	3,366,750	3,299,900	-	6,771,663	745,500	13,412,654	1,857,500	1,885,500	-	**$ 91,093,109**
2022	-	36,906,606	-	-	3,368,250	3,298,400	-	6,771,663	-	14,169,522	1,855,750	1,890,300	-	**$ 91,100,137**
2023	-	36,906,638	-	-	3,369,250	3,298,550	-	20,936,663	-	-	1,856,500	1,892,500	-	**$ 91,098,298**
2024	-	36,906,288	-	-	3,364,500	3,301,650	-	20,933,000	-	-	1,854,500	1,890,750	-	**$ 91,090,899**
2025	-	36,910,413	-	-	3,369,000	3,298,900	-	20,930,488	-	-	1,854,750	1,890,000	-	**$ 91,091,066**
2026	-	36,908,938	-	-	3,367,000	3,300,400	-	24,952,025	-	-	1,857,000	-	-	**$ 91,098,055**
2027	-	36,905,250	-	-	3,368,500	3,300,650	-	15,038,325	-	-	1,856,000	-	-	**$ 81,181,543**
2028	-	36,906,250	-	-	3,368,000	3,299,400	-	11,984,863	-	-	1,856,750	-	-	**$ 61,350,700**
2029	-	36,907,500	-	-	3,365,250	3,301,400	-	2,254,500	-	-	1,854,000	-	-	**$ 47,682,650**
2030	-	-	-	-	-	3,301,150	-	26,444,500	-	-	1,857,750	-	-	**$ 31,603,400**
2031	-	-	-	-	-	-	-	19,829,525	-	-	1,857,500	-	-	**$ 21,687,025**
2032	-	-	-	-	-	-	-	-	-	-	1,853,250	-	-	**$ 1,853,250**
2033	-	-	-	-	-	-	-	-	-	-	-	-	-	**$ -**
2034	-	-	-	-	-	-	-	-	-	-	-	-	-	**$ -**
2035	-	-	-	-	-	-	-	-	-	-	-	-	-	**$ -**
2036	-	-	-	-	-	-	-	-	-	-	-	-	-	**$ -**
2037	-	-	-	-	-	-	-	-	-	-	-	-	-	**$ -**
2038	-	-	-	-	-	-	-	-	-	-	-	-	-	**$ -**
Totals	**2,967,289**	**612,964,223**	**3,290,928**	**2,645,500**	**57,248,800**	**51,895,400**	**7,508,940**	**231,020,513**	**32,290,850**	**36,723,404**	**31,995,130**	**67,313,143**	**2,876,468**	**$ 1,644,679,572**

Note: May not foot due to rounding

[1] Includes annual fiscal year debt service requirements on all Lottery debt issued through June 30, 2012.

Table A-8

Lottery Revenue Debt
Total Principal and Interest Debt Service Requirements[1]

Fiscal Year (ending June 30th)	Principal	Interest	Total
2013	$74,525,000	$54,087,602	$128,612,602
2014	70,830,000	50,986,448	121,816,448
2015	71,870,000	47,560,782	119,430,782
2016	57,480,000	44,390,056	101,870,056
2017	56,435,000	41,725,748	98,160,748
2018	59,025,000	39,139,387	98,164,387
2019	57,170,000	36,429,775	93,599,775
2020	57,275,000	33,819,644	91,094,644
2021	59,965,000	31,128,109	91,093,109
2022	62,780,000	28,320,137	91,100,137
2023	65,770,000	25,328,298	91,098,298
2024	68,995,000	22,095,899	91,090,899
2025	72,525,000	18,566,066	91,091,066
2026	76,220,000	14,878,055	91,098,055
2027	70,195,000	10,986,543	81,181,543
2028	53,865,000	7,485,700	61,350,700
2029	42,885,000	4,797,650	47,682,650
2030	28,950,000	2,653,400	31,603,400
2031	20,530,000	1,157,025	21,687,025
2032	1,765,000	88,250	1,853,250
Total	**$1,129,055,000**	**$515,624,572**	**$1,644,679,572**

Note: May not foot due to rounding.

[1] Includes annual fiscal year debt service requirements on all Lottery revenue debt issued through June 30,2012.

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APPENDIX B

Constitutional & Statutory Framework

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GENERAL OBLIGATION BONDS

General Purpose Bonds – Article XI, Section 7. The Oregon Constitution Article XI, Section 7 prohibits the State from incurring indebtedness exceeding $50,000 without a constitutional amendment approved by voters. This single limitation applies to both General Purpose and short-term general obligation debt. Exceptions are provided such as in the case of war or invasion and also to build and maintain permanent roads. This section does not apply to real property leases up to 20 years entered into by the State for a public purpose. There are currently no General Purpose bonds currently outstanding for this purpose.

State Highway Bonds – Article XI, Section 7. Article XI, Section 7 of the Oregon Constitution approves the issuance of bonds up to one percent of the true cash value of property in the State for the purpose of building and maintaining permanent roads within the State. Although these bonds have the State's General Obligation (GO) backing as security, the debt service funding source is provided by specifically earmarked vehicle registration fees and gasoline and weight-mile tax revenues. There are no General Obligation State Highway Bonds currently outstanding for this purpose.

Veterans' Welfare Bonds – Article XI-A. One of the State's larger GO bond programs is the Veterans' Welfare program. This program, authorized by Article XI-A of Oregon's Constitution, allows the State to borrow up to eight percent of the true cash value (TCV) of all taxable property in the state to fund the Oregon War Veterans' Fund. The fund is used to finance farm and home loans for eligible veterans. Although bonds issued under this program are a direct obligation of the State, for which a property tax may be levied, the program is fully self-supporting from loan repayments. Principal amount outstanding is $312,465,000 as of June 30, 2012.

State Power Development Bonds – Article XI-D. Article XI-D of the Oregon Constitution provides authority to issue long-term debt, up to one and one-half percent of true cash value of all taxable property in the state, to provide for the development of hydroelectric power plants and transmission and distribution lines. This amendment to the Oregon Constitution was adopted in 1932 and has never been used.

State Forest Rehabilitation Bonds – Article XI-E. Article XI-E of the Oregon Constitution authorized the establishment of the Forest Rehabilitation bond program. The Article permits the state's credit to be loaned and indebtedness incurred in an amount not to exceed three-sixteenths of one percent of the state's true cash value to provide for the reforestation of land that the State currently owns or may acquire for the purpose of reforestation. Funds generated by the reforestation must be used to repay any outstanding debt issued under this provision. Property taxes are authorized to assist in the repayment of the debt. In addition to constitutional provisions, statutes (ORS526.111) place a limit of $750,000 on this program. This program was put in place in response to the 1933 "Tillamook Burn" which ravaged 240,000 acres of forest-land in Tillamook County. The program has not been used since 1971 and there are currently no outstanding bonds under this authorization.

Higher Education Building Bonds – Article XI-F (1). The Oregon Constitution grants the State Board of Higher Education authority to borrow funds through general obligation bonds under two separate Articles, XI-F(1) and XI-G. Article XI-F(1) authorizes the State Board to borrow up to three-quarters of one percent of state true cash value to finance higher education building and land acquisition projects. Projects financed through this program must be fully self-supporting and self-liquidating from non-General Fund revenues, including tuition, gifts, grants, and/or building fees. Principal amount outstanding is $1,089,116,823 as of June 30, 2012.

Higher Education Facilities and Community College Bonds – Article XI-G.[1] In addition to Article XI-F(1) provisions, Article XI-G, adopted in 1964, allows a debt limit of up to three-fourths of one percent TCV to finance higher education institution and community college facilities that are not revenue producing. Unlike Article XI-F(1), however, Article XI-G requires that any indebtedness incurred under Article XI-G not exceed the dollar amount appropriated from the State's General Fund for the same or similar purpose as the indebtedness to be incurred. As a result, this type of bond is not issued, unless there is also a legislatively authorized and matching appropriation equal to at least 50 percent of the overall cost of the project.

Article XI-G bonds for higher education are traditionally used to finance instructional and public service facilities of the Oregon University System and Oregon's various community colleges, with General Fund appropriations being made annually to pay debt service on these bonds. As of June 30, 2012 the principal amount outstanding for Higher Education Facilities bonds is $392,056,452.

The advancing age of Oregon University System (OUS) buildings, along with projected enrollment growth are contributing to significant strain on existing facilities. The Oregon University System estimates that cumulative deferred maintenance (i.e. the cost to restore facilities to proper condition) totals about $600 million system-wide. This backlog remains among the highest in the nation among public universities. The Department estimates that an expenditure of $136 million per biennium is required just to keep the system's existing facilities in repair and to avoid further deterioration. Many facilities also are in need of seismic upgrades due to code or changes or require academic modernization, which includes equipment upgrades such as telecommunications connectivity and enhanced computer linkages.

ORS 341.009 directs that the state should maintain a policy of substantial state participation in community college building costs. In the 1960s and 1970s, State general obligation bonds were issued to help support the costs of the expanding network of Oregon community colleges. Since then the demand for a highly skilled workforce in Oregon has continued to grow, as has the need to support the retraining of existing workers for today's increasingly technical job market.

Since 2007, the Legislature has included authorization of XI-G bonding in varying amounts for select community college instructional facilities for which there was a local need and a demonstrated source for the 50 percent matching appropriation. As of June 30, 2012 the principal amount outstanding for Community College bonds is $115,090,000.

Pollution Control Bonds – Article XI-H. Funds of up to one percent of the State's true cash value may be borrowed for purposes of financing pollution abatement and control facilities, as well as pollution control and disposal activities of State and local government agencies. This authorization, granted under Article XI-H, requires that most facilities funded by the program, with the exception of pollution control and disposal activities and hazardous substance facilities, must "conservatively appear" to be at least seventy percent self-supporting and self-liquidating from revenues, gifts, federal grants, user charges, assessments and other fees.[2] Property taxing authority is provided as an additional source of revenue to support these bonds. Historically, the portion of the debt service of these bonds associated with orphan hazardous disposal site clean-

[1] Higher Education Facilities bonds are issued by the Department 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.

[2] In accordance with Article XI-H Section 2, the facilities supported by the Pollution Control Bonds must be 70% self-supporting and self-liquidating. However, the bonds that provide the funds to support the facilities are currently non-self-supporting, requiring debt service payments to be provided by General Fund appropriations.

up has been repaid by General Fund appropriation, with the balance of debt service repaid by DEQ fees and repayment on loans. (Please see the “General Fund Supported Debt” chapter of this report for more information on General Fund versus Other Fund split.) The amount of General Fund support may vary over time. Principal amount outstanding is $38,350,000 as of June 30, 2012.

Water Resources Bonds – Article XI-I(1). Up to one-half of one percent of the true cash value of property within the State may be borrowed to provide funds for loans to construct water development projects. Project purposes include irrigation and drainage, community water supply, fish protection and watershed restoration. Authorized by Article XI-I(1), at least fifty percent of these funds are reserved for irrigation and drainage projects. The program is intended to be self-supporting from revenues received pursuant to financing agreements with project borrowers. As of June 30, 2012 there are no bonds outstanding under this authorization.

Elderly and Disabled Housing Bonds – Article XI-I(2). Funds may be borrowed to finance multifamily housing for elderly and disabled persons under Article XI-I(2). This program, under which one-half of one percent of state property true cash value may be borrowed, is fully self-supporting from project mortgage loan revenues. Principal amount outstanding is $141,830,000 as of June 30, 2012.

Alternate Energy Bonds – Article XI-J. The Department of Energy is authorized by Article XI-J to incur debt up to one-half of one percent of the true cash value of all taxable property of the state to finance development of small-scale local energy projects (SELP). Projects are funded only if they can demonstrate there will be a revenue stream adequate to repay the loan obtained from bond proceeds. Although the program has the State’s general obligation backing, it has historically been fully self-supporting from loan repayment revenues; in the past few years, the Department has had to write off several large loans to private parties that were deemed non-collectible, which has greatly depleted SELP’s loan reserves. It is anticipated that the State will need to make cash infusions of approximately $12 to $25 million over the next several fiscal years in order for the Department to meet its future general obligation debt service payments.

The Legislative Assembly has also authorized the sale of approximately $70 million in Article XI-J bonds for energy upgrades and efficiency projects throughout the OUS system, which will be repaid in part through General Fund appropriations. As these bonds are issued, and cash infusions are made to shore up the program’s loan reserves, the proportion of Article XI-J bonds repaid from General Fund resources is likely to grow. (Please see the “General Fund Supported Debt” chapter of this report for more information.) Principal amount outstanding is $242,445,000 as of June 30, 2012, of which 19% is considered General Fund supported debt for purposes of this report.

Oregon School Bond Guaranty Program – Article XI-K. Article XI-K of Oregon’s constitution authorizes the State Treasurer to pledge the full faith and credit of the State to guaranty the general obligation bonds of Oregon common or union high school districts, education service districts or community college districts. The State Treasurer may also issue State general obligation bonds to meet the State’s obligations under the Oregon School Bond Guaranty Program. The amount of State general obligation bonds that can be issued to back the guaranties is limited to one half of one percent of TCV of all taxable property in the state. As of the date of this report, the State has not issued any debt permitted under the provisions of Article XI-K.

Oregon Opportunity Bonds – Article XI-L. Authorizes bonds to finance capital costs of Oregon Health and Science University (OHSU) in an aggregate principal amount that produces net proceeds for the University in an amount that does not exceed $200 million. Section 1 of the Article authorizes debt not to exceed one-half of one percent of the real market value of all property in the State. However, the State is not permitted to levy ad valorem (property) taxes to pay the bonds. The legislation authorizing the program contemplates that the bonds may be paid from tobacco settlement revenues, but those revenues are not directly pledged to pay the bonds. Principal amount outstanding is $138,830,000 of June 30, 2012.

Seismic Rehabilitation of Public Education Buildings – Article XI-M. Authorizes bonds to be issued to provide funds for the planning and implementation of seismic rehabilitation of public education buildings. Outstanding authorized debt may not exceed one-fifth of one percent real market value of all property in the State. Ad valorem property taxes may not be pledged to repay these bonds. Principal amount outstanding is $10,815,000 as of June 30, 2012

Seismic Rehabilitation of Emergency Services Buildings – Article XI-N. Authorizes bonds to be issued to provide funds for the planning and implementation of seismic rehabilitation of emergency services buildings. Outstanding authorized debt may not exceed one-fifth of one percent real market value of all property in the State. Ad valorem property taxes may not be pledged to repay these bonds. Principal amount outstanding is $10,645,000 as of June 30, 2012.

Pension Obligation Bonds – Article XI-O. Pension Obligation Bonds (POBs) were issued under the authority of Article XI-O of the Oregon Constitution and House Bill 3659 in October 2003 in the principal amount of $2,083,960,000. These bonds are general obligations of the State to which the full faith and credit and taxing power of the State (other than the State’s power to levy ad valorem property taxes) are pledged. Proceeds of the POBs were used to pay a substantial portion of the State’s unfunded actuarial liability (UAL) of the Oregon Public Employees Retirement System (PERS). The UAL is the State’s portion of the difference between PERS’ actuarial liability and fair market value of assets in the Public Employees Retirement Fund (PERF) available to pay such liability on November 1, 2003. The amount of outstanding indebtedness authorized by Article XI-O is limited to one percent of the real market value of all property in the state. Debt service on the bonds is allocated among both General Fund and non-General Fund State agencies based on the payroll of such agencies. The State expects that the allocated costs to each agency will be less than if the State did not issue the bonds. Approximately 68 percent of the bond debt service is paid by non-General Fund resources leaving 32 percent of the debt service to be paid with General Fund resources. Principal amount outstanding is $1,984,285,000 as of June 30, 2012.

School Construction Bonds – Article XI-P. Authorizes the State to incur indebtedness in an amount not to exceed one-half of one percent of the real market value of the real property in the state to provide matching funds to school districts to finance capital costs of the district. The State is not authorized to levy a property tax to pay these bonds. The State has not yet issued bonds for this program.

State Facilities – Article XI-Q. Authorizes the State to incur indebtedness in an amount not to exceed one percent of the real market value of the real property in the state to provide funds to acquire, construct, remodel, repair, equip or furnish real or personal property that is or will be owned and/or operated by the State of Oregon. Passed by the voters in November 2010, and enacted into statute in the following year by the 2011 Legislative Assembly, the Article XI-Q bonding program replaced the Certificate of Participation bonding program as a means of financing most state owned property due to its superior credit ratings and lower cost of funds. Through June 30, 2012, the State has sold four separate issues of Article XI-Q bonds, both for new state capital projects but also to refund several series of outstanding COPs, saving Oregon taxpayers $52.8 million in interest cost over the life of these bonds. As of June 30, 2012 principal outstanding for Article IX-Q bonds totaled $645,165,000.

DIRECT REVENUE BONDS

Single-Family and Multifamily Revenue Bonds – ORS 456.645. Oregon Revised Statute 456.645 to 456.725 authorizes the Housing and Community Services Department to issue revenue bonds for the purpose of financing single-family mortgage loans and multifamily housing projects. The statute limits outstanding debt to $2.5 billion. These bonds are fully self-supported with payment for the bonds coming from project rental revenues, as well as mortgage payments and fees. Principal amount outstanding is $1,205,855,000 as of June 30, 2012.

State Highway User Tax Bonds – ORS 367.605. The Oregon Constitution Article IX, Section 3a and Oregon Revised Statutes 367.605 to 367.665 authorize the Department of Transportation to issue highway user tax revenue bonds to provide proceeds for building and maintaining permanent public roads. Highway user tax bonds differ from other State revenue bond programs in that they are secured by constitutionally dedicated tax proceeds from fuel sales and other taxes or fees charged for vehicle use and licensing. However, they are typical of revenue bond programs in that they are not secured by the State's GO pledge.

The 1999 Legislative Assembly under ORS 367.620 authorized the issuance of debt up to $138.4 million in highway user tax bonds. Under this authorization, the Department issued bonds in the amount of $58,355,000 in August 2000. The remainder of this authorization was repealed in 2001 Oregon Laws Chapter 669.

The 2001 Legislative Assembly revised ORS 367.620(2) to approve issuance of $400 million of new highway user tax bonds. House Bill 4010, passed during the First Special Session of the 2002 Legislature, again revised ORS 367.620 increasing the issuance of new highway user tax revenue bonds sufficient to produce net proceeds of not more than $500 million. The authority granted was further restricted to an aggregate principal amount that the department reasonably believes can be paid with $71.2 million in biennial debt service.[1] As of December 31, 2008 the department has issued $500 million in net proceeds under this authorization; there is no remaining bonding authority under these provisions.

The 2003 Legislative Assembly approved HB 2041 amending ORS 367.620(3) to provide additional authority for $1.9 billion net proceeds in highway user tax revenue bonds for bridges and highway modernization purposes. It was envisioned at that time that bonds supporting this program authorization would be issued over a number of years; in 2010, the final series of highway user tax revenue bonds for this program were issued.

In 2009, the Legislative Assembly enacted the Jobs and Transportation Act (JTA) which authorized the Department to issue up to $840 million in net proceeds through the issuance of additional highway user tax revenue bonds for specific congestion management projects To date, no bonds have been issued for this program, although it is anticipated that bonding for JTA will occur in future biennia.

The total principal amount outstanding for highway user tax revenue bonds was $2,142,990,000 as of June 30, 2012.

[1] The $58,355,000 Highway User Tax Revenue Bonds Series 2000, issued and outstanding amount, does not count against the $500 million in new issuance or the $71.2 million biennial debt service limitation imposed by HB 4010.

Oregon Transportation Infrastructure Fund Bonds – ORS 367.015. ORS 367.015 to 367.030 authorize the Department of Transportation to issue revenue bonds for the Oregon Transportation Infrastructure Fund. The fund is to provide infrastructure loans and assistance for transportation projects. The total principal amount of revenue bonds that may be issued and outstanding at any one time under this authorization cannot exceed $200 million. Currently, no Transportation Infrastructure Fund bonds authorized by these provisions have been issued or are outstanding.

City and County Roads and Recreation Facilities Bonds – ORS 367.700. ORS 367.700 to 367.750 authorizes State Department of Transportation bonded indebtedness in the aggregate principal amount of $50 million. This provision was enacted into law in 1975 for the purpose of providing funds to cities and counties to defray the costs of city and county street construction and the acquisition, development, maintenance and care of public park and recreation facilities. No State bonds have ever been issued under the provisions of this legislation.

State Fair and Exposition Center Revenue Bonds – ORS Chapter 565.095. The Oregon State Fair is authorized by ORS 565.095 to issue up to $10 million in revenue bonds for the acquisition of land, capital construction and improvement, and fair expenses. These are limited obligations of State of Oregon payable solely from revenues derived from operations, as well as appropriations, gifts or grants, as long as these funds are not otherwise restricted. State Fair revenue bonds are fully self-supported and do not constitute a general or full faith credit of the State. As of June 30, 2012 there are no outstanding bonds under this authorization.

Oregon Bond Bank Revenue Bonds – ORS Chapter 285B.467. The Oregon Economic and Community Development Department (OECDD) has been granted statutory authority to issue bonds under two revenue bond programs. Pursuant to ORS 285B.410 through 285B.479, bonds, may be issued to fund the Special Public Works Fund (SPWF) to assist municipalities in financing the infrastructure necessary for economic development. In addition, the Department, pursuant to ORS 285B.572 through 285B.587, may issue bonds to finance loans to municipalities for safe drinking water projects and wastewater system improvement projects. Bond proceeds under this program are used to fund the Water/Wastewater Financing Program to deliver funds to eligible municipalities. The bonds are payable from loan repayments made by municipalities. Under each of these programs, the Department is authorized to request the State to withhold any amounts otherwise due to the municipality from the State to pay such amounts that may be owed.

In 1997, the Oregon State Legislature enacted ORS 285B.482 to authorize the consolidation of proceeds of revenue bonds issued for the SPWF Program and the Water/Wastewater Program. Future bonds for these programs are issued under the consolidated Oregon Infrastructure Authority Bond Bank Revenue Program. Additionally, all prior bonds issued under these programs are considered parity bonds. Future bonds supporting the SPWF and the Water/Wastewater programs will be issued as single series under the Oregon Infrastructure Authority Bond Bank Revenue Bond program. Principal amount outstanding is $116,555,000 as of June 30, 2012.

Lottery Revenue Bond Program(s) – ORS 286A.560 to 286A.585. The Oregon State Lottery was created by an amendment to the Oregon Constitution in 1984. That amendment revised Article XV, Section 4 of the Oregon Constitution to require the establishment and operation of the Oregon State Lottery. Article XV, Section 4 requires that all proceeds from the Lottery, including interest earnings but excluding expenses and payment of prizes, be used for creating jobs, furthering economic development, financing public education in Oregon or restoring and protecting Oregon’s parks, beaches, watersheds and critical fish and wildlife habitats. The

Article also requires the Legislative Assembly to appropriate Lottery net proceeds in amounts sufficient to pay lottery bonds before appropriating the Lottery's net proceeds for any other purpose.

The first statutory authority, ORS 391.140, permitted the issuance of up to $115 million in bonds for financing the costs of development, acquisition and construction of the Westside corridor light-rail project. Subsequently, the Legislative Assembly has authorized additional Lottery-backed bond programs at each of its regular sessions. In 1999, the Legislature passed Senate Bill 200 to combine previously enacted legislation authorizing lottery bonds into a single Act. The Act, incorporated as ORS 286A.560 to 286A.585, creates a single consistent legislative authorization and uniform administrative procedures for all lottery bonds issued by the State of Oregon.

Thirty-eight separate sales of Lottery Revenue bond have been conducted by the State since the program's inception. The 2011 Legislature, pursuant to House Bill 5005, authorized an additional aggregate principal amount of $222,705,000 in new Lottery Revenue bonds for the 2011-13 biennium. Principal amount outstanding is $1,129,055,000 as of June 30, 2012.

Forest Development Revenue Bonds – ORS 530.140. The State Forestry Department is authorized by the provisions of ORS 530.140 to 530.160 to sell revenue bonds of the State of Oregon, to be known as Oregon Forest Development Revenue Bonds in an amount not exceeding $500,000. No bonds have been issued or are outstanding under this authorization.

Oregon Student Assistance Revenue Bonds – ORS 348.655. Bond authorization and eligibility requirements are defined by ORS 348.655 to 348.695. It authorizes the issuance of up to $30 million annually in revenue bonds to fund loans to support the "alternative student loan" program. Eligible student, as defined by ORS 348.618, means a student enrolled in an eligible post-secondary educational institution located in Oregon or a student who is an Oregon resident and who is enrolled in an eligible post-secondary educational institution located outside of Oregon. To date, no debt has been issued under this authorization.

CONDUIT REVENUE BONDS

The State has authorized four conduit or "pass-through" revenue bond programs. Under these programs, the State is considered the issuer, but has no obligation to fund debt service payments other than out of payments from the entities on whose behalf the bonds are issued.

Oregon Facilities Authority (OFA) – ORS Chapter 289. The Oregon Facilities Authority, formerly named the Health, Housing, Educational, and Cultural Facilities Authority, was created in 1989 and operates pursuant to Oregon Revised Statues Chapter 289. OFA is a public corporation empowered to issue conduit revenue bonds and assist with the assembling and financing of lands for health care, housing, educational and cultural uses and for the construction and financing of facilities for such uses. Effective January 1, 2007, OFA's mandate was expanded to include the financing of non-profits; such as, institutions, organizations or entities within this state exempt from taxation under section 501(c)(3) of the Internal Revenue Code as defined in ORS 314.011. The Authority reviews proposed projects and makes recommendations to the State Treasurer whether to finance the project through the issuance of limited obligation bonds. Although the State Treasurer issues the bonds they are repaid solely from revenues generated by the projects being financed or from other sources available to the borrower. The State has no financial obligation for these bonds and bondholders have no recourse against the properties, funds or assets of the Issuer, the State or the Authority for payment of bond debt service. Bondholder's only recourse for payment of the bonds is against the actual borrower. In

2007, OFA initiated the SNAP Bond Program (Small Nonprofit Accelerated Program), which is a streamlined low-cost private placement program for nonprofits for simple and generally smaller dollar transactions. Principal amount outstanding for OFA in total is $1,634,140,007 as of June 30, 2012.

Industrial Development Revenue Bonds – ORS Chapter 285B. The Oregon Business Development Commission (OBDC) is empowered, pursuant to ORS 285B.320 to 285B.371, to issue Industrial Development Revenue Bonds through the Oregon Business Development Department, with the approval of the State Treasurer. They are issued as limited obligation bonds payable only from project revenues or other sources available to the borrower. Industrial or economic development revenue bonds do not constitute an indebtedness of the Issuer, the Commission or the State. Proceeds of these bonds are loaned to private businesses to finance various expansions, relocations, retentions, and other projects that will stimulate economic development and provide jobs in the State. Prior to approval of issuance, the State subjects individual projects to a cost effectiveness test to ensure that the public benefits of a project outweigh the related public costs. Principal amount outstanding is $466,564,210 as of June 30, 2012.

Housing Development Revenue Bonds – ORS 456.692. The Oregon Housing and Community Services Department (OHCSD) is authorized pursuant to Oregon Revised Statute 456.692 to issue conduit revenue bonds through the State Treasurer for its Housing Development Program. The multifamily housing program provides financing for developments in which a certain number of the housing units are for persons and families of lower income. Each bond issue finances a single development that is separately secured by revenues and assets specifically pledged by the borrower. Similar to the other State conduit revenue bond programs, as noted above, there is no bondholder recourse to the State for payment should the project not be able to meet its debt service requirements. Principal amount outstanding is $190,968,871 as of June 30, 2012.

APPROPRIATION CREDITS

Appropriation Bonds – SB 856 – 2003 Legislature. Senate Bill 856, the Appropriation Bond Act, was passed by the 2003 Legislative Assembly. The Act authorized the issuance of bonds to assist the State of Oregon in balancing its budget for the 2001-2003 Biennium. Appropriation bonds in the par amount of $431,560,000 were issued in April 2003. These bonds are special obligations of the State payable solely from appropriated moneys and do not represent a general, unlimited-tax obligation of the State. In the Appropriation Bond Act, the Legislative Assembly acknowledged its current intention to apply the moneys available to the State from tobacco settlement revenues to pay the debt service for the appropriation bonds. Principal amount outstanding is $98,095,000 as of June 30, 2012. These bonds will be retired in full with the final payment on September 1, 2013.

Certificates of Participation – ORS Chapter 283.085. Oregon Revised Statutes 283.085 to 283.092 permit the State to enter into financing agreements, including lease purchase agreements, installment sales agreements and loan agreements to finance essential real or personal property and issue certificates of participation evidencing these financing agreements.

Certificates of Participation (COPs) are considered tax-exempt government securities and special obligations of the State payable solely from available funds. They are not general obligations secured by the full faith and credit of the State. Rather, the Oregon Legislature must appropriate COP repayment amounts each biennium for which repayments are scheduled. If the Legislature were to deny a budget request to make the COP payments for a future biennium, the COP Trustee would exercise available legal remedies against the State. These remedies could include the denial of the use of the building(s) or the equipment financed by the COPs for which payment had been denied. While the state's General Fund has been traditionally viewed as the source of repayment for all COP debt, a recent review indicates that a portion of this debt service payment is actually paid by other revenues. (Please see "General Fund Supported Debt" chapter of this report for additional information.)

Passage of Ballot Measure 11 by Oregon voters in 1994 is directly related to the significant increase in COP debt from about $191 million in FY 1995 to about $1.1 billion in FY 2008. 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 is the considerable requirement for increased construction of adult and juvenile prisons and correctional facilities.

Beginning with the construction of the Snake River Correction Facility in Ontario in the early 1990's, the Oregon Department of Corrections has used COPs to finance the major expansion of the prison system. The proceeds from COPs are also used for the construction of local jail capacity related to the SB 1145[1] population, purchase of property, design costs, site costs, major improvements or upgrades of existing facilities, and the staff costs associated with the construction and improvement of facilities.

With the passage of Article XI-Q general obligation bonds for state owned and/or operated facilities by voters in 2011, it is anticipated that the State will dramatically reduce the use of this financing mechanism in the future, as general obligation bonds provide a higher rating and lower cost of funds compared to COPs. In addition, the State plans to refinance existing COP debt with Article XI-Q bonds to the greatest extent possible over time. Principal amount outstanding for all COP debt was $1,047,165,000 as of June 30, 2012.

[1] The community corrections system is based on SB 1145 (1995) which transferred management of offenders sentenced or sanctioned for incarceration periods of 12 months or less and all felony offenders under community supervision to the counties effective January 1997. Oregon Department of Corrections provides funds to offset the cost of supervising these offenders.

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