REPORT

OF THE

STATE DEBT POLICY ADVISORY COMMISSION

2014
Legislative Update

January 17, 2014

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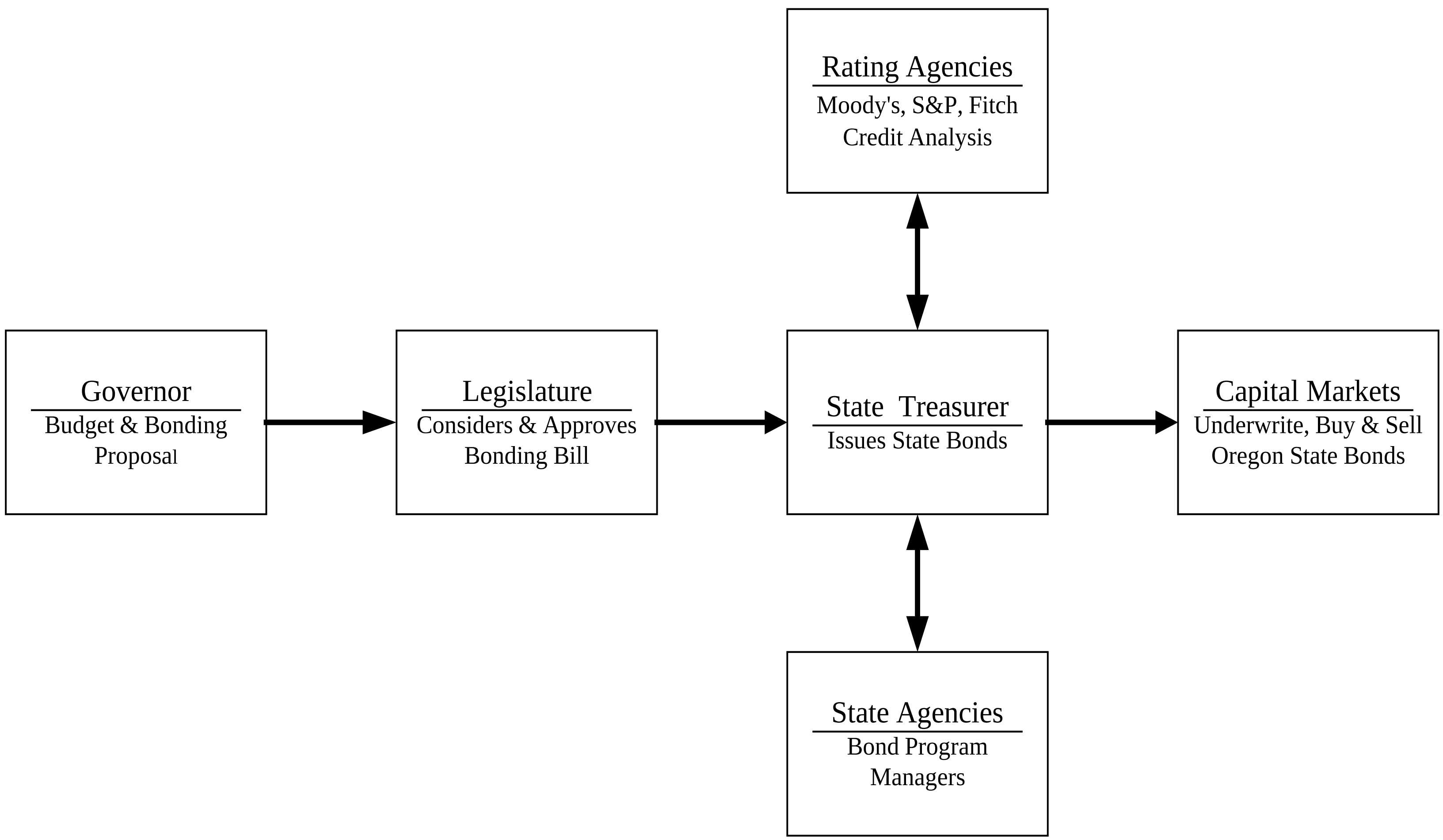
Oregon Bonding Process



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STATE DEBT POLICY
ADVISORY COMMISSION

January 10, 2014

Governor Kitzhaber and Members of the 2014 Oregon Legislature:

We have spent the last several years living through unprecedented 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 allowed us to borrow at historically low interest rates for a range of high priority capital 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 *2014 Legislative Update* report from the State Debt Policy Advisory Commission (the "Commission"), which provides the latest projections of debt capacity, based on bond authorizations by the 2013 Legislature and current capital market conditions.

The Commission serves to advise the Governor and Legislature on policies related to State 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 continues to be regarded by the capital markets as a sound financial operation, as evidenced by the State's General Obligation debt ratings of AA+/Aa1/AA+ by Standard & Poor's, Moody's Investors Service, and Fitch Investors Service respectively. Our Lottery bond program also continues to garner strong 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 address Oregon's highest priority capital needs over the ten year forecast period of this report, recent declines in forecasts of net Lottery revenues means that Lottery bonds will remain a scarcer resource, requiring careful consideration for their effective allocation. After taking into account the December 2013 revenue forecast and the issuance of $640 million in General Fund supported bonds authorized by the Legislature in 2013, the State still has **$215 million** in remaining General Fund-supported debt capacity available this biennium, while staying below the 5% capacity threshold recommended by the Commission for this type of debt.

Given the drop in projected long-term net Lottery revenue due to the video machine replacement project, the Commission last year recommended that the State limit the sale of Lottery bonds this biennium. To that end, the 2013 Legislature directed staff to delay issuance of $157.6 million in new Lottery bonds until the spring of 2015, which effectively moves debt service on these bonds into the next biennium. While this timing means that up to $96 million in Lottery bond capacity remains available in FY 2015, the Commission cautions that overall long-term lottery bond capacity remains constrained and any new Lottery bond authorizations this biennium will reduce future lottery bond capacity accordingly. Finally, the Commission advises that the Governor and Legislature proceed cautiously with the authorization of additional bond capacity this biennium, as proposed changes in the Federal tax code and/or a stalled economic recovery could reduce General Fund and Lottery revenue bond capacity.

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 *2013 Report* was published January 22, 2013.

This *2014 Legislative Update* is intended to provide a picture of the State's bonding capacity based on current revenue projections and the bonding authorizations made by the 2013 Legislature. 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 $10.6 billion as of June 30, 2013.[1] This is a decrease of about $290.8 million compared to the end of the 2012 fiscal year.
- For **General Fund supported debt programs**, the total debt outstanding as of June 30, 2013 was $2.74 billion. This amount is expected to increase to approximately $3.02 billion by the end of the 2013-15 biennium based on the issuance of approximately $640.2 million in new General Fund debt authorized by the 2013 Legislature. Based on the December 2013 revenue forecast, debt service as a percentage of General Fund revenues is expected to be 4.35% at the end of the current fiscal year, which is within the Commission's General Fund-supported debt capacity target of 5.0%.
- Using this maximum target debt ratio of 5.0% going forward, the Commission estimates the State will have about $3.64 billion in additional General Fund-supported debt capacity from FY 2014 through FY 2023, or a maximum of $856 million per biennium. This projection

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

assumes that all General Fund supported bonds authorized by the 2013 Legislature are issued by the end of FY 2015.

Maximum Additional 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	GF Debt Service as a % of General Fund Revenues
2014	781.7	5.00%
2015	399.7	5.00%
2016	73.4	5.00%
2017	337.7	5.00%
2018	339.3	5.00%
2019	371.0	5.00%
2020	251.8	5.00%
2021	374.7	5.00%
2022	442.6	5.00%
2023	269.7	5.00%
Total FY 2014-2023 General Fund Debt Capacity	**$3,641.6**	

* Assumes issuance of $640.2 million in General Fund supported bonds authorized by 2013 Legislature.

For the **Lottery Bond Program**, the total debt outstanding was $1.2 billion as of June 30, 2013. Lottery revenue bond covenants require a minimum debt service coverage ratio of four times unobligated net Lottery proceeds. Given the decline in projected Lottery revenues through FY 2016 due to the Lottery's video machine replacement project, the *2013 SDPAC Report* estimated that Lottery debt capacity would be limited and only available in the second year of the biennium.

In response to this situation, the 2013 Legislature scaled back Lottery bond authorization for 2013-15 and directed staff to schedule issuance of all new Lottery bonds in the spring of 2015, which effectively moves all new debt service for these bonds into the following biennium. While the timing of the Lottery bond sale means that up to $96 million in Lottery bond capacity remains available in FY 2015, the Commission cautions that overall long-term lottery bond capacity remains constrained compared to previous years and any new Lottery bond authorizations this biennium will reduce future lottery bond capacity accordingly.

Maximum Additional 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)
2014	$0.0	4.1
2015	96.1	4.0
2016	30.3	4.0
2017	246.2	4.0
2018	79.1	4.0
2019	126.0	4.0
2020	120.8	4.0
2021	92.7	4.0
2022	144.9	4.0
2023	22.0	4.0
Total FY 2014-23 Lottery Debt Capacity	**$ 958.1**	

*Assumes issuance of $157.6 million in Lottery revenue bonds authorized by 2013 Legislature in spring of 2015.

- While the State's **Net Tax-Supported Debt (NTSD)** has stabilized over the past few years, the overall amount is considerably higher than it was a decade ago. 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 $2.0 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 2013, Oregon's outstanding NTSD was $7.6 billion. By the end of FY 2015, this amount is projected to grow as some existing NTSD is retired and new General Obligation, ODOT revenue, and Lottery bonds authorized by the 2013 Legislature is sold to investors. The Commission projects that by the end of FY 2015, based on the retirement of $700 million in existing NTSD and the issuance of $1.8 billion in bonds authorized by the 2013 Legislature, Oregon's overall net tax-supported debt burden will increase by $1.1 billion, which in turn will increase debt per capita basis and as a percentage of personal income.

Net Tax-Supported Debt Ratios

	Fiscal Year Ending June 30th			
	FY 2012 (Actual)	FY 2013 (Actual)	FY 2014 (Projected)	FY 2015 (Projected)
Net Tax-Supported Debt (Millions)	$ 7,776	$ 7,593	$ 8,042	$ 8,648
Population*	3,883,100	3,917,800	3,957,600	4,001,600
Personal Income (Millions)*	$150,900	$156,700	$164,200	$172,900
NTSD Per Capita	$2,003	$1,938	$2,032	$2,161
NTSD as a % of Personal Income	5.15%	4.85%	4.90%	5.00%
Pension Obligation Bonds Excluded				
NTSD Per Capita	$1,492	$1,442	$1,553	$1,702
NTSD as a % of Personal Income	3.84%	3.61%	3.74%	3.94%

*Source: Oregon Office of Economic Analysis, December 2013 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. When pension obligation bonds are excluded from this NTSD calculation, projected FY 2015 debt burden drops to $1,702 per capita and 3.94% 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 Oregon State Treasury, 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 long-term financial viability of the Oregon Department of Energy (ODOE) Alternate Energy General Obligation Bond Program. This bond program was established in 1980 to provide low-interest loans through the Small Scale Energy Loan Program (SELP) to individuals, companies, state agencies, local governments and non-profits for a range of energy efficiency and renewable energy projects. Oregon State Treasury 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 two large loans totaling $30 million to two private energy producers/manufacturers, and a number of delinquent loans to other 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 Department's most recent cash flow forecasts suggest that the Legislative Assembly will need to provide multi-million dollar cash infusions to the SELP program within the next decade in order for the program to meet all of its debt service obligations. Depending on the outcome of SELP's negotiations with several delinquent borrowers, total cash infusions needed by the program in the future will total at least $12 million and could increase substantially over time unless the SELP program continues to bring new, good quality borrowers into its bonding program.

The Commission recommends that the Legislature and Governor continue to actively monitor SELP's financial situation 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

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[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 – 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. Thus, 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, 2013

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				119,690,000	
Higher Ed. Facility (XI-G) Bonds [7]	ARTICLE XI-G	0.7500%	3,161,932,514		387,472,261	2,654,770,253
Pollution Control Bonds [8] (42% of Total)	ARTICLE XI-H	0.5000%	885,341,104	109,200,000	20,338,500	865,002,604
DAS Oregon Opportunity Bonds [9]	ARTICLE XI-L	0.5000%	2,107,955,009	203,175,000	129,180,000	1,978,775,009
Seismic Rehab – Public Education Bldgs.	ARTICLE XI-M	0.2000%	843,182,004		17,490,000	825,692,004
Seismic Rehab – Emergency Service Bldgs.	ARTICLE XI-N	0.2000%	843,182,004		10,350,000	832,832,004
DAS Pension Obligation Bonds [10] (32% of Total)	ARTICLE XI-O	1.0000%	1,349,091,206		621,928,000	727,163,206
Alternate Energy Bonds [11] (XI-J) (28% of Total)	ARTICLE XI-J	0.5000%	582,226,710		65,873,398	334,638,054
State General Purpose (85% of total)	ARTICLE XI-Q	1.0000%	3,583,523,515		698,887,000	2,884,636,515
Total General Fund Supported					$2,071,209,159	
Self-Supporting						
State Highway Bonds	ARTICLE XI SEC 7	1.0000%	4,215,910,018		0	4,215,910,018
Veteran's Welfare Bonds [7]	ARTICLE XI-A	8.0000%	33,727,280,146		291,770,000	33,435,510,146
Higher Ed. XI-F Bonds [7]	ARTICLE XI-F(1)	0.7500%	3,161,932,514		1,102,528,654	2,059,403,859
Pollution Control Bonds [8] (58% of Total)	ARTICLE XI-H	0.5000%	1,222,613,905	150,800,000	28,086,500	1,194,524,405
Water Resources Bonds	ARTICLE XI-I(1)	1.5000%	6,323,865,027		0	6,323,865,027
Elderly & Disabled Housing Bonds	ARTICLE XI-I(2)	0.5000%	2,107,955,009		126,470,000	1,981,485,009
State General Purpose [12] (15% of Total)	ARTICLE XI-Q	1.0000%	632,386,503		123,333,000	509,053,503
Alternate Energy Project Bonds [13] (72% of Total)	ARTICLE XI-J	0.5000%	1,525,728,299		172,621,602	1,534,821,955
DAS Pension Obligation Bonds [10] (68% of Total)	ARTICLE XI-O	1.0000%	2,866,818,812		1,321,597,000	1,545,221,812
Total Self-Supporting					$3,166,406,756	
Total General Obligation Bonds					$5,237,615,915	
Revenue Bonds						
Direct Revenue Bonds						
Lottery Revenue Bond Program(s)	[ORS 286A.563-585]	---	---	157,557,715	1,208,610,000	
Transportation Infrastructure Bank	[ORS 367.030]	---	---	200,000,000	0	
Highway User Tax	[ORS 367.620]	---	---	3,240,000,000	2,086,285,000	
Single & Multi-Family Housing Programs	[ORS 456.661]	---	---	2,500,000,000	1,156,130,000	
Economic Development - Bond Bank	[ORS Ch. 285B]	---	---	---	106,800,000	
State Fair & Exposition Center	[ORS Ch. 565]	---	---	10,000,000	0	
Total Direct Revenue Bonds					$4,557,825,000	

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, 2012 Real Market Value (RMV) of $421,591,001,829. 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 28% General Fund supported and 72% 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 28% General Fund supported and 72% 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]	---	---		$ 436,948,105	
Oregon Facilities Authority	[ORS Ch. 289]	---	---		1,593,241,163	
Multi-family Housing Programs	[ORS 456.692]	---	---		221,528,377	
Total Pass Through Revenue Bonds					$2,251,717,645	
Appropriation Credits						
Certificates of Participation (COPs GF)	[ORS Ch. 283.085]	---	---		$641,074,250	
Certificates of Participation (COPs Non-GF)	[ORS Ch. 283.085]	---	---	---	113,130,750	
Oregon Appropriation Bonds	[SB 856 – 2003 Legislature]		---	431,560,000	28,195,000	
Total Appropriation Credits					$782,400,000	

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, 2012 Real Market Value (RMV) of $421,591,001,829. 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));
- Twenty-eight 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, 2013.

[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, 2013 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

Exhibit 1.2
State of Oregon
Comparison of Long-Term Debt Outstanding
as of June 30, 2013

Type & Purpose	General Fund Supported Debt	Net Tax-Supported Debt	Total Gross Debt Outstanding
General Obligation Bonds			
General Fund Supported			
Community College Bonds	$ 119,690,000	$ 119,690,000	$ 119,690,000
Higher Education Facility (XI-G) Bonds	387,472,261	387,472,261	387,472,261
Pollution Control Bonds (42% of Total)	20,338,500	20,338,500	20,338,500
Alternate Energy Bonds (XI-J) (28% of Total)	65,873,398	65,873,398	65,873,398
DAS Oregon Opportunity Bonds	129,180,000	129,180,000	129,180,000
Seismic Rehab - Public Education Bldgs (XI-M)	17,490,000	17,490,000	17,490,000
Seismic Rehab - Emergency Service Bldgs (XI-N)	10,350,000	10,350,000	10,350,000
State General Purpose (XI-Q) Bonds (85% of Total)	698,887,000	698,887,000	698,887,000
DAS Pension Obligation Bonds (32% of Total)*	621,928,000	621,928,000	621,928,000
Total General Fund Supported	$ 2,071,209,159	$ 2,071,209,159	$ 2,071,209,159
Self-Supporting			
Veterans' Welfare Bonds	-	-	291,770,000
Higher Education Facility (XI-F) Bonds	-	-	1,102,528,654
Pollution Control Bonds (58% of Total)	-		28,086,500
Water Resources Bonds	-	-	-
Elderly & Disabled Housing Bonds	-	-	126,470,000
Alternate Energy Project Bonds (72% of Total)	-	-	172,621,602
State General Purpose (XI-Q) Bonds (15% of Total)		123,333,000	123,333,000
DAS Pension Obligation Bonds (68% of Total)*	-	1,321,597,000	1,321,597,000
Total Self-Supporting	$ -	$ 1,444,930,000	$ 3,166,406,756
Total General Obligation Bonds	**$ 2,071,209,159**	**$ 3,516,139,159**	**$ 5,237,615,915**
Revenue Bonds			
Direct Revenue Bonds			
Lottery Revenue Bond Program(s)**	-	1,208,610,000	1,208,610,000
Highway User Tax Revenue Bonds	-	2,086,285,000	2,086,285,000
Single-Family & Multi-Family Housing	-	-	1,156,130,000
Economic Development - Bond Bank	-	-	106,800,000
Total Direct Revenue Bonds	**$ -**	**$ 3,294,895,000**	**$ 4,557,825,000**
Conduit or Pass Through Revenue Bonds			
Economic & Industrial Development	-	-	436,948,105
Oregon Facilities Authority	-	-	1,593,241,163
Multi-Family Housing Programs	-	-	221,528,377
Total Conduit or Pass Through Revenue Bonds	**$ -**	**$ -**	**$ 2,251,717,645**
Appropriation Credits			
Certificates of Participation (COP's) (85% GF)	641,074,250	754,205,000	754,205,000
Oregon Appropriation Bonds	28,195,000	28,195,000	28,195,000
Total Appropriation Credits	**$ 669,269,250**	**$ 782,400,000**	**$ 782,400,000**
Total Gross Debt			**$ 12,829,558,560**
Total Debt - Less Conduit Revenue Bonds	**$ 2,740,478,409**	**$ 7,593,434,159**	**$ 10,577,840,915**

*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

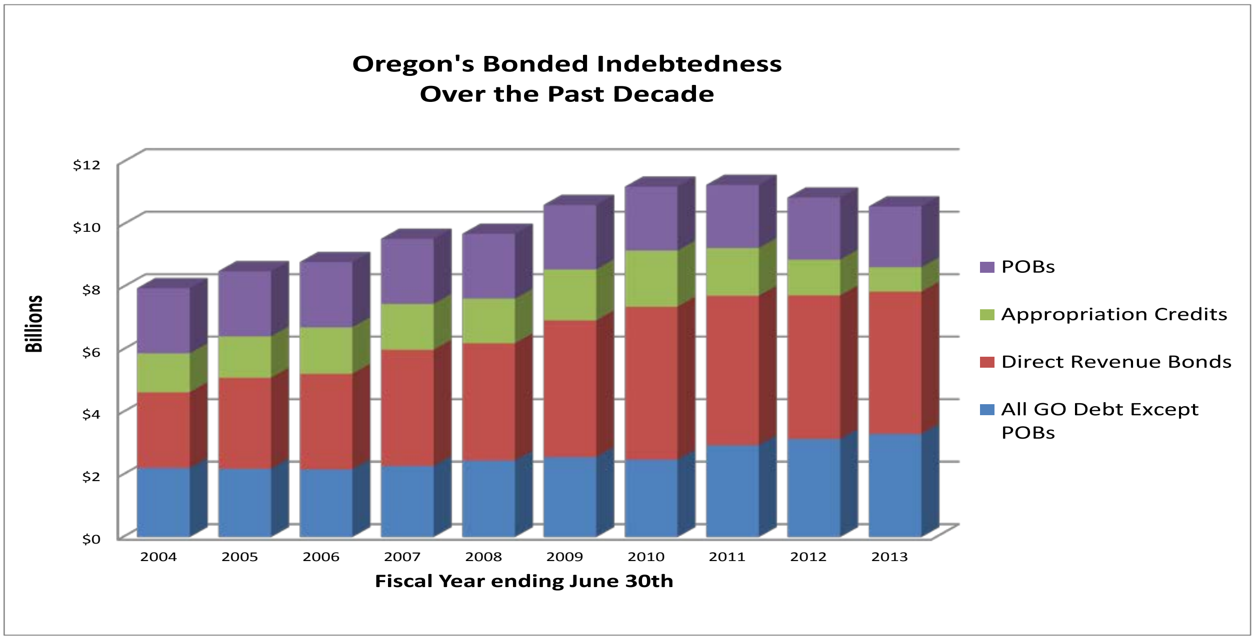
Exhibit II.1 shows a 10-year history of the State's total outstanding obligations by major category from fiscal years ending 2004 to 2013.[1]

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.

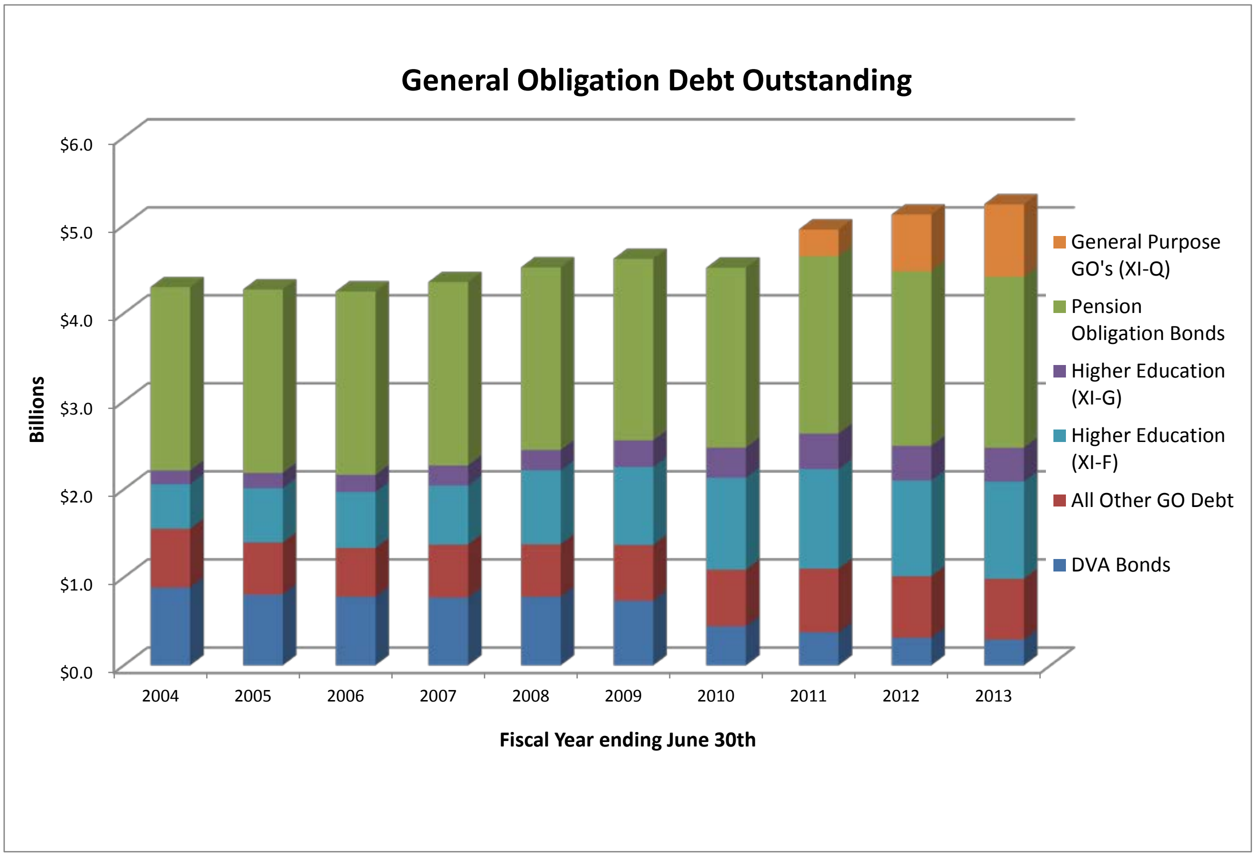
Exhibit II.1



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

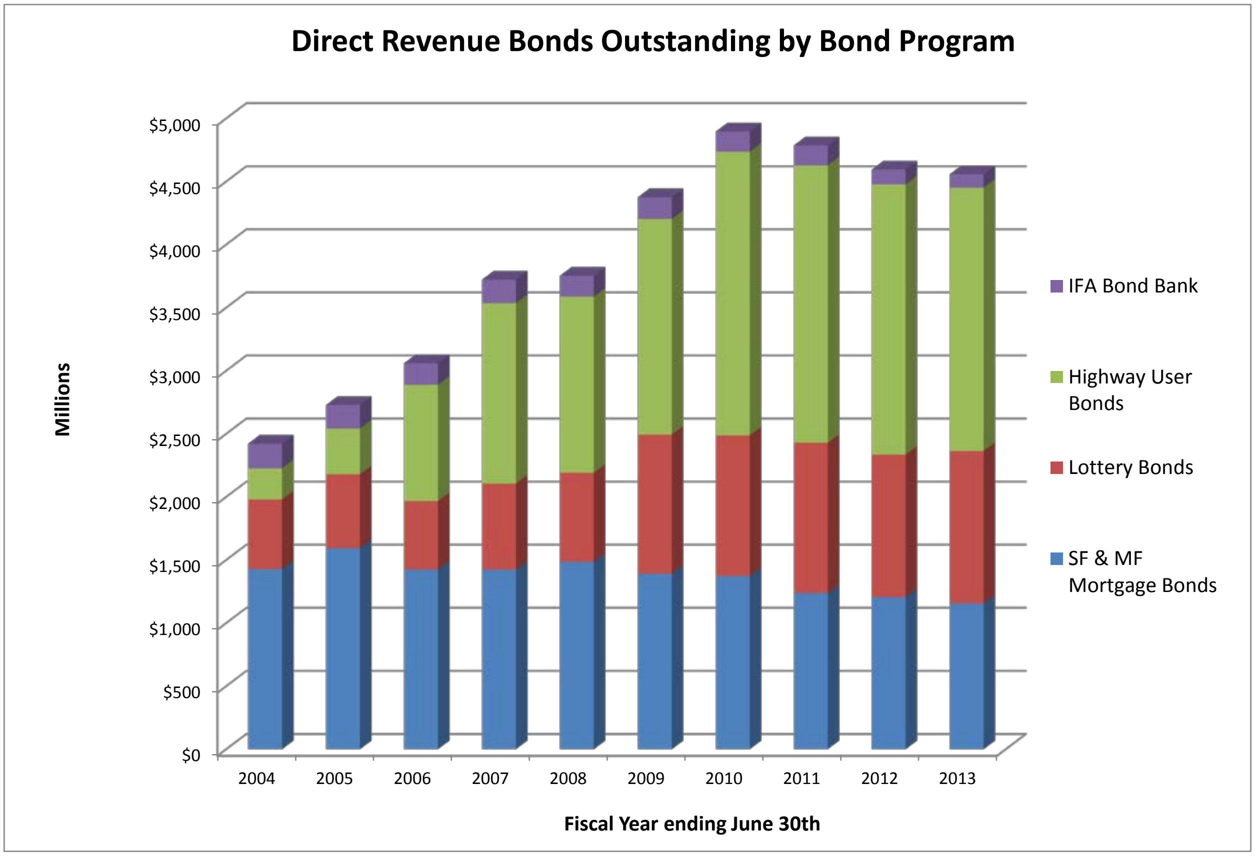
Exhibit II.2 reflects the changing components of State general obligation indebtedness over the past decade. The Department of Veterans' Affairs (ODVA) has steadily paid down its general obligation bonds since FY 2002 and only a limited amount of new ODVA loans have been originated as a result of other 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 $507 million outstanding in FY 2004, to $1.1 billion in 2013. 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, 2013, the State had $822 million in outstanding Article XI-Q bonds, while overall outstanding state general obligation indebtedness totaled $5.24 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



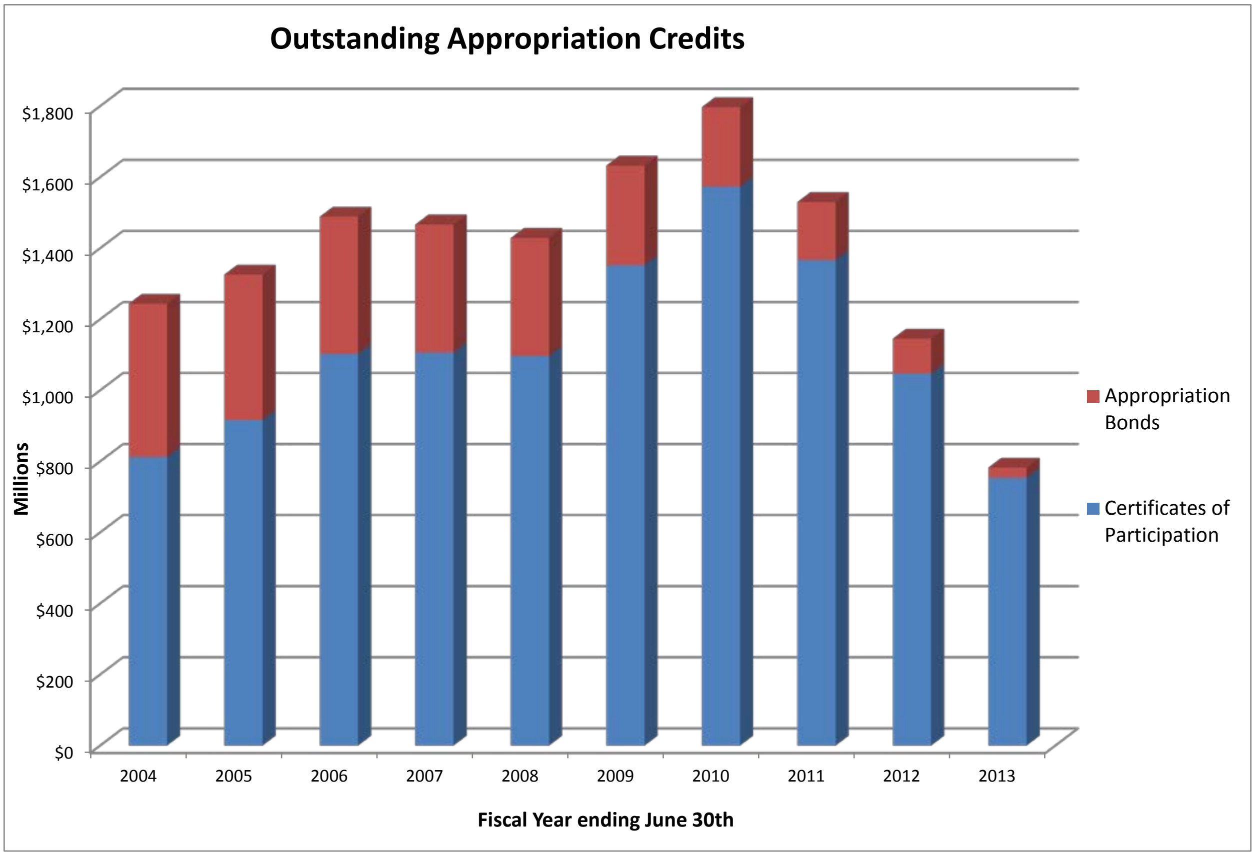
Appropriation obligations include both Certificates of Participation (COPs) and Appropriation bonds. The amount of appropriation obligations that can be issued is determined by the legislature each biennium. *Exhibit II.4* illustrates appropriation credit issuance history through fiscal year ending June 30, 2013.

The significant increase in COP debt from about $191 million in FY 1995 to about $754 million in FY 2013 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. In 2010, the Oregon electorate approved the issuance of Article XI-Q bonds for general purpose building projects. Since that time, $578.5 million of COPs have been refunded as Article XI-Q general obligation bonds, saving the State $72.1 million in interest cost.

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 were paid off in full on September 1, 2013.

Exhibit II.4



B. Future Capital Needs of the State of Oregon

With the retirement of the remaining balance of outstanding Appropriation Deficit Bonds in September 2013, there is approximately $860 million in General Fund debt capacity available over each of the next five biennia. In addition, after the Lottery video terminal replacement project is completed in 2016, there will be on average approximately $223 million in Lottery bond capacity available each biennium. Given the many competing demands for capital project funding throughout the state, the Commission recommends that the Governor and Legislature carefully evaluate how to best allocate this future debt capacity.

In 2012, Governor Kitzhaber signed Executive Order 12-17, which lays out a systematic, "investment" approach to future planning of those infrastructure and capital projects around the state that rely on General Fund and Lottery Fund debt capacity for funding. The Governor's four proposed categories for bonding "investment" include education infrastructure, state infrastructure, regional and community infrastructure, and projects that offer innovation and/or other emergent opportunities or partnerships.

Below is a list of some of the most pressing, capital needs that have been identified by various state agencies as of the date of this *2014 Legislative Update* report:

<u>Human Services</u>

The 2013 Legislature authorized the sale of $87 million in Article XI-Q General Obligation bonds for the State Hospital Replacement Project during the 2013-15 biennium for the completion of a mental health facility in Junction City.

Achieving additional efficiencies in health care delivery may require further upgrades to information technology (IT) systems in state government. Approximately $14 million in XI-Q General Obligation bonds for human services related IT systems was authorized in the 2013-15 biennium; it is likely that additional funding will be required in future biennia to match significant federal commitments in this area.

<u>Public Safety</u>

The 2013 Legislature passed HB 3194 that modified sentence guidelines and allowed for some options on early release of prisoners on parole, which is expected to reduce the need for further expansion of the State's correctional facilities at this time. Nevertheless, both the Department of Corrections and the Oregon Youth Authority have significant backlogs of deferred maintenance on their facilities, for which a combined $10 million of Article XI-Q bonds was authorized in the 2013-15 biennium.

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. The 2013 Legislature authorized issuance of $9 million of XI-Q bonds to match with federal funds to construct and upgrade facilities across the state.

While OMD historically managed the Seismic Rehabilitation grant program for seismic upgrade of public schools and public safety facilities around the state, the Legislature recently transferred the program to the Oregon Business Development Department (OBDD) which has deep experience in administering local government grant and loan programs. The 2013 Legislature authorized the issuance during the 2013-15 biennium of up to $15 million in Article XI-M Seismic Rehabilitation General Obligation bonds for public school seismic projects and $15 million of Article XI-N Seismic Rehabilitation General Obligation bonds for emergency services facilities.

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 the seismic retrofit of a significant portion of Oregon's public schools, as well as public safety facilities around the state, at an estimated 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 and 2013 provided OUS and certain universities in the state with increasing autonomy from State government, including the ability of those universities with independent boards to issue their own revenue bonds, it is likely that a significant portion of OUS' future capital improvements will continue to be funded through state General Obligation bonds.

In the 2013 session, approximately $228 million in OUS capital construction projects were authorized using bonds supported by General Fund revenues. Given the State's aspiration that 40% of adult Oregonians will have completed a four-year college degree program by 2025, it is likely that higher education capital project 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 has once again become available. The 2013 Legislature authorized approximately $125 million in General Fund-supported Article XI-G bonds for community college construction projects in the 2013-15 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). While the Legislature did not authorize any Article XI-P bonds for the 2013-15 biennium, given the enormous need for both school repair and new school construction, the 2013 Legislature passed HB 2711, which establishes an Oregon School Facilities Task Force to study the status of public school facilities and make recommendations for funding mechanisms that will meet the capital needs of public school facilities around the state.

Economic Development

OBDD has traditionally used Lottery Bonds to capitalize and expand its Infrastructure Bond Bank loan programs, which offer low interest loans to local governments for local infrastructure including drinking water and sewer improvements. In the 2013-15 biennium, the Legislature authorized $13 million in Lottery Bonds for this purpose. It should be noted that the estimated unmet need for water and sewer improvements throughout the state stretches into the hundreds of millions of dollars.

Transportation

In recognition of the need for 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; while the first tranche of this debt was recently issued, it is likely that the balance of the bonds for this program will be issued over the next few years.

On-going planning continues on 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 the CRC's initial financial plan envisioned that 1/3 of the overall project would 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, the status of the project's funding remains uncertain as of the date of this report. While the 2013 Oregon Legislature did authorize an equity contribution of up to $450 million through the issuance of either General Obligation or Revenue bonds in HB 2800, this authorization was contingent upon a similar authorization by the Washington Legislature on or before September 30, 2013. To date, the Washington Legislature has not authorized their equity contribution to the project.

The 2013 Legislature also authorized approximately $41 million of Article XI-Q bonds for the Oregon Department of Transportation (ODOT) to finish the final phase of the State's public safety wireless network that begun in 2009.

Finally, there is an on-going need to improve non-highway transportation infrastructure around the state. The 2013 Legislative Assembly approved $46 million in Lottery bond proceeds to provide grants for multi-modal transportation including projects to improve rail, port, airport and bicycle/pedestrian facilities (the Connect Oregon program) for the 2013-15 biennium.

Other

In recent biennia, the Legislative Assembly 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. In 2013, the Legislature authorized $79 million of Lottery bond regional and community projects across Oregon. 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 2013 Legislature authorized approximately $35 million of Article XI-Q bonds to begin planning and preliminary work necessary for this major improvement.

HB 5008 established the Oregon Courthouse Capital Construction and Improvement Fund. The 2013 authorized the issuance of $15 million of Article XI-Q bonds to finance costs related to acquiring, constructing, remodeling, repairing or furnishing courthouses that are owned or operated by the State of Oregon, after certain conditions and determinations are made by the Chief Justice of the Supreme Court and the Department of Administrative Services in relation to projects that may be funded.

Finally, 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.

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, in past years, limited 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 Commission's model projects debt capacity over a period of six years; however, with the expansion of the quarterly Economic and Revenue forecast from six years to ten years, the Commission has in tandem extended its General Fund capacity over these additional four years. The model looks at 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 22, 2013 Commission Report, written at the tail end of the 2011-13 biennium,* outlined capacity for the 2014 fiscal year through the 2021 fiscal year.

This 2014 *Legislative Update* provides a look at debt capacity for the 2014 fiscal year through the 2023 fiscal year based on the December 2013 revenue forecast and the bonding authorizations by the Legislature in 2013.

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, 2013);
- Alternate Energy Bonds (28% of total outstanding as of June 30, 2013);
- 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, 2013);
- Pension Obligation Bonds (32% of total outstanding as of June 30, 2013);
- Certificate of Participation obligations (85% of total outstanding as of June 30, 2013);
- Appropriation Bonds

As shown in *Table III.1*, the model solves for overall debt capacity for fiscal years 2014 through 2023 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 $379 million in FY 2014 to a high of $583 million in FY 2023.

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	$ 7,579.6	$379.0
2015	8,115.7	405.8
2016	8,507.6	425.4
2017	8,866.5	443.3
2018	9,251.2	462.6
2019	9,689.7	484.5
2020	10,149.9	507.5
2021	10,674.9	533.8
2022	11,182.5	559.1
2023	11,656.8	582.8

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 2013 Legislature authorized $640 million in General Fund-supported debt that will be issued during the 2013-15 biennium, including $118 million in Higher Education Facility XI-G bonds, $125 million in Community College XI-G bonds, $15 million in Seismic Rehab – Public Education Buildings XI-M bonds, and approximately $367 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 5.41%, based on a 10-year average of the *Bond Buyer 20-Bond Index* as of December 5, 2013[3] plus 100 basis points; and
- Twenty year average maturity length for all General Fund-supported debt obligations.

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

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[1] General Fund revenues are shown as projected by the Oregon Office of Economic Analysis in the *Oregon Economic and Revenue Forecast* for December 2013.
[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)**	**(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	$379.0	($314.1)	-	$ 64.9
2015	405.8	(282.3)	(25.3)	98.1
2016	425.4	(268.0)	(53.2)	104.2
2017	443.3	(257.9)	(53.2)	132.3
2018	462.6	(248.9)	(53.2)	160.4
2019	484.5	(240.1)	(53.2)	191.3
2020	507.5	(242.2)	(53.2)	212.2
2021	533.8	(237.3)	(53.2)	243.3
2022	559.1	(225.9)	(53.2)	280.1
2023	582.8	(227.2)	(53.2)	302.5

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 $64.9 million for FY 2014 and about $98.1 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 requirement on all General Fund-supported debt issued through June 30, 2013. See Appendix A for detail.

[2] The 2013 Legislative Assemblies collectively authorized approximately $640 million in General Fund-supported debt. The issuance of the $305 million for FY 2014 and $335 million for FY 2015 is accounted for in *Table III.2 column 3* and amortized annually as level debt service at $25.3 million in FY 2015 and $53.2 million in FY2016.

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**
2014	$ 64.9	$781.7	($64.9)	$0.0	5.00%
2015	98.1	399.7	(33.2)	0.0	5.00%
2016	104.2	73.4	(6.1)	0.0	5.00%
2017	132.3	337.7	(28.0)	0.0	5.00%
2018	160.4	339.3	(28.2)	0.0	5.00%
2019	191.3	371.0	(30.8)	0.0	5.00%
2020	212.2	251.8	(20.9)	0.0	5.00%
2021	243.3	374.7	(31.1)	0.0	5.00%
2022	280.1	442.6	(36.8)	0.0	5.00%
2023	302.5	269.7	(22.4)	0.0	5.00%
Total FY 2014-23 General Fund Debt Capacity		**$3,641.6**			

Table III.3 accounts for all issued and planned General Fund-supported debt authorized by the Legislature for the 2013-15 biennium, as well as the maximum amount of General Fund debt that could be issued at the target debt capacity level. For FY 2014, there is $64.9 million in remaining debt service available, which translates into $781.7 million in additional debt capacity at the maximum target of 5% overall General Fund debt service to General Fund revenue.

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 issue a maximum of $3.64 billion in additional General Fund-supported debt over the next decade, with a maximum of $1.18 billion in remaining available capacity for new General Fund-supported debt this biennium.

[1] *Table III.3* accounts for $640.2 million in planned and issued General Fund-supported debt as authorized by the Legislature for the 2013-15 biennium.

C. *Capacity Considerations*

The Commission emphasizes that while the State has the capacity to issue General Fund-supported debt in the amounts outlined in *Table III.3* above assuming the 5% capacity target, issuance of state bonds at this level has significant budgetary impacts that can extend for long periods of time into 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, particularly in periods of economic downturns.

In addition, the Commission also cautions that while the current model shows that the State has substantial debt capacity over the next decade, future capacity can sharply decline if interest rates rise more than is predicted in the model or if there is a substantial drop in future General Fund revenue levels. Given the large backlog of capital needs throughout the state, the Commission recommends that the Governor and Legislature continue to spread out overall General Fund debt capacity evenly between future biennia rather than use all available debt capacity right away, so as to stay below its maximum borrowing targets while assuring long-term funding for its highest priority capital projects.

Table III.4 and *Table III.5* below illustrate the potential impact of changing interest rates and revenues on the forecast of the State's General Fund debt capacity in future biennia. Based on current planned debt issuances in 2013-15 and estimates of General Fund revenues for the ten year forecast period, remaining General Fund debt capacity is $3.64 billion; a 1% increase in the long-term interest rate would decrease future capacity by $285 million or $57 million per biennium *(Table III.4)*. A 10% decline in revenue for the forecast period; however, would decrease future capacity by approximately $702 million, or $140 million per biennium. *(Table III.5)*.

Table III.4

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

	5.41% Interest Rate (From *Table III.3*)	**4.41% Interest Rate (1% Decline)**	**6.41% 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	$781.7	$851.2	$720.6
2015	399.7	435.1	368.3
2016	73.4	80.0	67.7
2017	337.7	367.7	311.3
2018	339.3	369.4	312.7
2019	371.0	403.9	341.9
2020	251.8	274.3	232.2
2021	374.7	408.0	345.4
2022	442.6	481.9	408.0
2023	269.7	293.5	248.5
Total	**$3,641.6**	**$3,965.0**	**$3,356.6**

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	$781.7	$1,238.0	$325.4
2015	399.7	432.0	367.4
2016	73.4	97.0	49.8
2017	337.7	359.3	316.1
2018	339.3	362.5	316.2
2019	371.0	397.4	344.6
2020	251.8	279.5	224.1
2021	374.7	406.3	343.1
2022	442.6	473.2	412.0
2023	269.7	298.2	241.1
Total	**$3,641.6**	**$4,343.4**	**$2,939.8**

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 Oregon State Treasury. 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.

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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 that the State's continued ability to issue Lottery-backed bonds is predicated 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 debt service coverage ratio assuming that no additional Lottery bonds are sold in FY 2013 and beyond.

Table IV.1

Forecast of Lottery Revenue, Current Debt Service, and Coverage Ratios

Fiscal Year	Annual Unobligated Net Lottery Revenues (millions)[1]	Debt Service on Outstanding Bonds (millions)[2]	Projected Debt Service Coverage (Times)
2014	$520.2	$ 126.6	4.1
2015	533.3	125.3	4.3
2016	532.4	109.5	4.9
2017	614.9	109.7	5.6
2018	641.2	109.7	5.8
2019	669.2	106.2	6.3
2020	699.3	103.7	6.7
2021	730.1	103.7	7.0
2022	778.3	103.7	7.5
2023	785.6	103.7	7.6

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.

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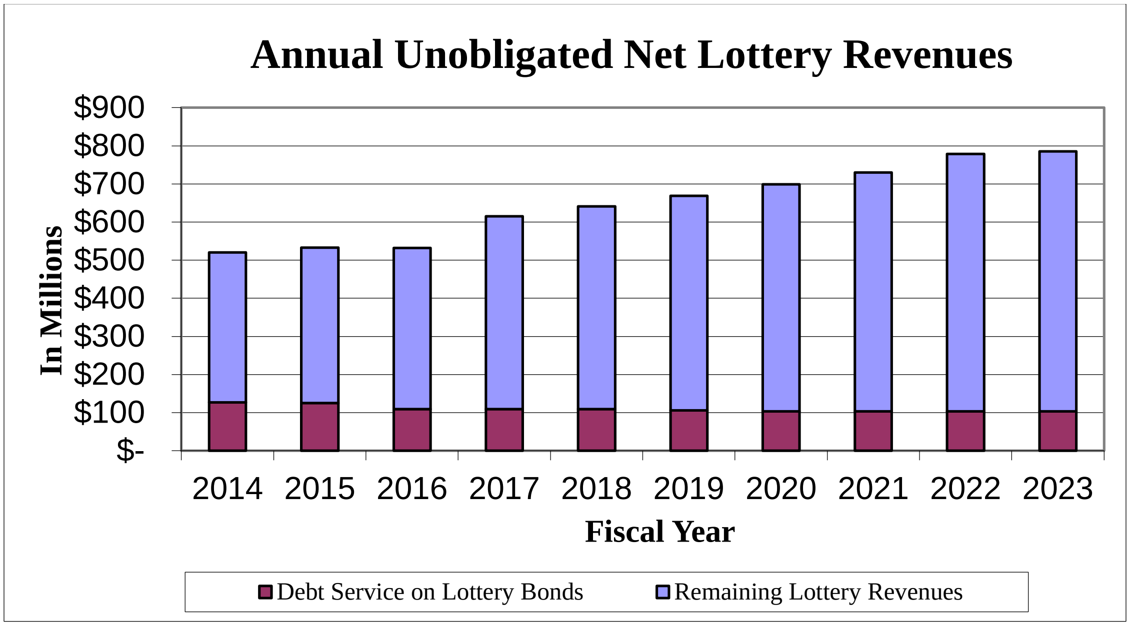
[1] Oregon Office of Economic Analysis, Oregon Economic and Revenue Forecast, December 2013

[2] Includes Lottery bonds issued through June 30, 2013. This does not include debt service on $157.6 million in authorized but not yet issued Lottery bonds, as authorized by 2013 Legislature.

Exhibit IV.1



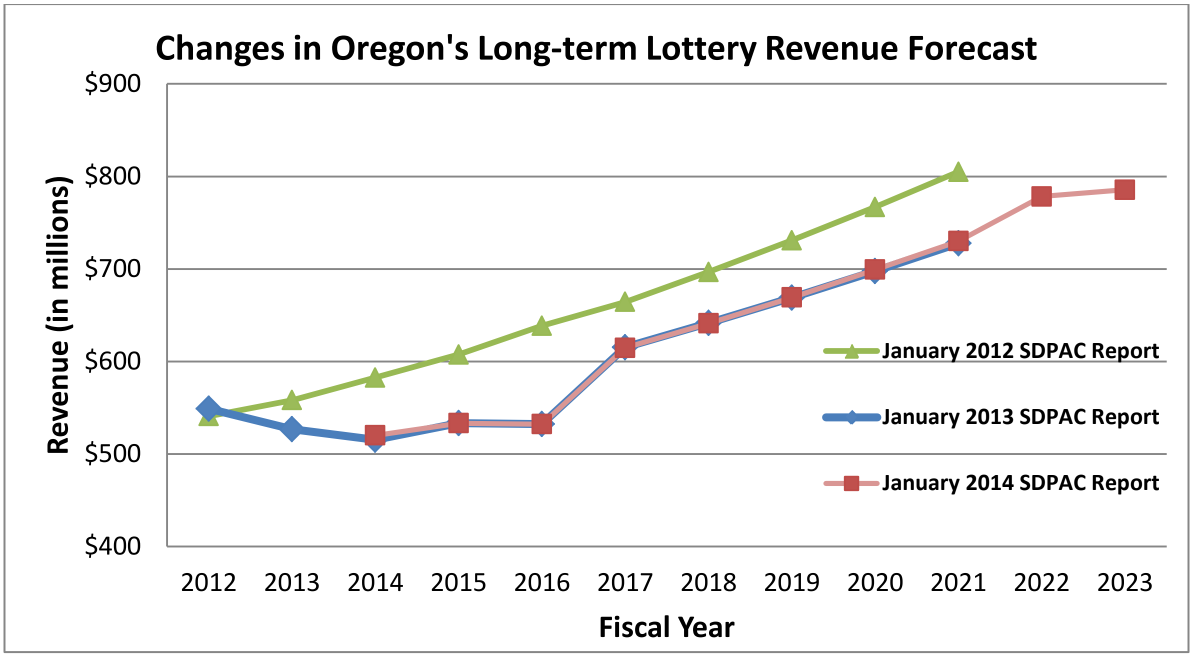
B. *Lottery Capacity Determination and Coverage Ratios*

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

The Commission's current lottery bond capacity policy is that combined existing and proposed lottery debt service should not be more than 25% of net unobligated lottery revenues, which means that the debt service coverage ratio should not fall below a four times coverage. 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.

Long-term projections of future net Lottery revenue by the Office of Economic Analysis have declined in recent years, as shown on *Exhibit IV.2*. Between the publication of the *2012* and *2013 SDPAC Reports*, projections of long-term Lottery revenues declined by 8.9%. The majority of this decline was attributable to projections of reduced transfers of net Lottery proceeds through FY 2016, as the Oregon Lottery executes its statewide video terminal replacement program. As *Exhibit IV.2* shows, however, the most recent Economic and Revenue forecast released on November 21, 2013 suggests that projected revenues, while lower than in earlier forecasts, has at least not declined further since the time of last year's report.

Exhibit IV.2



Given the decline in projected Lottery revenues through FY 2016 due to the video machine replacement project, the *2013 SDPAC Report's* estimate of debt capacity for the 2013-15 biennium was far lower than in previous biennia. In response, the 2013 Legislature scaled back Lottery bond authorization in the two-year Bond Bill to the level recommended in the *2013 SDPAC Report* and directed staff to schedule issuance of these new Lottery bonds in the spring of 2015, which effectively moves all new debt service for these bonds into the following biennium.

In April 2013, the State was able to refund approximately $67 million in outstanding Lottery bonds as part of the overall new money Lottery bond sale. This taxable refunding was executed at historically low interest rates and was structured in a fashion that saved the State approximately $6.4 million in interest costs over the next five fiscal years.

Table IV.1 shows that scheduled FY 2014 annual debt service payments on Lottery-backed revenue bonds is now $126.6 million, which is $2.2 million, lower than projected at the time of last year's report, resulting in a projected debt service coverage ratio of approximately 4.1. The table also shows that Lottery debt service continues to decline over the balance of the ten year forecast period, dropping to $103.7 million by FY 2023.

Based on the current ten-year forecast of Annual Unobligated Net Lottery Proceeds and the target four-times coverage ratio as displayed in *Table IV.2*, the estimated available dollars for annual debt service would range from $130.1 million in FY 2014 to $196.4 million in FY 2023.

For FY 2014 that is:

Available Revenues ÷ Required Coverage Ratio = Maximum Annual Debt Service

– or –

$\$520.2 \text{ million} \div 4 \text{ Times Coverage} = \$130.1 \text{ million}$

The ten-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 towards the end of the 2013-15 biennium, and
- an estimate of remaining capacity to issue additional Lottery revenue bonds over the next decade.

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, 2013, and the planned FY 2015 issuance, as authorized by the 2013 Legislature in the amount of $157.6 million. Assuming the additional $157.6 is sold in late FY 2015, there will be an increase in debt service payments by about $13.1 million per year starting in FY 2016. The model assumes a 5.41% interest rate and a 20 year maturity for both the spring 2015 Lottery bond sale and all Lottery bonds sold thereafter.

Table IV.2 column 4 shows projected debt service for FY 2014 through FY 2023 resulting from the issuance of additional Lottery revenue bonds at the minimum required coverage of four-times unobligated net Lottery revenues. Based on the assumptions provided above, including the planned issuance of $157.6 million in new Lottery bonds in the spring of 2015, there remains $96.1 million in available Lottery bond capacity in FY 2015 and $958.1 million in Lottery bond capacity over the next ten years.

Table IV.2

Capacity for Additional 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, 2013 and Planned FY 2015 Issuance***	**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	$130.1	(126.6)	$ 0.0	$ 0.0	4.1
2015	133.3	(125.3)	96.1	(8.0)	4.0
2016	133.1	(122.6)	30.3	(2.5)	4.0
2017	153.7	(122.8)	246.2	(20.4)	4.0
2018	160.3	(122.8)	79.1	(6.6)	4.0
2019	167.3	(119.3)	126.0	(10.5)	4.0
2020	174.8	(116.8)	120.8	(10.0)	4.0
2021	182.5	(116.8)	92.7	(7.7)	4.0
2022	194.6	(116.8)	144.9	(12.0)	4.0
2023	196.4	(116.8)	22.0	(1.8)	4.0
FY 2014-23 Lottery Debt Capacity:			**$ 958.1 million**		

*Includes the $157.6 million in planned Lottery bond issuance in the spring of 2015.

C. *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 6.02% if 50% of the bonds were sold taxable, the available overall capacity for the next ten years would decrease by $46.5 million, as noted in *Table IV.3*.

Table IV.3

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

	5.41% Interest Rate (From *Table IV.2*)	**6.02% 50% Taxable & 50% Tax-exempt**	**5.71% 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 2014-23	**$958.1**	**$911.6**	**$943.3**

*Does not include the $157.6 million in planned Lottery bond issuance in the spring of 2015.

As is the case with General Fund-supported debt, proposed changes in the Federal tax code that reduce or eliminate tax-exemption would further reduce long-term Lottery bond capacity assuming the current four-times coverage capacity constraint is maintained.

Table IV.4 and *Table IV.5* illustrate the impact of changes to long-term interest rate and revenue assumptions in the Lottery debt capacity model. Based on current estimates of annual unobligated net Lottery revenues and the assumed long-term interest rate of 5.41%, the capacity of Lottery revenue to support additional bond issuance is calculated to be $1.12 billion over the next decade. A 1.0% (100 basis points) increase in the projected long-term interest rate to 6.41% would reduce the maximum available capacity over the ten year period by approximately $75 million; conversely, dropping the interest rate assumption by 1.0% back to 4.41% would add roughly $85 million in debt capacity over the ten year forecast period.

Table IV.4

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

	5.41% Interest Rate (From *Table IV.2*)	**4.41% Interest Rate (1% Decline)**	**6.41% 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	96.1	104.6	88.6
2016	30.3	32.9	27.9
2017	246.2	268.1	226.9
2018	79.1	86.0	72.8
2019	126.0	137.3	116.2
2020	120.8	131.5	111.3
2021	92.7	101.1	85.6
2022	144.9	157.7	133.5
2023	22.0	24.0	20.3
Total	**$ 958.1**	**$1,043.2**	**$ 883.1**

*Does not include the $157.6 million in planned Lottery bond issuance in the spring of 2015.

As the recent past has painfully demonstrated, downward revisions in projected Lottery revenues can have a substantial impact on future Lottery bond capacity. As shown below, a 10% reduction in unobligated net Lottery revenues over the forecast period would reduce the available debt capacity by $236.5 million over the next ten years (*Table IV.5*), and would eliminate <u>all</u> new Lottery bond capacity at the current four-time coverage capacity constraint until FY 2017.

Conversely, increases in projections of net Lottery proceeds would restore Lottery bond capacity to more historic levels. As *Table IV.5* illustrates, a 10% increase in projected Lottery revenues would add $236.4 million to the ten year forecast of capacity, with $256.6 million additional capacity in the biennium.

Table IV.5

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

	Current Lottery Capacity 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	$ 197.8	$ 0.0
2015	96.1	58.8	0.0
2016	30.3	30.0	0.0
2017	246.2	271.0	187.4
2018	79.1	87.1	71.1
2019	126.0	134.4	117.6
2020	120.8	129.9	111.8
2021	92.7	102.0	83.5
2022	144.9	159.5	130.4
2023	22.0	24.1	19.8
Total	**$958.1**	**$ 1,194.6**	**$ 721.6**

*Does not include the $157.6 million in planned Lottery bond issuance in the spring of 2015.

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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, 2013. The State's net tax supported debt, as of June 30, 2013, was $7.6 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 2013-15 biennium net tax-supported debt authorizations approved by the 2013 Legislative Assembly. For purposes of this *2014 Legislative Update*, the legislature authorized $1.8 billion in net tax-supported debt that is planned in being issued during the 2013-15 biennium. Highway User Tax bonds, General Purpose General Obligation bonds, Community College bonds (Article XI-G), Higher Education Facility bonds (Article XI-G), 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
2013-2015 Biennium

Type & Purpose	Authorization	Expected Issuance
General Obligation Bonds		
Community College Bonds (Article XI-G)	$125,081,600	$125,081,600
Higher Education Facility Bonds (Article XI-G)	117,861,000	117,861,000
Pollution Control Bonds (Article (XI-H)	0	0
Alternate Energy Bonds (Article XI-J)	60,000,000	60,000,000
Water Resources Bonds (Article XI-I (1))	10,235,000	10,235,000
Dept. of Military Bonds (Article XI-M)	15,000,000	15,000,000
Dept. of Military Bonds (Article XI-N)	15,000,000	15,000,000
State General Purpose (Article XI-Q)	426,052,000	426,052,000
General Obligation Bond Total	**$769,229,600**	**$769,229,600**
Direct Revenue Bonds		
Lottery Revenue Bonds (ORS (286A.560-585)	$157,557,715	$157,557,715
Highway User Tax Bonds (ORS 367.620)	846,690,000	846,690,000
Transportation Infrastructure Bonds (ORS 367.030)	0	0
Direct Revenue Bond Total	**$1,004,247,715**	**$1,004,247,715**
Appropriation Credits		
Certificates of Participation (ORS 283.085)	$40,000,000	$40,000,000
Appropriation Credit Total	**$40,000,000**	**$40,000,000**
Total Authorized & Expected Issuance	**$1,813,477,315**	**$1,813,477,315**

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 *2013 State Debt Medians* report, Moody's determined the average NTSD per capita for the 50 states at $1,416 and the median at $1,074.[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 19th highest nationally with net tax-supported debt at about $7.6 billion, but 12th highest in net tax supported debt per capita at $1,945 and 12th highest in net tax-supported debt as a percentage of personal income at 5.2%.

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 a significant amount of Lottery and Highway User Tax revenue bonds for various economic development and transportation projects around the state has led to further increases in the state's NTSD ratios.

[1] Moody's *2013 State Debt Medians* reflect NTSD as of the end of calendar year 2012.

As *Table V.2* illustrates, at the end of FY 2013 net tax-supported debt totaled $7.6 billion with debt ratios of $1,938 per capita and 4.85% of personal income. Based on the issuance of the debt authorized via the 2013 Legislatures, it is estimated that by the end of FY 2015, the State's net tax-supported will increase to about $8.6 billion.

Table V.2

Net Tax-Supported Debt Ratios

	Fiscal Year Ending June 30th			
	FY 2012 (Actual)	**FY 2013 (Actual)**	**FY 2014[1] (Estimated)**	**FY 2015 (Estimated)**
Net Tax-Supported Debt (Millions)	$7,776	$7,593	$8,042	$8,648
Population*	3,883,100	3,917,800	3,957,600	4,001,600
Personal Income (Millions)*	$150,900	$156,700	$164,200	$172,900
NTSD Per Capita	$2,003	$1,938	$2,032	$2,161
NTSD as a % of Personal Income	5.15%	4.85%	4.90%	5.00%
Pension Obligation Bonds Excluded				
NTSD Per Capita	$1,492	$1,442	$1,554	$1,702
NTSD as a % of Personal Income	3.84%	3.61%	3.74%	3.94%

*Source: 2013-2015 population and personal income forecasts – Oregon Office of Economic Analysis December 2013

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 2014 debt burden would decrease from $2,032 to $1,554 per capita and from 4.90% to 3.74% 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

[1] FY 2014 and FY 2015 includes the issuance of approximately $813 million and $1,001 million each fiscal year respectively, in bonds authorized by the 2013 Legislature

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 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 2013 Legislature.

Exhibit V.1a

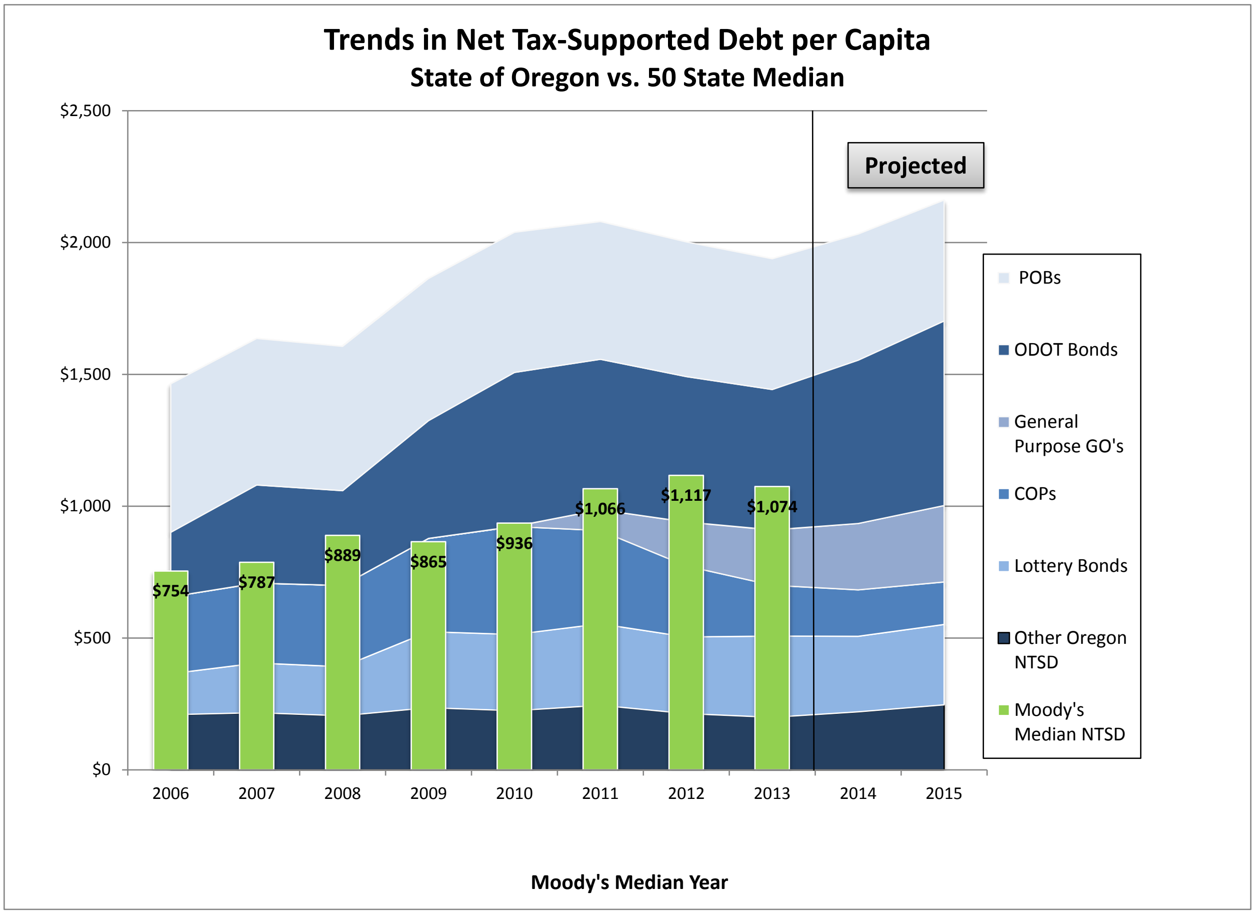
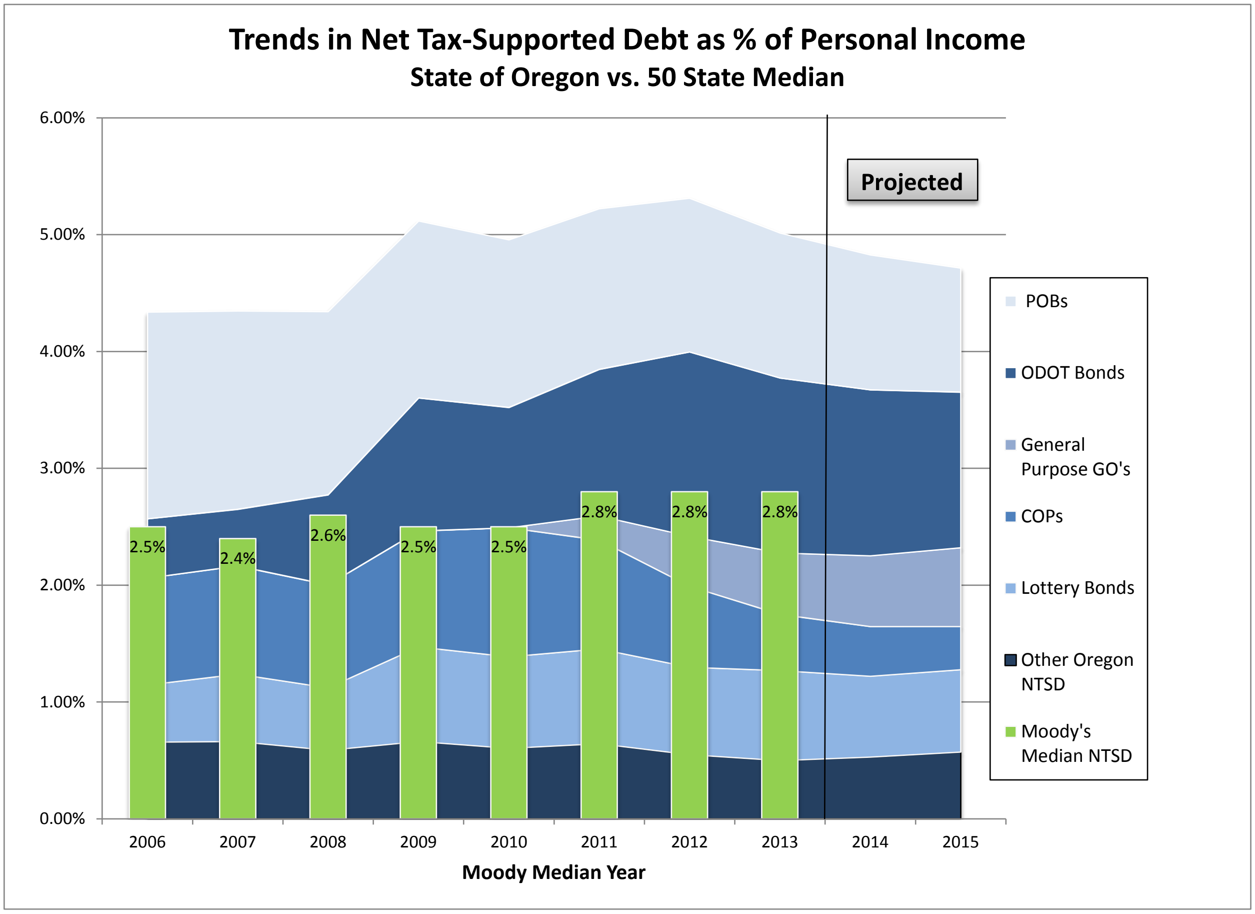


Exhibit V.1b



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
2.5%
2.4%
2.6%
2.5%
2.5%
2.8%
2.8%
2.8%
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
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

For several of the State's largest bonding programs, the majority of their bonds 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[1] Single-Family & Insured Multi-Family Revenue Bonds (ORS 456.661);
- Alternate Energy Project GO Bonds (Article XI-J); (72% of Total)
- 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.

B. *Higher Education Building Project Bond Program*

The Oregon University System "OUS" consists of Oregon's seven public four-year universities, one satellite campus, and the affiliated Oregon Health & Science University (OHSU) in Portland. OUS has historically had 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.

Article XI-F (1) bonded debt is paid solely out of non-General Fund revenues of the OUS. These revenue sources include tuition, student building fees, gifts, grants, endowment earnings, and other similar funds. Under program requirements, members of 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 on their facilities.

Over the past several years, the State Legislature has passed a series of bills that restructure the governance and management of many aspects of public education in Oregon. In 2011, the Oregon Education Investment Board (OEIB) was established to provide overarching policy guidance for Oregon's public education enterprise from pre-kindergarten through college. The 2011 Legislature also granted more independence to the various institutions within the Oregon University System, including the ability to issue standalone OUS revenue bonds.

The 2013 Legislature approved even greater independence to individual public universities around the state. The University of Oregon, Portland State University, and Oregon State University were granted the ability to establish independent governing boards that, as of July 1, 2014, will directly oversee all aspects of each university's budget and operations, including the establishment of campus-wide multi-year capital master plans and the issuance of stand-alone revenue bonds. It is unclear as of the date of this report if other members of the OUS will also establish independent governing boards or if a new, refashioned entity will emerge to govern these remaining institutions.

To the extent that these new, independent governing boards want to avail themselves of future self-supporting Article XI-F(1) bonds, State law requires that the Oregon State Treasury review and approve any future standalone revenue bonds issued by their university to assure that the pledged revenues of the university are sufficient to cover debt service on both existing State general obligation bonds as well as these new revenue bonds. To the extent that a university board does not wish to seek the review and approval of the Oregon State Treasury prior to the sale of their revenue bonds, they are precluded from seeking any new Article XI-F(1) bonding authority.

It is anticipated that a new entity providing on-ongoing debt management and administrative services will be created between the members of OUS to assure that debt service payments continue to be budgeted and made on all existing OUS debt, and that this new entity will also provide post-issuance compliance services to assure that existing OUS general obligation bonds maintain their tax-exempt status.

It should be noted that non-General Fund OUS revenues have always been more than adequate to meet the operating and debt service requirements of their collective XI-F(1) bonding program. As the State moves towards implementation of independent university boards empowered to issue stand-alone revenue bonds, the Oregon State Treasury will need to work with each campus to identify their portion of OUS revenues pledged to pay debt service on their portion of existing XI-F(1) debt service in order to assure that the General Fund is never called on to cover debt service payments for this historically self-supporting bonding program. As with the Veterans' Welfare housing bond program, the future capacity of each campus' self-supporting bonding programs will be dependent upon continued sound financial management policies and practices of these new governing boards and the revenue producing capacity of various bond financed projects through this program.

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 Oregon State Treasury. 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.

The adopted 2013-15 budget directed OHCSD to engage a wide range of stakeholders in the review of its existing operations and to explore the continued role of the agency in providing housing finance and other community services. Among the proposals that have emerged from this yearlong process is that the existing housing finance functions of the agency should be transferred to a new, independent housing finance authority; while this proposal may be beneficial in that it offers a stronger and more accountable governance structure than now exists, there are many unanswered questions as to the transition of OHCSD's existing complex, mortgage bonding operations to this new entity. Other proposals called for dividing the duties of the agency among several state agencies – as in the case of an independent authority, many questions remain unanswered as to how the transition of OHCSD's complex bonding and mortgage operations will occur if this reorganization scenario is selected by the Legislature and Governor.

It is therefore imperative that whatever restructuring proposal is ultimately selected, the agency must first develop a fiscally prudent transition plan for their current debt portfolio, as well as other legal obligations, so that the legal rights of existing bondholders, as well as swap and liquidity providers are not impaired.

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, 2013, ODOE had $65.9 million in bonds for OUS energy projects that were General Fund supported, representing approximately 28% of ODOE's outstanding bond portfolio.

In preparation for an ODOE bond sale in 2012, the State Treasurer's staff 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 SELP's loan loss reserves were seriously depleted, 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 were 91 days or more past due. While ODOE's management has tightened their loan underwriting standards and systematically pursued delinquent borrowers over the past year, the fact remains that significant cash infusions will be required over the next several fiscal years in order for the SELP program to meet its debt service obligations on ODOE's existing General Obligation bond portfolio.

Since the date of last year's SDPAC report, an additional large SELP loan to a solar panel manufacturer has also gone into default. Depending on the outcome of SELP's negotiations with its other delinquent borrowers, and the agency's ability to generate program revenues from new, higher quality loans in the future, SELP will require total cash infusions of at least $12 million over the next several years. This amount could increase substantially if SELP is unable to generate new loans or if more SELP loans become delinquent or are written off as uncollectible.

The Commission strongly urges the Legislature and Governor to actively monitor SELP's financial situation and tighten the 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 guaranty voter-approved General Obligation “GO” bonds of qualifying Oregon education districts. Participation in the program is voluntary and is open to public school districts, education service districts, and community college districts.

The Oregon School Bond Guaranty “OSBG” program is administered by Oregon State Treasury, which established administrative rules prescribing application procedures and qualification guidelines. Upon determination of a district’s eligibility, Oregon State Treasury 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 general obligation bonds. These features include:

- A pledge of the State’s full faith and credit to guaranty payment of a qualified district/college’s bond debt service when due;
- Authorization of the State Treasurer to make 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 Oregon State Treasury to issue property tax-backed State GO bonds to fund the State’s guaranty, if necessary; and
- Authorization of Oregon State Treasury 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 general obligation bond sold, on its behalf.

A participating district for which the State has made a guaranty payment is obligated to repay the State, with interest, and in certain instances, may be subject to an additional penalty. The range of State school funds that can be intercepted for repayment include any payments for the State’s General Fund, the State School Fund, income from the Common School Fund, or any other operating funds provided by the State to the 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, 2013, the program has outstanding guarantees on \$3.6 billion in outstanding GO bonds (\$5.2 billion in guaranteed debt service) issued by Oregon school districts and community colleges. *Exhibit VI.1* shows the growth of the program since FY 2004. While it is impossible to know precisely how much the State guaranty has saved Oregon taxpayers in interest costs on school bonds, a conservative estimate of an average reduction of .25% (25 basis points) in borrowing costs suggests debt service savings of roughly \$6.0 million per year, or \$120 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 2014, this State guaranty applies to local school district and community college debt service payments of \$407 million, which is equivalent to approximately 5.9% of total General Fund revenues for the fiscal year, and 12.4% of overall state aid for schools and community colleges.

Exhibit VI.1

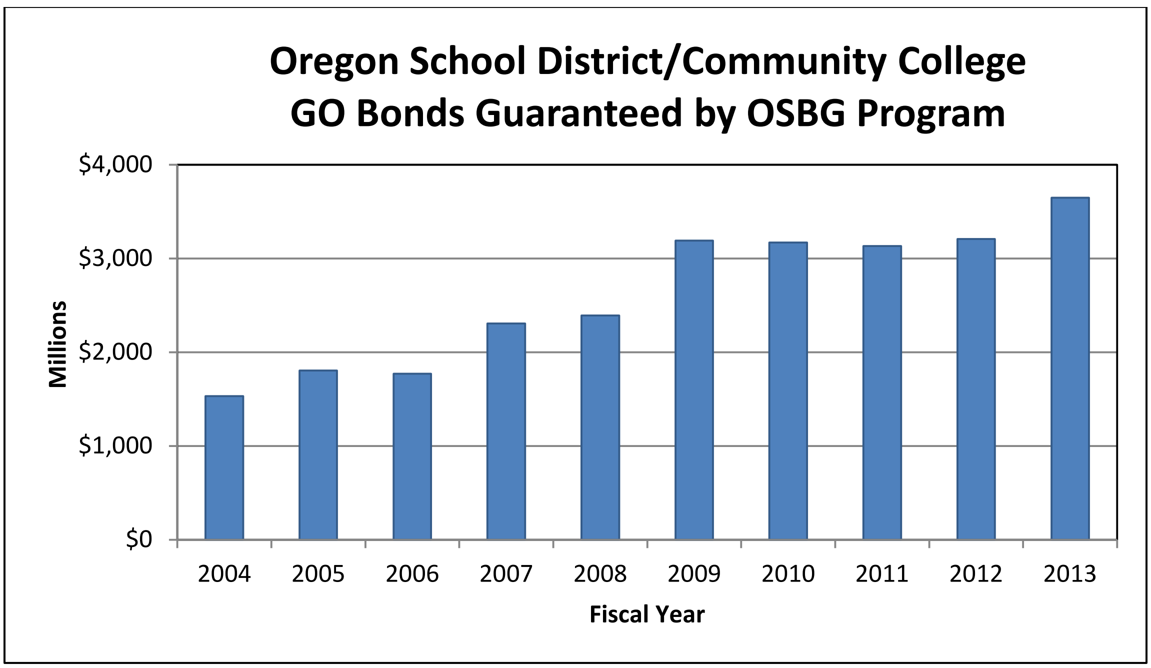
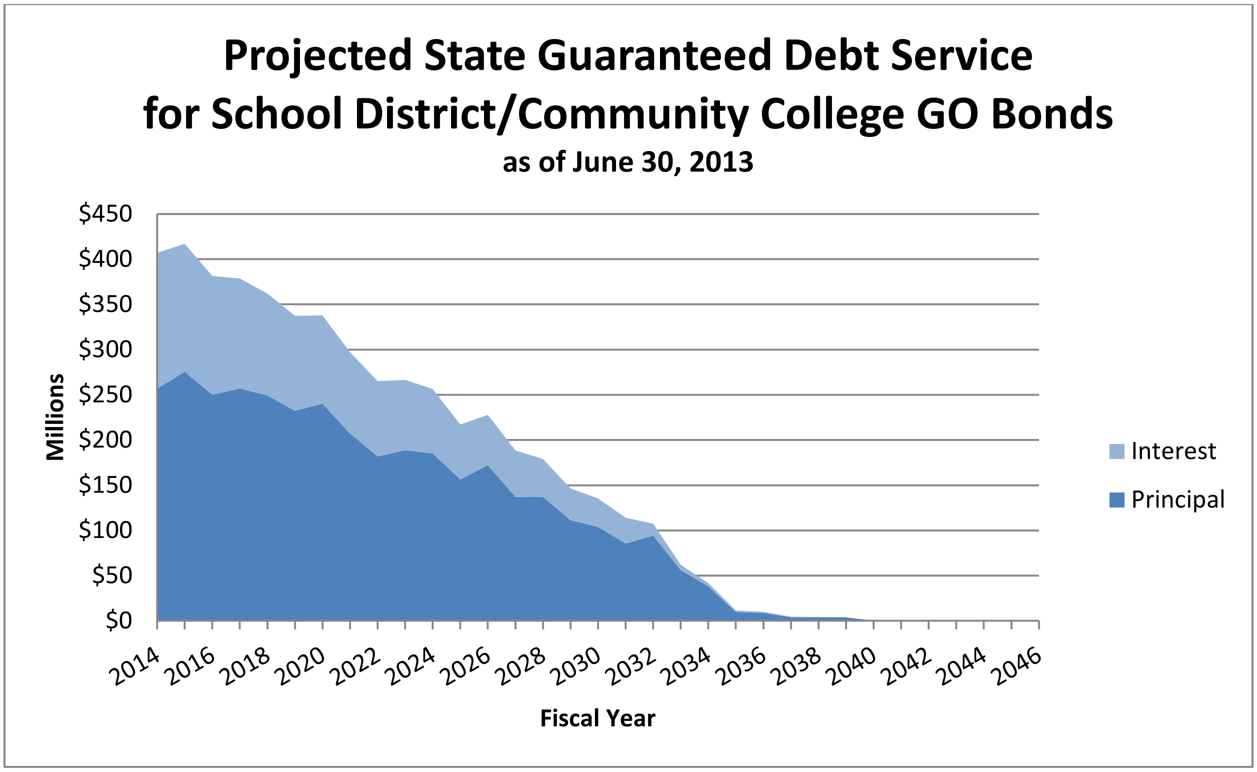


Exhibit VI.2



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 initially 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. While most of these pooled POBs were sold as non-callable taxable bonds, a few pooled POBs did have call features on certain maturities, which allowed for their refunding at lower interest rates over the last few years.

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 since 2003. The Commission projects that the State will divert approximately $229 million in state school aid for this purpose in FY 2014, or 7.0% of combined annual state aid for school districts and community colleges in the state.

Exhibit VI.3

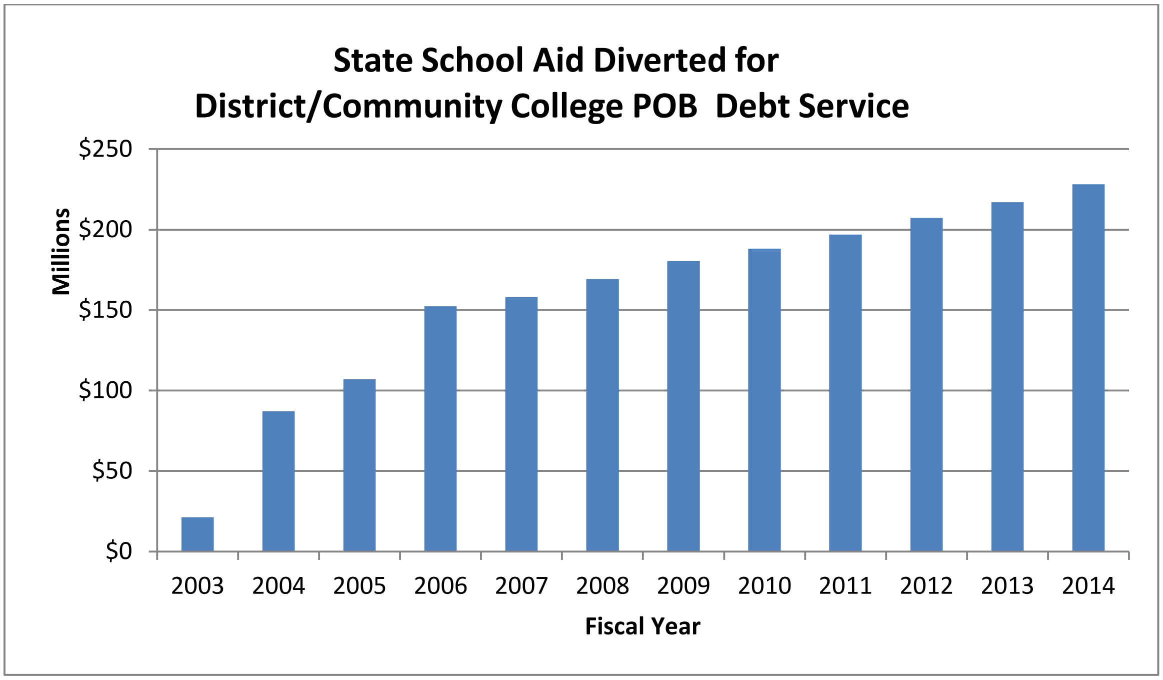
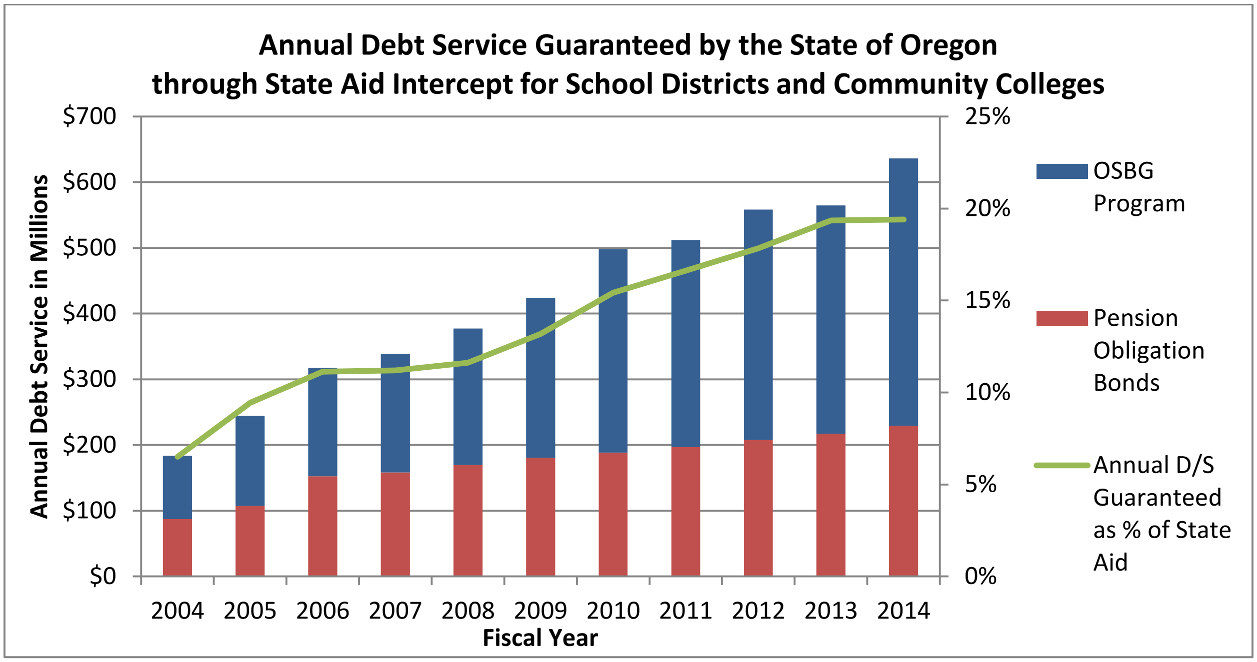


Exhibit VI.4 shows the growth in the State's combined annual guaranteed debt service for both the OSBG program and the POB fund diversion programs. As the chart shows, these two state aid intercept bonding programs are relying on an increasing percentage of state aid to schools. The Commission projects that the combined annual debt service guaranteed by the State for school district and community college general obligation and pension bonds is now 19.4% of annual 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.

As of June 30, 2013, four school districts have a combined annual debt service on State guaranteed GO and POBs that exceeds the amount of State school aid they receive. Given the growing reliance of districts on the state guaranty programs, it would be wise for the State to tighten OSBG's program rules to assure that in the future districts do not tie up an excess amount of State school aid in bond guaranty programs. To this end, Oregon State Treasury is in the process of filing administrative rules that would limit a district's combined projected future annual State guaranteed debt service to no more than 80% of its annual State aid. Exceptions to this 80% level may be allowed if a district provides additional collateral as security to the State or obtains bond insurance that can be drawn on to reimburse the State Treasury for any debt service payments made on behalf of a district.

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 GO bonds). It is anticipated that these new Article XI-P bonds will be repaid from General Fund resources. Given the huge unmet capital needs of Oregon's school districts, it seems likely that this new bonding program will grow substantially in the years to come.

Given the significant contingent liability represented by the current OSBG program with its annual debt service guaranty equating to 5.4% of General Fund revenues and 12.4% of overall school state aid, coupled with annual diversions of 7.0% of school state aid for district and community college POB debt service payments, the Commission recommends that the Governor and Legislature limit the use of new state aid intercepts for schools and community colleges 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 (28%)
- 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 (85%)
- 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 (72%)
- 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 2013-2015 Biennium[1]

Net Tax-Supported Debt Programs	2013-2015 Biennium Authorization	FY 2014 Planned Issuance	FY 2015 Planned Issuance	Remaining Authorization
Community College Bonds Article XI-G	125,081,600	62,540,800	62,540,800	0
Dept. Of Higher Education Facility Bonds (Article XI-G)	117,861,000	58,930,500	58,930,500	0
Pollution Control Bonds Article XI-G	0	0	0	0
Alternate Energy Bonds[2] Article XI-J – 19%	60,000,000	30,000,000	30,000,000	0
Dept. of Water Resources Bonds (Article XI-I(1))	10,235,000	5,117,500	5,117,500	0
Oregon Opportunity Bonds[3] Article XI-L	0	0	0	0
Seismic Rehab – Public Education Buildings (Article XI-M)	15,000,000	0	15,000,000	0
Seismic Rehab – Emergency Services Buildings (Article XI-N)	15,000,000	0	15,000,000	0
State General Purpose Bonds[4] Article XI-Q – 85%	426,052,000	213,026,000	213,026,000	0
Pension Obligation Bonds[5] Article XI-O	0	0	0	0
Lottery Revenue Bonds ORS 286.563-585	157,557,715	0	157,557,715	0
Highway User Tax Bonds[6] ORS 376.620	846,690,000	423,345,000	423,345,000	0
Transportation Infrastructure Bonds ORS 367.030	0	0	0	0
Certificate of Participation Bonds ORS 283.025-092	40,000,000	20,000,000	20,000,000	0
State Appropriation Bonds (SB 856 – 2003 Legislature)	0	0	0	0
Total Net Tax-Supported Debt Authorizations	**$1,813,477,315**	**$812,959,800**	**$1,000,517,515**	**$0**

Note: May not foot due to rounding

[1] Amounts as authorized by the 77th Oregon Legislative Assembly – 2013 Legislative Session. Authorization does not guarantee issuance of bonds or appropriation credits in these amounts. For the *2014 Legislative Report*, it is assumed that half of the entire authorization will be issued for certain programs in fiscal year 2014.

[2] Alternate Energy Bonds: Senate Bill 5506, Legislature approved $60,000,000 for the 2013-15 biennium. The percentage supported by the General Fund will vary from year to year depending on total amount outstanding. Currently, 28% 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: SB5506, Legislature approved $426,052,000 for the 2013-15 biennium. Currently 85% is considered net-tax supported.

[5] Pension Obligation bonds are constitutionally limited to 1% of RMV or $4,215,910,018. While there is no Constitutional authorization there is no current intention to issue additional bonds.

[6] User Tax Bonds: SB 5506 Legislature approved $846,690,000 for the 2013-15 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)
2014	$28,890,905	$96,255,926	$8,443,189	$29,635,273	$15,607,225	$51,738,233	$1,143,969	$710,013	$72,235,102	$2,254,301
2015	-	87,962,487	8,406,378	30,518,933	15,601,075	53,937,607	1,146,569	709,913	73,911,895	2,248,940
2016	-	72,997,041	8,405,468	30,539,929	15,430,925	56,230,279	1,144,769	710,863	72,501,280	2,351,037
2017	-	64,652,932	8,410,274	30,573,691	15,437,925	58,620,352	1,139,269	706,363	69,351,794	2,149,862
2018	-	55,803,153	8,414,423	30,557,371	15,430,825	61,110,455	1,141,819	709,063	67,444,769	2,145,316
2019	-	49,227,282	8,402,143	29,739,755	15,435,025	63,707,829	1,148,319	711,213	63,645,742	1,961,860
2020	-	48,477,315	8,408,081	29,677,602	15,434,250	66,415,515	1,148,519	707,813	63,443,522	1,837,508
2021	-	46,228,080	8,398,760	28,711,978	15,437,250	69,238,461	1,142,669	709,013	59,277,784	1,782,341
2022	-	46,044,118	8,394,304	28,699,941	15,437,125	72,181,742	1,143,369	709,663	47,157,847	1,232,027
2023	-	45,781,149	8,388,136	28,699,674	15,432,250	75,248,863	1,145,619	712,263	46,344,638	1,228,984
2024	-	41,750,862	8,398,291	28,622,272	8,041,125	78,446,564	1,144,144	711,544	45,866,798	1,172,202
2025	-	28,272,643	8,391,489	28,596,512	-	81,781,536	1,149,031	707,594	45,856,197	839,173
2026	-	28,036,327	8,390,564	27,905,699	-	85,257,296	1,144,994	712,619	45,873,251	842,276
2027	-	27,624,543	8,393,314	27,875,074	-	88,879,815	1,144,931	711,594	35,969,953	842,265
2028	-	27,473,610	8,396,629	26,181,296	-	-	1,143,681	709,688	35,298,134	843,654
2029	-	27,310,463	8,395,510	23,826,886	-	-	1,148,731	709,388	33,235,732	548,137
2030	-	23,588,914	7,966,322	21,669,712	-	-	1,147,481	708,288	32,828,720	550,452
2031	-	23,072,511	7,970,725	19,932,262	-	-	1,149,906	711,175	26,472,447	337,250
2032	-	22,893,325	7,967,188	19,571,117	-	-	1,145,781	707,825	21,408,253	338,205
2033	-	22,708,825	7,958,225	16,232,753	-	-	1,147,556	710,700	17,980,182	336,777
2034	-	20,011,061	7,965,100	16,118,177	-	-	1,145,381	709,925	14,546,178	-
2035	-	17,457,059	4,492,022	13,466,172	-	-	1,144,356	710,600	14,553,737	-
2036	-	3,191,835	4,488,688	13,468,092	-	-	671,400	235,125	14,536,254	-
2037	-	3,191,283	1,998,853	12,039,372	-	-	423,325	-	3,638,861	-
2038	-	3,192,090	2,000,341	11,462,969	-	-	-	-	782,032	-
2039	-	3,193,811	-	9,712,000	-	-	-	-	-	-
2040	-	-	-	6,339,625	-	-	-	-	-	-
2041	-	-	-	3,663,500	-	-	-	-	-	-
2042	-	-	-	3,659,250	-	-	-	-	-	-
2043	-	-	-	-	-	-	-	-	-	-
2044	-	-	-	-	-	-	-	-	-	-
Program Totals	**$28,890,905**	**$936,398,647**	**$187,244,414**	**$627,696,888**	**$162,725,000**	**$962,794,547**	**$26,295,588**	**$15,852,238**	**$1,024,161,100**	**$25,842,568**

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, 2013.

Table A-3 (Continued)

Fiscal Year (ending June 30th)	Energy Bonds (General Fund Supported)	Total General Fund Supported Debt Service
2014	$7,139,529	$314,053,663
2015	7,882,691	282,326,488
2016	7,677,390	267,988,978
2017	6,851,393	257,893,855
2018	6,185,577	248,942,770
2019	6,080,453	240,059,620
2020	6,602,488	242,152,614
2021	6,356,918	237,283,253
2022	4,901,660	225,901,796
2023	4,234,923	227,216,499
2024	3,908,764	218,062,566
2025	3,425,311	199,019,486
2026	3,421,931	201,584,956
2027	3,135,923	194,577,412
2028	3,046,190	103,092,882
2029	2,775,340	97,950,188
2030	2,129,695	90,589,584
2031	1,692,225	81,338,501
2032	995,256	75,026,950
2033	241,624	67,316,641
2034	74,092	60,569,914
2035	-	51,823,947
2036	-	36,591,393
2037	-	21,291,693
2038	-	17,437,431
2039	-	12,905,811
2040	-	6,339,625
2041	-	3,663,500
2042	-	3,659,250
2043	-	-
2044	-	-
Program Totals	**$88,759,374**	**$4,086,661,267**

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
2014	$181,022,422	$133,031,242	$314,053,663
2015	156,503,345	125,823,143	282,326,488
2016	148,893,963	119,095,016	267,988,978
2017	145,246,442	112,647,413	257,893,855
2018	143,275,958	105,666,812	248,942,770
2019	142,279,492	97,780,128	240,059,620
2020	151,076,946	91,075,668	242,152,614
2021	154,446,820	82,836,433	237,283,253
2022	150,067,574	75,834,222	225,901,796
2023	159,178,870	68,037,629	227,216,499
2024	157,929,820	60,132,746	218,062,566
2025	146,674,280	52,345,206	199,019,486
2026	156,973,700	44,611,256	201,584,956
2027	158,309,090	36,268,322	194,577,412
2028	75,284,070	27,808,812	103,092,882
2029	73,700,770	24,249,418	97,950,188
2030	69,860,320	20,729,264	90,589,584
2031	64,006,250	17,332,251	81,338,501
2032	60,722,590	14,304,360	75,026,950
2033	55,901,650	11,414,991	67,316,641
2034	51,824,260	8,745,654	60,569,914
2035	45,554,750	6,269,197	51,823,947
2036	32,545,500	4,045,893	36,591,393
2037	18,728,250	2,563,443	21,291,693
2038	15,723,000	1,714,431	17,437,431
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	-	-	-
2044	-	-	-
Totals	**$2,740,429,631**	**$1,346,231,636**	**$4,086,661,267**

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, 2013.

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)
2014	$28,890,905	$113,242,265	$8,443,189	$29,635,273	$15,607,225	$161,681,978	$5,367,384	$146,335,249	$126,620,375	$7,139,529
2015	-	103,485,279	8,406,378	30,518,933	15,601,075	168,555,022	5,354,620	146,332,359	125,344,523	7,882,691
2016	-	85,878,871	8,405,468	30,539,929	15,430,925	175,719,621	5,597,708	146,317,578	109,518,958	7,677,390
2017	-	76,062,273	8,410,274	30,573,691	15,437,925	183,188,600	5,118,720	145,471,941	109,698,477	6,851,393
2018	-	65,650,769	8,414,423	30,557,371	15,430,825	190,970,172	5,107,895	145,714,277	109,708,164	6,185,577
2019	-	57,914,450	8,402,143	29,739,755	15,435,025	199,086,967	4,671,095	147,125,519	106,240,497	6,080,453
2020	-	57,032,136	8,408,081	29,677,602	15,434,250	207,548,485	4,375,020	147,673,917	103,731,554	6,602,488
2021	-	54,385,976	8,398,760	28,711,978	15,437,250	216,370,191	4,243,670	147,694,660	103,728,955	6,356,918
2022	-	54,169,551	8,394,304	28,699,941	15,437,125	225,567,942	2,933,398	149,117,383	103,741,280	4,901,660
2023	-	53,860,176	8,388,136	28,699,674	15,432,250	235,152,696	2,926,151	150,025,219	103,739,709	4,234,923
2024	-	49,118,661	8,398,291	28,622,272	8,041,125	245,145,513	2,790,957	150,955,329	103,731,605	3,908,764
2025	-	33,261,933	8,391,489	28,596,512	-	255,567,300	1,998,030	151,949,317	103,728,039	3,425,311
2026	-	32,983,914	8,390,564	27,905,699	-	266,429,051	2,005,419	152,950,707	103,742,499	3,421,931
2027	-	32,499,463	8,393,314	27,875,074	-	277,749,421	2,005,394	153,991,842	93,825,236	3,135,923
2028	-	32,321,894	8,396,629	26,181,296	-	-	2,008,700	154,720,589	73,996,894	3,046,190
2029	-	32,129,957	8,395,510	23,826,886	-	-	1,305,088	154,783,843	60,326,500	2,775,340
2030	-	27,751,663	7,966,322	21,669,712	-	-	1,310,600	154,292,924	44,249,050	2.129,695
2031	-	27,144,131	7,970,725	19,932,262	-	-	802,975	154,988,191	34,333,425	1,692,225
2032	-	26,933,324	7,967,188	19,571,117	-	-	805,250	154,231,415	14,499,150	995,256
2033	-	26,716,264	7,958,225	16,232,753	-	-	801,850	153,240,579	12,642,900	241,624
2034	-	23,542,425	7,965,100	16,118,177	-	-	-	151,453,891	-	74,092
2035	-	20,537,717	4,492,022	13,466,172	-	-	-	148,797,399	-	-
2036	-	3,755,100	4,488,688	13,468,092	-	-	-	-	-	-
2037	-	3,754,450	1,998,853	12,039,372	-	-	-	-	-	-
2038	-	3,755,400	2,000,341	11,462,969	-	-	-	-	-	-
2039	-	3,757,425	-	9,712,000	-	-	-	-	-	-
2040	-	-	-	6,339,625	-	-	-	-	-	-
2041	-	-	-	3,663,500	-	-	-	-	-	-
2042	-	-	-	3,659,250	-	-	-	-	-	-
2043	-	-	-	-	-	-	-	-		-
2044	-	-	-	-	-	-	-	-	-	-
Program Totals	**$28,890,905**	**$1,101,645,467**	**$187,244,414**	**$627,696,888**	**$162,725,000**	**$3,008,732,959**	**$61,529,923**	**$3,308,164,128**	**$1,747,147,789**	**$88,759,374**

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, 2013.

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 Bldgs. (XI-M)	Seismic Rehab Emergency Services Bldgs. (XI-N)	Total Net Tax-Supported Debt
2014	$84,982,473	$1,143,969	$710,013	**$729,799,825**
2015	86,955,171	1,146,569	709,913	**700,292,532**
2016	85,295,623	1,144,769	710,863	**672,237,702**
2017	81,590,346	1,139,269	706,363	**664,249,271**
2018	79,346,787	1,141,819	709,063	**658,937,140**
2019	74,877,343	1,148,319	711,213	**651,432,778**
2020	74,639,438	1,148,519	707,813	**656,979,302**
2021	69,738,570	1,142,669	709,013	**656,918,608**
2022	55,479,820	1,143,369	709,663	**650,295,436**
2023	54,523,104	1,145,619	712,263	**658,839,919**
2024	53,960,939	1,144,144	711,544	**656,529,144**
2025	53,948,468	1,149,031	707,594	**642,723,023**
2026	53,968,530	1,144,994	712,619	**653,655,926**
2027	42,317,591	1,144,931	711,594	**643,649,783**
2028	41,527,216	1,143,681	709,688	**344,052,778**
2029	39,100,861	1,148,731	709,388	**324,502,104**
2030	38,622,024	1,147,481	708,288	**299,847,759**
2031	31,144,055	1,149,906	711,175	**279,869,071**
2032	25,186,180	1,145,781	707,825	**252,042,485**
2033	21,153,155	1,147,556	710,700	**240,845,606**
2034	17,113,150	1,145,381	709,925	**218,122,142**
2035	17,122,044	1,144,356	710,600	**206,270,310**
2036	17,101,475	671,400	235,125	**39,719,800**
2037	4,281,013	423,325	-	**22,497,013**
2038	920,038	-	-	**18,138,747**
2039	-	-	-	**13,469,425**
2040	-	-	-	**6,339,625**
2041	-	-	-	**3,663,500**
2042	-	-	-	**3,659,250**
2043	-	-	-	-
2044	-	-	-	-
Program Totals	**$1,204,895,412**	**$26,295,588**	**$15,852,238**	**$11,569,580,083**

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, 2013.

Table A-6

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

Fiscal Year (ending June 30th)	Principal	Interest	Total
2014	$365,924,922	$363,874,904	$729,799,825
2015	351,857,345	348,435,187	700,292,532
2016	338,883,663	333,354,039	672,237,702
2017	345,636,492	318,612,779	664,249,271
2018	355,957,758	302,979,382	658,937,140
2019	365,489,842	285,942,936	651,432,778
2020	387,578,446	269,400,857	656,979,302
2021	406,143,520	250,775,088	656,918,608
2022	417,885,074	232,410,362	650,295,436
2023	446,757,120	212,082,799	658,839,919
2024	466,068,920	190,460,224	656,529,144
2025	475,085,980	167,637,043	642,723,023
2026	509,901,900	143,754,026	653,655,926
2027	525,800,440	117,849,343	643,649,783
2028	253,349,420	90,703,358	344,052,778
2029	245,772,620	78,729,484	324,502,104
2030	233,242,520	66,605,239	299,847,759
2031	225,125,100	54,743,971	279,869,071
2032	208,634,440	43,408,045	252,042,485
2033	208,029,600	32,816,006	240,845,606
2034	196,201,760	21,920,382	218,122,142
2035	195,285,000	10,985,310	206,270,310
2036	35,430,000	4,289,880	39,719,880
2037	19,830,000	2,667,013	22,497,013
2038	16,365,000	1,773,747	18,138,747
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	-	-	-
2044	-	-	-
Totals	**$7,621,471,881**	**$3,948,108,202**	**$11,569,580,083**

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, 2013.

Table A-7[1]

Annual Debt Srvice Requirements for Lottery Bonds Outstanding

Fiscal Year (ending June 30th)	$38,765,000 2003 Series A 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	$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	$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	$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
2014	655,655	37,119,763	2,913,750	2,522,790	7,027,788	5,324,922	1,893,333	3,689,199	853,387	28,695,976	2,525,250	3,369,750
2015	-	-	-	2,528,890	12,353,388	-	1,892,633	18,853,799	-	36,910,126	-	3,362,500
2016	-	-	-	2,526,840	12,351,388	-	1,895,453	3,938,149	-	36,910,181	-	3,366,750
2017	-	-	-	2,526,865	12,350,638	-	1,896,608	3,938,524	-	36,910,113	-	3,366,750
2018	-	-	-	2,524,815	12,354,438	-	1,896,098	3,939,324	-	36,905,788	-	3,367,500
2019	-	-	-	2,527,415	12,354,438	-	1,893,923	3,936,324	-	36,909,538	-	3,368,750
2020	-	-	-	2,527,215	12,352,813	-	1,894,423	3,939,524	-	36,907,988	-	3,370,250
2021	-	-	-	2,523,675	12,354,563	-	1,894,623	3,938,524	-	36,906,906	-	3,366,750
2022	-	-	-	2,520,506	12,355,313	-	1,892,623	3,938,324	-	36,906,606	-	3,368,250
2023	-	-	-	2,524,736	12,354,063	-	1,893,423	3,935,074	-	36,906,638	-	3,369,250
2024	-	-	-	2,525,236	12,354,813	-	1,894,898	3,936,118	-	36,906,288	-	3,364,500
2025	-	-	-	2,521,743	12,351,313	-	1,892,488	3,939,618	-	36,910,413	-	3,369,000
2026	-	-	-	2,527,180	12,352,563	-	1,896,513	3,936,438	-	36,908,938	-	3,367,000
2027	-	-	-	2,528,218	12,352,063	-	1,897,350	3,935,188	-	36,905,250	-	3,368,500
2028	-	-	-	-	-	-	-	3,935,438	-	36,906,250	-	3,368,000
2029	-	-	-	-	-	-	-	-	-	36,907,500	-	3,365,250
2030	-	-	-	-	-	-	-	-	-	-	-	-
2031	-	-	-	-	-	-	-	-	-	-	-	-
2032	-	-	-	-	-	-	-	-	-	-	-	-
2033	-	-	-	-	-	-	-	-	-	-	-	-
2034	-	-	-	-	-	-	-	-	-	-	-	-
2035	-	-	-	-	-	-	-	-	-	-	-	-
2036	-	-	-	-	-	-	-	-	-	-	-	-
2037	-	-	-	-	-	-	-	-	-	-	-	-
2038	-	-	-	-	-	-	-	-	-	-	-	-
2039	-	-	-	-	-	-	-	-	-	-	-	-
Totals	**655,655**	**37,119,763**	**2,913,750**	**35,356,124**	**167,619,575**	**5,324,922**	**26,524,383**	**73,729,560**	**853,387**	**582,314,496**	**2,525,250**	**53,878,750**

Note: May not foot due to rounding.

[1] Includes annual fiscal year debt service requirements on all Lottery debt issued through June 30, 2013.

Table A-7[1] (Continued)

Annual Debt Service Requirements for Lottery Bonds Outstanding

Fiscal Year (ending June 30th)	$34,195,000 2010 Series A Port of Morrow, Port of Tillamook, Port of Coos Bay, Pendleton Round-Up, Construction & Maintain Court Facilities,	$9,2454,000 2010 Series B Manufactured Home Dwelling Park, Low-Income Housing, Energy Efficiency &	$129,250,000 2011 Series A DAS - Port of Tillamook, DAS - Lane Transit District, Community Colleges & Workforse	$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,	$2,750,000 2012 Series C DAS, Oregon University System, and Water Resources	2013 Series A	2013 Series B	2013 Series C	Total Outstanding Debt Service Requirements
2014	1,471,350	1,831,456	6,771,663	1,121,550	1,142,654	933,300	2,624,200	25,640	5,640,313	1,117,557	7,349,132	**$ 126,620,375**
2015	1,471,350	1,828,036	6,771,663	1,121,550	1,142,654	933,300	11,262,600	25,640	5,885,544	1,130,678	17,870,175	**$ 125,344,523**
2016	1,471,350	1,828,446	6,771,663	1,121,550	1,142,654	933,300	11,260,000	925,640	5,885,544	2,872,054	14,317,999	**$ 109,518,958**
2017	3,106,350	191,846	6,771,663	1,121,550	1,142,654	933,300	11,254,550	922,765	5,885,544	6,762,504	10,616,256	**$ 109,698,477**
2018	3,302,300	-	6,771,663	1,121,550	1,142,654	1,408,300	11,259,650	451,453	5,885,544	6,758,725	10,618,365	**$ 109,708,164**
2019	3,300,900	-	6,771,663	11,806,550	1,142,654	1,854,550	5,606,300	-	5,885,544	6,761,118	2,120,833	**$ 106,240,497**
2020	3,300,050	-	6,771,663	13,009,500	1,142,654	1,856,750	1,888,500	-	7,875,544	4,768,452	2,126,231	**$ 103,731,554**
2021	3,299,900	-	6,771,663	745,500	13,412,654	1,857,500	1,885,500	-	12,644,744	-	2,126,455	**$ 103,728,955**
2022	3,298,400	-	6,771,663	-	14,169,522	1,855,750	1,890,300	-	12,646,944	-	2,127,080	**$ 103,741,280**
2023	3,298,550	-	20,936,663	-	-	1,856,500	1,892,500	-	12,646,194	-	2,126,120	**$ 103,739,709**
2024	3,301,650	-	20,933,000	-	-	1,854,500	1,890,750	-	12,644,694	-	2,125,160	**$ 103,731,605**
2025	3,298,900	-	20,930,488	-	-	1,854,750	1,890,000	-	12,644,444	-	2,124,885	**$ 103,728,039**
2026	3,300,400	-	24,952,025	-	-	1,857,000	-	-	12,644,444	-	-	**$ 103,742,499**
2027	3,300,650	-	15,038,325	-	-	1,856,000	-	-	12,643,694	-	-	**$ 93,825,236**
2028	3,299,400	-	11,984,863	-	-	1,856,750	-	-	12,646,194	-	-	**$ 73,996,894**
2029	3,301,400	-	2,254,500	-	-	1,854,000	-	-	12,643,850	-	-	**$ 60,326,500**
2030	3,301,150	-	26,444,500	-	-	1,857,750	-	-	12,645,650	-	-	**$ 44,249,050**
2031	-	-	19,829,525	-	-	1,857,500	-	-	12,646,400	-	-	**$ 34,333,425**
2032	-	-	-	-	-	1,853,250	-	-	12,645,900	-	-	**$ 14,499,150**
2033	-	-	-	-	-	-	-	-	12,642,900	-	-	**$ 12,642,900**
2034	-	-	-	-	-	-	-	-	-	-	-	**$ -**
2035	-	-	-	-	-	-	-	-	-	-	-	**$ -**
2036	-	-	-	-	-	-	-	-	-	-	-	**$ -**
2037	-	-	-	-	-	-	-	-	-	-	-	**$ -**
2038	-	-	-	-	-	-	-	-	-	-	-	**$ -**
2039	-	-	-	-	-	-	-	-	-	-	-	**$ -**
Totals	**50,424,050**	**5,679,784**	**224,248,850**	**31,169,300**	**35,580,750**	**31,124,050**	**64,604,850**	**2,351,138**	**207,329,625**	**30,171,088**	**75,648,690**	**$ 1,747,147,789**

Note: May not foot due to rounding

[1] Includes annual fiscal year debt service requirements on all Lottery debt issued through June 30, 2013.

Table A-8

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

Fiscal Year (ending June 30th)	Principal	Interest	Total
2014	$72,310,000	$54,310,375	$126,620,375
2015	73,885,000	51,459,523	125,344,523
2016	60,535,000	48,983,958	109,518,958
2017	62,850,000	46,848,477	109,698,477
2018	65,125,000	44,583,164	109,708,164
2019	64,060,000	42,180,497	106,240,497
2020	64,220,000	39,511,554	103,731,554
2021	67,040,000	36,688,955	103,728,955
2022	70,140,000	33,601,280	103,741,280
2023	73,435,000	30,304,709	103,739,709
2024	76,990,000	26,741,605	103,731,605
2025	80,865,000	22,863,039	103,728,039
2026	84,935,000	18,807,499	103,742,499
2027	79,345,000	14,480,236	93,825,236
2028	63,475,000	10,521,894	73,996,894
2029	52,965,000	7,361,500	60,326,500
2030	39,435,000	4,814,050	44,249,050
2031	31,540,000	2,793,425	34,333,425
2032	13,325,000	1,174,150	14,499,150
2033	12,135,000	507,900	12,642,900
Total	**$1,208,610,000**	**$538,537,789**	**$1,747,147,789**

Note: May not foot due to rounding.

[1] Includes annual fiscal year debt service requirements on all Lottery revenue debt issued through June 30, 2013.

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