REPORT

OF THE

STATE DEBT POLICY ADVISORY COMMISSION

2015 Commission Report

January 22, 2015

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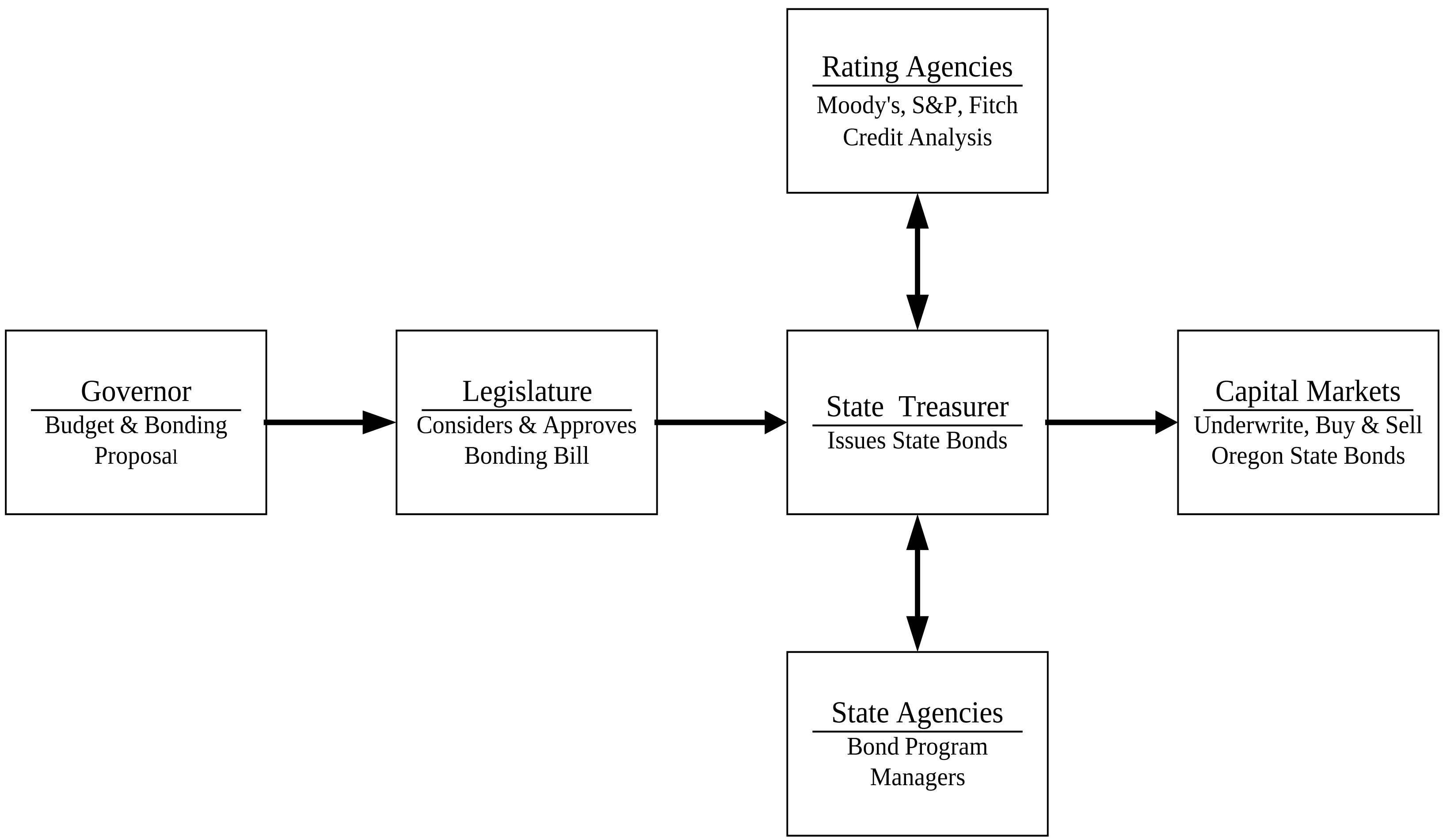
Oregon Bonding Process



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STATE DEBT POLICY

ADVISORY COMMISSION

350 WINTER STREET NE, SUITE 100

STATE DEBT POLICY ADVISORY COMMISSION

January 22, 2015

Governor Kitzhaber and Members of the 2015 Oregon Legislature:

I am pleased to present you with the *2015 Commission 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 and 2014 Legislature and current capital market conditions. 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.

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. I'd like to touch on three persistent areas of concern:

- Given the continued declines in our state economist's long-term forecast of net Lottery revenues, Lottery bonds will remain a scarcer resource, requiring careful consideration for their effective allocation. While we project **$161 million** in Lottery bond capacity available in the coming biennium, the Commission cautions that overall long-term lottery bond capacity is growing evermore constrained and any new Lottery bond authorizations this biennium will reduce future lottery bond capacity accordingly.
- Oregon State Treasury periodically reviews the cash flow model of the Small Scale Energy Loan Program (SELP) to determine if projected loan repayments are sufficient to meet all future debt service requirements of the bond program. These evaluations revealed that the bond program has deteriorating loan loss reserves and a number of delinquent loans to other private parties. 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.
- Due to the many complex issues involved in the transition of the Oregon University System (OUS) to independent university status, significant legal, staffing, and on-going administrative issues exist with Article XI-F(1) and XI-G State General Obligation (GO) bond programs. SB 270 did not assign to a state agency the centralized oversight and administration of the universities' bond programs as was formerly provided through OUS. The resulting administrative gap is significant and must be corrected before future XI-F(1) or XI-G GO bonds for independent universities can be sold. While Treasury is neutral with regards to which agency would be the more appropriate entity to handle these responsibilities, please note that the duties are significant and require adequately

trained and compensated staff for the independent university bond programs to continue running smoothly in the coming years.

As we look forward, Oregon will continue to be well served by maintaining our commitment to fiscal discipline in the authorization and issuance of state bonds. Debt is a powerful tool that can enhance the state's economic development, improve our public institutions, and 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.

Given the end of the recession in Oregon, our projections suggest that there is significant available General Fund-supported debt capacity to address Oregon's highest priority capital needs over the eight year forecast period covered in this report. After taking into account the December 2014 revenue forecast and the issuance of all **$**843 million in General Fund-supported bonds authorized by the Legislature in 2013 and 2014, the State will have **$974 million** in General Fund-supported debt capacity available next biennium, while staying below the 5% capacity threshold recommended by the Commission for this type of debt.

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.

Oregon's long-standing commitment to prudent management of debt has helped us to maintain our current strong credit ratings and have allowed us to borrow at historically low interest rates for a range of high priority capital projects around the state.

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 *2014 Legislative Update* was published January 17, 2014.

This *2015 Commission Report* is intended to provide a picture of the State's bonding capacity based on current revenue projections and the bonding authorizations made by the Legislature in 2013 and 2014. 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 $10.8 billion as of June 30, 2014.[1] This represents an increase of about $176.0 million compared to the end of the 2013 fiscal year.
- For **General Fund supported debt programs**, the total debt outstanding as of June 30, 2014 was $2.68 billion. This amount is expected to increase to approximately $3.43 billion by the end of the 2013-15 biennium based on the issuance of approximately $902.3 million in new General Fund debt authorized by the Legislature in 2013 and 2014. Based on the December 2014 revenue forecast, debt service as a percentage of General Fund revenues is expected to be 3.5% at the end of the current fiscal year, which is well 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 has approximately $3.9 billion in additional General Fund-supported debt capacity from FY 2016 through FY 2023, with a maximum of $974 million in capacity per biennium. This projection assumes that all $843.5 million of General Fund-supported bonds authorized by the Legislature in 2013 and 2014 is issued prior to the end of FY 2015.

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

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
2015	**--***	3.52%
2016	1,177.4	5.00%
2017	357.7	5.00%
2018	319.2	5.00%
2019	424.4	5.00%
2020	323.3	5.00%
2021	409.3	5.00%
2022	531.1	5.00%
2023	353.6	5.00%
Total FY 2016-2023 General Fund Debt Capacity	**$3,896.0**	

* Assumes issuance of $843.5 million in General Fund supported bonds authorized by Legislature in 2013 and 2014.

For the **Lottery Bond Program**, the total debt outstanding was $1.1 billion as of June 30, 2014. Lottery revenue bond covenants require a minimum debt service coverage ratio of four times unobligated net Lottery proceeds. Given the redirection of a significant amount of net Lottery revenues to fund the multi-year Lottery's video machine replacement program, the *2013 SDPAC Report* estimated that Lottery debt capacity would be limited and only available in the second year of the biennium.

In response, the 2013 Legislature directed staff to schedule the issuance of new, authorized Lottery bonds towards the end of the 2015 fiscal year, which effectively moves all new debt service on Lottery bonds into the 2015-17 biennium.

Given the impact of the December 2014 revenue forecast which lowered projections of annual net Lottery revenues from FY 2017 through FY 2023, the Commission cautions that overall long-term Lottery bond capacity has dropped considerably and will remain very constrained in the coming years. Furthermore, Lottery bond capacity will be further limited to the extent that new Lottery-backed bonds are sold on a taxable basis for projects that do not qualify for tax-exempt treatment under federal tax law, a trend that has increased in recent years.

In addition to funding Lottery bond debt service, net Lottery revenue funds critical educational and economic development programs in the state. The costs of these programs are projected to grow at a faster rate than future Lottery revenues. Based on the continuing downward revision in forecasts of long-term Lottery revenues, the Commission recommends the Legislature and Governor consider scaling back the use of Lottery bonding so that sufficient Lottery revenue continues to be available to fund these important state programs.

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)
2015	--*	4.2
2016	31.4	4.0
2017	207.8	4.0
2018	45.9	4.0
2019	85.3	4.0
2020	84.2	4.0
2021	60.7	4.0
2022	62.8	4.0
2023	64.9	4.0
Total FY 2016-23 Lottery Debt Capacity	**$ 643.0**	

*Assumes issuance of $195.9 million in Lottery revenue bonds in FY 2015 as authorized by Legislature in 2013 and 2014.

- 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 paid off its appropriation deficit bonds but has continued to issue Lottery and Highway User Tax bonds, which substantially added to its overall NTSD debt burden and debt ratios.

  At the end of FY 2014, Oregon's outstanding NTSD stood at $7.8 billion. By the end of FY 2015, this amount is projected to increase as existing NTSD is retired and new General Obligation, ODOT revenue, and Lottery bonds authorized by the Legislature in 2013 and 2014 are sold to investors. The Commission projects that by the end of FY 2015, assuming the issuance of $969 million in NTSD authorized by the Legislature in 2013 and 2014, Oregon's overall net tax-supported debt burden will increase by $606 million, which in turn will increase the State's FY 2015 debt per capita and debt as a percentage of personal income.

Net Tax-Supported Debt Ratios

	Fiscal Year Ending June 30th		
	FY 2013 (Actual)	FY 2014(Actual)	FY 2015 (Projected)
Net Tax-Supported Debt (Millions)	$ 7,593	$ 7,783	$ 8,390
Population*	3,917,800	3,964,750	4,011,300
Personal Income (Millions)*	$156,700	$164,300	$172,700
NTSD Per Capita	$1,938	$1,963	$2,091
NTSD as a % of Personal Income	4.85%	4.74%	4.86%
Pension Obligation Bonds Excluded			
NTSD Per Capita	$1,442	$1,485	$1,634
NTSD as a % of Personal Income	3.61%	3.58%	3.80%

*Source: Oregon Office of Economic Analysis, December 2014 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 $1,634 per capita and 3.80% 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 revealed that the bond program has deteriorating loan loss reserves due to the default of several large loans to 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 cash infusions to the SELP program beginning in October 2019 and continuing through FY 2034, in order for the program to meet all of its GO debt service obligations. The most recent cash flow projections indicate that cash infusions will total at least $13 million over time and could increase substantially if additional SELP loans become delinquent or are written off as uncollectible.

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.

The Commission is also concerned about the future oversight and management of the GO bonding programs related to Oregon's newly established independent public universities. Over the past year, as the first three universities made the transition to independent status, it has become increasingly clear that additional legislation will be required to assure the State's effective and efficient management of this large, complex GO bonding program. A state agency needs to be assigned oversight responsibility for Higher Education XI-G and XI-F (1) bond sale authorization and proceeds disbursement to the independent universities, as well as the related legal, accounting and tax law compliance tasks associated with prudent bond program management. While it was initially hoped that University Shared Services Enterprise (USSE) could serve in this capacity, the Department of Justice has concluded that since USSE is not a state agency it cannot legally provide this type of administrative oversight.

The State Treasurer recently alerted the Governor and Legislative leadership about the issues described above and has recommended that legislation be adopted in 2015 assigning either the Department of Administrative Services or the Higher Education Coordinating Commission as the state agency responsible with future oversight of independent university GO bonding programs. Resolution of this matter early in the 2015 legislative session is crucial if the sale of $117 million in authorized new money Article XI-G GO bonds is to occur as planned in early May 2015.

In conclusion, 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 bonds (GOs), direct revenue bonds, appropriation credits, and conduit revenue bonds. General obligation bond 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 provide 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

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 GO 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 GO 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*
- Oregon Opportunity Bonds – Article XI-L
- Seismic Rehabilitation of Public Education Buildings – Article XI-M

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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] There is currently no outstanding general obligation debt related to State Highway, State Power Development, State Forest Rehabilitation, Water Resources, Oregon School Bond Guaranty Program, and Public School Facilities bonds.

[3] Higher Education Facilities GO bonds were historically issued by the Board of Higher Education, whereas Community College GO bonds were issued by the Board of Education. Higher Education and Community College bond issuance are combined and charged against the total debt authorized by the State Constitution Article XI-G.

- Seismic Rehabilitation of 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 GO 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 GO 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
- 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.

[1] Various legislative bills have authorized the sale of Transportation Infrastructure Bonds; however, no bonds have been issued to date by this program.

Appropriation Credits

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

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

These credits are special limited obligations of the State payable solely from funds appropriated or otherwise made available by the State Legislative Assembly. The obligation of the State to provide appropriated moneys and to pay the bonds is subject to future appropriation by the Legislature for the fiscal period in which payments are due. As with State direct revenue bond programs, appropriation credits do not require a vote of the People, but must be authorized by the Legislative Assembly. In 2010, voters approved Constitutional amendment Article XI-Q, which authorizes the State to issue GO Bonds for various State-owned or operated office buildings, facilities and other capital projects. Given the higher credit rating and lower cost of XI-Q GO bonds compared to COPs, it is unlikely that the State will continue to issue COPs in the future. Rather, as market conditions allow, the State will refund existing COPs with XI-Q bonds; to date, the State has refunded $472 million in outstanding COPs with XI-Q bonds, saving an estimated $57 million in interest costs.

Exhibit I.1

State of Oregon
OUTSTANDING[1] LONG-TERM FINANCIAL OBLIGATIONS[2] AND CONSTITUTIONAL PROVISIONS
As of June 30, 2014

General Obligation Bonds	Legal Provision	Constitutional Debt Limit (as % RMV) [3]	Constitutional Debt Limit (in Dollars)	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			116,095,000	
Higher Ed. Facility (XI-G) Bonds [7]	ARTICLE XI-G	0.7500%	3,251,047,704	376,121,059	2,758,831,645
Pollution Control Bonds [8] (42% of Total)	ARTICLE XI-H	0.5000%	910,293,357	16,230,900	894,062,457
DAS Oregon Opportunity Bonds [9]	ARTICLE XI-L	0.5000%	2,167,365,136	119,115,000	2,048,250,136
Seismic Rehab – Public Education Bldgs.	ARTICLE XI-M	0.2000%	866,946,054	17,000,000	849,946,054
Seismic Rehab – Emergency Service Bldgs.	ARTICLE XI-N	0.2000%	866,946,054	10,045,000	856,901,054
DAS Pension Obligation Bonds (32% of Total)	ARTICLE XI-O	1.0000%	1,387,113,687	606,142,400	780,971,287
Alternate Energy Bonds (XI-J) (33% of Total)	ARTICLE XI-J	0.5000%	715,230,495	78,685,686	635,992,545
State General Purpose (85% of total)	ARTICLE XI-Q	1.0000%	3,684,520,731	770,061,750	2,914,458,981
Total General Fund Supported				$2,109,496,795	
Self-Supporting					
State Highway Bonds	ARTICLE XI SEC 7	1.0000%	4,334,730,272	0	4,334,730,272
Veteran's Welfare Bonds [7]	ARTICLE XI-A	8.0000%	34,677,842,177	274,165,000	34,403,677,177
State Power Development	ARTICLE XI-D	1.5000%	6,502,095,408	0	6,502,095,408
Forest Rehabilitation	ARTICLE XI-E	0.1875%	812,761,926	0	812,761,926
Higher Ed. XI-F Bonds [7]	ARTICLE XI-F(1)	0.7500%	3,251,047,704	1,250,835,796	2,000,211,908
Pollution Control Bonds [8] (58% of Total)	ARTICLE XI-H	0.5000%	1,257,071,779	22,414,100	1,234,657,679
Water Resources Bonds	ARTICLE XI-I(1)	1.5000%	6,502,095,408	0	6,502,095,408
Elderly & Disabled Housing Bonds	ARTICLE XI-I(2)	0.5000%	2,167,365,136	118,545,000	2,048,820,136
Oregon School Bond Guaranty	ARTICLE XI-K	0.5000%	2,167,365,136	0	2,167,365,136
State General Purpose (15% of Total)	ARTICLE XI-Q	1.0000%	650,209,541	135,893,250	514,316,291
Alternate Energy Project Bonds (67% of Total)	ARTICLE XI-J	0.5000%	1,452,134,641	161,429,314	1,291,257,591
DAS Pension Obligation Bonds (68% of Total)	ARTICLE XI-O	1.0000%	2,947,616,585	1,288,052,600	1,659,563,985
Total Self-Supporting				$3,251,335,060	
Total General Obligation Bonds				$5,360,831,855	
Revenue Bonds					
Direct Revenue Bonds					
Lottery Revenue Bond Program(s)	[ORS 286A.563-585]	---	---	1,136,300,000	
Transportation Infrastructure Bank	[ORS 367.030]	---	---	0	
Highway User Tax	[ORS 367.620]	---	---	2,437,965,000	
Single & Multi-Family Housing Programs	[ORS 456.661]	---	---	1,049,115,000	
Economic Development - Bond Bank	[ORS Ch. 285B]	---	---	94,095,000	
State Fair & Exposition Center	[ORS Ch. 565]	---	---	0	
Total Direct Revenue Bonds				$4,717,475,000	

1 Totals may not agree with sum of components due to rounding.
2 Excludes refunded and defeased Bonds and 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, 2013 Real Market Value (RMV) of $433,473,027,209. 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, Department of Environmental Quality (DEQ) Pollution Control debt is reported as 42% General Fund supported and 58% self-supporting. ORS 468.195 limits the amount of DEQ debt outstanding at any one time to $260 million. Alternate Energy debt is reported at 33% General Fund supported and 67% self-supporting. Pension Bonds were approved by the voters September 16, 2003. 32% of Pension Bonds are General Fund supported, 68% are paid from non-General Fund sources. COP obligations are reported at 85% General Fund supported and 15% self-supporting.
9 Oregon Opportunity Bonds, Oregon Health & Science University (OHSU) were authorized to finance capital costs of OHSU 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.

	Legal Provision	Constitutional Debt Limit (as % RMV) [1]	Constitutional Debt Limit (in Dollars)	Amount Outstanding [2]	Authorization Remaining [3]
Pass Through Revenue Bonds					
Economic Development – Industrial Dev.	[ORS Ch. 285]			$ 336,768,790	
Oregon Facilities Authority	[ORS Ch. 289]			1,876,817,001	
Multi-family Housing Programs	[ORS 456.692]			201,041,419	
Total Pass Through Revenue Bonds				$2,414,627,210	
Appropriation Credits					
Certificates of Participation (COPs GF)	[ORS Ch. 283.085]			$574,217,500	
Certificates of Participation (COPs Non-GF)	[ORS Ch. 283.085]			101,332,500	
Oregon Appropriation Bonds	[SB 856 – 2003 Legislature]			0	
Total Appropriation Credits				$675,550,000	

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, 2013 Real Market Value (RMV) of $433,473,027,209. 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 Veterans' Welfare GO bond 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 Higher Education Facility and Community College (Article XI-G) GO bonds, State General Purpose Bonds (Article XI-Q) GO bonds, and Certificates of Participation (COPs).

Net Tax-Supported Debt is defined as all debt serviced by tax revenues of the State. This definition includes 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, even though it does not pledge any General Fund appropriations towards repayment of the bonds. These bonds do not constitute a GO 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, 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 the Moody's model in determining both General Fund and net tax-supported debt. This decision was based primarily on Moody's historical gathering and publishing of key debt ratios for the fifty states, and the recognition of their annual state debt report as an accepted, industry model.

As part of the development of this report, staff of the Office of the State Treasurer and the Department of Administrative Services periodically reviews 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. Based on this review, the *2015 SDPAC Report* adjusts downward the percentage of debt that is designated as General Fund-supported in relation to the GO bonds issued by the State to fund pension obligations, COPs, and Article XI-Q GO bonds. The report also incorporates a portion of the self-supporting GO debt issued by the Department of Environmental Quality and the Oregon Department of Energy using the same methodology. Based on these adjustments, 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));
- Thirty-three 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 State 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, 2014.

[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, 2014 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, 2014

Type & Purpose	General Fund Supported Debt	Net Tax-Supported Debt	Total Gross Debt Outstanding
General Obligation Bonds			
General Fund Supported			
Community College Bonds	$ 116,095,000	$ 116,095,000	$ 116,095,000
Higher Education Facility (XI-G) Bonds	376,121,059	376,121,059	376,121,059
Pollution Control Bonds (42% of Total)	16,230,900	16,230,900	16,230,900
Alternate Energy Bonds (XI-J) (33% of Total)	78,685,686	78,685,686	78,685,686
DAS Oregon Opportunity Bonds	119,115,000	119,115,000	119,115,000
Seismic Rehab - Public Education Bldgs (XI-M)	17,000,000	17,000,000	17,000,000
Seismic Rehab - Emergency Service Bldgs (XI-N)	10,045,000	10,045,000	10,045,000
State General Purpose (XI-Q) Bonds (85% of Total)	770,061,750	770,061,750	770,061,750
DAS Pension Obligation Bonds (32% of Total)*	606,142,400	606,142,400	606,142,400
Total General Fund Supported	$ 2,109,496,795	$ 2,109,496,795	$ 2,109,496,795
Self-Supporting			
Veterans' Welfare Bonds	-	-	274,165,000
Higher Education Facility (XI-F) Bonds	-	-	1,250,835,796
Pollution Control Bonds (58% of Total)	-		22,414,100
Water Resources Bonds	-	-	-
Elderly & Disabled Housing Bonds	-	-	118,545,000
Alternate Energy Project Bonds (67% of Total)	-	-	161,429,314
State General Purpose (XI-Q) Bonds (15% of Total)		135,893,250	135,893,250
DAS Pension Obligation Bonds (68% of Total)*	-	1,288,052,600	1,288,052,600
Total Self-Supporting	$ -	$ 1,423,945,850	$ 3,251,335,060
Total General Obligation Bonds	**$ 2,109,496,795**	**$ 3,533,442,645**	**$ 5,360,831,855**
Revenue Bonds			
Direct Revenue Bonds			
Lottery Revenue Bond Program(s)**	-	1,136,300,000	1,136,300,000
Highway User Tax Revenue Bonds	-	2,437,965,000	2,437,965,000
Single-Family & Multi-Family Housing	-	-	1,049,115,000
Economic Development - Bond Bank	-	-	94,095,000
Total Direct Revenue Bonds	**$ -**	**$ 3,574,265,000**	**$ 4,717,475,000**
Conduit or Pass Through Revenue Bonds			
Economic & Industrial Development	-	-	336,768,790
Oregon Facilities Authority	-	-	1,876,817,001
Multi-Family Housing Programs	-	-	201,041,419
Total Conduit or Pass Through Revenue Bonds	**$ -**	**$ -**	**$ 2,414,627,210**
Appropriation Credits			
Certificates of Participation (85% GF)	574,217,500	675,550,000	675,550,000
Oregon Appropriation Bonds	-	-	-
Total Appropriation Credits	**$ 574,217,500**	**$ 675,550,000**	**$ 675,550,000**
Total Gross Debt			**$ 13,168,484,065**
Total Debt - Less Conduit Revenue Bonds	**$ 2,683,714,295**	**$ 7,783,257,645**	**$ 10,753,856,855**

*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*

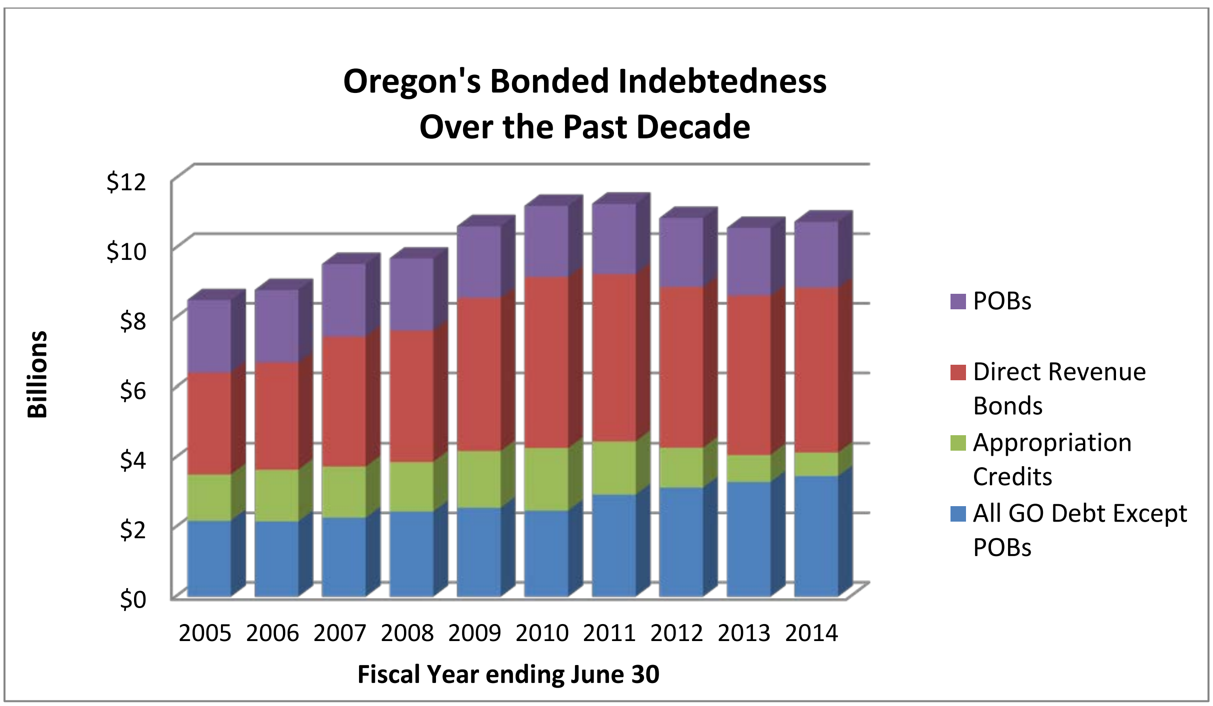
Exhibit II.1 shows a 10-year history of the State's total outstanding obligations by major category from fiscal years ending 2005 to 2014.[1]

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 has substantially grown over the past decade, as has the amount of indebtedness linked to construction of state facilities, 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. In 2009, the Legislature authorized the issuance of an additional $840 million in ODOT bonds to address highway congestion and safety issues. As a result of these actions, there was been a steady increase in the State's net tax-supported debt over the first half of the past decade, although debt levels have remained level since then due to the slower pace of debt issuance since FY 2010.

The following exhibits reflect all outstanding general obligation bonds, direct revenue bonds and appropriation credit obligations respectively. The exhibits are provided to give a historical overview of the State's overall debt position.

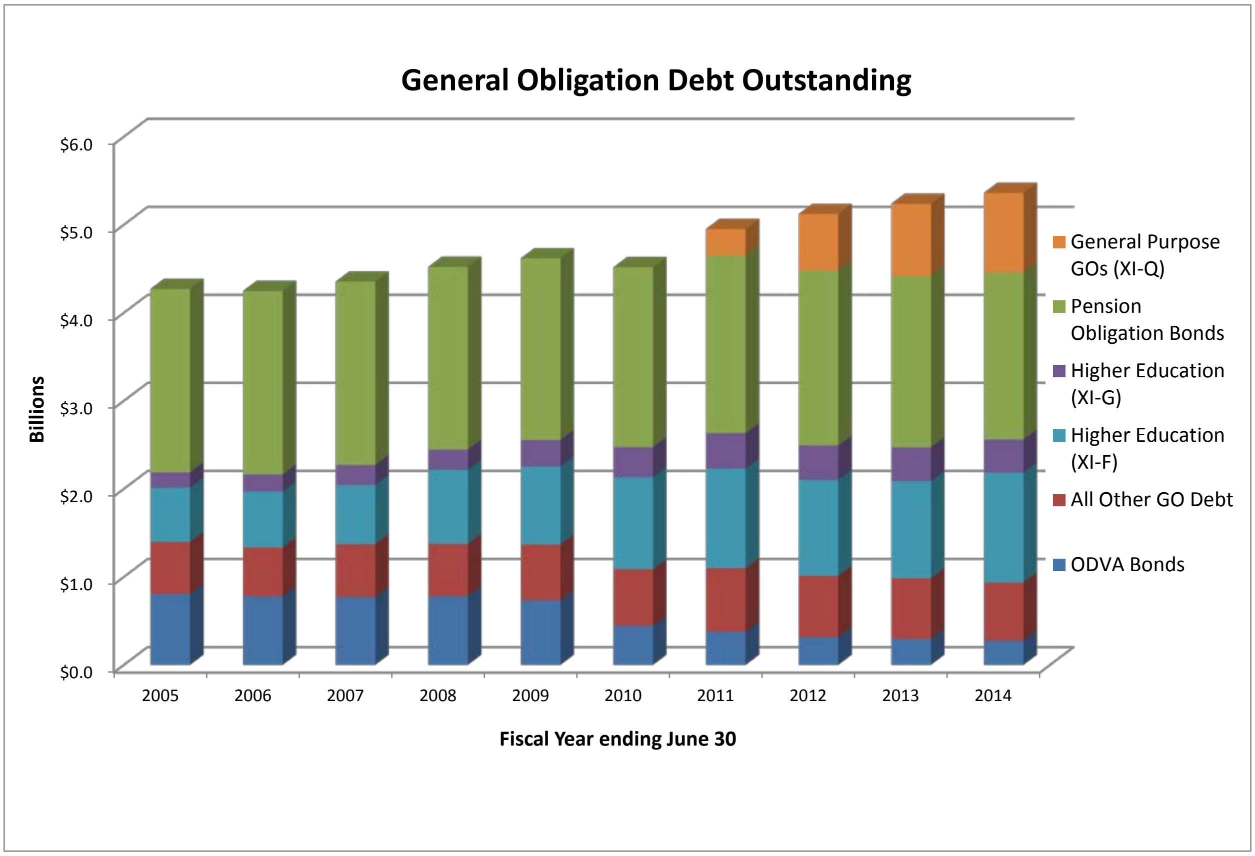
Exhibit II.1



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

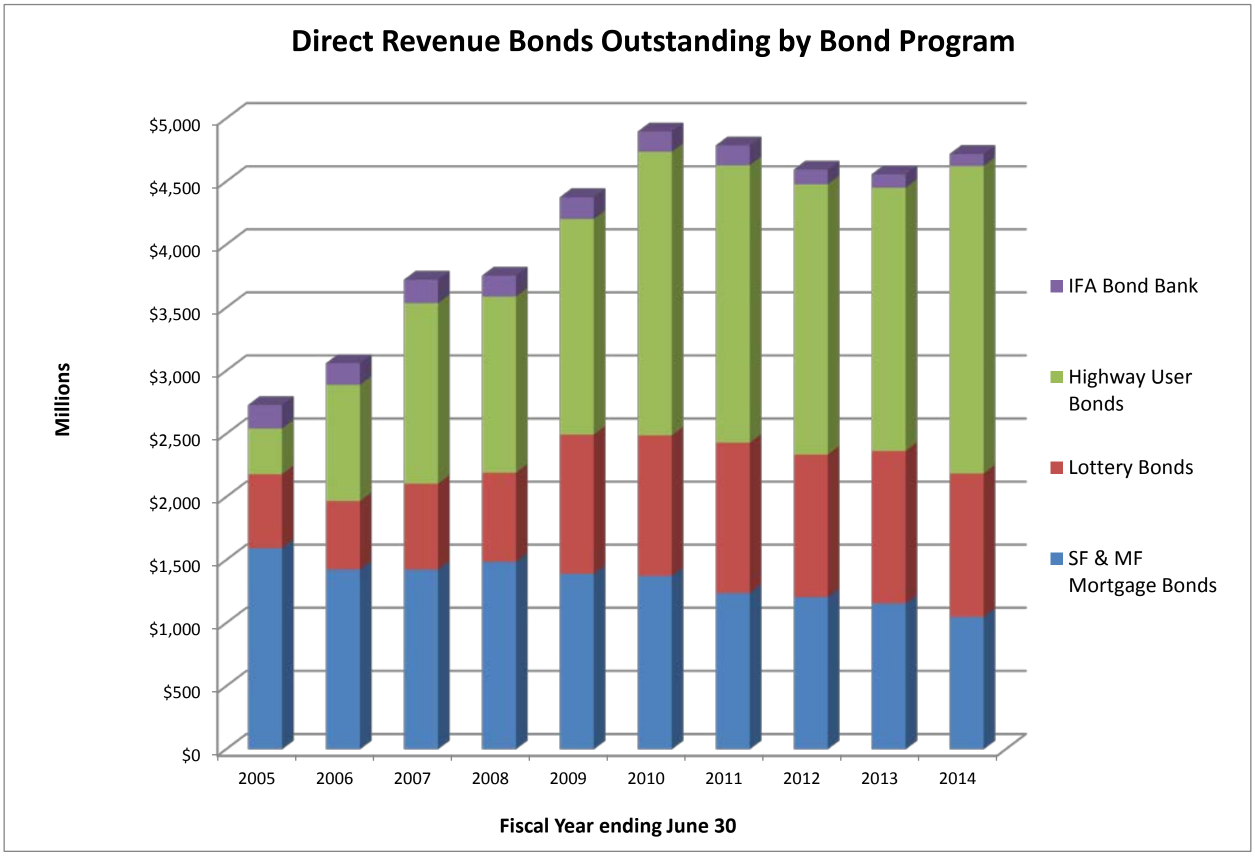
Exhibit II.2 reflects the changing components of State general obligation indebtedness over the past decade. The Department of Veterans' Affairs (ODVA) has steadily paid down its general obligation bonds since FY 2002 and only a limited amount of new ODVA loans have been originated as a result of other 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 $617 million outstanding in FY 2005, to $1.25 billion in 2014. 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 most of its outstanding COPs with Article XI-Q bonds. As of June 30, 2014, the State had $906 million in outstanding Article XI-Q bonds, while overall outstanding state general obligation indebtedness totaled $5.36 billion.

Exhibit II.2



The first half of the past decade also saw a substantial increase in the issuance of direct revenue bonds by the State, as seen in *Exhibit II.3*. There are two major reasons for this significant increase in this type of debt. First, the Oregon Lottery's expansion into video line games led to significantly expanded lottery revenues which allowed in turn for higher Lottery bonding authorizations to fund various transportation and economic development projects around the state. Second, the State issued approximately $2.8 billion in Highway User Tax bonds to fund the highway and bridge projects identified by the Oregon Transportation Infrastructure Act (OTIA) and Jobs and Transportation Act (JTA). Over the next few years, it is anticipated that the balance of roughly $400 million in Highway User Tax bonds authorized by JTA will be issued by the State.

Exhibit II.3



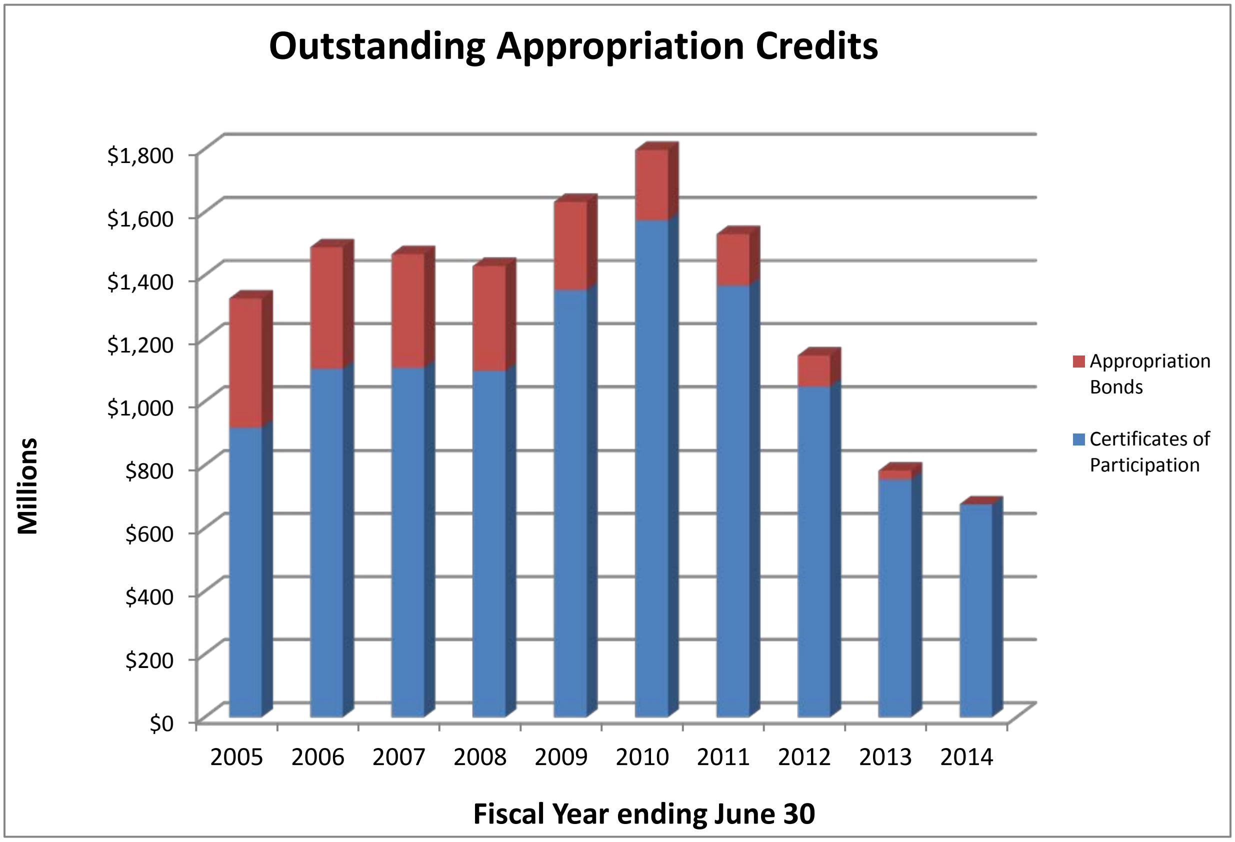
Appropriation obligations include both Certificates of Participation (COPs) and Appropriation bonds. The amount of appropriation obligations that can be issued is determined by the legislature each biennium. *Exhibit II.4* illustrates appropriation credit issuance history through fiscal year ending June 30, 2014.

The State's original use of COPs was related to the passage of Ballot Measure 11 in 1994. Measure 11 created mandatory minimum penalties for specified crimes and required that juveniles charged with certain violent crimes be tried and sentenced as adults. At the time there was not a constitutional provision that allowed for the issuance of GO bonds to fund general purpose state facilities. Therefore, COPs were used to fund the construction of adult and juvenile prisons and correctional facilities mandated by Measure 11. COPs were later used to fund the replacement of the aging State Mental Hospital in Salem.

In 2010, the Oregon electorate approved the issuance of lower cost Article XI-Q general obligation bonds for general purpose building projects. Since that time, $471.8 million of COPs have been refunded as Article XI-Q general obligation bonds, saving the State $57.1 million in interest costs over the remaining life of these bonds. It is unlikely the state will issue COPs in the future; rather, it is anticipated that over time, as remaining outstanding COPs become eligible for refunding, the State will refund this debt using Article XI-Q GO bonds, saving taxpayers tens of millions in interest costs.

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 in September 2013.

Exhibit II.4



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

As this report demonstrates, there is approximately $974 million in General Fund debt capacity available over each of the next four biennia. In addition, after the Lottery video terminal replacement project is completed in FY 2016, there will be on average approximately $161 million in Lottery bond capacity available each biennium. Given the many competing demands for 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.

The State of Oregon faces the twin challenges of developing new capacity to meet demands for growth as well as maintaining aging, state-owned facilities. The state-owned and leased facility portfolio, including higher education facilities, is approximately 54 million gross square feet

(MGSF) located in over 6,500 separate buildings. State agencies are housed in 22.3 MGSF of this space, in approximately 4,800 buildings.

The Oregon University System (OUS) was one of the first state agencies to develop a comprehensive plan to address deferred maintenance needs, establishing a "best-in-class" program to focus on critical life safety, code compliance and substantial renewal needs throughout the university system. The same approach is now being brought to the buildings that house other state agencies through a facility conditions assessment program (FCA). Pilot FCAs have been completed for the Department of Administrative Services (DAS), the Oregon Youth Authority (OYA) and the Oregon Liquor Control Commission, with the Department of Correction's (DOC) FCA expected to be completed in 2015. It is anticipated that this FCA process will serve as the foundation for the State's long-term capital planning going forward.

Below is a list of some of the most pressing, capital needs that have been identified as of the date of this report that were either funded in the 2013-15 biennium and/or that will likely require funding in the future:

Human Services

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.

Public Safety

The 2013 Legislature passed HB 3194 that modified sentence guidelines and allowed for some options on early release of prisoners to parole, which is expected to reduce the need for further expansion of the State's correctional facilities at this time. Nevertheless, both the OYA and DOC 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.

At the direction of the 2013 Legislature, OYA has developed a 10-year strategic facilities plan. This two-phase plan addresses the age and condition of OYA's facilities; environmental issues; needed seismic upgrades; and, handicap access to the appropriate types of space for OYA programs related to treatment, recreation, housing, visitation, education and vocational training. As one of three state agencies to participate in a pilot program to comprehensively assess facility conditions, OYA's FCA report identified immediate as well as long term facility needs over a 10- year horizon. These findings will inform OYA's future facility disposition and consolidation strategy.

At over 5.4 MGSF, DOC has the largest facility portfolio of all state agencies. Many of these critical facilities are very old and in poor condition, despite a rigorous program of maintenance within the context of limited resources. DOC will need significant on-going funding to address accumulated deferred maintenance and capital renewal needs, as well as strategic seismic retrofits to many of its facilities.

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 located 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. The Governor's Recommended Budget for 2015-17 includes $100 million for continuation of the seismic rehabilitation grant program, with $70 million dedicated to schools and $30 million to public safety buildings.

It should be noted that based on the preliminary findings of the Oregon Department of Geology and Mineral Industries there is a pressing need for the seismic retrofit of a significant portion of Oregon's public schools, and public safety facilities around the state, with an estimated cost of several billion dollars.

Education

Oregon's public universities have significant projected capital needs that include construction of new classrooms, dorms, and other educational facilities, as well as deferred maintenance at existing facilities. Legislation in 2011 and 2013 provided universities with increasing autonomy from State government, including the ability of those universities with independent boards to issue their own revenue bonds. However, it is likely that a significant portion of Oregon universities' future capital improvements will continue to be funded through State General Obligation bonds.

In the 2013 session, approximately $228 million in higher education capital construction projects were authorized using bonds supported by General Fund revenues. During the 2014 session, the Legislature authorized an additional $30 million of Article XI-Q bonds for university facility improvements and $200 million for a cancer research center on the Oregon Health Sciences University campus using a combination of Article XI-G and Lottery bonds. Given the State's aspiration that 40% of adult Oregonians will have completed a four-year college degree program by 2025, it is likely there will be significant higher education capital project expenditures to meet this goal.

The Department of Community College and Workforce Development identified a number of construction projects that community colleges would like to undertake with available General Fund supported debt capacity. 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). The Legislature did not authorize Article XI-P bonds for the 2013-15 biennium, however, the 2013 Legislature did pass SB 540, establishing an Oregon School Facilities Task Force to study the status of public school facilities and make recommendations for funding mechanisms to meet the capital needs of state public school facilities. The Task Force submitted a report with recommendations to the Oregon Education Investment Board on October 1, 2014. SB447 has been filed for the 2015 Legislative session in response to the Task Force report.

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 $12 million in Lottery Bonds for this purpose. The Governor's proposed budget for 2015-17 includes $28 million of similar funding for the 2015-17 biennium. The Oregon city and county associations of Oregon project the unmet need for water and sewer improvements throughout the state is in the hundreds of millions.

The 2014 Legislature also approved $10 million in Lottery Bonds for local economic development grants through the Regional Solutions program. The Governor's proposed budget for 2015-17 includes $22 million of continued Lottery bond funding for this program, including $10 million dollars for rural infrastructure projects that promote new job creation in small communities statewide.

Water Resources

Water is essential for economic growth, environmental health, and the welfare of all Oregonians. Traditionally, the State of Oregon has left the development of water supply infrastructure to local entities and the federal government. In recognition of declining federal support and a rapidly increasing need for water infrastructure to meet Oregon's current and future instream and out-of-stream water needs, SB 839 (2013) established the foundation for a state grant and loan program for integrated water resources development in Oregon. In 2013, the Legislature authorized $10.2 million in lottery bonds to capitalize a water resources fund. The 2015-2017 Governor's Recommended Budget includes approximately $50 million in GO and lottery bonds for water resources projects.

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"*. This increased issuance authority for Highway User Tax bonds by $840 million, of which roughly half has been issued, with the balance of the bonds for this program expected to be issued over the next few years.

While $450 million in state General Obligation bonds were authorized to fund a portion of the $3.4 billion I-5 Bridge Replacement project (i.e. the Columbia River Crossing project) by the 2013 Legislature, this funding was contingent upon a similar authorization by the Washington State Legislature. To date, the Washington State Legislature has not authorized any bonds for this project. This bridge has been found to be obsolete and seismically unsafe.

The 2013 Legislature also authorized approximately $41 million of Article XI-Q General Obligation bonds for the Oregon Department of Transportation (ODOT) to finish the final phase of the State's public safety wireless network initiated in 2009. It also 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 to fund 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, parking garages, levee improvements, matching funds for federal disaster assistance, and public television infrastructure. In 2013, the Legislature authorized $79 million of Lottery bond funded regional and community projects across Oregon. Often, these types of projects are not financially feasible without 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. The 2012 estimate for this project was $252 million, with costs escalating at 3-4% annually. The 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 General Obligation bonds to begin planning and preliminary work necessary for this major improvement. It is anticipated that the balance of financing for this project will occur over the next several years.

HB 5008 established the Oregon Courthouse Capital Construction and Improvement Fund. The 2013 Legislature authorized the issuance of $15 million of Article XI-Q General Obligation 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 DAS in relation to projects that may be funded. In the 2014 Legislative session, an additional $4 million of these bonds were authorized for this purpose.

Other non-construction related bond needs are for IT system development and upgrades. Examples of these systems include the Department of Justice's Child Support Enforcement System, the Department of Revenue's Core Tax Revenue and Property Valuation Systems, and the Oregon Judicial Department's E-Court System. Each of these projects will likely require state debt financing.

Finally, DAS has responsibility for the facility management of 3.4 MGSF in 46 state-owned buildings and 3.6 MGSF in leases on behalf of many state agencies, notably the Department of Human Services. DAS is focused on delivering quality effective and efficient facilities at the lowest possible costs; while the FCA found that DAS's facilities overall are in excellent condition for their age, it is anticipated that significant investment will be soon be needed to renew large state office buildings, including the Executive Building, Labor and Industries, Revenue and the Portland State Office Building. DAS has also identified the long-term need for at least two new office buildings on the Capital Mall. These projects will require significant amounts of debt financing.

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 17, 2014 Legislative Update* outlined capacity for the balance of the 2014 fiscal year through the 2023 fiscal year.

This 2015 *Commission Report* provides a look at debt capacity for the 2016 fiscal year through the 2023 fiscal year based on the December 2014 revenue forecast and the bonding authorizations enacted by the Legislature in 2013 and 2014.

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, 2014)
- Alternate Energy Bonds (33% of total outstanding as of June 30, 2014)
- 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, 2014)
- Pension Obligation Bonds (32% of total outstanding as of June 30, 2014)
- Certificate of Participation obligations (85% of total outstanding as of June 30, 2014)

As shown in *Table III.1*, the model solves for overall debt capacity for fiscal years 2016 through 2023 using the most recent General Fund forecast from the Oregon Office of Economic Analysis and the five percent of General Fund revenues as the maximum debt service capacity limit. Based on this capacity limit, the model demonstrates that yearly dollars to pay debt service ranges from a low of $431 million in FY 2016 to a high of $601 million in FY 2023.

Table III.1

General Fund Forecast
($ Millions)

Fiscal Year Ending June 30th	Estimated General Fund Revenues[1]	Calculated Dollars Available to Pay Annual Debt Service[2] at 5% Capacity Limit
2016	$ 8,626.5	$431.3
2017	8,988.8	449.4
2018	9,313.2	465.7
2019	9,813.6	490.7
2020	10,326.5	516.3
2021	10,878.0	543.9
2022	11,424.2	571.2
2023	12,009.2	600.5

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, it is assumed that 843.5 million in General Fund-supported debt authorized by the 2013 and 2014 Legislatures will be issued during the 2013-15 biennium, including $279 million in Higher Education XI-G GO bonds (of which $161 million is allocated to the Oregon Health and Sciences University for a cancer research center), $123 million in Community College GO XI-G bonds, $15 million in Seismic Rehab – Public Education Buildings XI-M GO bonds, $15 million in Seismic Rehab – Public Safety Building XI-N GO bonds, $10 million in Environmental Quality XI-H GO bonds, and approximately $401 million in General Purpose XI-Q GO bonds. Projected debt service payments for planned issuances are based on the following assumptions:

- Level annual debt service payments;
- An interest rate of 4.87%, based on a 10-year average of the *Bond Buyer 20-Bond Index* as of November 28, 2014[3] plus 50 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.

[1] General Fund revenues are shown as projected by the Oregon Office of Economic Analysis in the *Oregon Economic and Revenue Forecast* for December 2014.
[2] Debt Service = principal and interest payments on debt outstanding.
[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**
2016	$431.3	($281.2)	(56.7)	$ 93.4
2017	449.4	(270.9)	(56.7)	121.8
2018	465.7	(261.8)	(56.7)	147.1
2019	490.7	(253.2)	(56.7)	180.8
2020	516.3	(253.2)	(56.7)	206.5
2021	543.9	(248.2)	(56.7)	239.0
2022	571.2	(233.4)	(56.7)	281.1
2023	600.1	(234.6)	(56.7)	309.2

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 $93.4 million for FY 2016 and about $121.8 million in FY 2017. 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, 2014. See Appendix A for detail.

[2] The 2013 and 2014 Legislative Assemblies collectively authorized approximately $843.5 million in General Fund-supported debt. The issuance of an anticipated $714 million for FY 2015 is accounted for in *Table III.2 column 3* and amortized annually as level debt service at $56.7 million.

Table III.3

General Fund-Supported Debt Capacity Determination
($ Millions)

	1	2	3	4	5
Fiscal Year Ending June 30th	**Remaining Dollars to Pay Debt Service**	**Amount of Additional Debt that May be Issued[1]**	**(Less) Debt Service on Amount of Additional Debt that May be Issued**	**Net Dollars Remaining to Pay Debt Service**	**Total Debt Service as a % of General Fund Revenues**
2015	$121.8	--	$ 0	$121.8	3.52%
2016	93.4	1,177.4	(93.4)	0.0	5.00%
2017	28.4	357.7	(28.4)	0.0	5.00%
2018	25.3	319.2	(25.3)	0.0	5.00%
2019	33.7	424.4	(33.7)	0.0	5.00%
2020	25.7	323.3	(25.7)	0.0	5.00%
2021	32.5	409.3	(32.5)	0.0	5.00%
2022	42.1	531.1	(42.1)	0.0	5.00%
2023	28.1	353.6	(28.1)	0.0	5.00%
Total FY 2016-23 General Fund Debt Capacity		**$3,896.0**			

Table III.3 accounts for all issued and planned to be issued General Fund-supported debt, as authorized by the Legislature for the 2013-15 biennium, as well as the maximum amount of additional General Fund supported-debt that could be issued each year while staying within the Commission's target debt capacity limit. For example, in FY 2016, there will be $93.4 million in projected remaining debt service capacity, which translates into a maximum of $1.18 billion in available debt capacity that fiscal year.

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 $3.9 billion in additional General Fund-supported debt over the next eight years, with a maximum of $1.54 billion in remaining available capacity for new General Fund-supported debt for the 2016-17 biennium.

[1] *Table III.3* accounts for $714.4 million in planned General Fund-supported debt that will be issued during FY 2015, 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 eight year forecast period, remaining General Fund debt capacity is $3.90 billion; a 1% increase in the long-term interest rate would decrease future capacity by $312 million or $78 million per biennium *(Table III.4)*. A 10% decline in revenue for the forecast period; however, would decrease future capacity by approximately $757 million, or $189 million per biennium. *(Table III.5)*.

Table III.4

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

	4.87% Interest Rate (From *Table III.3*)	**3.87% Interest Rate (1% Decline)**	**5.87% 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**
2016	$1,177.4	$1,284.6	$1,083.2
2017	357.7	390.2	329.0
2018	319.2	348.2	293.6
2019	424.4	463.0	390.4
2020	323.3	352.8	297.5
2021	409.3	446.5	376.5
2022	531.1	579.5	488.6
2023	353.6	385.8	325.3
Total	**$3,896.0**	**$4,250.6**	**$3,584.0**

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**
2016	$1,177.4	$1,720.9	$633.9
2017	357.7	380.4	334.8
2018	319.2	339.6	298.7
2019	424.4	456.0	392.9
2020	323.3	355.6	290.9
2021	409.3	444.1	374.6
2022	531.1	565.5	496.7
2023	353.6	390.5	316.8
Total	**$3,896.0**	**$4,652.5**	**$3,139.3**

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.

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 2015 and beyond.

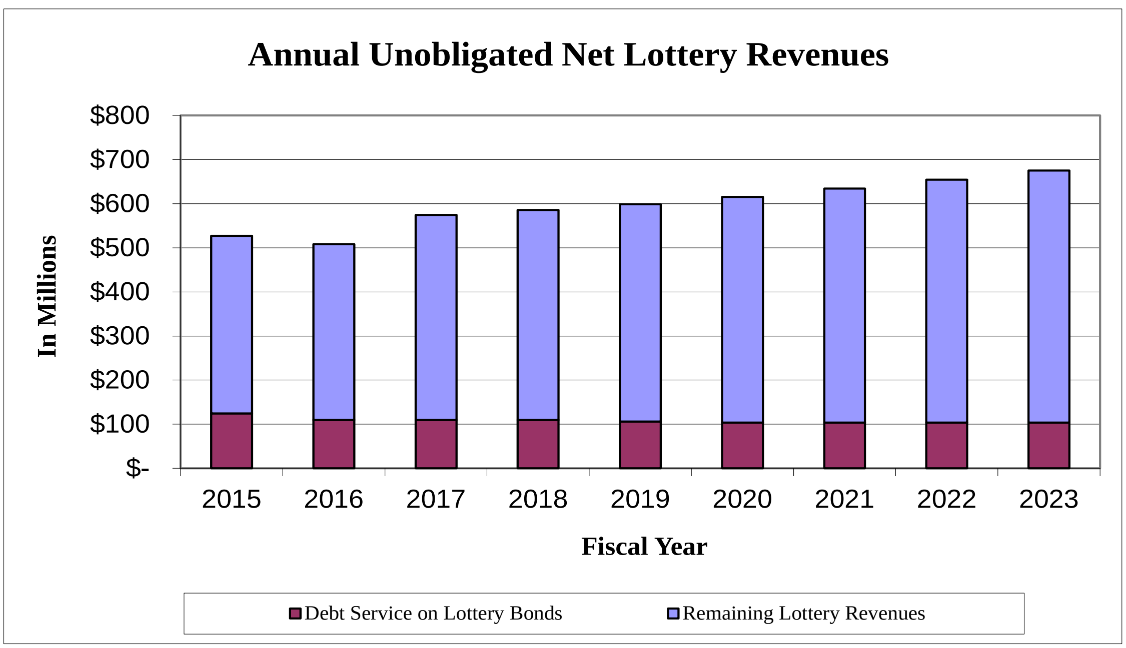
Table IV.1

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)
2015	$527.1	$124.3	4.2
2016	508.0	109.5	4.6
2017	574.7	109.7	5.2
2018	585.6	109.7	5.3
2019	598.6	106.2	5.6
2020	615.2	103.7	5.9
2021	634.4	103.7	6.1
2022	654.4	103.7	6.3
2023	675.0	103.7	6.5

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

Exhibit IV.1



[1] Oregon Office of Economic Analysis, Oregon Economic and Revenue Forecast, December 2014.
[2] Includes Lottery bonds issued through July 31, 2014. This does not include debt service on $195.9 million in authorized but not yet issued Lottery bonds that are planned to be issued before the end of FY 2015

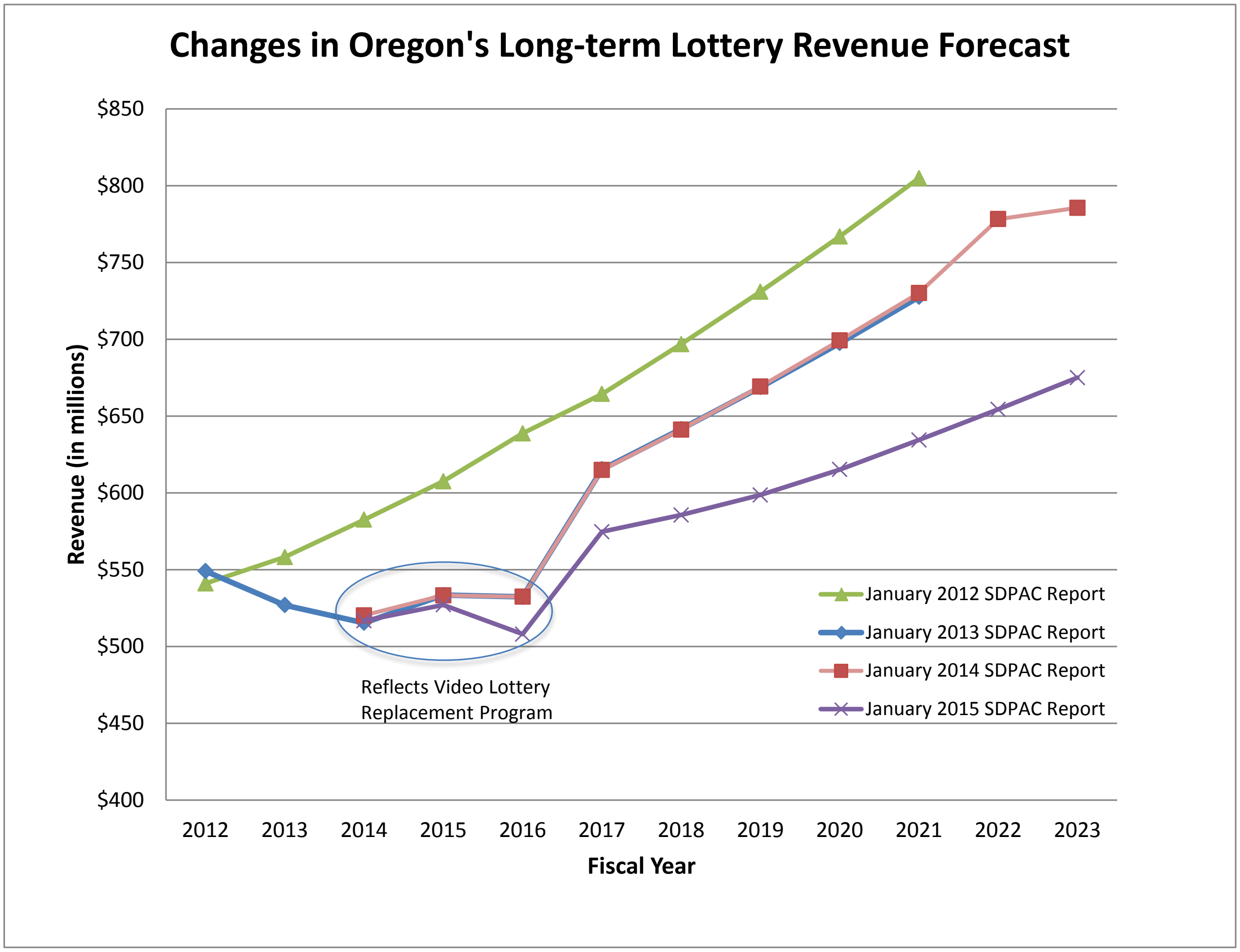
B. *Lottery Capacity Determination and Coverage Ratios*

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 revenues by the Office of Economic Analysis (OEA) have been declining over the past several years, as shown on *Exhibit IV.2*. Between the publication of the *2012* and *2015 SDPAC Reports*, projections of long-term Lottery revenues declined by 20.5%. While the initial decline in forecast revenue was attributable to reduced transfers of net Lottery proceeds in FY 2014 through FY 2016, as the Oregon Lottery executes its statewide video terminal replacement program, the most recent forecast decline is linked more to longer-term trends in consumer spending on gaming in general, as outlined in a report published by OEA in October 2014.

Exhibit IV.2



Given the temporary decline in projected Lottery revenues through FY 2016 due to the video machine replacement project as well as the more permanent declines in net lottery revenue long-term, 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 and 2014 SDPAC Reports* and directed staff to schedule issuance of any new Lottery bonds in the second half of 2015, which effectively moves all new debt service for these bonds into the following biennium.

Given the ever increasing constraints on the Lottery bond program, state debt managers have strived to increase capacity through effective management of the existing Lottery bond portfolio. Over the past two years, historically low interest rates allowed for the refunding of approximately $648 million in outstanding Lottery bonds, saving the State approximately $44 million in interest costs on a present value basis. In addition, the consolidation of portions of the Lottery bond's debt service reserve funds into a common reserve fund freed up $23.8 million in existing debt reserve funds that were used to cash fund various authorized projects that would have otherwise been bond funded in FY 2015.

Table IV.1 above calculates scheduled debt service payments on Lottery-backed revenue bonds prior to the sale of $196 million in authorized but as yet unissued lottery bonds, with FY 2015 debt service at 124.3 million and the lottery debt service coverage ratio projected to be 4.2. The table also shows that Lottery debt service drops over the balance of the eight year forecast period as existing lottery debt is retired. The corresponding coverage ratio improves over time, as debt service declines and projected lottery revenue increases.

Based on OEA's most recent eight-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 $127.0 million in FY 2016 to $168.8 million in FY 2023.

For FY 2016 the calculation is:

Available Revenues ÷ Required Coverage Ratio = Maximum Annual Debt Service
– or –
$508.0 million ÷ 4 Times Coverage = $127.0 million

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

- all outstanding Lottery revenue bonds as of July 31, 2014 (which accounts for the most recent Lottery bond refunding completed in July 2014),
- new Lottery revenue bonds authorized and expected to be issued before the end of the 2013-15 biennium, and
- an estimate of remaining capacity to issue additional Lottery revenue bonds over the next eight years.

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 July 31, 2014, and the planned FY 2015 issuance in the amount of $196.0 million. Assuming the additional $196.0 is sold in the spring of 2015, there will be an increase in debt service payments of approximately $15.5 million per year starting in FY 2016. The model assumes a 4.87% interest rate and a 20 year maturity[1] for both the FY 2015 Lottery bond sale and all Lottery bonds sold thereafter.

Table IV.2 column 4 shows projected debt service for FY 2016 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 $196.0 million in new Lottery bonds in FY 2015, there remains $31.4 million in available Lottery bond capacity in FY 2016 and $643.0 million in Lottery bond capacity over the next eight years.

[1] Based on a 10-year average of the Bond Buyer 20 Bond Index as of November 28, 2014 plus 50 basis points and twenty year average maturity length for all Lottery debt obligations. 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 IV.2

Capacity for Additional Lottery Revenue Bond Programs
($ Millions)

	1	2	3	4	5
Fiscal Year Ending June 30	**Projected Lottery Revenues Available to Pay Debt Service**	**Debt Service on Bonds Outstanding As of July 31, 2014 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)**
2016	$127.0	(124.5)	$ 31.4	($ 2.5)	4.0
2017	143.7	(124.7)	207.8	(16.5)	4.0
2018	146.4	(123.8)	45.9	(3.6)	4.0
2019	149.7	(120.3)	85.3	(6.8)	4.0
2020	153.8	(117.7)	84.2	(6.7)	4.0
2021	158.6	(117.7)	60.7	(4.8)	4.0
2022	163.6	(117.7)	62.8	(5.0)	4.0
2023	168.8	(117.7)	64.9	(5.1)	4.0
FY 2016-23 Lottery Debt Capacity:			**$643.0 million**		

*Includes the $196.0 million in planned Lottery bond issuance in FY 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 5.48% if 50% of the bonds were sold taxable, the available overall capacity for the next ten years would decrease by $31.9 million, as noted in *Table IV.3*.

Table IV.3

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

	4.87% Interest Rate (From *Table IV.2*)	**5.48% 50% Taxable & 50% Tax-exempt**	**5.17% 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 2016-23	**$643.0**	**$611.1**	**$626.7**

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 4.87%, the capacity of Lottery revenue to support additional bond issuance is calculated to be $643.0 million over the next eight years. A 1.0% (100 basis points) increase in the projected long-term interest rate to 5.87% would reduce the maximum available capacity over the eight year period by approximately $51.5 million; conversely, dropping the interest rate assumption by 1.0% back to 3.87% would add roughly $58.6 million in debt capacity over the eight year forecast period.

Table IV.4

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

	4.87% Interest Rate (From *Table IV.2*)	**3.87% Interest Rate (1% Decline)**	**5.87% Interest Rate (1% Increase)**
FY Ending June 30th	**Additional Debt That May Be Issued**	**Additional Debt That May Be Issued**	**Additional Debt That May Be Issued**
2016	$ 31.4	$ 34.2	$ 28.9
2017	207.8	226.7	191.2
2018	45.9	50.0	42.2
2019	85.3	93.1	78.5
2020	84.2	92.0	77.6
2021	60.7	66.3	55.9
2022	62.8	68.5	57.7
2023	64.9	70.8	59.7
Total	**$ 643.0**	**$701.6**	**$ 591.5**

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 further 10% reduction in unobligated net Lottery revenues over the forecast period would reduce the available debt capacity by $212.6 million over the next eight 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 $212.7 million to the eight year forecast of capacity, with $420.2 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
FY Ending June 30th	**Additional Debt That May Be Issued**	**Additional Debt That May Be Issued**	**Additional Debt That May Be Issued**
2016	$ 31.4	$191.4	$ 0.0
2017	207.8	228.8	58.2
2018	45.9	49.3	42.4
2019	85.3	89.5	81.3
2020	84.2	89.5	79.0
2021	60.7	66.8	54.7
2022	62.8	69.1	56.5
2023	64.9	71.4	58.4
Total	**$643.0**	**$855.7**	**$430.4**

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V. NET TAX-SUPPORTED DEBT

Net tax-supported debt "NTSD" is defined as all debt serviced by tax revenues of the State. Based on the approach taken by rating agencies, this definition encompasses General Fund-supported debt, the balance of self-supporting Pension Obligation Bonds and Certificates of Participation, Lottery revenue bonds and State Highway revenue 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, 2014. The State's net tax supported debt, as of June 30, 2014, was $7.8 billion.

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

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

Net tax-supported debt does omit a variety of other self-supporting debt obligations issued by the State that are directly or indirectly supported by the State's credit. The Veterans' Welfare Housing General Obligation (GO) mortgage bond program, the Oregon Housing and Community Services Department's Elderly and Disabled GO mortgage bonds, and the Single and Multifamily Housing mortgage revenue bond programs, the Infrastructure Finance Authority's Bond Bank, and all conduit revenue bonds are examples of debt issued by the State but excluded from NTSD calculations. While certain 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 and 2014 Legislatures. For purposes of this *2015 Commission Report*, it is assumed that $1.5 billion of the $2.0 billion in authorized net tax-supported debt will be issued during the 2013-15 biennium. Highway User Tax revenue bonds, General Purpose Article XI-Q GO, Community College bonds (Article XI-G), Higher Education Facility and OHSU Cancer Center bonds (Article XI-G), and Lottery revenue bonds make up the largest share of the new authorizations and issuance for the current biennium.

Table V.1

Net Tax-Supported Debt
Authorizations & Expected Issuance
2013-2015 Biennium

Type & Purpose	Authorization	Expected Issuance
General Obligation Bonds		
Community College Bonds (Article XI-G)	$123,451,600	$123,451,600
Higher Education Facility Bonds (Article XI-G)	117,711,000	117,711,000
OHSU Cancer Center Bonds (Article XI-G)	161,490,000	161,490,000
Pollution Control Bonds (Article (XI-H)	10,000,000	10,000,000
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)	459,618,100	459,618,100
General Obligation Bond Total	**$902,270,700**	**$902,270,700**
Direct Revenue Bonds		
Lottery Revenue Bonds (ORS (286A.560-585)	$219,717,715	$195,917,715
Highway User Tax Bonds (ORS 367.620)	846,690,000	409,775,000
Direct Revenue Bond Total	**$1,066,407,715**	**$605,692,715**
Appropriation Credits		
Certificates of Participation (ORS 283.085)	$55,600,000	$0
Appropriation Credit Total	**$55,600,000**	**$0**
Total Authorized & Expected Issuance	**$2,024,278,415**	**$1,507,963,415**

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 *2014 State Debt Medians* report, Moody's determined the average NTSD per capita for the 50 states is now $1,436 and the median is $1,054.[1] The average NTSD as a percentage of income was reported at 3.2% and the median at 2.6%. By comparison, Oregon's NTSD ranked 20th highest nationally in terms of net tax-supported debt outstanding at about $7.5 billion, but 12th highest in net tax supported debt per capita at $1,920 and in net tax-supported debt as a percentage of personal income at 4.9%.

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, even as the appropriation deficit bonds and other debt has been retired.

As *Table V.2* illustrates, at the end of FY 2014, net tax-supported debt totaled $7.8 billion with debt ratios of $1,963 per capita and 4.74% of personal income. Based on the issuance of an

[1] Moody's *2014 State Debt Medians* reflect NTSD as of the end of calendar year 2013.

estimated $969 million in authorized debt in FY 2015, it is projected that the State's net tax-supported will increase to about $8.4 billion by the 2015 fiscal year end.

Table V.2

Net Tax-Supported Debt Ratios

	Fiscal Year Ending June 30th		
	FY 2013 (Actual)	**FY 2014 (Actual)**	**FY 2015[1] (Estimated)**
Net Tax-Supported Debt (Millions)	$7,593	$7,783	$8,390
Population*	3,917,800	3,964,750	4,011,300
Personal Income (Millions)*	$156,700	$164,300	$172,700
NTSD Per Capita	$1,938	$1,963	$2,091
NTSD as a % of Personal Income	4.85%	4.74%	4.86%
Pension Obligation Bonds Excluded			
NTSD Per Capita	$1,442	$1,485	$1,634
NTSD as a % of Personal Income	3.61%	3.58%	3.80%

*Source: Oregon Office of Economic Analysis Economic and Revenue Forecast, December 2014.

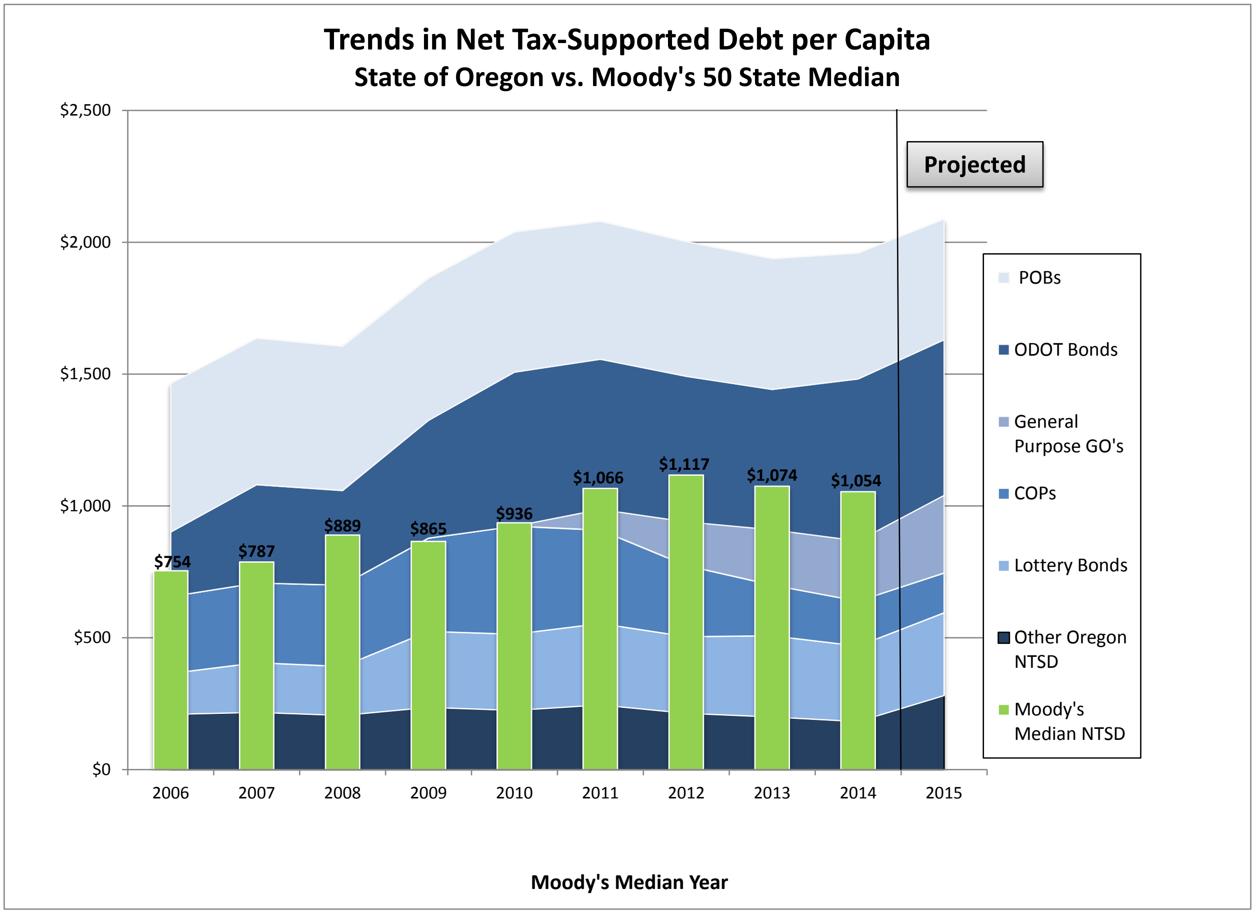
Rating agencies typically calculate total net tax-supported debt both with and without pension obligation bonds. In this way, they do not penalize states that issue POBs in comparison to other states that may have a relatively low debt burden and have not issued POBs, yet have sizable unfunded pension liabilities. For Oregon, if pension obligation bonds are excluded from the NTSD calculation shown above in *Table V.2*, the estimated FY 2015 debt burden would decrease from $2,091 to $1,634 per capita and from 4.86% to 3.80% 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 Moody's median ratios of all 50 states. Prior to FY 2003, Oregon's debt ratios compared favorably to the national averages, with Oregon generally having lower ratios than states with higher credit ratings. Since that time, the State has issued a substantial amount of new debt to address unfunded pension liabilities, operating deficits, economic development, highway modernization, and public safety needs. As the charts show, Oregon's current per capita debt burden and debt as a percent of personal income is above Moody' national medians 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 $1.5 billion in net tax-supported bonds authorized by the 2013 and 2014 Legislatures.

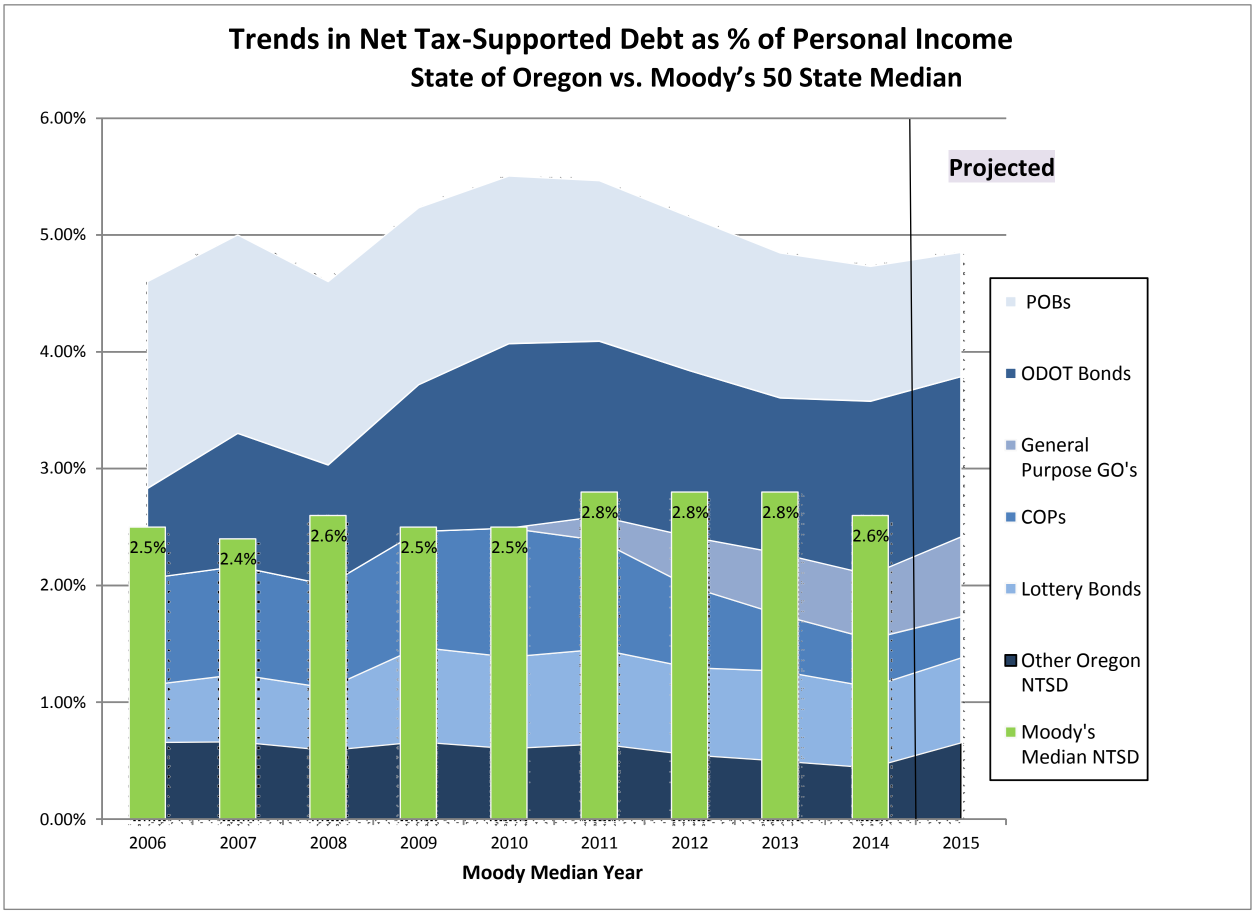
[1] FY 2015 includes the issuance of approximately $969 million in NTSD bonds authorized by the 2013 and 2014 Legislatures.

Exhibit V.1a



Trends in Net Tax-Supported Debt per Capita
State of Oregon vs. Moody's 50 State Median
$2,500
$2,000
$1,500
$1,000
$500
$0
Projected
$754
$787
$889
$865
$936
$1,066
$1,117
$1,074
$1,054
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
POBs
ODOT Bonds
General Purpose GO's
COPs
Lottery Bonds
Other Oregon NTSD
Moody's Median NTSD
Moody's Median Year

Exhibit V.1b



In recent years, Standard & Poor's (S&P) has taken a much more comprehensive approach to the tracking of overall state liabilities, and includes both the public indebtedness and the unfunded actuarially accrued pension liability (UAAL) of each state in their analysis of state liabilities. In its June 24, 2014 report on U.S. State's pension liabilities, S&P ranked Oregon's pension system as the sixth best funded state plan, with 92.5% funding and a UAAL of $1.1 billion as of the end of calendar year 2012. As *Table V.3* illustrates, once each state's UAAL is added to the various debt ratio calculations, the State of Oregon is well below Standard and Poor's national medians of state liabilities per capita, as a percent of income and as a percent of gross state product. Indeed, using this more comprehensive approach, Oregon was ranked the 7th lowest state for combined debt and UAAL per capita in 2012.

Table V.3

S&P's Ranking of 50 States' Overall Liabilities

(Based on Public Debt and Pension UAAL)

State Retirement Systems And Debt Statistics: 2012

(Ranked by Per Capita Debt and UAAL)

	(%)	Increased/Decreased/Unchanged	($)					(%)		
State	Funded ratio	Funded ratio relative to prior year	UAAL (mil.)	UAAL PC	Debt (mil.)	Debt PC	Debt PC + UAAL PC	Debt PC + UAAL PC/Income PC	Debt PC+ UAAL PC/GSP PC	GO rating
Tennessee	91.5	Decreased	3,389	522	2,406	370	892	2.27	2.01	AA+/Stable
South Dakota	92.6	Decreased	638	755	126	149	905	1.99	1.64	AA+/Stable
North Carolina	95.4	Unchanged	3,881	394	7,916	804	1,198	3.11	2.50	AAA/Stable
Nebraska	78.2	Decreased	2,430	1,301	25	13	1,314	2.85	2.24	AAA/Stable
Idaho	84.6	Decreased	2,112	1,310	207	128	1,438	4.06	3.72	AA+/Stable
Texas	82.0	Unchanged	31,671	1,197	9,522	360	1,557	3.58	2.69	AAA/Stable
Oregon	92.5	Increased	1,182	301	6,428	1,636	1,936	4.81	3.47	AA+/Stable
Wisconsin	99.9	Unchanged	70	12	12,423	2,163	2,175	5.04	4.42	AA/Stable
Florida	86.4	Unchanged	20,158	1,031	23,579	1,206	2,237	5.37	5.46	AAA/Stable
Iowa	79.5	Unchanged	6,156	1,992	1,087	352	2,344	5.20	4.37	AAA/Stable
Average of states	70.9		17,882	3,155	9,640	1,325	4,479	10.15	8.64	
Median of states	65.8		12,046	2,962	4,063	1,036	3,860	8.74	7.54	

Source: Standard and Poor's U. S. Pension Report, June 24, 2014

Note: In the table above, "UAAL" stands for Unfunded Actuarial Accrued Liabilities, "PC" stands for Per Capita, and "GSP" stands for Gross State Product.

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); (67% 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 management practices were, in part, responsible for an eventual State ratings downgrade, leading to increased capital financing costs for the State for many of its bond programs.

[1] Oregon Housing and Community Services Department.

Over the last thirty years, the State and ODVA made excellent progress in transforming the Veterans' loan program into a sound, well-structured self-supporting GO bond 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: exercising 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*

Historically, the Oregon University System (OUS) was composed of Oregon's seven public four-year universities, one satellite campus, and the affiliated Oregon Health & Science University (OHSU) in Portland. The Board of Higher Education historically had the authority to issue general obligation bonds for OUS projects based on two constitutional provisions, Article XI-F(1) and Article XI-G. In 2011, OUS was legally authorized to also issue revenue bonds repaid solely through OUS revenues, although no bonds have been issued under these statutes.

General obligation bonds issued on behalf of OUS are repaid either through revenues generated by various universities (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 OUS. These revenue sources may include tuition, student building fees, gifts, grants, endowment earnings, and other similar funds. Under program requirements, members of the System historically were required by the Board of Higher Education to 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 higher education in Oregon. In 2011, the Oregon Education Investment Board 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 of OUS to issue standalone revenue bonds without prior legislative approval.

In 2013, the Legislature adopted SB 270, which granted far greater independence to individual public universities within OUS. 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, now 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. In 2014, the Legislature granted the same administrative autonomy to the remaining four schools within OUS, which becomes effective on July 1, 2015. With the simultaneous dissolution of the Board of Higher Education, state budget and bonding request coordination and other higher education policy duties have been assigned by law to the Higher Education Coordination Commission.

To the extent that these new, independent governing boards want to avail themselves of future self-supporting Article XI-F (1) or XI-Q GO bonds, State law requires that the Oregon State Treasury review and approve any future standalone university revenue bonds 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 university 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) or XI-Q GO bonding authority.

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 full 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 those 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 independent governing boards and the revenue producing capacity of various bond financed projects through this program.

At the time of passage of SB270, it was anticipated that a new entity would be created to provide on-ongoing debt management, tax compliance, and other administrative services, to assure that all OUS and independent university related debt service payments continue to be made to the State on a timely basis and to assure that existing OUS general obligation bonds maintain their tax-exempt status.

While this new entity, the University Shared Services Enterprise (USSE), has done a good job during the transition period in providing the types of debt administrative services described above, the past year has revealed a number of technical, legal, and administrative short-comings linked to this administrative arrangement. First, the USSE approach is based on a voluntary agreement between the various independent universities, who have the ability to withdraw from this shared services arrangement at any time. Thus, the State of Oregon has no real legal assurance that the various critical administrative and tax compliance services provided by USSE will continue to exist over the life of the bonds issued to date or in the future on behalf of independent universities. Given the technical complexities involved in managing this multi-billion dollar GO bond program, the State could be at great risk if one or more independent universities decide to withdraw from the USSE shared services arrangement, especially if these universities do not have adequately trained staff familiar with the tax compliance requirements imposed under federal tax law.

In addition, since SB 270 did not assign a new state agency to replace the Board of Higher Education as the authorizing entity for future XI-F (1) and XI-G bond sales on behalf of independent universities, under the provisions of ORS 286A.005 (2), the State Treasurer's office must now seek separate approvals from OUS and each participating independent university prior to the sale of either new money or refunding State XI-F (1) and XI-G GO bonds. This complicated and time-consuming authorization process was first identified in fall 2014, as the State Treasurer's office geared up to refund $145 million in outstanding XI-F(1) and XI-G GO bonds (of which it is estimated that General Fund would save approximately $7-10 million in interest costs.) Unless there is a change in state law in 2015 by which a single state agency is assigned with this approval responsibility, as of July 1, 2015, all seven independent universities will generally need to authorize future State refundings of university GO bonds, a cumbersome and time-consuming process that is counter-productive to the efficient management of the state's GO bond portfolio.

It also became clear in the past year, that the State needs to determine which state agency will provide the type of administrative oversight generally required under state law with regards to bond proceeds disbursement, as well as related legal, accounting and tax law compliance, for future XI-F(1) and XI-G GO bonds for independent universities. While it was initially hoped that USSE could serve in this capacity, the Department of Justice has concluded that since USSE is not a state agency, it cannot legally provide this type of administrative oversight.

The State Treasurer recently alerted the Governor and Legislative leadership about the issues described above and has recommended that legislation be adopted in 2015 assigning either the Department of Administrative Services or the Higher Education Coordinating Commission as the state agency responsible with future oversight of independent university GO bonding programs. Resolution of this matter early in the 2015 legislative session is crucial if the sale of $117 million in authorized new money Article XI-G GO bonds is to occur as planned in early May 2015.

Once a lead state agency has been assigned by statute, it may be possible to establish Memorandum Of Understandings between the selected state agency and the USSE that delegates certain day-to-day debt administrative functions to USSE. Alternatively, new staff trained in matters related to the management of tax-exempt could be hired by the selected agency to serve in this capacity.

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.

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 Program GO 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 these GO bonds under the guise as "self-supporting" GO bonds to fund the SELP loan 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. ODOE's capacity to issue these bonds must be based on sound program and departmental 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 on various OUS campuses that will be repaid through General Fund appropriations to OUS and/or independent universities. As of June 30, 2014, ODOE had $78.7 million in GO bonds related to OUS energy projects that are repaid through General Fund appropriations, representing approximately 33% 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. Since that time, other large loans have also gone into default, which will also impact SELP's remaining loan loss reserves over time.

While ODOE's management has subsequently tightened their loan underwriting standards and systematically pursued delinquent borrowers over the past few years, the fact remains that cash infusions will be required starting in October 2019, and continuing through FY 2034, aggregating to at least $13.4 million overall, in order for the SELP program to meet its debt service obligations on ODOE's existing GO bond portfolio. This amount could increase substantially if more SELP loans become delinquent or are written off as uncollectible.

It is anticipated that once the General Fund is required to cover debt service shortfalls on Article XI-J bonds, all 100% of ODOE's Article XI-J GO Bonds will be categorized as General Fund supported debt and included in future SDPAC calculations of General Fund debt capacity.

The Commission strongly urges the Legislature and Governor to actively monitor SELP's financial situation and to further 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 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 establishes 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 guarantee payment of a qualified district/college's bond debt service when due;
- Authorization of the State Treasurer to make debt service payments from the Oregon Common School Fund, the Oregon Short-term Fund, or other State funds assures immediate liquidity for all guaranteed school district and community college debt service payments;
- Constitutional provision authorizing 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 10 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, 2014, the program has outstanding guarantees on $3.7 billion in outstanding GO bonds ($5.2 billion in overall guaranteed debt service) issued by Oregon school districts and community colleges. *Exhibit VI.1* shows the growth of the program since FY 2005. 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 $8.6 million per year, or $172 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 2015, this State guaranty applies to local school district and community college annual debt service payments of $436 million, which is equivalent to approximately 5.3% of total General Fund revenues for the fiscal year, and 12.3% of overall state school aid for schools and community colleges in the state.

Exhibit VI.1

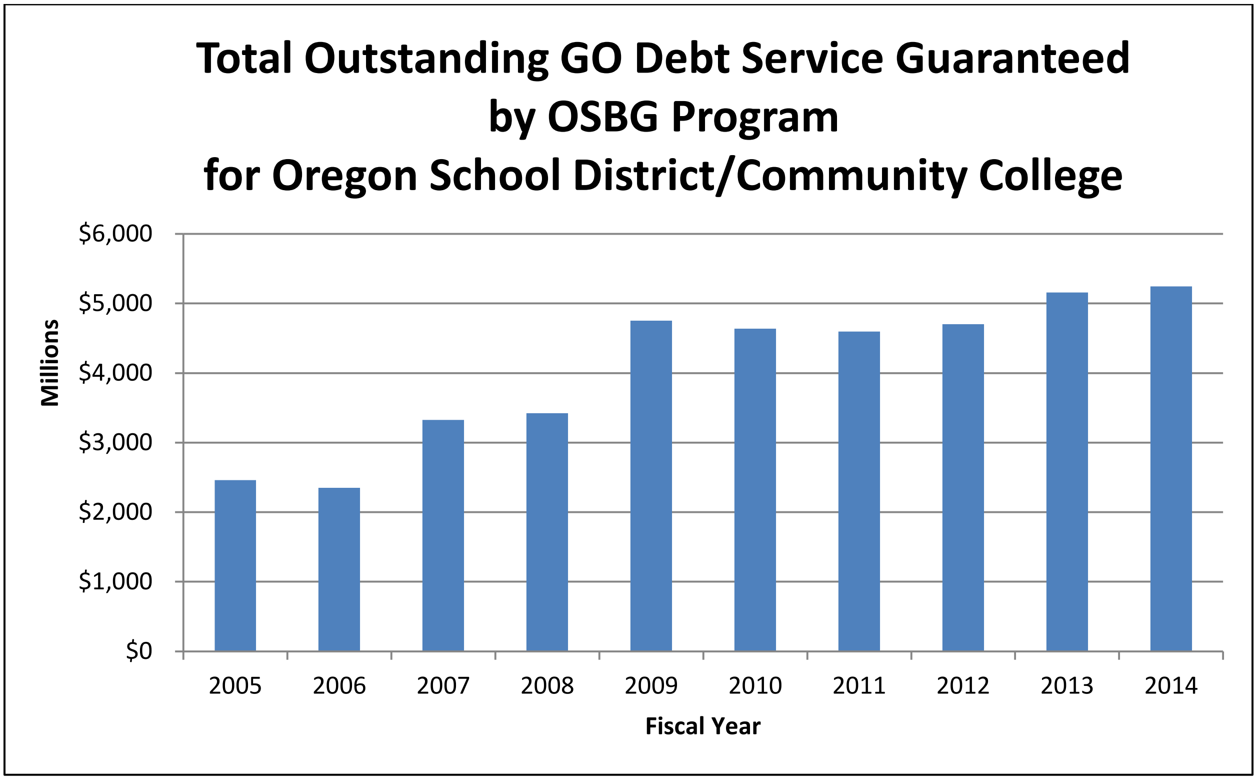
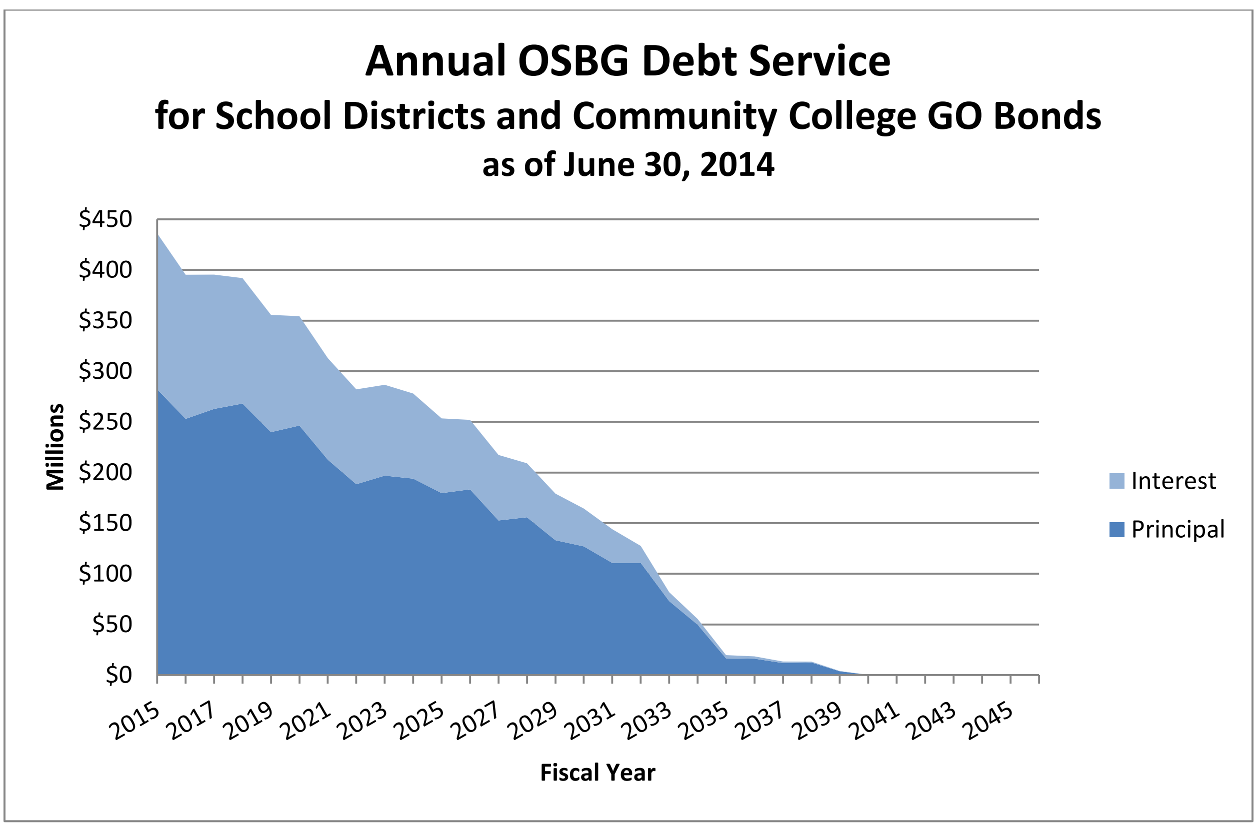


Exhibit VI.2



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. 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. Under current state law, the State Treasurer does not have the authority to review or approve these fund diversion agreements although they represent a contingent liability of the State.

Since 2002, there have been nine separate pooled POB borrowings issued by the Oregon School Board Association and community colleges totaling $3.16 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 FY 2003. The Commission projects that the State will divert approximately $242 million in state school aid for this purpose in FY 2015, or 6.8% of combined annual state aid for school districts and community colleges.

Exhibit VI.3

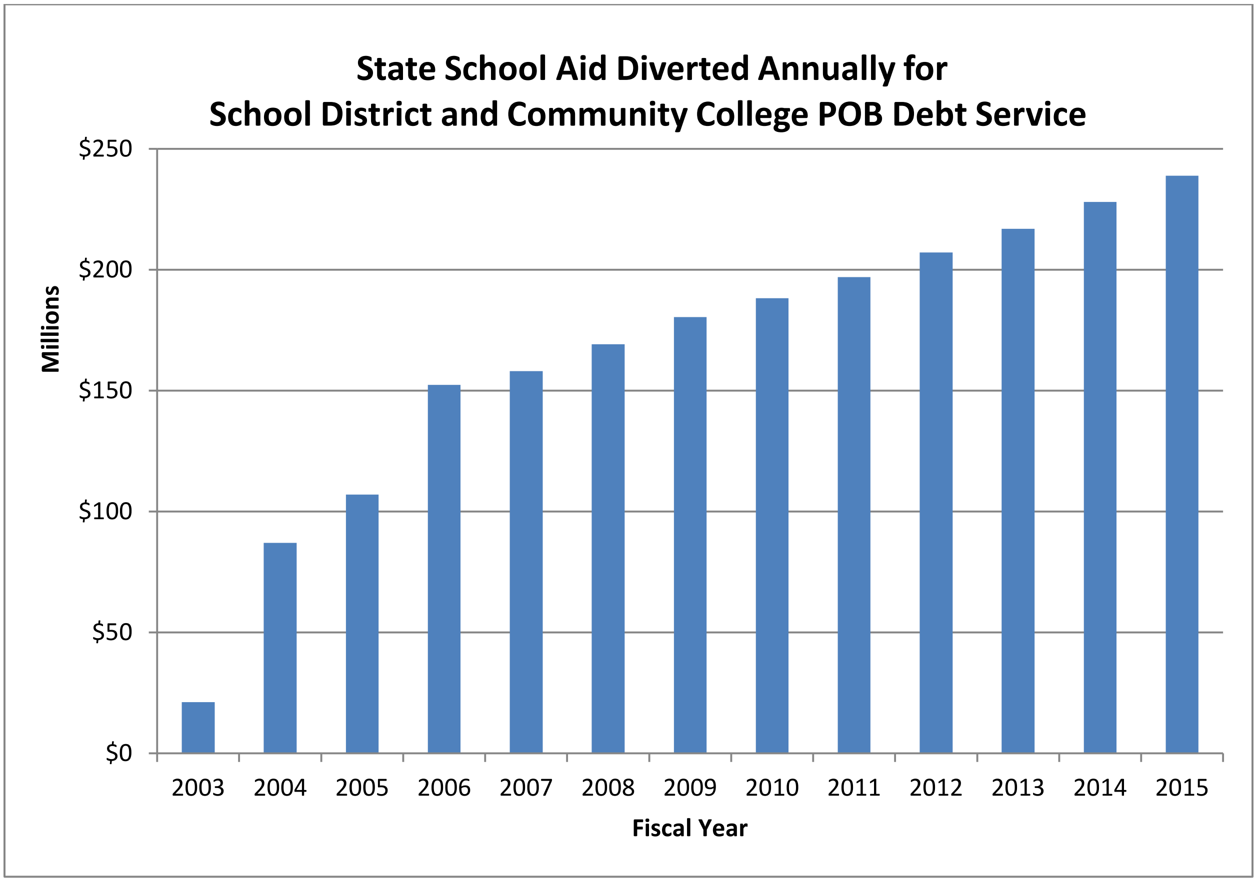
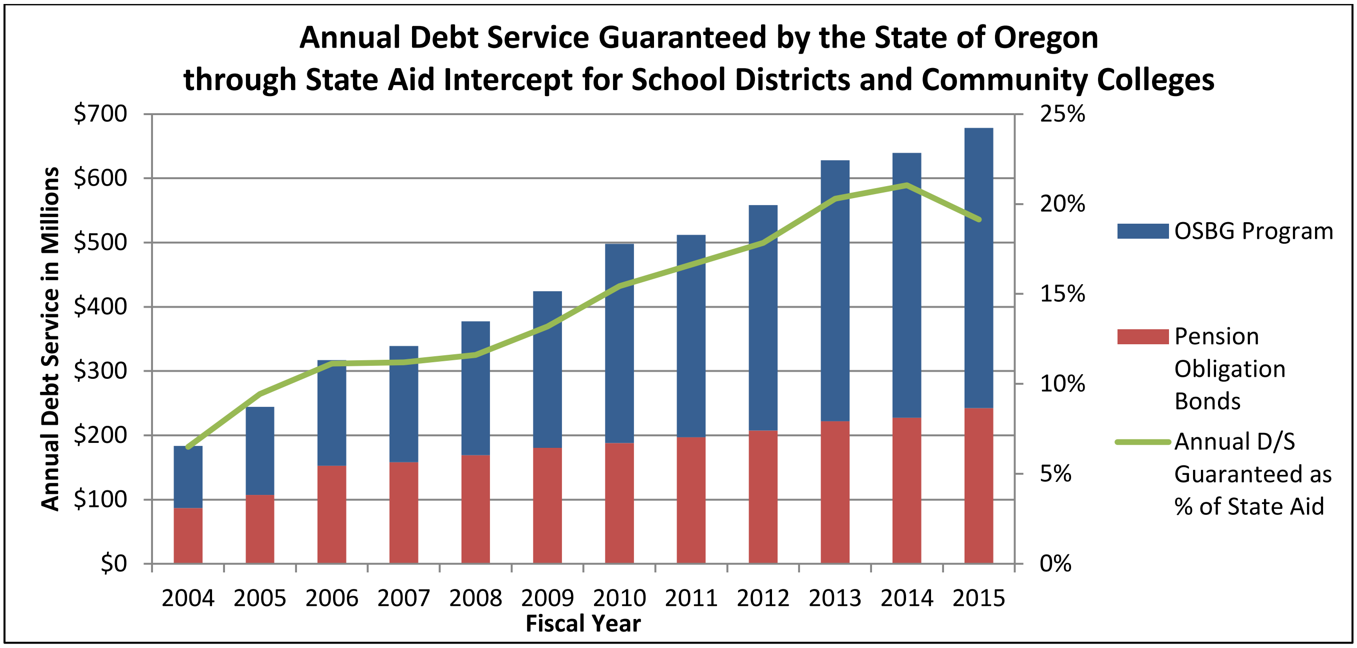


Exhibit VI.4 displays the steady growth in the State's combined annual guaranteed debt service for both the OSBG and the POB fund diversion programs. As the chart shows, these two state aid intercept bonding programs are relying on an increasing percentage of state aid to schools. The Commission projects that the combined annual debt service guaranteed by the State for school district and community college general obligation and pension bonds in FY 2015 now represents 19.1% of annual state aid for schools and community colleges.

Exhibit VI.4



Policy Considerations

To date, no participating Oregon school district or community college has requested that the State of Oregon make a debt service payment on its behalf under the OSBG program. 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 led to the examination of the scope and emphasis of the OSBG program.

As of June 30, 2014, three school districts have a combined annual debt service on State guaranteed GO and POBs that exceeds the amount of annual State school aid they receive. Given the growing reliance of districts on these state guaranty bond programs, the State Treasurer's office has become increasingly concerned that districts might inadvertently tie up too much of their State school aid in state bond guaranty programs. To address this concern, in the past year the Oregon State Treasury modified the administrative rules for the OSBG program that limits a qualifying 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 its behalf.

In the coming legislative session, the State Treasurer will also seek legislation that requires State Treasurer's office review and approval of all future POB fund diversion agreements entered in to by the Department of Education to assure that the State does not overcommit this resource on a combined program basis.

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**

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 (33%)
- 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%)

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 (67%)
- State General Purpose Bonds – Article XI-Q

Direct Revenue Bond Programs:

- Single & Multi-Family Housing Bonds – ORS 456.661
- Oregon Infrastructure Authority Bond Bank – ORS 285B.482

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

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 Issuance	FY 2015 Planned Issuance	Remaining Authorization
Community College Bonds Article XI-G	123,451,600	0	123,451,600	0
Dept. Of Higher Education Facility Bonds (Article XI-G)	117,711,000	0	117,711,000	0
OHSU Cancer Center Bonds (Article XI-G)	161,490,000	0	161,490,000	0
Pollution Control Bonds Article XI-G	10,000,000	0	10,000,000	0
Alternate Energy Bonds[2] Article XI-J – 33%	20,000,000	0	0	20,000,000
Dept. of Water Resources Bonds (Article XI-I(1))	10,235,000	0	0	10,235,000
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%	459,618,100	129,070,000	330,548,100	0
Pension Obligation Bonds[5] Article XI-O	0	0	0	0
Lottery Revenue Bonds ORS 286.563-585	219,717,715	0	195,917,715	23,800,000
Highway User Tax Bonds[6] ORS 376.620	846,690,000	409,775,000	0	436,915,000
Certificate of Participation Bonds ORS 283.025-092	55,600,000	0	0	55,600,000
State Appropriation Bonds (SB 856 – 2003 Legislature)	0	0	0	0
Total Net Tax-Supported Debt Authorizations	**$2,054,513,415**	**$538,845,000**	**$969,118,415**	**$546,550,000**

Note: May not foot due to rounding

[1] Amounts as authorized by the 77th Oregon Legislative Assembly – 2014 Regular Session. Authorization does not guarantee issuance of bonds or appropriation credits in these amounts. For the *2015Commission Report*, it is assumed that a portion of the authorization will be issued for certain programs in fiscal year 2015.
[2] Alternate Energy Bonds: Senate Bill 5703, 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, 33% 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: SB5703, Legislature approved $459,618,100 for the 2013-15 biennium. Currently 85% is considered net-tax supported.
[5] Pension Obligation bonds are constitutionally limited to 1% of RMV or $4,334,730,272. While there is no Constitutional authorization there is no current intention to issue additional bonds.
[6] User Tax Bonds: SB 5703 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)
2015	-	$ 87,433,464	$8,406,378	$30,518,933	$15,601,075	$53,937,607	$1,146,569	$709,913	$80,652,160	$1,835,240
2016	-	72,442,518	8,405,468	30,539,929	15,430,925	56,230,279	1,144,769	710,863	84,831,442	1,912,137
2017	-	64,599,909	8,410,274	30,573,691	15,437,925	58,620,352	1,139,269	706,363	81,138,052	1,685,762
2018	-	55,750,130	8,414,423	30,557,371	15,430,825	61,110,455	1,141,819	709,063	79,272,332	1,656,016
2019	-	49,174,259	8,402,143	29,739,755	15,435,025	63,707,829	1,148,319	711,213	75,464,558	1,720,360
2020	-	48,424,292	8,408,081	29,677,602	15,434,250	66,415,515	1,148,519	707,813	73,082,912	1,581,308
2021	-	46,175,057	8,398,760	28,711,978	15,437,250	69,238,461	1,142,669	709,013	68,935,257	1,509,341
2022	-	45,991,095	8,394,304	28,699,941	15,437,125	72,181,742	1,143,369	709,663	53,360,457	1,232,027
2023	-	45,728,126	8,388,136	28,699,674	15,432,250	75,248,863	1,145,619	712,263	52,541,370	1,228,984
2024	-	41,706,809	8,398,291	28,622,272	8,041,125	78,446,564	1,144,144	711,544	52,066,080	1,172,202
2025	-	28,237,866	8,391,489	28,596,512	-	81,781,536	1,149,031	707,594	51,272,504	839,173
2026	-	28,036,327	8,390,564	27,905,699	-	85,257,296	1,144,994	712,619	51,288,282	842,276
2027	-	27,624,543	8,393,314	27,875,074	-	88,879,815	1,144,931	711,594	41,381,159	842,265
2028	-	27,473,610	8,396,629	26,181,296	-	-	1,143,681	709,688	40,715,609	843,654
2029	-	27,310,463	8,395,510	23,826,886	-	-	1,148,731	709,388	38,647,470	548,137
2030	-	23,588,914	7,966,322	21,669,712	-	-	1,147,481	708,288	38,248,320	550,452
2031	-	23,072,511	7,970,725	19,932,262	-	-	1,149,906	711,175	31,887,159	337,250
2032	-	22,893,325	7,967,188	19,571,117	-	-	1,145,781	707,825	26,826,472	338,205
2033	-	22,708,825	7,958,225	16,232,753	-	-	1,147,556	710,700	23,392,876	336,777
2034	-	20,011,061	7,965,100	16,118,177	-	-	1,145,381	709,925	19,960,784	-
2035	-	17,457,059	4,492,022	13,466,172	-	-	1,144,356	710,600	19,968,768	-
2036	-	3,191,835	4,488,688	13,468,092	-	-	671,400	235,125	19,949,585	-
2037	-	3,191,283	1,998,853	12,039,372	-	-	423,325	-	9,056,336	-
2038	-	3,192,090	2,000,341	11,462,969	-	-	-	-	6,196,213	-
2039	-	3,193,811	-	9,712,000	-	-	-	-	5,415,669	-
2040	-	-	-	6,339,625	-	-	-	-	-	-
2041	-	-	-	3,663,500	-	-	-	-	-	-
2042	-	-	-	3,659,250	-	-	-	-	-	-
2043	-	-	-	-	-	-	-	-	-	-
2044	-	-	-	-	-	-	-	-	-	-
2045	-	-	-	-	-	-	-	-	-	-
Program Totals	**-**	**$838,609,182**	**$178,801,225**	**$598,061,615**	**$147,117,775**	**$911,056,314**	**$25,151,619**	**$15,142,225**	**$1,125,596,823**	**$21,011,566**

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, 2014.

Table A-3 (Continued)

Fiscal Year (ending June 30th)	Energy Bonds (General Fund Supported)	Total General Fund Supported Debt Service
2015	$9,665,526	$289,906,863
2016	9,544,190	281,192,517
2017	8,564,962	270,921,560
2018	7,773,623	261,816,057
2019	7,649,066	253,152,527
2020	8,270,131	253,150,423
2021	7,977,527	248,235,312
2022	6,249,630	233,399,351
2023	5,458,935	234,584,219
2024	5,071,906	225,380,937
2025	4,497,405	205,473,109
2026	4,493,820	208,071,876
2027	4,153,867	201,006,563
2028	4,047,105	109,511,272
2029	3,724,842	104,311,426
2030	2,958,755	96,838,244
2031	2,383,116	87,444,105
2032	1,554,957	81,004,870
2033	660,729	73,148,440
2034	460,259	66,370,687
2035	-	57,238,978
2036	-	42,004,725
2037	-	26,709,168
2038	-	22,851,613
2039	-	18,321,480
2040	-	6,339,625
2041	-	3,663,500
2042	-	3,659,250
2043	-	-
2044	-	-
2045	-	-
Program Totals	**$105,160,351**	**$3,965,708,696**

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
2015	$158,696,409	$131,210,454	$289,906,863
2016	156,729,335	124,463,182	281,192,517
2017	153,194,438	117,727,122	270,921,560
2018	151,326,790	110,489,266	261,816,057
2019	150,886,664	102,265,863	253,152,527
2020	157,980,600	96,169,823	253,150,423
2021	161,569,645	86,665,668	248,235,312
2022	154,039,383	79,359,969	233,399,351
2023	163,187,142	71,397,077	234,584,219
2024	162,038,260	63,342,677	225,380,937
2025	150,090,343	55,382,766	205,473,109
2026	160,557,973	47,513,903	208,071,876
2027	162,013,865	38,992,698	201,006,563
2028	79,158,743	30,352,529	109,511,272
2029	77,707,228	26,604,199	104,311,426
2030	73,947,778	22,890,466	96,838,244
2031	68,148,267	19,295,838	87,444,105
2032	64,940,692	16,064,178	81,004,870
2033	60,181,707	12,966,733	73,148,440
2034	56,285,034	10,085,653	66,370,687
2035	49,851,500	7,387,478	57,238,978
2036	37,059,000	4,945,725	42,004,725
2037	23,475,500	3,233,668	26,709,168
2038	20,708,250	2,143,363	22,851,613
2039	17,124,750	1,196,730	13,321,480
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	-	-	-
2045	-	-	-
Totals	**$2,683,714,295**	**$1,281,994,401**	**$3,965,708,696**

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, 2014.

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)
2015	-	$102,862,899	$8,406,378	$30,518,933	$15,601,075	$168,555,022	$4,369,620	$168,334,438	$125,344,523	$9,665,526
2016	-	85,226,491	8,405,468	30,539,929	15,430,925	175,719,621	4,552,708	168,320,333	109,518,958	9,544,190
2017	-	75,999,893	8,410,274	30,573,691	15,437,925	183,188,600	4,013,720	167,474,200	109,698,477	8,564,962
2018	-	65,588,388	8,414,423	30,557,371	15,430,825	190,970,172	3,942,895	155,501,031	109,708,164	7,773,623
2019	-	57,852,070	8,402,143	29,739,755	15,435,025	199,086,967	4,096,095	156,423,130	106,240,497	7,649,066
2020	-	56,969,756	8,408,081	29,677,602	15,434,250	207,548,485	3,765,020	150,098,071	102,176,554	8,270,131
2021	-	54,323,596	8,398,760	28,711,978	15,437,250	216,370,191	3,593,670	144,076,451	99,903,955	7,977,527
2022	-	54,107,170	8,394,304	28,699,941	14,437,125	225,567,942	2,933,398	144,556,556	102,766,280	6,249,630
2023	-	53,797,796	8,388,136	28,699,674	15,432,250	235,152,696	2,926,151	144,576,167	110,094,709	5,458,935
2024	-	49,066,834	8,398,291	28,622,272	8,041,125	245,145,513	2,790,957	144,703,110	103,731,605	5,071,906
2025	-	33,221,018	8,391,489	28,596,512	-	255,567,300	1,998,030	144,835,265	103,728,039	4,497,405
2026	-	32,983,914	8,390,564	27,905,699	-	266,429,051	2,005,419	144,905,849	103,742,499	4,493,820
2027	-	32,499,463	8,393,314	27,875,074	-	277,749,421	2,005,394	144,969,327	93,825,236	4,153,867
2028	-	32,321,894	8,396,629	26,181,296	-	-	2,008,700	160,938,286	64,821,894	4,047,105
2029	-	32,129,957	8,395,510	23,826,886	-	-	1,305,088	179,857,149	69,501,500	3,724,842
2030	-	27,751,663	7,966,322	21,669,712	-	-	1,310,600	180,493,104	44,249,050	2,958,755
2031	-	27,144,131	7,970,725	19,932,262	-	-	802,975	182,373,372	34,333,425	2,383,116
2032	-	26,933,324	7,967,188	19,571,117	-	-	805,250	182,860,295	14,499,150	1,554,957
2033	-	26,716,264	7,958,225	16,232,753	-	-	801,850	182,507,659	12,642,900	660,729
2034	-	23,542,425	7,965,100	16,118,177	-	-	-	180,719,309	-	460,259
2035	-	20,537,717	4,492,022	13,466,172	-	-	-	178,065,667	-	-
2036	-	3,755,100	4,488,688	13,468,092	-	-	-	91,676,234	-	-
2037	-	3,754,450	1,998,853	12,039,372	-	-	-	93,942,267	-	-
2038	-	3,755,400	2,000,341	11,462,969	-	-	-	96,301,355	-	-
2039	-	3,757,425	-	9,712,000	-	-	-	98,749,995	-	-
2040	-	-	-	6,339,625	-	-	-	-	-	-
2041	-	-	-	3,663,500	-	-	-	-	-	-
2042	-	-	-	3,659,250	-	-	-	-	-	-
2043	-	-	-	-	-	-	-	-	-	-
2044	-	-	-	-	-	-	-	-		-
2045	-	-	-	-	-	-	-	-	-	-
Program Totals	**$0**	**$986,599,038**	**$178,801,225**	**$598,061,615**	**$147,117,775**	**$2,847,050,981**	**$50,027,539**	**$3,787,258,640**	**$1,620,527,414**	**$105,160,351**

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, 2014.

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
2015	$94,884,894	$1,146,569	$709,913	**$730,399,788**
2016	99,801,696	1,144,769	710,863	**708,915,949**
2017	95,509,474	1,139,269	706,363	**700,716,868**
2018	93,261,568	1,141,819	709,063	**682,993,341**
2019	88,781,833	1,148,319	711,213	**675,556,112**
2020	85,979,896	1,148,519	707,813	**670,184,177**
2021	81,100,303	1,142,669	709,013	**661,745,362**
2022	62,777,008	1,143,369	709,663	**653,342,386**
2023	61,813,376	1,145,619	712,263	**668,197,771**
2024	61,254,212	1,144,144	711,544	**658,681,513**
2025	60,320,593	1,149,031	707,594	**643,012,275**
2026	60,339,155	1,144,944	712,619	**653,053,581**
2027	48,683,716	1,144,931	711,594	**642,011,338**
2028	47,900,716	1,143,681	709,688	**384,469,889**
2029	45,467,611	1,148,731	709,388	**366,066,661**
2030	44,998,024	1,147,481	708,288	**333,252,999**
2031	37,514,305	1,149,906	711,175	**314,315,393**
2032	31,560,555	1,145,781	707,825	**287,605,442**
2033	27,521,030	1,147,556	710,700	**276,899,666**
2034	23,483,275	1,145,381	709,925	**254,143,851**
2035	23,492,669	1,144,356	710,600	**241,909,203**
2036	23,470,100	671,400	235,125	**137,764,739**
2037	10,654,513	423,325	-	**122,812,779**
2038	7,289,663	-	-	**120,809,727**
2039	6,371,375	-	-	**118,590,795**
2040	-	-	-	**6,339,625**
2041	-	-	-	**3,663,500**
2042	-	-	-	**3,659,250**
2043	-	-	-	-
2044	-	-	-	-
2045	-	-	-	-
Program Totals	**$1,324,231,557**	**$25,151,619**	**$15,142,225**	**$11,685,129,979**

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, 2014.

Table A-6

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

Fiscal Year (ending June 30th)	Principal	Interest	Total
2015	$362,777,359	$367,622,429	$730,399,788
2016	356,628,185	352,287,764	708,915,949
2017	363,811,588	336,905,279	700,716,868
2018	362,412,640	320,586,701	682,999,341
2019	372,863,514	302,702,598	675,566,112
2020	384,949,300	285,234,878	670,184,177
2021	395,920,845	265,824,517	661,745,362
2022	406,728,633	246,613,753	653,342,386
2023	442,528,142	225,669,629	668,197,771
2024	455,171,860	203,509,653	658,681,513
2025	462,909,043	180,103,233	643,012,275
2026	497,391,423	155,662,158	653,053,581
2027	512,929,465	129,081,873	642,011,338
2028	246,915,343	101,554,546	348,469,889
2029	276,486,578	89,580,084	366,066,661
2030	255,762,478	77,490,521	333,252,999
2031	248,643,867	65,671,526	314,315,393
2032	233,201,542	54,403,900	287,605,442
2033	233,680,907	43,218,759	279,899,666
2034	223,079,034	31,064,818	254,143,851
2035	223,015,000	18,894,203	241,909,203
2036	127,015,000	10,479,739	137,764,739
2037	115,410,000	7,402,779	122,812,779
2038	116,110,000	4,699,727	120,809,727
2039	116,515,000	2,075,795	118,590,795
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	-	-	-
2045	-	-	-
Totals	**$7,805,671,745**	**$3,879,458,234**	**$11,685,129,979**

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, 2014.

Table A-7[1]

Fiscal Year (ending June 30th)	$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.	$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	$440,345,000 2009 Series A Portland Light Rail Project, Connect Oregon II, Oregon Street Car Project, Hillsboro Parking Project, OUS Deferred Maintenance	$40,825,000 2009 Series D Port of Newport - NOAA Fleet, Gilchrist Forest, Low-Income Housing, Umatilla Aquafier	$34,195,000 2010 Series A Port of Morrow, Port of Tillamook, Port of Coos Bay, Pendleton Round-Up, Construction & Maintain Court Facilities, Blue Mountain Community	$9,2454,000 2010 Series B Manufactured Home Dwelling Park, Low-Income Housing, Energy Efficiency & Sustainable Technology	$129,250,000 2011 Series A DAS - Port of Tillamook, DAS - Lane Transit District, Community Colleges & Workforse Development Dept. Connect	$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
2015	1,689,075	7,598,950	1,892,633	18,853,799	31,467,458	3,362,500	1,471,350	1,828,036	6,771,663	1,121,550	1,142,654	933,300
2016	1,687,025	7,596,950	1,895,453	3,938,149	31,467,513	3,366,750	1,471,350	1,828,446	6,771,663	1,121,550	1,142,654	933,300
2017	1,687,050	7,596,200	1,896,608	3,938,524	31,467,444	3,366,750	3,106,350	191,846	6,771,663	1,121,550	1,142,654	933,300
2018	-	-	1,896,098	3,939,324	31,463,119	3,367,500	3,302,300	-	6,771,663	1,121,550	1,142,654	1,408,300
2019	-	-	1,893,923	3,936,324	31,466,869	3,368,750	3,300,900	-	6,771,663	11,806,550	1,142,654	1,854,550
2020	-	-	1,894,423	3,939,524	31,465,319	3,370,250	3,300,050	-	6,771,663	13,009,500	1,142,654	1,856,750
2021	-	-	1,894,623	3,938,524	31,464,238	3,366,750	3,299,900	-	6,771,663	745,500	13,412,654	1,857,500
2022	-	-	1,892,623	3,938,324	6,608,938	3,368,250	3,298,400	-	6,771,663	-	14,169,522	1,855,750
2023	-	-	1,893,423	3,935,074	6,608,938	3,369,250	3,298,550	-	20,936,663	-	-	1,856,500
2024	-	-	1,894,898	3,936,118	6,608,938	3,364,500	3,301,650	-	20,933,000	-	-	1,854,500
2025	-	-	1,892,488	3,939,618	6,608,938	3,369,000	3,298,900	-	20,930,488	-	-	1,854,750
2026	-	-	1,896,513	3,936,438	36,908,938	3,367,000	3,300,400	-	24,952,025	-	-	1,857,000
2027	-	-	1,897,350	3,935,188	36,905,250	3,368,500	3,300,650	-	15,038,325	-	-	1,856,000
2028	-	-	-	3,935,438	36,906,250	3,368,000	3,299,400	-	11,984,863	-	-	1,856,750
2029	-	-	-	-	36,907,500	3,365,250	3,301,400	-	2,254,500	-	-	1,854,000
2030	-	-	-	-	-	-	3,301,150	-	26,444,500	-	-	1,857,750
2031	-	-	-	-	-	-	-	-	19,829,525	-	-	1,857,500
2032	-	-	-	-	-	-	-	-	-	-	-	1,853,250
2033	-	-	-	-	-	-	-	-	-	-	-	-
2034	-	-	-	-	-	-	-	-	-	-	-	-
2035	-	-	-	-	-	-	-	-	-	-	-	-
2036	-	-	-	-	-	-	-	-	-	-	-	-
2037	-	-	-	-	-	-	-	-	-	-	-	-
2038	-	-	-	-	-	-	-	-	-	-	-	-
2039	-	-	-	-	-	-	-	-	-	-	-	-
Totals	**5,063,150**	**22,792,100**	**24,631,050**	**70,040,361**	**394,325,645**	**50,509,000**	**48,952,700**	**3,848,328**	**217,477,188**	**30,047,750**	**34,438,097**	**30,190,750**

Annual Debt Srvice Requirements for Lottery Bonds Outstanding

Note: May not foot due to rounding.

[1] Includes annual fiscal year debt service requirements on all Lottery debt issued through July 31, 2014.

Table A-7[1] (Continued)

Annual Debt Service Requirements for Lottery Bonds Outstanding

Fiscal Year (ending June 30th)	$53,535,000 2012 Series B Advance Refunding - Refunding Various Series (2002A, 2002C, 2003A, 2004B, 2005A)	$2,750,000 2012 Series C DAS, Oregon University System, and Water Resources	$122,500,000 2013 Series A Oregon University System, Community College and Workforce Dept., and Transportation	$28,140,000 2013 Series B DAS, Business Oregon, Oregon University System, Community College and Workforce Dept., and	$71,075,000 2013 Series C Advance Refunding - Refunding Various Series (2001B, 2002B, 2003B, 2004A, 2005B	$18,625,000 2014 Series A Advance Refunding - Refunding Various Series (2006 Series A, 2007 Series A, 2009 Series A)	$89,515,000 2014 Series B Advance Refunding - Refunding Various Series (2006 Series A, 2007 Series A, 2009 Series A)	$105,635,000 2014 Series C Advance Refunding - Refunding Various Series (2006 Series A, 2007 Series A, 2009 Series A)	Total Outstanding Debt Service Requirements
2015	11,262,600	25,640	5,885,544	1,130,678	17,870,175	1,124,815	4,135,507	4,677,318	124,245,242
2016	11,260,000	925,640	5,885,544	2,872,054	14,317,999	839,815	4,418,250	5,224,250	108,964,352
2017	11,254,550	922,765	5,885,544	6,762,504	10,616,256	839,815	4,418,250	5,224,250	109,143,870
2018	11,259,650	451,453	5,885,544	6,758,725	10,618,365	1,399,815	12,218,250	5,224,250	108,228,558
2019	5,606,300	-	5,885,544	6,761,118	2,120,833	2,452,415	11,113,250	5,224,250	104,705,891
2020	1,888,500	-	7,875,544	4,768,452	2,126,231	2,432,215	11,109,000	5,224,250	102,174,323
2021	1,885,500	-	12,644,744	-	2,126,455	2,408,675	11,112,250	5,224,250	102,153,224
2022	1,890,300	-	12,646,944	-	2,127,080	2,410,506	11,726,750	29,464,250	102,169,298
2023	1,892,500	-	12,646,194	-	2,126,120	2,419,736	11,721,000	29,467,250	102,171,196
2024	1,890,750	-	12,644,694	-	2,125,160	2,430,236	11,723,500	29,464,500	102,172,443
2025	1,890,000	-	12,644,444	-	2,124,885	2,426,743	11,727,750	29,468,250	102,176,251
2026	-	-	12,644,444	-	-	2,447,180	10,892,500	-	102,202,436
2027	-	-	12,643,694	-	-	2,463,218	10,888,500	-	92,296,674
2028	-	-	12,646,194	-	-	-	-	-	73,996,894
2029	-	-	12,643,850	-	-	-	-	-	60,326,500
2030	-	-	12,645,650	-	-	-	-	-	44,249,050
2031	-	-	12,646,400	-	-	-	-	-	34,333,425
2032	-	-	12,645,900	-	-	-	-	-	14,499,150
2033	-	-	12,642,900	-	-	-	-	-	12,642,900
2034	-	-	-	-	-	-	-	-	-
2035	-	-	-	-	-	-	-	-	-
2036	-	-	-	-	-	-	-	-	-
2037	-	-	-	-	-	-	-	-	-
2038	-	-	-	-	-	-	-	-	-
2039	-	-	-	-	-	-	-	-	-
Totals	**61,980,650**	**2,325,498**	**201,689,313**	**29,053,531**	**68,299,558**	**26,095,184**	**127,204,757**	**153,887,068**	**$ 1,602,851,677**

Note: May not foot due to rounding

[1] Includes annual fiscal year debt service requirements on all Lottery debt issued through July 31, 2014.

Table A-8

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

Fiscal Year (ending June 30th)	Principal	Interest	Total
2015	$76,470,000	$47,775,242	$124,245,242
2016	60,535,000	48,429,352	108,964,352
2017	62,850,000	46,293,870	109,143,870
2018	64,200,000	44,028,558	108,228,558
2019	63,090,000	41,615,891	104,705,891
2020	63,195,000	38,979,323	102,174,323
2021	65,950,000	36,203,224	102,153,224
2022	69,005,000	33,164,298	102,169,298
2023	72,275,000	29,896,196	102,171,196
2024	75,815,000	26,357,443	102,172,443
2025	79,575,000	22,601,251	102,176,251
2026	83,525,000	18,677,436	102,202,436
2027	77,880,000	14,416,674	92,296,674
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
2034	-	-	-
Total	**$1,127,240,000**	**$475,611,677**	**$1,602,851,677**

Note: May not foot due to rounding.

[1] Includes annual fiscal year debt service requirements on all Lottery revenue debt issued through July 31, 2014.

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APPENDIX B

Constitutional & Statutory Framework

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GENERAL OBLIGATION BONDS

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

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

Veterans' Welfare Bonds – Article XI-A. One of the State's larger GO bond programs is the Veterans' Welfare program. This program, authorized by Article XI-A of Oregon's Constitution, allows the State to borrow up to eight percent of the true cash value (TCV) of all taxable property in the state to fund the Oregon War Veterans' Fund. The fund is used to finance farm and home loans for eligible veterans. Although bonds issued under this program are a direct obligation of the State, for which a property tax may be levied, the program is fully self-supporting from loan repayments. Principal amount outstanding was $274,165,000 as of June 30, 2014.

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

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

Higher Education Building Bonds – Article XI-F (1). The Oregon Constitution allows the State to issue general obligation bonds for publically-owned higher education facilities under two separate Articles, XI-F(1) and XI-G. Article XI-F(1) authorizes the State Board to borrow up to three-quarters of one percent of state true cash value to finance higher education building and land acquisition projects. Projects financed through this program must be fully self-supporting and self-liquidating from non-General Fund revenues, including tuition, gifts, grants, leases, and/or student building fees. Principal amount outstanding was $1,250,835,796 as of June 30, 2014. SB 270 (2013) authorized the establishment of independent universities with governing boards for the universities that were formerly part of the OUS; these independent governing boards now have the ability to sell university revenue bonds that rely upon the same types of revenue streams for debt repayment that are also used for repayment of XI-F(1) bonds.

SB 270 required that in order for the newly independent universities to continue to have access to the State's XI-F(1) bonding programs in the future, any issuance of university revenue bonds must first be reviewed and approved by the State Treasurer's office. It is anticipated that the State will continue to issue XI-F(1) bonds for legislatively authorized projects at certain independent universities, given the lower borrowing costs afforded the universities by the State's higher credit ratings.

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

Historically, Article XI-G bonds for higher education was used to finance instructional and public service facilities of the Oregon University System (OUS) and Oregon's various community colleges, with General Fund appropriations being made annually to pay debt service on these bonds. Despite the change in university governance structure established by SB 270, it is anticipated that the State will continue to issue XI-G bonds for legislatively authorized projects at independent universities. As of June 30, 2014 the principal amount outstanding for Higher Education Facilities XI-G bonds was $376,121,059.

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

Since 2007, the Legislature has included authorization of XI-G bonding in varying amounts for select community college instructional facilities for which there was a local need and a demonstrated match for 50 percent of the costs of the overall project. As of June 30, 2014 the principal amount outstanding for Community College bonds is $116,095,000.

Pollution Control Bonds – Article XI-H. Funds of up to one percent of the State's true cash value may be borrowed for purposes of financing pollution abatement and control facilities, as well as pollution control and disposal activities of State and local government agencies. This

[1] Higher Education Facilities bonds are issued by the Department of Higher Education whereas Community College bonds are issued by the Department of Education. Higher Education and Community College bond issuance are combined and charged against the total debt authorized by the State Constitution Article XI-G.

authorization, granted under Article XI-H, requires that most facilities funded by the program, with the exception of pollution control and disposal activities and hazardous substance facilities, must “conservatively appear” to be at least seventy percent self-supporting and self-liquidating from revenues, gifts, federal grants, user charges, assessments and other fees.[1] Property taxing authority is provided as an additional source of revenue to support these bonds. Historically, the portion of the debt service of these bonds associated with orphan hazardous disposal site clean-up has been repaid by General Fund appropriation, with the balance of debt service repaid by DEQ fees and repayment on loans. (Please see the “General Fund Supported Debt” chapter of this report for more information on General Fund versus Other Fund split.) The amount of General Fund support may vary over time. Principal amount outstanding was $38,645,000 as of June 30, 2014.

Water Resources Bonds – Article XI-I(1). Up to one-half of one percent of the true cash value of property within the State may be borrowed to provide funds for loans to construct water development projects. Project purposes include irrigation and drainage, community water supply, fish protection and watershed restoration. Authorized by Article XI-I(1), at least fifty percent of these funds are reserved for irrigation and drainage projects. The program is intended to be self-supporting from revenues received pursuant to financing agreements with project borrowers. As of June 30, 2014 there were no bonds outstanding under this authorization.

Elderly and Disabled Housing Bonds – Article XI-I(2). Funds may be borrowed to finance multifamily housing for elderly and disabled persons under Article XI-I(2). This program, under which one-half of one percent of state property true cash value may be borrowed, is fully self-supporting from project mortgage loan revenues. Principal amount outstanding was $118,545,000 as of June 30, 2014.

Alternate Energy Bonds – Article XI-J. The Department of Energy is authorized by Article XI-J to incur debt up to one-half of one percent of the true cash value of all taxable property of the state to finance development of small-scale local energy projects (SELP). Projects are funded only if they can demonstrate there will be a revenue stream adequate to repay the loan obtained from bond proceeds. Although the program has the State’s general obligation backing, it has historically been fully self-supporting from loan repayment revenues; in the past few years, the Department has had to write off several large loans to private parties that were deemed non-collectible, which has greatly depleted SELP’s loan reserves. It is anticipated that the State will need to make cash infusions of at least $13.4 million starting in October 2019 and extending through FY 2034 in order for the Department to meet its future general obligation debt service payments.

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

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

$240,115,000 as of June 30, 2014, of which 33% is considered General Fund-supported debt for purposes of this report.

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

Oregon Opportunity Bonds – Article XI-L. Authorizes bonds to finance capital costs of Oregon Health and Science University (OHSU) in an aggregate principal amount that produces net proceeds for the University in an amount that does not exceed $200 million. Section 1 of the Article authorizes debt not to exceed one-half of one percent of the real market value of all property in the State. However, the State is not permitted to levy ad valorem (property) taxes to pay the bonds. The legislation authorizing the program contemplates that the bonds may be paid from tobacco settlement revenues, but those revenues are not directly pledged to pay the bonds. Principal amount outstanding was $119,115,000 of June 30, 2014.

Seismic Rehabilitation of Public Education Buildings – Article XI-M. Authorizes bonds to be issued to provide funds for the planning and implementation of seismic rehabilitation of public education buildings. Outstanding authorized debt may not exceed one-fifth of one percent real market value of all property in the State. Ad valorem property taxes may not be pledged to repay these bonds. Principal amount outstanding was $17,000,000 as of June 30, 2014

Seismic Rehabilitation of Emergency Services Buildings – Article XI-N. Authorizes bonds to be issued to provide funds for the planning and implementation of seismic rehabilitation of emergency services buildings. Outstanding authorized debt may not exceed one-fifth of one percent real market value of all property in the State. Ad valorem property taxes may not be pledged to repay these bonds. Principal amount outstanding was $10,045,000 as of June 30, 2014.

Pension Obligation Bonds – Article XI-O. Pension Obligation Bonds (POBs) were issued under the authority of Article XI-O of the Oregon Constitution and House Bill 3659 in October 2003 in the principal amount of $2,083,960,000. These bonds are general obligations of the State to which the full faith and credit and taxing power of the State (other than the State's power to levy ad valorem property taxes) are pledged. Proceeds of the POBs were used to pay a substantial portion of the State's unfunded actuarial liability (UAL) of the Oregon Public Employees Retirement System (PERS). The UAL is the State's portion of the difference between PERS' actuarial liability and fair market value of assets in the Public Employees Retirement Fund (PERF) available to pay such liability on November 1, 2003. The amount of outstanding indebtedness authorized by Article XI-O is limited to one percent of the real market value of all property in the state. Debt service on the bonds is allocated among both General Fund and non-General Fund State agencies based on the payroll of such agencies. The State expects that the allocated costs to each agency will be less than if the State did not issue the bonds. Approximately 68 percent of the bond debt service is paid by non-General Fund resources leaving 32 percent of the debt service to be paid with General Fund resources. Principal amount outstanding was $1,894,145,000 as of June 30, 2014.

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

State Facilities – Article XI-Q. Authorizes the State to incur indebtedness in an amount not to exceed one percent of the real market value of the real property in the state to provide funds to acquire, construct, remodel, repair, equip or furnish real or personal property that is or will be owned and/or operated by the State of Oregon. Passed by the voters in November 2010, and enacted into statute in the following year by the 2011 Legislative Assembly, the Article XI-Q bonding program replaced the Certificate of Participation bonding program as a means of financing most state owned property due to its superior credit ratings and lower cost of funds. Through June 30, 2014, the State has sold eight separate issues of Article XI-Q bonds, both for new state capital projects but also to refund several series of outstanding COPs, saving Oregon taxpayers to date $57.1 million in interest cost over the life of these bonds. As of June 30, 2014 principal outstanding for Article IX-Q bonds totaled $905,955,000.

DIRECT REVENUE BONDS

Single-Family and Multifamily Revenue Bonds – ORS 456.645. Oregon Revised Statute 456.645 to 456.725 authorizes the Housing and Community Services Department to issue revenue bonds for the purpose of financing single-family mortgage loans and multifamily housing projects. The statute limits outstanding debt to $2.5 billion. These bonds are fully self-supported with payment for the bonds coming from project rental revenues, as well as mortgage payments and fees. Principal amount outstanding was $1,049,115,000 as of June 30, 2014.

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

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

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

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

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

The total principal amount outstanding for highway user tax revenue bonds was $2,437,965,000 as of June 30, 2014.

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

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

State Fair and Exposition Center Revenue Bonds – ORS Chapter 565.095. The Oregon State Fair is authorized by ORS 565.095 to issue up to $10 million in revenue bonds for the acquisition of land, capital construction and improvement, and fair expenses. These are limited obligations of State of Oregon payable solely from revenues derived from operations, as well as appropriations, gifts or grants, as long as these funds are not otherwise restricted. State Fair revenue bonds are fully self-supported and do not constitute a general or full faith credit of the State. As of June 30, 2014 there are no outstanding bonds under this authorization.

Oregon Bond Bank Revenue Bonds – ORS Chapter 285B.467. The Oregon Economic and Community Development Department (OECDD) has been granted statutory authority to issue bonds under two revenue bond programs. Pursuant to ORS 285B.410 through 285B.479, bonds, may be issued to fund the Special Public Works Fund (SPWF) to assist municipalities in financing the infrastructure necessary for economic development. In addition, the Department, pursuant to ORS 285B.572 through 285B.587, may issue bonds to finance loans to municipalities for safe drinking water projects and wastewater system improvement projects.

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

Bond proceeds under this program are used to fund the Water/Wastewater Financing Program to deliver funds to eligible municipalities. The bonds are payable from loan repayments made by municipalities. Under each of these programs, the Department is authorized to request the State to withhold any amounts otherwise due to the municipality from the State to pay such amounts that may be owed.

In 1997, the Oregon State Legislature enacted ORS 285B.482 to authorize the consolidation of proceeds of revenue bonds issued for the SPWF Program and the Water/Wastewater Program. Future bonds for these programs are issued under the consolidated Oregon Infrastructure Authority Bond Bank Revenue Program. Additionally, all prior bonds issued under these programs are considered parity bonds. Future bonds supporting the SPWF and the Water/Wastewater programs will be issued as single series under the Oregon Infrastructure Authority Bond Bank Revenue Bond program. Principal amount outstanding is $94,095,000 as of June 30, 2014.

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

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

The 2013 and 2014 Legislature, pursuant to Senate Bill 5506 and Senate Bill 5703, authorized an additional aggregate principal amount of $219,717,715 in new Lottery Revenue bonds for the 2013-15 biennium. Principal amount outstanding is $1,136,300,000 as of June 30, 2014.

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

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

CONDUIT REVENUE BONDS

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

Oregon Facilities Authority (OFA) – ORS Chapter 289. The Oregon Facilities Authority, formerly named the Health, Housing, Educational, and Cultural Facilities Authority, was created in 1989 and operates pursuant to Oregon Revised Statues Chapter 289. OFA is a public corporation empowered to issue conduit revenue bonds and assist with the assembling and financing of lands for health care, housing, educational and cultural uses and for the construction and financing of facilities for such uses. Effective January 1, 2007, OFA's mandate was expanded to include the financing of for all non-profit institutions, organizations or entities within the State that are exempt from taxation under section 501(c)(3) of the Internal Revenue Code, as defined in ORS 314.011. The Authority reviews proposed projects and makes recommendations to the State Treasurer whether to finance the project through the issuance of limited obligation bonds. Although the State Treasurer issues the bonds they are repaid solely from revenues generated by the projects being financed or from other sources available to the borrower. The State has no financial obligation for these bonds and bondholders have no recourse against the properties, funds or assets of the Issuer, the State or the Authority for payment of bond debt service. Bondholder's only recourse for payment of the bonds is against the actual borrower. In 2007, OFA initiated the SNAP Bond Program (Small Nonprofit Accelerated Program), which is a streamlined low-cost private placement program for smaller nonprofits that is simple to use and generally has smaller transaction costs. Principal amount outstanding for OFA in total was $1,876,817,001 as of June 30, 2014.

Industrial Development Revenue Bonds – ORS Chapter 285B. The Oregon Business Development Commission (OBDC) is empowered, pursuant to ORS 285B.320 to 285B.371, to issue Industrial Development Revenue Bonds through the Oregon Business Development Department, with the approval of the State Treasurer. They are issued as limited obligation bonds payable only from project revenues or other sources available to the borrower. Industrial or economic development revenue bonds do not constitute an indebtedness of the Issuer, the Commission or the State. Proceeds of these bonds are loaned to private businesses to finance various expansions, relocations, retentions, and other projects that will stimulate economic development and provide jobs in the State. Prior to approval of issuance, the State subjects individual projects to a cost effectiveness test to ensure that the public benefits of a project outweigh the related public costs. Principal amount outstanding was $336,768,790 as of June 30, 2014.

Housing Development Revenue Bonds – ORS 456.692. The Oregon Housing and Community Services Department (OHCSD) is authorized pursuant to Oregon Revised Statute 456.692 to issue conduit revenue bonds through the State Treasurer for its Housing Development Program. The multifamily housing program provides financing for developments in which a certain number of the housing units are for persons and families of lower income. Each bond issue finances a single development that is separately secured by revenues and assets specifically pledged by the borrower. Similar to the other State conduit revenue bond programs, as noted above, there is no bondholder recourse to the State for payment should the project not be able to meet its debt service requirements. Principal amount outstanding was $201,041,419 as of June 30, 2014.

APPROPRIATION CREDITS

Appropriation Bonds – SB 856 – 2003 Legislature. Senate Bill 856, the Appropriation Bond Act, was passed by the 2003 Legislative Assembly. The Act authorized the issuance of bonds to assist the State of Oregon in balancing its budget for the 2001-2003 Biennium. Appropriation bonds in the par amount of $431,560,000 were issued in April 2003. These bonds are special obligations of the State payable solely from appropriated moneys and do not represent a general, unlimited-tax obligation of the State. In the Appropriation Bond Act, the Legislative Assembly acknowledged its current intention to apply the moneys available to the State from tobacco settlement revenues to pay the debt service for the appropriation bonds. As of June 30, 2014 there were no outstanding bonds under this authorization.

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

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

Passage of Ballot Measure 11 by Oregon voters in 1994 is directly related to the significant increase in COP debt from about $191 million in FY 1995 to about $1.1 billion in FY 2008. Measure 11 created mandatory minimum penalties for specified crimes and required that juveniles charged with certain violent crimes be tried and sentenced as adults. The practical effect of Measure 11 is the considerable requirement for increased construction of adult and juvenile prisons and correctional facilities.

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

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

improvements or upgrades of existing facilities, and the staff costs associated with the construction and improvement of facilities.

Since the passage of Article XI-Q general obligation bonds for state owned and/or operated facilities by voters in 2011, the State has dramatically reduced the use of this financing mechanism, as general obligation bonds provide a higher rating and lower cost of funds compared to COPs. In addition, the State has refinanced existing COP debt with Article XI-Q bonds to the greatest extent possible, saving Oregon taxpayers $57 million in interest costs to date. Principal amount outstanding for all COP debt was $675,550,000 as of June 30, 2014.