74th OREGON LEGISLATIVE ASSEMBLY – 2007 Regular Session **MEASURE: HB 2199-A**
STAFF MEASURE SUMMARY

Joint Committee on Ways and Means

Carrier – House: Rep. Morgan
Carrier – Senate: Sen. Deckert

Revenue: No revenue impact
Fiscal: Fiscal statement issued

Action: Do Pass the A-Engrossed Measure
Vote: 21 – 0 – 0
House – Yeas: D. Edwards, Galizio, Garrard, Hanna, Jenson, Morgan, Nathanson, Nolan, Shields
– Nays:
– Exc:
Senate – Yeas: Bates, Carter, Devlin, Gordly, Johnson, Morse, Nelson, Schrader, Verger, Westlund, Whitsett, Winters
– Nays:
– Exc:
Prepared By: Steve Bender, Legislative Fiscal Office
Meeting Date: 6/15/07

WHAT THE MEASURE DOES: This measure allows the State to enter into financial agreements relating to Article XI-F(1) bonds issued for capital construction projects in the Oregon University System (OUS). Currently, Article XI-F(1) bonds are issued on a fixed-rate basis. The financial agreements that the measure authorizes would allow OUS to structure long-term Article XI-F(1) bond debt on a variable-rate basis, and to enter into interest rate swap agreements to mitigate some of the risk of interest rate increases on debt service costs. This authority is intended to reduce debt financing costs. Historically, bonds sold with a variable rate of interest are able to be sold at overall interest rates of approximately 1% less than the interest rate on a similar fixed-rate bond.

ISSUES DISCUSSED:
- Article XI-F(1) bonds and their uses
- Types of financial agreements sought
- Costs of the program and potential debt service cost savings
- Risks associated with variable-rate debt and measures to control those risks

EFFECT OF COMMITTEE AMENDMENT: No amendment.

BACKGROUND: Article XI-F(1) bonds are a type of General Obligation bond authorized by the State Constitution for financing Oregon University System capital construction projects. These bonds may only be used for projects that are wholly self-liquidating and self-supporting from revenues, gifts, grants, or building fees. Debt service on Article XI-F(1) bonds is not paid by the General Fund. It is paid by the campuses from the self-supporting funds available for the project. Typical projects include housing or dining facilities, paid by housing or dining fees; athletic facilities, paid by intercollegiate athletic program revenues (ticket sales, loge rentals, donations, NCAA revenues); and student centers and student recreation centers, paid by the student building fee. In some cases, however, Article XI-F(1) bonds finance academic facilities, with tuition revenue used to pay debt service. Each session the Legislature or Emergency Board approves the use of Article XI-F(1) bonds for identified capital construction projects on a project-by-project basis.

Article XI-F(1) bonds are currently issued on a fixed-rate basis. The Department and the Treasury indicate that debt service costs could be reduced if the State sold Article XI-F(1) bonds on a variable-rate basis. Variable-rate bonds do subject the state to the risk of increased costs if interest rates increase.

The costs and savings associated with this measure have been incorporated in the Department of Higher Education budget bill [SB 5515-A].