

2010 Special Session
FISCAL ANALYSIS OF PROPOSED LEGISLATION
Prepared by the Oregon Legislative Fiscal Office

MEASURE NUMBER: HB 3646

STATUS: A-Engrossed

SUBJECT: Authorization of private activity revenue bonds relating to the Oregon Facilities Authority; and clarification of statutes related to public borrowing.

GOVERNMENT UNIT AFFECTED: State Treasurer, State agencies that use Build America Bonds

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DATE: February 8, 2010

	<u>2009-2011</u>	<u>2011-2013</u>
EXPENDITURES: See Analysis		

EFFECTIVE DATE: Upon passage

INTERIM JOINT COMMITTEE ON WAYS AND MEANS: The budgetary impact of this bill was not reviewed and approved by the Interim Joint Committee on Ways and Means Committee and is not included in the omnibus budget bill to be introduced by the committee.

LOCAL GOVERNMENT MANDATE: This bill does not affect local governments' service levels or shared revenues sufficient to trigger Section 15, Article XI of the Oregon Constitution.

ANALYSIS: House Bill 3646 revises statutes to allow state agencies to participate in the federal Build America Bond (BAB) program. The measure also expands the potential use of private activity bonds to include all activities eligible under federal law.

The American Recovery and Reinvestment Act of 2009 (ARRA) authorized the Build America Bond program (BAB). BABs are issued as taxable bonds for government-purpose construction projects that are eligible to be funded with tax-exempt bonds. The BAB program provides a 35% federal subsidy of interest costs to help cover the usual premium that taxable bonds require over tax-exempt bonds and allows government issuers access to the larger market for taxable securities. HB 3646 amends current law to add provisions to allow for the receipt and expenditure of BAB federal subsidies. The State Treasurer would then be able to issue Build America Bonds in lieu of tax exempt bonds in cases where this would reduce debt service costs. The BAB program is currently limited to bonds issued prior to January 1, 2011. It is not known whether an extension of the program will occur.

Oregon state agencies that may potentially issue Build America Bonds include Department of Administrative Services, Department of Human Services, Military Department, Department of Corrections, Oregon Youth Authority, Department of Community Colleges and Workforce Development, Oregon University System, Department of Transportation, and Department of Energy. It is unknown how many, if any, of these agencies will carry out the issuance of the Build America Bonds. However, based on the Bond Calendar, it is likely that a portion of the overall bonding of the Department of Transportation, Oregon University System, and Department of Administrative Services will be BABs. Agencies that do issue BABs expect that HB 3646 will have a minimal impact on their daily operations, but will potentially have a significant impact on their debt service accounts as this bill gives them the

opportunity to take advantage of a larger market in taxable debt. This measure has no fiscal impact on agencies that do not issue bonds through the BABs program.

House Bill 3646 addresses another issue relating to the State's bonding processes in that it serves to expand the type of programs that the Oregon Facilities Authority (OFA) is permitted to support. OFA facilitates the issuance of tax-exempt conduit (private activity) revenue bonds for nonprofit organizations in the State that intend to build, buy, renovate, or improve their facilities. This bill adds the ability for OFA to finance "qualified programs" that are already eligible under federal law. The programs would include non-profit programs that lend or finance leases to third parties. The State Treasury reports that no fiscal impact will result due to this change to the State's bonding process.