

**SENATE BILL 19****ARTICLE XI-Q BOND PROCEDURES (MEASURE 72 IMPLEMENTATION)****BACKGROUND:**

With the recent passage by the Oregon electorate of Measure 72, the State of Oregon is now authorized under Article XI-Q of the State Constitution to issue General Obligation bonds to finance state building and equipment projects that would normally be financed through the state's long-standing Certificate of Participation (COPs) program. General Obligation bonds, which pledge the state's full faith and credit, receive higher credit ratings than the state's COPs, and therefore can be sold at a lower interest rate, saving taxpayers interest costs.

**EFFECT OF LEGISLATION:**

Senate Bill 19 accomplishes two things:

1. Sets up the statutory framework that will be used to issue Article XI-Q bonds as they are authorized by the Legislature.
2. Reauthorizes and refinances some already-authorized (but not yet sold) debt as Article XI-Q bonds rather than Certificates of Participation. This does not have any effect on the amount borrowed, but allows the borrowing to occur at a lower interest rate.

Senate Bill 19 does **NOT** authorize any additional borrowing.

**BENEFITS:**

Due to lower interest rates, the State will see savings of as much as **\$70 million** over the life of various bonds. This assumes current interest rates; rates may change by the time of actual sale.

- The 2009 Oregon Legislature authorized a total of \$765 million in COPs. Assuming all \$350 million in COPs for projects authorized by the Legislature in 2009 and planned for April will be sold instead as XI-Q bonds, the State will save 0.75% in interest costs, or **\$48.2 million** over the life of the bonds. Savings will show up in the general fund starting next fiscal year. *(If the OWIN project is not funded in this sale, savings will be reduced proportionately.)*
- SB 19 also allows for refunding of approximately \$82 million in outstanding COPs in April; based on current market conditions, underwriters project that the State could save as much as **\$4.4 million** in interest costs over the life of the bonds by using XI-Q bonds to implement this refunding, compared to completing this refunding using the lower-rated, COP structure.
- The Department of Transportation could currently save as much as .80% (80 bps) in interest costs if SB 19 allows certain projects to be financed using XI-Q bonds, or approximately **\$18.0 million** over the life of these bonds. *(If the OWIN project is not funded in this sale, savings will be reduced proportionately.)* Because these bonds use transportation revenues as repayment, savings will show up in the Highway Fund.

This restructuring does not alter the source of repayment for any of these borrowings, but only lowers the interest rates that the State pays.

**RECOMMENDATION:**

Approve SB 19, as amended with Treasury's recommendations.

MEASURE: SB 0019

EXHIBIT: E

Senate Finance and Revenue 76<sup>th</sup> Session

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