

State Debt Policy Advisory Commission

**Presentation to
the House Committee on Transportation and
Economic Development**

On Key Findings in 2013 SDPAC Report



**Office of the State Treasurer
Debt Management Division**

February 20, 2013

Introduction

Purposes of SDPAC Report

1. Annual Debt Capacity Forecast and Report Required by ORS 286A.255
2. Provides a Framework for Measuring, Monitoring and Managing the State's Overall Debt Position
3. Provides Information to Assist Governor and Legislature in Formulating Long-term Capital Spending Plans
4. Highlights Emerging Debt Policy Issues of Concern

Current Committee Membership

- State Treasurer Ted Wheeler, Chair
- Senator Richard Devlin
- Representative Phil Barnhart
- Micheal Jordan, DAS Director
- Tim Duy, Economist, University of Oregon



Debt Capacity Concepts

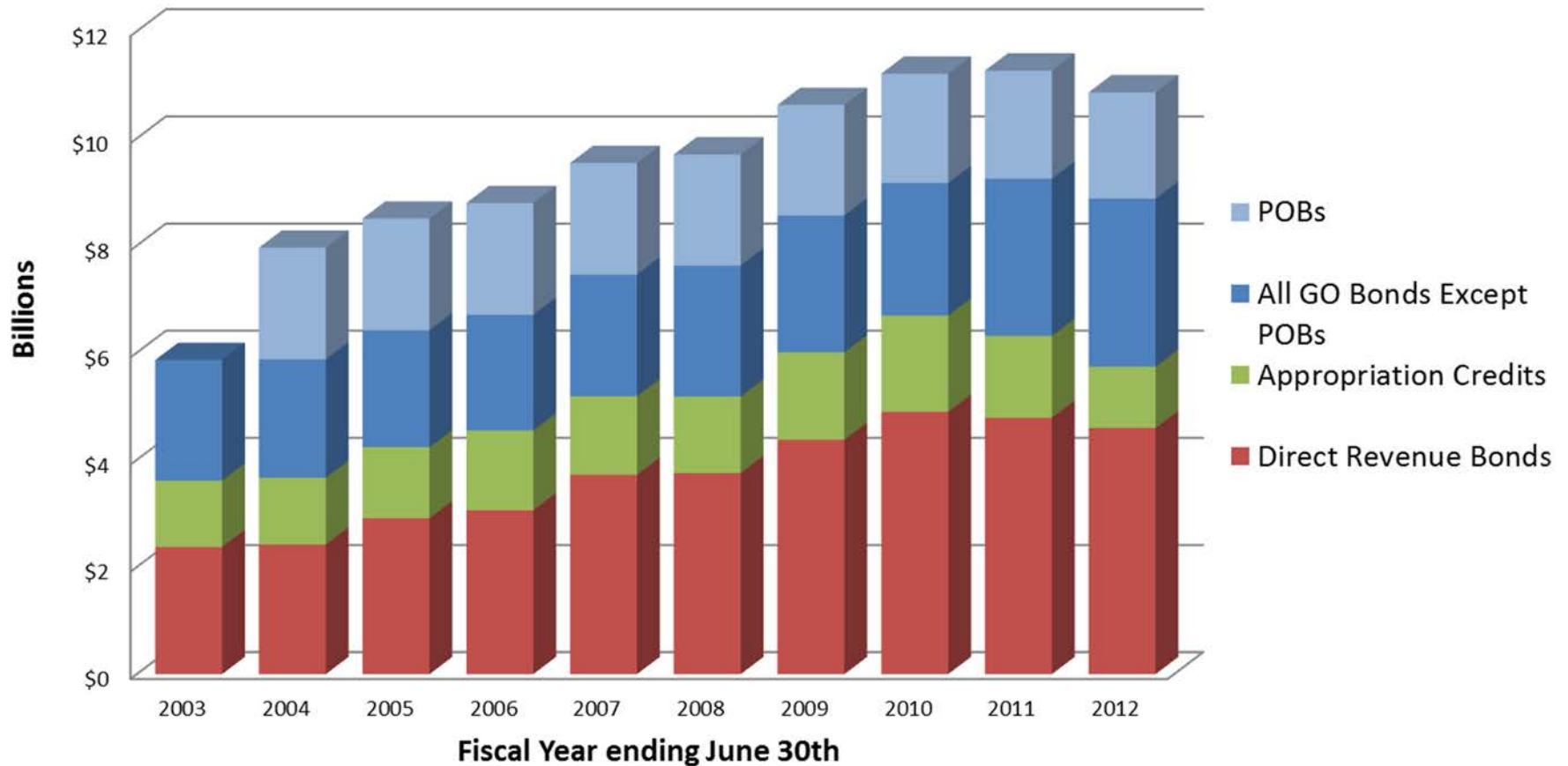
Four Types of Long-Term Debt

1. General Obligation Bonds	<ul style="list-style-type: none">• Requires voter approved constitutional amendment• Pledges the full faith & credit of the State• Includes both GF-supported <u>and</u> non GF-supported bond programs
2. Direct Revenue Bonds	<ul style="list-style-type: none">• Generally created by the Legislature through statute• Not secured by the State's pledge to pay• Fully self-supporting through program revenues
3. Appropriation Credits	<ul style="list-style-type: none">• Appropriation "Deficit" Bonds and Certificates of Participation (COPs) used to finance real or personal property• Generally payable by State agencies from GF sources• Not secured by the full faith and credit of the State
4. Conduit Revenue Bonds	<ul style="list-style-type: none">• State is the issuer but has no obligation to pay debt service – no General Fund or other State support• Debt service paid by the entities on whose behalf the bonds are issued



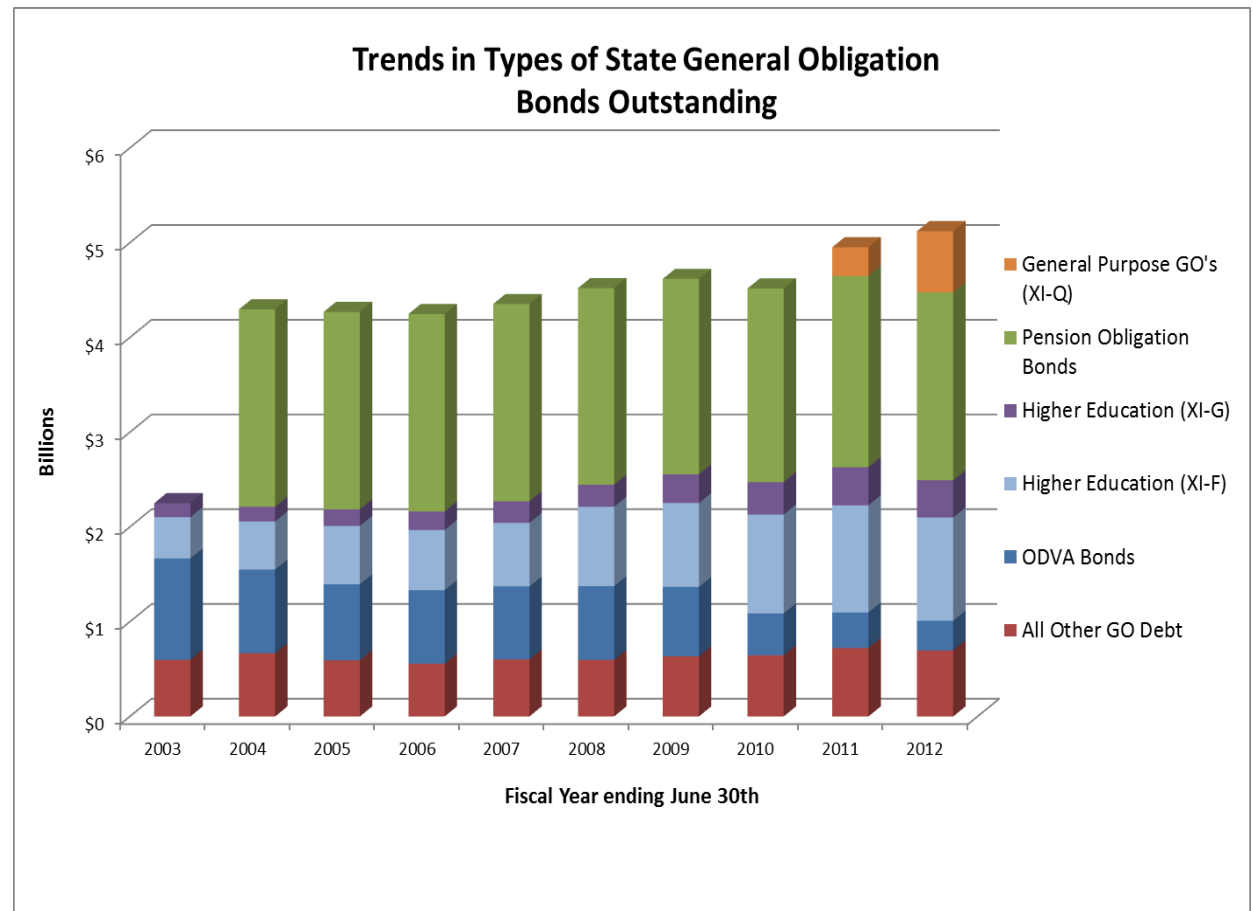
Debt Capacity Concepts

Oregon's Bonded Indebtedness Over the Past Decade by Major Bond Type



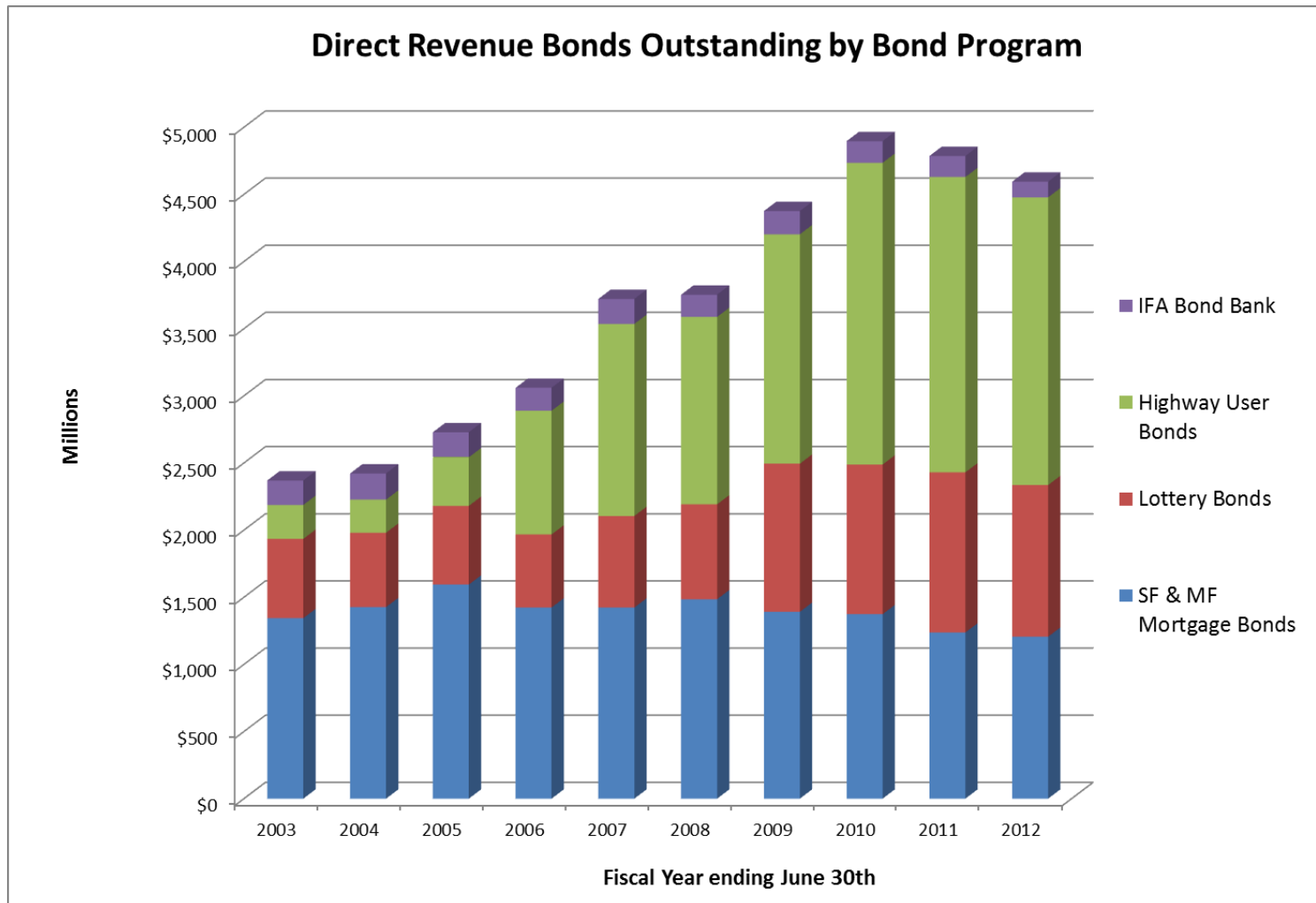
Debt Capacity Concepts

- Ten years ago, ODVA debt represented roughly half of all state GO debt outstanding
- In FY 2004, the State issued \$2.4 billion in POBs, of which roughly \$2 billion remains outstanding at the end of FY 2012
- In recent years, most new GO bond issues were related to various Higher Education and Community College projects
 - \$1.6 billion outstanding in combined Article XI-F(1), XI-G, and XI-L bonds



- Since FY 2011, the State has refinanced \$575 million of outstanding COPs as higher rated and lower cost XI-Q bonds, saving over \$72 million in interest cost to date

Debt Capacity Concepts



- ODOT's Highway User Tax Bonds related to its multi-year \$2.4 billion OTIA bridge and road improvement program is responsible for most of the growth in outstanding revenue bonds



Four Debt Capacity Categories

1. General Fund-Supported Debt	<ul style="list-style-type: none">• SDPAC Recommended Target Limit -- 5% of General Fund Revenues
2. Lottery-Backed Debt	<ul style="list-style-type: none">• Legal Bond Covenant Limit: 4x Coverage (no more than 25% of net lottery revenues)• Moral obligation pledge of State
3. Net Tax-Supported Debt	<ul style="list-style-type: none">• National bond rating agency perspective.• States compared with each other using “apples-to-apples” measurement approach
4. Non Tax-Supported Debt	<ul style="list-style-type: none">• No generic capacity limit or measurement.• State programs in this category are managed based on revenue streams available



General Fund-Supported Debt Programs

GF-Supported State Debt Programs

General Obligation Bonds

- Higher Education Facility Bonds (XI-G)
- Community College Bonds (XI-G)
- Pollution Control Bonds (42% of total)
- Alternate Energy Bonds (19% of total)
- Oregon Opportunity Bonds (OHSU)
- Pension Obligation Bonds (32% of total)
- Seismic Rehabilitation Public Education Buildings (XI-M)
- Seismic Rehabilitation Emergency Service Buildings (XI-N)
- State General Purpose (XI-Q) (85% of total)

In the future

- Public Schools (XI-P)

Appropriation Credits

- Certificates of Participation (85% of total)
- Appropriation Deficit Bonds

Outstanding as of June 30, 2012 -- \$2.9 Billion



Model Inputs & Assumptions

- Accounts for all debt outstanding as of June 30, 2012 and \$191.8 million in planned issuance in FY 2013, based on 2011 and 2012 legislative authorizations, including:
 - \$142.1 M in GO bonds for State Buildings (XI-Q)
 - \$10.9 M in GO bonds for DEQ orphan site clean-up projects (XI-H)
 - \$9.5 M in GO bonds for Higher Ed and Community College projects (XI-G)
 - \$9.5 M in GO bonds for Higher Ed energy efficiency project loans (XI-J)
 - \$7.1 M in GO bonds for school seismic upgrade grants (XI-M)
 - \$12.5 M in COPs and financing leases
- Uses December 2012 General Fund revenue forecast for next eight years
- New debt issued as level debt service over 20 year term at 4.41% interest rate
- Target of 5% of General Fund revenues to support General Fund debt service



General Fund-Supported Debt

Projected General Fund-Supported Debt Capacity FY 2014 to FY 2021

Fiscal Year Ending June 30 th	Maximum Amount that can be Issued within Target Capacity (\$ Millions)	Debt Service as a % of General Fund Revenues
2013	-*	5.14%
2014	\$585	5.00%
2015	786	5.00%
2016	463	5.00%
2017	335	5.00%
2018	359	5.00%
2019	432	5.00%
2020	266	5.00%
2021	381	5.00%
Total General Fund Capacity Over Next Eight Years	\$ 3,607	

*Based on planned issuance of \$236 million in bonds authorized by the 2011 and 2012 Legislatures



Factors that Could Impact Projected General Fund Debt Capacity

	<u>FY 2014 - FY 2021</u>	<u>Per Biennium *</u>
Base Case	\$ 3,607	\$ 902
<u>Change in General Fund forecast</u>		
10% decline	2,920	730
10% increase	4,294	1,073
<u>Change in Interest Rate forecast</u>		
1.0% higher	3,313	828
1.0% lower	3,942	985

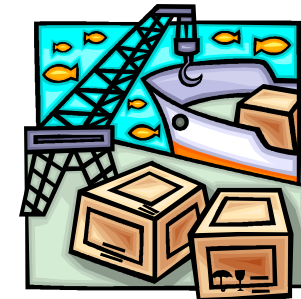
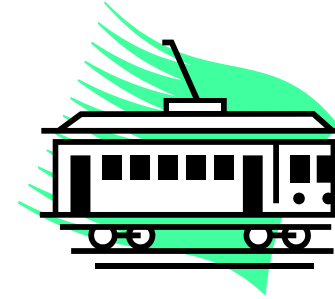
* May not total exactly due to rounding



Lottery-Backed Debt

Lottery Bond Projects & Programs

- **\$1.1 billion** in bonds outstanding as of 6/30/12
- Programs funded to date include:
 - Light Rail Projects
 - State Parks
 - Drinking Water
 - Schools & Education
 - State Fair & Oregon Gardens
 - Community Loans & Grants
 - Economic & Rural Development
 - “Connect Oregon” Grants
 - Regional Port and Airport Improvements
 - Supportive Housing

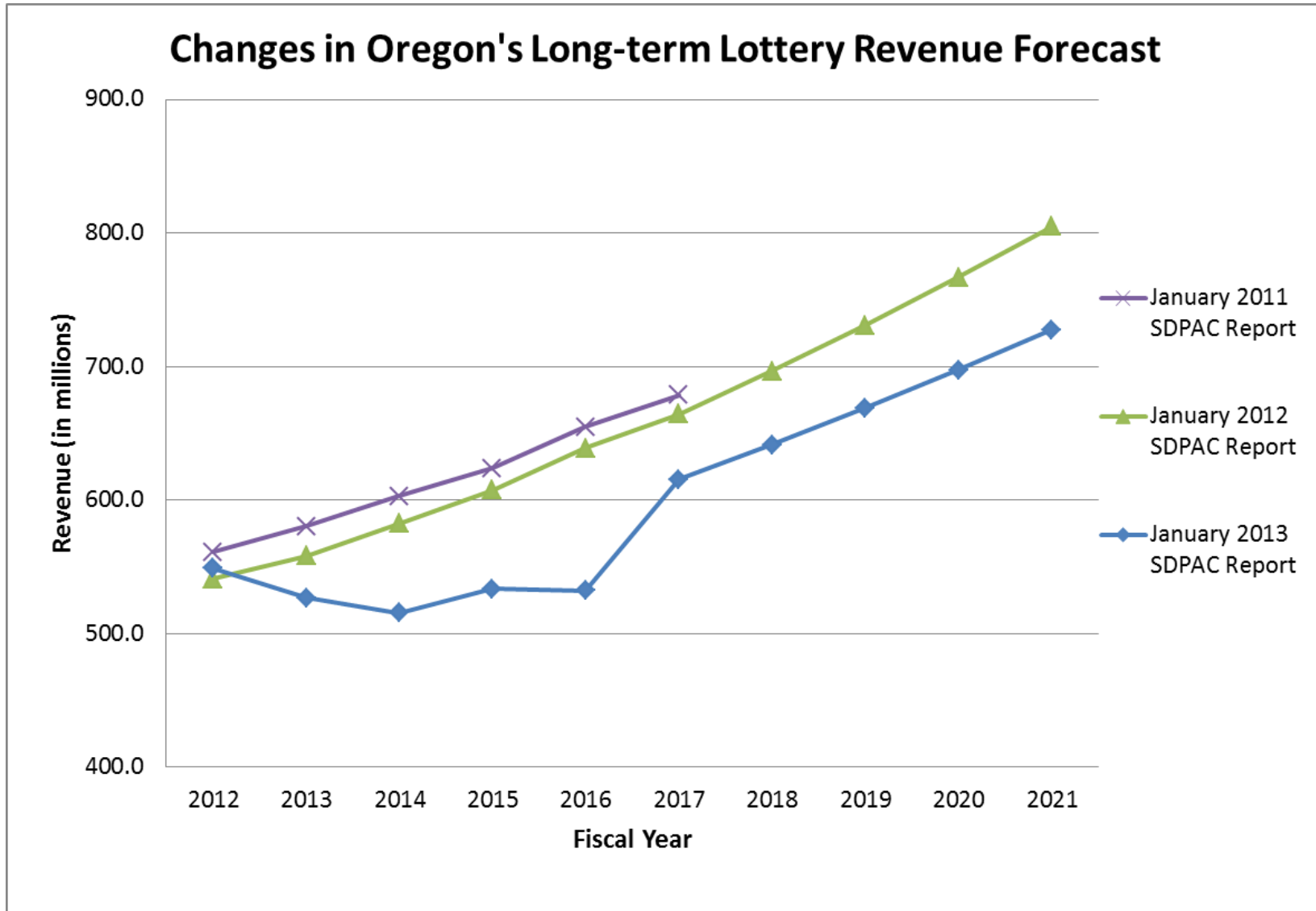


Key Changes to Lottery Bond Capacity Model Since Last Year's Report

- A modest amount of outstanding Lottery debt was restructured in March 2011 to free up additional lottery debt capacity this biennium
- Since the SDPAC report of January 2012, the long-term forecast of Lottery revenues over the next eight years has declined by 8.2% overall, with 11.9% declines over the next two biennia
- Due to the continued drops in projected Lottery revenue and the reduced debt service coverage on existing and planned bonds, the model assumes:
 - Two years of deferred principal in the Spring 2013 Lottery bond sale
 - One year of deferred principal in the FY 2015 Lottery bond sale
- Uses 4.41% for future Lottery bond sales (based on the current 5 year average BB-20), but assumes a 3.50% rate for the upcoming April 2013 sale



Lottery-Backed Debt



Model Inputs & Assumptions

- Accounts for all Lottery debt now outstanding and planned issuance of **\$207.5 million** in new lottery bonds, as authorized by the 2011 and 2012 Legislatures
- Incorporates December 2012 Lottery revenue forecast for next eight years
- New debt issued after FY 2015 as level debt service over 20 year term at 4.41% interest rate (average BB-20 over last 5 years), with use of deferred principal in the FY 2013 and FY 2015 sales
- Target based on 4x debt service coverage or maximum of 25% of net lottery revenues



Lottery Revenue Bond Capacity FY 2014 – FY 2021

Fiscal Year Ending June 30 th	Amount of Debt That May be Issued within Debt Service Coverage Ratios (in millions)	Projected Debt Service Coverage Ratio (Times)
2013*	-*	4.1
2014	\$ 0	4.0
2015	151	4.0
2016	49	4.0
2017	321	4.0
2018	86	4.0
2019	150	4.0
2020	127	4.0
2021	98	4.0
Lottery Debt Capacity Over the Next Eight Years	\$ 981	

*Based on planned issuance of \$207.5 bonds authorized by the 2011 and 2012 Legislatures



Factors that Could Impact Projected Lottery Bond Capacity (in millions)

	<u>FY 2014 - FY 2021</u>	<u>Average Per Biennium*</u>
Base Case	\$981	\$ 245
<u>Change in lottery revenue forecast</u>		
10% decline	748	187
10% increase	1,224	306
<u>Change in long-term interest rates</u>		
1.0% higher	904	226
1.0% lower	1,073	268

* May not total exactly due to rounding



Net Tax-Supported Debt

Net Tax-Supported Debt Programs Include:

All

General Fund-Supported Debt Programs

Plus

- Balance of Pension Obligation Bonds (68% of total)
- Balance of COPs and XI-Q bonds (15% of total)
- Lottery Revenue Bonds
- Highway User Tax Revenue Bonds

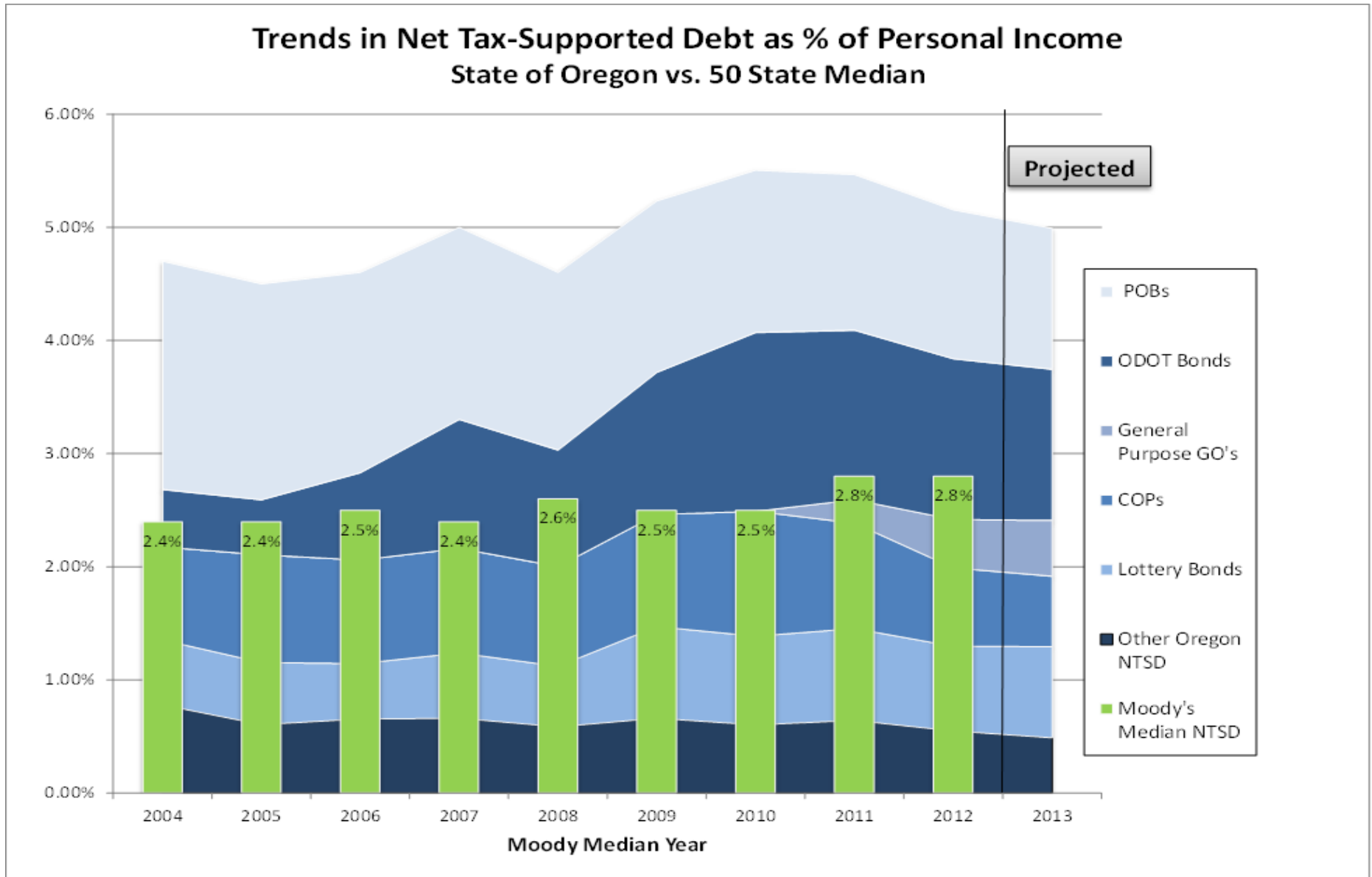


State of Oregon Net Tax-Supported Debt Ratios

	Fiscal Year Ending June 30 th		
	FY 2011 (Actual)	FY 2012 (Actual)	FY 2013 (Projected)
Net Tax-Supported Debt (in Billions)	\$ 8.02	\$7.78	\$7.79
NTSD Per Capita	\$ 2,080	\$ 2,003	\$1,990
NTSD as % of Personal Income	5.46%	5.15%	4.99%
<i>Excluding Pension Obligation Bonds</i>			
NTSD Per Capita	\$ 1,557	\$ 1,492	\$1,494
NTSD as a % of Personal Income	4.09%	3.84%	3.75%



Net Tax-Supported Debt



Sources: Moody's State Debt Medians Reports, 2003–2012



Non Tax-Supported Debt

Non Tax-Supported Debt Programs

General Obligation Programs

- Veteran's Welfare Bonds
- Elderly & Disabled Housing Bonds
- Higher Education Facility (XI-F) Bonds
- Alternate Energy Bonds (81% of total)
- Oregon School Bond Guarantee Program

Direct Revenue Bond Programs

- Single & Multifamily Housing Bonds
- Economic Development Bond Bank

Conduit Revenue Programs

- Economic Development Revenue Bonds
- Oregon Facilities Authority Bonds
- Multi-Family Housing Revenue Bonds



Conclusions

- Based on the most recent forecast of General Fund revenues, there will be **\$902 million** in General Fund-supported debt capacity available for the 2013-15 biennium
- Projected Lottery debt capacity has dropped significantly since last year's report due to the sharp reduction in forecast revenues over the next eight years
 - The issuance of \$207.5 million in lottery bonds authorized for 2011-13 biennium is still achievable but will require structuring the bonds with at least two years of deferred principal
 - Future lottery bond capacity totals \$981 million over the next eight years, but only **\$151 million** of this capacity will be available in the second year of the next biennium



Conclusions (continued)

- Oregon's net tax-supported debt ratios continue to stabilize, but remain above national averages due to the issuance of \$2.4 billion in POBs and the significant growth in ODOT revenue bonding over the past several years

