

**77th OREGON LEGISLATIVE ASSEMBLY – 2014 Session
BUDGET REPORT AND MEASURE SUMMARY**

JOINT COMMITTEE ON WAYS AND MEANS

MEASURE: SB 5703-A

Carrier – House: Rep. Kotek

Carrier – Senate: Sen. Girod

Action: Do Pass as Amended and be Printed A-Engrossed

Vote:

House

Yeas:

Nays:

Exc:

Senate

Yeas:

Nays:

Exc:

Prepared By: Jean Gabriel and Bill McGee, Department of Administrative Services

Reviewed By: Daron Hill, Legislative Fiscal Office

Meeting Date: March 6, 2014

Agency

Various agencies

Biennium

2013-15

Summary of Changes in Bonding Authority

<u>Program Designation</u>	<u>2013-15 Legislatively Adopted Budget</u>	<u>2013-15 Legislatively Approved Budget</u>	<u>2014 Session Legislative Adjustments</u>
GENERAL OBLIGATION BONDS			
<u>General Fund Obligations</u>			
Oregon University System (Art. XI-G)	\$ 117,861,000	\$ 117,711,000	\$ (150,000)
Dept of Community Colleges & Workforce Dev. (Art. XI-G)	\$ 125,081,600	\$ 123,451,600	\$ (1,630,000)
Oregon Health and Science University (Art. XI-G)	\$ 0	\$ 161,490,000	\$ 161,490,000
Department of Administrative Services (Art. XI-Q)	\$ 426,052,000	\$ 459,618,100	\$ 33,566,100
REVENUE BONDS			
<u>Direct Revenue Bonds</u>			
Dept of Administrative Services Lottery Revenue Bonds	\$ 157,557,715	\$ 219,717,715	\$ 62,160,000
<u>Pass-Through Revenue Bonds</u>			
Oregon Business Development Department			
Industrial Development Bonds	\$ 65,000,000	\$ 165,000,000	\$ 100,000,000
Beginning and Expanding Farmer Loan Program	\$ 0	\$ 10,000,000	\$ 10,000,000
Oregon Facilities Authority	\$ 450,000,000	\$ 950,000,000	\$ 500,000,000
OTHER FINANCING AGREEMENTS			
Department of Administrative Services	\$ 40,000,000	\$ 55,600,000	\$ 15,600,000

Summary of Subcommittee Action

General Fund Obligations

The Subcommittee reduced the Oregon University System Article XI-G general obligation bond authorization by \$150,000 from \$117,861,000 to \$117,711,000 for the net change to add one project and eliminate a previously approved project. Projects are described later in this report.

The Subcommittee reduced the Department of Community Colleges and Workforce Development Article XI-G general obligation bond authorization by \$1,630,000 from \$125,081,600 to \$123,451,600. The reduction is due to replacement of the Central Oregon Community College (COCC) academic and student services center project, which was previously authorized for \$5,260,000 of Article XI-G bonds, with the COCC Cascades Hall termination of Oregon State University leasehold, reacquisition of unencumbered fee simple ownership, and remodel project authorized for \$3,630,000 Article XI-G general obligation bonds. Cascades Hall will be remodeled for use as a Student Success Center. A portion of the required Article XI-G match for this new project will be met using lottery revenue bonds as noted below.

The Subcommittee approved \$161,490,000 in Article XI-G general obligation bond authorization for the construction of research, clinical, and other related facilities for the Oregon Health and Science University's (OHSU) Cancer Institute. These Article XI-G bonds will be paired with \$41,990,000 in lottery revenue bonds, also authorized under this bill, for this project. Before these Article XI-G bonds may be issued, OHSU must raise at least \$800 million in gifts, grants and other revenues through OHSU's Cancer Challenge campaign. The bond proceeds will be used: (1) to construct a research building on the Schnitzer Campus which will include wet laboratory facilities, bio-computing space and research support facilities; and (2) for additional floors in the Center for Health and Healing II (CHH II) building already planned for construction for clinical trial space. The planned investment in the CHH II building will contribute to the match required under the Constitution for Article XI-G bonds. OHSU plans to begin planning, design and permitting throughout 2014 and 2015, and at this time would likely begin construction in Spring 2016. The 2015 Legislature will have to reauthorize the sale of these bonds under this schedule.

The Subcommittee increased the Department of Administrative Services Article XI-Q general obligation authority from \$426,052,000 to \$459,618,100 to reflect increases in funding of \$33,566,100 for projects owned or operated by the state. Increases include \$29,501,100 for various university system projects (described on page 7), and \$4,065,000 to support a \$4 million increase in funding for the Oregon Courthouse Capital Construction and Improvement Fund. The \$4 million of additional funding is designated for construction of a new three-story Jefferson County Courthouse. After the Judicial Department reviews the financing proposal for the project, and determines that the requirements as established by law for distribution of moneys from the Oregon Courthouse Capital Construction and Improvement Fund have been met, the Department will then need to request an Other Funds expenditure limitation increase from the Legislative Assembly or Emergency Board, prior to distributing any bond proceeds for this project. The bill additionally clarifies statutory language relating to the use of moneys in the Oregon Courthouse Capital Construction and Improvement Fund, and relating to the courthouse lease agreements or long-term intergovernmental agreements required of funded projects. The bill also allows the purchase price or value of land a county purchases specifically for a courthouse facility to be credited against the county matching fund requirements of the program.

Direct Revenue Bonds

The Subcommittee increased the 2013-15 biennium Department of Administrative Services, lottery revenue bond limit by \$62,160,000, from \$157,557,715 to \$219,717,715. The projected debt service costs for the lottery revenue bonds authorized in this bill total \$10.2 million Lottery Funds per biennium, when these costs are fully phased-in starting in the 2015-17 biennium. That amount is added to the \$26.9 million of debt service costs projected for lottery revenue bonds approved in the 2013 session, to generate a total 2015-17 biennium debt service cost for all \$219.7 million of lottery revenue bonds authorized in the legislatively approved budget of \$37.1 million Lottery Funds. Because the lottery revenue bonds will not be issued until the spring of 2015, there are no debt service payments due in the 2013-15 biennium.

The increased lottery revenue bond authorization provides funding for the following projects:

- *OHSU Cancer Institute*: \$41,990,000 of lottery revenue bonds were authorized to provide \$38 million of proceeds for the construction of research, clinical, and other related facilities for the Oregon Health and Science University's (OHSU) Cancer Institute. These lottery revenue bonds are paired with \$161,490,000 in Article XI-G general obligation bond authorization described above, with the issuance of the lottery revenue bonds also contingent on OHSU raising at least \$800 million in gifts, grants and other revenues through the OHSU's Cancer Challenge campaign. The bonds will be used for the same general purposes as the Article XI-G bonds described above.
- *Clean Energy Works*: \$5,600,000 of lottery revenue bonds were authorized to provide \$5 million of proceeds to the Oregon Department of Energy. This increases lottery revenue bond proceeds provided to the Department this biennium to \$10 million in total. The bill also directs that the \$10 million in proceeds be deposited into the Jobs, Energy and Schools Fund to provide a grant to Clean Energy Works Oregon for the purposes specified in ORS 470.575, namely, the promotion of energy efficiency, renewable energy and energy conservation projects. The Subcommittee received testimony and concurs that this support will eliminate the need for additional operating subsidies of the organization in the future, and expects that no additional support will be requested.
- *Community Revitalization Revolving Loan Fund*: \$3,265,000 of lottery revenue bonds were authorized to provide \$2.9 million of proceeds for distribution to the Port of Morrow for a revolving loan program that supports energy conservation, renewable energy and general business development projects.
- *Affordable Housing Preservation*: \$2,820,000 of lottery revenue bonds were approved to provide an additional \$2.5 million of proceeds to the Housing and Community Services Department for grants to preserve existing affordable housing with expiring federal subsidies. The bonds increase the total amount of proceeds available for this purpose from the \$5 million previously authorized in the 2013 session, to a total of \$7.5 million for the biennium.
- *Cornelius Library*: \$2,675,000 of lottery revenue bonds were approved to provide \$2.4 million of proceeds to support the construction of a new public library in Cornelius. The facility to be constructed will contain both the Cornelius Library and housing for seniors. The Subcommittee stipulated that the City of Cornelius must secure matching funds and commitments of no less than \$10.4 million by the end of the 2013-15 biennium, prior to the distribution of any lottery revenue bond proceeds for the project.

- *Central Oregon Community College (COCC) Cascades Hall termination of Oregon State University leasehold, reacquisition of unencumbered fee simple ownership, and remodel:* \$1,850,000 of lottery revenue bonds were authorized to provide \$1,630,000 of proceeds to the Department of Community Colleges and Workforce Development to retire outstanding COCC general obligation bonds sold for construction of a building leased to Oregon State University (OSU) for operation of its Cascades campus. The lottery bond proceeds were approved with the intent the proceeds would serve as part of the constitutionally required match to the \$3,630,000 Article XI-G bonds also approved for this project. Once the debt is repaid, the COCC will terminate the contract with OSU and remodel the building for use as a Student Success Center.
- *Stayton Storm Water Infrastructure:* \$1,690,000 of lottery revenue bonds were authorized to provide \$1.5 million of proceeds to purchase property and develop a storm water detention facility in Stayton. The facility is expected to improve water quality for downstream agricultural users and manage peak storm flows into the Salem Ditch and Mill Creek.
- *Beaverton Community Health Collaborative:* \$1,135,000 of lottery revenue bonds were authorized to provide \$1 million of proceeds to support the construction of a multi-service health and wellness facility by the Beaverton Community Health Collaborative, which will be designed to integrate several different types of health care services currently being delivered by multiple providers.
- *Mid-Columbia Medical Center:* \$1,135,000 of lottery revenue bonds were authorized to provide \$1 million of proceeds to support capital construction projects to expand or improve the medical center.
- *Special Public Works Fund and Marine Navigation Improvement Fund:* The Subcommittee approved a redirection of lottery revenue bond proceeds provided to the Oregon Business Development Department in the 2013 session by enactment of section 1, chapter 786, Oregon Laws 2013. That section provides \$12 million of bond proceeds to the Economic Infrastructure Project Fund. In the 2013 session, the Legislature specified that these proceeds were for the purpose of transfer to the Special Public Works Fund. The Subcommittee revised the distribution of the \$12 million of proceeds, directing that \$9 million are to be transferred to the Special Public Works Fund and that \$3 million are to be transferred to the Marine Navigation Improvement Fund for coastal port dredging. Because this redirection of the use of proceeds does not change the total amount of bond proceeds authorized, no statutory change is required.

Pass-Through Revenue Bonds

The Subcommittee increased Oregon Business Development Department's pass-through revenue bond authority for Industrial Development Bonds by \$100,000,000 from \$65,000,000 to \$165,000,000 to provide funding for various manufacturing and solid waste disposal projects.

The Subcommittee established Oregon Business Development Department's pass-through revenue bond authority of \$10,000,000 for a new program, the Beginning and Expanding Farmer Loan Program. This program was established in the 2013 session through HB 2700 to facilitate making loans to beginning farmers to finance acquisition of approved agricultural projects.

The Subcommittee increased Oregon Facilities Authority pass-through revenue bond authority by \$500 million from \$450 million to \$950 million to facilitate financing of an increasing number of projects for which applicants have indicated interest.

Other Financing Agreements

The Subcommittee increased authority for Other Financing Agreements by \$15,600,000 from \$40,000,000 to \$55,600,000 based on projected use of capital leases.

Other Legislative Changes

Senate Bill 5703 also changes the fund into which lottery bond proceeds are to be deposited for the Department of Energy for a \$5 million project that was authorized in the 2013 Session. In addition, the bill changes the recipient of lottery bond proceeds to be used for digital switching equipment in Gilliam, Sherman, and Wheeler Counties.

The subcommittee also approved statutory changes to clarify how constitutional requirements for personal property obtained with proceeds from the sale of Article XI-Q would be met when such bonds are issued by the state on behalf of projects undertaken by state public universities with governing boards.

The Subcommittee approved a number of reports and requirements for OHSU in relation to the OHSU Cancer Institute. First, prevailing wages must be paid during construction of the project as well as the terms of OHSU's existing construction agreements relating to apprenticeship targets must be extended. In addition, OHSU must consult with the Departments of Environmental Quality (DEQ) to establish a framework for contract preferences for contractors who take steps to minimize diesel emissions during construction of the project. OHSU may not use the proceeds of state bonds issued for the project to pay any certification fees relating to LEED or Leadership in Energy and Environmental Design. OHSU will also be required to report to the Legislature on the following:

- Number and nature of new and ongoing jobs created at OHSU as a result of the project (annual report through 2024);
- Geographic distribution of vendors, contractors and subcontractors used during the construction of the project or through December 2018, whichever is later;

- Number of Oregonians by geographic location who participate in clinical trials associated with the Cancer Institute (annual report through 2024);
- Potential of providing Cancer Institute related clinical trials outside the Portland Metropolitan Area to the 2015 Legislature; and
- Collaboration with the Oregon Business Development Department (OBDD) to develop a plan to encourage private sector development of technologies developed as a result of efforts at the Cancer Institute (joint report to 2015 Legislature).

Detail of projects authorized for the Oregon University System (OUS) through bond financing is included below.

Oregon University System

The Subcommittee approved five new projects totaling \$33,351,100 and eliminated a previously approved project authorized at \$4,000,000.

Oregon Institute of Technology

Utility tunnel failure and repair: approved \$1,101,100 Article XI-Q bonds for structural analysis, emergency remediation, and permanent repair of failing underground tunnels that house the main heating and cooling pipes, drinking water lines, high voltage electrical conduits, and communications infrastructure at the Klamath Falls campus. Debt service on the Article XI-Q bonds will be paid with General Fund.

Oregon State University

The Subcommittee took the following actions:

- Cascades Academic Building: approved \$3,850,000 Article XI-G bonds to increase funding for a new campus in Bend. In the 2013 session, the legislature approved \$16 million in state-backed bonds, to which OSU-Cascades will add \$8 million in donor funds and campus-backed bonds. The purchase price for 56 acres on which the campus will be located was larger than anticipated, leaving insufficient funds for design and construction of the first academic building. Match for the additional Article XI-G bonds is expected to come from the sale of OSU revenue bonds. Debt service on the Article XI-G bonds will be paid with General Fund.
- Biofuels demonstration project: eliminated a \$4,000,000 Article XI-G bond project originally approved in 2009 and extended in 2013.

Southern Oregon University

McNeal Hall deferred maintenance and seismic upgrades: approved \$21,300,000 Article XI-Q bonds to remedy failing structural steel columns and concrete walls, address fire and HVAC deficiencies, replace and upgrade external and internal systems, fixtures, and other building components. Debt service on the Article XI-G bonds will be paid with General Fund.

University of Oregon

Utility tunnel failure and repair: approved \$2,100,000 Article XI-Q bonds to make repairs to a deteriorating utility tunnel that lies beneath a city street between the university's central plant and the main campus. The tunnel carries nearly half of campus utilities and is reaching the point of near failure. Debt service on the bonds will be paid with General Fund.

Western Oregon University

Acquisition of the Oregon Military Academy Phase 1: approved \$5,000,000 Article XI-Q bonds to allow the university to purchase the Oregon Military Department's training facility. The academy was constructed on land leased from WOU in 1991. WOU and the Military Department have not completed negotiations on the purchase price for the facility. Debt service on the bonds will be paid with General Fund. The Subcommittee directed that the amount of bonds issued not exceed the purchase price of the facility.