

Senate Education Committee

State Guarantees of School and Community College District Indebtedness

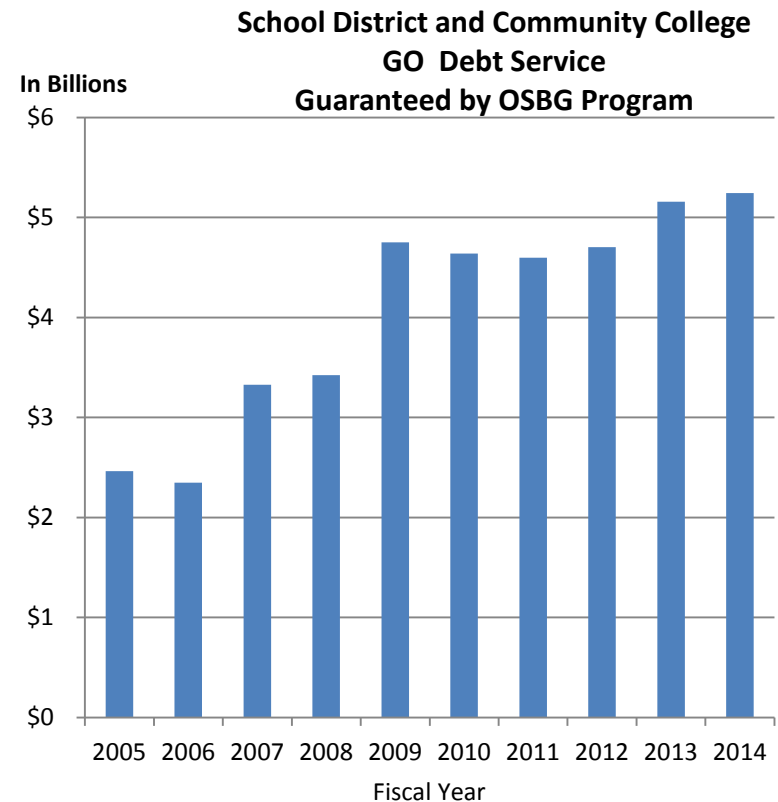


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State Guarantees of Oregon School District and Community College Bonds

- The **Oregon School Bond Guaranty (OSBG)** program was created in 1998 via Constitutional amendment as a way to enhance the credit rating and lower the borrowing cost on General Obligation (GO) school bonds
- State pledges its full faith and credit to payment of a qualifying school district or community college's GO debt service when due, which allows these bonds to receive the same credit rating as the State's GO bonds
- The State Treasurer is authorized to use State School Aid to repay any draw on state funds used to make an OSBG-related debt service payment
- The OSBG program grew dramatically since 2008 due to improved state credit ratings and the elimination of bond insurance as an alternative means of credit enhancement



State Guarantees on Oregon School District and Community College POBs

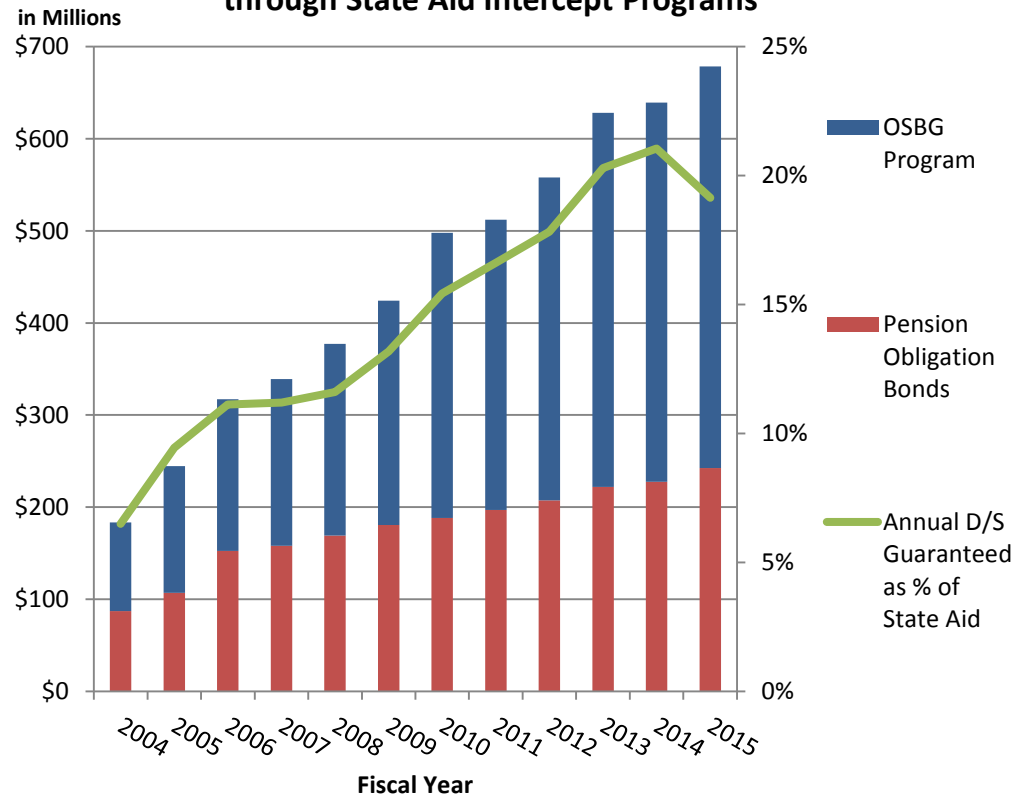
- In 2001, the Legislative Assembly authorized the Department of Education to enter into State School Aid fund diversion agreements as a means of improving the creditworthiness of Pension Obligation Bonds (POBs) issued by Oregon school districts and community colleges to prepay their accrued unfunded PERS liabilities
- Under these diversion agreements, the State Board of Education makes POB debt service payments directly to the POB bond trustee out of annual state aid funds allocated to participating school districts and colleges
- Between 2002 and 2007, \$3.1 billion was issued in nine separate pooled POB borrowings with this fund diversion provision
 - Like the OSBG program, the State guarantee of debt service repayment greatly enhanced the credit rating and lowered the borrowing cost on these bonds
 - The annual debt service on these bonds grows by approximately 4.7% each year until the balance of bonds are retired in FY 2028
- Under current state law, the State Treasurer's office **does not** review or approve these POB fund diversion agreements



Combined Annual State Guaranteed Debt Service of Oregon School Districts and Community Colleges

- One community college and three school districts currently have combined annual State guaranteed debt service that exceeds their annual allocation of State school aid
- Over the past year, the State Treasurer's office tightened OSBG's administrative rules to assure that qualifying district's combined annual guaranteed debt service does not exceed **80%** of its annual State school aid
- SB 303 would require that the State Treasurer's office review and approval of all future POB fund diversion agreements requested by districts to assure that the State does not overcommit State School Aid on a combined program basis

Debt Service Guaranteed by the State of Oregon through State Aid Intercept Programs



OSBG & POB Debt Service of **Community Colleges**
Guaranteed by State
as a % of State School Aid (FY 2014)

