

# State Debt Policy Advisory Commission

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## 2009 State Debt Capacity Report

Presentation to the  
House Revenue and Finance Committee



Office of the State Treasurer  
Debt Management Division

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February 3, 2009

# Introduction

## *Purposes of Report*

1. Annual Capacity Forecast Update Required by ORS 286A.255
2. Provides a Framework for Measuring, Monitoring and Managing the State's Debt Position
3. Analytical Approach to Evaluating the State's Debt Position Over Time
4. Provides Information to Assist Governor and Legislature in Formulating Capital Spending Plans



# **Debt Capacity Concepts**



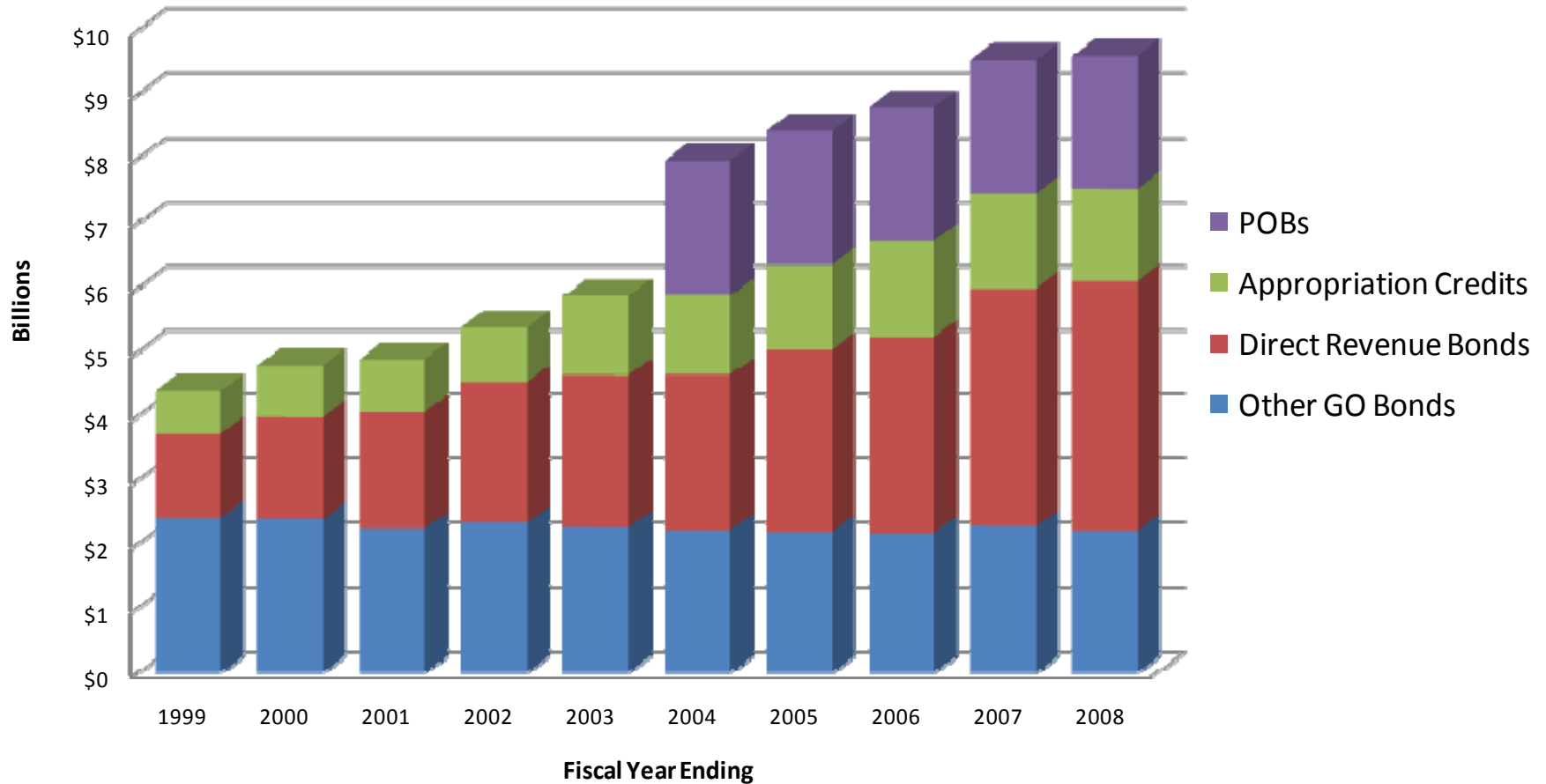
# Four Types of Long-Term Debt

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



# State's Overall Debt Position

## Oregon's Bonded Indebtedness Has Grown Significantly Over the Past Decade



# Four Capacity Categories Are Considered by Commission

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



# **General Fund-Supported Debt Programs**

## 1. General Fund-Supported Debt

# Current GF-Supported State Debt Programs

## General Obligation Bonds

- Higher Education Facility Bonds (XI-G)
- Community College Bonds (XI-G)
- Pollution Control Bonds (60% of total)
- Alternate Energy Bonds (15% of total)
- Oregon Opportunity Bonds (OHSU)
- Pension Obligation Bonds (38% of total)

### *In the future --*

- Seismic Rehabilitation Public Education Buildings (XI-M)
- Seismic Rehabilitation Emergency Service Buildings (XI-N)

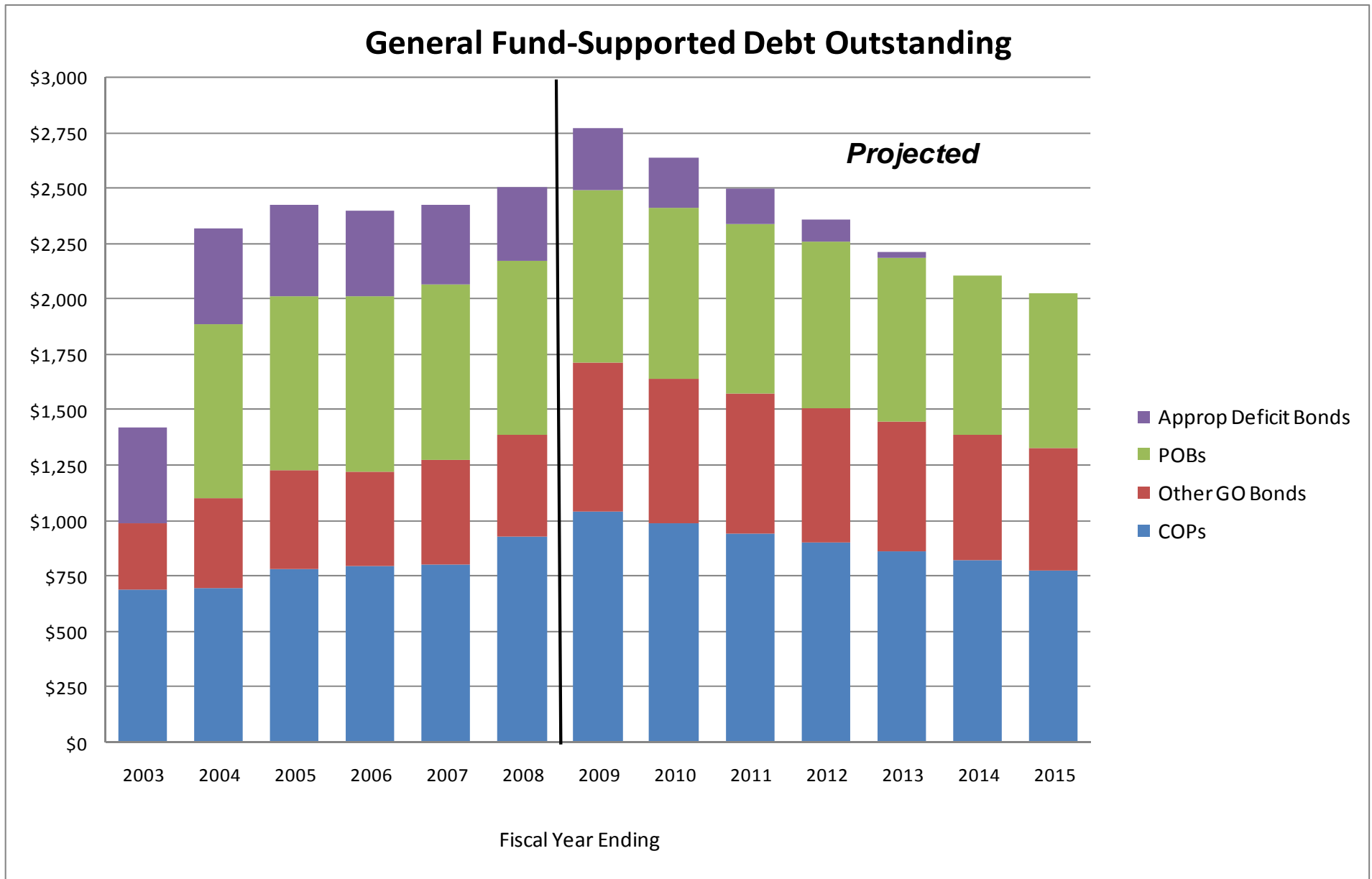
## Appropriation Credits

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

***Outstanding as of June 30, 2008 -- \$2.5 Billion***



# 1. General Fund-Supported Debt



## 1. General Fund-Supported Debt

# What is the State's Debt Capacity Target?

Debt Service  
On  
Outstanding Issues

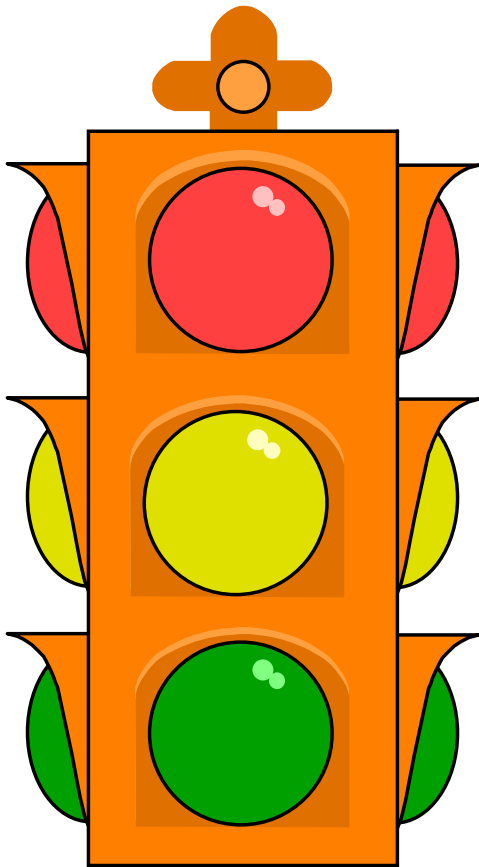
Vs.

Sources Available  
For  
Repayment

$$\text{GF Debt Burden \%} = \frac{\text{Debt Service on GF-Supported Debt}}{\text{General Fund Revenues}}$$



# General Fund Debt Burden Target Range



- **Over 7 to 10%**  
**Exceeding Prudent Capacity Limits**
- **Over 5 to 7%**  
**Approaching Prudent Capacity Limits**
- **0 to 5%**  
**Capacity Available**

# Inputs & Assumptions

- Accounts for all debt outstanding to date and planned for issuance by June 30, 2009, based on previous legislative authorizations, including:
  - \$ 344 M in COPs (approx 85% GF-supported)
  - \$ 163 M GO bonds for Higher Ed and Community Colleges (XI-G)
  - \$ 9 M GO bonds for DEQ projects (60% GF Supported) (XI-H)
  - \$ 20 M GO bonds for Higher Ed energy loan projects (XI-J)
- Uses **December 2008** General Fund revenue forecast
- Level debt service payments over 20 year term
- 5.53% long-term rate (national avg. over last 5 years plus 1%)
- Target of 5% of General Fund revenues to support debt service



## 1. General Fund-Supported Debt

# Capacity for Additional General Fund-Supported Debt Programs

<b>Fiscal Year Ending June 30<sup>th</sup></b>	<b>Maximum Amount that can be issued within Target Capacity (\$ Millions)</b>	<b>Total Debt Service as a % of General Fund Revenues</b>
<b>2009</b>	--	3.89%
<b>2010</b>	\$ 604 M	5.00%
<b>2011</b>	375 M	5.00%
<b>2012</b>	392 M	5.00%
<b>2013</b>	360 M	5.00%
<b>2014</b>	912 M	5.00%
<b>2015</b>	734 M	5.00%
<b>Total FY 2010-15 GF Debt Capacity</b>	<b>\$ 3,378 M</b>	



## 2. General Fund-Supported Debt

# Factors that Could Impact General Fund Debt Capacity

	<u>Through FY 2015</u>	<u>Per Biennium</u>
➤ <b>Base Case</b>	<b>\$ 3,378 M</b>	<b>\$1,126 M</b>
➤ Change in GF revenue from current forecast		
▪ 10% decline	2,782 M	927 M
▪ 10% increase	3,975 M	1,325 M
➤ Change in long-term interest rates		
▪ 1.0% Higher	3,115 M	1,038 M
▪ 1.0% Lower	3,677 M	1,226 M

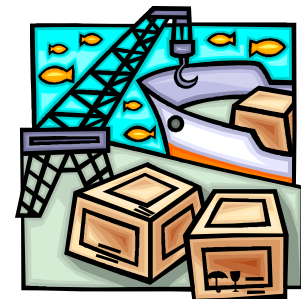
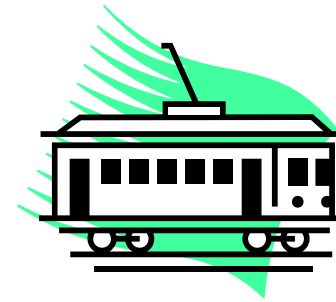


# **Lottery-Backed Debt**

## 2. Lottery-Backed Debt

# Lottery Bond Projects & Programs

- \$706.3 M in bonds outstanding as of 6/30/08
- Programs funded to date include:
  - Westside Light Rail
  - State Parks
  - Drinking Water
  - Schools & Education
  - State Fair & Oregon Gardens
  - Community Loans & Grants
  - Economic & Rural Development
  - Connect Oregon I & II Grants
  - Regional Airport Improvements
  - Coos Bay Channel Dredging
  - Supportive Housing



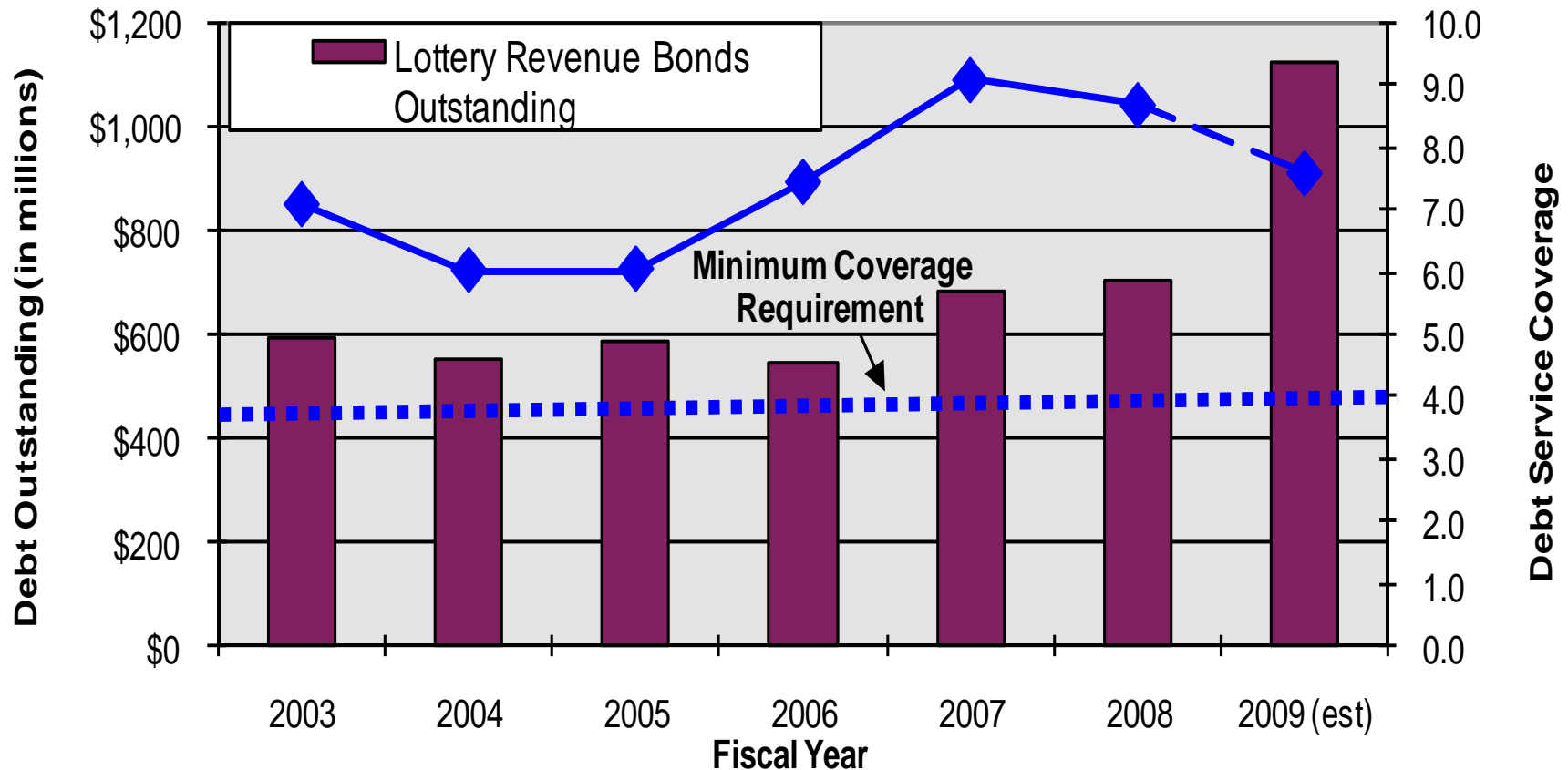
# Inputs & Assumptions

- Accounts for all debt outstanding and planned issuances based on 2007 legislative authorization of \$486 million in new lottery bonds
- Uses **December 2008** lottery revenue forecast
- Assumes level debt service payments over 20-year term
- 5.53% long-term rate (national avg. over last 5 yrs plus 1%)
- 4x debt service coverage or max 25% of net lottery revenues



## 2. Lottery-Backed Debt

### Trends in Lottery Revenue Debt Service Coverage



- Despite increasing lottery bond indebtedness, debt service coverage remains well above the 4x coverage level due to strong growth in lottery revenues since FY 2005



## 2. Lottery-Backed Debt

### Lottery Revenue Bonds Projected Additional Capacity

Fiscal Year Ending June 30 <sup>th</sup>	Maximum Amount that can be issued within Target Capacity (\$ Millions)	Debt Service Coverage Ratio (Times)
2009	--	7.4
2010	\$ 514 M	4.0
2011	101 M	4.0
2012	88 M	4.0
2013	91 M	4.0
2014	104 M	4.0
2015	301 M	4.0
<b>Total FY 2010-15 Lottery Debt Capacity</b>	<b>\$ 1,200 M</b>	



## 2. Lottery-Backed Debt

# Factors that Could Impact Lottery Bond Capacity

	<u>Through FY 2015</u>	<u>Per Biennium</u>
➤ <b>Base Case</b>	<b>\$ 1,200 M</b>	<b>\$ 400 M</b>
➤ Change in lottery revenue from current forecast		
▪ 10% decline	960 M	320 M
▪ 10% increase	1,440 M	480 M
➤ Change in long-term interest rates		
▪ 1.0% Higher	1,106 M	369 M
▪ 1.0% Lower	1,306 M	435 M



# **Net Tax-Supported Debt**

### 3. Net Tax-Supported Debt

## Net Tax-Supported Debt Programs Include:

**All**

**General Fund Supported Debt Programs**

**Plus**

- Balance of Pension Obligation Bonds (62% of total)
- Balance of COPs (15% of total)
- Lottery Revenue Bonds
- Highway User Tax Revenue Bonds



### 3. Net Tax-Supported Debt

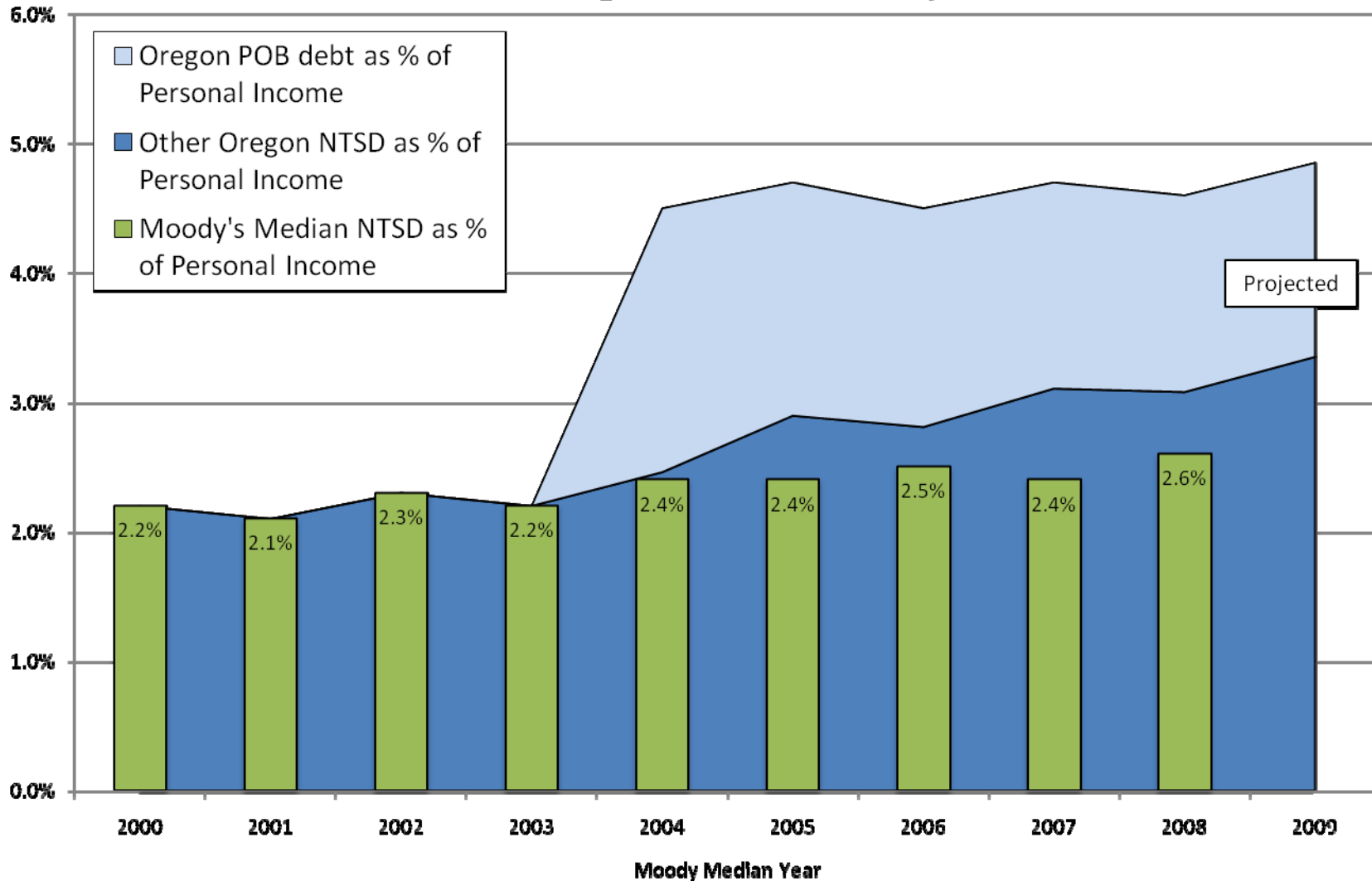
## State of Oregon Net Tax-Supported Debt Projections

	Fiscal Year Ending June 30 <sup>th</sup>		
	FY 2007 (Actual)	FY 2008 (Actual)	FY 2009 (Projected)
<b>Net Tax-Supported Debt (Billions)</b>	\$ 6.13	\$ 6.09	\$ 6.78
<b>NTSD Per Capita</b>	\$1,637	\$1,607	\$1,768
<b>NTSD as % of Personal Income</b>	4.69%	4.46%	4.85%
<b><i>Pension Obligation Bonds Excluded</i></b>			
<b>NTSD Per Capita</b>	\$1,081	\$1,060	\$1,230
<b>NTSD as a % of Personal Income</b>	3.10%	2.94%	3.38%



### 3. Net Tax-Supported Debt

**Trends in Net Tax-Supported Debt (NTSD) as % of Personal Income  
State of Oregon vs. 50 State Moody's Median**

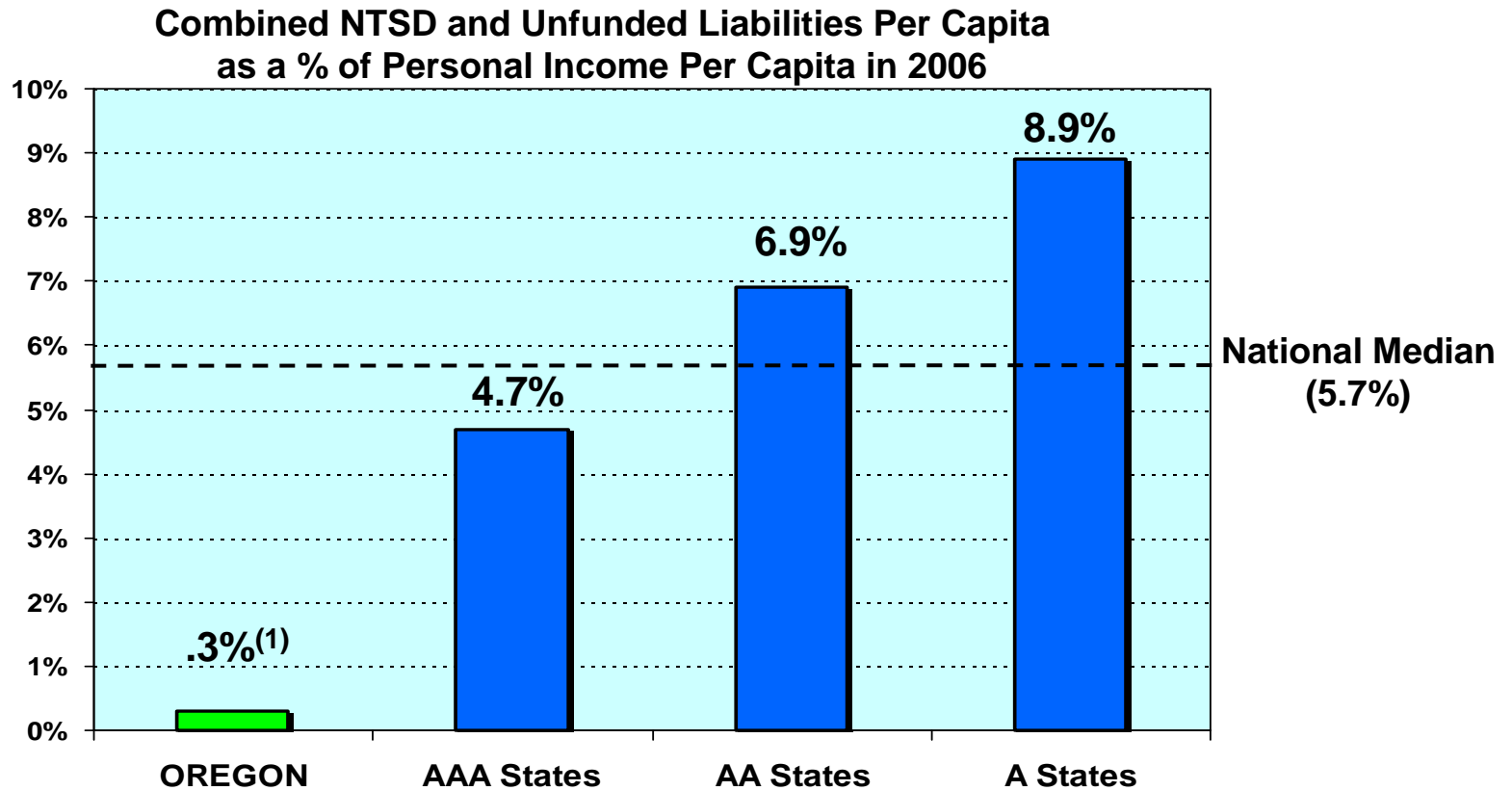


Source: Moody's State Debt Medians Reports, 2000 - 2008



### 3. Net Tax-Supported Debt

*Because of Oregon PERS strong financial position, Oregon compares very favorably to most other states from a total long-term liability perspective*



<b>Number of States</b>	<b>9</b>	<b>39</b>	<b>2</b>
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Source: Standard & Poor's, Feb. 20, 2008 report

<sup>(1)</sup> Oregon's unfunded liabilities include net-tax supported debt, pension and RHIA/RHIPA's OPEB liabilities.



# **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 (94% of total)

## *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 planned bond sales and the current GF revenue forecast, the State has additional general fund-supported debt capacity of \$3.4 billion through FY 2015, or **\$1.126 billion per biennium**
- Despite the recent decline in the lottery revenue forecast, there remains lottery bond debt capacity of \$1.2 billion through FY 2015, or **\$400 million per biennium**
- Further declines in GF and Lottery revenue forecasts will significantly reduce Oregon’s future debt capacity
  - SDPAC staff will provide updated debt capacity forecasts in conjunction with future quarterly economic and revenue forecasts
  - Given the current economic uncertainty, the Legislature should closely examine both existing and new bonding proposals requiring GF or Lottery revenues for repayment, with priority given to ready-to-go projects that maximize job creation in the short-run and Oregon’s economic prospects in the long-run



# Conclusions

- Net tax-supported debt ratios will remain above national averages as bonds are sold for the balance of the OTIA III program and new bonding initiatives to alleviate traffic congestion
- Oregon's overall long-term liability position, when considering its combined net tax-supported debt, pension and OPEB liability, compares favorably to most states due to the relatively strong financial position of PERS going in to the 2008 recession

