State Debt Policy Advisory Commission

2021 State Debt Capacity Findings Report

Office of the State Treasurer
Debt Management Division

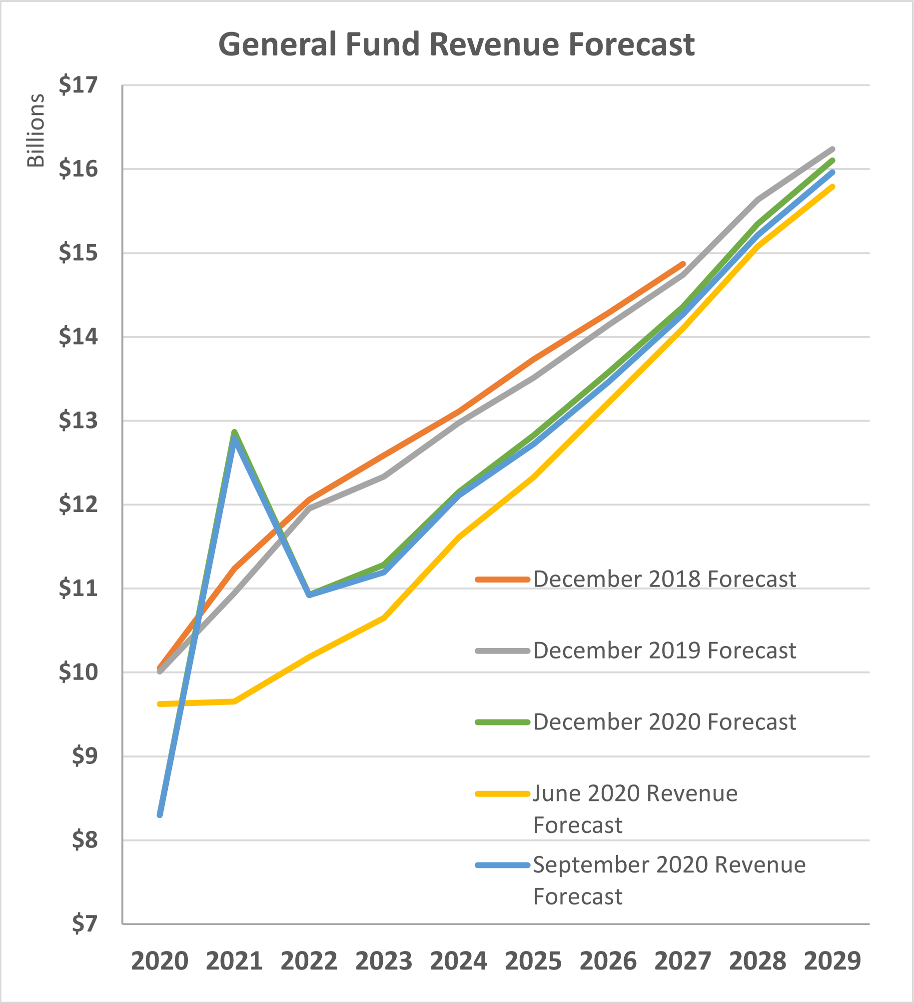
January 5, 2021

Contents

Review of OEA December 2020 Economic and Revenue Forecast and Risk Factors

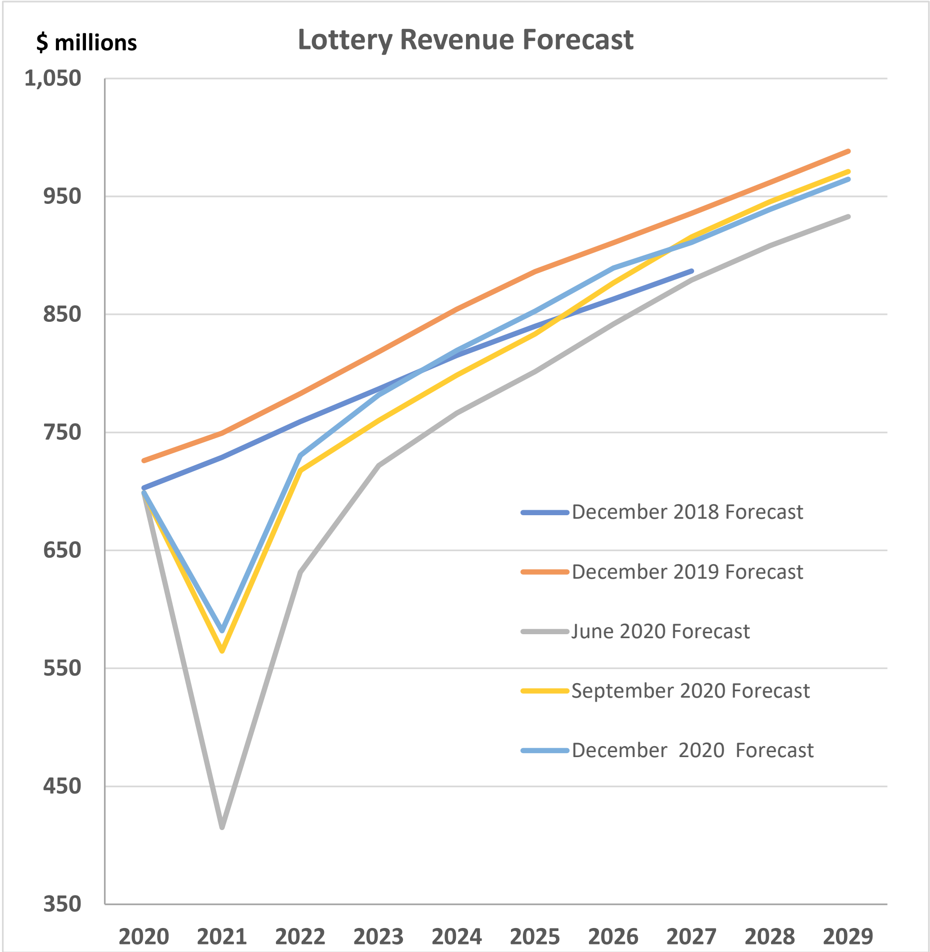
December 2020 Forecast: General Fund Revenues

- The December 2020 Economic and Revenue Forecast provides positive revenue indicators relative to the May 2020 forecast
  - General Fund Revenues spiked in the 1st QTR FY 2021 due in part to the impact of Federal stimulus programs and higher than expected corporate and personal income tax receipts
- General Fund revenue was $8.30 billion in FY 2020 and is forecasted to be $12.87 billion in FY 2021 for a total 2019-21 biennium revenue of $21.17 billion
  - Total forecasted General Fund revenue for the 2019-21 biennium is modestly lower than the initial 2019-21 biennium projections at the start of the biennium
- Key drivers of General Fund Revenue include:
  - Income effect of CARES ACT federal dollars for enhanced unemployment benefits and small business payroll protection
  - Higher than expected corporation income tax receipts
  - Modest increase in other income sources and stable personal income tax receipts
- For the Forecast Period (2020 – 2029), General Fund Revenues are expected to ramp up to pre-pandemic projection levels with lower revenues in the early years



December 2020 Forecast: Lottery Revenues

- The December 2020 Economic and Revenue Forecast shows a lower than anticipated FY 2021 reduction in Lottery Revenue and provides for a speedier ramp up to levels projected at the beginning of the 2019-21 biennium
- Lottery revenue was $698.8 million in FY 2020 and the December 2020 Forecast projects $581.9 million in FY 2021 for a total 2019-21 biennium revenue of $1.28 billion, or 10.4% below the $1.43 billion, projected in the 2019 SDPAC Report
- Since the December 2020 Forecast the following Executive Orders are expected to reduce FY 2021 Lottery Revenues
  - EO 20-65: Temporary Freeze (November 18 – December 2)
  - EO 20-66: Closure of restaurants, bars and gathering facilities in counties designated as Extreme Risk
  - Oregon State Lottery (OSL) estimates that disabling of video lottery games and other reduction in Keno activity is expected to result in $71 million lower revenues from the release of the December 2020 Forecast through December 31, 2020
  - Video gaming represent approximately 70% of Lottery Revenue



December 2020 Forecast: Risk Factors Impacting Revenues

- COVID 19 response and measures implemented to mitigate the spread of the virus
  - Continued closure of restaurants, bars and gathering facilities
  - Disabling of video lottery games
- Additional Federal stimulus funds to support employment and personal income
- Effective distribution of available vaccines and their effect on the spread of the virus
- Extent of permanent damage to the economy due to closures of facilities and failure of small businesses
  - Restaurant activity in the future
  - Consumer utilization of such facilities
- The effect of remote work on business travel in the future
- Evolution of internet gaming and consumerism
- Natural disasters such as wildfires or seismic events

Current State of Oregon Debt Profile

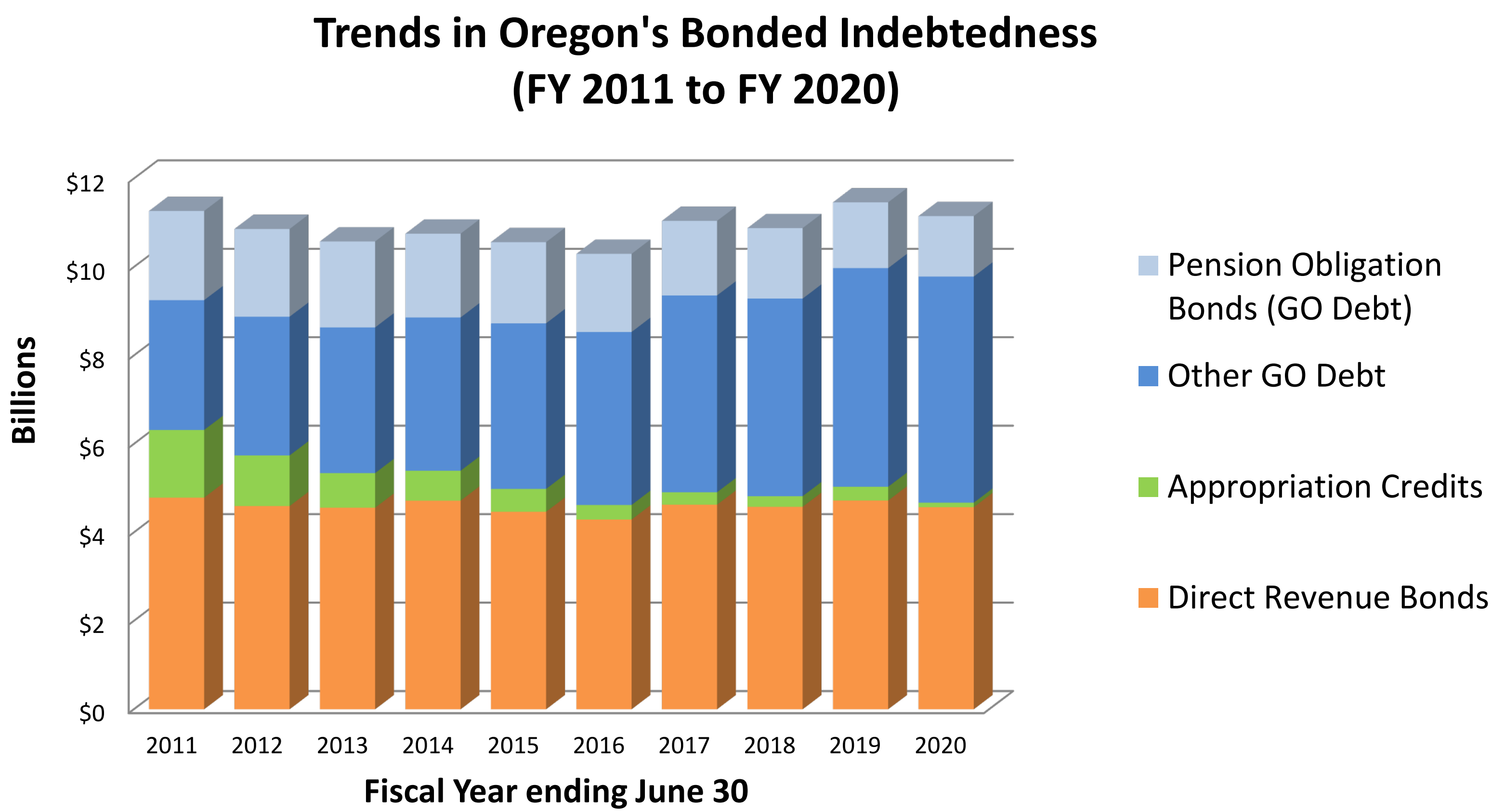
Four Types of Long-Term Debt

1. General Obligation Bonds	• Requires voter approved constitutional amendment for new categories of use • Pledges the full faith & credit of the State • Includes both General Fund-supported and non General Fund-supported bond programs
2. Direct Revenue Bonds	• Generally created by the Legislature through statute • Not secured by the State's pledge to pay • Fully self-supporting through program revenues • Could include state back-up support such as moral obligation or an intercept of state aid to specific entity
3. Appropriation Credits	• Requires continuing appropriation by the Legislature to fund debt service payments • Generally payable by State agencies from GF sources • Not secured by the full faith and credit of the State • Historically, Certificates of Participation (COPs) were used to finance real or personal property owned by the State • Limited use since passage of XI-Q GO bond authorization in 2010
4. Conduit Revenue Bonds	• 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

Four Debt Capacity Categories

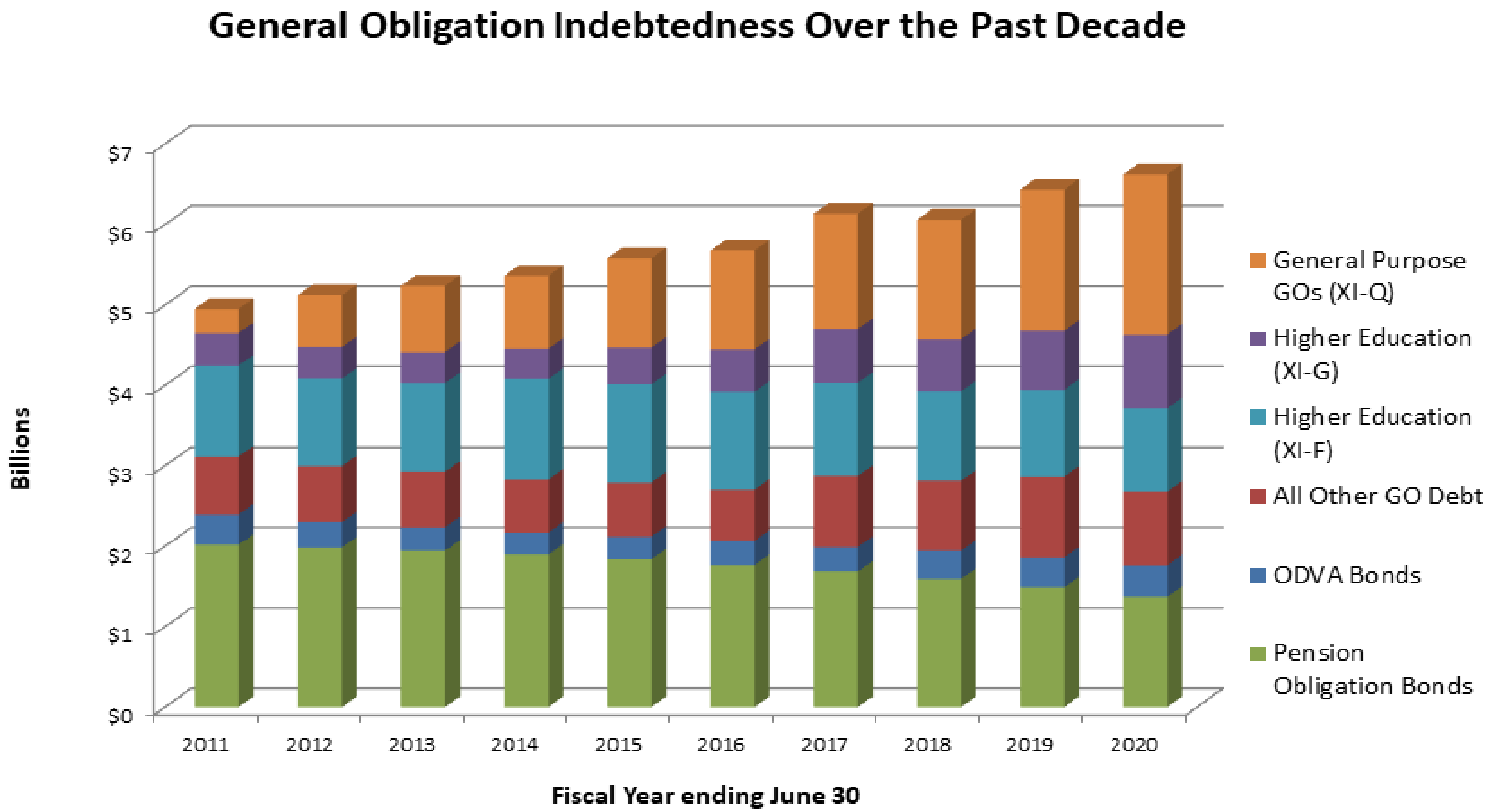
1. General Fund-Supported Debt	• SDPAC Recommended Target Limit • --Keep debt service at or below 5% of General Fund Revenues
2. Lottery-Backed Debt	• Legal Bond Covenant Limit: 4x Coverage (no more than 25% of net lottery revenues) • Moral obligation pledge of State
3. Net Tax-Supported Debt	• National bond rating agency perspective. • States compared with each other using "apples-to-apples" measurement approach
4. Non Tax-Supported Debt	• No generic capacity limit or measurement. • State programs in this category are managed based on revenue streams available

Oregon Debt Profile: Trends in Overall Indebtedness



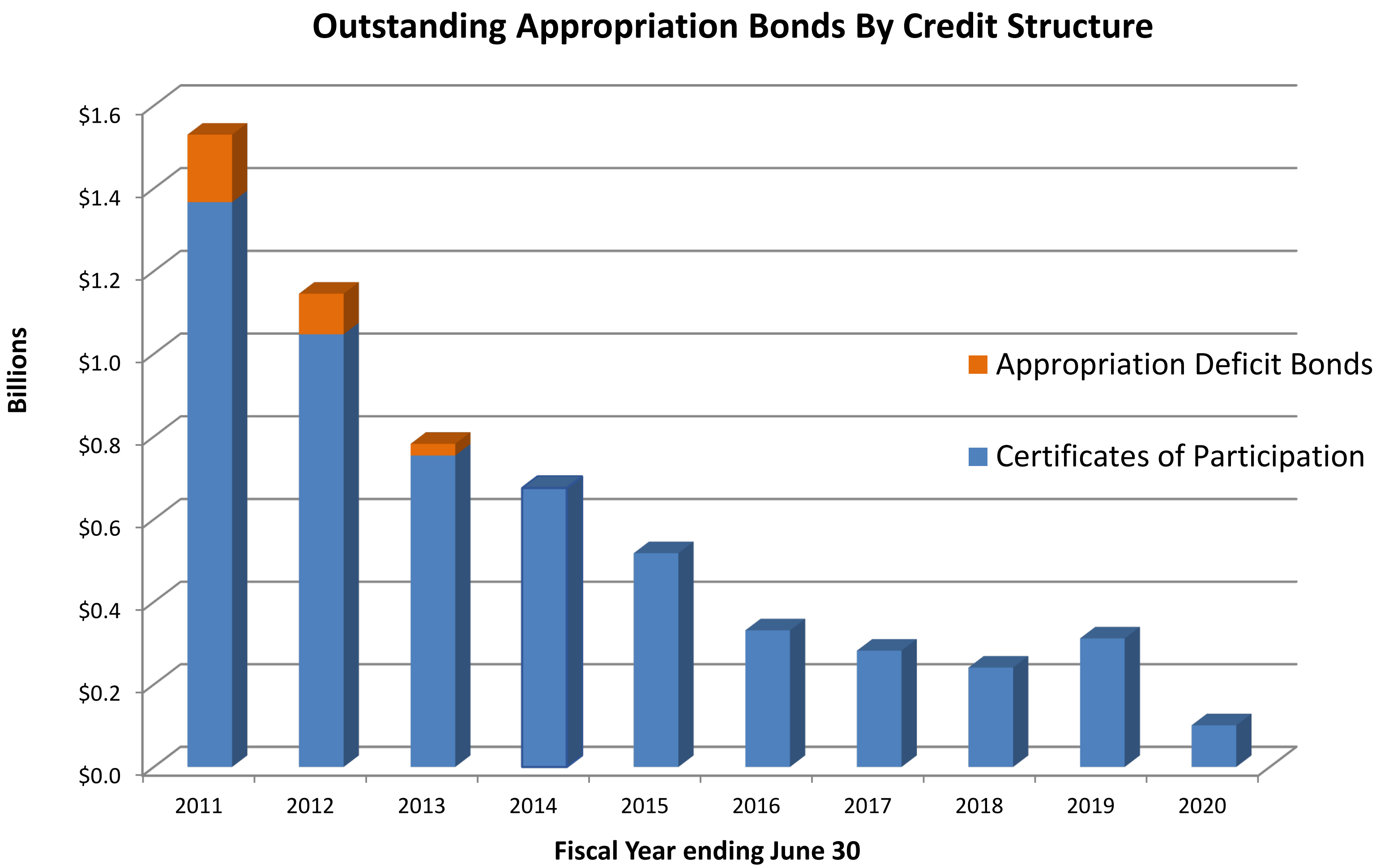
- As of June 30, 2020, the State had $11.2 billion of outstanding long-term indebtedness
- The State's overall debt levels have remained relatively stable over the past decade, as overall new debt issuance has generally been at a pace equal to that of bond retirement
- With the creation of the Article XI-Q General Obligation bond program, the State has shifted away from the use of lower-rated, higher cost appropriation credit financing
- Direct Revenue Bonds include bonds issued by Oregon DOT for its Highway User Tax Program, Single Family Program Revenue Bonds, Lottery Revenue Bonds, and Infrastructure Finance Authority (Bond Bank)

Oregon Debt Profile: Trends in Overall Indebtedness



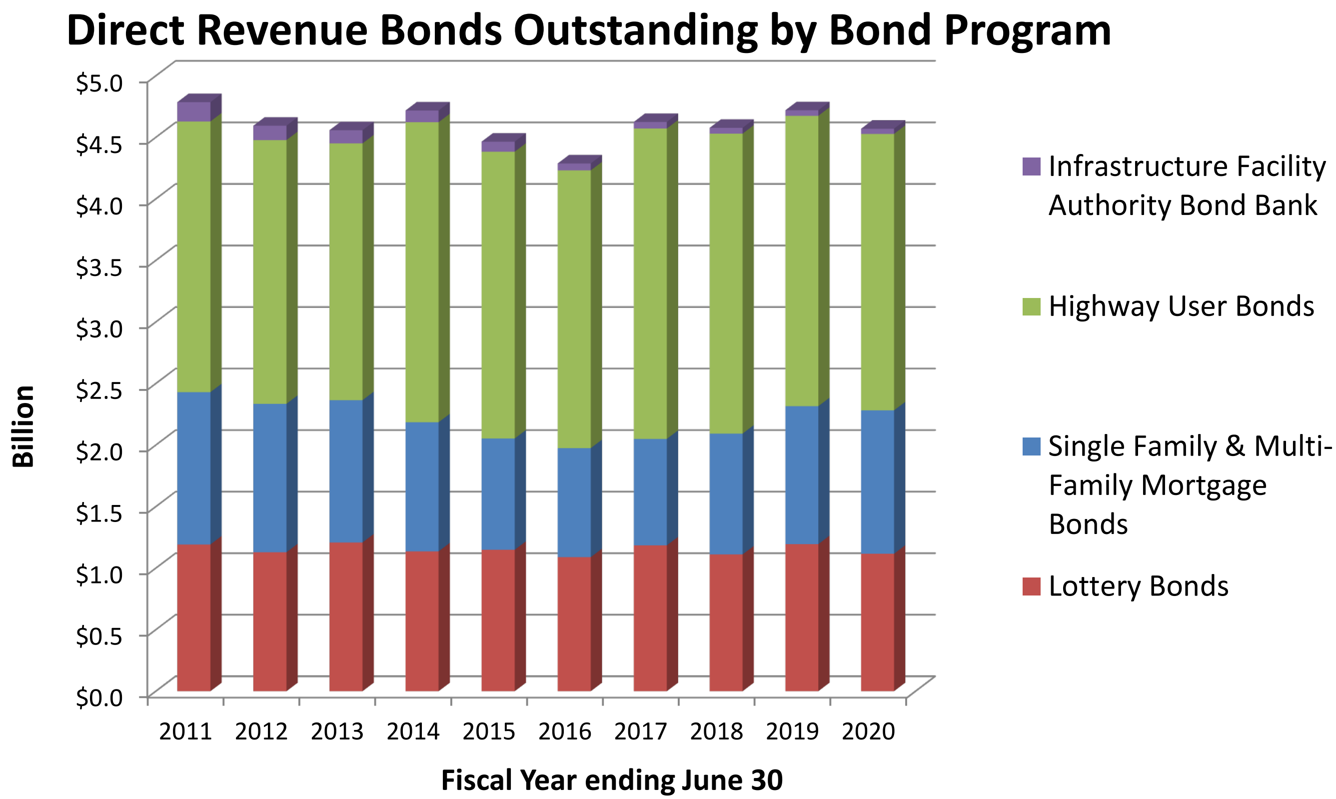
- As of June 30, 2020, the State had $6.47 billion in outstanding GO Bonds
  - $3.9 billion are general fund supported debt
  - $2.6 billion are for programs supported by dedicated funds, such as Oregon Vets (XI-A), Article XI-F Higher Education, certain State property (XI-Q) and a portion of the pension obligation bonds (XI-O)
- Article XI-Q bonds have been used to retire higher cost Certificates of Participation and to finance other state facilities

Oregon Debt Profile: Composition of Appropriation Bonds



- Since 2011, the State has refunded or amortized $1.1 billion of higher cost Certificates of Participation appropriation debt with lower cost Article XI-Q General Purpose GO bonds
- Appropriation bonds issued to finance the State’s deficit in FY 2004 were fully amortized in 2013

Oregon Debt Profile: Composition of Direct Revenue Bonds



- As of June 30, 2020, the State had $4.6 billion in direct revenue bonds
  - Oregon DOT (ODOT) outstanding bonds totaled $2.25 billion, which are supported by highway user taxes and fees and other revenues that are constitutionally dedicated to transportation uses
  - Lottery Revenue outstanding bonds totaled $1.1 billion and are supported by unobligated net Lottery proceeds
  - Single and multifamily housing revenue bonds outstanding was $1.24 billion and has seen an increase in issuance in recent years due to renewed demand and need for more affordable housing
  - The IFA Bond Bank had $42.2 million outstanding, which were used to provide loans to local governments

Non Tax-Supported Debt Programs

General Obligation Programs

- Veterans' Welfare Bonds
- Elderly & Disabled Housing Bonds
- Higher Education Facility (XI-F) Bonds
- Alternate Energy Bonds (60% of d/s)
- Pollution Control Bonds (54% of d/s)
- Oregon School Bond Guaranty Program

Direct Revenue Bond Programs

- Single & Multifamily Housing Bonds
- Economic Development Bond Bank

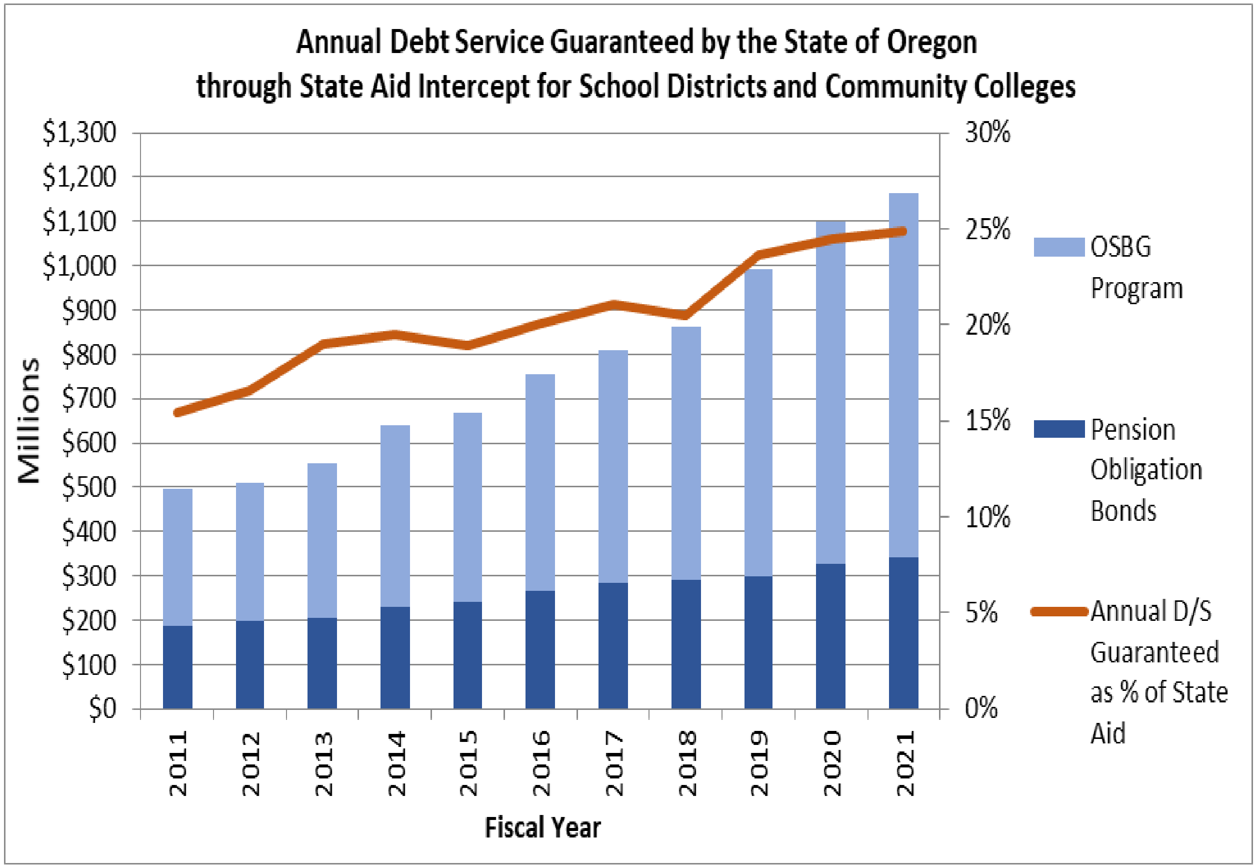
Conduit Revenue Programs

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

Oregon Debt Profile: Oregon School Bond Guaranty Program Bonds

Guaranteed Debt Service of Oregon School Districts and Community Colleges Continues to Grow as a Percentage of State School Aid

- District pension obligation debt service now represents 7.28% of annual State school aid and OSBG program bonds is 17.6% for a total of 24.87% guaranteed by State Aid
- Four school districts currently have combined annual State guaranteed debt service (GO and POB) that exceed their annual allocation of State school aid
- Three of these districts are located on the Oregon coast and may be subject to environmental risks that could limit or reduce their ability to repay state aid



Oregon Debt Profile: Conduit Revenue Bond Programs

Conduit Revenue Bonds

- Conduit revenue bonds are securities that are issued by a governmental unit to finance a project for a third party. Debt service payments are the obligation of the third-party borrower and do not constitute a GO debt of the State or the issuing governmental agency. Economic and industrial development revenue bonds are a common type of conduit revenue security.
- The State has four authorized and active conduit or "pass-through" revenue bond programs:
  - Oregon Facilities Authority (OFA) – ORS Chapter 289.200 to 289.240
  - Industrial Development Revenue Bonds – ORS Chapter 285B.320 to 285B.371
  - Housing Development Revenue Bonds – ORS 456.692
  - Beginning & Expanding Farmer Loan Revenue Bonds – ORS Chapter 285A.420 to 285A.435
- Under these programs, the State is considered the issuer, but has no obligation to pay debt service. Payments are made by the entities on whose behalf the bonds were issued.

Rating Agency and Market View of the State's Debt

Rating Agency/Market View: Current Ratings

- Oregon's history of strong financial management practices, prudent management of debt, balanced budgets, and strong budgetary reserves, have resulted in the State achieving ratings of AA+/Aa1/AA+ by Standard & Poor's, Moody's Investors Service, and Fitch Investors Service respectively for the State's General Obligation Bonds.
- The bond rating agencies consider many factors in assessing the State's credit rating including
  - Total net tax supported debt
  - Pension and Other Post Employment Benefit unfunded obligations
- Revenue bond ratings are driven by the credit quality of the supporting revenue stream, debt service coverage ratio and bondholder protections provided in the respective bond indenture

Oregon Bond Ratings by Credit			
Credit	**Moody's**	**Standard & Poor's**	**Fitch**
General Obligation	Aa1	AA+	AA+
Appropriation / COPs	Aa2	AA	AA
Lottery Revenue	Aa2	AAA	NR
ODOT Highway User Tax Revenue (Senior Lien)	Aa1	AAA	AA+
ODOT Highway User Tax Revenue (Subordinate Lien)	Aa2	AA+	AA+
Single Family Program Revenue Bonds	Aa2	---	---

Net Tax-Supported Debt Programs Include:

All

General Fund-Supported Debt Programs

Plus

- Dedicated funds portion of Pension Obligation Bonds
- Dedicated funds portion of XI-Q bonds
- Certificates of Participation
- Lottery Revenue Bonds
- Highway User Tax Revenue Bonds

Rating Agency/Market View: Trends in Net Tax Supported Debt

- As of June 30, 2020, Oregon's Net Tax-Supported Debt was $8.39 billion and is projected to increase to $9.30 billion at the end of FY 2021
- Oregon's Net Tax-Supported Debt to personal income is above the median of 2.6% for all states
- Adjusting out the Pension Obligation Bonds issued in 2003 reduces Oregon's Net Tax-Supported Debt to 3.44% of personal income

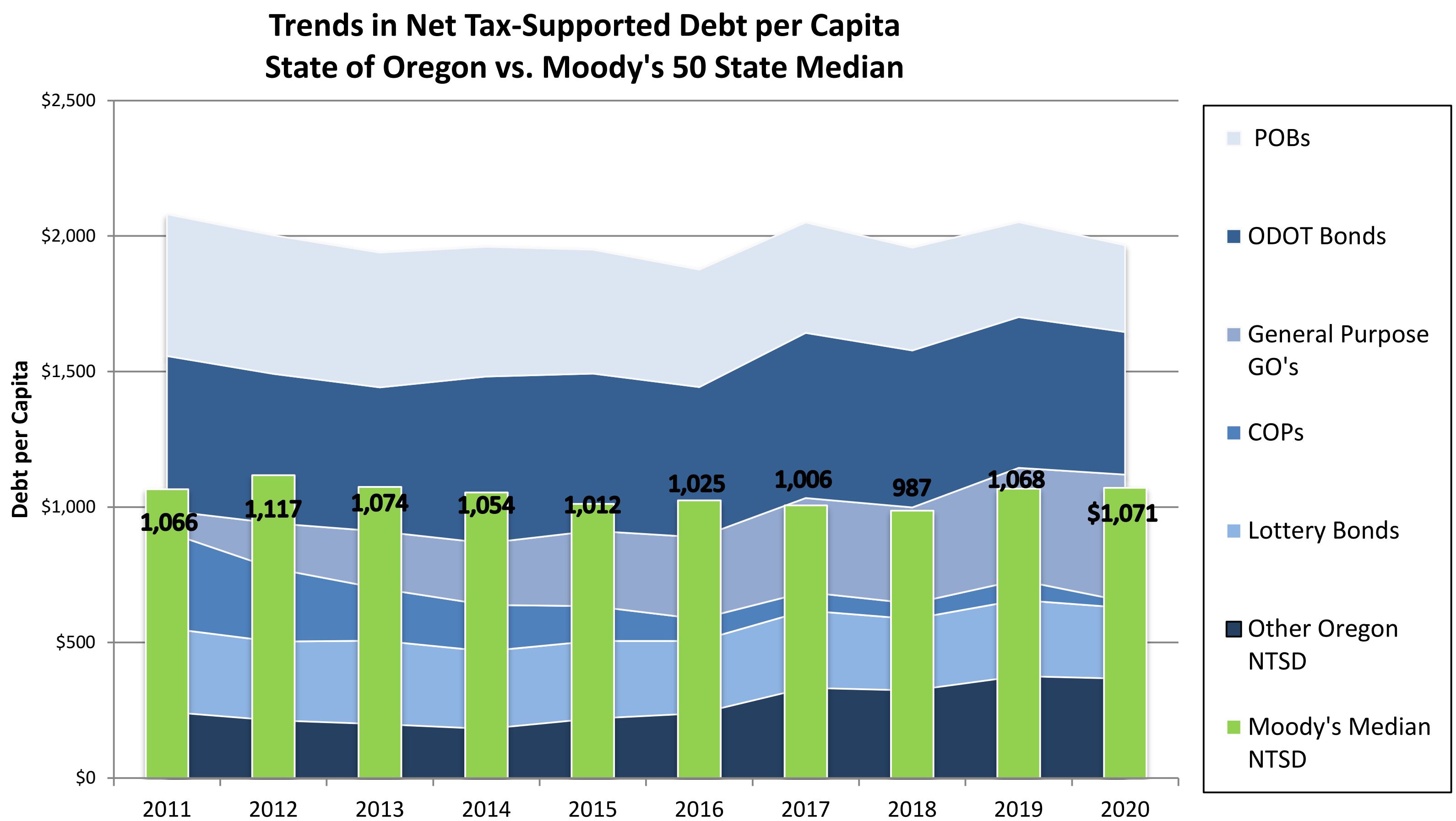
State of Oregon
Net Tax-Supported Debt Ratios

	Fiscal Year Ending June 30th		
	FY 2019 (Actual)	**FY 2020** (Actual)	**FY 2021** (Projected)
Net Tax-Supported Debt ($ Billion)	**$ 8.70**	**$ 8.39**	**$ 9.30**
NTSD Per Capita	$ 2,055	$ 1,966	$ 2,168
NTSD as % of Personal Income	3.88%	3.52%	3.97%
Excluding Pension Obligation Bonds			
NTSD Per Capita	$1,703	$1,645	$1,881
NTSD as a % of Personal Income	3.22%	2.95%	3.44%

Source: Population and Personal Income projections are based on OEA Economic and Demographic Forecasts, December 2020 Forecast

Rating Agency/Market View: Trends in Net Tax Supported Debt

- When measured on a per capita (outstanding debt / population) basis, the State's Net Tax-Supported Debt per capita is currently at the low end of a narrow range
  - Strong population growth over the last decade permits the State to support increasing debt at affordable levels
- The State's Net Tax-Supported Debt per capita as of FY 2020 is $1,966 which is above the median of $1,071 for all states



Sources: Moody's State Debt Medians Reports, 2010-2019.

Rating Agency/Market View: Balance Sheet Liability

- In addition to Net Tax Supported Debt, the rating agencies are concerned with overall balance sheet liability which includes net unfunded pension and other post employment benefit liabilities
  - Adding the State's Net Pension and OPEB liabilities to Net Tax-Supported Debt results in overall balance sheet liabilities that remain at affordable levels

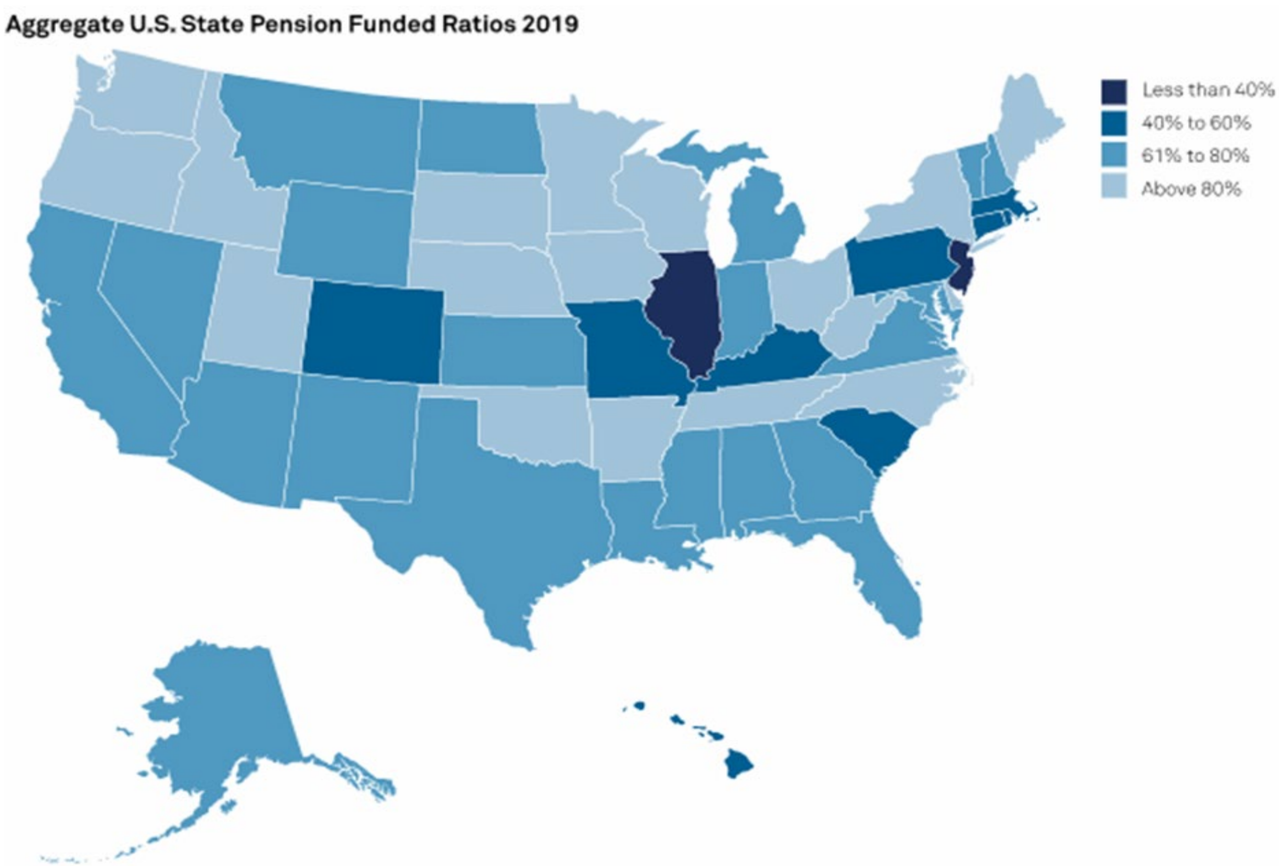
Oregon Balance Sheet Liability Ratios (NTSD and Unfunded Liability)			
$ billion	FY 2018	FY 2019	FY 2020
Net Tax Supported Debt	$8.23	$8.70	$8.39
State Net Pension & OPEB Liability[1]	4.68	6.26	5.86
Total Balance Liability	$12.91	$14.96	$14.25
Population	4,195,300	4,236,400	4,268,055
Balance Sheet Liability Per Capita	$3,077	$3,532	$3,338
Personal Income	$215.40	$224.30	$238.30
Balance Sheet Liability - Percent of Personal Income	5.99%	6.67%	5.98%
Gross State Product ("GSP")	$227.04	$241.98	$253.62
Balance Sheet Liability - Percent of GSP	5.69%	6.18%	5.62%

[1] Pension data represent the calendar year preceding the close of fiscal year

Rating Agency/Market View: Pension and OPEB Funding Levels

- Oregon ranks among the top states in terms of pension funding status, a measure of pension assets relative to pension liability

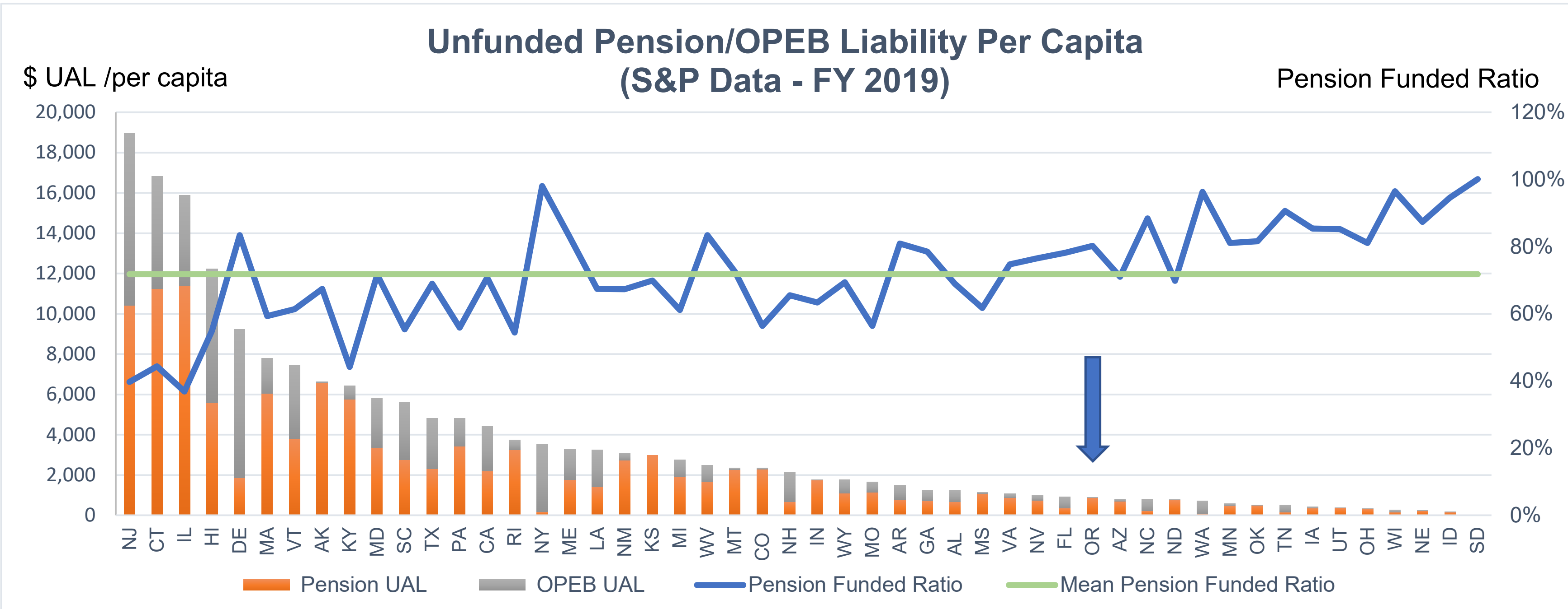
State Pension Funding Levels at the end of FY 2019



Source: Standard & Poor's Sudden-Stop Recession Pressures U.S. States' Funding for Pension And Other Retirement Liabilities, Aug 3, 20120. Net pension liability used for each state is based on the amount reported in their Comprehensive Annual Financial Reports as of June 30, 2019, as now required by GASB.

Rating Agency/Market View: Pension and OPEB Funding Levels

- Oregon's per capita unfunded pension and OPEB liability is among the lowest level when compared to other states
- Additionally, Oregon's FY 2019 pension funded status is above the median for all states



Source: S&P Aug 3, 2020: Sudden-Stop Recession Pressures U.S. States' Funding For Pension and Other Retirement Liabilities.

General Fund
Debt Capacity Analysis

General Fund Debt Capacity: GF Supported Debt Programs

General Obligation Bonds

- State Highway Bonds (XI-Section 7)
- Higher Education Facility Bonds (XI-G)
- Community College Bonds (XI-G)
- Pollution Control Bonds (XI-H) (46% of total)
- Alternate Energy Bonds (XI-J) (40% of total)
- Oregon Opportunity Bonds (XI-L) (OHSU)
- Seismic Rehabilitation Public Education Buildings (XI-M)
- Seismic Rehabilitation Emergency Service Buildings (XI-N)
- School Capital Public School Facility Bonds (XI-P)
- State General Purpose (XI-Q) (92% of total)
- State Pension Obligation Bonds (34% of total)

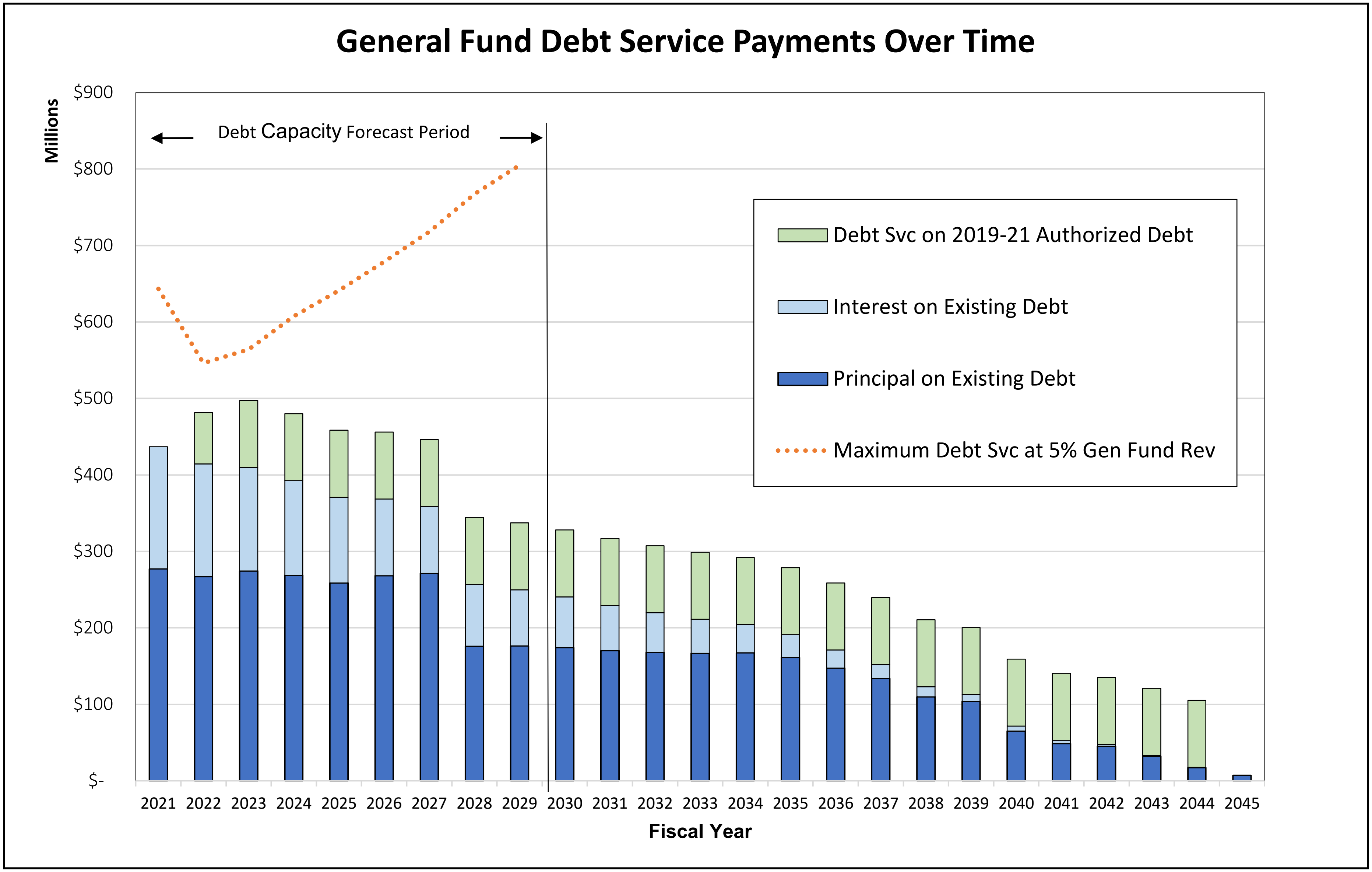
Appropriation Credits

- Certificates of Participation (100% of total)
- Appropriation Bonds

General Fund Debt Capacity: Model Inputs and Assumptions

- Assumes $1,139.5 million in planned issuance of General Fund-supported debt by the end of the current biennium as authorized by the 2019 Legislature and in the 2020 Second Special Session
  - $52.4 million Article XI-G GO Bonds to provide 50% matching grants for community college building projects
  - $50.6 million Article XI-G GO Bonds for Higher Education Facilities
  - $101 million Article XI-M GO Bonds to fund seismic upgrade grants to public schools
  - $20 million Article XI-N GO Bonds to fund seismic upgrade grants to public safety facilities
  - $126 million Article XI-P Bonds for matching grants for K-12 school capital improvements
  - $789 million Article XI-Q GO Bonds to fund state buildings, affordable housing projects, and local courthouse project matches
- Accounts for all $3.9 billion in General Fund-supported debt outstanding as of June 30, 2020
- Uses OEA's December 2020 Forecast of general fund revenue forecast for FY 2021 and four future biennia over the forecast period (FY 2022 – FY 2029)
- Structures new debt with level debt annual service over 20 year term using a **4.50%** interest rate
- Assumes maximum of 5.0% of General Fund revenues will be used to make payment on General Fund debt service

General Fund Debt Capacity: Existing Debt Service and Capacity Constraint



General Fund Debt Capacity and Averaging of Issuance over Future Biennia

- The December 2020 Forecast of General Fund Revenues provides for the issuance of $6.255 billion over the forecast period, using 5% of General Fund Revenue as a constraint for debt service
- The Commission recommends averaging this capacity of each biennium, which results in $1.56 billion of General Fund debt capacity in each of the next four biennium

Projected General Fund-Supported Debt Capacity over the Forecast Period*

Fiscal Year (ending June 30th)	Maximum Amount of Debt Issuance within 5% Target Capacity	GF Debt Service as a % of General Fund Revenues	SDPAC's Recommended Maximum Annual Amount of Debt Issuance	GF Debt Service as a % of General Fund Revenues
2021	-	3.5%	-	3.5%
2022	683.6	5.0%	781.9	5.1%
2023	291.7	5.0%	781.9	5.4%
2024	797.6	5.0%	781.9	5.4%
2025	721.4	5.0%	781.9	5.4%
2026	512.8	5.0%	781.9	5.5%
2027	625.1	5.0%	781.9	5.6%
2028	2044.2	5.0%	781.9	4.9%
2029	578.6	5.0%	781.9	5.0%
Total	**$6,255**		**$6,255**	

*These amounts do not Include the $1.139.5 million in GF-supported bonds authorized by the 2019 Legislature and 2020 Second Special Session.

General Fund Debt Capacity: Sensitivity to Interest Rates and GF Revenues

- Debt capacity will vary with changes in interest rates or divergence of revenues from projections
  - 10% reduction in GF revenues will reduce capacity by $924 million to $5.33 billion; whereas a 10% increase in GF revenues will increase capacity by $1.17 billion to $7.43 billion over the FY 2022 – 2029 forecast period
  - Should assumed rate rise to 5.5% from 4.5%, GF debt capacity will be reduced by $467 million to $5.79 billion; whereas a decline in rates from 4.5% to 3.5% will increase debt capacity by $795 million to $7.05 billion

Factors that Could Impact Projected General Fund Debt Capacity ($ million)

	FYs 2022 – 2029	Change from Base Case (FY 2022 – 2029)	Average Per Biennium
Base Case for Next Four Biennia	**$ 6,255**	**---**	**$1,564**
<u>Change in General Fund forecast</u>			
10% decline	5,331	(924)	1,333
10% increase	7,425	1,170	1,856
<u>Change in interest rate forecast</u>			
1.0% higher	5,788	(467)	1,447
1.0% lower	7,050	795	1,763

* These amounts do not Include the $1.139.5 million in GF-supported bonds authorized by the 2019 Legislature and 2020 Second Special Session.

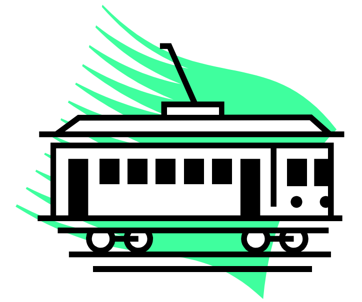
General Fund Debt Capacity: General Fund Debt Capacity Considerations

- Based on General Fund revenue forecast contained in the December 2020 Forecast, the State's issuance of the $1.14 billion in General Fund supported debt authorized by the 2019 and 2020 Legislatures for the 2019-21 biennium remains well within the Commission's recommended General Fund debt capacity limits
- We note that $199 million was issued in FY 2020 and the remaining $940 million of authorization is on track to be issued by the end of FY 2021
- Further, we estimate that the State can issue up to $1.56 billion in General Fund-supported debt in each of the next four biennia commencing with the 2021-23 through 2027-29 biennium, for a total of $6.255 billion, while remaining within our overall debt capacity limit of 5% General Fund debt service to General Fund revenue

Lottery Revenue
Debt Capacity Analysis

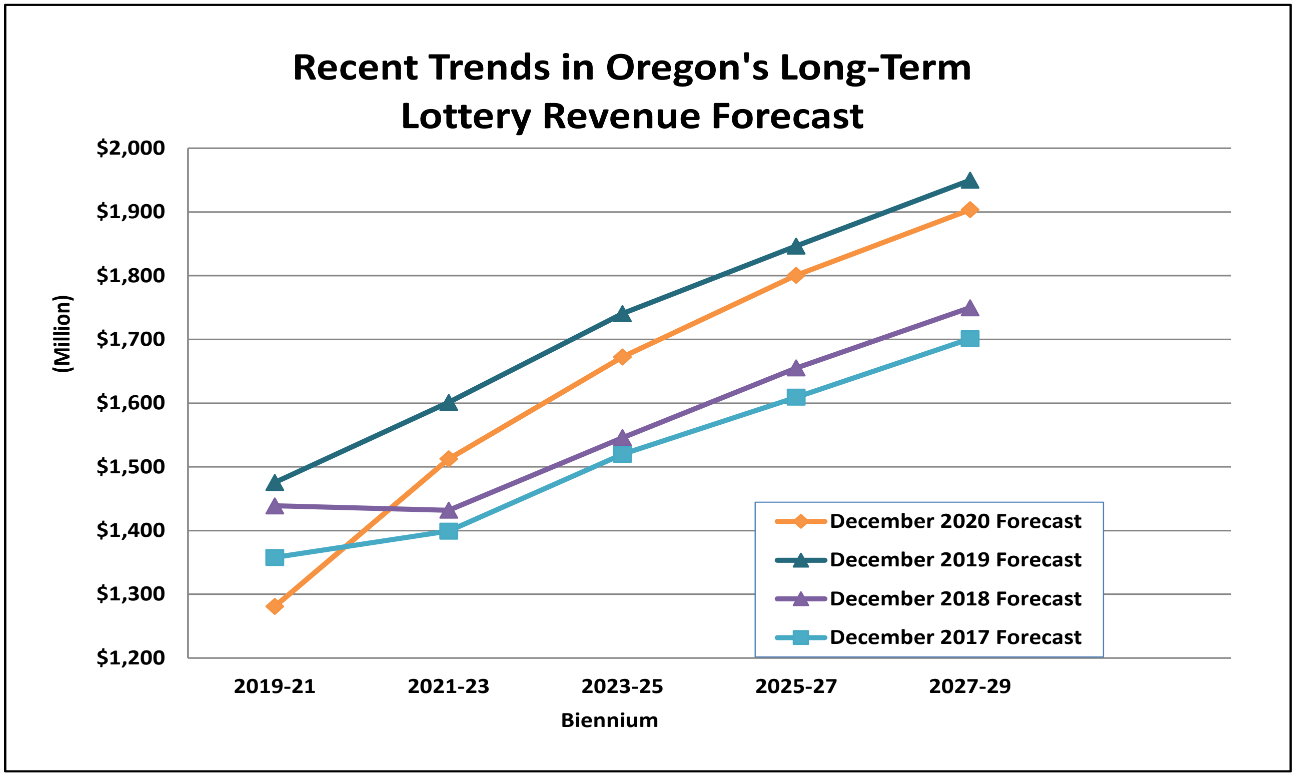
Lottery Revenue Debt Capacity: Lottery Revenue Funded Projects and Programs

- 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



Lottery Revenue Debt Capacity: Variability in Lottery Revenue Forecast

- Lottery Revenue forecast has varied significantly over the last several years
  - Earlier forecasts factored in concerns regarding competition from casino and gaming in Washington which were later adjusted upward due to actual results and the introduction of sports betting
  - The onset of COVID 19 has introduced additional variability in Lottery Revenue forecasting due to closures of establishments that support video gaming
  - The December 2020 Forecast projects that Lottery Revenue will be $1.28 billion in the 2019-21 Biennium and is expected to rise to $1.90 billion in the 2027-29 biennium
- COVID 19 response has impacted Lottery Revenue and will continue to do so as facilities remain closed and other economic factors such as sustained unemployment affect gaming



Lottery Revenue Debt Capacity: Model Inputs and Assumptions

- Accounts for all debt $1.1 billion of Lottery Revenue Bonds issued and outstanding as of June 30, 2020
- Uses OEA's December 2020 Forecast of Lottery Revenue for FY 2021 and four future biennia over the forecast period (FY 2022 – FY 2029)
- Bond Structuring Assumptions Include:
  - Structures new debt with level debt annual service over 20 year term using a **4.50%** interest rate
  - Lottery Revenues must provide a minimum of 4 times coverage of maximum annual debt service or debt service may not exceed 25% of net lottery revenues

Lottery Revenue Debt Capacity: Maximum and Recommended Issuance

- The December 2020 Forecast of Lottery Revenues provides for the issuance of $1.628 billion over the forecast period, using Lottery Revenue to debt service coverage of 4.0 times as the constraint
- Capacity assumes December 2020 Forecast of FY 2021 Lottery Revenues, if realized, would provide for $159 million of the $247 million authorized by the 2019 Legislature and the 2020 Second Special Session
- The Commission recommends averaging this capacity of each biennium, which results in $407 million of Lottery Revenue debt capacity in each of the next four biennium

Projected Lottery Revenue Bond Capacity
Over the Next Four Biennia
($ million)

Fiscal Year	Maximum Amount of New Debt Issuable Within Debt Service Coverage Requirements	Lottery Revenue to Debt Service Ratio	Debt Service as a % of Lottery Revenues	SDPAC Recommended Maximum Average Annual Debt Issuance	Lottery Debt Service Coverage Ratio	Debt Service as a % of Lottery Revenues
2022	297.7	4.0	25%	203.5	4.5	22%
2023	170.9	4.0	25%	203.5	4.4	23%
2024	123.1	4.0	25%	203.5	4.2	24%
2025	108.2	4.0	25%	203.5	4.1	25%
2026	151.4	4.0	25%	203.5	4.0	25%
2027	193.2	4.0	25%	203.5	4.0	25%
2028	329.3	4.0	25%	203.5	4.1	24%
2029	254.3	4.0	25%	203.5	4.2	24%
Total:	**$1,628**			**$1,628**		

Lottery Revenue Debt Capacity: Sensitivity to Interest Rates and Lottery Revenue

- Debt capacity will vary with changes in interest rates or revenues from projections
  - 10% reduction in Lottery revenues will reduce capacity by $314 million to $1.3 billion; whereas a 10% increase in Lottery Revenues will increase capacity by $369 million to $2.0 billion over the FY 2022 – FY 2029 forecast period
  - Should assumed rate rise to 5.5% from 4.5%, Lottery Revenue debt capacity will be reduced by $467 million to $5.79 billion; whereas decline in rates from 4.5% to 3.5% will increase debt capacity by $795 million to $7.05 billion

Factors that Could Impact Projected Lottery Bond Capacity ($ million)

	FYs 2022 – 2029	Change from Base Case (FY 2022 – 2029)	Average Per Biennium
Base Case for Next Four Biennia	**$ 1,628**	**---**	**$407**
<u>Change in Lottery Revenue forecast</u>			
10% decline	1,314	(314)	329
10% increase	1,997	369	499
<u>Change in interest rate forecast</u>			
1.0% higher	1,470	(158)	368
1.0% lower	1,865	237	466

Lottery Revenue Debt Capacity: Post December 2020 Forecast Considerations

- The December 2020 Forecast also provided for maximum biennial Lottery Revenue bond capacity of $407 million for each of the next four biennia, for a total of $1.628 billion for the forecast period (FY 2022 through FY 2029).
- Since release of the December 2020 Forecast, Lottery Revenue has declined materially due in part to disabling of video lottery games in response to the temporary freeze imposed by Executive Order (EO) 20-65 and continuing restrictions implemented by EO 20-66.
  - As of December 18, 2020, OSL estimates that these measures will result in an approximate $71 million reduction in Lottery revenue from November 15, 2020 through December 31, 2020
  - Given the continuing situation presented by COVID 19, it is anticipated that the reduction of Lottery revenue due to continued closures has eroded the capacity to issue new Lottery debt for the 2019-21 biennium

Emerging Debt Policy
Issues of Concern

Emerging Issues of Concern: Private Activity Bond Allocations

- The federal government allocates a limited amount of “private activity” tax-exempt financing authority annually to each state for distribution to various qualified economic and community development projects
  - The State’s 2020 PAB Volume Cap allocation was $442.80 million
  - In calendar year 2021, Oregon’s PAB Volume Cap will be $466.6 million
- Historically, the Legislature and the PAB Committee have allocated Oregon’s private activity bond volume cap (PAB) primarily to affordable housing construction and rehabilitation, first time homebuyer mortgage programs, and a select number of solid waste, and energy production projects
  - Legislative allocations of annual PAB to OHCSD for CY 2020 and 2021 were increased from $125 million to $250 million each year, with an equivalent amount reduction to the PAB Committee
  - 2020 PAB Committee Volume Cap allotment is $150.4 million
  - Oregon Business Development Department (OBDD) was allocated $40 million from the Legislature
  - The Legislature also allocated $2.5 million for the Beginning & Expanding Farmer Loan program through OBDD
- Of the $442.80 million in CY 2020 PAB authority, Oregon utilized $56.8 million
  - $15 M – Red Rock Biofuels Clean Energy Project
  - $6.6 M – Central Oregon Regional Housing Authority multi-family housing project
  - $4.6 M – Portland Housing Bureau – Mortgage Credit Certificate Program
  - $5.6 M – Oregon Housing & Community Services – single family housing projects
  - $25.0 M – Legislative allocation to OBDD – Red Rock Biofuels Clean Energy Project
- During 2020, an additional $270.5 million in previous year PAB allocations (i.e. 2017 – 2019 PAB carryforward) was entirely used by OHCSD to finance single family, first time homebuyer and tax-exempt multi-family affordable housing projects around the State

Emerging Issues of Concern: Private Activity Bond Allocations

- 2020 Carryforward requests from OHCSD for $370 million correlates with the $386 million available Carryforward for allocation by the PAB Committee at the January 13, 2021 meeting
- After allocations to OHCSD of $250 million, the PAB Committee's 2021 Volume Cap allotment is $174.1 million
  - The Committee reserves one quarter or 25 percent of its annual allotment for each quarterly scheduled meeting; barring 2021 exceptions and/or special meetings, requests totaling $43.5 million will be considered at each quarterly scheduled meeting
  - 2021 Volume Cap request from Home Forward (85 Stories Group 7) for $43.2 million will be considered by the PAB Committee at the January 13, 2021 meeting
- Oregon voters recently approved a Constitutional amendment allowing for voter-approved local government general obligation bonds for affordable housing
  - In November 2018, Metro voters simultaneously approved a $652.8 million GO bond issue for this purpose
  - The proceeds of the City of Portland's $120 million GO bond for affordable housing can now also be used to leverage private equity investments through 4% federal tax credits
- In order for local borrowers to utilize federal 4% tax credits which provide equity funds for affordable housing projects, they must issue <u>tax-exempt</u> bonds as a 50% match, which means a variety of projects will be seeking allocations of PAB in the future
- The PAB Committee allocation process will likely become more challenging as economic development and affordable housing projects compete for the remaining allocations, requiring careful thought and deliberation as to the highest and best uses of this limited financial resource

Emerging Issues of Concern: Funding Deferred Maintenance for State Facilities

- A long-term strategic capital plan published by the Higher Education Coordinating Commission recommends establishing a similar type of funding scheme for the deferred maintenance needs of the State's public universities.
- The report notes that national higher education facility management "best practice" calls for investing at least 2.5 percent per year of the current replacement value in capital renewal of existing assets, which would translate into approximately $250 million per year.

Future Funding Considerations: COVID 19 Response and Wildfire Cleanup

SB 5731 Funding of COVID 19 and Wildfire

- On December 21, 2020 the Legislature convened its 2020 Third Special Session, which passed HB 4401, HB 4402, SB 1801 and SB 5731 to provide extended COVID 19 relief and funding for additional COVID 19 measures and wildfire cleanup
- SB 5731 codified $800 million of FY 2021 General Fund appropriations directed to addressing these challenges
    - $100 million to the Emergency Board for any lawful purposes
    - $400 million to the Emergency Board for the State's response to the COVID 19 pandemic public health emergency
    - $100 million to the Emergency Board for the State's wildfire recovery, prevention, and preparedness efforts
    - $150 million appropriated to Oregon Housing and Community Services Department to provide for distributions as provided for in HB 4401
    - $50 million appropriated to Oregon Housing and Community Services Department to fund rental assistance as provided for in HB 4401

Future Funding Considerations: COVID 19 and Wildfire Funding Challenges

- COVID 19 will have economic, educational, social and human costs that will have long enduring effects and will require future investments in many areas including
    - Economic development / investments in cities and towns
    - Job readiness and training
    - Affordable housing / housing for homeless people
- Wildfire will present additional funding challenges as Federal monies from FEMA are provided on a reimbursement basis, requiring the State to provide its portion of wildfire recovery, remediation and preparedness costs as well as short-term funding for the federal cost share until reimbursed by FEMA

Conclusion

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- Forecasted General Fund revenue provide $6.3 billion of new General Fund debt capacity for the upcoming four biennia, with an average debt capacity of $1.56 billion in each biennium over the forecast period (FY 2022 – FY 2029)
  - In addition, the State is on track to completing its 2019-21 biennium authorized issuance of $1.139 billion in FY 2021
- Forecasted Lottery revenue provides $1.628 billion of new Lottery revenue debt capacity for the upcoming four biennia, with an average debt capacity of $407 million in each biennium over the forecast period (FY 2022 – FY 2029)
  - Lottery revenues have demonstrated significant volatility and is heavily impacted by closures of bars, restaurants and gathering facilities that support video gaming
  - Since release of the December 2020 Forecast, Lottery revenue is expected to decline significantly, which will result in insufficient Lottery revenue to support issuance of the $247 million Lottery Revenue bonds authorized in the 2019-21 biennium
- The State has strong credit ratings due to its adherence to prudent debt management practices, fiscal discipline and strong management
  - The State's General Fund revenues, though lower, are not as significantly impacted by COVID 19 or Wildfires in the current biennium
  - However, the long term effect of COVID 19 may require significant investment of State resources after Federal stimulus monies are no longer available
  - To improve the State's resilience, investments are required to shore up the State's facilities, invest in wildfire preparedness and prevention and restore communities
- The Commission recommends continued prudence in the management and use of debt to make capital investment in infrastructure, housing and economic development, higher education and other projects that will benefit Oregonians over the long term

Questions?