State Debt Policy Advisory Commission
Summary of 2024 Annual Report

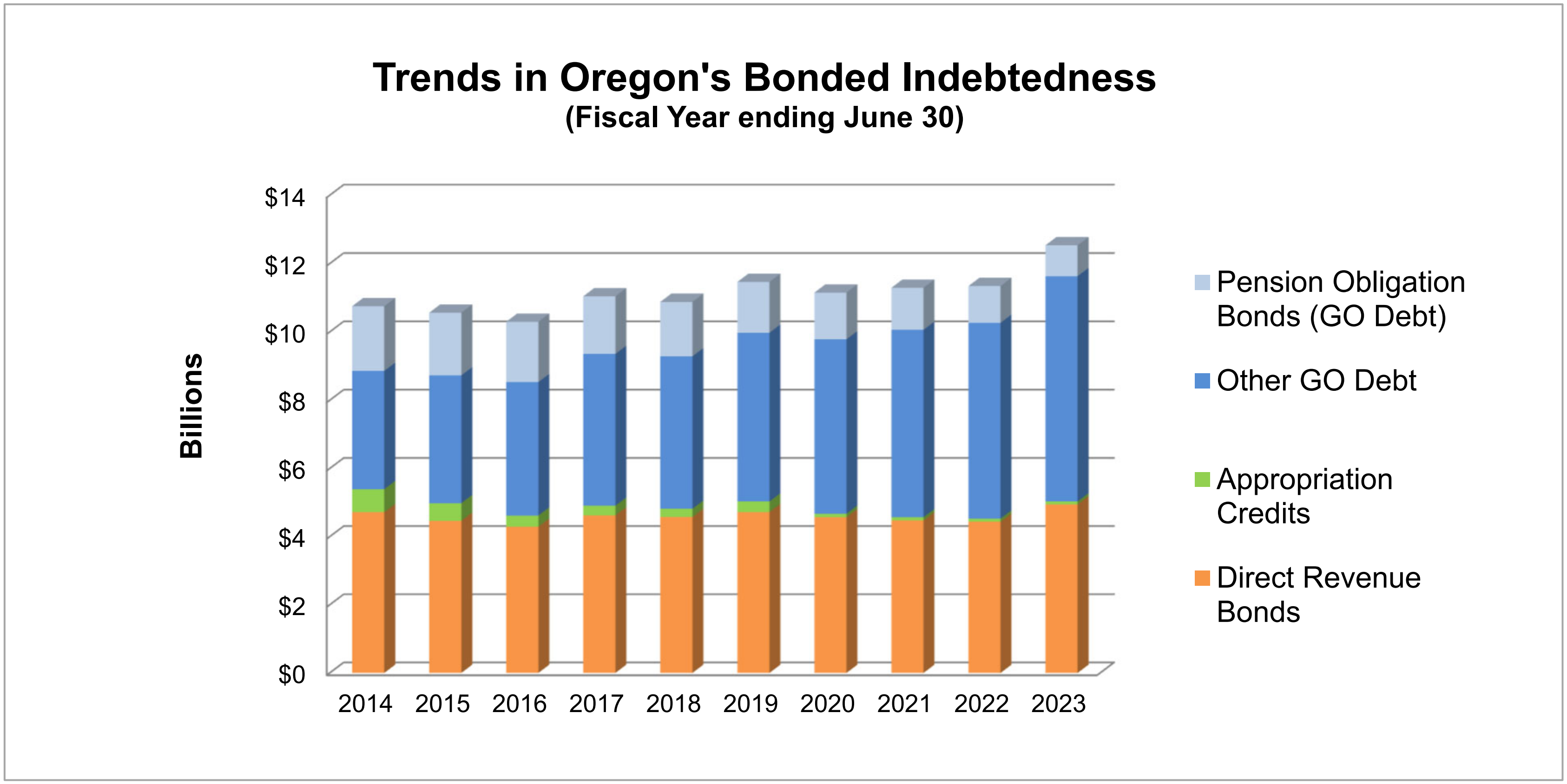
OREGON STATE TREASURY

January 18, 2024

Contents

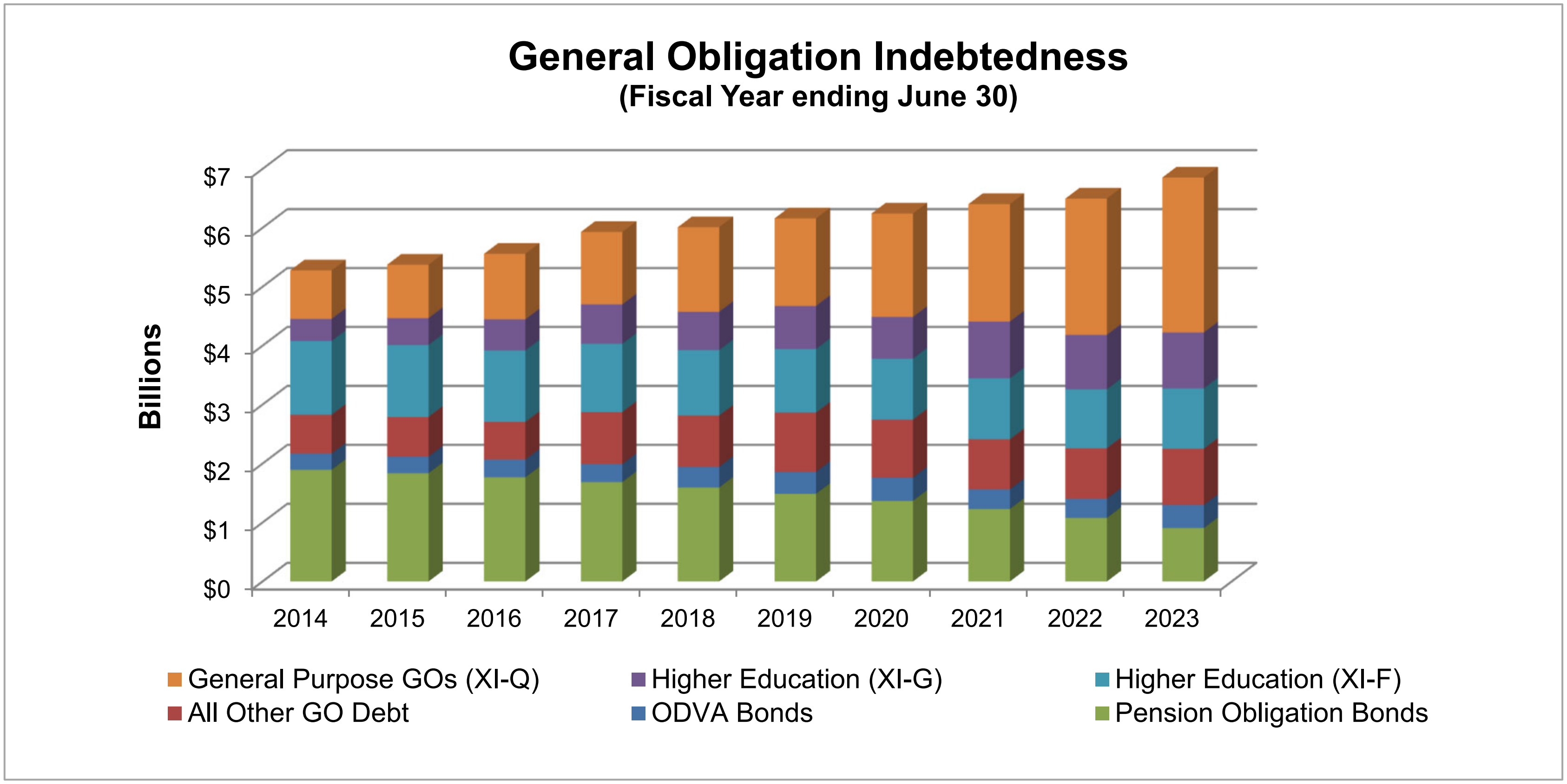
Oregon Outstanding Debt Position

Aggregate State Debt Levels



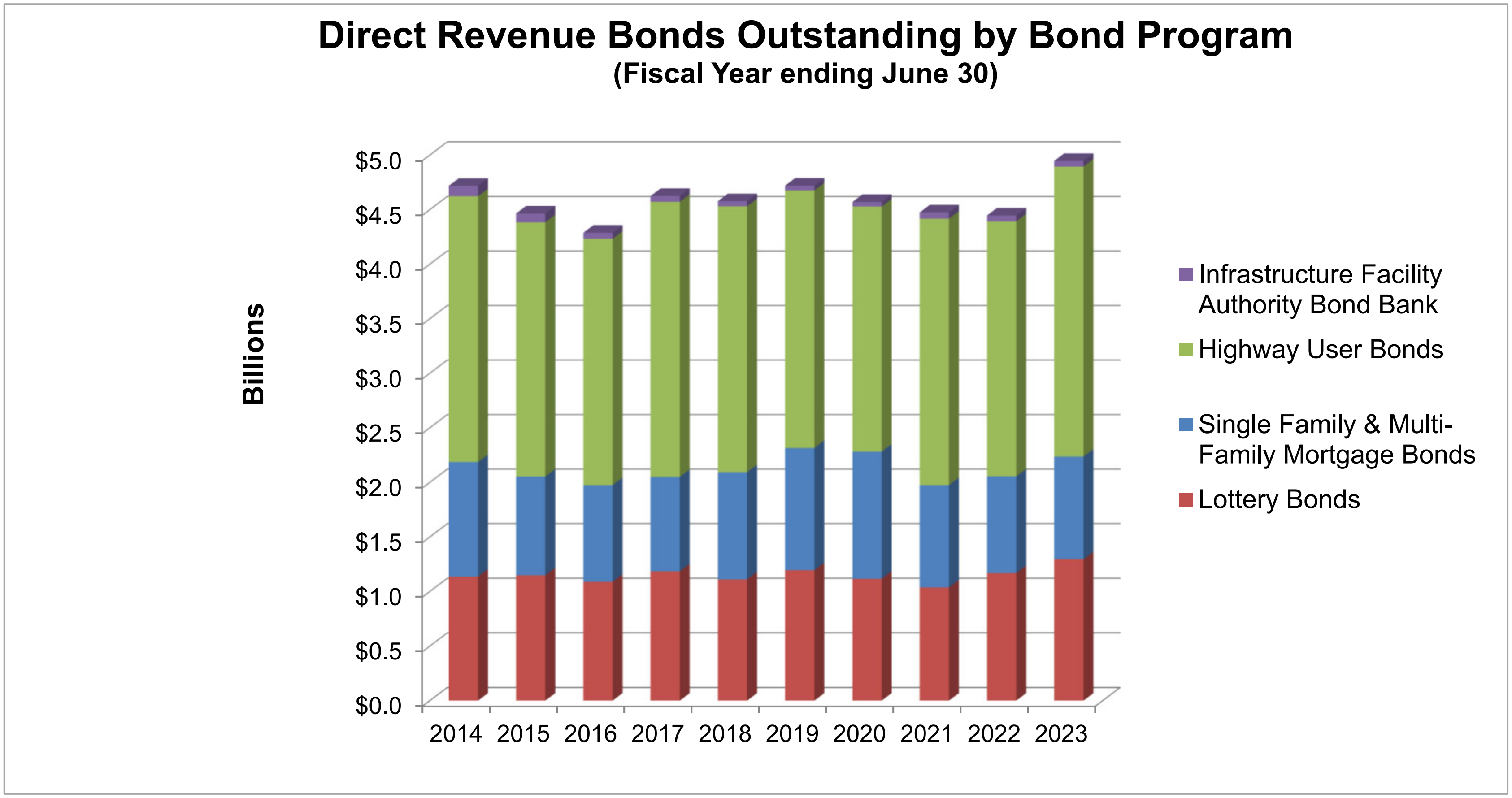
- As of June 30, 2023, State had $12.54 billion outstanding long-term debt consisting of :
  - All General obligation bonds (general fund-supported and self-supporting)
  - Appropriation debt including Certificates of Participation (COPs)
  - Direct Revenue Bonds include ODOT's Highway User Tax revenue program bonds, OHCSD Single Family and Multifamily Program Revenue Bonds, Lottery Revenue Bonds, and Infrastructure Finance Authority (Bond Bank)

General Obligation Debt



- As of June 30, 2023, the State had $7.51 billion outstanding GO Bonds and Appropriation debt
  - $5.17 billion are General Fund-Supported debt (including Certificates of Participation)
  - $2.34 billion are 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 comprise 44% of all GO indebtedness and continues to grow with increased focus on improvements of state owned or operated property, LIFT program funding bonds, and the increased utilization relative to appropriation debt

Direct Revenue Bonds



- As of June 30, 2023, the State had $4.95 billion in Direct Revenue Bonds:
  - $2.66 billion of Oregon DOT (ODOT) bonds, supported by revenue constitutionally dedicated to road and highway uses
  - $1.3 billion of Lottery Revenue Bonds supported by Net Unobligated Net Lottery Proceeds
  - $942 million of OHCSD Single Family and Multifamily Housing Program Revenue bonds
  - $51.6 million of Oregon Business Development Department (Business Oregon) Bond Bank bonds

Oregon's Bond Programs Have Strong Credit Ratings

- The rating agencies have cited that Oregon's high credit quality is supported by factors including
  - The State's stable budgetary position and structural budget balance, demonstrated fiscal resilience
  - Strong liquidity position that supports budgetary flexibility and growing reserves (Rainy Day Fund) with statutory replenishment
  - Proactive management, sound financial controls, willingness to correct structural imbalances and institutionalized quarterly reviews of financial performance

Oregon Bond Ratings by Credit

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

*Kroll Ratings added April 18, 2023
**Upgraded to Aa1 from Aa2 by Moody's on January 12, 2021

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 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
- As of June 30, 2023, Treasury reported $3.31 billion in Conduit or Pass-Through Revenue bonds outstanding for the above listed programs

General Fund–Supported Debt Capacity

General Fund-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) (60% 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) (91% of total)
- State Pension Obligation Bonds (40% of total)

Appropriation Credits

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

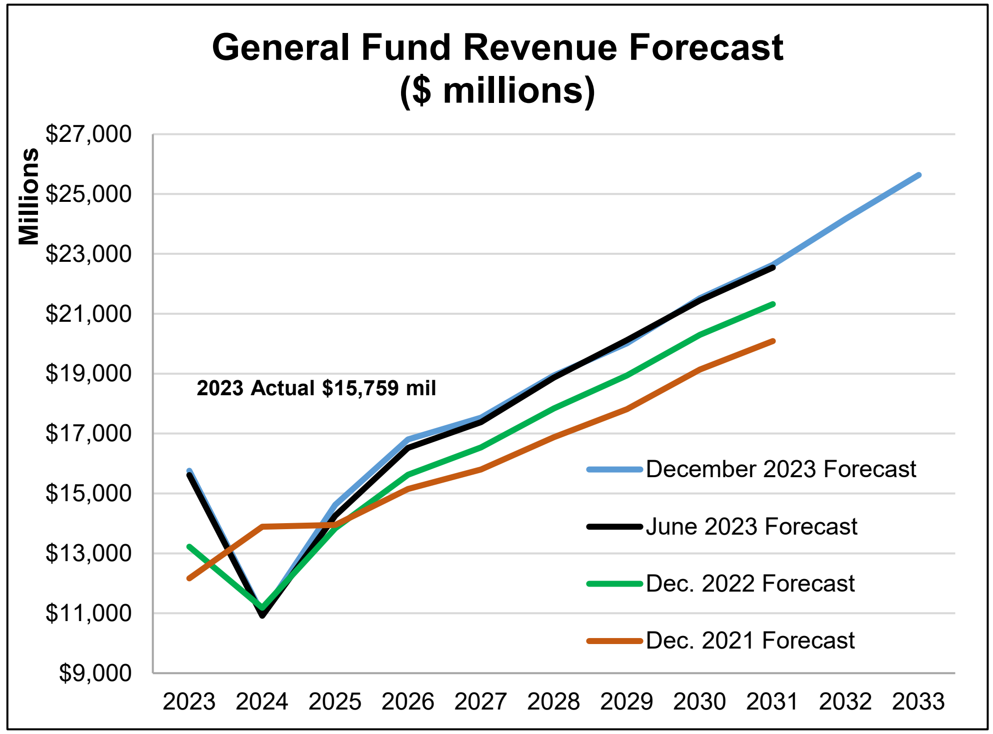
General Fund Debt Capacity Model Inputs and Assumptions

- Accounts for all $5.17 billion in General Fund-supported debt outstanding as of June 30, 2023
- Assumes 2023-25 Biennium issuance of all $2.15 billion of General Fund-supported debt authorized by the 2023 Legislature
  - $75 million Article XI-G GO Bonds to provide 50% matching grants for community college building projects
  - $84.7 million Article XI-G GO Bonds for Higher Education Facilities
  - $100.9 million Article XI-M GO Bonds to fund seismic upgrade grants to public schools
  - $50.6 million Article XI-N GO Bonds to fund seismic upgrade grants to public safety facilities
  - $126.1 million Article XI-P Bonds for matching grants for K-12 school capital improvements
  - $1.35 billion Article XI-Q GO Bonds to fund state buildings, affordable housing projects, and local courthouse project matches
- Uses OEA's December 2023 Forecast of General Fund Revenue Projections for the four future biennia over the forecast period (FY 2024 – FY 2033)
- Structures new debt with level annual debt service over 20 years using a **5.50%** interest rate, to reflect Federal Reserve Board expectation for maintenance of high rates to reduce inflation
- Assumes a target of **5.0%** of General Fund revenues will be used to pay General Fund debt service

General Fund Revenue Forecast Trends

- The December 2023 Forecast shows strong growth in General Fund revenues over the forecast period, with a decline in FY 2024 due to the personal income tax "kicker" and a rebound commencing in FY 2025
    - Due to higher-than-expected revenues, the State has generated a $5.6 billion "kicker" credit that will be rebated to taxpayers in FY 2024 and contributes to the steep decline in General Fund Revenue
  - The forecasted $25.6 billion of General Fund Revenue for the 2023-25 Biennium is $426 million above the 2023 COS Forecast
  - FY 2025 General Fund Revenue is forecasted to rebound by $3.6 billion from FY 2024

- Key factors contributing to General Fund revenue forecast include:
  - Factors affecting 2023-25 Biennium:
    - "Soft Landing"
    - Expected decline in capital gains tax
    - Kicker credit rebate
  - Long-term forecast include:
    - Rebound in personal income tax receipts growth due to demographic growth
    - Corporate excise and income tax collections
    - Inflation supporting higher income growth over the long term



General Fund-Supported Debt Capacity

- Using the December 2023 Forecast, General Fund debt capacity is projected to be $8.67 billion over the forecast period (FY 2024 – FY 2033)
- Averaging this capacity over the forecast period results in $2.15 billion issuance for each Biennium, or $1.075 billion annually
  - With the averaging approach, our target debt service ratio of 5% is exceeded in FY 2024 and in FY 2027, then drops below 5% after the pension bonds are fully amortized in 2027

Projected General Fund-Supported Debt Capacity (December 2023 Forecast)

Fiscal Year Ending June 30	Projected General Fund Revenue	Maximum Annual 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*
2024	10,984	--	5.4%	--	5.4%
2025	14,623	66	4.6%	66	4.6%
2026	16,802	1,002	5.0%	1,075	5.0%
2027	17,528	548	5.0%	1,075	5.3%
2028	18,937	2,327	5.0%	1,075	4.7%
2029	20,012	739	5.0%	1,075	4.9%
2030	21,518	1,053	5.0%	1,075	4.9%
2031	22,631	831	5.0%	1,075	5.0%
2032	24,172	1,079	5.0%	1,075	5.0%
2033	25,638	1,020	5.0%	1,075	5.0%
Total		**$8,665**		**$8,665**	

* Assumes the issuance of $2.125 billion in General Fund-Supported bonds authorized by the 2023-25 Biennium Bond Bill

Factors That Could Impact General Fund Debt Capacity

- Projected debt capacity will vary with changes in interest rates assumption or revenue projections

General Fund Debt Capacity
Sensitivity Analysis
(December 2023 Forecast)

$ Millions	FY 2025 – 2033	Change from Base Case (FY 2025 – 2033)	Average Per Biennium
Base Case for Next Four Biennia	**$ 8,665**	**$ ---**	**$ 2,150**
Change in General Fund Revenue Forecast			
10% decline	7,133	(1,532)	1,783
10% increase	10,197	1,532	2,549
Change in Interest Rate Forecast			
1.0% higher	7,824	(841)	1,956
1.0% lower	9,620	955	2,405

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Lottery Revenue Debt Capacity

Lottery Debt Capacity Model Inputs and Assumptions

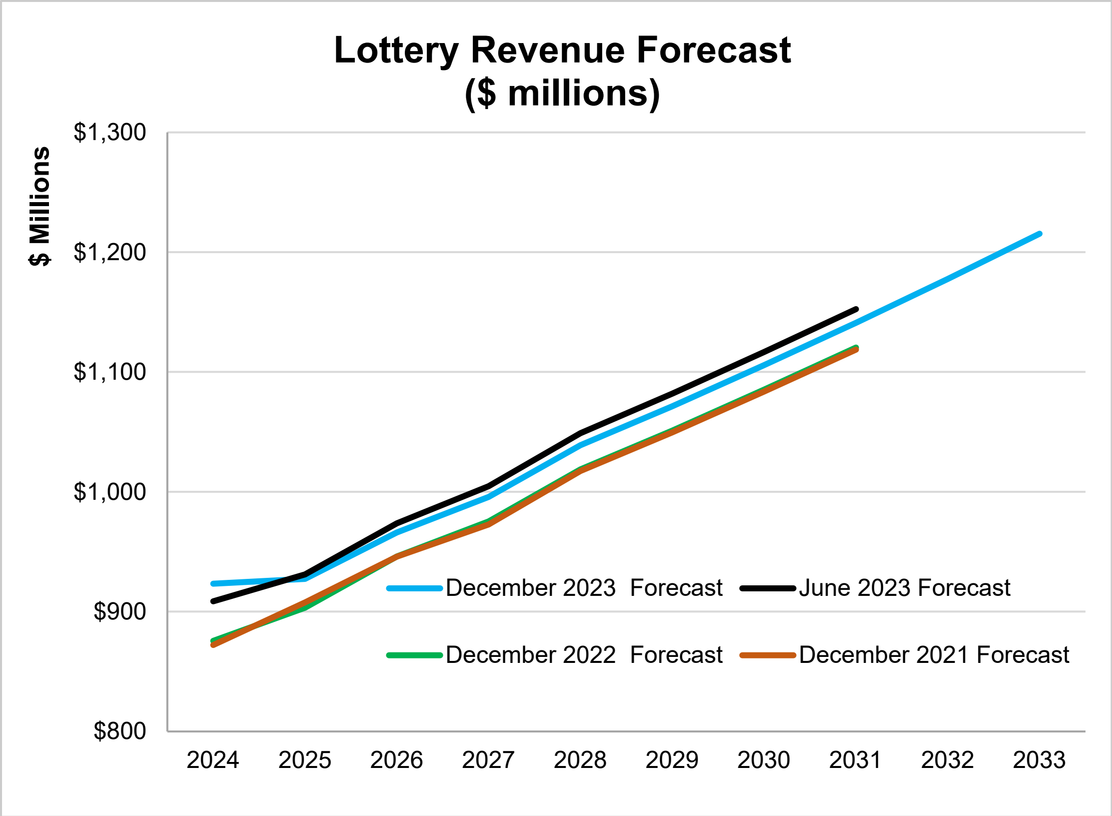
- $1.30 billion of Lottery Revenue Bonds were outstanding as of June 30, 2023, and have been used to fund programs including
  - Light Rail Projects and "Connect Oregon" Grants
  - Drinking Water
  - Community Loans and Grants
  - Economic & Rural Development
  - State Parks, State Fair & Oregon Gardens
  - Schools & Education
  - Supportive Housing
  - Regional Port and Airport Improvements

<u>Key Debt Capacity Assumptions</u>

- Uses OEA's December 2023 Forecast of Lottery Revenue over the forecast period (FY 2024 – FY 2033)
- Assumes issuance of the all $501 million 2023-25 Biennium authorized new money bonds
- Bond Structuring Assumptions Include:
  - Structures new debt with level debt annual service over 20-year term using a **5.50%** interest rate, to reflect Federal Reserve Board continued maintenance of high rates to curb inflation
  - The Lottery Revenue Bond Indenture requires that unobligated net lottery proceeds available for transfer must provide a minimum of **4** times coverage of maximum annual debt service or debt service may not exceed **25%** of unobligated net lottery proceed

Lottery Revenues Forecast Trends

- The December 2023 Forecast projects continued rebound in Lottery Revenue. Estimates for the 2023-25 Biennium have been upwardly revised to $1.85 billion
- Lottery revenue for the 2023-25 Biennium is forecasted to be higher than the 2021-23 Biennium as the economy, consumer discretionary incomes continue steady growth
- Lottery Revenues available for transfer are expected to grow from $1.85 billion in the 2023-25 Biennium to $2.39 billion in the 2031-33 Biennium
- Key Factors contributing to the continued growth in Lottery Revenue include:
  - A healthy jobs market that continues to fuel demand
  - Pent up demand and continued popularity of gaming
  - Persistent wage and income growth is expected to maintain discretionary household income and demand for gaming



Lottery Revenue Debt Capacity

- The December 2023 Forecast provides for a strong rebound in Lottery Revenues over the period FY 2024 through FY 2033, resulting in debt capacity of $2.15 billion
- Based on the December 2023 Forecast and using an averaging approach, the State's Lottery Revenue debt issuance capacity is $530 million in each Biennium or $265 million annually over the forecast period

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

Fiscal Year (ending June 30th)	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
2025	27	**4.0**	**25%**	27	4.9	20%
2026	387	**4.0**	**25%**	265	4.2	24%
2027	171	**4.0**	**25%**	265	4.0	25%
2028	348	**4.0**	**25%**	265	4.1	24%
2029	254	**4.0**	**25%**	265	4.1	24%
2030	270	**4.0**	**25%**	265	4.1	24%
2031	220	**4.0**	**25%**	265	4.1	25%
2032	338	**4.0**	**25%**	265	4.2	24%
2033	134	**4.0**	**25%**	265	4.0	25%
Total	**$ 2,150**			**$ 2,150**		

Factors That Could Affect Lottery Revenue Debt Capacity

Lottery Bond Capacity
Sensitivity Analysis
(December 2023 Forecast)

($ Millions)	FY 2025 – 2033	Change from Base Case (FY 2025 – 2033)	Average Per Biennium
Base Case for Next Four Biennia	**$ 2,150**	**$ ---**	**$ 530**
Change in Lottery Revenue forecast			
10% decline	1,787	(363)	446
10% increase	2,513	363	628
Change in interest rate forecast			
1.0% higher	1,943	(207)	486
1.0% lower	2,384	234	596

Net Tax-Supported Debt

Net Tax-Supported Debt

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

State Net Tax-Supported Debt Per Capita

- As of June 30, 2023, Oregon's Net Tax-Supported Debt was $10.05 billion and is projected to increase to $11.67 billion by the end of FY 2025
- Net Tax Supported debt as a percent of personal income is expected to grow from 3.60% at the end of the 2021-23 Biennium to an expected 3.74% by the end of the current Biennium
- Historically, the State's strong population growth over the last decade permitted the State to support increasing debt at affordable levels, however recent trends shows slowing population growth

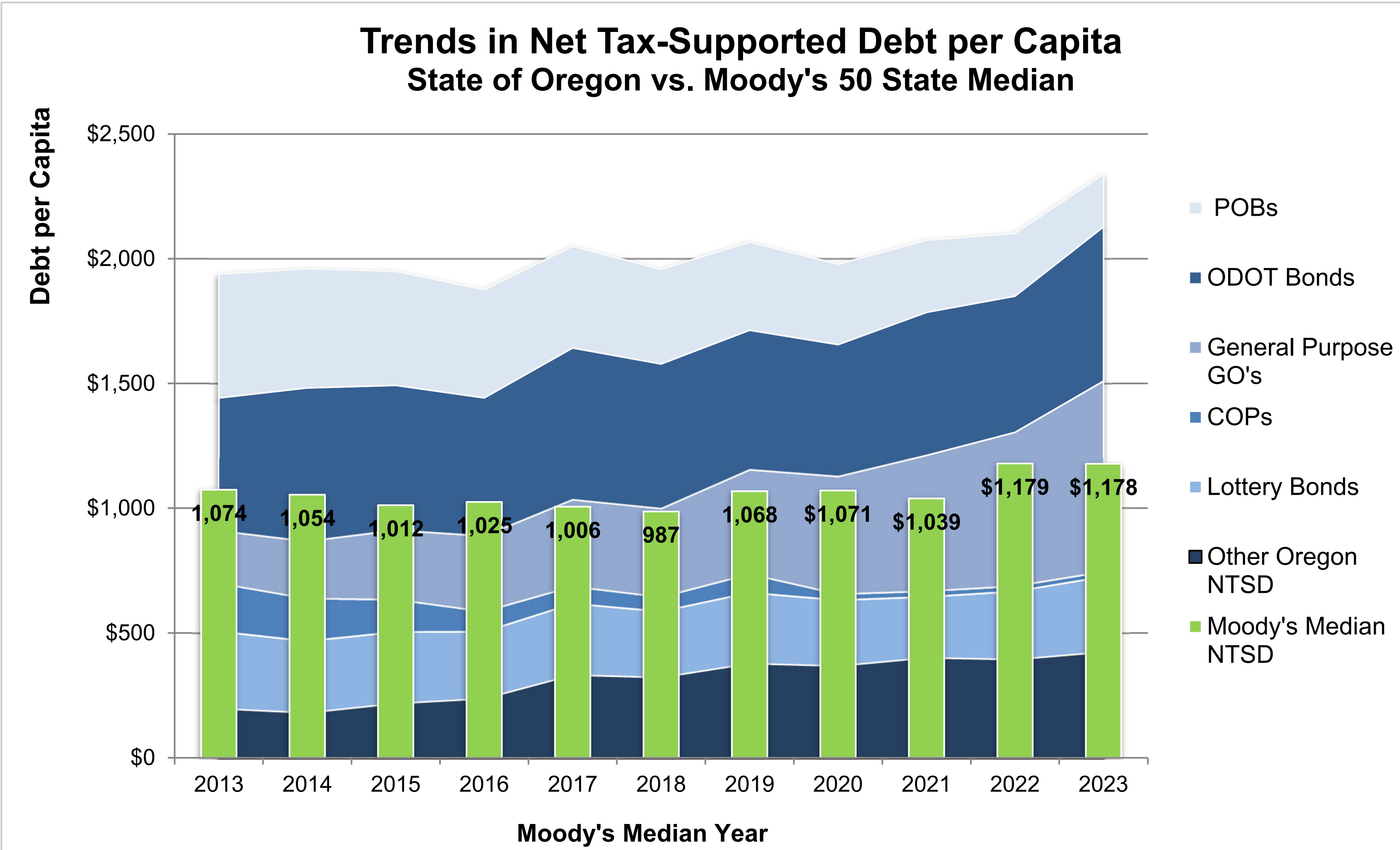
State of Oregon
Net Tax-Supported Debt Ratios (Change from End of Last Biennium)

Fiscal Year Ending June 30th				
	FY 2022 (Actual)	FY 2023 (Actual)	FY 2024 (Projected)	FY 2025 (Projected)
Net Tax-Supported Debt ($bn)	$ 8.99	$ 10.05	$ 10.82	$ 11.67
Population*	4,294,500	4,296,800	4,316,700	4,342,800
Personal Income * ($bn)	$ 268	$ 279	$ 296	$ 312
NTSD Per Capita	$ 2,094	$ 2,339	$ 2,506	$ 2,688
NTSD as a % of Personal Income	3.36%	3.60%	3.65%	3.74%
Pension Obligation Bonds Excluded				
NTSD Per Capita	$ 1,843	$ 2,128	$ 2,341	$ 2,573
NTSD as a % of Personal Income	2.96%	3.28%	3.41%	3.58%

*Source: Population and Personal Income projections are based on OEA Economic and Demographic, December 2023 Forecast

Trends in Net Tax-Supported Debt

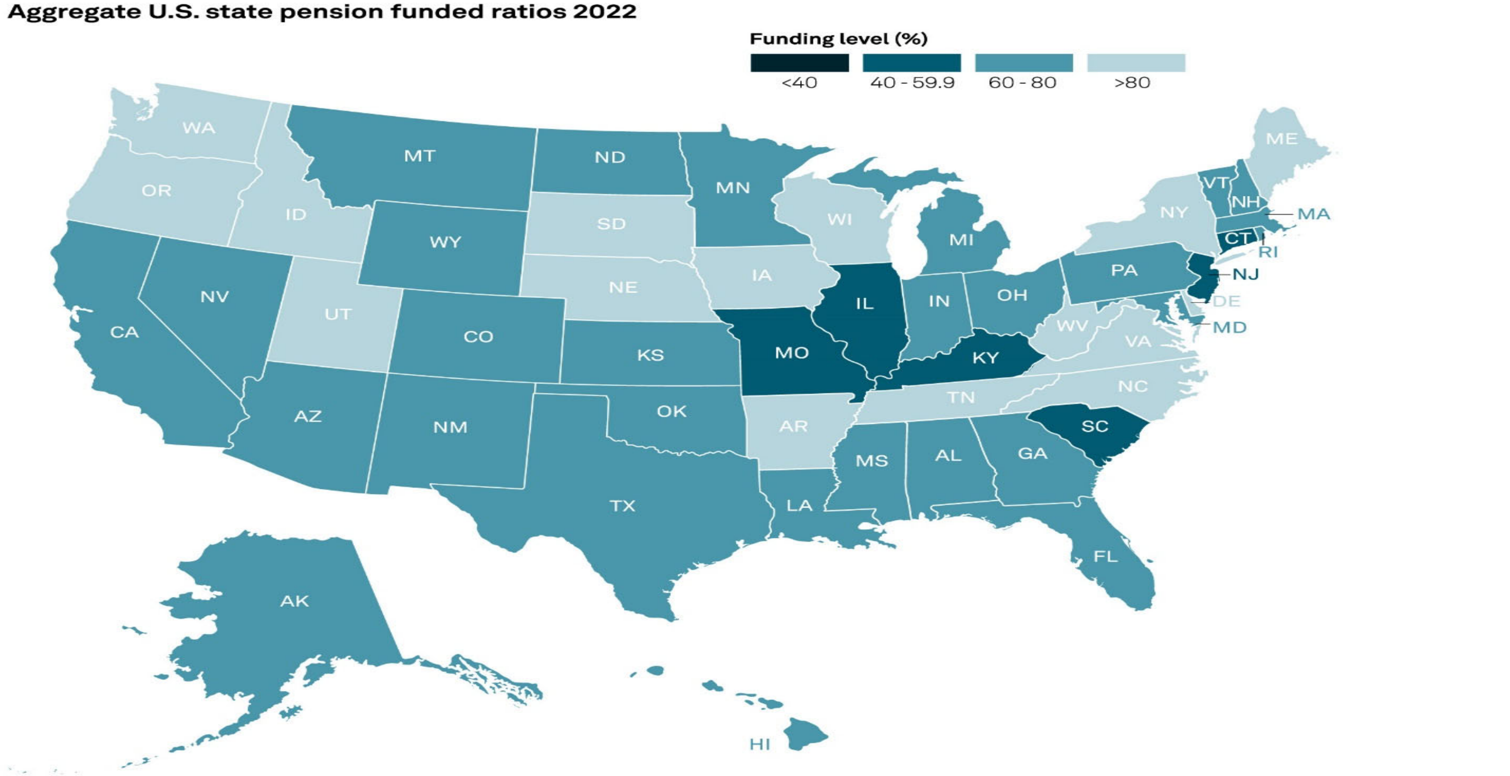
- Oregon's Net Tax-Supported Debt (NTSD) per capita as of FY 2023 is $2,339 which is above the median of $1,178 for all states
- Oregon's Net Tax-Supported Debt to personal income of 3.60% in FY 2023 is above the median of 2.2% for all states



Sources: Moody's Median Reports:

Pension and OPEB Funding Level By State

- Oregon ranks among the top states in terms of pension funding status, a measure of pension assets relative to pension liability
- Using FY 2022 data provided by S&P, Oregon ranked 13th highest among all states with pension funded ratio of 84.6%
- In October 2021, PERS reduced the assumed rate of return from 7.20% to 6.90%

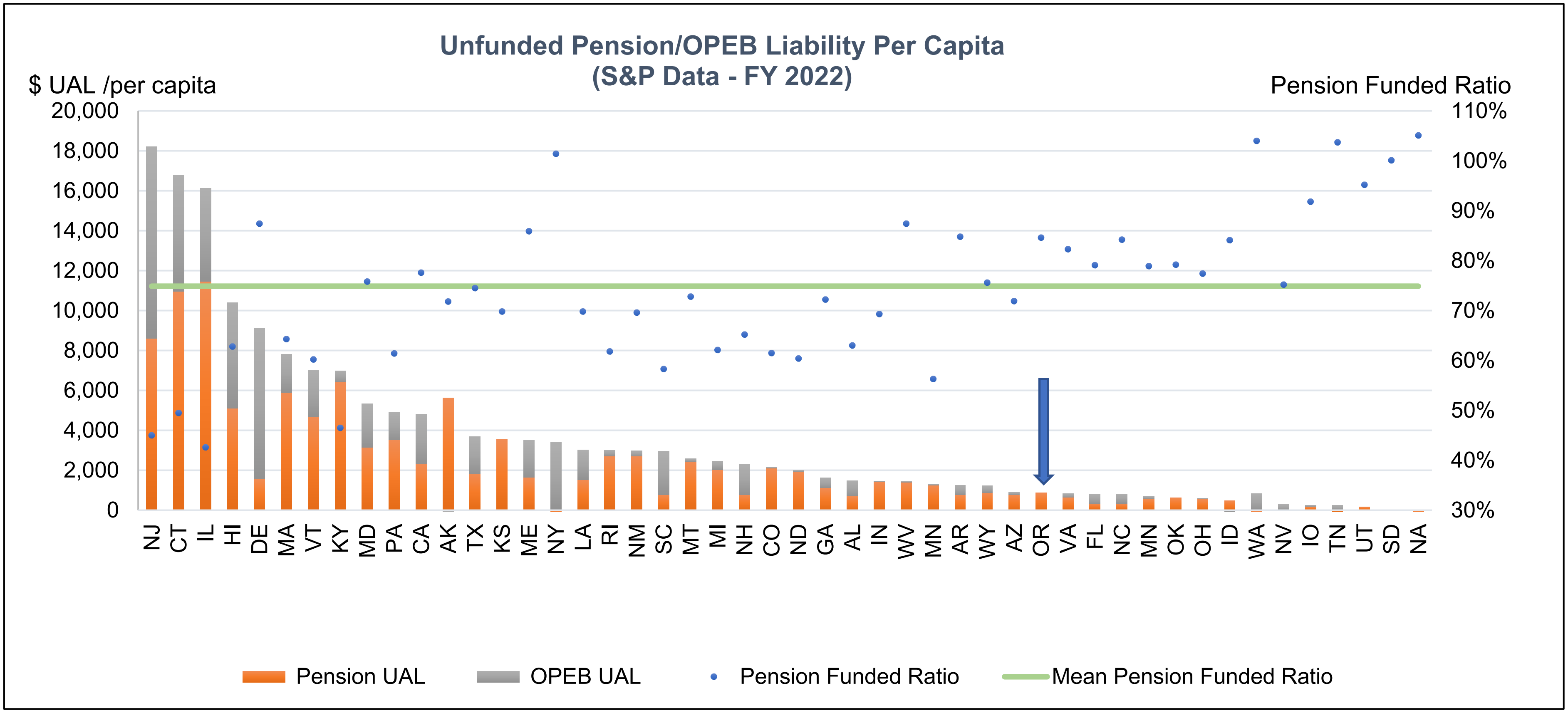


For most plans, data aligns with the state's 2022 fiscal year. For some plans, data aligns with the state's 2021 or 2023 fiscal years depending on data availability. Plans with calendar year-end reporting periods are incorporated within the state's respective fiscal year (e.g, reports ending Dec. 31, 2021, are counted within the state's 2022 fiscal year). N/A--Not applicable. Source: S&P Global Ratings.

Source: Standard & Poor's U.S. State Pension and OPEBs: Funding Progress is Likely to Pick Up in 2023 After Slipping in 2022 dated September 7, 2023. Net pension liability used for each state is based on the amount reported in their Comprehensive Annual Financial Reports as of June 30, 2022.

Oregon's Per Capita Pension and OPEB Liabilities Ranking

- Oregon's per capita unfunded pension and OPEB liability is among the lowest level when compared to other states
  - Oregon ranks 15th lowest in Pension and OPEB liability per capita, among all states
- Additionally, Oregon's FY 2022 pension funded status of 84.6% is above the median for all states (74%) for the same period



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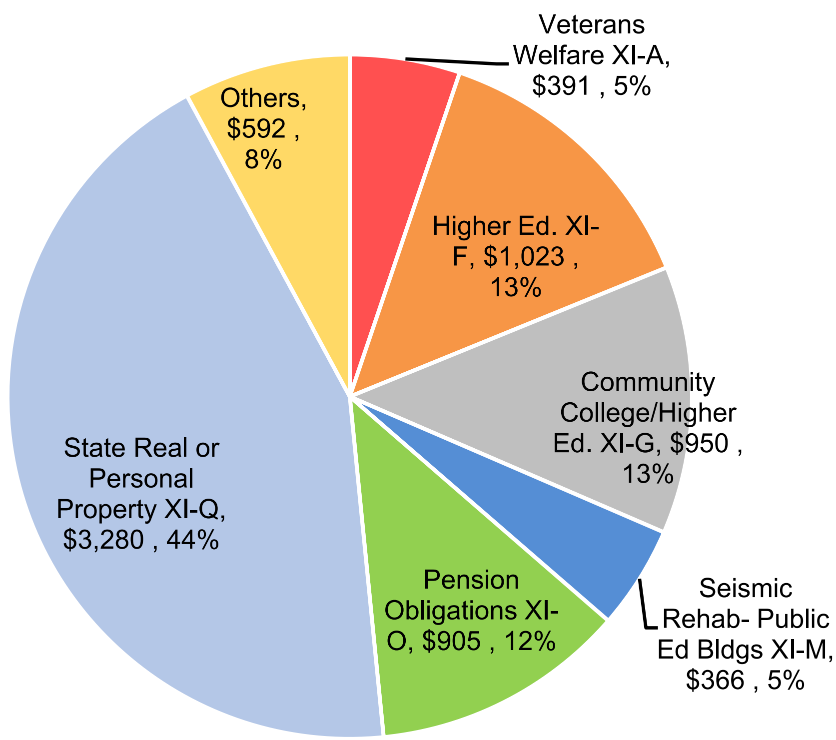
State Debt Issuance Considerations

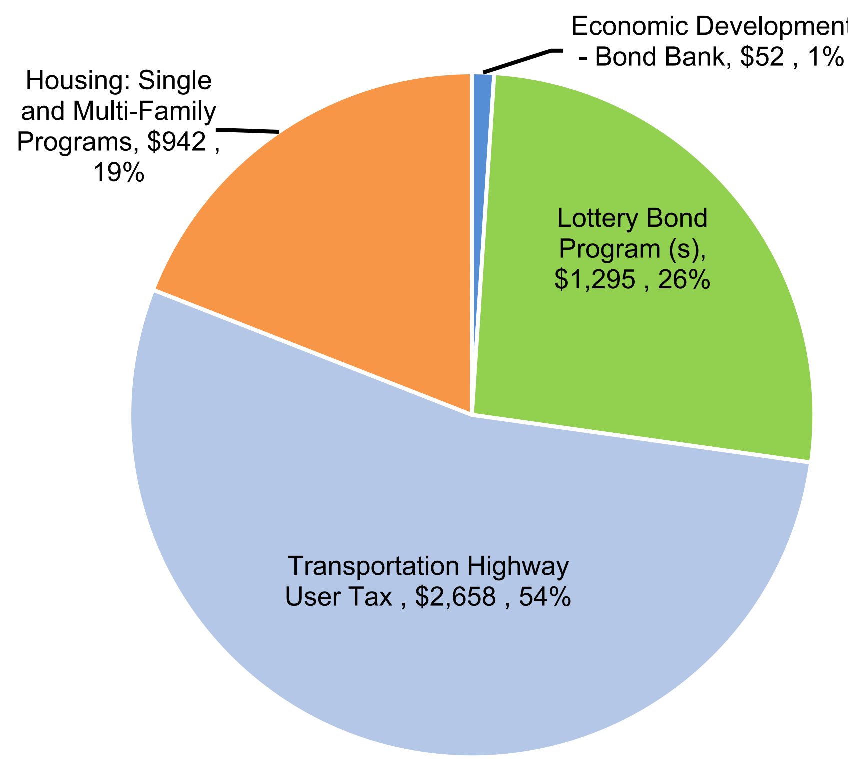
Composition of the State's Overall Indebtedness (FY 2023)

- Article XI-Q Bonds comprise 44% of General Obligation indebtedness and is increasingly being utilized to fund the LIFT program bonds, which competes with other statewide capital funding needs
- Transportation infrastructure needs continue to grow and comprise about 54% of direct revenue bonds

Outstanding General Obligation Debt By Constitutional Authority as of June 30, 2023 ($ Millions)



Outstanding Direct Revenue Debt By Program as of June 30, 2023 ($ Millions)



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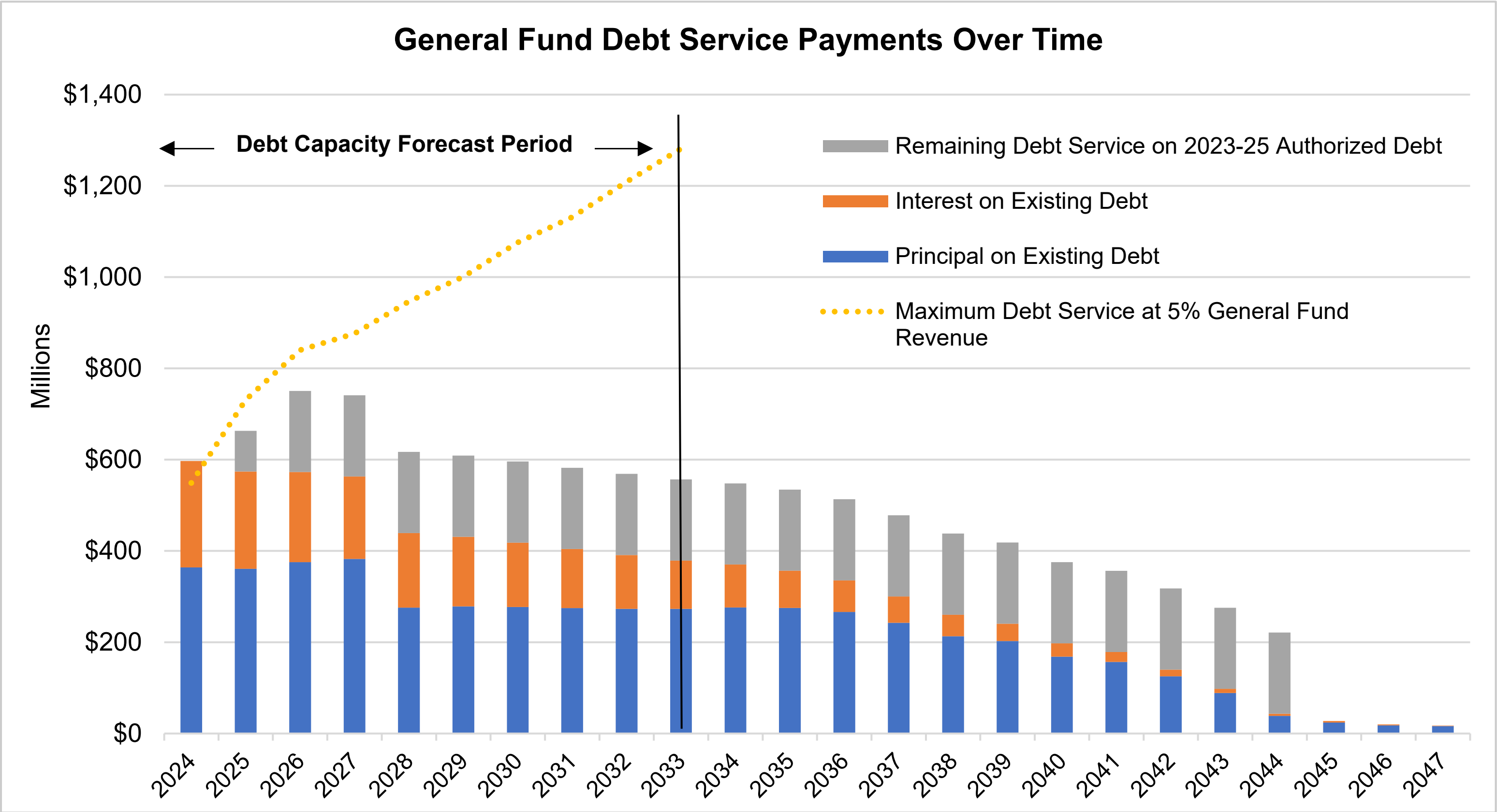
General Fund Debt Service

- **The State maintains a conservative General Fund debt service profile**
  - Currently, the State manages debt balances with a target General Fund supported debt service target of 5%. Over the past several years, General Fund revenue has increased year over year providing increased debt capacity in each year
  - Over 50% of current outstanding debt principal amount will amortize over the forecast period. This with the paydown of POBs by 2027 frees up debt capacity in the later Biennia of this decade



- The Commission has historically recommended that the Legislature considers spreading issuance over the Biennium to permit the State to benefit from interest cost averaging rather than concentrating the issuance at the end of the Biennium

OREGON STATE TREASURY

Emerging Areas of Concern

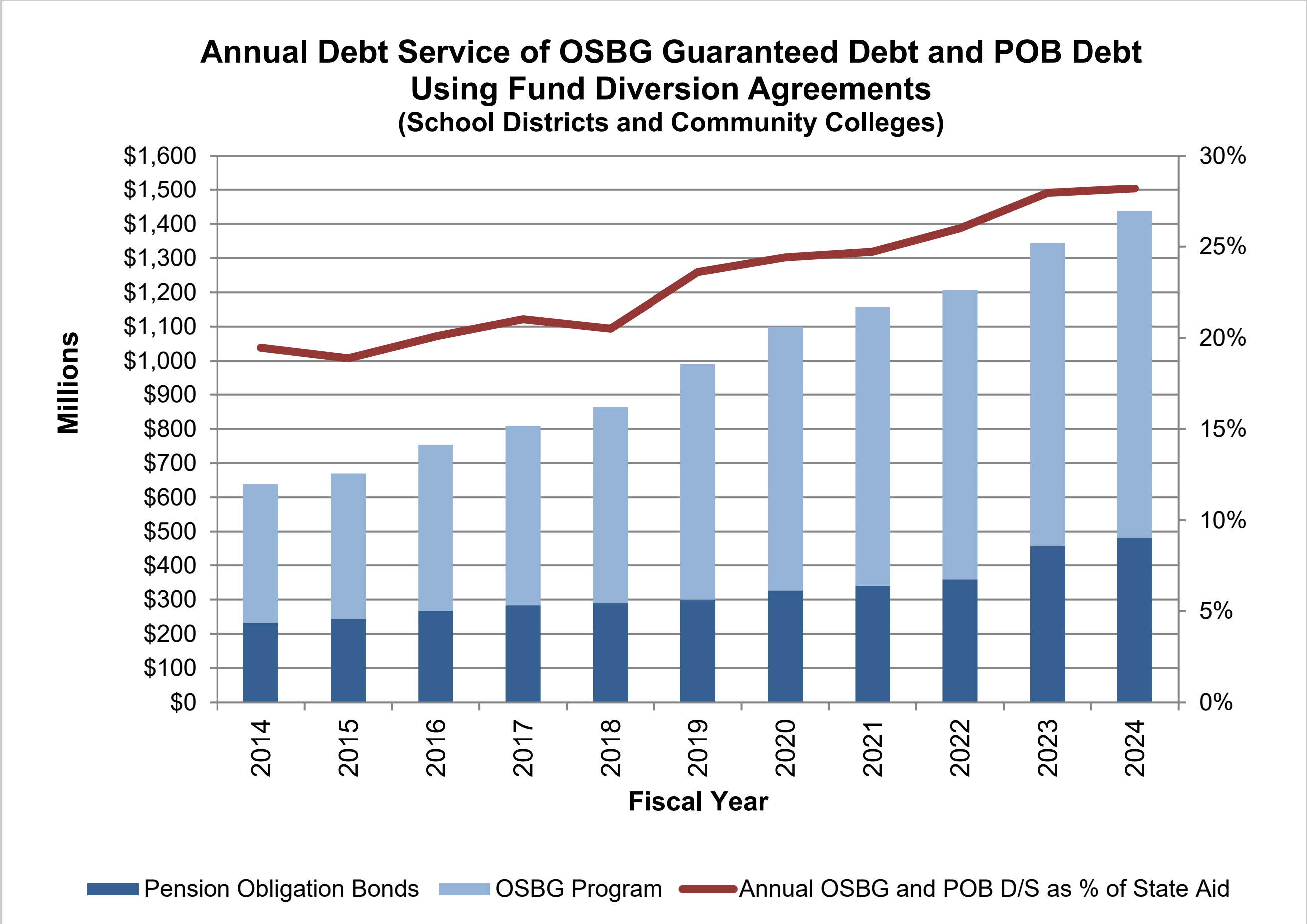
Oregon School Bond Guaranty Program and Pension Bonds

- The Oregon School Bond Guaranty (OSBG) program, created in 1998 via constitutional amendment, permits the State to credit enhance school district bonds using the State Aid intercept where State School Aid may be directed to the pay debt service on OSBG debt. As of June 30, 2023, the program has guarantees on $10.1 billion of outstanding GO bonds issued by Oregon school districts and community colleges

- District pension obligation debt uses the Fund Diversion Agreement to support POBs debt service, which enhances the credit ratings of POB issuances without the use of the Guaranty

- For FY 2024, outstanding POB debt service is expected to account for 18.7% of annual State Aid to Schools and Community Colleges. In the aggregate, guaranteed or contingent claims against school aid total 28.2%

- Four school districts currently have combined annual State guaranteed debt service (GO and POB) that exceed their annual allocation of State school aid



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State Guarantee of Local Government POBs

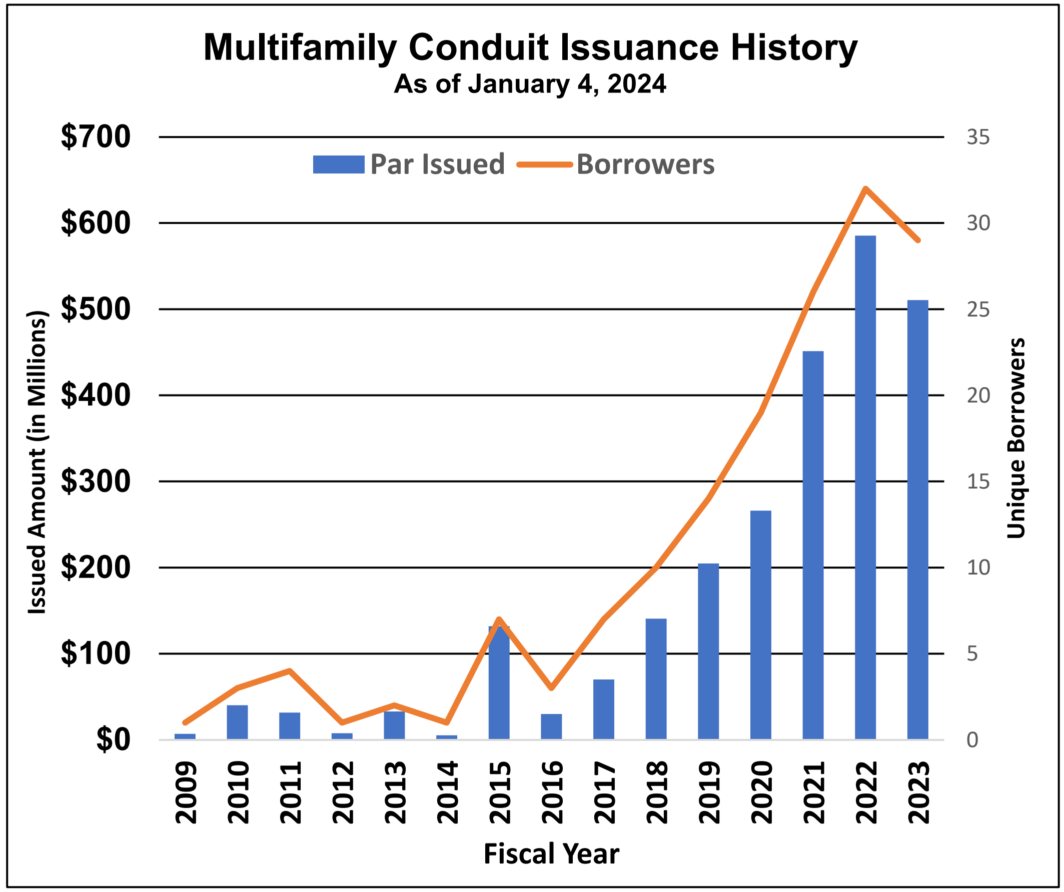
- In the 2019 Regular Legislative Session, SB 1049 was enacted and codified in ORS 238.697, establishing new requirements for issuers of POBs issued after June 11, 2019, including:
  - Issuer must “obtain a statistically based assessment from an independent economic or financial firm”
  - Issuer must disclose if the services of an independent SEC-registered advisor is retained
  - Requires the issuer to provide the State Debt Policy Advisory Commission with an “annual report on bonds issued under ORS 238.694” which shall contain a) actual interest rate over the term of the bonds, b) projected rate of return on the bond proceeds, and c) actual rate of return on bond proceeds in prior fiscal year
- In May 2021, the MDAC approved OAR amendments, which became effective on July 12, 2021
  - The OAR Amendments provides guidance to municipalities on the issuance of POBs and establishes a fee structure for public bodies that issue POBs
  - Since implementation of the OARs, and subsequent to the June 30, 2023, thirty-five public bodies (school districts and community colleges) have sold POBs totaling $1.88 billion
- ORS 238.698 authorizes the Department of Education to enter into fund diversion agreements to improve the creditworthiness of Pension Obligation Bonds (POBs) issued by Oregon school districts and community colleges to pay principal and interest on POBs
  - The diversion agreement permits the State to direct annual State aid funds, available to participating school districts and community colleges, to make POB debt service payments directly to the POB bond trustee

PAB Volume Cap 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 2023 Legislature authorized in each of CY 2024 and CY 2025 PAB Volume Cap of $509.5 million as follows:
  - $450 million Legislative allocation to OHCSD
  - $58.5 million to the PAB Committee for statewide projects
  - $1 million Legislative allocation to Oregon Business Development Department (OBDD)
- Based on December 2023 population statistics and IRS volume cap per capita allocations, Oregon’s 2024 CY PAB Volume Cap is approximately $529 million, which increases the PAB Committee CY 2023 allocation authority by $19.6 million
- Unused CY 2023 allocations became available in December 2023 and will become available to the Private Activity Bond Committee to allocate in its January 2024 meeting

Multifamily Conduit Revenue Bond Issuance

- Issuance of multifamily conduit revenue bonds has increased sharply since 2018, largely due to the issuance of General Obligation bonds for Local and Innovative Fastrack Program (“LIFT”) affordable housing and Permanent Supportive Housing (“PSH”) program awards which have been combined with various established housing tax credits including 4% Low Income Housing Tax Credit (LIHTC)
- Multifamily revenue bonds are issued on behalf of public and private entities for the development and rehabilitation of low-income multifamily housing
- During FY23, 29 conduit bond issuances totaling $511 million closed. In FY 24, 4 deals totaling $71 million have closed so far. 13 more issuances for approximately $397 million are projected to close by FY 2024
- $717 million in Article XI-Q General Obligation bonds have been issued in support of the LIFT and PSH programs through May 2023 to provide gap funding for affordable and permanent and supportive housing bond issues
- The strong demand for affordable housing statewide has intensified competition for the limited availability of private activity bond volume cap



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Conclusion

Conclusion

- The December 2023 Forecast indicates that the anticipated soft landing will have limited impact on 2023-25 Biennium General Fund and Lottery Revenues, after which revenue is expected to increase
- Due to strong FY 2021 personal income tax performance, the record rebate expected in FY 2024 will result in existing general fund supported debt service exceeding the 5% target
- The State's General Fund revenues are forecasted to provide for $8.665 billion of new General Fund debt capacity for the upcoming four biennia, with an average debt capacity of $2.150 billion per Biennium
- Lottery Revenue continues to demonstrate a robust recovery and continue to be heavily dependent on video gaming, which is reliant on access to bars, restaurants and gaming facilities
  - Projected Lottery Revenue provides $2.15 billion of new Lottery Revenue debt capacity for the upcoming four Biennia, with an average debt capacity of $530 million in each Biennium over the forecast period
- The State has strong credit ratings due to its adherence to prudent debt management practices, fiscal discipline, strong management and high liquidity position
  - The State's long-term General Obligation Bond ratings were recently affirmed by S&P, Moody's and Fitch in October 2023 at AA+/Aa1/AA+, respectively
  - The State's long-term Lottery Revenue Bond ratings were also affirmed by S&P and Moody's in April 2023 at AAA/Aa2, respectively. An additional AAA rating was obtained from Kroll for the first time
  - Evaluation and management of key revenue and budgetary risk factors as well as buffering reserves are important components of ongoing debt management

Appendix

Oregon Debt Issuance Categories

Four Types of Long-Term Debt

1. General Obligation Bonds	• Requires voter approved constitutional amendment for new categories of use • Pledges the full faith and 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 • May include the 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 General Fund 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 • Maintain 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 general capacity limit or measurement ▪ State programs in this category are managed based on revenue streams available