

Balance Sheet Optimization – Data and Initial Concept Discussion

September 8, 2017

- The top 30 PERS employers have 67% of total PERS payroll. Excluding State Agencies (with 27%), the top 29 have 40% of payroll, while the remaining 764 employers have 33%.
- Based on Moody's rating reports or else audited financial statements, the group of 29 have annual operating revenues in excess of \$10 billion and nearly \$3 billion in cash balances (28% of revenue in total), and strong average credit ratings of Aa2.
- Cash balances are important factors in Moody's credit ratings because they represent the paramount liquid resource available to fund unforeseen contingencies as well as likely future liabilities.
- For cities and counties, Moody's expects cash balances to be between 10% and 25% of revenues for the Aa categories. Lower cash balances are expected for school districts (having more predictable cash inflows and outflows than municipalities) and higher balances are expected for universities and other entities without significant tax revenues that rely instead on revenues from tuition, grants & gifts, patient care or user fees.
- Simply taking a portion of the \$3 billion in cash balances would be detrimental for several reasons: it would reduce reserves against future liabilities and contingent risks; it would undermine confidence that the remaining balances would be available and not taken in the future; and it would significantly undercut incentives and support for building future balances (including fundraising for the universities).
- On the other hand, since these same strong financial entities are also major holders of PERS liability, there may be a way to optimize or harmonize the use of these balances, a large portion of which can be expected to be held in perpetuity to maintain credit strength.
- For example, the State could issue Notes (backed by its full faith and credit) equal to 25% of each PERS Employer's cash balances. They would hold these State Notes instead of other deposits or investments, swapping out 25% of their cash.
- The State Notes could bear interest at some appropriate rate but not have a maturity date (somewhat analogous to British Consols). Instead, a PERS Employer could get cash back from its State Note only if required to meet a financial contingency that would otherwise impact its ability to pay debt service—that is, the same event that would cause it to draw down on its cash reserves.
- The State Notes could create an ongoing financing pool of approximately \$750 million. This in turn could be used to match new "side account" contributions of PERS employers, above the required PERS contributions (from equity, not debt). This would incentivize them to apply any surplus funds to the PERS UAL rather than other uses, multiplying the impact.
- While the State Notes are a form of borrowing, it might be superior to a general pension bond issue since they would be internal to the publicly-held balance sheets of Oregon that also hold the PERS liability.

Cash Balances Held at Largest PERS Employers (millions)										
Employer	Name	Type	PERS Payroll	% Total	Oper Rev	Cash % Rev	Cash Balance	Report*	Rating	
1000	State Agencies	State	2,808	27.5%						
2121	City of Portland	City	350	3.4%	826	13.6%	112	M2017	Aaa	
2880	Oregon Health & Science University	Special	335	3.3%	2,673	30.3%	809	AFS2016	Aa3	
2038	Multnomah County	County	330	3.2%	401	12.5%	50	M2014	Aa1	
3818	Portland Public Schools	School	312	3.0%	639	20.4%	130	M2017	Aa2	
1252	Oregon State University	Univ	256	2.5%	720	23.0%	165	AFS2016	Aa3	
1254	University of Oregon	Univ	236	2.3%	693	47.7%	331	AFS2016	Aa2	
4062	Beaverton School District	School	226	2.2%	468	21.5%	101	M2017	Aa2	
3735	Salem-Keizer Public Schools	School	223	2.2%	441	20.3%	89	M2017	Aa2	
2001	Clackamas County	County	140	1.4%	173	29.4%	51	M2016	Aa1	
2918	Portland Community College	CC	128	1.2%	259	10.0%	26	M2016	Aa1	
1253	Portland State University	Univ	127	1.2%	437	49.4%	216	M2015	A1	
2011	Washington County	County	126	1.2%	220	25.9%	57	M2016	Aaa	
4341	Hillsboro School District #1J	School	112	1.1%	233	13.2%	31	M2017	Aa2	
2111	City of Eugene	City	103	1.0%	145	33.5%	48	M2016	Aa1	
3473	Eugene School District 4J	School	87	0.9%	189	14.8%	28	M2017	Aa2	
3291	Bend-La Pine Public Schools	School	83	0.8%	180	13.8%	25	M2017	Aa2	
2008	Lane County	County	82	0.8%	159	35.7%	57	M2017	Aa2	
4321	North Clackamas School District #12	School	82	0.8%	199	14.6%	29	M2017	Aa2	
2009	Marion County	County	80	0.8%	80	19.8%	16	M2017	Aa2	
2101	City of Salem	City	78	0.8%	127	37.4%	48	M2017	Aa2	
3843	David Douglas School District	School	69	0.7%	106	20.1%	21	AFS2016	AA-	
3824	Reynolds School District	School	68	0.7%	118	13.0%	15	M2015	Aa2	
2512	Port of Portland	Special	66	0.6%	295	99.4%	293	AFS2016	AA-	
2594	Metro	Special	61	0.6%	130	48.3%	63	M2016	Aaa	
4316	Tigard-Tualatin School District #23J	School	60	0.6%	142	21.8%	31	M2017	Aa2	
2027	Deschutes County	County	60	0.6%	57	45.3%	26	M2016	Aa2	
2115	City of Hillsboro	City	59	0.6%	90	26.9%	24	M2017	Aa2	
4288	Medford School District #549C	School	57	0.6%	138	15.2%	21	M2017	Aa2	
4332	Gresham-Barlow School District #10	School	54	0.5%	118	12.1%	14	M2017	Aa3	
	Subtotal - Largest 30 by PERS payroll		6,859	67.1%						
	Subtotal - Largest 29 excluding State		4,051	39.6%	10,456	28.0%	2,928		Aa2	
	Subtotal - Next 764 by PERS payroll		3,368	32.9%						
	Total - 794 PERS employers		10,227	100.0%						

*Where possible, revenues and cash balances from latest Moody's rating report. Otherwise from latest audited financial statements, using unrestricted cash & investments excluding university foundations.