2026

State Debt Policy Advisory Commission Report

January 29, 2026

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Oregon State Treasurer, *Ex-Officio Member*

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STATE DEBT POLICY ADVISORY COMMISSION

Governor Tina Kotek and Members of the 2026 Oregon Legislature:

As State Treasurer and as Chair of the State Debt Policy Advisory Commission (the "Commission"), I am pleased to submit the 2026 Commission Report. In preparing it, the Commission focused on preserving and enhancing the State's credit rating to save taxpayers' money through lower interest costs.

The Commission serves to advise the Governor and Legislature on policies related to State debt and long-term capital financing. This annual report contains recommendations on appropriate levels of indebtedness and prudent uses of that debt.

Highlights of this year's report include:

- Based on the State's most recent long-term general fund revenue forecast, the initially projected $1.8 billion in General Fund supported debt authorized by the 2025 Legislature for the 2025-27 biennium remains well within the Commission's recommended General Fund debt capacity limits. We estimate that in addition to the $513 million balance of debt capacity still available for projects this biennium, the State can issue up to $2.25 billion in additional General Fund-supported debt in each of the next four biennia while staying within our maximum debt capacity limit of a 5% ratio of General Fund debt service to General Fund revenue.
- Given the recent forecast for long-term Lottery revenues, our projections of long-term lottery debt capacity have decreased compared to the 2025 Commission Report. We anticipate future biennial lottery debt capacity of $397 million in each biennium over the forecast period. The Commission cautions that Lottery bond capacity is a scarce resource and that additional Lottery bond authorizations will reduce future lottery resources and bond capacity accordingly.

The primary factors influencing our recommendations on appropriate levels of debt are our assessments of interest rates and recent revenue projections by the state economist. We continue to employ cautious models around interest rates to align with the Federal Reserve's ongoing response to high inflation and price instability. Despite the Federal Reserve's rate-cutting actions in 2025, we believe continued caution is warranted.

As you evaluate the levels of debt to be issued I encourage you to remain mindful that bond rating agencies assess the State's overall debt, including transportation obligations and contingent liabilities, when determining creditworthiness. A high-quality State credit rating enhances the State's ability to attract investors and obtain low-cost capital financing. Additionally, I recommend factoring in recent bonding priorities and the ability of state and local governments to execute those projects as you weigh competing capital construction demands.

Oregon’s long-standing commitment to prudent management of debt has helped us maintain strong credit ratings and allowed us to borrow at low interest rates for a range of high priority capital projects around the state.

Finally, as you make decisions critical to Oregon’s long-term financial health, I encourage you to be fiscally prudent with the bonding capacity to ensure the State remains flexible and capable of responding to unforeseen challenges and emerging needs.

Our team at Treasury is ready to assist you as you weigh these important decisions and considerations.

Sincerely,

Elizabeth Steiner, MD
State Treasurer
Chair, State Debt Policy Advisory Commission

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APPENDICES:

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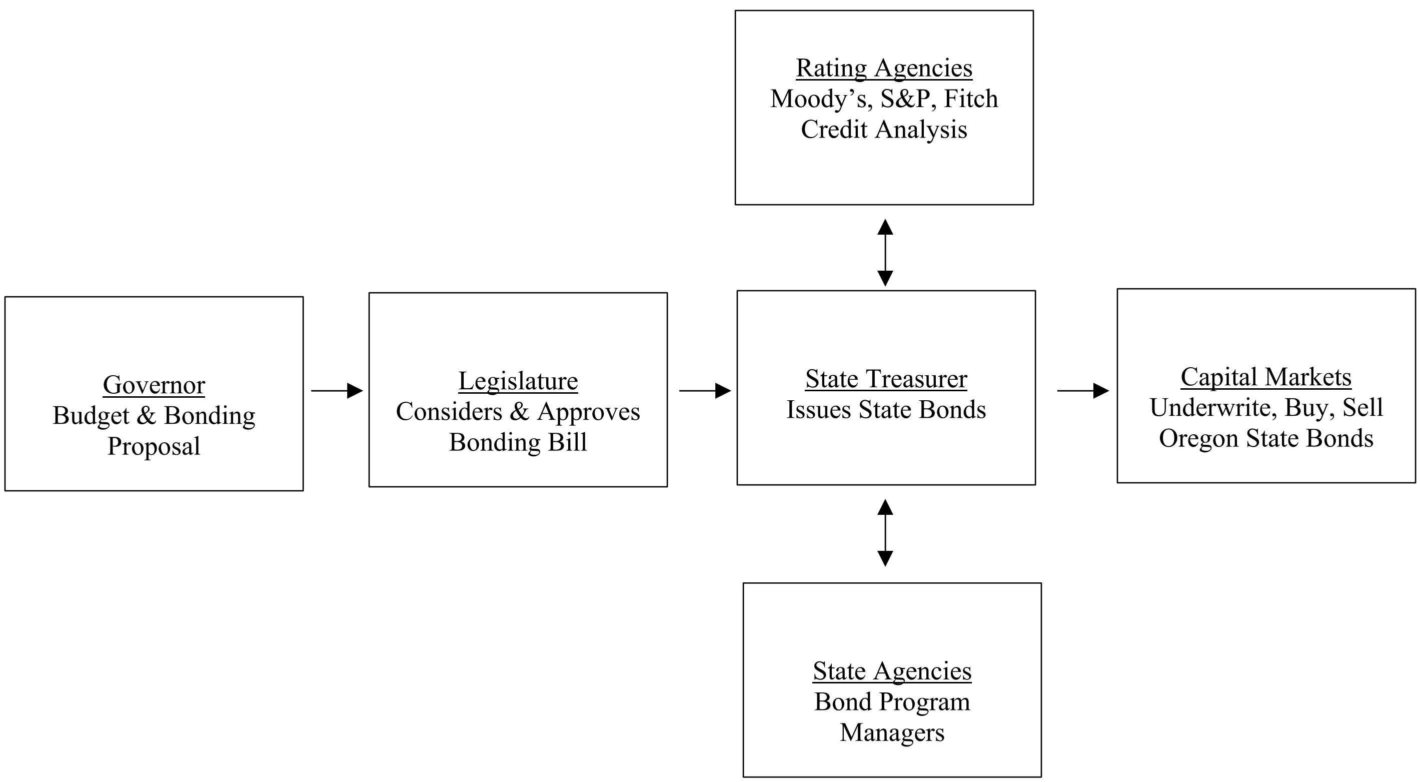
Oregon Bonding Process



Executive Summary

The purpose of this report is to provide an update on the current debt position of the State and a recommendation of how to best utilize bond capacity as a resource to fund the infrastructure needs of the State. This report has four main categories: General Fund-Supported Debt, Lottery Revenue Bond Debt, Net Tax-Supported Debt, and Non-Tax Supported Debt. The market tone and economic forecasts remain cautiously optimistic heading into 2026 and serve as the foundation for the forecasts contained in this report.

General Fund-Supported Debt

The Office of Economic Analysis's (OEA) December 2025 Forecast anticipates moderate growth at the national level with some acceleration of activity in 2026, leading to a modest increase in the General Fund Revenues forecasted when compared to the SDPAC's 2025 Report. General Fund-Supported Debt capacity over the next four biennia (FY 2027 – FY 2035) is estimated to be $9.0 billion given forecasted revenues and the State's target debt capacity of 5%. The Commission's generally recommended averaging approach as described below results in **an estimated annual average debt capacity of $1.13 billion or $2.25 billion for each biennium** during the forecast period.

Lottery Revenue Bond Debt

The December 2025 Forecast projects Lottery Revenues significantly lower than expected in the December 2024 Forecast. Assuming $1.8 billion of Lottery Revenue Bonds outstanding as of the end of the current biennium, this leaves room for a modest estimated $1.6 billion of Lottery Revenue Bond capacity over the next four biennia (FY 2027 – FY 2035) to meet the State's coverage requirement of 4x. This results in **an estimated average of $198 million each year or $397 million for each biennium** during the forecast period, although we note that there are limitations regarding this approach, detailed further herein.

Net Tax-Supported Debt

Oregon's Net Tax-Supported Debt, which includes General Fund-Supported Debt, Pension Obligation Bonds, Certificates of Participation, Lottery Revenue Bonds, State Highway User Tax Revenue Bonds, and other appropriations debt, is projected to **increase to $13.7 billion** by the end of the current biennium. On a per capita basis this represents **$3,152 or 3.85%** of personal income, respectively.

Other topics discussed herein include the Oregon School Bond Guaranty Program, Pension Obligation Bonds, Oregon's corporate income tax, the implication of PERS funding policy changes, the effective usage of private activity bond volume cap afforded to the State, as well as how the State can most effectively time debt issuances within the biennium to cost average and minimize the impact of any economic cycle on the State's balance sheet and income statement.

We appreciate your time and careful consideration of the matters and recommendations disclosed herein.

The Commission

Oregon Revised Statutes 286A.250 to 286A.255 establishes the State Debt Policy Advisory Commission ("Commission"). In accordance with these statutes, the five-member Commission is chaired by the State Treasurer and consists of a public member appointed by the Governor, an appointee from the Senate, an appointee from the House of Representatives, and the Director of the Department of Administrative Services. The Commission is charged with advising the Governor and the Legislative Assembly regarding policies and actions that will enhance and preserve the State's credit rating and maintain the future availability of low-cost capital financing. In carrying out this function, the Commission is required to prepare an annual report to the Governor and the Legislative Assembly as to the available debt capacity of the State of Oregon.

This 2026 Commission Report is intended to provide an overview of the State's current debt position, taking into consideration the State's outstanding debt as of fiscal year ending June 30, 2025; the most recent long-term revenue projections contained in OEA's December 2025 Forecast and the impact of bonding authorizations adopted in SB 5501 by the 2025 Legislature. With that information, this report will provide guidance on General Fund and Lottery Revenue bond debt capacity for the future biennia in the 2027-2035 forecast period.

This report evaluates debt capacity and debt burden for State bonding programs in four major categories: General Fund-Supported Debt, Lottery Revenue Bond Debt, Net Tax-Supported Debt, and Non-Tax Supported Debt.

The Commission's findings are outlined below with further detail provided in the appendix section. (filed as addendum to Report on the OST website)

Current Factors Affecting the Market for Bonds

The supply shock of the COVID pandemic and the resulting fiscal and monetary response to it combined to drive inflation to the highest levels since the 1980's. In response, The Federal Reserve Board ("FRB") aggressively tightened monetary conditions; commencing March 2022, the FRB increased rates multiple times, sending the Federal Funds ("Fed Funds") target rate from 0.25% to the peak levels of 5.50% and helped bring the high inflation level closer, but not quite to its target level.

In September 2024, the FRB started to loosen monetary policy; this included rate cuts totaling 100 basis points in CY 2024 along with three additional 25 basis points cuts in CY 2025 bringing the Federal Funds Target Range to 3.50% to 3.75%. Despite this lower target rate, investors continue to demand wide credit spreads and higher rates due to heightened geopolitical risks and market volatility. Specifically, tariff concerns, delayed data points due to the government shutdown, and mixed employment and inflation data are contributing to a tone of uncertainty as it relates to current and future rate expectations. In the analysis contained herein, we assume an interest rate of 5.50% - this is motivated by the current uncertainty in the municipal bond market, and as we have seen in 2025, news headlines and extraneous factors can cause sudden shifts in borrowing rates.

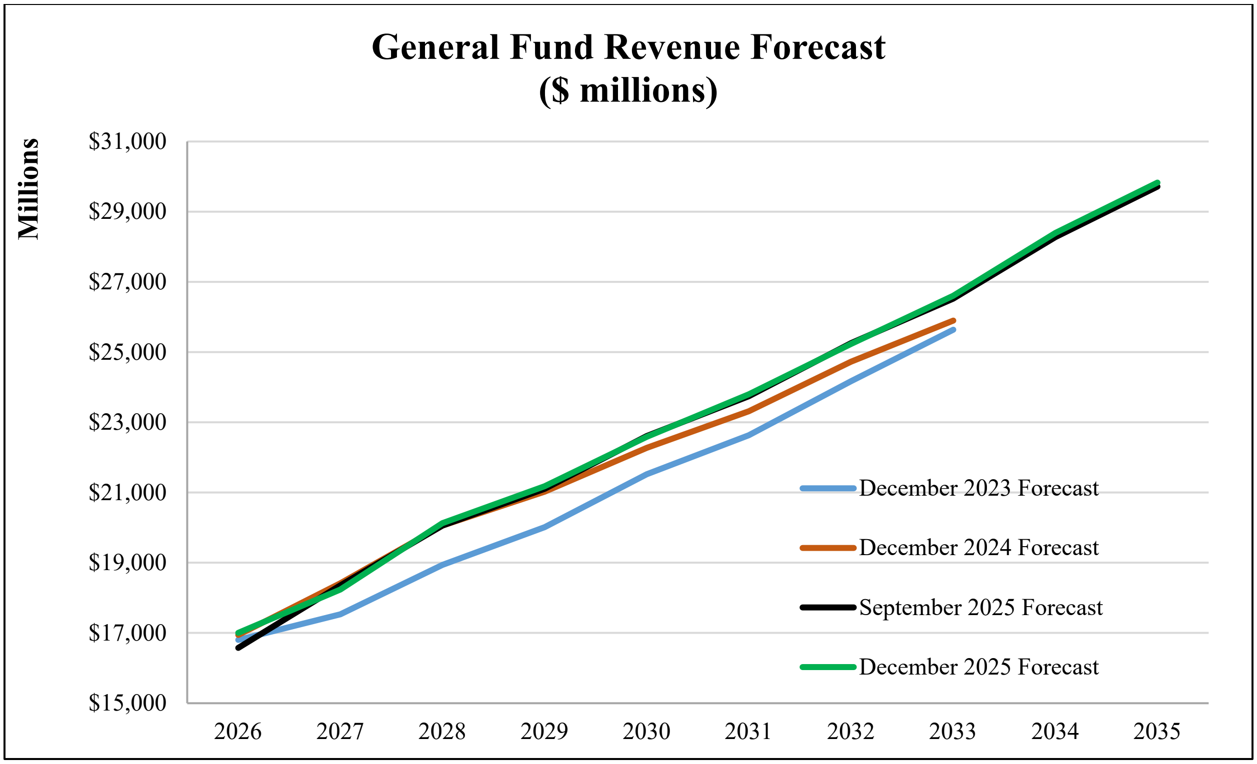
Key Elements of OEA December 2025 Forecast

OEA's December 2025 Forecast continues to expect moderate growth at the national level with some acceleration of activity in 2026. Net job creation is still in positive territory but currently lacks breadth. By some metrics, Oregon has underperformed national trends related to output and labor conditions.

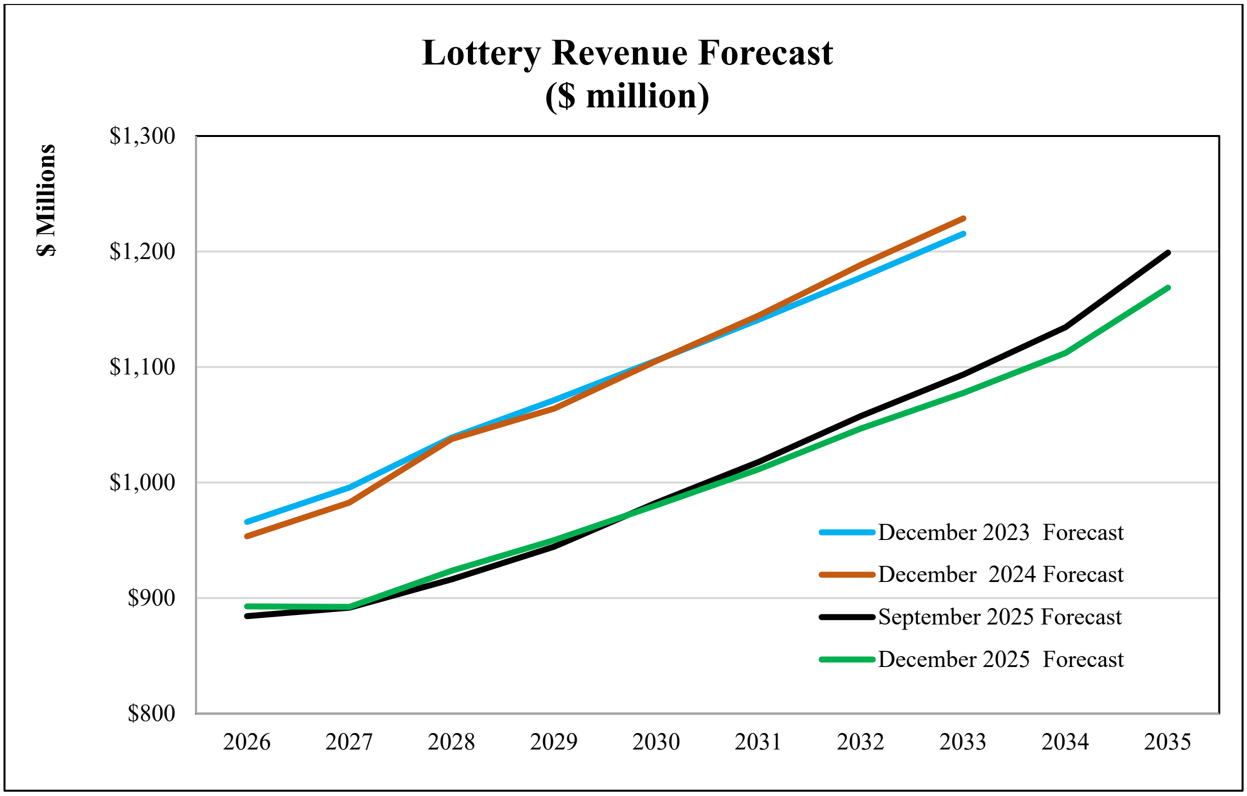
The December 2025 revenue projection for 2025-27 Biennium revenues is approximately $310 million higher compared to the September 2025 forecast primarily due to both personal and corporate income taxes coming in modestly higher than expected.

Frequent positive revisions to the General Fund forecast precipitated a review of the methodologies and assumptions underlying prior forecasts to rectify the propensity of low predictions relative to actual collections. The forecasts from late 2024 incorporate the new methodology resulting in increases in expected Personal and Corporate Income Tax revenues.

The most significant change to the General Fund forecast involves a recent uptick in Corporate Income Tax. Of the increase in the revenue outlook, Corporate Income Tax accounts for $267 million and higher Personal Income Taxes for $48 million.



The December lottery forecast has been raised by $9 million for the current biennium from the September outlook. Video lottery (which drives overall lottery revenues) forecasts have shown some recovery (by $11 million for current biennium and continued improvement into 2027-29), while Traditional Lottery sales are lower and sports betting shows modest growth. However, the chart below demonstrates that 2025 forecasted lottery revenues are notably lower than previous years.



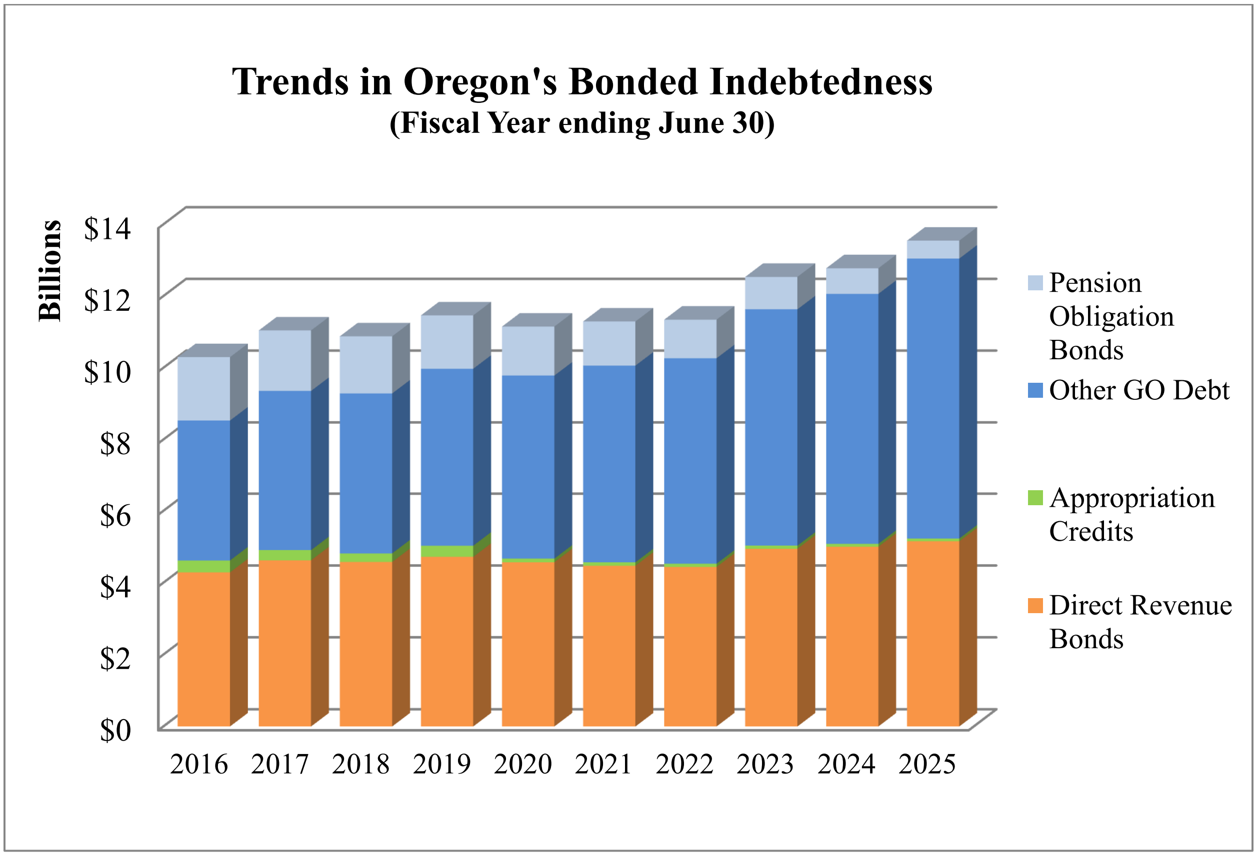
Overall State Debt Levels

Oregon's combined long-term general obligation, appropriation and revenue bond debt outstanding was $13.55 billion as of June 30, 2025. This represents an increase of $0.77 billion compared to the approximate $12.78 billion recorded at the end of the 2024 fiscal year. In the past, given the State's long-term commitment to managing its debt capacity in a prudent manner, new debt issuances had historically been timed for issuance at roughly the same pace that outstanding debt was scheduled to retire.

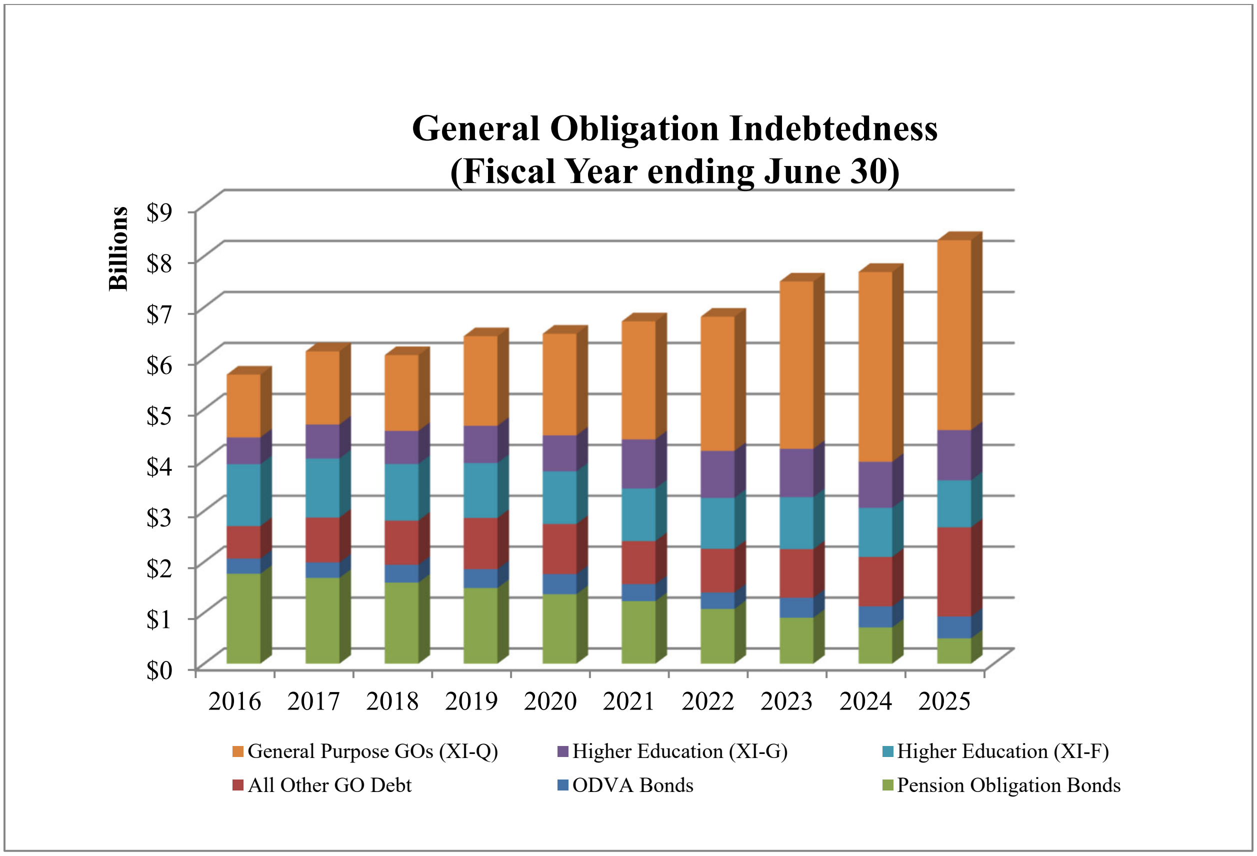
The strong growth in General Fund Revenues driven by growth in personal income tax and the consequent larger debt capacity has been accompanied by higher levels of debt issuance. This has raised the State debt above historical levels as of FY 2025.

Along with the increase in overall State debt levels the mix of debt outstanding has also shifted, with the reduction in outstanding appropriation debt met with an increase in outstanding general obligation (GO) bonds. Article XI-Q GO now represents the largest component of GO debt with $4.15 billion outstanding as of June 30, 2025, which represents 50% of the $8.31 billion that is the State's total general obligation indebtedness. Article XI-Q bonds are issued to finance state-owned or operated real or personal property including improvements to educational institutions, state facilities for judicial, police, military purposes and more recently to provide necessary gap funding for affordable, permanent and supportive housing through the Local Innovation and Fast Track (LIFT) Housing Program. The next largest component is the Community College/Higher Education XI-G obligations, which has outstanding principal of $987 million or 12% of all GO indebtedness.

The following chart displays the 10-year trend in overall State indebtedness by major category from fiscal years ending 2016 to 2025.



Overall outstanding State general obligation indebtedness totaled $8.31 billion at the end of FY 2025, representing an increase of approximately $2.73 billion over the levels reported 10 years ago. Due to the use of Article XI-Q bonds as the primary funding source for state owned and operated projects, as of June 30, 2025, there was $4.15 billion in XI-Q GO bonds, and $77 million in COPs outstanding.



General Fund-Supported Debt Capacity

Total outstanding State General Fund-Supported debt, inclusive of GO debt ($6.29 billion) and COPs ($77 million), was $6.36 billion as of June 30, 2025, and is expected to increase to $7.72 billion GO debt and $7.79 billion including COPs, by June 30, 2027, assuming the retirement of approximately $887 million in existing debt in FY 2026 and FY 2027 and the issuance of the $2.32 billion (including $513 million assumed for 2026) of new General Fund-Supported Debt in the 2025-27 biennium.

Based on the December 2025 Forecast and the planned timing of authorized bond sales, debt service as a percentage of General Fund revenue will approximate 4.3% by the end of FY 2026, well within the Commission's General Fund-Supported Debt capacity target of 5.0%.

Using our target debt ratio of 5.0% over the forecast period (FY 2027- FY 2035), the Commission estimates the State has approximately $8,999 million ($9.0 billion) of General Fund-Supported Debt capacity over the next four biennia (FY 2027 – FY 2035). This is in addition to the $2.31 billion ($1.80 billion already authorized plus $0.51 billion expected for 2026 bonding) in 2025-27 Biennium General Fund-Supported debt that is assumed to be issued in the current biennium.

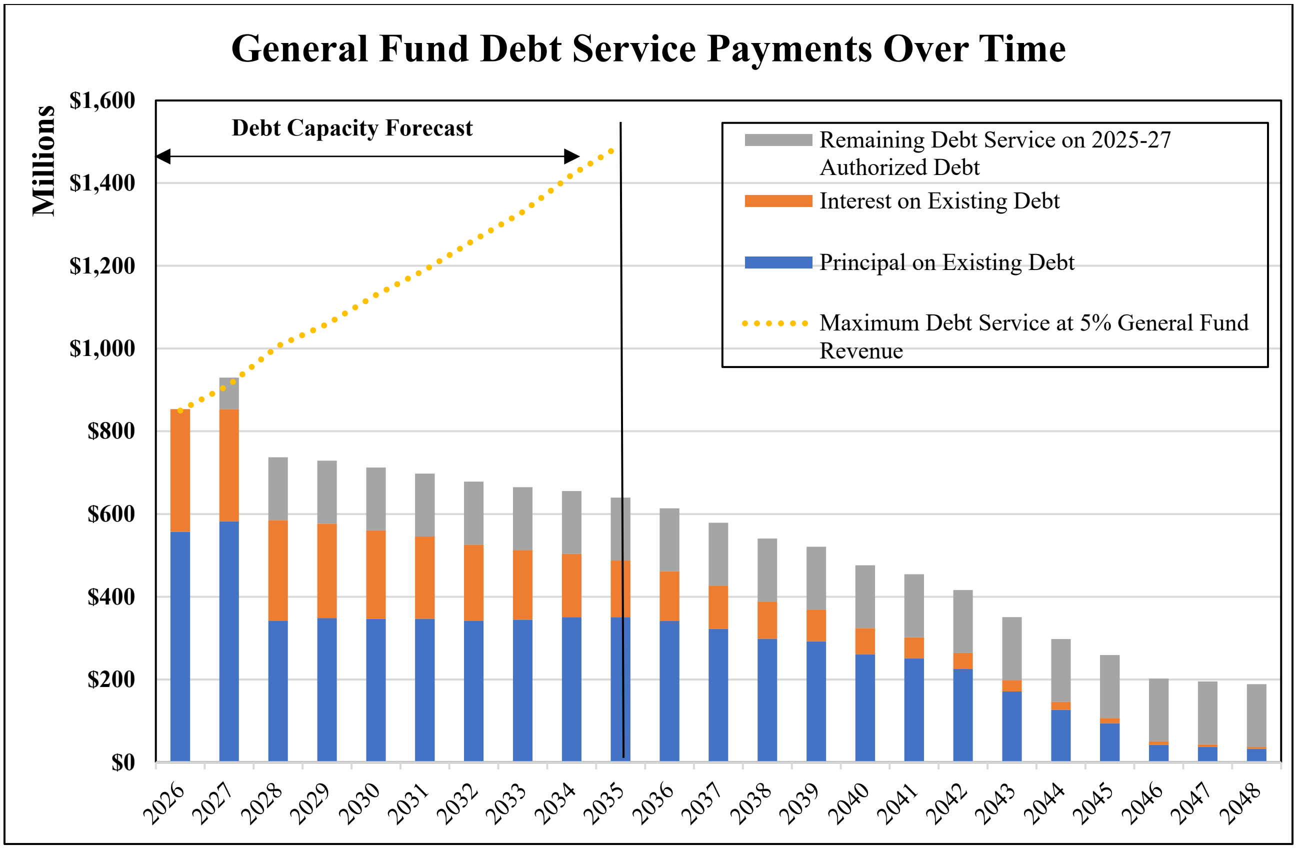
The Commission has historically recommended that the State spread its future General Fund debt capacity over the forecast period, which would result in an average of $1.125 billion each year or $2.25 billion for each biennium during the forecast period commencing with the 2027-29 Biennium. This "averaging" approach has served the State well over the years, as it helps to mitigate the impact of fluctuations in the State's revenues, long-term interest rates, and other factors that can alter the State's long-term debt capacity. The averaging approach also allows for more consistent long-term capital planning and budgeting. The following table illustrates the General Fund debt capacity over the next four biennia.

Projected General Fund-Supported Debt Capacity
Using December 2025 Forecast
($ Millions)

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*
2026	$ 17,006	$ -	4.3%	$ -	4.3%
2027	18,236	513	4.6%	513	4.6%
2028	20,126	2,039	5.0%	1,125	4.6%
2029	21,178	728	5.0%	1,125	4.8%
2030	22,587	1,039	5.0%	1,125	4.8%
2031	23,796	897	5.0%	1,125	4.9%
2032	25,230	1,088	5.0%	1,125	4.9%
2033	26,603	979	5.0%	1,125	5.0%
2034	28,394	1,178	5.0%	1,125	5.0%
2035	29,830	1,052	5.0%	1,125	5.0%
Total	**232,985**	**$ 9,512**		**$ 9,512**	

* Assumes a total issuance of $2.32 billion (including $513 million assumed for 2026) in General Fund-Supported bonds

The following graph illustrates the State's outstanding General Fund-Supported debt profile, which has higher debt service in the earlier years and declining debt service over time. This debt service profile provides the State with the capacity to issue additional debt in the future while remaining below our target General Fund debt ratio level. The dotted line on the chart illustrates the growth in debt service if the State were to issue the maximum General Fund debt capacity over the forecast period. The graph also shows a considerable decline in debt service after FY 2027, when the final principal payment on the State's outstanding 2003 pension obligation bonds (POBs) will be made.



The following table illustrates the potential impact of changing interest rates and revenues on the forecast of the State's General Fund debt capacity. Based on assumed debt issuances of $2.317 billion over the 2025-27 Biennium and estimates of General Fund revenues for the balance of the forecast period, remaining general fund capacity is $9.0 billion (2027-2035). Our interest rate sensitivity analysis indicates that a 1% increase in the assumed long-term interest rate would decrease capacity by $922 million while a 1% decline results in increased capacity of $1,047 million. Additionally, our sensitivity analysis of general fund debt capacity shows that a 10% decline in revenue over the forecast period would decrease debt capacity by approximately $1.78 billion and a 10% increase in general fund revenue will increase general fund debt capacity by approximately $1.78 billion.

Forecast of General Fund Debt Capacity FY 2027 - FY 2035 ($ Millions)			
	FY 2027 – 2035	**Change from Base Case**	**Average Per Biennium**
Base Case for Next Four Biennia*	$ 8,999	---	$ 2,250
Change in General Fund Revenue Forecast			
10% Decrease in Long-term GF Revenue Forecast	$ 7,217	($ 1,782)	$ 1,804
10% Increase in Long-term GF Revenue Forecast	$ 10,781	$ 1,782	$ 2,695
Change in Interest Rate Forecast			
6.5% Interest Rate (1.0% Increase)	$ 8,077	($ 922)	$ 2,019
4.5% Interest Rate (1.0% Decrease)	$ 10,046	$ 1,047	$ 2,511

* 2027-29, 2029-31, 2031-33, 2033-35 biennium

Lottery Revenue Bond Debt Capacity

For the 2025-27 Biennium, $494.5 million was authorized by the 2025 Legislative Session, with an additional $86.3 million assumed as possible additional authorization during the 2026 Session for a total of $580.8 million.

Lottery Revenue Bonds outstanding totaled $1.49 billion as of June 30, 2025. After issuance of the authorized (and assumed) amount of $580.8 million over the biennium and principal paydown of $245 million, Lottery Revenue Bonds outstanding as of the end of FY 2027 is expected to be $1.83 billion.

The December 2025 Forecast projects Lottery Revenues significantly below ($930 million lower over 4 biennia) than that of December 2024. Using the December 2025 Forecast, the Commission projects that Lottery Revenue is sufficient to provide approximately $1.59 billion (in addition to the 2025-27 issuances) in Lottery Revenue bonding capacity over the next four biennia (2027-2035), or $397 million for each biennium over the forecast period, as illustrated in the following table.

While the Commission has historically recommended that the state spread its future Lottery Revenue debt capacity over the forecast period, which would result in an average of $198 million each year or $397 million for each biennium during the forecast period, we note that due to the recent downward revisions in expected Lottery Revenues, this approach is currently forecasted to result in below 4x coverage in multiple years. Given this result, we show this approach as an illustrative example, but actual issuance will be dependent on future Lottery Revenue forecasts. The following table illustrates the Lottery Revenue debt capacity over the next four biennia.

Projected Lottery Revenue Bond Program Debt Capacity
Using December 2025 Forecast[1,2]
($ Millions)

Fiscal Year Ending June 30	Projected Lottery Revenue[3]	Maximum Annual Debt Capacity Under Debt Coverage Requirement[4]	Debt Ratio Coverage (Times)[4]	Debt Service % of Lottery Revenue	Recommended Maximum Annual Debt Issuance (Averaging Approach)	Debt Ratio Coverage (Times)	Debt Service as a % of Lottery Revenue
2026	$ 893	$ -	4.6	22%	$ -	4.6	22%
2027	893	86	4.0	24%	86	4.0	25%
2028	924	100	4.0	25%	198	3.9	26%
2029	950	232	4.0	25%	198	3.9	26%
2030	980	141	4.0	25%	198	3.8	26%
2031	1,012	202	4.0	25%	198	3.8	26%
2032	1,047	340	4.0	25%	198	4.0	25%
2033	1,078	111	4.0	25%	198	3.9	26%
2034	1,112	254	4.0	25%	198	4.0	25%
2035	1,168	207	4.0	25%	198	4.0	25%
Total	**$ 10,056**	**$ 1,674**			**$ 1,674**		

[1]Assumes a total issuance of $580.8 million (including $86 million assumed for 2026) in Lottery bonds
[2]Numbers may not sum due to rounding.
[3]Includes OEA December 2025 Forecast Lottery Revenue
[4]The covenants in the Lottery Revenue Bond Indenture require a minimum Debt Service Coverage ratio of Unobligated Net Lottery Proceeds to Lottery Revenue Bond debt service of 4.0.

The following table illustrates the impact of changes to long-term interest rate assumptions in the Lottery debt capacity model. Based on current estimates of annual unobligated net Lottery Revenue and the assumed long-term interest rate of 5.5%, the capacity of Lottery Revenue to support additional bond issuance is calculated to be $1,674 million over the balance of the forecast period. A 1% increase in the projected long-term interest rate on these bonds to 6.50% would reduce the maximum available capacity over this period by approximately $176 million; conversely, a reduction in the interest rate assumption by 1% to 4.50% would add roughly $200 million in capacity over the forecast period. Additionally, a downward revision in projected long-term Lottery Revenue has a substantial impact on projections of future Lottery bond capacity. As shown below, a 10% reduction in unobligated net Lottery Revenue over the forecast period would reduce the available debt capacity by $349 million over the next four biennia. Conversely, as shown below, a 10% increase in projected Lottery Revenue would add $349 million to the long-term debt capacity over the forecast period.

Forecast of Lottery Revenue Debt Capacity FY 2027 - FY 2035 ($ Millions)			
	FY 2027 – 2035	**Change from Base Case**	**Average Per Biennium**
Base Case for Next Four Biennia	$ 1,587	---	$ 397
Change in Lottery Revenue Forecast			
10% Decrease in Unobligated Net Lottery Revenue	$ 1,238	($ 349)	$ 310
10% Increase in Unobligated Net Lottery Revenue	$ 1,937	$ 349	$ 484
Change in Interest Rate Forecast			
6.5% Interest Rate (1.0% Increase)	$ 1,412	($ 176)	$ 353
4.5% Interest Rate (1.0% Decrease)	$ 1,787	$ 200	$ 447

Lottery Revenue Considerations

The Commission cautions that Lottery Revenue is a scarce resource and has demonstrated high volatility, particularly with respect to video gaming. In addition to funding Lottery Revenue Bond debt service, Net Lottery Revenue funds are critical to educational and economic development programs throughout the State, including funding of the Education Stability Fund. Further, ORS 461 Section 44 through 45, enacted in 2019 allocate proceeds from Sports Betting to reduce the State's portion of PERS unfunded actuarial liability (UAL) and stabilize the State's PERS employer contribution levels. Lottery Revenue is pledged and applied as a priority to satisfy the repayment of Lottery Revenue Bond debt service before it can be available for other purposes. Furthermore, no superior liens can be placed ahead of Lottery Revenue Bond debt service until all outstanding bonds are repaid in full.

The Commission recommends that the Legislature and Governor continue to direct the use of Lottery bond proceeds to the most critical state projects so that sufficient unobligated Lottery Revenue continues to be available to fund the on-going operations of eligible programs that rely on Lottery funding.

Corporate Activity Tax (CAT)

During the 2019 Regular Session, the Oregon Legislative Assembly passed HB 3427-A (known as the Student Success Act), which became effective in January 2020. The Act (ORS 317A) levies a Corporate Activity Tax based on commercial activity conducted by businesses. Monies raised under this Act will be used to fund various educational enhancement initiatives statewide. Estimated collections are continuing to come in below expectations due in part to lower refunds, which are applied forward as estimated payments. The December 2025 forecast for the biennium is lower by $31 million as compared to the September 2025 forecast.

In addition to funding educational enhancement initiatives, the CAT has the benefit of diversifying the State's revenues and reducing our reliance on personal income tax to provide critical services to Oregonians. It further provides funding that is not subject to the personal income tax kicker. The diversification benefit and potential to reduce volatility in State budget is viewed positively by the credit rating agencies and enhances fiscal and social sustainability efforts.

Net Tax-Supported Debt

Net Tax-Supported Debt (NTSD) includes General Fund-Supported debt, Pension Obligation Bonds, Certificates of Participation (COPs) and other appropriations debt, Lottery Revenue Bonds and State Highway User Tax Revenue Bonds, as determined by the rating agencies in their evaluation of the State's overall long-term debt burden.

Moody's utilizes Net Tax Supported Debt as a measure of the State's overall debt liability. Moody's, in its September 19, 2025, report – "*State pension liabilities continue to decline, improving leverage metrics'*" –stated that Net Tax Supported Debt, the second largest long-term liability for states, fell slightly.

As a geographically large state with an extensive highway network and a growing population, Oregon has issued General Obligation, Highway User Tax Revenue, and Lottery Revenue Bonds to address improvements, seismic upgrades, deferred maintenance, and critical infrastructure needs throughout the State. In addition, the State issued $2.1 billion in pension obligation bonds in 2003 to address its unfunded PERS liability.

At the end of the 2023-25 Biennium, Oregon's outstanding NTSD was $10.90 billion. By the end of the current 2025-27 Biennium, the State's NTSD is projected to increase to $13.67 billion. Oregon's NTSD, when measured on a per capita basis was $2,533 for FY 2025 and projected to be $3,152 for FY 2027. When measured as a percentage of Oregon personal income, the State's NTSD was 3.45% for FY 2025 and is projected to be 3.85% for FY 2027.

In the same September 19, 2025 report Moody's reported (with a one year lag) Oregon FY 2024 per capita NTSD of $3,045 relative to the median NTSD for all states of $1,214, and the State's NTSD as a percent of personal income in FY 2024 at 4.3% relative to the 1.8% median for all states. The numbers reported by Moody's vary significantly from what is reported in the Commission Report due in part to the difference in methodology used and sources of data. Despite the difference in the methodology used by the State and that used by Moody's, Oregon's debt levels on a per capita basis and as a percentage of overall statewide personal income are forecasted to be higher by the end of the current biennium.

The following table presents the State's 2023-25 Biennium and projected 2025-27 Biennium ending NTSD.

State Net Tax-Supported Debt
(Per Capita and as a Percentage of Statewide Personal Income)

Fiscal Year Ending June 30th				
	2023-25 Biennium		**2025-27 Biennium**	
	FY 2024 (Actual)	**FY 2025 (Actual)**	**FY 2026 (Projected)**	**FY 2027 (Projected)**
Net Tax-Supported Debt ($bn)	$10.18	$10.90	$12.28	$13.67
Population*	4,300,100	4,300,400	4,315,200	4,337,900
Personal Income * ($bn)	$302.4	$315.6	$333.2	$355.4
NTSD Per Capita	$2,361	$2,533	$2,845	$3,152
NTSD as a % of Personal Income	3.37%	3.45%	3.68%	3.85%
Pension Obligation Bonds Excluded				
NTSD Per Capita	$2,195	$2,417	$2,784	$3,152
NTSD as a % of Personal Income	3.13%	3.29%	3.61%	3.85%
*Source: Oregon Office of Economic Analysis, December 2025 Economic and Revenue Forecast				

The bond rating agencies typically calculate total NTSD both with and without pension obligation bonds. Consequently, states that issue POBs are not overly penalized when compared to other states with a relatively low debt burden but have sizable unfunded pension liabilities. When pension obligation bonds are excluded from this NTSD calculation, our projected FY 2027 debt burden drops to $3,152 per capita and 3.85% of personal income.

Implications of PERS Funding Policy Changes

In October 2021, the PERS Board approved revisions to its assumed rate of return assumptions and rate-setting methodologies. Specifically, PERS reduced the assumed investment rate of return ("Assumed Rate") by 0.30 percent from 7.20% to 6.90% and modified the rate collaring methodology to focus only on the unfunded actuarial liability and the pension plan funded status.

The Assumed Rate is used to compute the present value of future benefits to PERS beneficiaries and is commonly referred to as the discount rate. The reduction in the Assumed Rate (discount rate) has the effect of increasing the State's unfunded actuarial liability.

During its December 2022 rate setting meeting, the PERS Board applied the changes in the assumed investment rate of return to the December 2021 valuation assets to derive employer contribution rates for the 2023-25 Biennium, which became effective as of July 1, 2023. Although the reduction in the assumed rate of return had the effect of increasing the accrued unfunded liability, record investment earnings in 2021 increased plan assets and served as an offset.

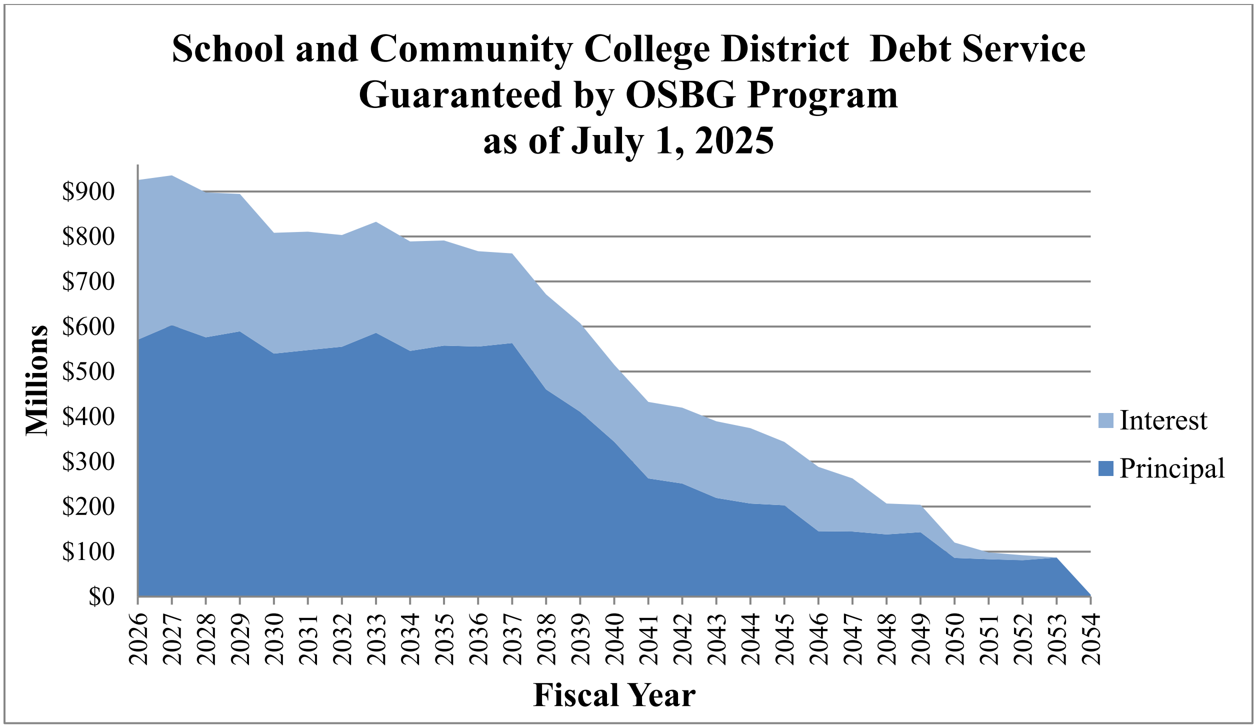
Major changes to Oregon PERS, primarily driven by SB 1049 (2019) and subsequent legislation (like HB 2296 in 2023), involve relaxing work-after-retirement rules (allowing unlimited work for retirees until 2034 under certain conditions), redirecting some employee IAP contributions to a new Employee Pension Stability Account (EPSA) to bolster the pension fund, and implementing salary caps for contribution calculationsॐRecent and upcoming changes (2024-2026) include extending SB 1049's sunset, modifying calculation rules for academic staff, adjusting Police & Fire retirement ages, and clarifying health insurance subsidiesॐ

Pension funding and overall funding status is subject to a variety of risk factors including investment performance, employer contributions and changes in actuarial experience. Effective management of the State's pension liability and reduction in the unfunded liability enhances the State's long-term budgetary flexibility. The rating agencies, in their review of the State's credit consider pension liability management in their ratings assessments.

Oregon School Bond Guaranty Program

Since its inception in 1999, the Oregon School Bond Guaranty (OSBG) program has grown significantly in size. This program allows the State to guarantee the debt of local school districts and community colleges. The guaranty provided by the State allows these entities to issue debt with the State's credit ratings and achieve lower interest cost on their debt and savings relative to borrowing using their respective credit ratings.

As of June 30, 2025, the program guaranteed $10.1 billion with over $15.5 billion resultant debt service of general obligation bonds issued by Oregon school districts and community colleges. For FY 2026, this guaranty applies to local school district and community college annual debt service payment of $944 million, which is equivalent to approximately 5.5% of total FY 2025 State General Fund revenues and 16.5% of projected FY 2025 State school aid for schools and community colleges.



The OSBG program guaranty is a contingent liability of the State. Should a District fail to make bond debt service payment when due, the guaranty provides that the Treasurer will direct payment of debt service for the defaulting entity. While many Oregon local governments have high credit ratings and there has been no historical default in this program, there are risks to the State and the local entity in the event of a default. Statute authorizes the Treasurer to pay the debt service for the defaulting jurisdiction and provide a wide array of means for the State to recover funds, including intercepting State Aid that would otherwise be available to the school district or community college. As of FY 2025, there are four school districts that have debt service guaranteed by the State that significantly exceeds their State Aid, which is used as a target metric without a full review of current financial conditions.

Although Statute provides remedies to cure a default by a school district or community college, the Commission encourages the Legislature to review this program and the timeliness of existing policies to remediate any potential default.

Pension Obligation Bonds Issued by Public Bodies

SB 1049, enacted in 2019 and codified as ORS 238.697 requires the Treasurer to provide the Commission with an annual report on bonds issued under ORS 238.694. The Treasurer's report will describe pension obligation bond (POB) issuances of public bodies occurring on or after June 11, 2019. Such report will include the public body issuer, actual interest rate over the term of the bonds, the projected rate of return on bond proceeds as determined by the assessment report required for such issuance and the actual rate of return on bond proceeds for the previous fiscal year and the cumulative rate of return.

Since implementation of amendments to OAR 170-061-0000 which became effective on July 12, 2021, 35 public bodies have sold $1.88 billion of POBs. When added to existing POBs issued prior to SB 1049, POBs outstanding for local public bodies totaled $3.0 billion. To enhance the creditworthiness of POBs and interest cost to the borrower, public bodies utilize the Fund Diversion agreement which directs the State to divert State Aid for the school district or public body to the Trustee to repay POB debt service.

Although the Fund Diversion is not a guaranty of the State, it draws from the same resources (State Aid) to pay debt service on defaulted OSBG Bonds, if any, and the POBs issued pursuant to the Fund Diversion Agreement.

Pension Bonds have inherent risks including 1) investment earnings, 2) contributions, 3) increases in liability due to actuarial experience. In the event that earnings on proceeds of a pension bond falls below the cost of issuance of the POBs, an issuer of POB is worse off financially than if they had not borrowed at all. Notwithstanding these risks, pension bonds are long term strategies to reduce unfunded liability and their ultimate success can only be determined over the life of the bond issue.

Funding of Deferred Maintenance for State Facilities

Oregon Department of Administrative Services (DAS), pursuant to ORS 276.227, is charged with establishing a statewide planning process that evaluates the needs of the State's facilities and provides comparative information on the condition of such facilities. The State of Oregon has current and future capital needs related to maintaining of aging, State-owned facilities, the mean age of which is 40 years. As of June 30, 2024, the State-owned facility portfolio, excluding public university facilities, is approximately 23 million gross square feet (MGSF) located in over 5,100 buildings and grounds, with a replacement valued at approximately $11.3 billion. Delaying the funding of ongoing maintenance, repairs, and timely system replacements to the point that major renovations are required to maintain safe and adequate usage will cost significantly more than if these facilities were maintained in a state of good repair.

Based on facility assessments conducted on approximately 75% of the State's agency-owned major buildings and campuses, the capital renewal and deferred maintenance needs for assessed buildings are estimated to cost over $1.8 billion within the next 10 years. To the extent agency operating budgets are not sufficient to address ordinary maintenance and repairs of State facilities, this unmet need will continue to put pressure on the State's limited debt capacity to catch up on deferred maintenance and capital renewal through extensive and expensive renovation projects. The 2025 State Legislature approved 2025-27 Biennium funding of deferred maintenance and capital improvements at approximately 3% of the estimated current replacement value of State buildings as of fiscal year 2024.

The State's ongoing requirements for office space are continuously re-evaluated due to shifting telecommuting habits since the COVID pandemic. New policies have been enacted with a goal of reducing the office footprint by 30% by 2027. To achieve this goal, changing how we think about and plan for a hybrid workplace is necessary and presents opportunities to right-size the state's real estate portfolios, focus on collaboration and shared resources, and reduce the state's carbon footprint by using less space and where appropriate selling State agency-owned property which in turn further reduces long term maintenance.

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

Private Activity Bond Allocations

Each year, the Federal government allocates a limited amount of “private activity” tax-exempt financing authority to each state for distribution to qualified economic and community development projects. Historically, the State has allocated its private activity bond (PAB) Volume Cap primarily to affordable housing construction and rehabilitation, first time homebuyer mortgage programs, and a select number of solid-waste, port, and energy production projects around the state.

In recognition of the need to accelerate the construction of affordable housing around the State, the 2019 Legislature doubled its previous annual PAB Volume Cap allocations to the Oregon Housing and Community Services Department (OHCSD) in the 2019-21 Biennium Bond Bill and has maintained that level in the 2021-23 Biennium Bond Bill, which in turn reduced the annual amounts allocated to the PAB Committee (PABC). The 2023-25 Biennium Bond Bill reaffirmed the Legislature’s focus on Housing by further increasing the amount allocated to OHCSD. Growing demand for statewide initiatives to expand the availability of affordable housing exceeds the availability PAB volume cap for the foreseeable future. Consequently, obtaining future PAB allocations for local economic development and affordable housing projects through the PABC has increasingly become a competitive process, requiring careful thought and deliberation as to the highest and most efficient use of this limited financial resource.

The US Census states that total population estimates will not be updated until the end of January 2026 due to a delay from the government shutdown. This means that we do not have final CY 2026 PAB numbers for the calendar year 2026. Our current estimate is that the PABC will have $85.8 million (excluding adjustment amount from Census).

The limited PAB Committee volume cap authority makes allocation decisions between competing economic development and local affordable housing projects a more challenging process, requiring careful thought and deliberation as to the highest and best uses of this valuable yet limited financial resource.

Timing of State Bond Sales

In addition to determining the specific projects that will be authorized for bonding in the biennial Bond Bill, the Legislature in recent years has also directed the specific timing of State bond sales by delaying the appropriation of debt service on State funded projects until the following biennium. As a result, the majority of State General Obligation and Lottery Revenue Bonds have been sold during the last few months of the biennium in which they were initially authorized. While this strategy may have been necessary from an overall State budget management perspective in the years following the Great Recession, it has not always resulted in the State being able to achieve optimal interest rates at the time of the sale of these bonds. The clustering of large dollar Oregon bond issues over a short timeframe floods the capital markets to the point where supply exceeds demand, which could result in the State offering bonds at higher interest rates than would otherwise be required to ensure final placement with investors.

The 2025 Legislature authorized the issuance of approximately $1.80 billion of General Fund-Supported Debt for the 2025-27 Biennium. Similarly, $495 million of Lottery Revenue Bonds have been authorized.

The Commission recommends that the Legislature consider providing for a larger percentage of approved capital projects to be financed in the first year of the biennium. This approach would spread out the sale of State bonds and allow for a better balance of supply and demand for our bonds across the entire biennium. Further, as a frequent issuer, the State and its agencies should seek to issue annually to benefit from interest cost averaging of its debt portfolio, which is conservative and minimizes the impact of any economic cycle on the State's balance sheet and income statement.

Conclusion

While the Commission projects increased debt capacity in the next several biennia, we note that this long-term debt capacity remains modest and a scarce resource to meet investment requirements of the wide range of potential new State and local capital projects, affordable housing, K-12 education, seismic and other building improvements, resiliency measures, information technology upgrades (including extending broadband connectivity throughout the State and protection against cyberattacks), and State transportation and other infrastructure needs. The Commission continues to recommend that the Legislature and Governor limit their bonding authorizations to only the highest priority essential State capital projects to maintain the State's strong credit ratings and overall healthy financial position.

The State and nation are experiencing the lingering effects of geopolitical tensions, higher interest rates and high inflation in many areas including general consumer goods, construction, and transportation. There is a high degree of uncertainty centered around imminent changes in federal fiscal policy including tariffs and regulations which pose additional economic and financial risks across the country. The effects of which could have an impact on Oregon's economy, revenue and future bonding capacity.

In contemplating debt as a tool, the Commission recommends consideration of the potential volatility in State's revenues and other financial resources. Further, the Commission advocates positioning the State to weather the impacts of unplanned catastrophic or financially disruptive events.

Building, maintaining, and improving reserves has the potential to enhance the State's liquidity position and improve budgetary stability and the State's ability to provide key services to its citizens on a consistent basis.