State Debt Policy Advisory Commission
Summary of 2023 Annual Report
Contents

- Current Landscape for Oregon Debt Strategy
- Oregon Outstanding Debt Position
- General Fund-Supported Debt Capacity
- Lottery Revenue Debt Capacity
- Net Tax-Supported Debt
- State Debt Issuance Considerations
- Emerging Areas of Concern
- Conclusion
Current Landscape for Oregon Debt Strategy
Oregon has been resilient in the face of adversities arising from a global pandemic and record wildfires
  • Strength in General fund revenues, Federal fiscal stimulus, and a rebound in Lottery revenues
  • Liquidity support from the Educational Stability Fund and the Rainy-Day Fund
  • Revenue diversification from the Corporate Activity Tax
  • Proactive management

Current economic environment presents challenges that will affect bonding capacity and the State’s ability to fund our varied capital needs
  • Increased market volatility and the Fed’s aggressive interest rate hikes continue to increase borrowing cost

OEA’s December 2022 Forecast incorporates recession-induced reduction in revenues for the upcoming biennium. This decline occurs in tandem with a record $3.7 billion of personal income tax kicker that will be rebated to taxpayers in FY 2024.

Due to the confluence of these factors, General Fund debt issued according to our historical averaging approach will exceed our target ratio of 5% during the 2023-2025 Biennium

While the Commission projects increased debt capacity for the 2023-25 Biennium and the forecast period, this amount remains modest compared to the wide range of capital funding needs

Directing the State’s bonding authorizations for essential capital improvements and investments in critical infrastructure for future generations will assist in maintaining the State’s strong credit ratings
Key factors contributing to General Fund revenue forecast include:

- Factors affecting 2023-25 Biennium:
  - “Mild Recession”
  - Expected decline in capital gains tax
  - Kicker credit rebate

- Long-term forecast include:
  - Rebound in personal income tax receipts growth due to strong demographics
  - Corporate excise and income collections
  - Inflation supporting higher income growth over the long term
Lottery Revenues Forecast Trends

- The December 2022 Forecast projects continued rebound in Lottery Revenue above the 2021 COS forecast
  - Lottery revenue for the 2023-25 Biennium is forecasted to be lower than the 2021-23 Biennium due to dampening demand attributable to the recessionary pressures and other entertainment options
- Lottery Revenues available for transfer are expected to grow from $1.78 billion in the 2023-25 biennium to $2.22 billion in the 2029-31 biennium

- Key Factors Contributing to the continued growth in Lottery Revenue include:
  - Consumer cash balances and a healthy jobs market continues to fuel demand
  - Pent up demand and continued popularity of gaming
  - Persistently high inflation is expected to reduce discretionary household income and demand for gaming
  - Competing entertainment options such as travel may damper demand, particularly in light of the “mild recession” forecast
Oregon Outstanding Debt Position
As of June 30, 2022, the State had $11.33 billion of 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, OHCSID Single Family and Multifamily Program Revenue Bonds, Lottery Revenue Bonds, and Infrastructure Finance Authority (Bond Bank)
As of June 30, 2022, the State had $6.81 billion in outstanding GO Bonds and Appropriation debt
  • $4.5 billion are General Fund-Supported debt (including Certificates of Participation)
  • $2.31 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 38% 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
As of June 30, 2022, the State had $4.43 billion in Direct Revenue Bonds

- $2.34 billion of Oregon DOT (ODOT) bonds, supported by revenue constitutionally dedicated to road and highway uses
- $1.17 billion of Lottery Revenue Bonds supported by Net Unobligated Net Lottery Proceeds
- $866.4 million of OHCSRD Single Family and Multifamily Housing Program Revenue bonds
- $54.5 million of Oregon Business Development Department (Business Oregon) Bond Bank 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

<table>
<thead>
<tr>
<th>Credit</th>
<th>Standard &amp; Poor’s</th>
<th>Moody’s</th>
<th>Fitch</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Obligation</td>
<td>AA+</td>
<td>Aa1</td>
<td>AA+</td>
</tr>
<tr>
<td>Appropriation / COPs</td>
<td>AA</td>
<td>Aa2</td>
<td>AA</td>
</tr>
<tr>
<td>Lottery Revenue</td>
<td>AAA</td>
<td>Aa2</td>
<td>NR</td>
</tr>
<tr>
<td>ODOT Highway User Tax Revenue Senior Lien / Subordinate Lien</td>
<td>AAA /AA+</td>
<td>Aa1/Aa2</td>
<td>AA+/AA+</td>
</tr>
<tr>
<td>Single Family Program Revenue Bonds</td>
<td>---</td>
<td>Aa2</td>
<td>---</td>
</tr>
<tr>
<td>Oregon Business Development (Bond Bank)</td>
<td>AA+</td>
<td>Aa1*</td>
<td>--</td>
</tr>
</tbody>
</table>

* Upgraded to Aa1 from Aa2 by Moody’s on January 12, 2021
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 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, 2022, Treasury reported $3.3 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) (43% 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) (90% of total)
- State Pension Obligation Bonds (36% of total)

### Appropriation Credits

- Certificates of Participation (100% of total)
- Appropriation Bonds
Accounts for all $4.5 billion in General Fund-supported debt outstanding as of June 30, 2022

Assumes 2021-23 biennium issuance of all $1.73 billion of General Fund-supported debt authorized by the 2021 Legislature and amended in the 2022 Second Special Session

- $77.2 million Article XI-G GO Bonds to provide 50% matching grants for community college building projects
- $42.8 million Article XI-G GO Bonds for Higher Education Facilities
- $111.3 million Article XI-M GO Bonds to fund seismic upgrade grants to public schools
- $50.8 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
- $1,308.8 million Article XI-Q GO Bonds to fund state buildings, affordable housing projects, and local courthouse project matches

Uses OEA's December 2022 Forecast of General Fund Revenue Projections for the four future biennia over the forecast period (FY 2024 – FY 2031)

Structures new debt with level annual debt service over 20 years using a 5.50% interest rate, to reflect Federal Reserve Board expectation for continued interest rate hikes and maintenance of higher rates to reduce inflation

Assumes a target of 5.0% of General Fund revenues will be used to pay General Fund debt service
Using the December 2022 Forecast, General Fund debt capacity is projected to be $7.76 billion over the forecast period (FY 2024 – FY 2031)

- Averaging this capacity over the forecast period results in $1.94 billion issuance for each biennium, or $969 million annually
  - With the averaging approach, our target debt service ratio of 5% is exceeded in each year through FY 2027, then drops below 5% after the pension bonds are fully amortized in 2027

### General Fund-Supported Debt Capacity

**Projected General Fund-Supported Debt Capacity**  
**(December 2022 Forecast)**

<table>
<thead>
<tr>
<th>Fiscal Year Ending June 30</th>
<th>Projected General Fund Revenue</th>
<th>Maximum Annual Amount of Debt Issuance within 5% Target Capacity</th>
<th>GF Debt Service as a % of General Fund Revenues*</th>
<th>SDPAC’s Recommended Maximum Annual Amount of Debt Issuance</th>
<th>GF Debt Service as a % of General Fund Revenues*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>$13,220.5</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>2024</td>
<td>11,183.4</td>
<td>--</td>
<td>5.3%</td>
<td>969.4</td>
<td>6.1%</td>
</tr>
<tr>
<td>2025</td>
<td>13,834.1</td>
<td>$ 1,382.1</td>
<td>5.0%</td>
<td>969.4</td>
<td>5.3%</td>
</tr>
<tr>
<td>2026</td>
<td>15,623.8</td>
<td>1,088.8</td>
<td>5.0%</td>
<td>969.4</td>
<td>5.2%</td>
</tr>
<tr>
<td>2027</td>
<td>16,536.3</td>
<td>661.9</td>
<td>5.0%</td>
<td>969.4</td>
<td>5.4%</td>
</tr>
<tr>
<td>2028</td>
<td>17,840.9</td>
<td>2,129.9</td>
<td>5.0%</td>
<td>969.4</td>
<td>4.8%</td>
</tr>
<tr>
<td>2029</td>
<td>18,938.0</td>
<td>751.6</td>
<td>5.0%</td>
<td>969.4</td>
<td>4.9%</td>
</tr>
<tr>
<td>2030</td>
<td>20,294.1</td>
<td>962.0</td>
<td>5.0%</td>
<td>969.4</td>
<td>4.9%</td>
</tr>
<tr>
<td>2031</td>
<td>21,323.0</td>
<td>778.7</td>
<td>5.0%</td>
<td>969.4</td>
<td>5.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$7,755.2</strong></td>
<td><strong>$7,755.2</strong></td>
<td><strong>$7,755.2</strong></td>
<td><strong>$7,755.2</strong></td>
<td><strong>$7,755.2</strong></td>
</tr>
</tbody>
</table>

* Assumes the issuance of $1.727 billion in General Fund-Supported bonds authorized by the 2021-23 Biennium Bond Bill
### General Fund Debt Issuance Capacity

**March 2021 Forecast vs December 2022 Forecast**

($ millions)

<table>
<thead>
<tr>
<th>March 2021 Forecast Results*</th>
<th>December 2022 Forecast Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional Available this Biennium</td>
<td>Issuance Capacity FY 2022 through FY 2029</td>
</tr>
<tr>
<td>$108</td>
<td>$ 6,474</td>
</tr>
</tbody>
</table>

*March 2021 Forecast was used to determine 2021-23 Biennium debt capacity; Future capacity assumes full issuance of $1.73 in 2021-23 Biennium capacity

- Unissued debt capacity in the 2019-21 Biennium of $108 million increased the 2021-23 Biennium issuance capacity to $1.73 billion.

- The 2021 and 2022 Legislative Assembly authorized the full amount of $1.73 billion to be issued in the 2021-23 Biennium

- Future capacity using the December 2022 Forecast assumes the full issuance of all $1.73 billion authorized in the 2021-2023 Biennium
## General Fund Debt Capacity Sensitivity Analysis
(December 2022 Forecast)

<table>
<thead>
<tr>
<th>$ Million</th>
<th>FY 2024 – 2031</th>
<th>Change from Base Case (FY 2024 – 2031)</th>
<th>Average Per Biennium</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base Case for Next Four Biennia</strong></td>
<td>$ 7,755</td>
<td>$ ---</td>
<td>$ 1,939</td>
</tr>
<tr>
<td><strong>Change in General Fund Revenue Forecast</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10% decline</td>
<td>6,481</td>
<td>(1,274)</td>
<td>1,620</td>
</tr>
<tr>
<td>10% increase</td>
<td>9,029</td>
<td>1,274</td>
<td>2,257</td>
</tr>
<tr>
<td><strong>Change in Interest Rate Forecast</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.0% higher</td>
<td>7,058</td>
<td>(697)</td>
<td>1,765</td>
</tr>
<tr>
<td>1.0% lower</td>
<td>$ 8,546</td>
<td>$ 791</td>
<td>$ 2,136</td>
</tr>
</tbody>
</table>

Factors That Could Impact General Fund Debt Capacity

- Projected debt capacity will vary with changes in interest rates assumption or revenue projections
Lottery Revenue
Debt Capacity
Lottery Debt Capacity Model Inputs and Assumptions

- $1.17 billion of Lottery Revenue Bonds were outstanding as of June 30, 2022, 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

Key Debt Capacity Assumptions

- Uses OEA’s December 2022 Forecast of Lottery Revenue for FY 2023 and four future biennia over the forecast period (FY 2024 – FY 2031)
- Assumes issuance of the all $515 million 2021-23 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 expectation for continued interest rate hikes and maintenance of higher 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 proceeds
The December 2022 Forecast provides for a strong rebound in Lottery Revenues over the period FY 2024 through FY 2031, resulting in debt capacity of $2.0 billion.

Based on the December 2022 Forecast and using an averaging approach, the State’s Lottery Revenue debt issuance capacity is $506.4 million in each biennium or $253.2 million annually over the forecast period.

### Projected Lottery Revenue Bond Capacity

**Over the Next Four Biennia**

($ millions)

<table>
<thead>
<tr>
<th>Fiscal Year (ending June 30th)</th>
<th>Maximum Amount of New Debt Issuable Within Debt Service Coverage Requirements</th>
<th>Lottery Revenue to Debt Service Ratio</th>
<th>Debt Service as a % of Lottery Revenues</th>
<th>SDPAC Recommended Maximum Average Annual Debt Issuance</th>
<th>Lottery Debt Service Coverage Ratio</th>
<th>Debt Service as a % of Lottery Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2024</td>
<td>$ 554.3</td>
<td>4.0</td>
<td>25%</td>
<td>$ 253.2</td>
<td>4.5</td>
<td>22%</td>
</tr>
<tr>
<td>2025</td>
<td>82.7</td>
<td>4.0</td>
<td>25%</td>
<td>253.2</td>
<td>4.2</td>
<td>24%</td>
</tr>
<tr>
<td>2026</td>
<td>127.8</td>
<td>4.0</td>
<td>25%</td>
<td>253.2</td>
<td>4.0</td>
<td>25%</td>
</tr>
<tr>
<td>2027</td>
<td>169.4</td>
<td>4.0</td>
<td>25%</td>
<td>253.2</td>
<td>3.9</td>
<td>26%</td>
</tr>
<tr>
<td>2028</td>
<td>348.6</td>
<td>4.0</td>
<td>25%</td>
<td>253.2</td>
<td>4.0</td>
<td>25%</td>
</tr>
<tr>
<td>2029</td>
<td>253.9</td>
<td>4.0</td>
<td>25%</td>
<td>253.2</td>
<td>4.0</td>
<td>25%</td>
</tr>
<tr>
<td>2030</td>
<td>269.5</td>
<td>4.0</td>
<td>25%</td>
<td>253.2</td>
<td>4.0</td>
<td>25%</td>
</tr>
<tr>
<td>2031</td>
<td>219.6</td>
<td>4.0</td>
<td>25%</td>
<td>253.2</td>
<td>4.0</td>
<td>25%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 2,025.7</strong></td>
<td></td>
<td></td>
<td><strong>$ 2,025.7</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Change in Lottery Revenue Debt Capacity

**Change in Lottery Debt Capacity**  
March 2021 Forecast vs December 2022 Forecast  
($ millions)

<table>
<thead>
<tr>
<th></th>
<th>Based on March 2021 Forecast</th>
<th>Based on December 2022 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Available Capacity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019-21 Biennium*</td>
<td>$0</td>
<td>NA</td>
</tr>
<tr>
<td></td>
<td><strong>Capacity for Issuance</strong></td>
<td></td>
</tr>
<tr>
<td>2022-2029 Biennium</td>
<td>$2,062</td>
<td>$2,025</td>
</tr>
<tr>
<td></td>
<td><strong>Average Per Future Biennium</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$515</td>
<td><strong>$506</strong></td>
</tr>
</tbody>
</table>

*Based on the 2021 legislative sessions, subsequently increased by the 2022 special session

- The 2021 and 2022 Legislative Assembly authorized the full amount of $515 million to be issued in the 2021-23 Biennium
- Future capacity using the December 2022 Forecast assumes the full issuance of all $515 million authorized in the 2021-2023 Biennium
Factors That Could Affect Lottery Revenue Debt Capacity

Lottery Bond Capacity Sensitivity Analysis (December 2022 Forecast)

<table>
<thead>
<tr>
<th>($ Million)</th>
<th>FY 2023 – 2031*</th>
<th>Change from Base Case (FY 2023 – 2031)</th>
<th>Average Per Biennium</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base Case for Next Four Biennia</strong></td>
<td>$2,025</td>
<td>$---</td>
<td>$506</td>
</tr>
<tr>
<td><strong>Change in Lottery Revenue forecast</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10% decline</td>
<td>1,691</td>
<td>(335)</td>
<td>423</td>
</tr>
<tr>
<td>10% increase</td>
<td>2,360</td>
<td>335</td>
<td>590</td>
</tr>
<tr>
<td><strong>Change in interest rate forecast</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.0% higher</td>
<td>1,845</td>
<td>(181)</td>
<td>461</td>
</tr>
<tr>
<td>1.0% lower</td>
<td>$2,231</td>
<td>$206</td>
<td>$558</td>
</tr>
</tbody>
</table>
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, 2022, Oregon’s Net Tax-Supported Debt was $8.99 billion and is projected to increase to $10.60 billion by the end of FY 2023
- Net Tax Supported debt as a percent of personal income is expected to grow from 3.46% at the end of the 2019-21 Biennium to an expected 3.77% 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)

<table>
<thead>
<tr>
<th>Fiscal Year Ending June 30th</th>
<th>FY 2020 (Actual)</th>
<th>FY 2021 (Actual)</th>
<th>FY 2022 (Actual)</th>
<th>FY 2023 (Projected)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Tax-Supported Debt ($bn)</td>
<td>$ 8.39</td>
<td>$ 8.83</td>
<td>$ 8.99</td>
<td>$ 10.60</td>
</tr>
<tr>
<td>Population*</td>
<td>4,268,055</td>
<td>4,266,560</td>
<td>4,294,500</td>
<td>4,321,900</td>
</tr>
<tr>
<td>Personal Income * ($bn)</td>
<td>$ 238.30</td>
<td>$ 254.90</td>
<td>$ 267.70</td>
<td>$ 281.10</td>
</tr>
<tr>
<td>NTSD Per Capita</td>
<td>$ 1,966</td>
<td>$ 2,069</td>
<td>$ 2,094</td>
<td>$ 2,451</td>
</tr>
<tr>
<td>NTSD as a % of Personal Income</td>
<td>3.52%</td>
<td>3.46%</td>
<td>3.36%</td>
<td>3.77%</td>
</tr>
</tbody>
</table>

*Pension Obligation Bonds Excluded*

<table>
<thead>
<tr>
<th></th>
<th>FY 2020 (Actual)</th>
<th>FY 2021 (Actual)</th>
<th>FY 2022 (Actual)</th>
<th>FY 2023 (Projected)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NTSD Per Capita</td>
<td>$ 1,645</td>
<td>$ 1,781</td>
<td>$ 1,843</td>
<td>$ 2,241</td>
</tr>
<tr>
<td>NTSD as a % of Personal Income</td>
<td>2.95%</td>
<td>2.98%</td>
<td>2.96%</td>
<td>3.45%</td>
</tr>
</tbody>
</table>

Source: Population and Personal Income projections are based on OEA Economic and Demographic Forecasts, December 2022 Forecast
- Oregon’s Net Tax-Supported Debt (NTSD) per capita as of FY 2022 is $2,094 which is above the median of $1,179 for all states.
- Oregon’s Net Tax-Supported Debt to personal income of 3.36% in FY 2022 is above the median of 2.1% for all states.

Sources: Moody’s Debt, pension and OPEB liabilities all up in fiscal 2021, dated September 7, 2022.
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 2021 data provided by S&P, Oregon ranked 19th highest among all states with pension funded ratio of 87.6%
- In October 2021, PERS reduced the assumed rate of return from 7.20% to 6.90%

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 2021 pension funded status of 87.6% is above the median for all states (81%) for the same period

State Debt Issuance Considerations
### Composition of the State’s Overall Indebtedness (FY 2022)

- Article XI-Q Bonds comprise 38% 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 more than 53% of direct revenue bonds.

### Outstanding General Obligation Debt

By Constitutional Authority as of June 30, 2022

<table>
<thead>
<tr>
<th>Debt Type</th>
<th>Outstanding Debt (Million)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Real or Personal Property XI-Q</td>
<td>$2,631</td>
<td>38%</td>
</tr>
<tr>
<td>Pension Obligations XI-O</td>
<td>$1,077</td>
<td>16%</td>
</tr>
<tr>
<td>Seismic Rehabilitation Public Ed Bldgs XI-M</td>
<td>$335</td>
<td>5%</td>
</tr>
<tr>
<td>Community College/Higher Ed. XI-G</td>
<td>$925</td>
<td>13%</td>
</tr>
<tr>
<td>Economic Development - Bond Bank</td>
<td>$55</td>
<td>1%</td>
</tr>
<tr>
<td>Veterans Welfare XI-A</td>
<td>$325</td>
<td>5%</td>
</tr>
<tr>
<td>Lottery Bond Program (s)</td>
<td>$1,169</td>
<td>26%</td>
</tr>
<tr>
<td>Higher Ed. XI-F</td>
<td>$999</td>
<td>14%</td>
</tr>
<tr>
<td>Others</td>
<td>$614</td>
<td>9%</td>
</tr>
</tbody>
</table>

### Outstanding Direct Revenue Debt

By Program as of June 30, 2022

<table>
<thead>
<tr>
<th>Program</th>
<th>Outstanding Debt (Million)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing: Single and Multi-Family Programs</td>
<td>$866</td>
<td>20%</td>
</tr>
<tr>
<td>Transportation Highway User Tax</td>
<td>$2,338</td>
<td>53%</td>
</tr>
<tr>
<td>Seismic Rehab- Public Ed Bldgs XI-M</td>
<td>$335</td>
<td>5%</td>
</tr>
<tr>
<td>Lottery Bond Program (s)</td>
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<td>38%</td>
</tr>
</tbody>
</table>
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
  - 56% 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
Emerging Areas of Concern
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, 2022, the program has guarantees on $9.4 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 2023, outstanding POB debt service is expected to account for 9.52% of annual State Aid to Schools and Community Colleges; the OSBG program guaranteed bonds is 18.43%. In the aggregate, guaranteed or contingent claims against school aid total 27.97%.

Four school districts currently have combined annual State guaranteed debt service (GO and POB) that exceed their annual allocation of State school aid.
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, 2022, 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 2021 Legislature authorized in each of CY 2022 and CY 2023 PAB Volume Cap of $442.86 million as follows:
  - $250 million Legislative allocation to OHCSD
  - $151.8 million to the PAB Committee for statewide projects
  - $40 million Legislative allocation to Oregon Business Development Department (OBDD)
  - $1.0 million Legislative allocation to the Beginning & Expanding Farmer Loan program through OBDD

- Based on December 2021 population statistics and IRS volume cap per capita allocations ($110), Oregon’s 2022 CY PAB Volume Cap is approximately $467 million, which increased the PAB Committee CY 2022 allocation authority by $24.2 million to $176 million.
  - During CY 2022, the PABC allocated $173.2 million to affordable housing projects across the State.
  - All PAB volume cap during CY 2021 and CY 2022 were applied exclusively to support affordable housing statewide.

- Based on December 2022 population statistics and IRS volume cap per capita allocations ($120), Oregon’s 2023 CY PAB Volume Cap is approximately $509.5 million, which increases the PAB Committee CY 2023 allocation authority by $66.6 million to $218.5 million.

- Unused CY 2022 allocations of $157.9 million (2022 Carryforward) became available in December 2022 and will be available to the Private Activity Bond Committee to allocate in its January 2023 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 FY22, 32 conduit bond issuances totaling $585 million closed. In FY 23, 17 deals totaling $295 million have closed; 18 more issuances for approximately $682 million are projected to close by the end of FY 2023

- $518 million in Article XI-Q General Obligation bonds have been issued in support of the LIFT and PSH programs through May 2022 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
Conclusion
The December 2022 Forecast indicates that the anticipated mild recession will have its most pronounced 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 revenue performed better than expected during the pandemic and is expected to surpass pre-pandemic levels throughout the OEA December 2022 forecast period.

- Forecasted General Fund revenue provides for $7.755 billion of new General Fund debt capacity for the upcoming four biennia, with an average debt capacity of $1.939 billion per biennium

Lottery Revenue has demonstrated a robust recovery and are forecasted to exceed pre-pandemic levels throughout the forecast period.

- Lottery Revenue is heavily dependent on video gaming, which is reliant on access to bars, restaurants and gaming facilities

Projected Lottery Revenue provides $2.03 billion of new Lottery Revenue debt capacity for the upcoming four biennia, with an average debt capacity of $506 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 April 2022 at AA+/Aa1/AA+, respectively
- The State’s long-term Lottery Revenue Bond ratings were also affirmed by S&P and Moody’s in March 2022 at AAA/Aa2, respectively
- Evaluation and management of key revenue and budgetary risk factors as well as buffering reserves are important components of ongoing debt management

Conclusion
Appendix
### Oregon Debt Issuance Categories

## Four Types of Long-Term Debt

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
</table>
| **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 |