Legislative Fiscal Office

Ken Rocco
Legislative Fiscal Officer

Paul Siebert
Deputy Legislative Fiscal Officer

900 Court Street NE
H-178 State Capitol
Salem, Oregon 97301
503-986-1828

Budget Information Report

State of Oregon Bond Programs

Bonds are issued by the State of Oregon as a method of long-term financing. The State of Oregon is authorized to borrow funds through various constitutional and statutory provisions. Capital raised through the issuance of bonds is used to finance public infrastructure investments, including educational facilities, water and wastewater systems, correctional institutions, bridges and roads, as well as capitalization of authorized programs, such as the Veterans' Home Loan Program.

Bond Terminology

Arbitrage: Difference between interest paid on tax-exempt bonds and the interest earned by the issuer on proceeds invested in taxable securities. Arbitrage earnings on tax-exempt bonds are restricted by Federal income tax law.

Basis point: One hundredth of one percent.

Bond: A debt instrument issued by an entity with a promise to repay the original amount of the bond plus interest over a designated period of time.

Bondholder/Investor: Individual or business who purchases the bond and receives interest and principal repayments from the issuer.

Bond Counsel: Legal firm retained by the bond issuer to advise on bond issuance and post-issuance compliance.

Call: Date that the issuer can pay the remaining principal of the bonds without penalty.

Costs of issuance: Expenses incurred as result of the bond issuance, such as the underwriter's discount, municipal advisor fee, and bond counsel.

Debt service: Principal and interest payments due from the bond issuer to the bondholders over the life of the bonds.

Issuer: Entity that sells the bond.

Master Indenture: A contract between the issuer and bondholders, through a trustee or third-party, outlining the general terms and conditions for the issuance of more than one series of bonds.

Municipal Advisor: Entity that provides advice related to the bond issuance, including the structure, pricing, timing, and terms.

Non-callable: Bonds that cannot be redeemed by the issuer prior to the stated maturity date.

Principal: Amount borrowed through the bond.

Refunding: Issuance of bonds to refinance outstanding bonds, often issued to lower the interest rate.

Spread: Difference between the interest rate paid on the bonds issued and interest rate earned on assets and investments purchased with bond proceeds.

Underwriter: Entity that purchases bonds from the issuer and resells to investors.

Yield: Interest rate that the issuer pays to bondholders.

A comprehensive Glossary of Municipal Securities Terms may be found on the Municipal Securities Rulemaking Board's website (www.msrb.org/glossary.aspx).

General Obligation Bonds

The Oregon Constitution authorizes 18 separate general obligation (GO) bond programs. Each program was created through a constitutional amendment passed by the state's voters. General obligation bonds are secured by the full faith and credit of the State of Oregon, which obligates unrestricted revenues of the state to repay the bonds. Additionally, the state may levy a statewide property tax, if necessary and allowed by law, to meet required debt service payments. Provisions of the constitution that authorize the bonds generally limit the amount of debt issued to a percentage of the statewide value of taxable property (referred to as true cash value [TCV] or real market value [RMV]).

An overview of each of the State of Oregon's GO bond programs is provided below. The programs are separated into those that are supported all or in part by the General Fund (General Fund Obligations) and the programs designed to be self-supporting through designated revenue streams, but secured by the General Fund (Dedicated Fund Obligations).

General Fund Obligations:

- General Purpose Bonds - Article XI, Section 7
  Article XI, Section 7 of the Oregon Constitution limits the amount of total issued and outstanding general purpose bonds and other short-term general obligation debt of the state to $50,000. Bonds issued in excess of $50,000 require a constitutional amendment, except in the case of war, to repel invasion, suppress insurrection, or build and maintain permanent roads (State Highway Bonds). No Article XI, Section 7 general purpose bonds are outstanding.

- State Highway Bonds - Article XI, Section 7
  Article XI, Section 7 of the Oregon Constitution authorizes the state to issue up to 1% of the TCV of all taxable property in the state for building and maintaining permanent roads. Vehicle use and fuel taxes authorized in Article 3a of the constitution may be used to support debt service on bonds issued under this section, effectively making the bonds dedicated fund obligations. However, vehicle use and fuel tax revenues have been supporting State Highway User Tax Revenue Bonds issued by the Oregon Department of Transportation (ODOT). Article XI, Section 7 bonds were approved as General Fund obligations during the 2015 session for highway improvement projects.

- Higher Education Facilities and Community College Bonds - Article XI-G
  Article XI-G of the Oregon Constitution authorizes the state to issue up to 0.75% of the TCV of all taxable property in the state to finance the acquisition, construction, improvement, repair, equipping, and furnishing of buildings, structures, land, and other projects that benefit public higher education institutions and community colleges. As bond debt service is supported by the General Fund, Article XI-G bonds are generally issued to finance non-revenue producing academic facilities. Projects with Article XI-G bond funding are required to have matching funds that equal or exceed the amount of the bonds issued. Match may be met through a General Fund appropriation approved for the project or any other revenues, except the issuance of another general obligation bond. Proceeds are utilized by the seven independent universities, the 17 community colleges, and the Oregon Health and Science University (OHSU) through the Higher Education Coordinating Commission (HECC).

- Oregon Opportunity Bonds - Article XI-L
  Article XI-L of the Oregon Constitution authorizes the state to issue up to 0.5% of the RMV of all property in the state to finance capital costs of OHSU, not to exceed $200 million. Bonds were issued under this authorization in 2002 and 2003 to fund capital costs of the Oregon Opportunity Program at OHSU, with the long-term goal of accelerating and expanding OHSU's research programs. In addition to General Fund revenues, the constitutional provision identifies Tobacco Master Settlement Agreement (MSA) and lottery revenues as potential sources of repayment. Tobacco MSA revenues have been consistently allocated to pay debt service on the outstanding Oregon Opportunity Bonds. For additional information see *Tobacco Master Settlement Agreement*, LFO Budget Information Report issued in August 2016. Ad valorem property taxes may not be levied to pay debt service on the bonds.

- Seismic Rehabilitation of Public Education Buildings - Article XI-M
  Article XI-M of the Oregon Constitution authorizes the state to issue up to 0.2% of the RMV of all property in the state to provide funds for the planning and implementation of seismic rehabilitation of public education buildings. Ad valorem property taxes may not be levied to pay debt service on the bonds. Bond proceeds fund the Seismic Rehabilitation Grant Program (SRGP), which provides competitive grants of up to $1.5 million to public K-12 school districts, community colleges, and education service districts. The SRGP is managed by the Oregon Business Development Department (OBDD).

- Seismic Rehabilitation of Emergency Services Buildings - Article XI-N
  Article XI-N of the Oregon Constitution authorizes the state to issue up to 0.2% of the RMV of all property in the state to provide funds for the planning and implementation of seismic rehabilitation of emergency service buildings. Ad valorem property taxes may not be levied to pay debt service on the bonds. Bond proceeds fund the SRGP, which provides competitive grants of up to $1.5 million to emergency services facilities, including hospitals, fire stations, police stations, 9-1-1 centers, and Emergency Operations Centers (EOCs). The SRGP is managed by OBDD.

- Pension Obligation Bonds - Article XI-O (only % supported by GF)
  Article XI-O of the Oregon Constitution authorizes the state to issue up to 1% of the RMV of all property in the state to finance the State of Oregon's pension liabilities. Pension Obligation Bonds (POBs) were issued by the state in 2003 to pay a substantial portion of the state's unfunded accrued liability (UAL) of the Oregon Public Employees Retirement System (PERS). Debt service is paid by PERS participating "state" entities (state agencies, public universities, and non-state "state" entities, such as the Oregon State Lottery and State Accident Insurance Fund) as a percentage of PERS eligible payroll costs. Since General, Lottery, Other, and Federal Funds support PERS eligible position costs, only a portion of debt service is repaid with General Fund revenues. Based on the composition of underlying payroll, 32% of POB debt service is considered General Fund supported. Ad valorem property taxes may not be levied to pay debt service on the bonds. For additional information see *State Agency Pension Obligation Bonding*, LFO Budget Information Brief 2016-6.

- School District Facilities Bonds - Article XI-P
  Article XI-P of the Oregon Constitution authorizes the state to issue up to 0.5% of the RMV of real property in the state to grant or loan funds to local public school districts for capital costs. Capital costs include the acquisition, construction, improvement, remodeling, furnishing, equipping, maintenance, or repair of school district facilities. School districts are required to match the grant or loan with funds from local voter approved general obligation bonds. The state established the Oregon School Capital Improvement Matching (OSCIM) Program to provide matching grants of up to $8 million, financed with Article XI-P bond proceeds, to school districts for capital costs. OSCIM is managed by the Office of School Facilities within the Department of Education (ODE). Ad valorem property taxes may not be levied to pay debt service on the bonds.

- State Real and Personal Property Bonds - Article XI-Q (only % supported by GF)
  Article XI-Q of the Oregon Constitution authorizes the state to issue up to 1% of the RMV of the property in the state to finance the costs of acquiring, constructing, remodeling, repairing, equipping, or furnishing real or personal property that is or will be owned or operated by the State of Oregon. The Article XI-Q bond program effectively replaced Certificates of Participation (COPs) as a method of financing state owned property due to lower borrowing costs. The Department of Administrative Services (DAS) manages the Article XI-Q bond program, but proceeds are utilized across state agencies for facilities and property. Proceeds are also utilized to provide grants to public universities with a governing board for capital projects, facilitated by the requirement in Oregon Law (ORS 352.113) that university real property be held in the name of the State of Oregon. Legal title to university personal property acquired or constructed with proceeds of Article XI-Q bonds must also be in the name of the State of Oregon. Ad valorem property taxes may not be levied to pay debt service on the bonds.

Dedicated Fund Obligations:

- Veterans' Bonds - Article XI-A
  Article XI-A of the Oregon Constitution authorizes the state to issue up to 8% of the TCV of taxable property in the state to fund the Oregon War Veterans' Fund. The fund is used to finance farm and home loans for eligible veterans. Additionally, the constitutional provision provides that amounts may also be appropriated from the fund to support veterans' services. The Oregon Department of Veterans' Affairs (ODVA) manages the veterans' loan program. Although bonds are guaranteed as general obligations of the state, loan program revenues are used to repay debt service on the bonds.

- State Power Development Bonds - Article XI-D
  Article XI-D of the Oregon Constitution authorizes the state to issue up to 1.5% of the TCV of taxable property in the state to finance development of water power in the state and to acquire, construct, maintain, and operate hydroelectric power plants, transmission, and distribution lines. No bonds have been issued under this authorization.

- State Forest Rehabilitation Bonds - Article XI-E
  Article XI-E of the Oregon Constitution authorizes the state to issue up to 0.1875% of the TCV of all taxable property in the state to provide funds for forest rehabilitation and reforestation of land that the state currently owns or may acquire for such purposes. Revenues generated from the sale, exchange, or use of the lands are applied to debt service. Statutory provisions limit bonds issued to a maximum of $750,000 per year. The program has not been used since 1971 and no bonds are outstanding.

- Higher Education Building Bonds - Article XI-F(1)
  Article XI-F(1) of the Oregon Constitution authorizes the state to issue up to 0.75% of the TCV of all taxable property in the state to finance the acquisition, construction, improvement, repair, equipping, and furnishing of buildings, structures, land, and other projects that benefit higher education institutions and activities. Debt service is funded through university revenues including tuition, gifts, grants, leases, and student building fees. Bonds are issued for building projects that generate revenues, such as athletic, housing, and dining facilities. Revenue streams may be the same as those used for university revenue bonds; however, universities receive the benefit of the state's higher credit rating and lower borrowing costs by utilizing state issued general obligation bonds. The state issues Article XI-F(1) bonds with legislative authorization and Oregon State Treasury approval. Proceeds are used to provide loans to public universities, with repayment terms established in a loan agreement between HECC and the respective public universities.

- Pollution Control Bonds - Article XI-H (% supported by GF)
  Article XI-H of the Oregon Constitution authorizes the state to issue up to 1% of the TCV of all taxable property in the state to finance state and local government facilities for, or activities related to, pollution collection, treatment, dilution, and disposal. Pollution control facilities for non-hazardous substances must appear to be at least 70% self-supporting and self-liquidating from revenue, gifts, federal grants, user charges, assessments, and other fees. The Department of Environmental Quality (DEQ) issues Pollution Control Bonds to make loans and grants to local governments for solid waste and wastewater treatment facilities, match for the federal Clean Water State Revolving Fund program, and clean-up of polluted "orphan" sites. Debt service is repaid with DEQ fees, loan repayments, and interest earnings, as well as General Fund for orphan site clean-up bonds.

- Water Development Bonds - Article XI-I(1)
  Article XI-I(1) of the Oregon Constitution authorizes the state to issue up to 1.5% of the TCV of property within the state to fund the Water Development Fund. The fund provides loans to Oregonians for construction of water development projects for irrigation, drainage, fish protection, watershed restoration, and community water supply. Fifty percent of the funds are reserved for irrigation and drainage projects. Revenues from financing agreements with project borrowers support debt service. The Water Resources Department (WRD) manages the Water Development Loan program.

- Elderly and Disabled Housing Bonds - Article XI-I(2)
  Article XI-I(2) of the Oregon Constitution authorizes the state to issue up to 0.5% of the TCV of all taxable property in the state to finance multifamily housing for elderly and disabled persons. Mortgage loan program revenues support debt service. The Department of Housing and Community Services (HCSD) manages the loan program.

- Alternate Energy Bonds - Article XI-J (% supported by GF)
  Article XI-J of the Oregon Constitution authorizes the state to issue up to 0.5% of the TCV of taxable property of the state to fund the Small Scale Local Energy Project Loan Fund (SELP). The fund provides financing for the development of small scale local energy projects. Debt service is expected to be supported by loan repayments and interest earnings. However, due to significant loan defaults, the fund is in a deficit position and not forecasted to be self-sustaining. General Fund will likely be required to meet debt service obligations. SELP is managed by the Oregon Department of Energy (DOE).

- Oregon School Bond Guaranty Program - Article XI-K
  Article XI-K of the Oregon Constitution authorizes the state to guarantee general obligation bonds of school districts, education service districts, and community college districts. The State Treasurer administers the Oregon School Bond Guaranty (OSBG) program, which provides qualified districts the benefit of the state's credit rating and lower borrowing costs. The state is also authorized to issue up to 0.5% of the TCV of taxable property in the state to satisfy guaranties made through the OSBG program. While the OSGB program is being utilized by qualified districts, no bonds have been issued under this authorization.

Revenue Bonds

The state issues revenue bonds to finance income-producing projects and programs that have dedicated revenues to guarantee repayment. Revenue bonds are secured by these revenues and not the full faith and credit of the state as with GO bonds. Additionally, revenue bond programs are not authorized in the constitution and do not generally require voter approval. The State of Oregon has 11 statutorily authorized direct revenue bond programs. Each biennium, the Legislature authorizes the total amount of revenue bonds that may be issued.

- Oregon Innovation Revenue Bonds - ORS 284.746
  OBDD is authorized to request the issuance of revenue bonds to finance loans and grants related to innovation-based economic development projects determined by the Oregon Innovation Council. The Oregon Innovation Fund, which may receive donations, legislative appropriations and transfers, as well as other miscellaneous revenues is identified as the source of bond repayment revenues, though no specific revenue stream is identified. Income generated from financed projects would need to be sufficient to meet debt service obligations. No bonds have been issued under this authorization.

- Oregon Bond Bank Revenue Bonds - ORS 285B.467 to 285B.479, 285B.572 to 285B.587
  OBDD is authorized to request issuance of revenue bonds for the Oregon Infrastructure Finance Authority Bond Bank Program. The Oregon Infrastructure Finance Authority within OBDD determines whether infrastructure development and water projects are eligible for bond financing under two separate statutory authorizations. Bonds may be issued per ORS 285B.467 through 285B.479 to finance the Special Public Works Fund (SPWF) infrastructure loans to municipalities that further economic development. Bonds may also be issued per ORS 285B.572 through 285B.587 to finance the Water/Wastewater Financing Program loans to municipalities for safe drinking water projects and wastewater system improvement projects. ORS 285B.482 consolidated the revenue bond proceeds issued under both authorizations into the Oregon Bond Bank Program. Loan repayment revenues support debt service on the bonds.

- Lottery Revenue Bonds - ORS 286A.560 to 286A.585
  Article XV, Section 4 of the Oregon Constitution creates the State Lottery and requires that net lottery proceeds be used to create jobs, further economic development, finance public education in Oregon, or restore and protect Oregon's parks, beaches, watersheds, and native fish and wildlife. Lottery revenue bonds are statutorily authorized to be issued for projects that benefit the same public purposes as lottery proceeds. Bonds are secured by net lottery revenues, which are constitutionally required to be appropriated to meet lottery bond debt service before being appropriated for any other purpose. DAS manages the lottery revenue bond program, but proceeds are utilized across state agencies for a variety of projects and programs.

- Oregon Student Assistance Revenue Bonds - ORS 348.655
  HECC is authorized to request the issuance of up to $30 million annually in tax-exempt revenue bonds to support the alternative student loan program. Loan repayment revenues are anticipated to support debt service on the bonds. No bonds have been issued under this authorization.

- State Highway User Tax Revenue Bonds - ORS 367.615
  ODOT is authorized to request the issuance of Highway User Tax Revenue Bonds to provide proceeds for building and maintaining permanent public roads. Vehicle use and fuel taxes authorized in Article 3a of the constitution support debt service. The Legislature has authorized the issuance of over $3 billion of Highway User tax bonds for public road projects, including preservation and modernization, repair and replacement of bridges, and traffic congestion projects.

- Oregon Transportation Infrastructure Fund Revenue Bonds - ORS 367.030
  ODOT is authorized to request the issuance of revenue bonds for the Oregon Transportation Infrastructure Fund, which provides infrastructure loans and assistance to municipalities and state agencies for transportation projects. Total bonds issued and outstanding may not exceed $200 million. Loan repayment revenues are anticipated to support debt service on the bonds. No bonds have been issued under this authorization.

- City and County Roads and Recreation Facilities Revenue Bonds - ORS 367.700
  ODOT is authorized to request the issuance of revenue bonds to finance loans to cities and counties for the construction and maintenance of roads and rest areas, as well as the acquisition and maintenance of parks or recreation areas. Total bonds issued and outstanding may not exceed $50 million. ORS 367.710 authorizes ODOT to withhold debt service amounts from State Highway Fund payments due to cities and counties. No bonds have been issued under this authorization.

- Single-Family and Multifamily Revenue Bonds - ORS 456.645
  HCSD is authorized to request the issuance of revenue bonds that finance single-family mortgage loans and multifamily housing projects. Total outstanding debt is limited to $2.5 billion. Income from the housing projects, including mortgage payments and rental income, support debt service on the bonds.

- Energy Revenue Bonds - ORS 470.610
  DOE is authorized to request the issuance of revenue bonds to fund loans made through the Energy Efficiency and Sustainable Technology (EEAST) loan program. Loan repayment revenues are anticipated to support debt service on the bonds. No bonds have been issued under this authorization.

- Forest Development Revenue Bonds - ORS 530.140
  The State Board of Forestry is authorized to request issuance of up to $500,000 in revenue bonds to acquire lands for state forests. Revenues generated from the sale and use of the lands are applied to debt service. No bonds have been issued under this authorization.

- State Fair and Exposition Center Revenue Bonds - ORS 565.095 (2011)
  The Oregon State Fair was authorized to request issuance of up to $10 million in revenue bonds for the acquisition of land, capital construction and improvement, and fair expenses. Debt service on the bonds was secured by revenues generated from Oregon State Fair activities and any other unrestricted revenues received by the Oregon Parks and Recreation Department, including appropriations, gifts, grants, or donations. Authorization was repealed in SB 7 (2013) when the State Fair Council was established as an independent public corporation. No bonds are currently outstanding.

Appropriation Credits

Appropriation credits are limited obligations of the state authorized by the Legislature to a specific dollar amount. These obligations are secured by funds appropriated by the Legislature and not the full faith and credit of the state. The State of Oregon has used the following two types of appropriation credits.

- Appropriation Bonds - SB 856 (2003)
  Appropriation bonds were authorized in the 2003 session to balance the 2001-03 budget. No appropriation bonds are currently outstanding.

- Certificates of Participation - ORS 283.085
  Certificates of Participation are tax-exempt government securities and special obligations of the state payable from available funds. Statute authorizes the state to enter into financing agreements, including lease purchase agreements, installment agreements, and loan agreements, to purchase real or personal property that is or will be owned and operated by the state. Through COPs, lenders effectively buy the right to receive payments due under the financing agreement. The Legislature must appropriate COP repayment amounts each biennium. A COP trustee holds the agreements and would take legal action against the state if payments due were not appropriated, including

denying the use of financed property. The Article XI-Q bond program, approved by voters in 2011, effectively replaced COPs as a method of financing state owned property due to a higher credit rating and lower borrowing costs. Legislative authorization is requested each biennium for an estimated amount of financing agreements expected to be entered into, and as of the date of the publication, primarily for DAS data center equipment.

Conduit "Pass-Through" Revenue Bonds

Conduit bonds are issued by the state to finance a project for a third party. Although the State of Oregon is considered the issuer of the bonds, the outstanding liability and debt service are not an obligation of the state. The entity on whose behalf the bonds are issued is legally obligated to repay the bonds. Borrowers receive the benefit of the state's lower interest rates. The State of Oregon has four authorized pass-through revenue bond programs.

- Oregon Facilities Authority - ORS 289.100 to 289.250
  The Oregon Facilities Authority (OFA) is a public corporation that operates under ORS Chapter 289 as an agency of the state. OFA is authorized to issue conduit revenue bonds on behalf of §501(c)(3) nonprofit entities so that they can access low-cost financing through the tax-exempt bond market. Revenue bonds may be issued for the assembling and financing of lands for housing, educational, cultural, or other nonprofit uses and for the construction and financing of facilities for those uses. Bonds are the obligation of the nonprofit and secured from revenues generated by the projects being financed.

- Beginning and Expanding Farmer Revenue Bonds - ORS 285A.430
  OBDD is authorized to issue conduit revenue bonds to fund Beginning and Expanding Farmer loans for approved agricultural projects. Each bond finances a single loan for the purchase of farm land or depreciable buildings or equipment. Debt service is secured by the agriculture project revenues pledged by the borrower.

- Industrial Development Revenue Bonds - ORS 285B.320 to 285B.371
  The Oregon Business Development Commission is authorized to issue Industrial Development Revenue Bonds (IDRBs) for qualified economic development projects in Oregon. IDRBs are issued to finance land, buildings, and equipment for manufacturing projects, exempt facilities (as defined in IRC §142), and nonprofit organizations. Borrowers are able to utilize low-cost financing for traded-sector manufacturing, processing, and research and development projects that produce substantial benefits in the state. Debt service is secured by project revenues or other assets of the borrower.

- Housing Development Revenue Bonds - ORS 456.692
  HCSD is authorized to issue conduit revenue bonds for its Housing Development Program. The multifamily housing program provides financing for developments in which a certain number of the housing units are for persons and families of lower income. Each bond issue finances a single development. Debt service is secured by revenues and assets pledged by the borrower.

Debt Capacity

ORS 286A.250 to 286A.255 establishes the State Debt Policy Advisory Commission (SDPAC) to advise the Governor and the Legislative Assembly regarding policies and actions that enhance and preserve the state's credit rating and maintain the future availability of low-cost capital financing. The Commission annually reports its recommendations related to General Fund and Lottery Funds debt capacity. According to the most recent Commission report, dated January 2017, the General Fund debt capacity is estimated at $1.14 billion per biennium through fiscal year 2025. This recommendation is based on the Commission's target debt capacity limit of 5% debt service to General Fund revenues. Lottery Funds debt capacity is estimated at $209.4 million per biennium through fiscal year 2025. The Commission's current lottery revenue bond capacity policy is that lottery debt service should not be more than 25% of net unobligated lottery revenues. The lottery revenue bond capacity policy is tied to the requirement in the lottery revenue bond Master Indenture for a four-times debt service coverage ratio. In order for the state to issue additional lottery revenue bonds, unobligated net lottery proceeds must be at least four times the maximum annual debt service on all outstanding lottery revenue bonds, with the debt service on new proposed lottery revenue bonds treated as part of the debt service ratio calculation.

The Governor and legislative leadership use the debt capacity guidelines when determining the total debt authorized each biennium to preserve the state's credit rating. Additionally, prior to each issuance of additional lottery revenue bonds, DAS calculates the four-times coverage ratio to ensure all authorized bonds can be issued within the requirements of the Master Indenture. Oregon State Treasury maintains the annual SDPAC reports on their website. These reports provide the total debt outstanding and constitutional debt limits for each of the state's bond programs.

Legislative Process

Bonds are requested and authorized as part of the state's biennial budget process. State agencies include bond financing requests for projects and programs as part of their Agency Request Budgets (ARBs), which are submitted to DAS by September 1 of even numbered years. Agencies are not required to limit total bond financing requests; therefore, the combined requests across state agencies generally exceed recommended debt capacity limits.

ARBs are reviewed by the DAS Chief Financial Office (CFO). CFO analysts make adjustments to reflect the Governor's priorities, ensure that total expenditures align with projected revenues, and that bond requests are within the debt capacity targets for the state. The State Treasurer calculates the available debt capacity within the SDPAC targets based on the December revenue forecast issued by the Office of Economic Analysis (OEA). The resulting Governor's Budget, including bond financing requests, is released on December 1 of even numbered years. Per ORS 171.130, DAS is required to submit proposed bills that implement the fiscal recommendations included in the Governor's Budget to Legislative Counsel by December 15. The authority to issue bonds is not approved in individual agency budget bills. Two separate bills are introduced that relate specifically to the authorization of bonds: the "bond bill" authorizes issuance of all bonds for the biennium and the "lottery bond bill" authorizes the project amounts financed with lottery bonds. Expenditure limitation for bond funded projects may be included in agency budget bills or a separate "capital construction bill" that establishes a six-year expenditure limitation for new capital construction projects. Capital construction projects are those that exceed $1 million to build, acquire, adapt, replace, or change the use or function of a facility.

The long legislative session begins in February of odd numbered years. Appropriation bills pre-session filed by DAS are referred to the Joint Committee on Ways and Means and assigned to a Subcommittee based on programmatic area. While agencies present bond requests to their assigned Subcommittee as part of their overall Ways and Means presentation, the bond, lottery bond, and capital construction bills are assigned to the Joint Committee on Ways and Means Subcommittee on Capital Construction. The Capital Construction Subcommittee holds a series of public hearings and considers testimony on bond requests from state agencies, citizens, lobbyists, and other stakeholders. Amendments to the bills are proposed by the Subcommittee to add, remove, and modify bond requests. The Subcommittee must also take into consideration any changes in the available debt capacity for the biennium based on the May revenue forecast of the Office of Economic Analysis. A work session is then held and the bills are sent to the Ways and Means full committee for consideration of subcommittee recommendations.

The bond bill includes authorization for the issuance of bonds by the state for the biennium. Amounts listed in the bill are the maximum amount of bonds that may be issued, including project costs, bond costs of issuance, and any required debt service reserves. Projects and programs are listed in the bill by type of bond program and state agency. The accompanying budget report for the bill provides additional project detail and lists the authorized Article XI-Q projects. A revenue impact statement is issued by the Legislative Revenue Office to report the total debt service on authorized bonds. While the total amount of lottery bonds is authorized in the bond bill, the lottery bond bill authorizes the project amounts funded with lottery bond proceeds and provides a description of the nexus to allowable uses of lottery funds. The lottery bond bill is accompanied by a Staff Measure Summary (SMS) that provides a list of the approved projects. Similar to the bond bill, a revenue impact statement is issued to report the total debt service on the authorized lottery bonds.

Expenditure limitation for bond funded projects and programs is not increased by either the bond bill or lottery bond bill. Expenditure limitation for capital construction projects, which are provided a 6-year expenditure limitation, are approved in the capital construction bill. While bonds are often recognized as being issued for public infrastructure construction and improvement projects, that doesn't necessarily correlate to a capital construction project in the budget. For example, loans and grants may be provided to municipalities for infrastructure projects. Loans and grants are budgeted within agencies as special payments, but have the standard two-year limitation for state expenditures. Additionally, the costs of issuance on the bond sale and associated debt service payments are not included as capital construction expenditures. These costs will be included in agency budget bills. Expenditure limitation for non-capital construction projects is included in the agency's budget bill or potentially the "end-of-session" bill, depending on timing. The end-of-session bill is a budget bill passed late in the legislative session that contains funding for particular projects and adjustments to agency budgets not captured in individual budget bills. Consequently, a bond funded capital construction project will be authorized in a minimum of three bills:

- Total bond issuance authorization in the bond bill (and lottery bond bill if financed with lottery revenue bonds).
- Project cost in the capital construction bill.
- Costs of issuance and debt service in the agency budget bill or end-of-session bill.

A bond funded non-capital construction project will be authorized in a minimum of two bills:

- Total bond authorization in the bond bill (and lottery bond bill if financed with lottery revenue bonds).
- Project cost in the agency budget bill or end-of-session bill.
- Costs of issuance and debt service included in the agency budget bill or end-of-session bill.

After passage in the long session, the bond bill can be amended in the short session (February of even numbered years). However, the Emergency Board does not have authority to modify the bond or lottery bond bills. An early session bill may also be introduced during the long session for changes to previously approved projects. Projects listed in the bond bill (e.g., Article XI-F and Article XI-G project authorizations) or the capital construction bill may only be modified through subsequent legislation. Projects not detailed in the bond bill, such as Article XI-Q projects, would still require a modification to a budget report for changes in scope. Capital construction projects may also be extended past the 6-year expenditure limitation in the capital construction bill. The Interim Joint Committee on Ways and Means or Emergency Board may hear reports and updates on bond projects.

Conclusion

Issuance of bonds is a key method of financing public investments. Borrowing funds allows the state to spread the cost of long-term assets to future biennia that continue to receive the benefits of these assets. In addition, high dollar projects are able to be funded without obligating the entire cost out of current resources. However, the use of bond financing must adhere to the constitutional and statutory provisions governing Oregon's bond programs. Debt issuance also commits future revenues to the payment of debt service. While the state follows the State Debt Policy Advisory Commission's current recommendation to limit debt service to 5% of General Fund revenues and 25% of unobligated net lottery revenues, a decline in future revenues would result in a larger percentage of revenues dedicated to debt repayments and steeper reductions to programs and services. In addition, excessive use of debt to finance state expenditures could have a negative impact on the state's credit rating, making the cost of all future borrowing more expensive. The need for capital investments across state programs is significant and use of bonds to fund projects and programs must balance this considerable need with the long-term impact on the state's budget.